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**REPORT TO: SPECIAL MEETING OF MORAY COUNCIL ON 1 MARCH 2023**

**SUBJECT: 2023/24 BUDGET AND 2023 TO 2026 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 2023/24, to agree the Council's revenue and capital budgets for 2023/24 and to consider the Council's Financial Plan for 2023 to 2026.
- 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) (22) and (23) relating to the approval of the annual estimates of capital and revenue expenditure for all services.

**2. RECOMMENDATION**

**2.1 It is recommended that the Council approves :**

- (i) An increase of 5% on Council Tax for 2023/24;**
- (ii) Provision of £9,598,000 for budget pressures as listed in APPENDIX 2;**
- (iii) Service developments totalling £704,000 as described in paragraph 4.14;**
- (iv) Savings totalling £1,677,000 as listed in APPENDIX 3;**
- (v) Budgeted expenditure of £260,130,000 for 2023/24;**
- (vi) Indicative budgets for 2024/25 and 2025/26 as set out in APPENDIX 1;**
- (vii) Capital expenditure of £59,186,000 for 2023/2024 as set out in the indicative ten year Capital Plan in APPENDIX 4;**
- (viii) Funding for Moray Integration Joint Board (MIJB) to increase by Moray's share of the £100 million still undistributed in 2023/24 compared to 2022/23, less £412,000 per the settlement letter from Scottish Government;**

- (ix) **Use of ear-marked reserves totalling £1,613,000 for transformation, £759,000 for Moray Growth Deal cash flow and of £14,768,000 from covid reserves to balance the budget; and**
- (x) **An increase of up to 27% in temporary accommodation charges to mitigate the budgetary impact as detailed in paragraph 5.7 as there has not been an uprating since 2015.**

**2.2 It is recommended that the Council notes:**

- (i) **There will be conditions placed on the Council in terms of the settlement letter from the Depute First Minister and that these are still the subject of on-going communications;**
- (ii) **Projected additional savings requirements of £18,741,000 in 2024/25 and £756,000 in 2025/26; and**
- (iii) **A review of services is underway and will be the basis for community engagement on proposals to bring the Council's budget back into balance for 2024/25;**

**3. BACKGROUND**

- 3.1 The Council's revenue and capital budgets for 2023/24 fall due to be considered in an environment of considerable uncertainty about the state of the economy, due to the continued impact of the covid-19 pandemic and geo-political pressures, with inflation at a level unseen for many years and bank rates increasing; when the teachers' pay award for 2022/23 is still not agreed and pay awards for all staff for 2023/24 are yet to be agreed, and when restrictions on elements of the Scottish Government grant award are being made, with some details emerging very recently and further clarification awaited.
- 3.2 The Local Government Settlement is for one year only but the Council is setting its 2023/24 budget in the context of longer term planning. Successive budgets at UK level and thereafter by Scottish Government in 2022/23 have seen a range of financial forecasts and it is difficult to interpret with certainty what these may mean for Scottish Local authority funding in the short to medium term. Continued reduction in real term funding seems inevitable given other Scottish Government commitments and generally downbeat forecasts for the Scottish economy. The proposed Scottish National Care Service would have a very significant impact on local authority funding and it is as yet unclear what the outcome of this proposal will be and what impact it will have. Consequently the focus of planning is on the three years ahead only. Without significant increases in core funding the financial outlook for Scottish local authorities appears bleak.
- 3.3 The Council receives around 80% of its revenue funding from Scottish Government. Over the last eleven 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 2023/24 is almost 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 £58 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.

- 3.4 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. It is unclear at this juncture whether the current high levels of inflation are likely to impact significantly on the collection rate but it clearly heightens the risk for the Council of default by Council Tax payers. At the meeting of Moray Council on 10 August 2022 the Council approved a hierarchical approach to the budget process, which prioritised income generation above service reduction (paragraph 16 of the Minute refers). The proposed increase in Council Tax reflects the agreed hierarchy and a balance between affordability and income generation in order to preserve services as far as possible.
- 3.5 Regular reports on the financial planning process have been made throughout the year. The latest report was considered by the Council on 7 December 2022 (paragraph 14 of the Minute refers) prior to financial circular 11/2022 (containing provisional grant details) being published on 20 December 2022. Since that report a review of the opening position and of budget pressures has been carried out in the light of quarter 3 monitoring and the capital plan has been reviewed and the impact on revenue adjusted accordingly. Further savings are recommended.

### **Reserves**

- 3.6 For a number of years the Council relied on the use of free general reserves – and latterly ear-marked reserves - to balance the budget. The Council had 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. In that year, 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 still overcommitted. That overcommitment was carried forward into 2022/23, with planned use of financial flexibilities of £3.1 million and use of reserves of £9.1 million to balance the budget. After the budget was set the flexibility to use capital receipts to fund covid-related expenditure was withdrawn, as it was contingent on permission from UK Government and that permission was not granted. The underlying overspend in 2022/23 has again been carried forward into 2023/24 and proposed savings for 2023/24 still leave a significant underlying overspend. Eradicating this underlying overspend for 2024/25 is a very challenging target. Actual use of reserves in 2022/23 will be sheltered by a loans pool holiday and a further one-off saving if the earlier report on the agenda for this meeting recommending amending the Council's accounting practices for service

concession contracts is approved. That saving has not been assumed in the estimated actual below.

	Budgeted use of 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%	(5.838)	
2022/23	13.881	5.4%	2.861	1.2%
2023/24	15.423	5.9%		

- 3.7 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% 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. Allocation of reserves to facilitate transformation of services and Council priorities is good practice and sets out clearly the available funding which the Council has to invest in these areas. The current balance on free general reserves is £5,000,000.
- 3.8 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. This is a temporary reserve, enabling the Council to manage its finances through a time when recovery from the pandemic was a greater focus than reform of service delivery. This reserve stood at £22,259,000 at 31 March 2022 and a balance of £19,398,000 is projected for 31 March 2023. This ear-marked reserve is seen as a short-life reserve and appropriate to be used to fill the budget gap to facilitate development of plans to do so sustainably.
- 3.9 The balances projected for 31 March 2023 for all ear-marked reserves are set out in **APPENDIX 1** to this report. Use of the ear-marked reserve for transformation to fund the second stage of the Investment and Modernisation Programme was approved by Council on 12 May 2021 (paragraph 13 of the Minute refers) with projects costed at £5,061,000 being approved. Progress against these has been reported to committees. A balance of £3,536,000 for this reserve is projected for 31 March 2023, with further approved spend anticipated to reduce the balance to £1,914,000 by 31 March 2024. With the end of the derogation to use capital receipts to fund expenditure to facilitate efficiency savings this remains a modest balance which the Council has set

aside against the need to generate saving of £20 million within the next three years,.

- 3.10 As yet there are no commitments against the ear-marked reserves for Council priorities, although a further report to this committee recommends setting aside £250,000 as a revolving fund to facilitate provision of rural housing. The reserves currently stands at £5,881,000. There are many competing Council priorities. One largely unbudgeted priority is Climate Change. This reserve could also be used to support generation of efficiencies through service transformation and may be required to support Moray Growth Deal (see paragraph 3.11).
- 3.11 As yet there has been no call on the £4,000,000 ear-marked to support loans charges for borrowing for Moray Growth Deal in advance of grant payment. Monies will start to be drawn down in 2023/24. The likely cost of loans charges was estimated prior to recent increases in interest rates and this reserve may be exhausted prior to sufficient grant being received to cover costs. If this is the case the ear-marked reserves for Council priorities could be called upon to meet the additional cost.
- 3.12 If the service concession amendment is approved as recommended there will also be an ear-marked reserve of £11.2 million set aside to pay loans charges on new / refurbished schools). Major expenditure on the Learning Estate features in the later years of the capital plan, outwith the timeframe of the short to medium term financial plan. If expenditure on schools is to be accelerated – if Learning Estate Improvement Programme (LEIP) funding is awarded for example – then additional cost of borrowing currently unbudgeted for would arise in early course. The conditions of LEIP funding result in increased costs from those originally estimated and recent increases in construction costs are also not catered for in the estimates included in the indicative capital plan. It is prudent to take advantage of the opportunity offered by the retrospective service concession to ear-mark this sum.

#### **4. REVENUE BUDGET**

- 4.1 The draft revenue budget for 2023/24 to 2025/26 is set out in **APPENDIX 1** to this report.
- 4.2 The starting point for the 2023/24 budget is the budget for 2022/23. 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 2022/23 only. The picture is complicated by commitment of ear-marked reserves, by funding for schools where funding is made on a financial year basis but implemented on an academic year basis and by slippage in the implementation of some new requirements. The resultant starting point for the 2023/24 budget is expenditure of £220,333,000. A summary of the adjustments to the 2022/23 budget is set out below:

	£000s
Budget reported to Council 07/12/2022 (Q2 budget monitoring)	253,079
Less funded from DSM etc	(2,378)
Redeterminations announced later	5,740
Other additional funding	105
Other savings agreed	(299)
Loans pool holiday	(7,583)
Budget to be carried forward	248,664
Adjustments to c/f budget:	
Reinstate one-off savings	8,721
Deduct one-off expenditure	(4,957)
Deduct budget pressures brought forward	(1,772)
Remove budget pressure for 1.25% increase in National Insurance	(700)
Reduce budget pressure for leisure income post-pandemic	(200)
Deduct new burdens funded by redetermination of General Revenue Grant	(4,494)
Add estimate of impact of teachers pay award (based on latest offer)	1,480
	246,742

### **Provision for pay and prices**

- 4.3 Provision of £3,293,000 is made within the budget for pay awards and for some other inflationary increases in expenditure at the UK Treasury target for inflation of 2%. No provision has been made for pay awards for health and social care services delivered under direction from MIJB, as Scottish Government are requiring that local authority contributions to Integration Joint Boards must be at least the current recurring funding plus additional monies passed through, principally to fund the increase in the Living Wage. MIJB therefore has a measure of protection for inflation which other parts of the Council budget do not have.
- 4.4 Inflation is currently running above the UK Treasury target of 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. An element of mitigation is provided by a general inflation pot, but this is intended to cover all additional inflationary pressures and not just pay.
- 4.5 Other standard inflationary increases included are for PPP/PFI contracts, fostering fees and allowances, ELC partner providers, school and other transport contracts, Grampian Valuation Joint Board requisition and increase in landfill tax rates. A separate inflation pot in addition to the standard 2% provision has been created within budget pressures in recognition that the normal planning assumptions for inflation do not hold good at the present time. The pot totals £5,000,000 and is included in budget pressures (see paragraph 4.13).

### **Financing costs**

- 4.6 The Capital Plan is discussed in section 6 of this report. The estimated impact of planned capital expenditure in 2023/24 is included in the draft revenue budget, an increase in spend of £2,000,000. Interest rates have been increasing and in response to inflationary pressure the Bank of England again increased its base rate on 1 February 2023. 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. The budget of £2,257,000 comprises £1,204,000 for loss of income and additional expenditure anticipated to be incurred by the extension of free school meals for primary 4 and 5, £545,000 for the Whole Family Well-Being Fund and £508,000 relating to the devolution of Non Domestic Rate relief on empty properties.

### **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 £9,578,000 for 2023/24. Indicative amounts are also shown for 2024/25 and 2025/26 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 Budget pressures in 2023/24 approved when the budget for 2022/23 was approved are: £700,000 for projected rising school roll numbers and Development Plan transport appraisals £100,000 (adjusted for timing difference). Expenditure approved by committee for the revised Improvement and Modernisation Programme is also included in this section, adjusted for timing differences since the budget for 2022/23 was approved to £1,302,000.
- 4.10 Budget pressures approved since the budget was set: reduction in brown bin charges £34,000 and increase in sustainable rate for early learning and Childcare partner providers £395,000.
- 4.11 Budget pressures approved for 2022/23 but where there has been slippage in implementation are recommended to be included in the budget for 2023/24. Scottish Government gave recurring funding in the 2022/23 settlement for the employment of additional teachers - this funding is planned to be spent on an academic year basis and therefore slippage against the first full financial year of funding occurred - £285,000. On the same basis there is an element of slippage on the expansion of universal free school meals - £373,000. Delay in setting up pop-up shops has caused slippage in business start-up grants - £53,000. Delays in developing the Bilbohall site for social housing require the

budget pressure of £120,000 for site clearance to be brought forward into 2024/25 – the pressure relates to an estimate for additional loans charges which under the current methodology for calculating loans charges are not incurred until the financial year following the work. The balance of the budget pressures for the Devolved School Management scheme / class contact time review, additional Trades Union hours, Moray Growth Deal Early Years STEM, and Bus Revolution Revenue require to be drawn down to cover the full year effect of these pressures: £18,000, £11,000, £3,000 and £20,000 respectively. A total of £763,000 budget pressures are brought forward.

- 4.12 New budget pressures for 2023/24 arise as follows. The Council's liability for Non Domestic Rates has risen by £400,000 following the revaluation of NDR which takes effect from 1 April 2023. Scottish Government have announced that any reduction in NDR liability following appeal by local authorities will be matched by a reduction in that local authority's funding from Scottish Government. Consequently this becomes an unavoidable budget pressure. The specific grant for Early Learning and Childcare is in transition to being formula driven and as part of this process has been reduced by £190,000, resulting in an increased budget pressure for this service which is experiencing increased demand. The library service has budgeted income of £26,000 from the Passport Office but the checking service is no longer funded and has accordingly stopped. The DWP have reduced the grant for Housing Benefit administration by £7,000. In common with other areas in Scotland the Council is seeing an increased number of people presenting as homeless and the consequent costs of temporary accommodation are over budget by £200,000 – this is expected to continue. Increased volume of leachate is being disposed of at an increased cost of £77,000. The dredger requires a mid-term loadline survey, at a one-off cost of £30,000. There is additional demand for ASN school transport at a cost of £66,000. Council vehicles can no longer use red diesel and the cost of fuel for the Waste Management service has risen with the move to white diesel - £127,000. The cost to the Council of the Scottish Government deposit return scheme planned to launch in August 2023 is currently estimated at £30,000. Further details of the scheme are awaited. New budget pressures total £1,173,000.
- 4.13 The impact of inflation in recent months has been widely publicised. An inflation pot of £5,000,000 is recommended and is included in the draft budget as set out in paras 4.3-4.5 above.

#### **Service Developments**

- 4.14 Two service developments approved when the budget for 2022/23 was set have slipped; school real time data, where the plan had been to recruit a member of staff to carry out this work – as this was unsuccessful the service is exploring alternative methods - £63,000; youth work in Buckie and Forres – this has recently commenced - £120,000. £430,000 was approved to support the Levelling Up Fund (LUF) bid and it is recommended that the balance of £221,000 is carried forward into 2023/24 to support a bid to the third round of LUF. A further service development is proposed for 2023/24 – a one-year additional programme of road patching: £300,000 in light of the impact of the poor winter conditions recently experienced on the network.



- 4.15 With these additions the total budgeted revenue expenditure for 2023/24 before savings is £264,574,000.

### **Funding**

- 4.16 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 current iteration of finance circular 11/2022 includes funding of £190,941,000. Scottish Government have confirmed that this does not include funding for the teachers' pay award for 2021/22 which is recurring funding and that this will be rectified when the final finance circular is issued following approval of the Local Government Finance (Scotland) Order 2023. An estimate of £585,000 is included in the draft budget, along with the funding towards SJC pay award for 2022/23 which is being distributed as capital grant in 2022/23 and 2023/24. This brings the total estimated revenue grant funding to £193,416,000, of which £2,257,000 relates to new burdens, as described in paragraph 4.7 above.
- 4.22 A Council Tax increase of 3% had been used as a planning assumption in the financial planning process leading to this budget. The draft budget includes as a recommended increase of 5%, as a contribution towards the funding gap. The latest measures of inflation, at January 2023, are 8.8% for the Consumer Price Index including owner occupiers' housing costs (this is the UK Government standard measure of inflation), Consumer Price Index 10.1% and Retail Price Index (no longer an official statistic but still reported) 13.4%, and so the proposed increase is lower than current measures of inflation. It is estimated that this will generate income of £49,574,000 for the Council, an increase of £942,000 from the assumed 3%.
- 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.

	<b>Council Tax 2022/23</b>	<b>Council Tax proposed 2023/24</b>
Band A	£908.37	£953.79
Band B	£1,059.77	£1,112.76
Band C	£1,211.16	£1,271.72
Band D	£1,362.56	£1,430.69
Band E	£1,790.25	£1,879.77
Band F	£2,214.16	£2,324.87
Band G	£2,668.35	£2,801.76
Band H	£3,338.27	£3,505.19

4.24 Moray's Band D Council Tax for 2022/23 sits just above the Scottish average of £1,347. Comparisons with other councils are set out in the table below.

### COUNCIL TAX BY BAND 2022-23

Scotland Average Band D Council Tax (based on total Band D Equivalents)		£1,347
	Band D	%age of Scottish average
Shetland Islands	£1,206.33	90%
Na h-Eileanan Siar	£1,229.29	91%
South Lanarkshire	£1,233.00	92%
Angus	£1,242.14	92%
Orkney Islands	£1,244.73	92%
North Lanarkshire	£1,257.89	93%
Dumfries & Galloway	£1,259.30	93%
Falkirk	£1,274.60	95%
Scottish Borders	£1,291.53	96%
West Lothian	£1,314.71	98%
Fife	£1,319.22	98%
West Dunbartonshire	£1,332.36	99%
East Renfrewshire	£1,335.11	99%
Aberdeenshire	£1,339.83	99%
East Lothian	£1,341.69	100%
Clackmannanshire	£1,343.77	100%
East Dunbartonshire	£1,348.25	100%
Perth & Kinross	£1,351.00	100%
Renfrewshire	£1,354.88	101%
Inverclyde	£1,357.81	101%
Moray	£1,362.56	101%
Highland	£1,372.29	102%
City of Edinburgh	£1,378.75	102%
North Ayrshire	£1,382.97	103%
South Ayrshire	£1,383.96	103%
Stirling	£1,384.58	103%
Argyll & Bute	£1,408.76	105%
East Ayrshire	£1,416.61	105%
Aberdeen City	£1,418.62	105%
Dundee City	£1,419.03	105%
Glasgow City	£1,428.00	106%
Midlothian	£1,442.60	107%

Excludes Water and Sewerage

**Source:** As reported by the Local Authorities on the statistical return Council Tax Assumptions 2022

- 4.25 The resultant budgeted income to the Council for 2023/24 leaves a shortfall of income compared to expenditure of £21,604,000, which requires to be found from savings or the use of financial flexibilities, which failing from reserves.

## **5. SAVINGS**

- 5.1 Savings totalling £2,300,000 have been approved to date and these are listed on **APPENDIX 3**. Indicative savings of £488,000 from the Improvement and Modernisation Programme are also included.
- 5.2 Further savings for 2023/24 totalling £1,677,000 are presented to Council today. These are listed on **APPENDIX 3** and discussed below.
- 5.3 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 average pay award for 2022/23 to non-teaching staff - £225,000.
- 5.6 The accounting treatment of service concession contracts is the subject of another report to this meeting of Council. If approved annual savings of £1,168,000 will be generated.
- 5.7 Four further savings are proposed at this juncture. The Council provides support to Area Forums by way of support from the Community Support Unit and also financial support. It is proposed that the financial element of support is withdrawn, at a saving of £4,000. It is proposed that charges for temporary accommodation for people who present as homeless are increased to reflect the absence of any increases since 2015, offsetting a budget pressure of £220,000 with estimated income of £230,000— full detail of this is included in section 9 the HRA budget setting report to this meeting of Council. It is anticipated that the increased charges will usually be met from Housing Benefit. A new duty for the Council is to prepare a Local Housing Energy Efficiency Strategy (LHEES). The General Revenue Grant has been increased by £75,000 to facilitate this. It had been planned to employ a temporary member of staff for 3 years to prepare the LHEES but this component (£50,000 over each of 3 years) is now offered as a saving with the additional work to be absorbed by the Climate Change team. The final savings proposed is the Employee Assistance Programme. This was agreed as a saving when the budget was set in 2020 and the budget of £15,000 removed. It has continued to be funded through covid monies. It is now proposed again as a permanent saving in line with the pre covid decision.
- 5.8 That reduces the funding shortfall to £17,139,000. £1,613,000 was approved to be spent from ear-marked reserves for transformation and £759,000 relates to loans charges to be met from the ear-marked reserves for MGD cash flow management. This leaves a balance of £14,767,000 as the true funding gap.
- 5.9 It is proposed that the gap is filled by using funds held in the covid reserve, in accordance with the purpose of this reserve (see paragraph 3.7).

- 5.10 Officers are currently investigating a range of further potential savings at the request of the Administration Group. Meanwhile, officers will also continue with consideration of identification of other potential savings including transformation proposals. Further reports will be made 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 2 February 2023. 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 The indicative ten year capital plan prepared in 2022 has been reviewed in the light of increasing costs and any change in requirements and is included as **APPENDIX 4** to this report. Expenditure of £590.1 million is proposed for 2023/24, with total expenditure over the 10 year period of £501.1 million. Expenditure under the draft plan and sources of funding are summarised below:

	Driver	2023/24 £m	2023/24 %age	10 year £m	10 year %age
1	Local Development Plan and Economic Development	30.5	52%	101.6	20%
2	Asset Management Planning	24.5	42%	381.8	77%
3	Expenditure arising from Legislative Requirements	0.9	1%	10.5	2%
4	Improvement and Modernisation Programme/efficiencies	0.8	1%	0.9	-
5	Funded Government Priorities	0.2	-	0.2	-
6	Other developments to meet Council Priorities	2.2	4%	5.1	1%
7	Responsive Expenditure	0.1	-	1.0	

	Driver	2023/24 £m	2023/24 %age	10 year £m	10 year %age
	TOTAL	59.1	100%	501.1	100%
	<b>Funding</b>	<b>£m</b>	<b>%age</b>		
	Grant Funding	18.1	31%	141.5	29%
	Developer Obligations	0.1	-	5.6	1%
	Prudential Borrowing	40.8	69%	352.5	70%
	Capital receipts	0.2	-	1.5	-
	TOTAL	59.1	100%	501.1	100%

- 6.4 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 2023/24 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 following the next review of the Climate Change Routemap, 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 £14.2m, with £810,000 proposed for 2023/24. The programme of work is reviewed annually and detailed proposals will be presented to Economic Development and Infrastructure Services Committee in April.

### **Corporate**

- 7.3 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 currently 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, with a budget of £5,563,000 in 2023/24 reflecting slippage in spend arising from delayed delivery times during the pandemic. As the Council's Zero Emission Fleet Strategy is developed the vehicle replacement programme will be modified and the issues and current approach taken were reported to Economic

Development and Infrastructure Services Committee on 7 February 2023 (paragraph x of the Minute refers). A sum of £1,475,000 is provisionally included in 2023/24 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 carried forward from 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 and audio visual equipment replacement and facility management equipment are included. These total £32,000. A budget of £40,000 is included each year for work arising from legionella and fire safety inspections. There is an annual budget of £15,000 for minor energy efficiency projects.

### **Early Learning and Childcare**

- 7.4 The original plans for implementing the extension from 600 to 1140 hours of funded ELC included refurbishment of Aberlour ELC accommodation. This was put on hold but is included in 2023/24 capital plan at £0.9 million. More stringent requirements from the Care Commission have resulted in additional work at a number of settings following Care Commission inspections and a sum of £0.49 million is included to cover those works. Slippage of £0.117 million is carried forward from 2022/23.

### **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 £26.7 million in 2023/24, with government grant of £9.5 million 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.

### **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 2023/24 is for residual expenditure on the Elgin flood alleviation scheme.

### **Harbours**

- 7.7 The main expenditure on harbours is a programme founded on asset management principles and based on condition information. Provision of £283,000 is included in 2023/24 for upgrade and replacement of life-expired elements across all the Council's harbours. An additional allocation of £285,000 for additional dredging at Buckie harbour to deepen the harbour entrance is included for 2023/24 only. This is to facilitate the usage of the harbour by the windfarm operator.

### **ICT**

- 7.8 A sum of £611,000 has been included in the capital plan for 2023/24, reduced by an allowance of £200,000 for slippage, based on previous years patterns of

spend. Spending proposals will be developed and brought forward as the requirements of smarter working and schools requirements are established.

### **Industrial Portfolio**

- 7.9 This budget is for development of the industrial portfolio, in support of economic development in Moray. The details of planned expenditure are to be reviewed by the service, with a view to deferring expenditure planned for 2023/24 for three years as far as possible. A target of a minimum of £2 million slippage is included in the capital plan for 2023/24. Typically developments are run at a net cost to the Council for 10 years so deferral in the current climate makes financial sense and also reflects the difficulties experienced in advancing some of the planned developments in 2022/23.

### **Libraries and Leisure**

- 7.10 A sum of £139,000 is included for immediate works on libraries as identified by the recent conditions survey. Detailed plans will be reported to ECLS Committee before commencing. The use of this budget in future years will be planned following conclusion of the review of the leisure estate.

### **Parks and Open Spaces**

- 7.11 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 2023/24 (£2,160,000) is for additional cemetery provision in Elgin. There is also budget allocation for £50,000 for cemetery infrastructure in other areas. 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).

### **Roads**

- 7.12 The draft capital plan for 2023/24 includes £4,350,000 for resurfacing, reconstruction, surface dressing, drainage, footways and kerb replacement, with a reduction of £400,000 to reflect the level of slippage seen in recent years. A further £840,000 is included for improvements to minor roads affected by timber traffic. This sum will be used as match-funding to leverage in external funding.

### **Road Safety**

- 7.13 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. £366,000 is included in 2023/24, with budget deferred from 2022/23 included.

### **Street Lighting**

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

### **Traffic**

- 7.15 This budget is an allocation of £23,000 for the replacement of life-expired traffic signals and traffic data collection equipment

### **Waste Management**

- 7.16 This budget consists of £350,000 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. 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 £18,000 for gull-proof bins.

### **Learning Estate Strategy**

- 7.17 A total of £157 million is included in the indicative 10 year plan for new build / refurbishment of schools. The current plan for 2023/24 includes budget of £654,000. Planned expenditure may have to be reprofiled, depending on the results of the Council's application for LEIP funding for Forres Academy and Buckie High School.

### **Schools BB, Building Element replacement and Other Minor Works**

- 7.18 Provision of £3 million is made in 2023/24 building element replacements and a further £1 million included for design work preparatory to transitioning from building element replacement – essentially responding to failed elements, usually heating systems - towards bringing schools up to B for both condition and suitability, which will be a rolling programme of works from 2024/25 onwards. 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**

- 7.19 The draft capital plan for 2023/24 includes £300,000 for rejuvenation of existing astro-turf pitches, as part of a rolling programme of asset management of pitches. The £700,000 allocation for construction of an astro-turf pitch in Forres originally included in 2022/23 and deferred into 2023/24 is proposed to be further deferred pending the outcome of the application for Learning Estate Investment Programme (LEIP) funding for Forres Academy.

## **8. BUDGET RISKS**

- 8.1 The following areas are considered to represent high risk areas for the Council's budget in 2023/24 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
- The condition of the Learning Estate

- 8.2 Mitigations to these risks are:



- The inflation pot provision
- Ear-marking the service concession retrospection (if approved)

## 9. **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 which has never been removed but rolled forward, pressures from inflation and service requirements in 2023/24 and reduced core government funding.

Savings have been identified and the financial flexibilities allowed by Scottish Government assist in covering costs. However, a significant funding gap remains and it is proposed to fill this by use of ear-marked covid reserves in 2023/24

A continued and heightened budget gap is forecast for 2024/25. Early action to tackle this projected funding gap 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 2023/24 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 such pressure if possible and may have to reduce service levels or identify further savings. The rate of inflation is rising and forecast to rise further. The provision for inflation may not cover all calls upon it

- A particular risk relates to construction inflation and this has already significantly impacted on the capital plan but could have further impact
- 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.
- 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 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 2022/23 by using reserves. There is an underlying overspend which is forecast to increase during 2023/24 and MIJB are seeking to identify savings to cover this. There is no guarantee that there will not be an actual overspend in 2023/24 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 indirectly from some budget pressures in this report. The increase in school rolls will be recognised through the DSM scheme which could result in recruitment of staff and extension of universal free school meals may also entail staffing increases.

**(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.

One of the proposed savings requires an EIA and this is included as **APPENDIX 5** to this report.

### **Socio-Economic Impact**

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

**(h) Climate Change and Biodiversity Impacts**

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

**(i) 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 2023/24 requires use of financial flexibilities and use of ear-marked reserves to balance.**

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

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