



REPORT TO: SPECIAL MEETING OF MORAY COUNCIL ON 22 FEBRUARY 2022

SUBJECT: 2022/23 BUDGET AND 2022 TO 2025 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 2022/23, to agree the Council's revenue and capital budgets for 2022/23 and to consider the Council's Financial Plan for 2022 to 2025.
- 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 the Council approves:

- (i) An increase of 3% on Council Tax for 2022/23;**
- (ii) Provision of £16,523,000 for budget pressures as listed in APPENDIX 2;**
- (iii) Further service developments totalling of £188,000 as described in paragraphs 4.18 and 4.19;**
- (iv) Savings totalling £1,576,000 as listed in APPENDIX 3;**
- (v) Budgeted expenditure of £240,733,000 for 2022/23;**
- (vi) Indicative budgets for 2023/24 and 2024/25 as set out in APPENDIX 1;**
- (vii) Capital expenditure for of £51,426,000 for 2022/2023 as set out in the indicative ten year Capital Plan in APPENDIX 4;**
- (viii) Funding for Moray Integration Joint Board (MIJB) to increase by £6,745,000 plus Moray's share of the £200 million still undistributed in 2022/23 compared to 2021/22 per the settlement letter from Scottish Government;**

- (ix) Use of financial flexibilities associated with the cost of the pandemic of £3,120,000;**
- (x) Use of ear-marked reserves totalling £1,191,000 for transformation and Council priorities and of £9,144,000 to balance the budget; and**
- (xi) That the Council Tax rebate announced at Stage Two of the Scottish Government's budget is delivered through crediting Council Tax accounts, where this is possible.**

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 16 December 2021 and the announcement of additional funding of £120 million on 27 January 2022 and that the Council's budget will be amended to reflect any changes made by the Scottish Parliament when the Scottish budget is approved; and**
- (iii) Projected additional savings requirements of £12,920,000 million in 2023/24 and £6,894,000 million in 2024/25.**

3. BACKGROUND

- 3.1 The Council's revenue and capital budgets for 2022/23 fall due to be considered in an environment of considerable uncertainty about the state of the economy, due to the impact of the covid-19 pandemic and Brexit and geo-political pressures, with rising inflation and bank rates increasing; when the pay award for local government staff for 2022/23 is unknown and the teacher's pay award for 2021/22 still not agreed.
- 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. The cash increase in local government funding in 2022/23 is entirely in respect of Scottish Government requirements. 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 £56 million since 2010/11 and it is increasingly difficult to identify areas where further savings can be made whilst delivering the statutory duties of a local authority. The Local Government settlement is for one year only but the Council is setting its 2022/23 budget in the context of longer term planning. The UK budget was for three years and indicated that the following two years will see a lower block grant from Westminster to Scottish Government. The budget forecasts are for flat cash, considered to be an optimistic assumption.
- 3.3 Income from Council Tax receipts is the other main source of income for the Council. The collection rate dropped in the early stages of the pandemic, with

normal debt collection processes paused. With a return to normal debt management practice the collection rate has steadily increased, although it currently remains below pre-pandemic levels.

- 3.4 Regular reports on the financial planning process have been made throughout the year. The latest report was considered by the Council on 19 January 2022 (paragraph x of the Minute refers) and this indicated that the draft settlement for 2022/23 was below previous funding forecasts and reduced the estimated general revenue grant funding anticipated for 2023/24 and 2024/25.
- 3.5 For a number of years the Council relied on the use of free general reserves to balance the budget. The Council has been steadily reducing its reliance on reserves and only budgeted to use £10,000 (to cover one-off expenditure) to balance the 2021/22 budget. However, the Council was able to retain £1.9 million under the Business Rates Incentivisation Scheme (BRIS) and also planned to use financial flexibilities granted for the pandemic, both time-limited funding, totalling £3.1 million. The base expenditure budget was therefore overcommitted by that amount and the Council requires to reduce expenditure to remove this over commitment.

	Budgeted use of free general reserves		Actual (est act 2022/23)	
	£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%	-	0%
2021/22	0.010	0.0%	(2.132)	
2022/23	-	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 15 September 2021 (paragraph 29 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 2021. Following a report on financial planning to Council on 15 September 2021 (paragraph of the Minute refers) it was agreed to transfer £8.816 million into ear-marked reserves, £1.816 million for the next stage of the Improvement and Modernisation Programme (IMP), £4,000,000 to cover cash flow for Moray Growth Deal (MGD) and £3,000,000 for Council priorities. The current balance on free general reserves is £5,000,000.
- 3.7 Following the late receipts of monies from Scottish Government in March 2021 an ear-marked reserve for covid-related expenditure was set up. Some of the monies were specifically related to various strands of covid-related activity such as education recovery, some were completely free monies. All the windfall funding was transferred to this ear-marked reserve for ease of management. The reserve stood at £16,421,000 at 31 March 2021 and £5,141,000 has been committed to date. The Cabinet Secretary for Finance and the Economy has

indicated her expectation that Council's use such reserves to cover any funding shortfalls in 2022/23.

4. REVENUE BUDGET

4.1 The draft revenue budget for 2022/23 to 2024/25 is set out in **APPENDIX 1** to this report.

4.2 The starting point for the 2022/23 budget is the budget for 2021/22. The brought forward Devolved School Management (DSM) 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 2021/22 only. The picture is complicated by significant commitment of ear-marked reserves, with timing of spend of ear-marked reserves and other budget pressures being impacted by pandemic restrictions during the year, and provision made for the pay award for teachers being unallocated at present. The resultant starting point for the 2022/23 budget is expenditure of £220,333,000. A summary of the adjustments to the 2021/22 budget is set out below:

	£000s	£000s
Budget reported to Council 23/02/2022 (Q3 budget monitoring)		242,700
Less funded from DSM etc		(2,743)
		239,957
Reinstate one-off savings	143	
Deduct one-off expenditure	(252)	
Deduct budget pressures brought forward	(550)	
Deduct new burdens funded by redetermination of General Revenue Grant	(8,123)	
Deduct funded from covid reserve	(8,228)	
Deduct commitments against Transformation reserves	(3,314)	
Increase budget for SJC pay award above provision	700	
		(19,624)
		220,333

Provision for pay and prices

4.3 Provision of £3,100,000 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 confirmed funding of £6,745,000 for health and social care services plus a share of £200 million must be passed through from the Council to MIJB, under the terms of the settlement letter. Elements of this funding relate to particular areas of cost pressure eg increase in the minimum hourly rate paid to social care staff by social care providers. However, part of the additional funding 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.

- 4.4 The pay award for staff on SJC conditions for 2022/23 will be subject to negotiations in year. The proposed budget allows for a flat rate 2% increase, in line with the Treasury target for inflation and at a level which would accommodate the Scottish Government public sector pay policy. The same percentage increase has been allowed for teaching staff. Inflation is currently running above 2% and the expectation from trades unions is for a settlement greater than 2%. The amount allowed for pay awards is one of the high risk areas of the proposed budget. The amount included for pay inflation is £2,516,000.
- 4.5 Other inflationary increases included are for PPP/PFI contracts, fostering fees and allowances, school and other transport contracts, and increase in landfill tax rates.

Financing costs

- 4.6 The Capital Plan is discussed in section 6 of this report. The estimated impact of planned capital expenditure in 2021/22 is included in the draft revenue budget, an increase in spend of £700,000. Interest rates have been very low but in response to inflationary pressure the Bank of England has recently increased its base rate. Treasury Management is the subject of another report on the agenda for today's meeting.

New burdens

- 4.7 New burdens are created for local government by legislation passed by the Scottish Government. Funding for the extension of free school meals remains undistributed and an estimate is included in the draft budget under new burdens.

Budget pressures

- 4.8 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 £16,523,000 for 2022/23. Indicative amounts are also shown for 2023/24 and 2024/25 where these are currently quantifiable. 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. Budget pressures recognised within the draft budget for 2023/24 are discussed below.
- 4.9 The additional funding for MIJB of £6,745,000 is included in budget pressures. A further budget pressure of £106,000 is noted, as the full year effect of an additional care package approved by Council on 20 September 2021 (paragraph x of the Minute refers)
- 4.10 Two tranches of additional funding have also been provided to meet the Scottish Government commitment to increase teacher numbers and to assist in education recovery from the pandemic. School rolls are increasing, and under the Council's DSM scheme the per capita element of the schools' budgets

should be increased. Based on the latest pupil roll projections following the school census in the autumn of 2021, a budget pressure of £860,000 has been estimated for 2022/23. The bulk of DSM spend is on teaching staff and it is proposed that an element of the additional funding for teacher numbers is distributed to school level through DSM, meeting the budget pressure and ensuring decisions about additional staff for that component of the funding are made at local level. The balance of £329,000 is shown as a budget pressure under schools. Scottish Government required local authorities to cease charging for music instruction and core curriculum subjects during 2021/22 and provided additional funding which will in part compensate for the loss of income. Budgets require to be adjusted in 2022/23 and so this budget pressure is carried forward from 2021/22. Microsoft have changed the structure of charges for the software licences for use of MS products in schools and this is estimated to cost an additional £26,000. As reported to Education, Children's and Leisure Services Committee on 26 January 2022, Early Learning and Childcare is projected to overspend by over £3 million in 2022/23 due to a combination of increased costs and reduced specific grant funding. The service is investigating options to reduce costs but realistically there will be a lead-in time involved in any option and so a short-term budget pressure of £2 million is included in the draft budget

- 4.11 Expenditure of the second strand for additional funding for education is included under budget pressures for Education Communities and Resource. A budget pressure of £1,100,000 in respect of Additional Support Needs (ASN) has been identified, due to growth in projected need and removal of one-off funding which has been sheltering additional demand in 2021/22. It is proposed to fund this budget pressure from the additional £1,315,000, with the balance shown as a further budget pressure. Scottish Government requires local authorities to review Devolved School Management (DSM) schemes periodically and is anticipated to introduce stipulation of reduced class contact time for teachers in the near future. This would also impact on the DSM scheme and there is currently no capacity to carry out the required work. A budget pressure of £44,000 is estimated to enable this work to be carried out. This Integration of the Fit Life scheme across Moray Leisure Centre and the Council is costing an additional £13,000 a year in licences. Moray Leisure Centre have identified a number of urgent works which require to be carried out in order to keep the Centre functioning, pending a longer term review of maintenance needs across the whole leisure estate. The works include repairing damage caused by Storm Arwen, with £75,000 included as an estimated budget pressure.
- 4.12 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. £263,000 is included in 2022/23 in respect of these. Council on 19 January 2022 approved a budget pressure of £25,000 to enable the regrading of the Programme Manager for Moray Growth Deal (MGD) prior to advertising the vacant post. A project manager post for Early Years STEM was included in the budget for 2021/22. No appointment has been made to that post and the budget pressure has been rolled forward into 2022/23. Further budget pressures arise for MGD: £60,000 for a project officer for the Bus Revolution, which agrees to the Outline Business Case submitted to Council for approval on , and £75,000 to enable support for MGD to be increased by one project officer for MGD (may be part time to manage budget pressures) and 0.5 fte

assistant accountant, in recognition of the level of reporting to Scottish Government, the requirements of which became evident in discussions with Scottish Government officials during the run up to the sign off of the Deal. The Planning Act 2019 and National Planning Framework 4 introduce a raft of new duties and an additional post of Senior Planning Officer is proposed to ensure these are carried out. A budget pressure of £60,000 is included in respect of this. A report to Planning and Regulatory Committee on 23 March 2021 identified new legislative requirements for transportation appraisals for the Local Development Scheme amounting to £250,000 over a two year period, commencing in 2022/23.

- 4.13 The impact of inflation and supply shortages is showing in increased cost under contracts. Gritting salt is expected to cost an additional £180,000 in 2022/23, rising to £235,000 in 2023/24. This is purchased through Scotland Excel. Our local contract for supply of meat to the catering service is seeing price rises amounting to £50,000 for the year. Car parking income dropped very significantly during the pandemic and is not expected to recover to pre-pandemic levels if hybrid working becomes the norm. Accordingly a budget pressure of £150,000 is included, as a notional amount until actual levels of income are established. Tree surveys and work arising from them had been included in the capital plan but the nature of the work makes this properly revenue spend. Given the safety issues potentially arising from ash die back the cost of one-off survey work of £40,000 plus on-going works of £20,000 a year are included as a budget pressure.
- 4.14 Legislation relating to records management, the protection of data and access to information has developed significantly over recent years, with the expectations of regulators and the public also increasing as well as the volume and complexity of requests for information. There is significant risk to the Council in terms of inspections and fines if we do not have appropriate systems and processes in place. To ensure the Information Governance and Records Management Team are adequately staffed to carry out their statutory duties an additional post of 1 fte Grade 8 Information Assurance Officer is proposed and a budget pressure of £44,000 included to cover the cost of this post. The Internal Audit team is another small team where increasing duties over the years has led to pressure on staff and the additional requirements arising from MGD has proved to be the tipping point for a request for additional staff to ensure statutory duties are covered and the requirements of the Public Sector Internal Audit Standards (PSIAS) are met. An additional post of 1 fte Grade 7 Assistant Auditor is proposed and a budget pressure of £40,000 is included to cover the cost of this post. Scottish Disability Assistance £44,000 (details to be confirmed).
- 4.15 When the budget for 2021/22 was approved a budget pressure of £39,000 across two years for the increased cost of licences for the Council's position management and payroll system was included. The second tranche of £16,000 is included in budget pressures in 2022/23. Provision of £120,000 was included for the clearance of the site at Bilbohall to be developed for housing – the development was delayed and this provision has been carried forward into 2022/23. Provision of £725,000 has been made for the consolidation of the Living Wage into the Council's pay structure, with a further provision for one-off costs of £420,000 for retrospective payments. £700,000 has been allowed for

the cost of 1.25% uplift in employer's National Insurance contributions, as announced in the UK autumn budget. This will lead to budget pressure from suppliers, contractors and care providers but no allowance has been made for increased costs in these areas as an indirect result of the increase in employer's contributions. Energy cost increases of £625,000 across two years as reported to Council in the annual energy report are included as a budget pressure. Since these costs were reported energy costs have continued to rise. There is a risk that the provision is inadequate. Provision has also been made for rising cost of vehicle fuel and £128,000 is included in budget pressures. A further budget pressure of £110,000 arises from increased fuel duty. Release of £998,000 from the ear-marked reserve for Transformation is included – this reflects the profile of expenditure on education well-being approved by Council on 12 May 2021.

- 4.16 A budget pressure of £7,000 relating to the maintenance of automatic bollards on Elgin High Street was recognised by Council on 20 September 2021. This budget pressure is carried forward into 2022/23 as the bollards are not yet operational.

Service Developments

- 4.17 Two service developments have been approved during the financial year. At its meeting on 1 July 2021 Council approved provision of £430,000 to support the Levelling Up Fund (paragraph x of the Minute refers) and on 19 January 2022 Council approved £27,000 costs for software to increase awareness of phishing attacks with a view to increasing the Council's cybersecurity.
- 4.18 A further potential service development was recommended by Economic Development and Infrastructure Services Committee on 7 December 2021 (paragraph x of the minute refers) to be considered by Council for inclusion in the budget for 2022/23. This is for the onward sale of property level flood protection aids. The purchase of stock to enable a scheme to be launched on a cost recovery basis is estimated at £5,000 and this has been included in the draft budget.
- 4.19 Two further service developments are proposed, both on a one-off basis for one year: a temporary post to develop real time performance data reporting in schools, at an estimated cost of £63,000 and provision of £120,000 to be allocated through a Participatory Budgeting exercise to enable meeting spaces for your people in Buckie and Forres to be developed.
- 4.20 With these additions the total budgeted revenue expenditure for 2022/23 before savings is £242,309,000. A further potential budget pressure arises from flood prevention works requested at Garmouth / Spey Bay and reported to Council on 30 November 2022.

Funding

- 4.21 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 draft local government settlement in December 2021 included allocation of general grant funding totalling £176,918,000 for Moray. Not all funding has been allocated at this stage, and estimates of funding totalling £800,000 have been incorporated in the budget for areas where expenditure is included in

base budget: funding for Discretionary Housing Payments (DHP), for the Teachers' Induction Scheme and for the removal of charges of core curriculum activities and music instruction. One-off funding of £120 million across all local authorities was announced on 27 January 2022 and the allocation to Moray is £1,997,000. This increases the general Scottish Government funding included in the budget to £179,715,000, plus £108,000 for new burdens, a total of £180,723,000.

- 4.22 A Council Tax increase of 3% had been used as an illustrative figure in the financial planning process leading to this budget and following consideration at Group Leaders and Budget Development Group, is now recommended as the proposed increase in Council Tax. The Council receives no funding for price increases and requires to raise funding towards the resultant funding gap. The latest measures of inflation, at December 2021, are 4.8% for the Consumer Price Index including owner occupiers' housing costs (this is the UK Government standard measure of inflation), Consumer Price Index 5.4% and Retail Price Index (no longer an official statistic but still reported) 7.5%, and so the proposed increase is significantly lower than current measures of inflation. It is estimated that this will generate income of £46,555,000 for the Council.
- 4.23 Proposed Council Tax by banding is listed in the table below. 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.

	Council Tax 2021/22	Council Tax proposed 2022/23
Band A	£881.91	£908.37
Band B	£1,028.90	£1,059.77
Band C	£1,175.89	£1,211.16
Band D	£1,322.87	£1,362.56
Band E	£1,738.11	£1,790.25
Band F	£2,149.67	£2,214.16
Band G	£2,590.62	£2,668.35
Band H	£3,241.03	£3,338.27

4.24 Moray's Band D Council Tax for 2021/22 sits just above the Scottish average of £1,308. Comparisons with other councils are set out in the table below.

COUNCIL TAX BY BAND 2021-22

Scotland Average Band D Council Tax (based on total Band D Equivalentents)		£1,308
	Band D	%age of Scottish average
Na h-Eileanan Siar	£1,193.49	91.2%
South Lanarkshire	£1,203.00	92.0%
Shetland Islands	£1,206.33	92.2%
Angus	£1,206.54	92.2%
Orkney Islands	£1,208.48	92.4%
North Lanarkshire	£1,221.25	93.4%
Dumfries & Galloway	£1,222.63	93.5%
Falkirk	£1,225.58	93.7%
Scottish Borders	£1,253.91	95.8%
West Lothian	£1,276.42	97.6%
Fife	£1,280.80	97.9%
East Renfrewshire	£1,289.96	98.6%
West Dunbartonshire	£1,293.55	98.9%
Aberdeenshire	£1,300.81	99.4%
East Lothian	£1,302.62	99.6%
Clackmannanshire	£1,304.63	99.7%
East Dunbartonshire	£1,308.98	100.1%
Renfrewshire	£1,315.42	100.5%
Perth & Kinross	£1,318.00	100.7%
Moray	£1,322.87	101.1%
Inverclyde	£1,331.84	101.8%
Highland	£1,332.33	101.8%
City of Edinburgh	£1,338.59	102.3%
North Ayrshire	£1,342.69	102.6%
Stirling	£1,344.28	102.8%
South Ayrshire	£1,344.96	102.8%
Argyll & Bute	£1,367.73	104.5%
East Ayrshire	£1,375.35	105.1%
Aberdeen City	£1,377.30	105.3%
Dundee City	£1,379.00	105.4%
Glasgow City	£1,386.00	105.9%
Midlothian	£1,409.00	107.7%

Excludes Water and Sewerage

Source: As reported by the Local Authorities on the statistical return Council Tax Assumptions 2021

4.25 The resultant budgeted income to the Council for 2022/23 leaves a shortfall of income compared to expenditure of £15,031,000, 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 Savings totalling £1,024,000 have been approved to date and these are listed on **APPENDIX 3**, which also includes as a one-off saving the return of requisition from Grampian Valuation Joint Board following the audit of the annual accounts. Indicative savings of £263,000 from IMP have been rolled forward from 2021/22.
- 5.2 Further savings for 2022/23 totalling £221,000 are presented to Council today. These are listed on **APPENDIX 3** and discussed below.
- 5.3 Savings of £10,000 from reduced electricity consumption as the full year effect of fitting LED lights in sports halls in 2021/22 are anticipated.
- 5.4 Grampian Valuation Joint Board approved its budget and requisitions to the constituent authorities on 4 February 2022. The requisitions were reduced and the Council's share of the reduction amounts to £16,000.
- 5.5 The Council's budget includes a vacancy factor to reflect time lags in appointing replacement staff when staff leave and also that new staff are generally appointed at a lower point on the salary scale point. It is proposed that this factor is increased pro rata to the pay award and reflecting that there was no increase in the vacancy factor at two years' worth - £180,000.
- 5.6 The Council pays additional pension costs in respect of former staff who took early retirement, at a time when the Council bore additional costs to the pension scheme. The policy has changed and these costs are slowly reducing as the costs are paid off. A reduction of £15,000 is forecast in 2021/22 and it is proposed that this is taken as a saving in 2022/23.
- 5.7 If these additional savings are approved there is a residual funding gap of £13,455,000 for 2022/23. Costs of £3,120,000 arise within the budget because of continued expenditure and loss of income relating to the pandemic. Scottish Government has indicated that the financial flexibilities allowed for councils to deal with costs of covid-19, to be used as one-off measures in either 2020/21 or 2021/22, will be extended into 2022/23. The Council did not use financial flexibilities in either 2020/21 or 2021/22 and it is proposed that the Council exercise financial flexibilities in 2022/23. 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. The Council has previously agreed to use capital receipts to fund transformation of service delivery where this is anticipated to deliver savings, and this is the subject of a further report on the agenda for this meeting, however the concession allowing use of capital receipts in this way comes to an end on 31 March 2022. There was a balance of unused capital receipts of £2,722,000 at 31 March 2021 and a further £1,127,000 capital receipts have been generated in the first three quarters of this financial year, so there are funds available to more than cover the proposed financial flexibility and use of

capital receipts for transformation. Using this financial flexibility maximises possible use of capital receipts to support the Council's revenue spend.

- 5.8 That reduces the funding shortfall to £10,335,000. £998,000 was approved to be spent from ear-marked reserves for transformation and £193,000 relates to loans charges to be met from the ear-marked reserves for MGD cash flow management. This leaves a balance of £9,144,000 as the true funding gap.
- 5.9 It is proposed that the gap is filled by using two ear-marked reserves: £704,000 repairs and renewals, a historic ear-marking relating to insurance excess for schools and no longer relevant, given the current insurance contract, and the balance of £8,440,000 using funds held in the covid reserves. As referred to in paragraph 3.7, there is an expectation from Scottish Government that councils will use these reserves to balance budgets in 2022/23.
- 5.10 Officers will continue with consideration of identification of potential savings including transformation proposals and report on these in early course with a view to making recommendations for in-year savings and thus reducing reliance on reserves.

6. CAPITAL BUDGET

- 6.1 The latest version of the Council's Capital Strategy was approved by Council on 19 January 2022. 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 review of the capital plan was conducted in October 2021 and reported to Council on 30 November 2021. Following further review a draft ten year capital plan has been prepared and is included as **APPENDIX 4** to this report. The full amount of MGD capital expenditure is now included in the capital plan – previous capital plans have shown the Council's contribution only. Expenditure of £51.425 million is proposed for 2022/23, with total expenditure over the 10 year period of £555.423 million. This includes expenditure originally planned for 2021/22 which has been approved to be deferred. Expenditure under the draft plan and sources of funding are summarised below:

	Driver	2022/23 £m	2022/23 %age	10 year £m	10 year %age
1	Local Development Plan and Economic Development	22.0	42.8%	103.1	18.6%
2	Asset Management Planning	22.6	44.0%	430.4	77.5%
3	Expenditure arising from Legislative Requirements	2.9	5.6%	13.0	2.3%
4	Improvement and Modernisation Programme/efficiencies	0.8	1.6%	0.9	0.2%
5	Funded Government Priorities	-	0%	1.0	0.2%
6	Other developments to meet Council Priorities	1.9	3.7%	4.8	0.9%
7	Responsive Expenditure	1.2	2.3%	2.2	0.3%
	TOTAL	51.4	100%	555.4	100%
	Funding	£m	%age		
	Grant Funding	15.4	30.0%	147.0	18.5%
	Developer Obligations	0.2	0.4%	5.8	1.0%
	Prudential Borrowing	35.1	68.3%	400.5	79.7%
	Capital receipts	0.7	1.3%	2.1	0.8%
	TOTAL	51.4	100%	555.4	100%

- 6.4 This is an ambitious level of investment and given the requirement to make savings the capital plan requires to be revisited in early course. The Council's borrowing must comply with the Prudential Code, which requires borrowing to be affordable and sustainable. Given the level of projected savings required in 2023/24 and 2024/25 it is reasonable to suggest that borrowing of £400 million is not sustainable. As the bulk of the indicative capital plan is based on Asset Management requirements, to achieve a significant reduction in capital expenditure the Council must reduce its asset base.
- 6.5 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, as in previous years the Capital Plan is presented in outline format, with detail to be brought forward to service committees. The detail used to underpin the development of the capital plan for 2022/23 is set out below for information.

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. 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, an extensive programme of work will be required and funding will be needed for that programme. In addition to this, the Learning

Estate review and review of the Council's leisure estate will have implications for those service specific assets.

Bridges

- 7.2 The Council's programme of bridge refurbishments is an asset management programme 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 £18.5m, with £4,653,000 proposed for 2022/23. The main item in the work provisionally planned for 2022/23 consists of the second stage of the replacement Craigellachie bridge on the A941, with a budget of £3,789,000. The balance of spend is intended for strengthening and refurbishment of A941/100 Blackwater Bridge, Lower Cabrach, U117H/10 Bridge of Slateford, Tomnavoulin, replacement of U170E/20 Kirkhill Drive, Lhanbryde, preliminary works for refurbishment of A941/340 New Bishopmill Bridge, work on remote footbridges and the first stages of minor works on B9103/100 Boat O Brig Bridge, Orton and U173E/10 Lea Bridge, Forres.

Car Parks

- 7.3 Repair works were planned on St Giles multi-storey car park in Elgin and a budget of £130,000 estimated when the capital plan for 2021/22 was approved. Currently work is planned to scope the repairs required to this structure taking into account the structural issues identified.

Corporate

- 7.4 This budget heading is mainly driven by asset management planning. The major item is the Council's vehicle and plant replacement programme. 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 and currently stands at £3,531,000 for each year of the ten year plan. A sum of £500,000 is provisionally included in 2022/23 for works on depots. This will be planned in detail following the depot review and consideration of reduced carbon fleet requirements. A budget of £250,000 has been incorporated in 2022/23 for low fleet carbon requirements, also a budget of £500,000 for other climate change issues. These are notional amounts and plans have yet to be developed. Small budgets for office furniture replacement and facility management equipment are included, as is provision for replacing chip and pin machines, and a replacement cheque printer. These total £51,000. There is an annual budget of £15,000 for minor energy efficiency projects. A budget of £150,000 is proposed for 2022/23 for a replacement CCTV system. There is an annual budget of £40,000 for health and safety requirements in corporate building following fire risk assessments and legionella inspections.

Economic Development

- 7.5 The capital components of the Moray Growth Deal which will flow through the Council (ie excluding partner-funded contributions) are included in this section and match the capital expenditure included in approved Outline Business Cases (Full Business Case for Digital Health). These total £12,141,000 in

2022/23, with government grant of £6,538,000 anticipated. The profile of government grant funding is largely flat and so the Council will be borrowing to fund the grant between expenditure and income in the early years of MGD. The pattern will be reversed in later years. Other expenditure 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 £1, 215,000 included in 2022/23 for the expansion of industrial estate provision.

Flood Risk Management and Coastal Protection

- 7.6 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. The only provision in 2022/23 is for residual expenditure on the Elgin flood alleviation scheme.

Harbours

- 7.7 This programme is founded on asset management principles and based on condition information. Provision of £244,000 is included in 2022/23 for upgrade and replacement of life-expired elements across all the Council's harbours. A provisional allocation of £500,000 for power upgrade at Buckie harbour is included; this will be subject to a business case for the expenditure.

ICT

- 7.8 Pending establishment of ICT requirements going forward, which will be dependent in the case of non-school spend on plans for office and the extent to which hybrid working will become the prevailing form of work pattern, a sum of £553,000 has been included in the capital plan for 2022/23. Spending proposals will be developed and brought forward as requirements become clearer.

Industrial Portfolio

- 7.9 This budget is for development of the industrial portfolio, in support of economic development in Moray. The bulk of expenditure proposed for 2022/23 is for land acquisition, site servicing and new units in Forres.

Libraries and Leisure

- 7.10 The use of this budget will be planned following conclusion of the review of the leisure estate currently underway.

Mortuary

- 7.11 The Council makes use of the mortuary in Aberdeen on occasion. This facility requires to be updated. Aberdeen City Council has requested those local authorities which use the facility to make a contribution towards the capital cost of the facility, on a pro rata basis to their use of the facility. The contribution requested from Moray is £160,000 and would be made in the form of a capital grant.

Parks and Open Spaces

- 7.12 This budget 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, and

upgrade of parks and open space infrastructure. The main part of the budget in 2022/22 (£1,710,000) is for additional cemetery provision in Elgin. 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. 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. The programme has been progressed using Participatory Budgeting (PB) and in 2021/22 this was successful in leveraging in additional funding. £200,000 is allocated for upgrading parks and open space infrastructure - paths, car parks, steps, walls, fences, signage – and £50,000 for cemetery infrastructure.

Roads

- 7.13 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. The latest roads condition indicator (RCI) results were reported to Economic Growth, Housing, and Environmental Sustainability Committee on 16 February 2021. That indicated a slight improvement in RCI ratings. The next RCI results are due in November 2022. The draft capital plan for 2022/23 includes £4,350,000 for resurfacing, reconstruction, surface dressing, drainage, footways and kerb replacement. A further £750,000 is included for improvements to minor roads affected by timber traffic. This sum will be used as match-funding to leverage in external funding. £1,185,000 is also included for remedying the landslip at the A95 by the River Isla.

Road Safety

- 7.14 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. £279,000 is included in 2022/23, with budget deferred from 2021/22 included.

Street Lighting

- 7.15 This budget of £800,000 is for the replacement of life expired columns, a rolling programme of asset management.

Traffic

- 7.16 The main part of this budget is for the completion of work on the new signals at Orchard Road in Forres, at an estimated cost of £192,000. It also includes an allocation of £23,000 for the replacement of life-expired traffic signals and traffic data collection equipment

Waste Management

- 7.17 This budget includes £2,269,000 for the completion of the construction of the NESS Energy from Waste Plant. £300,000 is included for works at the Dallachy Landfill Site, Spey Bay, as this site remains operational and will be operational until either all void capacity within the site is utilised, or the 2025 landfill ban on biodegradable material comes into force. A budget of £800,000

for the purchase of land for a replacement Household Waste Recycling Centre (HWRC) in Elgin. The Council has submitted an expression of interest to Scottish Government Recycling Improvement Fund, a new fund from which it is hoped to be awarded grant funding for the replacement of the Chanonry Road HWRC, which is on a constrained site and operational only by virtue of the booking system in use. With Elgin's population increasing this site is not viable in the long term. The fund gives an opportunity to develop a replacement facility with the assistance of grant funding but the fund will not contribute towards the purchase of land. Provision of £225,000 is made for the upgrade of facilities at Gollachy Recycling Centre, Buckie in 2022/23. £100,000 is included for the purchase of new domestic and trade waste bins; £20,000 for replacement containers for recycling centres, and £15,000 for gull-proof bins.

Learning Estate Strategy

- 7.18 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. Reflecting this, the budget for future years for refurbishments / new builds has been rolled together and will be allocated to specific projects once these are approved. In 2022/23 £4,992,000 has been allocated towards the design and preliminary works for the commencement of construction of the new Findrassie Primary School, Elgin. .

Schools BB and Other Minor Works

- 7.19 Provision of £3,000,000 is made in 2022/23 for work towards bringing schools up to B for both condition and suitability, a rolling programme of works. Provision of £165,000 has also been made for works arising from fire safety and other similar inspections, and of £40,000 for accessibility adaptations.

Astro-turf pitches

- 7.20 The draft capital plan for 2022/23 includes an allocation of £700,000 for the construction of an astro-turf pitch in Forres and £300,000 for rejuvenation of existing astro-turf pitches, as part of a rolling programme of asset management of pitches.

8. FUTURE YEARS AND BUDGET RISKS

- 8.1 As noted in paragraph 3.2, the local government settlement for 2022/23 is a one-year settlement only. To assist in forward planning, projected budgets for 2023/24 and 2024/25 are included in **APPENDIX 1**. This assumes that the savings approved for 2022/23 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 £12.9 million in 2023/24 and £6.9 million in 2024/25. When the budget for 2021/22 was approved on 3 March 2021 a shortfall of £4million for each of the two years was projected. The Council is therefore in a considerably worse financial position than forecast a year ago, albeit these are still forecasts.

- 8.2 Various components in the budget are used to develop best case, worst case and mid-point scenarios for financial planning purposes. The options set out for 2023/24 and 2024/25 lie within the best case to mid-point range and accordingly action needs to be taken to tackle the projected shortfall as early as possible.
- 8.3 It has always been planned that the Capital Plan would be amended following development of the Learning Estate Strategy, conclusion of the Leisure Review and adoption of the Climate Change Strategy and Action Plan. Given the financial restrictions now forecast an early review to set capital savings targets will take place.
- 8.4 The Council will review its operations using a hierarchy of saving routes: transformation of services; small scale spend to save; stopping and reducing services. Clearly transformation is the preferable route to deliver the scale of savings required and given the timescales this will require early and urgent consideration so that options for consideration can be presented to members of the Council formed after the May elections.
- 8.5 The Council set aside ear-marked reserves to facilitate transformation of services and Council priorities. Given the current financial situation it is clear that the Council's top priority must again be to create financially sustainable services. Whilst funds are earmarked for Transformation, the majority will be required to support MGD borrowing costs and climate change investments. Looking beyond this reserve, investment to improve where no savings are taken as a consequence will be a luxury which the Council cannot afford, and plans will require to be reviewed to recognise that.
- 8.6 The following areas are considered to represent high risk areas for the Council's budget in 2022/23 and future years:
- Pay awards
 - Increasing inflation rates and interest rates
 - Future settlements and level of effective ring-fencing of funds
 - Social Care and ASN, where demand is escalating
 - Early Learning and Childcare, where funding is decreasing and significant budget pressures have been identified

9. COUNCIL TAX REBATE FOR BANDS A – D

- 9.1 At Stage 2 of the Scottish Government budget process, the Cabinet Secretary for Finance and the Economy announced that funding would be made available for Council's for a Council Tax rebate of £150 for households in properties within Bands A to D for Council Tax. It is in the discretion of Council whether this is paid out to Council Tax payers or credited to Council Tax accounts. The latter is administratively easier and can be put into place in early course, however if this is to take place as a one-off credit to April 2022 payments amendment to the software used will be required
- 9.2 No guidance on the rebate has yet been received.

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 2021/22, pressures from inflation and service requirements in 2022/23 and reduced government funding, except for specified purposes.

Savings have been identified and the financial flexibilities allowed by Scottish Government as a one-off measure to assist with additional cost arising from the covid-19 pandemic assist in covering costs. However, a significant funding gap remains and it is proposed to fill this by use of ear-marked reserves in 2022/23

A continued and heightened budget gap is forecast for 2023/24 and 2024/25. It is important that this is taken into account when considering budget proposals for 2022/23.

Early action to tackle the projected funding gap for 2023/24 and 2024/25 is required.

(d) **Risk Implications**

The forecast deficits for 2023/24 and 2024/25 represent a significant risk to the Council.

The proposed budget for 2022/23 is subject to the following specific risks:

- The level of the pay award is unknown at present.
- 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. The rate of inflation is rising and forecast to rise further.
- A particular risk relates to construction inflation and 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 2021/22 but only because Scottish Government has underwritten overspends in this financial year. There is no guarantee that there will not be an overspend in 2022/23 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

Staffing implications arise directly from budget pressures in this report. These are indicated where quantified. There will be staffing implications from the additional funding for education. These are as yet unquantified.

(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 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.

(h) Socio-Economic Impact

The proposals do not impact on the socio-economic duty.

(i) Climate Change and Biodiversity Impacts

There are no implications for climate change and biodiversity arising from this report.

(j) Consultations

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

11. CONCLUSION

11.1 The Council's proposed revenue budget for 2022/23 requires use of financial flexibilities and use of ear-marked reserves to balance.

11.2 Significant further savings are forecast to be required in 2023/24 and 2024/25 and early action is required to tackle this issue.

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Background Papers:

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