Moray Council

Wednesday, 03 March 2021

NOTICE IS HEREBY GIVEN that a Special Meeting of the **Moray Council** is to be held at **Various locations via video conference**, on **Wednesday, 03 March 2021** at **09:30.**

<u>BUSINESS</u>

Moray Council Committee meetings are currently being held virtually due to Covid-19. If you wish to watch the webcast of the meeting please go to: http://www.moray.gov.uk/moray_standard/page_43661.html to watch the meeting live.

GUIDANCE NOTES

* **Declaration of Group Decisions and Members Interests -** The Chair of the meeting shall seek declarations from any individual or political group at the beginning of a meeting whether any prior decision has been reached on how the individual or members of the group will vote on any item(s) of business on the Agenda, and if so on which item(s). A prior decision shall be one that the individual or the group deems to be mandatory on the individual or the group members such that the individual or the group members will be subject to sanctions should they not vote in accordance with the prior decision. Any such prior decisions will be recorded in the Minute of the meeting.

** **Written Questions** - Any Member can put one written question about any relevant and competent business within the specified remits not already on the agenda, to the Chair provided it is received by the Proper Officer or Committee Services by 12 noon two working days prior to the day of the meeting. A copy of any written answer provided by the Chair will be tabled at the start of the relevant section of the meeting. The Member who has put the question may, after the answer has been given, ask one supplementary question directly related to the subject matter, but no discussion will be allowed.

No supplementary question can be put or answered more than 10 minutes after the Council has started on the relevant item of business, except with the consent of the Chair. If a Member does not have the opportunity to put a supplementary question because no time remains, then he or she can submit it in writing to the Proper Officer who will arrange for a written answer to be provided within 7 working days.

*** **Question Time -** At each ordinary meeting of the Committee ten minutes will be allowed for Members questions when any Member of the Committee can put a question to the Chair on any business within the remit of that Section of the Committee. The Member who has put the question may, after the answer has been given, ask one supplementary question directly related to the subject matter, but no discussion will be allowed.

No supplementary question can be put or answered more than ten minutes after the Committee has started on the relevant item of business, except with the consent of the Chair. If a Member does not have the opportunity to put a supplementary question because no time remains, then he/she can submit it in writing to the proper officer who will arrange for a written answer to be provided within seven working days.

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THE MORAY COUNCIL

Moray Council

SEDERUNT

Councillor Shona Morrison (Chair)
Councillor Graham Leadbitter (Depute Chair)
Councillor George Alexander (Member)
Councillor James Allan (Member)
Councillor David Bremner (Member)
Councillor Frank Brown (Member)
Councillor Theresa Coull (Member)
Councillor John Cowe (Member)
Councillor Gordon Cowie (Member)
Councillor Paula Coy (Member)
Councillor Lorna Creswell (Member)
Councillor John Divers (Member)
Councillor Tim Eagle (Member)
Councillor Ryan Edwards (Member)
Councillor Claire Feaver (Member)
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Councillor Aaron McLean (Member)
Councillor Maria McLean (Member)
Councillor Ray McLean (Member)
Councillor Louise Nicol (Member)
Councillor Laura Powell (Member)
Councillor Derek Ross (Member)
Councillor Amy Taylor (Member)
Councillor Sonya Warren (Member)
Councillor Walter Wilson (Member)

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REPORT TO: SPECIAL MORAY COUNCIL ON 3 MARCH 2021

SUBJECT: 2021/22 BUDGET AND 2021 to 2024 FINANCIAL PLAN

BY: DEPUTE CHIEF EXECUTIVE (ECONOMY, ENVIRONMENT AND FINANCE)

1. REASON FOR REPORT

1.1 To ask Council to set the level of Council Tax for 2021/22, to agree the Council's revenue and capital budgets for 2021/22 and to consider the Council's Financial Plan for 2021 to 2024.

1.2 This report is submitted to the Council in terms of the council's Administrative Scheme section (II) (1) relating to setting the Council Tax and section (II) (24) and (25) relating to the approval of the annual estimates of revenue and capital expenditure for all services.

2. RECOMMENDATION

2.1 It is recommended that (subject to the Scottish Budget being approved by Scottish Parliament) the Council approves :

(i) No increase on Council Tax for 2021/22;
(ii) Provision of £5,108,000 for budget pressures as listed in APPENDIX 2;
(iii) Further savings totalling £801,000 as listed in APPENDIX 3;
(iv) Budgeted expenditure of £215,2727,000 for 2021/22;
(v) Indicative budgets for 2022/23 and 2023/24 as set out in APPENDIX 1;
(vi) Capital expenditure for 2021/2022 as set out in the indicative ten year Capital Plan in APPENDIX 4;
(vii) Funding for Moray Integration Joint Board (MIJB) to increase by a minimum of £1,383,000 in 2021/22 compared to 2020/21 per the settlement letter from Scottish Government;
(viii) Use of financial flexibilities associated with the cost of the pandemic of £1,166,000 to balance the budget;
(ix) Continuation of the Interim Head of Service post for Children's Social Work and Criminal Justice with funding as proposed in paragraph 5.3 of this report;

(x) Use of additional funding of £1,337,000 received in 2020/21 which will remain unspent at the year end but for which there are spending plans in 2021/22. This will technically be funded from reserves;
(xi) Further use of reserves of £10,000 to fund summer activities in 2021/22;
(xii) Remitting to Moray Leisure Ltd £146,000, which is the portion of additional Scottish Government funding given to compensate for loss of income which relates to income lost at Moray Leisure Centre; and
(xiii) Removing the cap on Devolved School Management funds carried forward into 2021/22 for this one year only.

2.2 It is recommended that the Council notes:

(i) The conditions placed on the Council in terms of the settlement letter from the Cabinet Secretary for Finance;

(ii) That the budget is based on the Local Government Settlement issued by the Scottish Government on 28 January 2021 and that the Council's budget will be amended to reflect any changes made by the Scottish Parliament when the Scottish budget is approved;

(iii) Savings previously approved totalling £389,000 for 2021/22 and £191,000 for 2022/23 as listed in APPENDIX 3;

(iv) One-off savings of £143,000 projected for 2021/22 and £24,000 for 2022/23;

(v) Additional funding received for loss of income bringing the projected free general reserves at 31 March 2021 to £15.8 million; and

(vi) Projected savings requirements of £4 million in 2022/23 and £4.2million in 2023/34.

3. BACKGROUND

3.1 The Council's revenue and capital budgets for 2021/22 fall due to be considered in an environment of considerable uncertainty about the state of the economy, following the covid-19 pandemic and Brexit, the impact of neither of which can yet clearly be assessed; at a time when the pay award for local government staff is unknown; before the Scottish Government budget is passed, and before the UK budget is announced.

3.2 The Council receives around 80% of its revenue funding from Scottish Government. Over the last ten years, this grant funding has increased marginally in cash terms, and by considerably less than the cost of new duties required of local authorities. Inflation increases for pay and prices and growth in demand for services in some areas have therefore had to be balanced by efficiency savings and cuts in services. The Council has made savings totalling £55 million since 2010/11. The Local Government settlement is for one year only but the Council is setting its 2021/22 budget in the context of longer term planning. The Council's updated Medium to Long Term Financial Strategy forms another item on the agenda of this Council meeting.

3.3 Income from Council Tax receipts is the other main source of income for the Council. The normal process of debt management of outstanding Council Tax was paused during the recent pandemic. Currently the collection rate for receipts is 1.6% below the comparable period in 2020. The number of householders qualifying for Council Tax Reduction has risen. Both those factors have been adjusted for when preparing the budget but this is an area where the full impact of the pandemic is difficult to forecast with any degree of confidence.

3.4 Regular reports on the impact of the pandemic on the Council's finances have been made throughout the year, in addition to more general reports on the financial planning process. The most recent report on the financial planning process was considered by the Council on 20 January 2021 (paragraph x of the Minute refers) and this indicated that the use of financial flexibilities given by Scottish Government to enable local authorities to manage the costs of the pandemic were likely to be recommended as part of the budget report for 2021/22.

3.5 For a number of years the Council has relied on the use of free general reserves to balance the budget. The Council has been steadily reducing its reliance on reserves but still budgeted to use £2.3 million to balance the 2020/21 budget. The base expenditure budget is therefore overcommitted and the Council requires to reduce expenditure to remove this overcommitment.

	Budget		Actual (est act 2020/21)	
	£m		£m	
2017/18	7.611	3.8%	4.615	2.3%
2018/19	4.720	2.4%	3.787	1.9%
2019/20	2.094	1.0%	-	0%
2020/21	2.348	1.1%	2.114	1.0%
2021/22	0.010	0.0%		

3.6 The Council needs to retain a certain amount of free reserves in case of unforeseen contingencies or emergencies. The Council's reserves policy as approved by Council on 31 October 2018 (paragraph 5 of the minute refers) is to hold £5 million as free reserves. This equates to around 2.5% of budgeted revenue expenditure on General Services. The Council had free general reserves of £15.349 million at 31 March 2020. Projections, as reported to Economic Development, Housing and Environmental Sustainability Committee on 16 February 2021, were that £2.114 million would be used to meet expenditure in 2020/21. Since then the Council has been notified of additional funding of £2.8 million for loss of income. The updated projected balance on free reserves at 31 March 2021 is £15.818 million.

3.7 Despite the considerable uncertainties regarding key elements of the budget at this late stage the level of free general reserves projected to be available as at 31 March 2021 gives assurance that the Council should be able to cope with considerable variance from budget assumptions without breaching its reserves policy.

3.8 The Council has also been setting aside money in ear-marked reserves to fund measures to create efficiencies by transforming services delivery and to assist in achieving Council priorities. The use of ear-marked reserves will be discussed in a separate report to Council on 24 March. When the pay awards have been agreed the Council may be in a position to consider further ear-marking from free general reserve.

4. REVENUE BUDGET

4.1 The draft revenue budget for 2021/22 to 2023/24 is set out in **APPENDIX 1** to this report.

4.2 The starting point for the 2021/22 budget is the budget allocated to departments and loans charges for 2020/21. The brought forward Devolved School Management balance and other funding from ear-marked reserves is removed and budgets adjusted to reflect the reinstatement of temporary savings and the full year effects of budget adjustments made for part of 2020/21 only. The resultant starting point for the 2021/22 budget is expenditure of £209,509,000.

4.3 Provision for pay and prices
Provision of £3,470,000 is made within the budget for pay awards and some other inflationary increases in expenditure. No provision has been made for pay awards for health and social care services delivered under direction from MIJB, as additional funding of £1,383,000 for health and social care services must be passed through from the Council to MIJB, under the terms of the settlement letter. Part of this funding is related to increase in the Real Living Wage and will be required to fund uplift in contract prices from social care providers. The bulk of the funding however comes with no conditions or additional duties associated with it. Consequently it is proposed that the Council does not increase its budget for social care by what had been estimated for pay awards, with the additional funding for social care services covering this.

4.3.1 The pay award for staff on SJC conditions 2021/22 is currently the subject of negotiation. The bid from the Joint SJC Trades Unions is for a flat rate increase of £2,000 or 6% of salary, whichever is the greater. The proposed budget allows for a flat rate 2% increase. There is clear disparity here and the amount allowed for pay award is one of the high risk areas of the proposed budget. The amount included for pay inflation is £2,500,000.

4.3.2 Other inflationary increases included are for PPP/PFI contracts, the Grampian Valuation Joint Board requisition, fostering fees and allowances, school and other transport contracts, National Care Home Contract, electricity and gas price increases and increase in landfill tax rates.

4.4 Financing costs
The Capital Plan is discussed in section 6 of this report. The full year effect of borrowing in 2020/21 and the estimated impact of planned capital expenditure in 2021/22 are included in the draft revenue budget. This results in a projected decrease of £1,500,000 in 2021/22, reflecting the low cost of borrowing noted when estimated actuals were reported to Economic Growth, Housing and Environmental Sustainability Committee on 1 December 2020 (paragraph x of the Minute refers).

4.5 New burdens

New burdens are created for local government by legislation passed by the Scottish Government. Funding of £18,000 for the Appropriate Adult scheme is anticipated and included in the proposed budget.

4.6 Budget pressures

Provision is also made within the draft budget for budget pressures which are not funded by Scottish Government. Some of these have already been approved by Council, some recognised as pressures in previous budget papers and some are newly emerging pressures. These are listed in **APPENDIX 2** to this report and total £5,108,000. There are other known potential budget pressures which have not been included, either where it has not been possible to assess the financial impact or where it is considered that the Council can absorb the pressure within current budgets, as experience indicates that some budget pressures will be deferred or be lower than anticipated. One unquantified budget pressure is the on-going ICT resource required to support the expanded digital estate and work is being done to identify this need. Budget pressures recognised within the draft budget are discussed below.

4.6.1 Provision of £200,000 has been made for children in transition to adult social care services. Currently Children's Services sits with the Council and adult services with Moray Integration Joint Board (MIJB). When a young person turns eighteen and responsibility for their support becomes an MIJB duty there is no automatic transfer of budget. This provision allows for a transfer of funding and is based on a notional average of packages across the years. A further provision of £267,000 relates to the full year effect of a new package approved in 2020/21.

4.6.2 The additional funding for MIJB of £1,383,000 is included in budget pressures.

4.6.3 Additional funding of £15 million was distributed to Council in 2019/20 to increase the provision of support for learning. In 2020/21 the same sum was been distributed as part of the Council's core grant. There is a clear expectation from Scottish Government that the monies thus distributed will be spent on additional support for learning. Development of spending plans was delayed as a result of the pandemic. Accordingly, the Council's share of this funding – which was calculated as £257,000 in 2019/20 – is still included as a budget pressure in 2021/22.

4.6.4 Additional costs of £275,000 in 2021/22 are estimated for running the new Linkwood Primary School building, the full year effect of additional funding allocated in 2020/21. Additional costs of £40,000 are also anticipated to be incurred when the new Lossiemouth High School building is opened. School roll numbers are projected to increase and a budget pressure of £776,000 based on the latest school census figures is included. Provision of £232,000 in 2021/22 has been made for additional costs and reduced income anticipated following the introduction of new regulations for school meals, the timing of which has been delayed due to the pandemic.

4.6.5 Council on 28 October 2020 (paragraph 14 of the Minute refers) approved in principle a number of actions to support economic recovery from the pandemic. £197,000 is included in 2021/22 in respect of these. Other approved covid related expenditure amounts to £1,025,000 in 2021/22, including projected loss of income of £500,000 at the Council's leisure facilities. There is considerable uncertainty as to the level of loss and likely timescale for recovery.

4.6.6 Other previously approved budget pressures are £120,000 associated with the clearance of the site at Bilbohall, delayed by the pandemic, and £43,000 full year effect of increased Microsoft licence charges.

4.6.7 There are five new budget pressures for approval. A reduction in the target income from industrial estates of £25,000, arising from the sale of industrial units. £39,000 spread across 2021/22 and 2022/23 for the renewal of the contract for the Council's Payroll/HR system. A proposed increase in the budget for Essential Skills of £50,000, to support adult numeracy and literacy and increase the availability of adult learning opportunities. One-off spend of £10,000 (to be funded from free general reserves) to enhance the existing sports and active schools summer events enabling a week of free taster sessions for children across Moray including partnership work with Moray Leisure Centre for secondary pupils. Provision of £185,000 for proposals to be brought to Council on 10 March 2021 to support the Council's Climate Change Strategy.

4.7 With these additions the total budgeted revenue expenditure for 2021/22 before savings is £216,605,000.

4.8 Funding

The bulk of the Council's funding is from government grant, given as a combination of General Revenue Grant and Non Domestic Rates distribution. The local government settlement in January 2020 confirmed that funding for Discretionary Housing Payments (DHP) and for the Teachers' Induction Scheme is being held back by Scottish Government at present. An estimate has been made for Moray's likely share of the funding streams for DHP and Teachers' Induction, as the expenditure on these areas is included in the base budget. Increased funding for Early Years Expansion will be paid as specific grant (as in 2020/21) and applied to that workstream, and so no estimate of either income or expenditure related to Early Years is included in the figures in **APPENDIX 1**. Core Scottish Government funding of £167,814,000 is included, plus £18,000 for new burdens. This compares to Scottish Government funding – excluding funding relating to the pandemic - of £163,063,000 in 2020/21. This is a headline increase in core budget support of £4,751,000, however £1,482,000 is conditional on the Council agreeing to freeze Council Tax and £430,000 is former new burdens funding mainstreamed, so a more accurate comparator would be an increase of £2,839,000 less the additionality for MIJB of £1,383,000, an increase in core budget of £1,456,000 or 0.89% in cash terms. This is comparable with the 0.9% increase in the core local government settlement which COSLA have calculated on a national basis.

4.9 A Council Tax increase of 3% had been used as an illustrative figure in the financial planning process leading to this budget. Given the conditions of the settlement a Council Tax freeze is now proposed, leaving the following Council Tax levels:

	Council Tax 2020/21
Band A	£881.91
Band B	£1,028.90
Band C	£1,175.89
Band D	£1,322.87
Band E	£1,738.11
Band F	£2,149.67
Band G	£2,590.62
Band H	£3,241.03

These figures do not include charges for water and waste water which are collected alongside Council Tax on behalf of Scottish Water, nor do they take into account any Council Tax Reduction, discount or exemption which may be due in individual cases.

4.10 Moray's Band D Council Tax for 2019/20 sits just above the Scottish average of £1,308. Comparisons with other councils are set out in the table below.

COUNCIL TAX BY BAND 2020-21

Scotland Average Band D Council Tax (based on total Band D Equivalents)	**£1,308**	
	Band D	%age of Scottish average
Na h-Eileanan Siar	£1,193.49	91.23%
South Lanarkshire	£1,203.00	91.96%
Shetland Islands	£1,206.33	92.21%
Angus	£1,206.54	92.23%
Orkney Islands	£1,208.48	92.38%
North Lanarkshire	£1,221.25	93.35%
Dumfries & Galloway	£1,222.63	93.46%
Falkirk	£1,225.58	93.68%
Scottish Borders	£1,253.91	95.85%
West Lothian	£1,276.42	97.57%
Fife	£1,280.80	97.90%
East Renfrewshire	£1,289.96	98.60%
West Dunbartonshire	£1,293.55	98.88%
Aberdeenshire	£1,300.81	99.43%
East Lothian	£1,302.62	99.57%
Clackmannanshire	£1,304.63	99.72%
East Dunbartonshire	£1,308.98	100.06%
Renfrewshire	£1,315.42	100.55%
Perth & Kinross	£1,318.00	100.75%
Moray	£1,322.87	101.12%
Inverclyde	£1,331.84	101.80%
Highland	£1,332.33	101.84%
City of Edinburgh	£1,338.59	102.32%
North Ayrshire	£1,342.69	102.63%
Stirling	£1,344.28	102.76%
South Ayrshire	£1,344.96	102.81%
Argyll & Bute	£1,367.73	104.55%
East Ayrshire	£1,375.35	105.13%
Aberdeen City	£1,377.30	105.28%
Dundee City	£1,379.00	105.41%
Glasgow City	£1,386.00	105.94%
Midlothian	£1,409.00	107.70%

Excludes Water and Sewerage

Source: As reported by the Local Authorities on the statistical return Council Tax Assumptions 2020

4.11 The resultant budgeted income to the Council for 2021/22 leaves a shortfall of income compared to expenditure of £2,499,000, which requires to be found from savings or the use of financial flexibilities to cover the additional cost of the pandemic, which failing from reserves.

5. SAVINGS

5.1 When the budget for 2020/21 was set a range of savings proposals were approved, some of which would not be fully achieved or not achieved at all until 2021/22. Further savings were approved on 2 September 2020, when the unaudited accounts were reviewed, on 16 December 2020 and on 18 February 2021, when the annual review of charges for services was approved. All previously approved savings are listed in **APPENDIX 3**. Where the timing of savings has been delayed due to the pandemic or other factors savings have been adjusted accordingly.

5.2 Further savings for 2021/22 totalling £801,000 are presented to Council today. These are listed on **APPENDIX 3** and discussed below.

5.3 The financial planning report to Council on 20 January 2021 included an estimate of permanent savings to Children's Services. These derive from reductions in spend on Out of Area and Additional Resource Packages, fostering fees (with an increase in kinship carers), foster home to school travel, two contracts which have come to an end, external adoption placements and staff travel associated with out of area placements. These total £957,000. Against this is set an overspend on throughcare / aftercare grants of £55,000, giving a net saving of £902,000. It is proposed that £744,000 of this is taken as recurring savings and £158,000 held to fund three new posts: Public Protection Lead (Grade 11 – cost £68,000), Policy Assurance / Policy (Grade 10 – cost £60,000) and admin (Grade 5 – cost £30,000), to support the ongoing quality and efficiency programme in the service. A proposal for the posts will be presented to the Education, Communities and OD Committee for approval. While the work to consider potential delegation of the service to Moray Integration Joint Board has started, it has been considerably slowed due to the response required to the current pandemic and the interim Head of Service post must therefore continue to ensure the leadership of the service until any other configuration can be considered. The MIJB Chief Officer proposes to cover the cost pressure which is the differential in the budget for the post through non-recurrent savings generated during the year. The governance for this post was approved by Council on 16 December 2020 (paragraph 10 of the Minute refers).

5.4 It is also proposed that the target income budget for garden waste permits is increased by £57,000 to more nearly reflect the actual income generated in 2020/21.

5.5 Temporary savings of £143,000 for 2020/21 are anticipated, from one-off income streams. A refund of requisition from Grampian Valuation Joint Board of £80,000 is anticipated and an estimate of £43,000 from repayment of Business Loan Scotland loans as reported to Policy and Resources Committee on 29 October 2019 (item 9 of the Minute refers). Citizen's Advice Bureau (CAB) contacted the Council to offer a one-year reduction in the grant support received by the Council and that reduction is included in temporary savings.

5.6 If these additional savings are approved there is a funding gap of £1,166,000 for 2021/22. Additional costs of £1,025,000 arise within the budget because of continued costs of dealing with covid-19 issues, and increased Council Tax Reduction of £330,000. Scottish Government has given council financial flexibilities to deal with costs of covid-19, to be used as one-off measures in either 2020/21 or 2021/22. It is proposed that the Council exercise financial flexibilities in 2021/22. There are two financial flexibilities which could be used: use of capital receipts to fund covid-19 revenue costs or taking a loans principal repayment holiday to the extent of covid-19 costs incurred. A modelling exercise will be carried out to establish which of the two is most likely to be advantageous. As the Council has previously agreed to use capital receipts to fund transformation of service delivery where this is anticipated to deliver savings this maximises possible use of capital receipts – at present it seems unlikely that all capital receipts will be required to fund transformation proposals.

6. CAPITAL BUDGET

6.1 The latest version of the Council's Capital Strategy was approved by Council on 18 February 2021. The Strategy identifies the Council's capital investment objectives as ensuring an adequate suite of assets to deliver the Council's services, in accordance with the Council's policies, strategies and plans, and priorities, legislative duties and other requirements and identifies as a key consideration when developing the Capital Plan the requirements to provide new infrastructure and facilities to accommodate planned local developments, along with expenditure arising from Asset Management Plans (AMPs).

6.2 Accordingly, the Capital Plan is framed by the following drivers for expenditure:

- Local Development Plan and other Council plans (specifically for Economic Development)
- Asset Management Planning
- Expenditure arising from Legislative Requirements
- Improvement and Modernisation Programme/efficiencies
- Funded Government Priorities
- Other Developments to meet Council Priorities
- Responsive Expenditure

6.3 A draft ten year capital plan is included as **APPENDIX 4** to this report. Expenditure of £37.1m is proposed for 2021/22, with total expenditure over the 10 year period of £482.4 million. This includes expenditure originally planned for 2020/21 which has been approved to be deferred. Expenditure under the draft plan and sources of funding are summarised below:

	Driver	**2021/22 £m**	**2021/22 %age**	**10 year £m**	**10 year %age**
1	Local Development Plan and Economic Development	3.6	9.7%	54.8	11.4%
2	Asset Management Planning	23.0	61.8%	398.9	82.7%
3	Expenditure arising from Legislative Requirements	9.5	25.5%	22.2	4.6%
4	Improvement and Modernisation Programme/efficiencies	0.2	0.4%	0.3	0.1%
5	Funded Government Priorities	0.7	2.0%	0.7	0.2%
6	Other developments to meet Council Priorities	0.1	0.1%	4.2	0.9%
7	Responsive Expenditure	0.2	0.5%	1.1	0.2%
	TOTAL	37.1	100%	482.4	100%
	Funding	**£m**	**%age**		
	Grant Funding	9.7	26.1%	89.7	18.5%
	Developer Obligations	0		4.7	1.0%
	Prudential Borrowing	27.4	73.9%	384.4	79.7%
	Capital receipts	-	-	3.6	0.8%
	TOTAL	37.1	100%	482.4	100%

6.4 The Council's borrowing must comply with the Prudential Code, which requires borrowing to be affordable and sustainable. As identified in a report to Council on 30 March 2016 (paragraph 7 of the minute refers) the Council's overall financial position is not sustainable in the long term and the capital plan for future years requires to be reduced. As the bulk of the indicative capital plan is based on Asset Management requirements, to achieve a reduction in capital expenditure the Council must reduce its asset base, and this issue was last reported in the Property Asset Management Appraisal (PAMA) update approved by Council on 29 October 2019 (paragraph 13 of the minute refers).

6.5 As well as the work currently being carried out under the PAMA, there are other significant pieces of work which will shape the development of the Council's ten year capital plan, in particular the Learning Estate Review, Leisure Review and Climate Change Strategy and Action Plan. Accordingly the detail of the plan for future years is not well developed at this stage across all headings.

6.6 The Council's Financial Regulations envisage the detail of capital works being approved by service committees at the start of the financial year, and that process is well established. Accordingly, the Capital Plan is presented in outline format, with detail to be brought forward to service committees and in line with other major projects which will impact on the capital plan.

6.7 Based on indicative high level work about the likely amount of spend the draft plan shows considerable growth in years six to ten of the indicative ten year capital plan. This shows the value of scoping out work at a high level for the medium term, as this gives the Council good prior warning that there is an increasing need to review its asset base and service delivery arrangements in order to respond to this forecast increase in demand, or – and particularly in the case of the Learning Estate – to attempt to source funding for the level of work which has been identified as required.

6.8 Provision has been made in the later years of the ten year plan for funding for school re-build or refurbishment. Plans will be developed following approval of a Learning Estate Strategy to guide that process. In the meantime, no provision has been made for Scottish Government Grant Funding, which under current arrangements would take the form of revenue support.

7. 10 YEAR CAPITAL PLAN

7.1 There are a number of significant pieces of work being undertaken which will reshape the capital plan in future years. These are referred to in the following paragraphs where they are specific to the assets concerned. An overarching piece of work which will impact across asset types and specifically on buildings and vehicles is the Council's Climate Change Strategy. Depending on how the Council decides to take forward this strategy, which is still in draft form and due to be reported to Council in March 2021, an extensive programme of work will be required and funding will be needed for that programme. Recognising the unusual degree of provisionality of the plan, the various components of the ten year plan are discussed below.

7.2 **Bridges**
The Council's programme of bridge refurbishments is based on condition surveys and strategic importance, and is kept under review. Failing bridges can be life-extended by having weight restrictions placed on them, but this is not always a practical solution, depending on the type of traffic using the bridge and the availability of alternative routes. The indicative requirement over the 10 year plan is for expenditure of £14.6m, with £930,000 provisionally allocated for 2021/22. In 2022/23 the second phase of the refurbishment of Craigellachie Bridge will be undertaken, at an estimated cost of £3.789m. In 2024/25 Arthurs Bridge will be replaced at an estimated cost of £7.104m. This work was originally planned for 2027/28 but the rate of deterioration means it will need to be replaced earlier. Refurbishment of Foth's bridge is also proposed at an estimated cost of £160,000.

7.3 **Car Parks**
The work to replace waterproofing and expansion joints, and undertake concrete repairs at Batchen Street car park in Elgin were tendered in January with contract award programmed for April 2021. In 2021/22 investigation work will be undertaken at St Giles multi-storey car park in Elgin to identify the extent of repairs required to this structure. The cost of this investigation is estimated to be £30,000 and it is programmed for April 2021, with works timetabled for

2022/23. Total budget for the two projects over the two years is estimated at £0.8 million.

7.4 **Corporate**

This budget heading is mainly driven by asset management planning and covers small budgets for furniture and equipment; contains provision in years two and three for potential works relating to depots, which will be planned in detail following the completion of the depot review under PAMA, and the vehicle and plant replacement programme for the Council's fleet of vehicles. It also includes a budget for minor energy efficiency projects. The budget for vehicle and plant replacement is based on a like-for-like replacement of vehicles under the Council Fleet AMP, which seeks to replace vehicles at the optimum time in their life-cycle, taking into account maintenance costs and downtime, and therefore optimum cost to the Council. Following adoption of the Climate Change Strategy and Action Plan the Fleet AMP will be reviewed through the Council's governance arrangements. Consideration will also require to be given to the infrastructure to support electric or hydrogen powered vehicles. A total of £3.1 million is allocated for 2021/22, of which £3 million is for vehicles. A budget of £32.9 million is currently estimated to be required over the 10 year period.

7.5 **Economic Development**

This strand of the capital programme is in support of Council priorities and amounts to £3.445 million in 2021/22. The main element under this heading is the capital element of the Economic Recovery Plan, as approved at a meeting of Moray Council 28 October 2020 (paragraph 10 of the minute refers), with an indicative amount of £1.45 million included in 2021/22. Business cases are to be developed for the planned projects. Amounts are also included for the Council's contribution towards the Moray Growth Deal, with £1.27 million included in 2021/22. The final element under this heading £725,000 for projects which come under the Town Centre Initiative Fund, which is fully funded by Government Grant. Budget of £12.1 million is included over the 10 year period.

7.6 **Flood Risk Management and Coastal Protection**

This budget line includes provision in future years for the construction of coastal flood protection schemes at Lossiemouth Seatown and Portessie. Both these schemes are contingent on grant funding from the Scottish Government and a provisional budget of £6.5 million is included to cover expenditure in years 2 to 7 of the 10 year plan.

7.7 **Harbours**

This programme is founded on asset management principles and based on condition information. A programme of structural surveys on all Council Harbours is currently ongoing and will be complete in September 2021. Once the findings of these surveys are known it will be possible to estimate the costs of the repairs required with more certainty. At present a budget of £3.9 million over the 10 year period is provisionally included. A detailed programme of works is brought forward annually to the Economic Development and Infrastructure Services Committee. The draft budget for 2021/22 includes budget of £500,000 for replacement pontoons in Findochty Harbour. Work was originally planned for 2020/21 but was unable to be carried out because of restrictions due to the pandemic. The budget included in the draft 10 year plan is based on tenders received and in that respect is a more accurate estimate of cost than the indicative budget previously included in the capital plan for 2020/21.

7.8 **ICT**

This budget is largely based on asset management planning and includes provision for replacement devices, network infrastructure, servers' infrastructure, software and telephony. It also includes the final stages of the Schools ICT Strategy Implementation. £456,000 is provisionally allocated for 2021/22. The Covid-19 pandemic has seen a shift in how staff work and a move away from desktop and thin client devices to more flexible working, which has increased the level of input required from the ICT department to support not only this, but also school online learning. It is not currently known what impact this will have on future ICT requirements and a review is currently underway through the Council's normal Governance arrangements. The £5.4 million included over the 10 year period is based on previous assessments of need.

7.9 **Industrial Portfolio**

The bulk of this budget is for development of the industrial portfolio, in support of economic development in Moray. The proposed pattern of expenditure reflects the differing expected cost profiles of a number of industrial projects of varying nature/characteristics, including land acquisition and development and refurbishment of existing properties. Detailed plans are updated and reported to Economic Development and Infrastructure Services Committee on an annual basis. In 2021/22 £30,000 is provisionally allocated for land acquisition at Forres and £129,000 for the refurbishment of existing units, £72,000 of which was carried forward from 2020/21 as a result of projects being delayed due to the Covid-19 pandemic. Work on Serviced Sites in Elgin has been delayed in 2020/21 while operational requirements were investigated and the allocation of £24,000 has been carried forward to 2021/22 to allow for site clearance work to proceed. £40,000 has been allowed in 2021/22 for the cost of conditions surveys. Total investment of £11 million in the industrial portfolio is included in the indicative 10 year plan.

7.10 **Libraries and Leisure**

Historically this strand of the capital plan has been driven by asset management requirements. This requires to be periodically reassessed and £60,000 is included in the draft budget for 2021/22 for condition surveys of leisure facilities. Based on previous surveys the main expenditure included in the indicative 10 year plan is the refurbishment and upgrade of Council swimming pools. Detailed business cases would require to be completed to determine the scope of work. The Sport and Leisure Business Plan was approved at a meeting of Education, Communities and Organisational Development Committee on 18 November 2020 (Item 12 of the minute refers) and any future capital investment decisions will come forward under the agreed outcome of 'develop facilities to align with customer service needs', and refer to the wider Learning Estate Strategy. The indicative budget of £3.9 million and the pattern of expenditure over the period will be revised to reflect that. The budget includes £60,000 each year for renewal of fittings, furniture and equipment.

7.11 **Parks and Open Spaces**
The indicative 10 year budget of £6.2 million covers new or extended cemetery provision in accordance with the Council's cemetery provision policy; upgrading existing cemetery infrastructure; an annual rolling programme of replacement of equipment in play areas; operational works arising from tree surveys; upgrade of parks and open space infrastructure. This is driven by asset management considerations. In particular, provision is made in 2022/23 for a new cemetery in Elgin, in 2023/24 for an extension to Broomhill cemetery, Keith and in 2024/25 for an extension to Lossiemouth cemetery. The rolling programme of play area equipment is to refurbish 2 local play areas each year at a cost of £100,000 pa, with an additional £35,000 for the refurbishment of equipment and safer resurfacing. The budget for 2021/22 is £235,000, with £100,000 brought forward from 2020/21. Work is planned to achieve a balance between play value – meeting customer needs through community engagement – and lower maintenance costs, eg replacing loose fill surfacing with rubber, which requires less maintenance, a spend to save approach. Play area equipment was identified by the Service as a potential area for Participatory Budgeting (PB) – the final decision on this will be made by CMT/SMT as the PB steering group.

7.12 **Roads**
On 11 February 2014 Moray Council made the decision to allow Moray's road condition to deteriorate, with a target to be at mid-point in the national table across the network as a whole by the end of the following 5 year period (paragraph 3 of the Minute refers). It was recognised that this would be a short-term measure and that in due course the capital budget would require to be increased to keep Moray's roads at the new target of mid-point in terms of conditions. Economic Development and Infrastructure Services Committee on 21 January 2020 (paragraph 7 of the minute refers) considered a report highlighting that Moray's road condition indicator figures are now decreasing more aggressively than previous years and that if this is not addressed, the costs of reversing this trend will rapidly become unaffordable. The budget for 2020/21 was increased by £500,000 and the current draft capital plan, in the light of the trend in RCI data, includes a significant increase in years 3 to 10 of the plan to address this issue. The Roads Service will monitor the annual RCI figures and adjust the future capital investment recommended to Council accordingly. The latest results were reported to EGHES Committee on 16 February 2021. £4.3 million is provisionally allocated for 2021/22 with a total of £89.2 million over the 10 year period.

7.13 **Road Safety**
This budget heading covers a range of road safety measures: barriers, traffic islands, lines, pelican crossings, minor junction improvements, dropped kerbs, disabled parking spaces, road signs and markings. The patterning of spend in the indicative programme is being reviewed by the service.

7.14 **Street Lighting**
This budget includes the final element of the LED street lighting project, a spend to save initiative, and thereafter is for the replacement of life expired columns, and asset management programme.

7.15 **Traffic**
This includes a provisional allocation of £43,000 for the replacement of life-expired traffic signal and traffic data collection equipment. Work on the new

signals at Orchard Road in Forres was due to be carried out in 2020/21 but delays were experienced as a result of the Covid-19 pandemic and the budget of £220,000 has been carried forward and included in 2021/22. An indicative amount of £372,000 is allocated for Wards Road Junction improvements, which is to be funded by Developer's Contributions. These contributions must be spent in 2021/22 or they fall due to be returned.

7.16 **Waste Management**
This budget includes £8.8 million for the construction of the NESS Energy from Waste Plant and £95,000 for the purchase of new domestic and trade waste bins and containers for recycling centres. £352,000 is included for works at the Dallachy Landfill Site, Spey Bay. This is a long term capital project with the works requiring to be carried out being relative to the operational needs of the site. This site will be operational until either all void capacity within the site is utilised, or the 2025 landfill ban on biodegradable material comes into force. Whatever scenario comes first will determine the life of the site. In addition, waste will begin to be transferred to the Energy for Waste (EfW) facility in April 2022 which in turn will reduce the volume of waste being sent to landfill. A provisional amount of £275,000 for the upgrade of facilities at Gollachy Recycling Centre, Buckie is included in 2021/22, this requires to be approved through the Council's governance arrangements before any capital allocation can be spent. Following completion of NESS EfW facility and closure of Dallachy Landfill Site a modest amount is allowed annually for purchase of waste bins and asset management driven spend on recycling facilities.

7.17 **Schools New Builds**
At a special meeting of Moray Council on 16 December 2020 Council approved "Developing a Strategic Approach to the Learning Estate" as a strategic document which will guide the long term development of the learning estate in Moray. The current assumptions within the 10 year plan will be re-examined and updated following a process of consultation and options appraisal. Substantial investment in the learning estate will be required and the priorities and capital sums required will need to be updated as the strategy is developed. The budget for 2021/22 consists of £3.8 million to allow completion of Phase 3 of the project to build a new Lossiemouth High School, a project which saw delays due to the restrictions put in place as a result of the Covid-19 pandemic. Budget of £350,000 is also included for preliminary work to the carried out on the new Findrassie Primary School, Elgin. The next stage of this project is a consultation process to cover the strategic educational requirements within the Elgin Academy Associated School Group (ASG). The consultation process will be carried out in the early part of 2021 and will inform the detailed requirements for the new Findrassie school.

7.18 **Schools BB and Other Minor Works**
The Council on 27 February 2019 (paragraph 4 of the minute refers) agreed to commence a planned move from Make Do and Mend to a programme of works aimed to reach and maintain BB standard for all Council buildings. At a special meeting of Moray Council on 16 December 2020 Council approved "Developing a Strategic Approach to the Learning Estate" as a strategic document which will guide the long term development of the learning estate in Moray. The move from Make Do and Mend to Schools BB under the strategic approach is likely to take at least two years as current projects are completed and strategic priorities identified. Significant increased expenditure is likely to be necessary to meet a

maintenance backlog. Provision has been made for works arising from fire safety and other similar inspections. A provisional allocation of £4.9 million is included in the draft capital plan for 2021/22.

7.19 **Astro-turf pitches**
An allocation of £1.1million across the ten year period is included for the rejuvenation of existing astro-turf pitches and the construction of an astro-turf pitch in Forres, with preliminary work for the latter now planned for 2021/22.

8. FUTURE YEARS

8.1 As noted in paragraph 3.2, the local government settlement for 2021/22 is a one-year settlement only. To assist in forward planning, projected budgets for 2022/23 and 2023/24 are included in **APPENDIX 1**. This assumes that the savings approved for 2020/21 and 2021/22 are achieved and the rest of the budget rolled forward, with adjustments for one-off funding and one-off savings. With a provision for inflation and known budget pressures, this results in a projected shortfall of over £4 million in each of the next two financial years.

8.2 Various components in the budget are used to develop best case, worst case and mid-point scenarios for financial planning purposes. These have been finalised for the draft 2021/2022 budget. The assumptions used for future years are described in the Medium to Long Term Financial Strategy, which forms another item on the agenda for this Council meeting.

8.3 The Capital Plan will be amended following development of the Learning Estate Strategy, conclusion of the Leisure Review and adoption of the Climate Change Strategy and Action Plan.

9. ADDITIONAL FUNDING AND USE OF RESERVES

9.1 The Council has been notified of significant additional funding, mainly related to response to the pandemic relating to schools and young people's well-being. These sums have not been included in previous financial projections as the announcements have taken place very recently. In order to facilitate their appropriate use they are included in this budget proposal. Timing differences between receipt of the funds, which will be on 31 March 2021 and expenditure, which will be in the new financial year, means that the expenditure will be funded from reserves.

9.2 The late funding announcements are:

	£000s
Recruitment of additional teachers and support staff	832
Mental Health and well-being of children and young people – pandemic response	206
Community mental health and well-being fund	69
	1,107

9.3 This funding will flow through to reserves and it is recommended that approval be given for services to spend this money as envisaged by Scottish

Government in 2021/22. This will not impact on current projections of the use of reserves.

9.4 Further one-off expenditure proposed which is related to the pandemic or delayed by the pandemic is itemised below:

	£000s
Locality planning model pilot (approved ECOD 3/02/21)	200
Community Justice Partnership (delayed because of pandemic)	12
Environmental Health Officer (pandemic funding)	18
	230

9.5 When estimated actuals were developed it was assumed these funding streams – which were known earlier in the year – would be used in full. Therefore approval of this spend in 2021/22 would have no impact on current projections of the level of reserves.

9.6 As noted in paragraph 3.6 the Council has also been notified of additional funding to compensate for loss of income during the pandemic. This funding was calculated using information regarding income lost by both the Council and Moray Leisure Ltd. £146,000 of the additional £2.8 million funding relates to Moray Leisure Centre and it is recommended that £146,000 is remitted to Moray Leisure Ltd.

9.7 Under the Devolved School Management (DSM) scheme, underspends on DSM in any one financial year are held in an ear-marked reserve and released to the schools in question in the following financial year. The scheme places a cap on the amount which can be carried forward and the current cap is 2.5% of each school's DSM budget. Due to pandemic restrictions planned works in a number of schools were unable to be carried out and thus they have DSM balances which are above 2.5%. In recognition that this is due to circumstances outwith the school's control it is recommended that cap is removed for this year only to enable the planned works to be carried out in 2021/22 without financial detriment to the schools.

10. SUMMARY OF IMPLICATIONS

(a) Corporate Plan and 10 Year Plan (Local Outcomes Improvement Plan (LOIP))

Financial Planning is integral to the Council's overall planning processes and allows the Council to direct resources to its agreed priorities.

(b) Policy and Legal

The Council is required by statute to set a balanced budget before the start of the financial year. The requirement is set out in the Local Government Finance Act 1992 (section 93).

The Local Government (Scotland) Act 2003 (section 35) places a duty on local authorities to manage their capital expenditure. It also provides for Scottish Government to issue regulations for the governance of capital expenditure. In practice this means that compliance with the CIPFA Prudential Code is in effect a statutory duty.

(c) Financial implications

The Council's funding gap arises from an underlying overspend in 2020/21 and pressures from inflation and service requirements in 2021/22.

As the draft budget assumes use of reserves in 2020/21, that funding gap is carried forward into 2021/22. Savings have been identified and a significant reduction in loans charges is forecast and these in combination with the final year of BRIS funding have reduced the funding gap in 2021/22 to an amount which can be accommodated within the financial flexibilities allowed by Scottish Government as a one-off measure to assist with additional cost arising from the covid-19 pandemic.

However, a continued budget gap is forecast for 2022/23 and 2023/24. It is important that this is taken into account when considering budget proposals for 2021/22.

(d) Risk Implications

The proposed budget for 2021/22 is subject to the following risks:

- The level of the pay award is unknown at present.
- Budget assumptions may be lower than the actual level of expenditure required by services.
- Price inflation will impact on areas where no provision has been made for inflationary increases and this will add pressure to budgets. Budget Managers will need to control their expenditure to absorb any such pressure and may have to reduce service levels or identify further savings.
- A particular risk relating to construction inflation should be noted. The Royal Institution of Chartered Surveyors (RICS) are forecasting an above inflation rise in tender prices for the next five years, reflecting input costs pressures and forecast growth in construction work. This could significantly impact on the capital plan
- Budget pressures may exceed the available allocation. The Corporate Management Team will be responsible for closely monitoring the issues identified and will report any emerging issues to committee.
- Unforeseen factors can impact on the Council's position. There is no allowance made for contingencies.
- Government funding may be less than assumed for the elements yet to be allocated at Council level.
- Council Tax income may be less than anticipated, depending on the collection rate, rate of growth of Council Tax base, income from the levy and loss of income under the Council Tax Reduction Scheme and other reliefs.
- There may be slippage in achieving savings; savings may not be achieved in full, or the impact of spend-to-save measures may be less than anticipated.

- The cost of borrowing for capital expenditure will increase if the cost of borrowing rises.
- The impact on the Council of external economic factors, including BREXIT, is unpredictable, and could affect income generated from local taxes and from charges for services, as well as demand for services and benefit entitlement.
- The MIJB is anticipating to operate within budget in 2020/21 but there is no guarantee that there will not be an overspend in 2021/22 in the challenging environment in which it is currently operating and the Council is obliged to meet its share of any overspend, despite having no influence on the operation of the Board.

(e) Staffing Implications

There are no staffing implications arising directly from the budget report. Detailed proposals for three new posts in Children's Services will be made to Education, Communities and OD Committee if this report is agreed. This report also includes a recommendation that the interim post of Head of Children's Services with governance arragements as reported to Council on 16 December 2020.

(f) Property

There are no property implications arising directly from this report.

(g) Equalities/Socio Economic Impact

The equality duty

Under the equality duty (set out in the Equality Act 2010) the Council must have 'due regard' to the need to eliminate unlawful discrimination , harassment and victimisation as well as well as to advance equality of opportunity and foster good relations between people who are in a protected group and those who are not.

Groups protected by the Act are age, disability, gender reassignment, pregnancy and maternity, race, religion or belief, sex and sexual orientation.

Councillors need to consider the effects of budget proposals on these protected groups before making a decision on the recommendations. An 'equalities impact assessment' or EIA is a recognised way of doing this.

None of the proposed savings require an EIA.

Socio-Economic Impact

To assess socio economic impacts, consideration has been given to individual and cumulative impact. In relation to changes to charges for services, most of these are one-off or incidental charges which are unlikely to contribute to inequalities in terms of outcome based on socio-economic differences.

(h) Consultations

CMT and Heads of Service have been consulted in the preparation of this report.

11. CONCLUSION

11.1 The Council's revenue budget for 2021/22 requires use of financial flexibilities to balance.

11.2 Significant further savings are forecast to be required in 2022/23 and 2023/24.

Author of Report: Lorraine Paisey, Chief Financial Officer

Background Papers:

APPENDIX 1

BUDGET OVERVIEW AS AT 12 FEBRUARY 2021

Revenue Expenditure	**2020/21** £000s	**2021/22** £000s	**2022/23** £000s	**2023/24** £000s
Service allocations (assuming prior year savings are achieved)	202,422	209,813	215,272	217,146
Adjustments to brought forward figure:	(3)	(304)	258	24
Opening budget	202,419	209,509	215,530	217,170
Pay and price increases	4,400	3,470	4,000	4,150
(Decrease) / Increase in Loan Charges	1,700	(1,500)	350	1,800
New Burdens	5,099	18	0	0
Budget pressures:				
- Approved or noted for future years when budget set	3,881	4,815	670	620
- Approved since budget set	271	0	0	0
Emerging	0	293	109	0
	217,770	216,605	220,671	223,740
Revenue Funding				
General Revenue Grant / NDRI	163,063	167,814	169,492	171,187
New burdens funding not included in grant above	5,099	18	0	0
Loss of income grant	3,774			
Council Tax	44,760	44,405	46,246	48,312
BRIS retention	1,859	1,859		
Release from Repairs and Renewals Reserve			704	
Funding from General Reserves:				
Impact of estimated actuals	(963)			
Other one-off funding from reserves	437			
Transfer to ear-marked reserve for Transformation	2,640			
	220,669	214,106	216,442	219,499
SAVINGS REQUIRED		2,499	4,229	4,240

Savings Summary	2020/21 £000s	2021/22 £00s	2022/23 £00s	2023/24 £00s
Savings Approved:				
Approved when budget set	2,542	251	135	0
Temporary savings	165	143	24	0
Indicative Savings from I&M Programme	360	138	56	
Other savings proposed	221	801	0	0
To be funded by financial flexibilities		1,166		
Savings to be identified		0	4,014	4,240
	3,288	2,499	4,229	4,240
Estimated Free Balance on General Reserves	15,818	15,808	15,808	15,808

Earmarked reserves	£000s
I&M Programme / Transformation	3,340
Council priorities	2,540
Insurance fund (not statutory fund)	272
	6,152

Capital receipts to fund transformation	£000s	£000s
Balance brought forward	1,182	2,512
Projected receipts in year	1,730	1,000
Projected spend	(400)	(1,500)
Projected balance carried forward	2,512	2,012

APPENDIX 2

BUDGET PRESSURES

	2021/22 £000s	2022/23 £000s	2023/24 £000s
Social Care			
Children in Transition	200	200	200
Social Care care package (TMC 1/12/2020)	267		
H&SC funding per settlement letter	1,383		
Children's Services			
Additional Support for Learning	257		
Schools			
Linkwood primary school running costs	275		
School roll numbers	766		
Additional whole life costing Lossiemouth High School	40		
Schools Repairs and Maintenance		200	400
School meals (change in regulations)	232	139	
Maintenance of astro-turf pitches		13	
Income			
Closure of swimming pools for refurbishment		55	55
Budget Pressures Associated with Covid-19			
Budget Pressures associated with Economic Recovery Plan (MC 28/10/20)	197	263	263
Recurring costs of ICT Equipment	37		
Recurring costs of building cleaning	452		
Fogging canisters for PTU minibuses	36		
Ongoing reduction in leisure income post pandemic	500	(200)	(300)
Corporate / cross service			
Clearance of Bilbohall Site for housing development	120		
Microsoft licences - corporate and schools	43		
	4,814	670	618
Emerging budget pressures			
Increased fuel duty		103	
Loss of industrial unit rental income due to disposal of units	25		
Renewal of iTrent contract	23	16	
Essential Skills (additional spend)	50		
Summer sports / active schools events	10	(10)	
Climate Change Strategy	185		
	293	109	0

APPENDIX 3

SAVINGS

Savings agreed	Approved	2021/22 £000s	2022/23 £000s	2023/24 £000s
Financial Services				
Purchasing card rebate	MC 12/02/2020	10		
AP forensics	MC 16/12/2020	10		
HR, ICT & OD				
ICT Contract Review	MC 12/02/2020	7		
Governance, Strategy and Performance				
Members service reduction in hours	MC 03/03/2020	11		
Environmental & Commercial Services				
Cashless car parking system	EGHES 6/10/2020	9		
Economic Growth and Development				
Development Management - planning applications: major projects/national fee review	MC 27/02/2019		50	
Discretionary charging for Building Standards	MC 12/02/2020	10		
Housing & Property Services				
Estates rental review	MC 27/02/2019		30	
Rental income from new industrial sites / units	MC 27/02/2019		15	
Homelessness Allocations - Marleon House	MC 03/03/2020	10		
Schools				
Charge cost of SQA music tuition to schools	MC 03/03/2020	3		
Education Resources and Communities				
Auchernack residual budget	MC 27/02/2019	20		
Other (cross cutting)				
Inflationary increase in charges	MC 18/02/2021	25	25	
Increase in NI threshold	MC 27/02/2019	15	15	
Vacancy Targets – inflationary increase	MC 2/9/2020	114		
Savings approved		**251**	**135**	**0**

Improvement & Modernisation Programme:

	2021/22	2022/23
Stream 2: ICT & Digital - Schools Admin	94	56
Stream 4: Review & Expansion of Flexible Working	44	
	138	**56**

Further savings proposed

	2021/22
Children's Services: Recurring savings from 2020/21	902
Reinvestment in Children's Services	(158)
Budget for garden waste permits (to match current income)	57
	801

Moray Council Capital Programme 2021/22 onwards

Cat Area	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	Total
Core Programme											
Bridges	930	3,839	690	7,154	650	610	50	610	50	50	14,633
Car Parks	687	130									817
Corporate	3,140	4,140	3,647	3,140	3,140	3,140	3,140	3,140	3,140	3,140	32,907
Economic Development	3,445	2,135	1,210	447	187	2,483	1,327	627	207		12,068
Flood Risk Mgt & Coastal Protection		100	797	200	1,000	1,050	3,400				6,547
Harbours	1,200	300	300	300	300	300	300	300	300	300	3,900
ICT	456	553	611	579	542	502	632	502	562	502	5,441
Industrial Portfolio	223	3,111	1,630	1,105	2,286	1,190	60	755	645		11,005
Libraries & Leisure	420	1,320	1,140	183	140	140	140	140	140	140	3,903
Parks & Open Spaces	585	2,085	755	935	305	305	305	305	305	305	6,190
Road Improvements	4,310	4,600	7,100	7,800	8,900	10,600	12,600	11,100	11,100	11,100	89,210
Road Safety	605	304	366	334	328	330	407	312	312	312	3,610
Street Lighting	934	800	800	800	800	800	800	800	800	800	8,134
Traffic	635	23	23	39	7	43	43	1,061	39	39	1,952
Waste Management	10,030	2,014	1,346	145	145	145	145	145	145	145	14,405
Schools BB and other minor works	4,895	6,190	6,890	10,190	10,190	10,890	10,890	10,190	10,890	10,190	91,405
Schools New Builds and Refurbishments	4,177	4,692	10,682	13,170	7,006	31,800	35,100	7,500	61,000		175,127
Schools - 3G pitches	480	650	25								1,155
Core Programme Total	**37,152**	**36,986**	**38,012**	**46,521**	**35,926**	**64,328**	**69,339**	**37,487**	**89,635**	**27,023**	**482,409**
Funding											
Grants & Contributions	(9,741)	(9,076)	(9,299)	(9,492)	(9,224)	(9,274)	(13,252)	(8,624)	(8,224)	(8,224)	(94,430)
Loans	(27,411)	(27,510)	(28,313)	(36,629)	(26,302)	(54,654)	(55,687)	(28,463)	(81,011)	(18,399)	(384,379)
Receipts	0	(400)	(400)	(400)	(400)	(400)	(400)	(400)	(400)	(400)	(3,600)
Funding Total	**(37,152)**	**(36,986)**	**(38,012)**	**(46,521)**	**(35,926)**	**(64,328)**	**(69,339)**	**(37,487)**	**(89,635)**	**(27,023)**	**(482,409)**
Grand Total	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

REPORT TO: SPECIAL MORAY COUNCIL ON 3 MARCH 2021

SUBJECT: MEDIUM TO LONG TERM FINANCIAL STRATEGY

BY: DEPUTE CHIEF EXECUTIVE (ECONOMY, ENVIRONMENT AND FINANCE)

1. REASON FOR REPORT

1.1 To ask Council to consider an updated financial strategy to facilitate medium to long term financial planning.

1.2 This report is submitted to Council in terms of Section III (A) 2 of the Council's Scheme of Administration relating to long term financial plans.

2. RECOMMENDATION

2.1 It is recommended that Council:

(i) approves the updated Medium to Long Term Financial Strategy at APPENDIX 1 to this report, recognising that in view of the uncertainties arising from the pandemic that the update is interim in nature; and

(ii) notes an improvement in the forecast future funding gap from the position forecast when the Strategy was first reported.

3. BACKGROUND

3.1 The Council's Corporate Plan 2019/2024 was approved by Council on 3 March 2020 (paragraph 6 of the Minute refers) and the Medium to Long Term Financial Strategy was approved as a partner piece of the Corporate Plan at the same meeting of Council (paragraph 5 of the Minute refers). The Corporate Plan provides direction and focus for financial planning through clarification of corporate priorities.

3.2 The Financial Strategy looks at the context in which the Council is planning for the future, and this has been updated to reflect changes arising as a result of the Council's response to the pandemic and also the revised Corporate Plan and the adoption/anticipated adoption of the Learning Estate and Climate Change Strategies. It reflects the Scottish Government's medium term financial strategy, as updated when the Scottish Government budget was published on 28 January 2021.

3.3 The Financial Strategy identifies the principal cost drivers for the Council's services, and looks at the impact of these under a number of different scenarios - essentially taking a range of options for these cost drivers from a more optimistic to a more pessimistic point on a scale. This enables an assessment of the possible financial position of the Council over the next ten years. The range of options has been updated and the current forecast funding gap over the next ten years considerably reduced from that set out in the first Medium to Long Term Financial Strategy.

3.4 The Strategy also sets out the main vehicles which the Council will use to make strategic shifts in expenditure, in order to achieve financial sustainability and this has been updated to reflect work which has been ongoing over the last year and emerging work streams now planned for the future. This is an interim update with a further review to be undertaken by February 2022 in terms of the Best Value Action Plan.

4. <u>SUMMARY OF IMPLICATIONS</u>

(a) Corporate Plan and 10 Year Plan (Local Outcomes Improvement Plan (LOIP))
The Financial Strategy is a companion document to the Corporate Plan

(b) Policy and Legal
There are no direct policy and legal implications arising from this report.

(c) Financial implications
There are no financial implications arising directly from this report. The Financial Strategy sets out the financial parameters within which the Council's financial planning activity is expected to take place over the next ten years.

(d) Risk Implications
Although the Strategy looks at the long term, the farther off the financial projections are the greater risk of inaccuracy. Over the ten year period there will be many influences on the Council's services which are at present unknown which is why this is referred to as an interim update. The flux created by the pandemic increases risk over the short term as well as in the longer term. A full update will be completed in early 2022.

(e) Staffing Implications
No staffing implications arise directly from this report.

(f) Property
No property implications arise directly from this report.

(g) Equalities/Socio Economic Impact
There are no equalities issues or impact on the socio-economic duty arising from this report.

(h) Consultations
The Medium to Long Term Financial Strategy has been prepared in consultation with CMT and SMT.

5. CONCLUSION

5.1 The Financial Strategy provides a detailed consideration of the factors which will impact on financial planning over the medium to long term and sets out the factors which the Council will have to consider in realigning its finances to achieve financial sustainability.

5.2 Reflecting the Council's current plans and the wider context in which the Council makes these plans the Strategy indicates a continued challenge to achieve financial stability but with a considerably reduced forecast financial gap from that forecast in the first Medium to Long Term Financial Strategy.

Author of Report: Lorraine Paisey, Chief Financial Officer
Background Papers:
Ref:

Item 4.

APPENDIX 1

MORAY COUNCIL

MEDIUM TO LONG TERM FINANCIAL STRATEGY

2021/22 – 20~~29~~30/3~~0~~1

INTERIM REVIEW

DRAFT

Version	1
Author	Lorraine Paisey
Date of review	~~March 2020~~ January 2021
Date of next review	December 202~~0~~1
Date approved by Council	March 2020

CONTENTS

1 INTRODUCTION

1.1 The first version of the Council’s medium to long term financial strategy was approved shortly before the country entered its first lockdown in response to the covid-19 pandemic. During that lockdown and subsequently the Council’s working practices and ways of delivering services have changed in ways quite unforeseen prior to March 2020. At this juncture it is unclear how long restrictions will last and what the medium term consequences of the pandemic will be. To that extent this must be seen as an interim revision of the strategy. However, a~~A~~ medium to long term financial strategy is still essential to assist in ensuring~~e~~ that the challenges the Council faces in terms of managing its budgets are addressed in the most effective way. The intended outcome of the financial strategy is a sustainable financial plan, with planned revenue expenditure met by budgeted revenue income, with use of reserves to balance the budget kept to a minimum and targeted towards transformation of council services. The outcome of the strategy will be monitored through a range of measures including scrutiny of in year net expenditure through the Council’s established programme of budget monitoring; tracking progress of the Improvement and Modernisation Programme and reporting on Benefits Realisation of transformation projects, and by keeping the balance of expenditure across services under review, to ensure that the strategic direction of spend is maintained over the medium term. Health check Performance Indicators are detailed in Section 6 of this Strategy.

1.2 The Financial Strategy is a companion document to the Corporate Plan and sets out how the Council aims to fund achievement of the priorities expressed in the Corporate Plan and the Local Outcome Improvement Plan (LOIP).

~~National priority~~	~~Children~~	~~Education and Health~~	~~Communities~~	~~Economy, Fair Work and Business, Culture~~	~~Environment~~
	~~Poverty~~	~~Raising Aspirations~~			
~~LOIP priority~~	~~Building a better future for our children & young people in Moray~~		~~Empowering & connecting communities Locality Plans~~	~~Growing, diverse & sustainable economy~~	

	~~**Our People**~~	~~**Our Place**~~	~~**Our Future**~~
~~**Council priority**~~	~~Provide opportunities for people to be the best they can be throughout their lives with a strong and sustained focus on those individuals and groups in our society who experience the most disadvantage and discrimination~~	~~Empower and support communities to build capacity~~	~~Drive economic development to create a vibrant economy for the future~~
	~~**Creating a sustainable council** – that provides valued services to our communities.~~	~~Financial Strategy: Developing our medium and long-term approach to financial stability~~	
		~~Improvement and Modernisation: programme of transformation projects that will contribute to a financially stable council for the future~~	
		~~Developing the Workforce: Realigning the workforce to meet our future requirements and developing new skills~~	
~~**Our Approach**~~	~~➢ ***Equalities*** – providing opportunities for everyone to be their best~~ ~~➢ ***Empowering*** – producing better results by collaborating and working to engage and involve people (partners, businesses and communities)~~ ~~➢ ***Environment*** – look after world we live in to protect it for the future~~ ~~➢ ***Enterprising*** – consider new approaches to the way we do our business to increase our income and make services more sustainable for the future~~		

Sustainability and the Council's Financial Strategy are recognised as forming the platform from which the three key priorities of Our People, Our Place and Our Future must be delivered.

1.3 The financial strategy will:

- Highlight the key cost drivers and drivers of change for the Council's service delivery
- Outline the Council's high level financial position over the years 2021~~0~~/22~~1~~ to 2030~~29~~/31~~0~~, based on a range of assumptions across different scenarios
- Facilitate planning ahead to enable the impact of change to be managed more proactively and effectively

- Plan for a sustainable revenue budget and capital investment programme which will support the Council's priorities and address the key issues for Moray
- Assist in increasing the people of Moray's understanding of the Council's financial position and the challenges facing it over the next ten years.

1.4 The strategy covers the period 2021~~0~~/22~~1~~ to 2023~~2~~/24~~3~~ in detail and provides very high level estimates for 2024~~3~~ to 2031~~0~~. ~~Following the UK Government Spending Review in 2018, which announced that a three year forecast would be produced in 2019, the Cabinet Secretary for Finance, Economy and Fair Work announced that he would follow suit. As the UK Government Spending Round on 4 September was for 2020/21 only it is unlikely that the Scottish Government will announce figures for the longer term.~~ Scottish Government have followed the UK Government lead in setting a budget for one year only as the national and world economy struggle in the throes of the pandemic. Consequently there is considerable uncertainty about the council's budget position even in the early years of the strategy, and, post Covid-19, more than in previous years..

1.5 The key challenge for the strategy is identifying the approach which the Council must take to achieve a sustainable financial position, with balanced budgets in future years. It is unclear what the future holds for local government finance in Scotland, but it is clear that the Council cannot continue to do all that it currently does in the same ways as it traditionally has. To that extent the financial strategy is dependent on a programme of business transformation; service prioritisation and redesign, and reduction in service delivery. Underpinning this is a direction of travel which looks to target resources at greatest need and to shift away from a universal provision of services where this is possible. Although the need to respond to the pandemic has slowed progress in some areas, it has accelerated progress in others. In particular progress in developing digital services and facilitating flexible working practices has of necessity been much faster and more far-reaching than could have been envisaged twelve months ago. A stronger emphasis on service resilience is emerging, and the focus on targeting resources needs to be re-shaped to encompass vulnerabilities emerging from the pandemic, be these economic, societal, personal or environmental.

1.6 The Community Empowerment agenda is also central to the programme of transformation, with an expectation that local communities will take the lead in some areas in which traditionally the council has led. The Council has been committed to Community Asset Transfer (CAT) for many years and in 2018 successfully promoted CAT of town halls and some community centres as part of its budget setting process for 2018/19, a process in which the public were consulted through a variety of channels to establish community priorities for service delivery. A steady trickle of CAT applications continues to be made by a variety of community groups. The Council has approved~~is currently developing~~ its Participatory Budgeting (PB) Charter and process, in conjunction with community groups. This aims to extend PB into mainstream budgeting. The strategy recognises the need for the Council to invest further in this process if it is to achieve its aims. Further development in this area has been severely curtailed by the pandemic but progress continues to be made.

1.7 The strategy must also allow for investment in the Council's asset base, appropriately directed towards meeting national and local priorities in a planned fashion, in accordance with the Local Development Plan, Asset Management Plans and associated infrastructure planning. An approach to developing the Learning Estate Strategy has been approved by Council and this will underpin the development of a programme of investment and enable application for financial support for this from Scottish Government. Although the Council has a clear need to reduce its asset base, continued economic development in Moray requires appropriate infrastructure and facilities and so overall a reshaping and repositioning of the asset base is required and this must be accommodated within the capital plan.

1.8 The strategy will be reviewed annually as part of the Council's financial planning process, with regular updates of the medium term position reported to the Corporate Management Team on a monthly basis and to the Policy and Resources Committee on a quarterly basis.

1.9 Moray Council is not alone in facing significant financial challenges. The approach towards savings and service transformation which the Council is advocating is one which can be seen across Scottish local authorities. One of the tools used in developing the Strategy has been horizon scanning / peer review, to ensure that ideas for change developed in other local authority areas are considered for use in Moray, where appropriate.

1.10 Despite these challenges the Council was able in 2020/21 to ear-mark reserves for investment in transformation of services and Council priorities. A programme of investment is being developed, to improve efficiency, support early intervention and thus underpin longer term financial stability with an ability to greater manage demand.

1.~~10~~11 The inclusion of information in the Strategy does not imply approval. All financial estimates are subject to approval by Council as part of the budget setting process.

1.~~11~~12 The scope of this Financial Strategy is the Council's General Fund. The Council's Housing Revenue Account (HRA) is ring-fenced, according to statutory requirements, and consequently financial planning for the HRA is a separate exercise from financial planning for the Council's other services and is managed through a series of strategies developed solely for this service area such as the Strategic Housing Investment Plan.

2 ECONOMIC, SOCIAL AND ENVIRONMENTAL CONTEXT

2.1 The national context

Global Economy

2.1.1 The global economy w~~h~~as ~~been~~ slowing prior to the pandemic, with a downturn in the United States, Eurozone and UK economies. ~~Forward-looking economic indicators strongly suggest a weaker outlook for economic growth~~. In the UK, uncertainty over the full impact of Brexit is also a key factor. At present the consensus of opinion across economists and businesses appears to be for the economy to continue below pre-lockdown levels and to start to improve as the vaccination programme is rolled out.~~,~~ The emergence of multiple variants of the coronavirus and its continuing evolution show how precarious these forecasts are. ~~but the Eurozone is also showing signs of economic downturn, particularly in German manufacturing, and the US and China trade position has wide ramifications. This is reflected in the fall in bond prices, with US treasuries and UK gilts generally on a downward trajectory and German bunds at a negative yield.~~

2.1.2 ~~The value of bonds directly impacts on the Council's financial position, as Public Works Loans Board (PWLB) loan interest rates are linked to the yield on Treasury gilts~~. Interest rates are low and expected to remain low in the short term at least, with the possibility of negative interest rates still in play.

Scottish Dimension

2.1.3 The economy also has an indirect impact on the Council, as a downturn in the Scottish economy will reduce the Scottish tax take and with this the level of funding which Scottish Government has available. The first estimate of Scottish tax take was higher than actually achieved. The assumptions used to estimate the Scottish tax take have been refined and future estimates are expected to be more accurate but clearly this is not an exact science. The Scottish Fiscal Commission is projecting lower Gross Domestic Product (GDP) and higher unemployment than they did a year ago. Despite this, the Scottish Government medium term financial strategy published on 28 January 2021 show~~s~~ a central case scenario of average annual 4% growth in resource budget over the period 2020/2021 to 2025/2026, with an upper scenario of 5.3% and a lower scenario of 2.4%. Within these local government funding is forecast to be central 4%, upper 5.5%, lower 2%. However, almost three quarters of resource budget is allocated to health, local government and social security and, whilst the NHS is prioritised and demand-led social security benefits are promised to be fully funded, no such priority has traditionally~~is~~ been given to local government, so if spend on NHS and / or benefits rises above the levels included in the medium term strategy local government funding will be squeezed. The SPIce briefing Local Government Finance:Budget 2021/22 and provisional allocations to local authorities notes that the local government revenue budget as a share of the Scottish Government equivalent fell from 34.7% in 2013/14 to 32.8% in 2021/22.

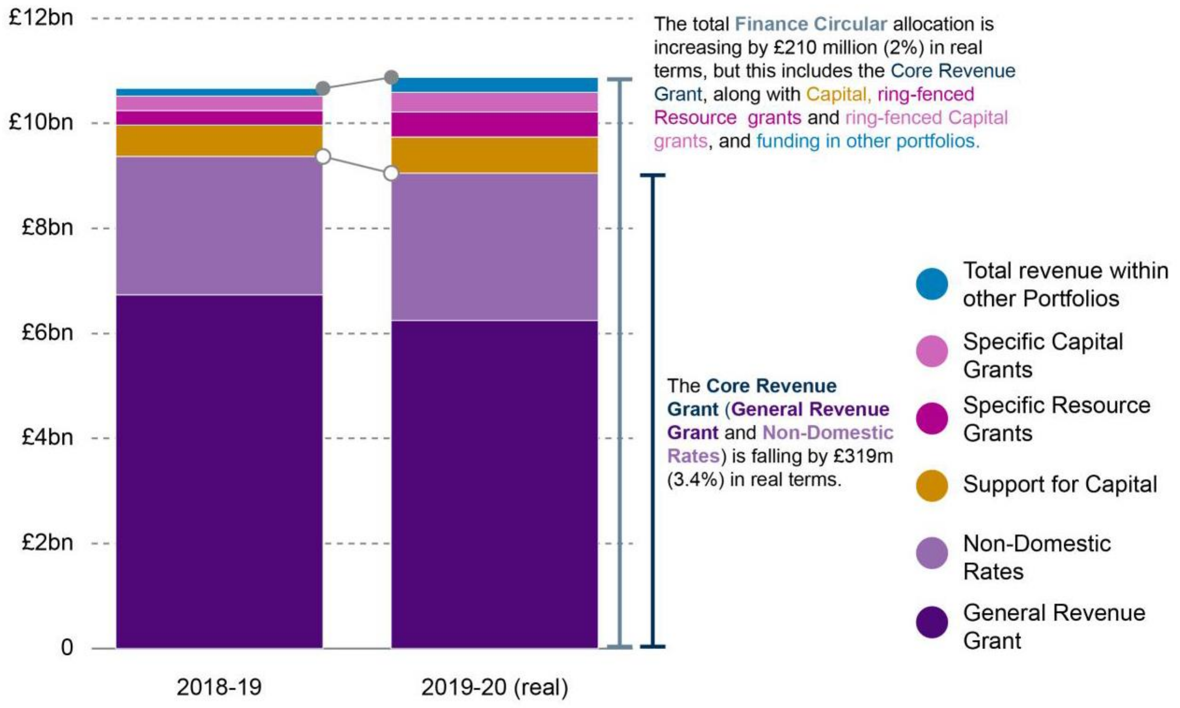
Brexit

2.1.4 Further uncertainty for both UK and Scottish economies arises from Brexit, with the detailed terms ~~timing and conditions~~ of Brexit ~~– and indeed whether Brexit will happen –~~ still undecided, and the ramifications for business and for the amount and pattern of central government spend unclear.

Scottish Government Policy Control

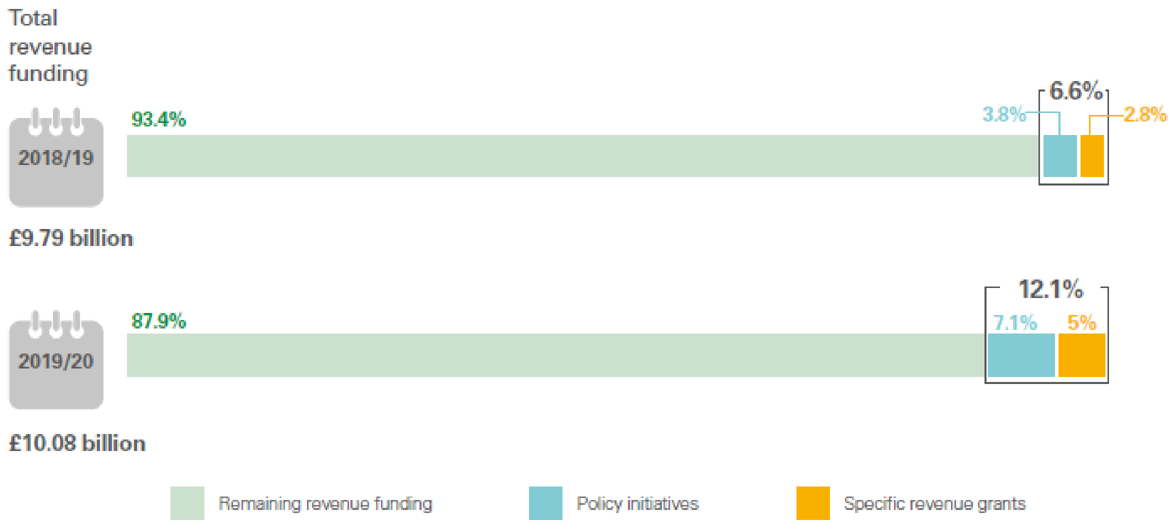
2.1.5 ~~Scottish Government's medium term financial strategy, published in autumn 2018, indicates a reduction in core local government funding as a result of protecting NHS and Police Scotland funding and increased ring-fencing for Scottish Government initiatives.~~ Some of Scottish Government's key policy initiatives delivered by local authorities are funded by ring-fenced grant, notably expansion of Early Learning and Childcare and Pupil Equity Fund. Audit Scotland's Overview of Local Government in Scotland 2019/20 noted that nearly half of the increased funding in 2019/20 and all of the initial additional funding in 2020/21 was to fund the expansion of early learning and childcare.

2.1.6 The impact of increased ring-fenced funding was presented by SPICe in their report Local Government Facts and Figures 2013/14 to 2019/20.



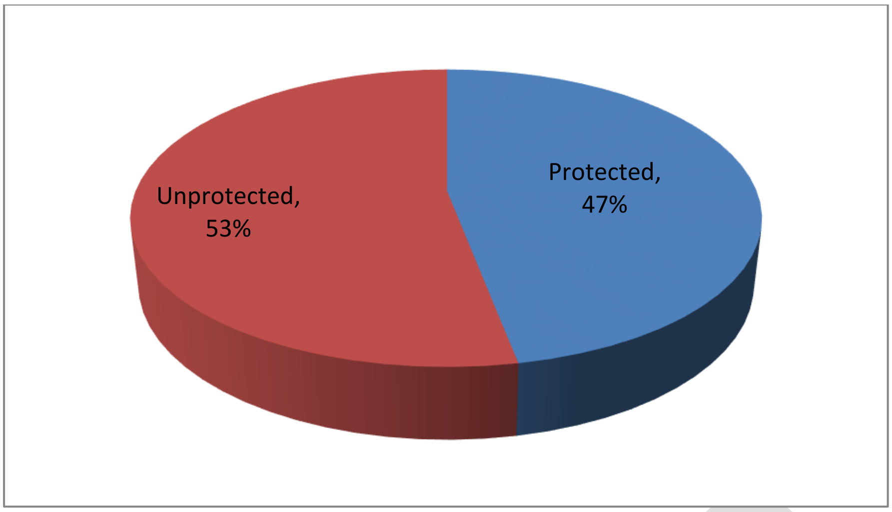
2.1.7 Disagreement between Scottish Government and COSLA as to what constitutes core funding for local government has been a feature of discussion around recent settlements and continues in COSLA's response to the 2021/22 budget and its companion document "Budget Reality 2021/22"

2.1.8 COSLA ~~in their response to the Local Government and Communities Committee pre-budget scrutiny also drew~~ has also drawn Scottish Government attention to areas where Scottish Government priorities are not funded through ring-fenced funding but where there are still explicit constraints on local government and / or funding is tied to new duties. Audit Scotland captured the impact of new duties on local government in 2019/20 in the following diagram:



Source: Audit Scotland, Local Government finance circular 2/2019, Scottish Budget 2019/20

2.1.9~~8~~ The diagram does not include other protected budget areas such as the Scottish Welfare Fund and teaching staff posts. COSLA estimate that 61% of local government expenditure is protected by Scottish Government or committed under PPP funded initiatives or as a result of borrowing to fund capital expenditure in prior years. The position estimated for Moray Council in 2019/20 is shown in the chart below



Other Impacts

2.1.10~~9~~ There are other decisions made at a national level which directly or indirectly impact on the Council's costs. Pay awards are a key area where the Council has no control over the awards negotiated for Council staff. The Living Wage is also set centrally. The UK Government sets the discount rate used in calculating the liabilities of unfunded pension schemes – for the Council that means the cost of teachers' pensions.

New Fiscal Powers

2.1.11~~0~~ Scottish Government wa~~i~~s introducing measures which allow an element of local discretion in raising revenue (Workplace Parking Levy, Transient Visitor Levy). Work on this has been paused during the pandemic. The extent of these new powers and how they will work has yet to be set out in detail. A further addition to local funding is the devolution of income from the Crown Estate. The first two tranches of income ha~~s~~ves been announced. It has been ring-fenced by Scottish Government for use in coastal communities. The Workplace Parking Levy may be ring-fenced for transport projects, and there has been discussion of the Transient Visitor Levy being ring-fenced for expenditure related to tourists. The extent to which these additional measures will assist in meeting the shortfall in core funding is therefore unclear at present, although it is likely that some of this income could be used to offset some elements of core spending. Non Domestic Rates (NDR) empty property relief will~~may~~ also be devolved to local authorities. It is as yet unclear what discretion local authorities will have in respect to empty property relief..

Environmental Issues

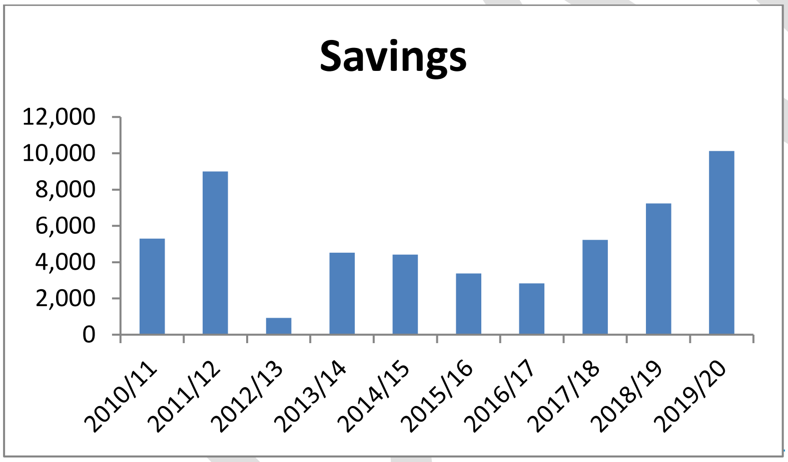
2.1.12~~1~~ Matters of national concern such as climate change and carbon emissions are echoed at a local level. The response to such issues will vary in the local context and can be influenced by local decisions and priorities, although these are areas where central policy – such as the ban on biodegradable waste going to landfill and commitment for Scotland to become carbon neutral by 2040 - will also dictate action at a local level. Funding to support the Scottish Government's climate change objectives is not yet clear. The Council has recognised a Climate Change emergency and is in the process of developing a Climate Change Strategy in response to this. This will have significant impact on the Council's spending priorities and in particular the capital plan.

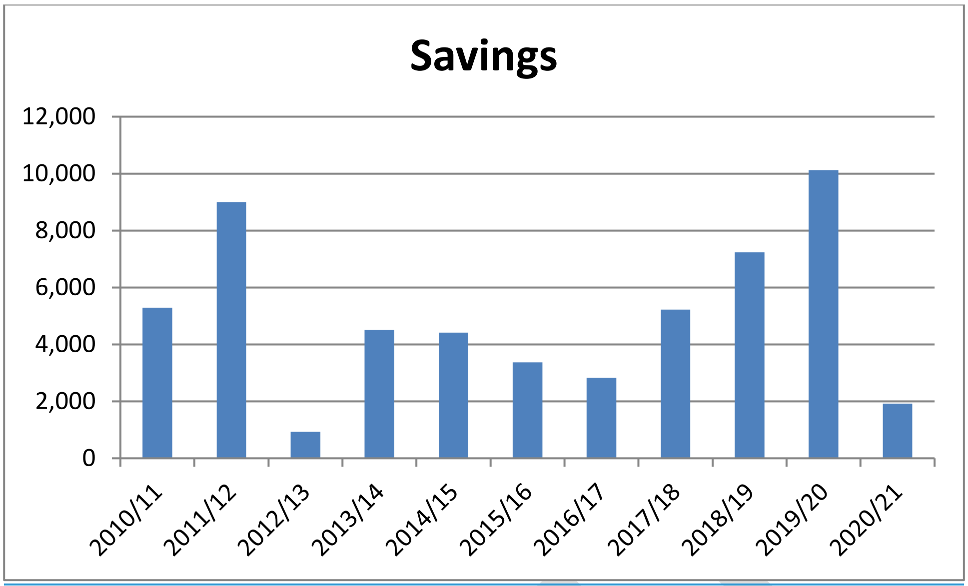
2.2 The local context

2.2.1 Background

The Council has been making savings year-on-year since 2010/11. To date these have largely been based on service efficiencies and service reductions with savings growing for the past 3 years and particularly significant savings taken in 2019/20. As the Improvement and Modernisation Programme continues to develop, the focus will shift to transformational change. Until those savings start to be generated at scale however, there are challenges in developing further savings from efficiencies. As a result, service reduction will inevitably require to form a major strand of the Council's approach to balancing its budget in the short term to medium term, although this becomes increasingly difficult as time passes and the cumulative effect of previous service cuts are felt..

(savings are shown in £000s):





2.2.2 Demographics

Moray's population grew by 10.4% from 1999 to 2019 ~~has grown over the past 10 years and is forecast to grow by 4.4% over the period 2016 to 2026.~~but is now forecast to decline between 2018 and 2028, with a natural (births less deaths) decline of 2.6% only partly offset by net inward migration of 2.5% This contrasts with an average projected population growth for Scotland as a whole of ~~3.2%~~ 1.8%, also driven by net inward migration. The impact of the pandemic and Brexit on migration is as yet unclear. Moray ~~also~~also is now projected to have ~~has an above the Scottish average projected~~ a change of 5.2% (which is the same as the Scottish average) in the number of households over the period ~~2016~~ 2018 to ~~2041~~2029.~~.~~ Moray's population is aging, with life expectancy and healthy life expectancy for both men and women above the Scottish average. However, primary and secondary schools rolls are still projected to increase in the short term, in numbers and also as a percentage of the projected total of all Scottish school rolls. This will impact on demand for services and also on grant support from Scottish Government under the present method of allocating general revenue grant.

2.2.3 Economy

Moray is a low wage economy. The features of the local economy have been well documented by the Moray Economic Partnership and are set out in detail in Moray Economic Strategy. A key strand in current planning for economic development is the Moray Growth Deal. Following agreement on Heads of Terms ~~expected~~ agreed in August 2020, detailed modelling will be required to reflect the Moray Growth Deal in the Council's budget processes and plans, and this has been done at a high level.

2.2.4 Infrastructure

Moray's population is concentrated in Elgin, with four major satellite towns and large areas of dispersed rural communities. This influences how services are delivered and underpins the need for investment in roads infrastructure for connectivity and also to facilitate the movement of goods for export, which forms a significant part of the Moray economy.

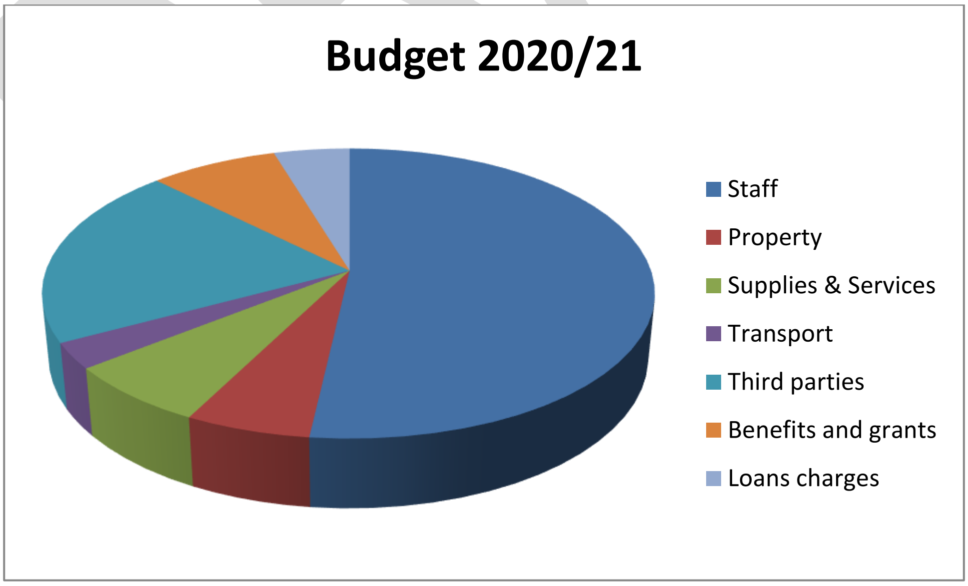
2.2.5 Learning Estate

The condition of the schools in Moray is the worst in Scotland. There has been recent investment in two new secondary schools in Elgin and a new primary school in Keith. A new secondary school in Lossiemouth is under construction. Four primary schools – in Elgin, Forres, Lossiemouth and Buckie – were significantly refurbished. Despite this the overall condition of the school estate is poor. The improvement of the school estate as part of the agenda to improve educational attainment is one of the Council's key priorities. A review of the Learning Estate forms part of the Council's Improvement and Modernisation Programme and the outcome of that review will help to shape future financial planning. The Learning Estate Strategy was approved by Council on 16 December 2020.

3 COST DRIVERS AND PLANNING ASSUMPTIONS

Cost Drivers

3.1 The Council's budget of £300~~280~~ million gross revenue expenditure for 2020~~19~~/2~~0~~1 includes £153~~145~~ million for staff. Pay awards and pension costs are key cost drivers for the Council. Pay awards for 2021/22 have not been agreed. The trades unions have recently made a bid for non-teaching staff but it may be some time before negotiations are concluded.~~agreed in the course of 2018/19 were multi-annual, covering the period 2018 to 2021.~~



3.2 A significant proportion of the Council's services are out-sourced, with 20% of the Council's expenditure being on services delivered by third parties. The procurement process therefore has a strong influence on the costs borne by the Council. Significant savings have been made by procurement (on the purchase of supplies and services as well as on out-sourced services) and the Council has a target of 3% procurement savings on relevant ie local (influenced by the Council) contracts.

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Over half of the Council's out-sourced services are social care services. The provision of health and social care is done by NHS Grampian and the Moray Council under the direction of the Moray Integration Joint Board. The Council therefore has no direct control over the strategic delivery of social care services. This continues to present a significant risk for the Council in terms of budget management.

Planning Assumptions

3.3 As recommended in CIPFA guidance on the development of medium to long term financial plans, the Council looks at the financial implications of various scenarios, allowing the Council to assess the financial impact of various key drivers of change on cost. The main cost drivers used in constructing outline scenarios for budget setting for the last ~~two~~three years have been staff pay awards, grant support from Scottish Government and level of capital expenditure.

3.4 This financial strategy incorporates consideration of these and other key variables which may impact on the Council's financial position going forward.

3.5 The rationale behind the Optimistic, Mid-range and Pessimistic assumptions for each cost driver are set out below:

3.5.1 Pay awards have not been agreed for 2021~~0~~/22~~1~~. The~~reafter the~~ assumptions used in this strategy are that pay awards will be linked to actual inflation or to the government's inflation target, currently starting at 2%: optimistic is no real terms increase in pay, mid-range a 0.5% real increase, pessimistic a 1% increase. ~~The optimistic assumption aligns with the low budget assumptions used by the Office of Budgetary Responsibility (OBR) and Scottish Government (as at April 2019). The mid-point aligns with the Scottish Fiscal Commissions prediction for wage inflation in 2020/21 (as a December 2018). The pessimistic case is lower than OBR' high assumption (3.5%) and Scottish Government's upper limit (4%) but has been chosen as it matches the three year pay award agreed for non-teaching staff for 2018-2021.~~ Inflation during the early stages of the pandemic was very volatile, is currently low and generally predicted to remain below target in the immediate future. The Scottish Fiscal Commission is forecasting average annual pay increases of 2.6% in 2021, 2.4% in 2022 and 2.7% in 2023.

3.5.2 Capital expenditure is based on the current indicative 10 year plan presented to Council on 3~~27~~ March~~February~~ 2020 ~~2019~~as updated and presented to Council on 3 March 2021. This will be adjusted as a result of the work being carried out under the aegis of the Improvement and Modernisation Programme, specifically the review of stores, depots and offices ongoing in terms of the Property Asset Management Appraisal, ~~and~~ the review of the Learning Estate, review of roads conditions and review of ICT requirements following the introduction of flexible working on a large scale. The Council currently has a budget for loan charges of £15~~3~~.2~~5~~ million. This is a long term commitment, but over time historic loans will be paid off. New borrowing increases the Council's liability to loans charges – at the current low rates of interest, by about £60,000 per million borrowed. There is a long-lead in time to many capital projects, and the range of assumptions for 2021~~0~~/22~~21~~ is consequently fairly narrow, allowing for slippage / savings of 10% (the capital plan for 2018/19 out-turned 9% under the final approved budget) at the optimistic end and, at the pessimistic end, an overspend of 2.2%. The capital plan for 2020/21 was heavily impacted by the pandemic and consequent restrictions on construction work. It is unclear when these might be eased.

3.5.3 Funding from Scottish Government, in the form of General Revenue Grant and Non Domestic Rates (NDR), is projected to be at best an above inflationary rise of 1% (at the target rate of inflation)~~the same actual amount each year – generally referred to as "flat cash"~~ - and at worst a cash reduction of 2~~3~~%. The range of assumptions in the first iteration of the medium to long term financial strategy approved in March 2020 was generated from a variety of sources, principally~~ –~~ OBR and ~~,~~ Scottish Government's Five Year Strategy published January 2021 ~~scenarios for non-priority spend~~ – ~~earlier in the year have been overtaken by the UK spending plans for 2020/21 announced on 4 September 2019. This includes £1.1bn Barnett consequentials (of which around half relate to the NHS and which are likely to be passed on in full to NHS Scotland) which may give additional flexibility to Scottish Government.~~ Current government spend is focussed on recovery from the pandemic and it is difficult to extrapolate forward at present. As noted above the Scottish Government medium term financial strategy uses higher levels of funding for local government than previously seen but there are significant risks to this in terms of pressure from NHS and social security budgets.

3.5.4 Council Tax assumptions have been separated out into Council Tax percentage increase, growth in Council Tax base and Council Tax collection rate. The previous 3% capped percentage increase has been used as the mid-range from 2022/23 onward. In 2019/20 and 2020/21 Scottish Government allowed a real increase of 3% - ie a nominal 3% plus inflation, measured using the GDP inflator.~~Consumer Price Index (CPI)~~. The optimistic case is therefore shown as with 3% plus the UK government's target CPI of 2%. The current offer in the local government settlement for 2021/22 has grant compensation for a Council Tax freeze which approximates to a real 3% increase. A cap at inflation is shown as the pessimistic case. The level of growth currently projected was~~is~~ based on the projected growth of households in Moray from 2016 to 2041 per the Registrar General's Annual Review of Demographic Trends 2018 with adjustments downwards in 2020/21 to 2022/23 to reflect a pandemic downturn in construction. This matches the latest National Records of Scotland projection for increase over the ten year period. The~~is~~ pre-pandemic projected growth is used from 2023/34 onwards and this tallies with the level of actual growth seen in recent years and is used as the mid-case with small percentage variations for the optimistic and pessimistic cases. Likewise the collection rate is set at the pre-pandemic~~current~~ level for the mid-case with small percentage variances for optimistic and pessimistic for years 4 to 10, with 2021/22 reflecting the current reduced rate of collection and the next two years showing a gradual return towards pre-pandemic levels .

3.5.5 Inflation affects a small number of significant contracts – in particular the PPP schools contract – and also covers potential increases in utilities. The cost of utilities and fuel has been volatile over the past year, but the underlying trend is still forecast to increase above general inflation. Consequently the government target for inflation has been used as the optimistic scenario, with relatively modest increase for the mid-point and pessimistic scenarios, reflecting the current low inflation environment.

3.5.6 The employers' pension contribution is assessed every three years and was ~~is~~most recently revised~~ currently due for revision~~ from 1 April 2021. A variety of issues are tending to increase the cost of pensions – in particular recent legal decisions – and the contributions for 2021/22 are~~onwards will be~~ dependent on the actuarial assumptions used when the fund wa~~i~~s valued in December 2020. However, the North East Scotland Pension Fund is currently funded at 120% and this has enabled the contribution rate to be pegged at 19.3%~~of estimated liabilities and informal suggestions are that a decrease in employers' contribution would not be unlikely. Given the informal suggestion of a decrease on contribution locally.~~ T~~t~~he current contribution rate has been used as the mid-point ~~pessimistic ~~scenario, with small variations from years 4 to 10~~reductions ~~for ~~mid-point ~~pessimistic and optimistic.

3.6 Ranges of budget assumptions used are set out in the tables below, with current planning assumptions noted:

Year 1 – 2021~~0~~/22~~1~~	Optimistic	Mid-range	Pessimistic
Pay award ~~(Agreed for 2020/21)~~ under adjustment for social care funded by pass through	~~3%~~ **2% (as current)** **£2.5m**	~~£4.6m~~ 2.5% £3.2m	3% £4.0m
Capital Expenditure Loans pool rate Increase / (decrease) in loans charges	~~£48.42m~~ £30.42m ~~3.72%~~ 2.89% ~~£1.63m~~ (£1.65m)	~~£53.8m~~ **£33.8m** ~~3.72%~~ **2.89%** ~~£1.73m~~ **(£1.5m)** **(as current**)	~~£55m~~ £34.5m ~~3.72%~~ 2.89% ~~£1.8m~~ (£1.47m)
General revenue grant / NDR ~~(all scenarios assume increased funding for teacher's pensions)~~	Increase 2% ~~Flat cash~~ ~~(as current~~) ~~(£0.32m)~~ (£3.26m)	Increase~~Decrease~~ **0.9%**~~1.5~~% ~~£1.71m~~ Plus £0.43m **(£1.9m)** **(current)**	Decrease 2~~3~~% ~~£4.08m~~ £3.26m
Council Tax increase / funding for freeze	5% ~~(£2.41m)~~ (£2.3m)	3% ~~(£1.28m)~~ **(£1.4m)** **as current**	2% ~~(£0.85m)~~ (£0.9m)

Year 1 – 2021~~0~~/22~~1~~	Optimistic	Mid-range	Pessimistic
Growth in Council Tax base	0.5~~7~~% ~~(£0.05m)~~ (£0.25m)	0.3~~6~~% ~~(£0.29m)~~ **(£0.15m)** **as current**	0.2~~4~~% ~~(£0.19m)~~ (£0.1m)
Council Tax collection rate	98~~.7~~% ~~(£0.1m)~~ £0.35m	**97~~8~~.5%** **As current** **£0.5m**	96.5~~8~~% ~~£0.24m~~ £1m
Inflationary pressures	2% ~~£0.4m~~ £0.7m ~~(as current)~~	**2.5%** ~~£0.5m~~ **£0.8m** **(as current)**	3% ~~£0.6m~~ £1m
Pension contributions (NESPF) (Agreed for 2021~~0~~/22) Teachers (Agreed for 2020/21)		19.3%	
Additional budget pressures currently noted~~, less opening position adjustment~~ less social care pass through £1.38m	~~£2.52m~~ £3.52m	~~£2.52m~~ £3.52m	~~£2.52m~~ £3.52m
Total budget pressure, to be added to budget gap	~~£6.27m~~ (£0.03m)	~~£8.49m~~ £3.43m	~~£12.8m~~ £10.43m

The actual budget for 2021/22 is a combination of optimistic and mid-range as indicated.

Year 2 – 2022~~1~~/23~~2~~	Optimistic	Mid-range	Pessimistic
Pay award	2% £3m (as current)	2.5% £3.8m	3% £4.6m
Capital Expenditure Loans pool rate at current rate Increase in loans charges	~~£31.28m~~ £33.3m ~~£1.4m~~ £0.38m	~~£34.76m~~ £37m ~~£1.56m~~ £0.35m As current	~~£35.52m~~ £37.8m ~~£1.7m~~ £0.36m
General revenue grant / NDR	~~Flat Cash~~ Increase 2% ~~£0.29m~~ (£3.3m)	~~Decrease~~ Increase ~~1.5%~~ 1% ~~£2.08m~~ (£1.65m)	Decrease ~~3%~~ 2% ~~£4.75m~~ £3.3m
Council Tax increase	5% (£2.27m)	3% (£1.33m) as current	2% (£0.90m)
Growth in Council Tax base	0.7% (£0.23m)	0.6% (£0.3m) as current	0.4% (£0.19m)
Council Tax collection rate	98.7% (£0.1m)	98. ~~5~~% (£0.25m) as current	~~98~~97.5% ~~£0.25m~~ £0.5m

Year 2 – 2022~~1~~/23~~2~~	Optimistic	Mid-range	Pessimistic
Inflationary pressures	2% £1m (as current)	2.5% £1.1m	3% £1.2m
Pension contribution (NESPF) (agreed)	~~17%~~ ~~(£0.20m)~~	~~18.3%~~ ~~(£0.10m)~~	19.3% As current
Additional budget pressures currently noted	~~£2.09m~~ £0.8m	~~£2.09m~~ £0.8m	~~£2.09m~~ £0.8m
Total budget pressure to be added	~~£4.97m~~ (£0.72m)	~~£9m~~ £3.0m	~~£13.5m~~ £9.67m

Year 3 – 2023~~2~~/24~~3~~	Optimistic	Mid-range	Pessimistic
Pay award	2% £3m (as current)	2.5% £3.8m	3% £4.6m
Capital Expenditure Loans pool rate Increase in loans charges	~~£32.86m~~ £34.2m ~~£0.9m~~ £1.6m	~~£36.51m~~ £38m £1.~~1~~8m (as current)	~~£37.31m~~ £38.8m ~~£1.2m~~ £1.84m
General revenue grant / NDR	~~Flat Cash~~ ~~£0.29m~~ 2% increase (£3.32m)	1%~~1.5%~~ ~~Decrease~~ Increase ~~£2.34m~~ (£1.66m)	2~~3~~% Decrease ~~£4.61m~~ £3.32
Council Tax increase	5% (£2.389m)	3% (£1.376m) as current	2% (£0.92m)
Growth in Council Tax base	0.7% (£1.01m)	0.6% (£0.31m) as current	0.4% (£0.19m)
Council Tax collection rate	98.7% (£0.11m)	98.5% as current	98% ~~(~~£0.25m~~)~~
Inflationary pressures	2% £0.8 m (as current)	2.5% £1.1m	3% £1.2m
Pension contribution (NESPF) agreed	~~17%~~	~~18.3%~~	19.3% As current
Additional budget pressures currently noted	£0.~~27~~9m	£0.~~27~~9m	£0.~~27~~9~~m~~
Total budget pressure to be added	~~£2.5m~~ (£0.53m)	~~£6.92m~~ £4.25m	£10.5~~2~~m

Years 4 - 10	Optimistic	Mid-range	Pessimistic
Pay award	2%	2.5%	3%
Capital Expenditure Loans pool rate Increase in loans charges	£34.161m £0.9m	£37.957m £1.1m (as current)	£38.79m £1.2m
General revenue grant / NDR	~~Flat Cash~~ ~~£0.290m~~	~~1.5%~~ ~~Decrease~~	~~3%~~ ~~Decrease~~

Years 4 - 10	Optimistic	Mid-range	Pessimistic
	Increases 2%	Increase 1%	Decrease 2%
Council Tax increase	5%	3% as current	2%
Growth in Council Tax base	0.7%	0.6% as current	0.4%
Council Tax collection rate	98.7%	98.5% as current	98%
Inflationary pressures	2% (as current)	2.5%	3%
Pension contribution (NESPF)	~~17%~~ 18%	18.5~~3~~%	19.3% As current

3.7 The above scenarios do not include consideration of general growth in demand for services arising from demographic changes, except where included in budget pressures. Current medium term budget projections include some projections of growth in demand as budget pressures, but further work requires to be done in this area. The Learning Estate review incorporates projections of school rolls based on projected house building rates included in the Local Development Plan. This link between Planning and Council budgets was incorporated in the Council's latest Capital Strategy and will be an important feature of financial planning moving forward. It will never capture all considerations arising from projected demographic changes and further methodologies will be developed to attempt to capture these.

Capital

3.8 The impact of the Council's capital programme on revenue expenditure is included as a key variable in the assumptions above. The level of capital expenditure is a particularly tricky variable in terms of estimating the impact on revenue spend, as this is influenced by the level of capital grant or other external funding; the current cost of borrowing (which in turn depends on the interest charged on external borrowing and the extent to which the Council can fund capital by internal borrowing ie use of cash reserves); the expected life of the assets created, and the remaining cost of historic debt. The situation is further complicated by the need (Scottish Government requirement) to use a different method to calculate loans charges on new borrowing from 2021/22 onwards. The Council is currently benefitting from extremely low rates of interest. These will inevitably rise in the future, although forecast to remain low in the short term, and require to be a focus of careful monitoring.

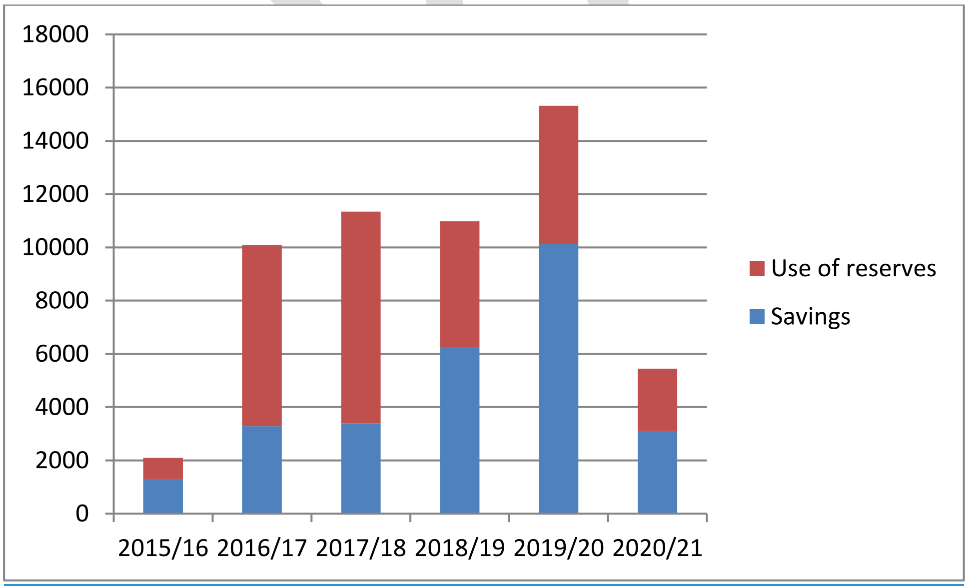
3.9 The Council's ten year Capital Plan is given a light touch review each year, with a thorough review at more infrequent intervals. Following Transformation work based on the Property Asset Management Appraisal and development of the Learning Estate Strategy a thorough review will be required. The Council's policy decision to move away from the Make Do and Mend policy, which has underpinned the capital plan in recent years, also requires such a review to enable appropriate work to be forward planned and commissioned. Work on the review will continue in 2021~~0~~ as the variables described become clearer, with a view to refining ~~developing~~ the 2021/22 to 2031/32 ten year plan.

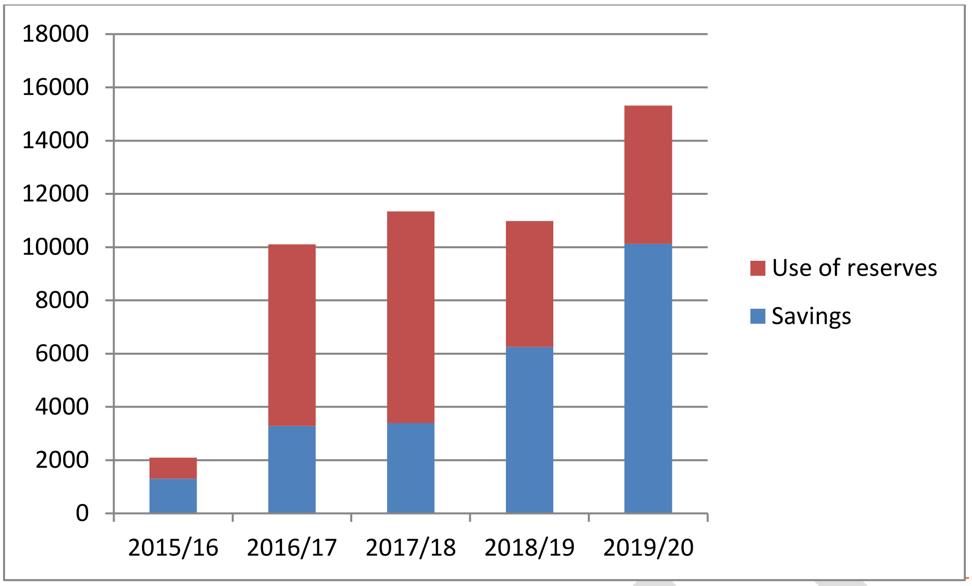
3.10 Expenditure on servicing debt to fund capital over the ~~last three years~~ period from 2016/17 to 2018/19 rose from 8.5% to 10% ~~is shown~~ as a percentage of total net revenue spend ~~in the graph below, with current projections for future years~~. Generally, as revenue budget savings are made and the council continues to invest in its asset base, the percentage of expenditure on servicing debt rises. Although the recent fall in interest rates masks this underlying trend. The ratio of Moray's gross debt to net annual revenue as reported in Audit Scotland's Local Government in Scotland Financial Overview 2018/19 is at the mid-point for Scottish authorities.

3.11 The results of the Capital Plan review will be fed back into a revised Financial Strategy. The Council also prepares a Capital Strategy, updated annually, setting out an overview of the council's capital expenditure, capital financing and treasury management activity, its relationship to asset management and the governance arrangements for the Capital Programme.

4. THE BUDGET GAP

4.1 As noted in paragraph 2.2.1, the Council has been making year-on-year savings since 2010/11. However, a budget gap still remains, and historically the Council has not managed to fill that gap with savings. The budget gap for the past five years is set out below:




18000
16000
14000
12000
10000
8000
6000
4000
2000
0
2015/16
2016/17
2017/18
2018/19
2019/20
Use of reserves
Savings

4.2 The Council currently (2020~~19~~/21~~0~~) has a planned budget shortfall of £2.35 million, albeit that shortfall is partly sheltered in year by retention of NDR of £1.8million under the Business Rates Incentivisation Scheme. Th~~at~~e underlying shortfall will roll forward to 2021~~0~~/22~~1~~. The variables from the assumptions set out in 3.7 above serve to increase / decrease the budget gap. The current planning assumption used is shown in the first column – it sits between optimistic and mid-point.

2021~~0~~/22~~1~~ current planning assumption	Budget Gap £million	2021/22	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31
	Optimistic	~~4.97~~ (0.03)	~~2.50~~ (0.72)	~~2.23~~ (0.53)	~~2.92~~ (0.2)	~~1.85~~ (0.2)	~~1.37~~ (0.2)	~~1.14~~ (0.2)	~~0.88~~ (0.2)	~~0.63~~ (0.2)	(0.2)
~~9.541~~ 2.35	Mid point	~~9.00~~ 3.43	~~6.92~~ 3.00	~~7.68~~ 4.25	~~9.58~~ 3.8	~~9.76~~ 3.8	~~10.58~~ 3.8	~~11.68~~ 3.8	~~12.84~~ 3.8	~~14.04~~ 3.8	3.8
	Pessimistic	~~13.5~~ 10.43	~~10.52~~ 4.25	~~12.59~~ 10.5	~~15.51~~ 10.5	~~16.73~~ 10.5	~~18.62~~ 10.5	~~20.82~~ 10.6	~~23.08~~ 10.7	~~23.63~~ 10.8	10.9

4.3 ~~4.3~~ The above figures assume that each year's shortfall is met in full by recurrent savings. The budget gap is therefore not cumulative, but represents an annual savings target. If recurrent savings are not achieved in full in one year, the balance requires to be carried forward into the next year as an additional target to be met

.

4.4 The Council's salary bill is close to the amount of general grant funding. Consequently if the percentage uplift in grant funding from Scottish Government is less than the pay award the Council will have a funding shortfall. The pay award is outwith the Council's control.

4.5~~4~~ The Council has limited flexibility to fail to meet savings targets in any one year, as the scale of the savings required are such that the Council's reserves would quickly be brought ~~are~~ close to the minimum which require to be held under the Council's Reserves Policy. The Council must always carry some free reserves – reserves not ear-marked for a particular purpose – in order to be able to cope with unplanned emergency expenditure such as expenditure arising from severe weather. The Council assesses how much free reserve it needs, based on an assessment of the risks to which the Council is exposed. It is clear from the analysis above that the risks the Council faces in coming years are significant, and will increase further to the extent that the budget gap is not met by savings as this simply compounds the financial challenge in later years. It should be recognised however that Moray Council is far from alone in this, with 23 of 32 councils having reduced their general fund reserves over the ~~past~~ three years to 2018/19.[1]. Audit Scotland in their recent report on Local Government finance 2019/20 noted a reversal of this trend in 2019/20 and noted that Moray Council was one of the 22 Council's which added to its useable reserves, as a result of additional income from a variety of sources (however, significant amounts were one-off) and having exceeded its savings target.

[1] Local Government in Scotland Financial Overview 2018/19

4.5 One risk of particular note to which the Council is now exposed is the Council's liability to bear the cost of a set proportion of any overspend on the MIJB budget. In current years t~~T~~he MIJB has had no reserves and is reliant on NHS Grampian and Moray Council for funding. Any overspend is split between NHS Grampian and Moray Council, in proportion to the amount of funding which they pass to MIJB which is currently 61:39 NHS:TMC. ~~Whilst~~ MIJB has a Transformation Strategy and Recovery Plan for the period 2020~~19~~ to 2024.~~, this is not yet producing the budgetary change required. In proportionate terms, the impact on the Council's budget of MIJB overspends is both significant and hard to predict with a high degree of accuracy, even in the short term.~~ Progress against this plan has been slowed by the requirement of the service to respond to the pandemic but MIJB is forecasting to be within budget in 2020/21.

4.6 It should be noted that long-term financial planning is indicative and cannot be taken as an accurate prediction of the Council's budgetary requirements.

4.7 The steps the Council has taken to meet the budget gap are set out in the next section of this strategy.

5. THEMATIC APPROACH

5.1 The Council's need to reform services has been well known for some time, and a thematic approach to the issue has been taken, with the process now embedded in the Council's planning processes. This approach builds upon previous transformation programmes – Designing Better Services (DBS) and Digital Services – and started with a comprehensive categorisation of all Council services as to the scope and type of reform which was considered possible. This programme of review is also supported by Service Planning across the Council, and in particular by Workforce Planning, which is reported on annually to Policy and Resources Committee. The orderly reduction of staff numbers is facilitated by Workforce Planning and the Transform process.

5.2 Since 2017 the Council has applied a Reform Matrix to services, to identify potential reforms to service delivery to improve financial sustainability.

Reform Matrix

Transformation (Different service)	Centralise / amalgamate in-house; share services; outsource / commission; Arms length External Organisations (ALEOs) / Trusts
Redesign of service (efficiency – same service, leaner/ new approach	Digital services,; redesign jobs; streamline processes; rationalise asset base; simplify governance
Redefine services	Stop; reduce; community contribution / provision of services
Income generation and commercialisation	Charges, sponsorship, Council Tax, investment portfolio, new services to compete with private sector, sale of assets

From application of this matrix a range of measures or areas for development were identified and these form the basis of the Improvement and Modernisation Programme (IMP).

Improvement and Modernisation Programme

5.3 Development of the IMP took into account four key factors determining the importance to the Council of transforming service: statutory, reputational and political risk of failure to deliver a service at a particular level; Council priorities; the relative cost of the service / proportion of the Council's budget spent on that service and how well spend is controlled, and any other benchmarking information available and relevant.

5.4 The overall direction for the IMP was approved by Council on 12 December 2018. It ~~currently~~ consists of seven workstreams, which are being developed using the Council's approved project management governance procedures and documentation:

- Asset Management (Property Asset Management Appraisal)
- Customer Service (Digital, redesign)
- Alternative Service Delivery (Museums, Leisure)
- Internal Transformation (Flexible working, Management Structure, Governance)
- Income / commercial (Income maximisation, Sponsorship etc)
- Service Efficiency
- Transforming Education
- Transforming Children's Services

These are being refined and developed as projects develop. An update report was given to Education, Communities and Organisational Development Committee on 18 November 2020.~~The update for 2019/20, to be reviewed annually, is as follows:~~ During the pandemic most workstreams were paused or delayed but others – in particular flexible working – were accelerated. The programme has therefore been reviewed for these changes and likely impact of the pandemic on previously planned actions going forward.

5.5 Work on reshaping the focus of Children's Services had continued through the pandemic and savings of £2.6 million are currently forecast for 2020/21. Recurring savings of £1.8 million are proposed for 2021/22 and this makes a significant step towards the indicative savings of £3 million identified when the medium to long term financial strategy was presented in March 2020. An element of those savings is proposed to be reinvested in the service to assist in managing transformation.

5.6 Other areas of focus arising from IMP are the office review – although the full effect of potential savings may be delayed whilst social distancing is still required – and commercialisation. Under the latter theme the Council's Charges policy will be reviewed, with a view to removing the default position of full cost recovery and identifying services where that position is detrimental to uptake of service.

5.7 Recognising that transformation of services will take time and may require investment to achieve transformation the Council has been ear- marking reserves to fund transformation. As part of the financial planning process for 2021/22 services have been asked to identify projects for funding and the costs and benefits associated with them. These new initiatives are in the process of being evaluated. There are some clear potential early savings from efficiency measures and the introduction of new charges for services.

5.8 Savings on staff travel have already been identified as part of the IMP flexible working work stream, but it seems likely that as new work patterns are established more savings can be identified. A review of staff travel expenses and pool car use will be undertaken when some stability has been achieved.

5.9 The Council has benefited significantly from low interest charges. To ensure sustainability a sensitivity analysis will be carried out to ensure the level of risk to which the Council is exposed from future rises in interest rates is well understood. As interest rates are forecast to remain low there may be further savings in the short to medium term.

5.10 This exercise will be coupled with the review of the capital plan to ensure the plan is affordable in the medium to long term.

5.11 When the Climate Change Strategy is approved, part of the implementation of the action plan should be to capture opportunities to make savings in fuel consumption / utilities (funding for schools new build and renovation will be dependent on such improvement).

5.12 Future budget pressures will be carefully scrutinised against the Council's agreed priorities.

5.13 The long-term financial sustainability of the Council will be supported by the development of early intervention where possible, with a number of the latest transformation investment proposals focussed in this area.

5.14 A combination of the above measures will be the means of narrowing and eliminating the budget gap.

~~The Property Asset Management Appraisal estimated recurring revenue savings of £200,000 from this project. The first action was the closure of Auchernack in 2019.~~

~~Depots and general office provision are also under review for rationalisation. Backlog maintenance requirements will be reduced and capital receipts generated from the disposal of properties.~~

~~5.6 Work is ongoing to develop on the customer service and digital projects with a view to continuing to generate savings. Digital working was estimated to deliver savings of £250,000. School administration is being reviewed and potential savings from this have been identified.~~

~~5.7 The museums projects is small as it relates to the Falconer Museum only. Savings are included in the target for 2020/21. The Leisure review is potentially a more financially significant project but the scope for savings is still under development at this stage.~~

~~5.8 The first and second tier management review has been reported, with savings of £0.2 million. There is a cross-over between this review and the review of property services being carried out under the aegis of Asset Management. The related governance review is underway.~~

~~5.9 A Commercial officer has been appointed to drive forward the income generation and commercialisation agenda and it is anticipated that there is the prospect of additional income being generated from 2020/21 onwards.~~

~~5.10 Service efficiencies for cleaning, waste collection and street sweeping have been budgeted for. Service efficiencies from the new HR/Payroll system are anticipated.~~

~~5.11 Transformation of education and children's services are anticipated to be the areas where significant savings are most likely to be found. Work has commenced on reviewing Additional Support Needs (ASN) and current (early) indications are of savings commencing in 2021/22. Benchmarking of the cost of Looked After Children shows spend per capita in Moray to be above the Scottish average for both residential and community based placements, and a high proportion of Looked After~~

~~Children in residential settings. As an indication of potential savings from reform in this area, a move towards comparator authority averages for proportion of Looked After Children in community settings could generate annual savings of £3 million.~~

~~5.12 In summary, the current projected savings from IMP are up to £0.73 million plus further savings to be confirmed, mainly anticipated to be from education and children's services. The high-level scoping indication of £3 million mentioned in paragraph 5.11 is ambitious and likely to take some time to be generated. From this it is evident that the amount of savings which can be reasonably expected to be generated by the IMP will not resolve the budget gap identified in paragraph 4.2, even on the most optimistic scenario. Consequently, the Council requires to increase the scope of potential transformation beyond the IMP, recognising that the Council has limited resources to devote to transformation and must concentrate its efforts in order to achieve transformation. Spreading resource too thin heightens the risk of failure. Work beyond the current IMP is ongoing with the Council's senior management CMT/SMT. This began with horizon scanning across a range of potential long term visions for Council services supported by the Improvement Service and is continuing looking in particular at the transformation and redesign aspects of the reform matrix.~~

~~5.13 Meantime, consideration of the redefine strand of the reform matrix will be informed by the Corporate Plan 2020-2023. This sets the Council's priorities and direction of travel, giving a focus to questioning whether or not the Council continues to deliver services at all or in a particular way. In setting the corporate priorities, the Corporate Plan recognises that if we are to achieve our ambition of enriched futures in Moray we will have to target money and resources towards the areas of greatest need. In the context of increasing fiscal constraint however, this means that there will be less resources for lower priority services. For this reason consideration has been given to what core service provision may look like in lower priority areas where services cannot be withdrawn. This approach to prioritisation will be key to rethinking future service provision~~.

5.154 Recognising that much of our work will be preventative in nature and so the spend avoided may take some time to emerge, the areas of focus in this transformation process as set out across this strategy may be broadly summarised by reference to the Council's three priorities of our people, our place and our future, each underpinned by sustainability.

Our People

Work to:

- improve attainment
- develop skills
- reduce poverty
- promote wellbeing

Our Place

- CAT
- Participatory Budgeting
- Locality Plan Initiatives

Our Future

- Partnership, shared services and co-location
- Moray Growth Deal
- Environmental initiatives such as increased energy efficiency, green travel, flood prevention and surface water management

Sustainability

- IMP
- New initiatives based on the reform matrix
- Lobbying around General Revenue Grant levels for Moray
- New fiscal powers
- Capital Plan Review
- Spending restrictions for non-priority services
- Enforcement of efficiency targets across the Council
- Improved contract management
- Leveraging external funding
- Prudent use of reserves and balances

~~5.15 Funding for Change~~

~~The Council has budgeted for significant resource to be spent on IMP / transformation, in recognition of the timescales required for transformation change and the need to free up officer time to send on this. Projected capital receipts of £2.5 million are budgeted to be utilised for service transformation over the four year period (2018/19 to 2021/22) for which Scottish Government granted flexibility for the application of capital receipts. In addition to this, the Council has ear-marked £2.7 million reserves for transformation / council priorities and budgets to spend a further £0.5 million in 2019/20 and £0.6 million in 2020/21 on investment in change. The total "war chest" for transformation is therefore £6.3 million. Investment on this scale will only be possible if the Council achieves budget reductions to balance the budget once free reserves are reduced to the Council's policy minimum.~~

6. PERFORMANCE MONITORING AND INDICATORS

6.1 Budget monitoring is an embedded feature of the Council's performance monitoring regime, and transformation projects are reported on to committee and to Transformation Boards. The detail of medium to long term financial planning – by virtue of the scale and amount of numbers - can obscure the impact of decisions and make it difficult to judge what progress is being made. Accordingly, it is proposed that a small suite of performance indicators (PIs) is used as a health check for progress on the financial strategy.

6.2 The Council has been reducing its reliance on the use of reserves to fund core expenditure. ~~It is proposed that t~~This has been adopted as~~becomes~~ a Financial Strategy PI. The PI ~~proposed~~ is £m reserves required to fund recurring expenditure and also that amount as a %age of recurring expenditure, to be reported on as both budget and actual.

Use of reserves (recurring spend)

	Budget		Actual (est actual 2020/21	
	£m	%age	£m	%age
2017/18	7.611	3.8%	4.615	2.3%
2018/19	4.726	2.4%	3.787	1.9%
2019/20	2.094	0.97%	-	0%
2020/21	2.348	1.1%	2.114	1.0%
2021/22	nil			

6.3 The Council's Corporate Asset Management plan for 2019/20 included~~s~~ as an action the development of a PI to measure the proportion of general fund expenditure being used to service debt. The PI ~~It is~~ proposed is that loans repayment and interest as a percentage of total general fund expenditure will be reported and benchmarked against other Scottish local authorities.

6.4 Budget pressures for future years will be highlighted. The percentage of budget pressures against the total planned general fund for each year will be reported and the make-up of the total budget pressure by department analysed.

6.5 The percentage of IMP savings which have proceeded to approved mandate against total savings target for each will also be used as a financial Strategy PI.

6.6 These PIs will be reported to CMT on a monthly basis and to Policy and Resources Committee or Moray Council when quarterly budget monitoring reports are made and as part of the year end variance report.

7. CONCLUSION

7.1 The financial environment for local Government continues to be extremely challenging with many unknown variables, especially in the wake of the current pandemic. Whilst this makes it very difficult to forecast ahead, the uncertainty strengthens the need to develop a medium to long term financial strategy to unsure that the Council is aware of potential scenarios and can take decisions with long-term consequences with an appreciation of issues which may lie ahead.

7.2 The strategy encompasses consideration of the key variables affecting the cost of the Council's services, including the cost of capital expenditure. Work will be ongoing to model the impact of changing demand for the Council's services.

7.3 The strategy is written in the context of work being carried out to transform the way in which the Council delivers its services. The work requires to continue and will be supplemented by continued review of level of service and opportunities to generate income in order to balance the Council's budget now and in the future, so creating a sustainable model of service delivery for the people of Moray.

REPORT TO: SPECIAL MORAY COUNCIL ON 3 MARCH 2021

SUBJECT: TREASURY MANAGEMENT STRATEGY STATEMENT AND PRUDENTIAL INDICATORS

BY: DEPUTE CHIEF EXECUTIVE (ECONOMY, ENVIRONMENT AND FINANCE)

1. REASON FOR REPORT

1.1 The purpose of this report is to ask Members to approve the Treasury Management Strategy and the Investment Strategy for 2021/22 and to approve the indicators which will be used to measure the Council's performance in capital investment decisions.

1.2 This report is submitted to Council in terms of Section III B (3) of the Council's Administrative Scheme relating to the implementation and monitoring of the Treasury Policy Statement dealing with the management of all money and capital market transactions in connection with cash funding resources of the Council.

2. RECOMMENDATION

2.1 It is recommended that Council approves:

(i) the Treasury Management Strategy Statement for 2021/22;

(ii) the Investment Strategy for 2021/22 in APPENDIX 1; and

(iii) the Prudential Indicators and Limits for 2021/22 in APPENDIX 3.

2.2 It is recommended that Council notes the indicative Prudential Indicators and limits for 2022/23 and 2023/24.

3. BACKGROUND

3.1 The Local Government (Scotland) Act 2003 (the Act) and supporting regulations requires the Council to adhere to the CIPFA Treasury Management Code of Practice.

3.2 The Act and subsequent Local Government Investments (Scotland) Regulations 2010 require the Council to set out its Treasury Strategy for borrowing and to prepare an annual Investment Strategy which sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.

3.3 The Act also requires the Council to adhere to the CIPFA Prudential Code and to set prudential and treasury indicators for the next three years to ensure that the Council's capital investment plans are affordable, prudent and sustainable. The prudential system, underpinned by legislation and regulation provides a self-regulatory framework.

4. TREASURY MANAGEMENT STRATEGY 2021/22

Current Treasury Position

4.1 The Council's borrowing and investments at 13 January 2021 are set out in the table below:

		Actual	Rate
		£000	%
Fixed Rate Debt	PWLB	**148,062**	**4.69**
	LOBO	**10,100**	**3.95**
	Market	**23,300**	**5.00**
Variable Rate Debt	PWLB	**-**	**-**
	LOBO	**-**	**-**
Temporary Borrowing – Local Authorities		**39,000**	**0.89**
Total External Borrowing		**220,462**	**4.01**
Other Liabilities		**54,425**	**n/a**
Total Gross External Debt		**274,887**	**n/a**
Investments **Short Term Investments**		**23,682**	**0.70**
Net Debt		**251,205**	**n/a**

PWLB is the Public Works Loan Board. LOBO is Lender's Option Borrower's Option where the lender has the option to propose an increase to interest rates at set dates and the borrower (the Council) has the option to either accept the new rate or to repay the loan. Temporary borrowing is borrowing for periods of less than twelve months. Other liabilities are those relating to the financing of capital expenditure, for example finance leases and Public Private Partnership (PPP) arrangements.

Interest Rates Forecast

4.2 The Council has appointed Arlingclose as treasury management advisers and receive advice on investment, debt and capital finance issues. The Council recognises that responsibility for treasury management decisions rests with the Council and cannot be delegated to the adviser.

4.3 The authority's treasury adviser Arlingclose's central case is for UK Bank Rate to remain at 0.10% for the foreseeable future, but that further cuts to zero, or the possibility of entering into negative territory cannot be ruled out. The emergence of new variants of the Coronavirus and the need for national lockdowns being imposed again mean that interest rates are expected to remain low in the medium term to support economic recovery.

The Arlingclose central case is for gilt yields to remain low in the medium term. Over the shorter term, gilt yields are currently negative and will remain around zero until a move to negative interest rates is ruled out by the Bank of England, or growth and inflation outlook improves.

A more detailed economic and interest rate forecast provided by Arlingclose is attached at **APPENDIX 4.**

Borrowing Strategy 2021/22

4.4 The Council's main objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving cost certainty over the period for which funds are required. The flexibility to renegotiate loans should the Council's long-term plans change is a secondary objective.

4.5 The Council's borrowing strategy continues to address the key issue of affordability without compromising the longer term stability of the debt portfolio. With short-term interest rates currently lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

4.6 By adopting the above approach, the Council is able to reduce net borrowing costs and reduce overall treasury risk. The benefits of either using internal resources or borrowing short-term will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. The Council's advisers will assist with this breakeven analysis which may determine whether the Council borrows additional sums at long-term fixed rates in 2021/22 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

4.7 The Council will continue to borrow short term loans, normally one to six months, to cover cash flow shortages.

4.8 The approved sources of long-term and short-term borrowing are:-

- PWLB and any successor body

- UK Local Authorities
- Any Bank or Building Society authorised to operate in the UK.
- UK public and private sector pension funds
- Capital market bond investors
- UK Municipal Bonds Agency PLC and other special purpose companies created to enable joint local authority bond issues

The UK Municipal Bonds Agency plc was established in 2014 by the Local Government Associations as an alternative to the PWLB. It plans to issue bonds on the capital markets and lend the proceeds to Local Authorities. This will be a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that – for whatever reason - the agency is unable to; and there will be a lead time of several months between committing to borrow an knowing the interest rate payable. Any decision to borrow from the UK Municipal Bonds Agency will therefore be subject of a separate report to Full Council.

4.9 At 1 April 2020 the Council held £10.1 million of LOBO loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. The Council will take the opportunity to repay the remaining LOBO loan at no cost if the opportunity arises.

4.10 The Council may borrow in advance of need, where this is expected to provide the best long term value for money. As sums borrowed will be invested until expenditure is incurred, the Council is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the Council's overall management of its treasury risks.

Debt Rescheduling

4.11 The PWLB allows Councils to repay loans before maturity, at a cost. Other lenders may also be prepared to negotiate premature redemption rates. This will be closely monitored with regards to the LOBO loan (£10.1m) and Market Loan (£23.3m). The Council will take the option to repay these loans at no cost if such an opportunity arises.

4.12 The current low interest rate environment and changes in the rules regarding the premature repayment of PWLB loans has adversely affected the scope to undertake meaningful debt restructuring in recent years and there is no indication that this will change during 2021/22.

Financial Derivatives

4.13 In the absence of any legal power to do so, the Council will not use standalone financial derivatives such as swaps, forwards, futures and options. Derivatives embedded into loans and investments may be used and the risks they present will be managed in accordance with the overall treasury risk management strategy.

5. INVESTMENT STRATEGY 2021/22

5.1 The Local Government Investment (Scotland) Regulations 2010 require the Council to approve an annual Investment Strategy. This has been included as **APPENDIX 1** to this report.

5.2 The primary principles governing the Council's investment criteria is the security of capital and liquidity of its investments. The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.

5.3 The Council may invest its surplus funds with any of the Approved Counterparties listed in **APPENDIX 2**, subject to the cash and time limits shown.

6. PRUDENTIAL AND TREASURY INDICATORS

6.1 The key objectives of the Prudential Code are to ensure that capital investment plans of the Council are affordable, prudent and sustainable. To demonstrate these objectives the Code sets ten prudential and treasury indicators designed to support and record capital investment and treasury decision making. These are detailed in **APPENDIX 3**.

6.2 It is a statutory requirement under Section 93 of the Local Government Finance Act 1992 for the Council to produce a balanced budget. In particular, a local authority must calculate its budget requirement for each financial year to include the revenue costs incurred from capital financing decisions.

6.3 **Affordability**

The fundamental objective of affordability is to ensure that capital plans remain within sustainable limits.

Setting affordable limits for borrowing within a prudential framework is a specific requirement and helps ensure that the further objectives of sustainability and prudence are addressed. The Council has adopted a Performance Indicator (PI) of the percentage of revenue budget planned to be spent on servicing debt as an additional method of ensuring affordability

6.4 **Sustainability**

The sustainability of the council's finances underpins the overall financial framework and is supported by the prudential code. Sustainability of finances relates to the ability of the council to sustain its current spending, tax and other policies in the long run without threatening council solvency or defaulting on its liabilities or promised expenditure.

6.5 **Prudence**

The prudent level of borrowing is linked to ensuring that debt will only be for a capital purpose. It is also prudent that treasury management activities are carried out in accordance with good professional practice. Within the CIPFA Prudential Code, local authorities are required to adopt the CIPFA Treasury Management Code of Practice.

6.6 The Local Government in Scotland Act 2003 also requires the Council to determine and continuously review how much it can afford to allocate to capital expenditure. This is known as the “Affordable Capital Expenditure Limit”.

6.7 The Indicators and Limits for 2021/22 are based on the General Services Capital Plan presented in a separate report for consideration at this meeting and the Housing Revenue Account Investment Plan 2020/21 which was approved by Council at its meeting on 16 February 2021 (paragraph x of the Minute refers.) .

6.8 Prudential Indicators are for 2021/22 only as the capital plan for General Services is proposed for one year only, namely 2021/22. However, indicative figures for 2022/23 and 2023/24 are included based on the indicative 10 year capital plan included in the budget report to this meeting of Council.

6.9 Actual outturn figures for 2019/20 have previously been reported to Moray Council on 2 September 2020 (paragraph 7 of the minute refers) and these figures have also been included in the report for comparison purposes.

6.10 This report also updates the previously approved indicators for 2020/21 based on the latest estimated outturn for 2020/21.

7. SUMMARY OF IMPLICATIONS

(a) Moray 2026: A Plan for the Future and Moray Corporate Plan 2015 - 2017

None specifically arising from this report.

(b) Policy and Legal

The Local Government in Scotland Act 2003 provides the powers to borrow and invest as well as providing controls and limits on these activities.

The Council has adopted the CIPFA Prudential Code and the CIPFA Treasury Management in the Public Services Code of Practice and Guidance Notes (“the CIPFA Code”) which was revised in 2017. The Council also complies with the Local Government Investments (Scotland) Regulations 2010 (“the Regulations”).

All Treasury Management activities are carried out in accordance with the CIPFA Code and the Regulations.

(c) Financial implications

All financial considerations are contained within the body of the report and the attached **APPENDICES 1 - 4**.

The net cost of Capital Investment and Treasury Management activities has a significant effect on the Council’s overall finances.

When considering the level of future capital investment programmes, the Council should be aware of the impacts of proposed capital spend on the Revenue Budget.

(d) Risk Implications

The Council is aware of the risks of passive management of the treasury portfolio and, with the support of the Council's treasury advisers, will proactively managed its investments and debt over the year.

Capital expenditure is closely monitored and Budget Managers are aware of their responsibilities to manage budget allocations.

(e) Staffing Implications

None specifically arising from this report.

(f) Property

None specifically arising from this report.

(g) Equalities

None specifically arising from this report.

(h) Consultations

This report has been produced in consultation with Arlingclose.

8. <u>CONCLUSION</u>

8.1 The adoption of the Treasury Management Strategy Statement will ensure that the Council adopts best practice in its treasury activities.

8.2 The Investment Strategy will ensure that the Council will achieve the optimum return on its investments whilst maintaining a high level of liquidity to allow flexibility and above all ensure that the Council's investments are secure.

8.3 Establishing and subsequent monitoring of Prudential and Treasury Indicators will ensure that the Council has capital investment plans which are affordable, prudent and sustainable.

8.4 Prudential Indicators and Limits are proposed for 2021/22 only, as the proposed Capital Plan is for this year only. Indicative figures for 2022/23 and 2023/24 are identified.

Authors of Report: Laurie Milne, Senior Accountant
Background Papers:
Ref:

The Annual Investment Strategy 2021/22

1. Background

1.1 The Council will adhere to the Local Government Investment (Scotland) Regulations 2010 (the Regulations), the CIPFA Prudential Code and the CIPFA Treasury Management in Public Services Code of Practice and Cross Sectoral Guidance Notes ("the CIPFA Code") which was revised in 2017.

1.2 Both the Regulations and the CIPFA Code require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving very low interest rates on investments.

1.3 The Annual Investment Strategy covers:

- Creditworthiness Policy
- Investment Strategy
- Permitted Investments
- Non Treasury Investments

2. Creditworthiness Policy

2.1 The Council's creditworthiness policy has been formulated after consultation with Arlingclose, the Council's treasury advisers.

2.2 In addition to credit ratings provided by the three main credit rating agencies; Fitch, Moodys and Standard & Poor, the following tools are used to assess credit risk:

- Sovereign support mechanisms
- Credit default swaps (where quoted)
- Share prices (where available)
- Corporate developments, news articles, market sentiment and momentum

2.3 The Chief Financial Officer maintains a counterparty list in compliance with the minimum criteria detailed in 2.4 which is submitted to the Council for approval as necessary. All credit ratings are monitored on an ongoing basis and the counterparty list is amended to reflect any changes. The current Counterparty List is shown as **APPENDIX 2**.

2.4 The current minimum criteria was approved by Full Council on 27 February 2019 (Para 5 refers).

The Council's minimum criteria are:

- Banks – the Council will use banks which have at least the following Fitch or equivalent ratings.
    - Long Term: BBB+
- Building Societies – the Council will include Societies which meet the criteria for Banks outlined above.
- Money Market Funds – Long Term: AAAmmf (Fitch) or equivalent.

2.5 The Council banks with Bank of Scotland and at the current time it meets the minimum credit criteria. However, if the credit rating falls below the Council's minimum criteria, Bank of Scotland will continue to be used for short-term liquidity requirements (overnight and weekend investments) and business continuity arrangements.

3. Investment Strategy

3.1 The Local Government Investments (Scotland) Regulations 2010 states that Local Authorities are required to adopt a strategy that identifies the different types of treasury risk for the type of investments utilised. A local authority may invest money for any purpose relevant to its functions under any enactment, or for the purposes of prudent management of its financial affairs. Such investments or types of investments are defined as permitted investments. The risks that these investments are exposed to are credit or security risk (of default); liquidity risk (risk of committing funds to longer term investments); and market risk (effect of market prices on investment value).

3.2 The primary principle governing the Council's investment criteria is the security of capital and liquidity of its investments. The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity.

3.3 The Council's in-house managed funds are mainly derived through cash-flow and the balance on the General Reserve. Investments will accordingly be made with reference to the Council's cash flow requirements and the outlook for short-term interest rates.

3.4 Maximum investment levels with each counterparty will be set to ensure prudent diversification is achieved. Therefore a maximum deposit of £5 million can be placed with any one institution at any one time, with the exception of the Council's Bankers when the limit is £10 million.

3.5 Given the Council's requirement for sufficient liquidity for cash flow purposes, the investment strategy continues to focus on the utilisation of an unsecured call account with Council's Banker and money market funds as they offer the best return for investments with instant access.

4. Permitted Investments

4.1 The Council will undertake the most appropriate form of investments in keeping with investment objectives, income and risk management requirements and prudential indicators.

4.2 The permitted investments identified for the Council's use are as follows:

- **Debt Management Agency Deposit Facility (DMADF).** This offers the lowest risk form of investment available to local authorities as it is effectively an investment placed with the UK Government. It is also easy to use as it is a deposit account and avoids the complications of buying and holding Government issued treasury bills or gilts. As it is low risk it also earns low rates of interest, indeed has seen rates reach negative levels during the course of this year as a result of the impact of the Covid-19 pandemic on the economy. The longest term deposit that can be made with the DMADF is 6 months.

- **Bank (Unsecured).** These are account deposits, certificates of deposit and senior unsecured bonds with banks and building societies. These investments are subject to the risk of credit loss via a bail-in should a bank is failing or likely to fail. Diversifying investments is crucial to managing bail-in risk in addition to determining proportionate counterparty maturity limits. Should the Council's current bank, Bank of Scotland, be rated less than BBB+, investments with them will be restricted to overnight deposits.

- **Banks (Secured).** These are covered bonds, reverse purchase agreements and other collateralised arrangements with banks and building societies. These investments are secured on the bank's assets, which limits the potential losses in the unlikely event of insolvency, and means they are exempt from bail-in.

- **Money Market Funds (MMFs).** MMFs are pooled funds that invest in short-term debt instruments. They provide the benefits of a pooled investment, as investors can participate in a more widely diversified portfolio than they could do individually. Due to the high level of expertise of the fund managers and the very large amounts of money invested in MMFs, and the fact that the weighted average maturity (WAM) cannot exceed 60 days, MMFs offer a combination of high security, instant access to funds, high diversification, very low or no volatility and competitive rates of return.

- **Securities Issued or Guaranteed by Governments**

  a) **Treasury Bills.** These are short-term bills (up to 12 months) issued by the Government and therefore are backed by the sovereign rating of the UK. An advantage compared to a time deposit in the DMADF is that they can be sold if there is a need to access cash at any point in time. However there is a spread between purchase and sale prices so early sales may incur a net cost which would result in a fall in the nominal value of the instrument.

  b) **Gilts.** These are longer term debt issuance by the UK Government and are backed by the sovereign rating of the UK.

- **Lending to other Local Authorities.** Lending to other local authorities will normally be in the form of fixed term deposits for periods up to one year.

4.3 All investments in the table at 4.4 are subject to the following risks:-

1. **Credit and Counter-Party Risk:** this is the risk of failure by counterparty (bank or building society) to meet its contractual obligations to the Council particularly as a result of the counterparty's diminished creditworthiness, and the resulting detrimental effect on the Council's capital or current (revenue) resources. There are no counterparties where this risk is zero although AAA rated organisations have a very high level of creditworthiness.

2. **Liquidity Risk:** this is the risk that cash will not be available when it is needed. While it could be said that all counterparties are subject to at least a very small level of liquidity risk as credit risk can never be zero, in this document, liquidity risk has been treated as whether or not instant access to cash can be obtained from each form of investment instrument. However, it has to be pointed out that while some forms of investment e.g. gilts or corporate bonds can usually be sold immediately if the need arises, there are two caveats: - (a) cash may not be available until a settlement date up to three days after the sale and (b) there is an implied assumption that markets will not freeze up and so the instrument in question will find a ready buyer. The column in the table below at section 4.4 headed as 'market risk' will show each investment instrument as being instant access, sale T+1 = transaction date plus one business day before you get the cash, or term i.e. money is locked in until an agreed maturity date.

3. **Market Risk:** this is the risk that, through adverse market fluctuations in the value of the principal sums an organisation borrows and invests, its stated treasury management policies and objectives are compromised, against which effects it has failed to protect itself adequately.

4. **Interest Rate Risk**: this is the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the Council's finances, against which the Council has failed to protect itself adequately. The Council has set limits for its fixed and variable rate exposure in its previously agreed Treasury Indicators.

5. **Legal and Regulatory Risk:** this is the risk that the Council or an organisation with which it is dealing in its treasury management activities, fails to act in accordance with its legal powers or regulatory requirements, and that the Council suffers losses accordingly.

6. **Bail-In Risk:** this is the risk, arising from the EU Bank Recovery and Resolution Directive which has been implemented in the UK, that a Bank's creditors and depositors are forced to bear some of the burden of rescuing a failing Bank.

4.4 The following table provides details of the proposed investment limits and maturity periods for Permitted Investments:

	Minimum Credit Criteria (Fitch or Equivalent)	**Liquidity risk**	**Market risk**	**Bail-In Risk**	**Maximum Value of investments**	**Maximum maturity period**
Debt Management Agency Deposit Facility or successor	n/a	term	no	n/a	No Limit	6 months
Term Deposits: Local Authorities	n/a	term	no	n/a	£5m	364 Days
Banks (Unsecured)	Long-Term: BBB+	Instant*	no	yes	£5m (£10m Council's own Bank)	n/a
Banks (Secured)	Long-Term: BBB+	term	no	no	£5m (£10m Council's own Bank)	3 months
Money Market Funds	AAAmmf	instant	no	n/a	0.5% of Money Market Fund size Government Money Market Funds – 2% of Fund size	n/a
Treasury Bills	UK Sovereign Rating	Sale T+1	No (If held to maturity)	n/a	No Limit	12 months
UK Government Gilts	UK Sovereign Rating	Sale T+1	No (If held to maturity)	n/a	No Limit	12 months

***The only investment of this type used is a Call Account with the Council's own Bank.

4.5 Controls on Treasury Risks

1. Credit and Counter-Party Risk: the Council has set minimum credit criteria to determine which counterparties are of high creditworthiness to enable investments to be made safely.

2. Liquidity Risk: the Council has cash flow forecasting models to enable it to determine how long investments can be made for and how much can be invested.

3. **Market Risk:** the Council does not directly purchase and/or account for investment instruments which are subject to market risk in terms of fluctuation in their value. If this position changes, instruments exposed to market risk will initially be purchased and held with the intention to hold them until maturity, thus mitigating market risk.

4. **Interest Rate Risk**: the Council manages this risk by having a view of the future course of interest rates and then formulating a treasury management strategy accordingly which aims to maximise investment earnings consistent with minimising risk or alternatively, seeks to minimise expenditure on interest costs on borrowing.

5. **Legal and Regulatory Risk:** the Council will not undertake any form of investing until it has ensured that it has all necessary powers and also complied with all regulations.

6. **Bail-In Risk:** The Council will diversify investments to manage this risk. Any investments subject to the risk of bail-in are restricted to overnight deposits with the Council's own Bank (Call Account).

4.6 Unlimited Investments

4.6.1 The Regulations state that the Council can deem an investment as being 'unlimited' in terms of the maximum amount of the total portfolio that can be put into that type of investment but an explanation must be given for using that category.

4.6.2 The Council has only given the UK Government (Debt Management Agency Deposit Facility, Treasury Bills and Gilts) an unlimited category. This is considered to be the lowest risk form of investment available to local authorities.

5. Non Treasury Investments

5.1 Investments defined in the regulations include the acquisition of properties, share or loan capital. These types of investments may have originally been made for service or policy reasons or for treasury management purposes. Should the Council make an investment which is not listed as a permitted investment, that investment will not be made in accordance with the Consent of Ministers and as such will be *ultra vires.* The exception to this is where the Council makes a financial transaction that relies on separate legislative powers such as loans to third parties.

5.2 General powers to borrow and lend money are conferred by S165 of the Local Government etc (Scotland) Act 1994 and ensuing regulations. Specific regulations for loans to third parties by local authorities are contained in the Housing (Scotland) Act 1987, the Housing (Scotland) Act 2006 and the general power to advance well-being contained in the Local Government in Scotland Act 2003 at section 20. The inclusion of loans to third parties as part of the investments of the Council is to identify the value of local authority monies utilised in this way, monies which would otherwise be available for general investment and give rise to investment income.

5.3 The following table provides a summary of the Councils Non-Treasury Investments at 31 March 2020 and the maximum value of investments that the Council will hold.

	Actual Value at 31 March 2020 £m	Max Value of Investments £m
Investment Property * - Council	£0.862m	£10m
Share Holdings - Council	Note **	£0.1m
Loans to 3rd Parties Market Rate - Council	£0.403m	£2.0m
Loans to 3rd parties – Below Market Rate - Council	£0.020m	£0.5m
Investment Property * - Common Good Funds	£2.366m	£12m
Share Holdings - Common Good Funds	Nil	Nil
Loans to 3rd Parties Market Rate – Common Good Funds	Nil	£0.5m
Loans to 3rd parties – Below Market Rate – Common Good Funds	Nil	Nil
Investment Property * - Trust Funds	£0.080m	£1.0m
Share/ Unit Trust Holdings – Trust Funds	£2.277m	£3.5m

Notes

* Investment Properties have been categorised using IFRS guidelines and include both properties acquired for capital appreciation and income generation.

** Although the Council has the following share holdings no value has been attached to them in its current Balance Sheet due to the fact that the Council has no exposure to commercial risk and the Council has not passed on control of any of its assets.

1) 20.44% of total share capital in The Grampian Venture Capital Fund Limited

6. End of Year Investment Report

6.1 At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Management Report.

THE MORAY COUNCIL
APPROVED COUNTERPARTIES LIST

UK Banks		Limit (£m)	Time Limit	Long Term Rating See Note
Bank of Scotland	(Lloyds)	10	Call	A+/A1/A+
Barclays Bank		5	35 days	A+/A1/A
HSBC		5	35 days	AA-/A1/A+
Lloyds Bank		5	35 days	A+/A1/A
National Westminster Bank	(RBS)	5	35 days	A+/A1/A
Royal Bank of Scotland		5	35 days	A+/A1/A
Santander (UK)		5	35 days	A+/A1/A
Standard Chartered Bank		5	35 days	A+/A1/A
Ulster Bank Limited		5	35 days	A+/A1/A

UK Building Societies		Item 5.	
Nationwide	5	35 days	A+/Aa3/A

Other Institutions

Debt Management Office	Unlimited	6 Months	A1-/Aa3/Aau
UK Local Authorities	5	2 years	

Money Market Funds

Standard Life Sterling Liquidity Fund	5	Call	AAAmf/Aaa-mf/AAAm
Federated Sterling Prime Fund	5	Call	AAAmmf/-/AAAm
Blackrock Institutional Sterling Liquidity Fund	5	Call	AAAmf/Aaa-mfAAAm
Insight Sterling Liquidity Fund	5	Call	AAAmf/-/AAAm
Deutsche Bank Managed Sterling Fund	5	Call	AAAmmf/Aaa-mf/AAAm
CCLA Public Sector Deposit Fund (UK)	5	Call	AAAmmf/-/-

Notes

1.The long term ratings for each institution above are in the format Fitch/ Moodys/ Standard & Poor.

The minimum ratings are as follows: -
Fitch: BBB+
Moodys: Baa1
Standard & Poor: BBB+

APPENDIX 3

Prudential and Treasury Indicators

Capital Expenditure Indicators

1. Capital Expenditure

The Council is required to establish and keep under review capital investment plans which are affordable. It should make reasonable estimates of total capital expenditure that it plans to incur during the forthcoming year and the following two years.

This indicator outlines capital spending plans for 2021/22 based on the proposed capital plan, with indicative figures for 2022/23 and 2023/24 based on the proposed 10 year capital plan.

For comparison purposes, the actual spend for 2019/20 is presented together with estimates for 2020/21 based on the latest figures at 31 December 2020.

	2019/20 Actual £000	2020/21 Estimate £000	2021/22 Budget £000	2022/23 Budget £000	2023/24 Budget £000
Capital Expenditure					
General Services	56,728	41,118	33,950	37,036	38,012
HRA	18,124	10,932	27,285	24,969	9,187
Total Capital Expenditure	74,852	52,050	61,235	62,005	47,199
Financed by:					
Capital Receipts	-	-	-	400	400
Capital Grants	34,612	12,710	21,230	10,805	9,299
Revenue	4,345	5,300	5,460	6,276	6,559
Total Funding	38,957	18,010	26,690	17,481	16,258
Net financing need for the year	35,895	34,040	34,545	44,524	30,941

In General Services, the 2020/21 estimated capital expenditure includes a number of major projects, the most significant items are £9.2m for the new Lossiemouth High School and £2.9m for the new Linkwood Primary School in Elgin, which is now complete. In 2021-22 Lossiemouth High School is budgeted to spend £3.8m, a decrease of £8.3m which represents the main reduction in the overall General Services budget from 2019-20 to 2020/21. The other ongoing project in 2021/22 is the NESS energy from Waste facility in Aberdeen.
The increase on the HRA from 2020/21 to 2021/22 relates principally to the phasing of the new build housing programme, with an increase of £8.5m.

Capital grant and other contributions show an increase of £8.5m from 2020/21 estimated amounts to the 2021/22 budget, explained mainly by an increase in grants to fund HRA new builds.

2. Capital Financing Requirement

The capital financing requirement measures the Council's underlying need to borrow for capital investment. The capital financing requirement rises over the period as a large proportion of the Council's capital expenditure is financed by additional borrowing thus increasing the Council's total outstanding debt.

The Council pays off an element of the accumulated debt each year through a revenue charge (the scheduled debt amortisation).

	2019/20 Actual £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000
Capital Financing Requirement (CFR)					
General Services	242,786	263,666	277,066	293,921	309,582
HRA	78,375	80,217	89,197	104,502	105,097
Total CFR	**321,161**	**343,883**	**366,263**	**398,423**	**414,679**
Movement in CFR	**25,478**	**22,722**	**22,380**	**32,160**	**16,256**
Net financing Need (Indicator 1)	35,895	34,040	34,545	44,524	30,941
Scheduled debt amortisation	(10,417)	(11,318)	(12,165)	(12,364)	(14,685)
Movement in CFR	**25,478**	**22,722**	**22,380**	**32,160**	**16,256**

Affordability Indicators

The following three indicators measure whether the Council's level of borrowing is affordable and financially prudent.

3. Ratio of Financing Costs to Net Revenue Stream

This indicator provides a measure of the percentage of the budget that is being set aside to pay debt financing costs. For General Services this is the ratio of financing costs of borrowing against net expenditure financed by government grant and local taxpayers. For Housing, the indicator is the ratio of financing costs to gross house rental income.

Service	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
General Services	9.50%	9.19%	9.65%	9.34%	9.85%
HRA	21.46%	19.23%	19.38%	20.57%	20.66%

The percentages in General Services from 2019/20 to 2023/24, although fluctuating, reflect the ongoing general requirement to increase borrowing to fund capital expenditure in the capital plan.

The increase in percentages in the HRA from 2020/21 to 2023/24 reflects the ongoing requirement to increase borrowing due, in part, to the ongoing programme of new build housing.

4. Estimates of Incremental Impact of New Capital Investment Decisions on Council Tax and House Rents

This indicator demonstrates the incremental impact of planned capital expenditure and associated borrowing on council tax and rent levels, were these to rise to cover the cost of capital.

	2019/20 Actual	2020/21 Estimate	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate
Council Tax - Band D	£(2.89)	£6.44	£27.77	£(15.33)	£39.35
Average Weekly Housing Rents	£0.84	£(0.64)	£0.49	£1.35	£0.85

An increase in the calculated amount on Council Tax is indicative of the Council's requirement to borrow in order to fund the General Services Capital Plan. The increase in calculated amount on Council Tax in 2021/22 results from the fact that the 2020/21 capital plan has seen significant slippage due to the Covid-19 pandemic and projects have been delayed from 2020/21 to 2021/22. There is not expected to be slippage to 2022/23, hence the reason for the decrease. Included in 2023/24 are high cost projects of construction of Findrassie Primary School and Investment in the School Estate and in our roads network.

In the HRA, the estimated decrease in the incremental impact on housing rents in 2020/21 from 2019/20 is due to the delays that have arisen to projects as a result of the Covid-19 pandemic. The increase in incremental impact on housing rents from 2020/21 onwards demonstrates that the capital investment plans, including for new affordable housing, require an incremental increase on average rents to fund costs of additional borrowing.

Prudence Indicators

5. Gross Debt and the Capital Financing Requirement

This indicator records the extent that gross debt is less than the capital financing requirement (see Indicator 2 above). This indicator shows prudence by demonstrating that over the medium term external borrowing is used only for a capital purpose. The values are measured at the end of each financial year. Debt is the sum of external borrowing and other liabilities relating to the financing of assets (e.g. PPP and other finance leases).

Reported debt must include all liabilities relating to the financing of assets.

	2019/20 Actual £000	2020/21 Estimate £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000
Borrowing	237,989	262,295	286,269	319,929	337,507
Other Liabilities	56,009	54,425	52,381	51,331	50,009
Gross Debt	293,998	316,720	339,100	371,260	387,516
CFR	321,161	343,883	366,263	398,423	414,679
Under Limit By	27,163	27,163	27,163	27,163	27,163

The above figures confirm that the Council's borrowing will be well under the Capital Financing Requirement due to the Council's policy in the economic climate of low interest rates of using internal balances and short term temporary loans. The Council does not envisage difficulties for the future after taking into account current commitments and existing plans.

External Debt Indicators

The prudential indicator for actual external debt is considered at a single point in time, which is at the end of each financial year. Therefore, it is only comparable to the authorised limit and operational boundary at that specific time. The actual external debt reported in the annual accounts for the previous year is required to be shown in the tables below for comparison purposes only.

6. The Authorised Limit For External Debt

The authorised limit for external debt is required by the Prudential Code to separately identify external borrowing and other liabilities such as PPP and finance lease obligations. This limit provides a maximum figure to which the Council could borrow at any given point during each financial year. The authorised limit should contain sufficient headroom to provide for any anticipated payments as well as being based on the council's capital investment plan.

	2019/20 Actual Maximum £000	2020/21 Estimate Maximum £000	2021/22 Estimate Maximum £000	2022/23 Estimate Maximum £000	2023/24 Estimate Maximum £000
Borrowing	237,989	291,662	352,536	389,389	412,513
Other Liabilities	56,009	58,009	56,425	54,831	53,331
Total External Debt	293,998	349,671	408,961	444,220	465,844

The authorised limits shown above are based on the proposed capital investment plan for 2020/21 to 2023/24 and anticipated Other Liabilities and take account of Treasury Management policy and practice. The figures allow sufficient headroom for unanticipated cash movements. Total debt must include all liabilities relating to the financing of assets.

7. Operational Boundary for External Debt

This indicator is a management tool for in-year monitoring and is lower than the Authorised Limit as it is based on an estimate of the most likely level of external borrowing at any point during each year.

Operational Boundary	2019/20 Actual Maximum £000	2020/21 Estimate Maximum £000	2021/22 Estimate Maximum £000	2022/23 Estimate Maximum £000	2023/24 Estimate Maximum £000
Borrowing	237,989	286,662	337,536	374,389	397,513
Other Liabilities	56,009	57,009	55,425	53,831	52,331
Total External Debt	293,998	343,671	392,961	428,220	449,844

8. Compliance with CIPFA Code of Practice for Treasury Management in the Public Services

This is an adoption statement aimed at ensuring that treasury management is led by a clear and integrated forward treasury management strategy and recognition of the council's existing borrowing and investments portfolio.

There are four treasury prudential indicators, the purpose of which is to contain the activity of the treasury function within certain limits, thereby managing risk and reducing the impact of an adverse movement in interest rates. However if these are set to be restrictive they will impair the opportunities the council may have to reduce financing costs.

8.1 Fixed and Variable Rate Limits

Upper limits on variable rate exposure – this indicator identifies a maximum limit for variable interest rates based upon the debt position net of investments.

Upper limits on fixed interest rate exposure – similar to the previous indicator, this sets a maximum limit on fixed interest rates.

	2019/20 Actual	2020/21 Estimate	2021/22	2022/23 & 2023/24
Interest Rate Exposures	**Upper Limit**	**Upper Limit**	**Upper Limit**	**Upper Limit**
Limits on Fixed Interest Rates based on Net Debt	100%	100%	100%	100%
Limits on Variable Interest Rates based on Net Debt	0%	35%	35%	35%

8.2 Maturity Structure of Fixed Interest Rate Borrowing

Maturity structure of borrowing – these gross limits, both lower and upper, are set to reduce the Council's exposure to large fixed rate sums falling due to be refinanced within the same financial year.

	2019/20 Actual	2020/21		2021/22		2022/23 & 2023/24	
		Lower	**Upper**	**Lower**	**Upper**	**Lower**	**Upper**
< 12 months	18.84%	0%	30%	0%	30%	0%	30%
12 – 24 months	3.88%	0%	20%	0%	20%	0%	20%
2 – 5 years	9.81%	0%	25%	0%	25%	0%	25%
5 – 10 years	9.86%	0%	50%	0%	50%	0%	50%
>10 years	57.61%	0%	85%	0%	85%	0%	85%

8.3 Maximum Principal Sums Invested Greater than 364 days

Following changes arising from the new Investment Regulations applicable from 1 April 2010, the Council can invest for periods longer than 364 days .The Council does not currently take advantage of this change and therefore has set a limit of Nil for investing over 364 days.

	2018/19 Actual	2019/20	2020/21	2021/22 & 2022/23
Principal Sums Invested > 364 days	£0M	£0M	£0M	£0M

INTEREST RATE FORECAST

	Mar 21 %	Jun 21 %	Sep 21 %	Dec 21 %	Mar 22 %	Jun 22 %	Sep 22 %	Dec 22 %	Mar 23 %	Jun 23 %	Sep 23 %	Dec 23 %	Mar 24 %
Bank Rate	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3-mth Money Market	0.10	0.10	0.15	0.15	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20	0.20
1-yr Money Market	0.15	0.15	0.25	0.25	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
5-yr Gilt Yield	0.00	0.00	0.05	0.10	0.15	0.20	0.20	0.20	0.25	0.25	0.25	0.25	0.25
10-yr Gilt Yield	0.25	0.30	0.35	0.35	0.40	0.40	0.45	0.45	0.50	0.55	0.55	0.55	0.60
20-yr Gilt Yield	0.70	0.70	0.75	0.75	0.75	0.80	0.80	0.85	0.85	0.85	0.85	0.90	0.90
50-yr Gilt Yield	0.60	0.60	0.65	0.65	0.65	0.70	0.70	0.75	0.75	0.75	0.75	0.80	0.80

The forecast is based on the following underlying assumptions:

- The medium-term global economic outlook has improved with the approval and distribution of vaccines. However, the emergence of several variants of the Coronavirus and the recent upsurge in the number of cases has seen economic prospects worsened over the short term.
- Various restrictions and lockdowns are likely to continue, both in the UK and Europe, until the majority of the populations is vaccinated, likely to be the second half of 2021. The recovery period is forecast to be the following spring, but will potentially take longer.
- Even before the second lockdown and Tier 4 restrictions there were signs that the UK economic recovery was slowing as seen in monthly GDP data. Employment is also falling, despite the Government extending support packages.
- The need to support economic recoveries will likely result in central banks maintaining low economic rates for the medium term.
- The impact of the UK's departure from the EU will continue to have an impact on the UK economy. This combined with the after-effects of the pandemic will dampen growth relative to peers, maintain spare capacity and limit domestically generated inflation.
- Longer-term yields will also remain depressed if low central bank interest rates are maintained, with the potential that interest rates could fall lower, and the longer-term expectations for inflation. The situation on yields could change depending on how growth and inflation are perceived by investors.