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**REPORT TO: SPECIAL MORAY COUNCIL ON 3 MARCH 2021**

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

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

**1. REASON FOR REPORT**

- 1.1 To ask Council to set the level of Council Tax for 2021/22, to agree the Council's revenue and capital budgets for 2021/22 and to consider the Council's Financial Plan for 2021 to 2024.
- 1.2 This report is submitted to the Council in terms of the council's Administrative Scheme section (II) (1) relating to setting the Council Tax and section (II) (24) and (25) relating to the approval of the annual estimates of revenue and capital expenditure for all services.

**2. RECOMMENDATION**

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

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

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

- (i) The conditions placed on the Council in terms of the settlement letter from the Cabinet Secretary for Finance;
- (ii) That the budget is based on the Local Government Settlement issued by the Scottish Government on 28 January 2021 and that the Council's budget will be amended to reflect any changes made by the Scottish Parliament when the Scottish budget is approved;
- (iii) Savings previously approved totalling £389,000 for 2021/22 and £191,000 for 2022/23 as listed in APPENDIX 3;
- (iv) One-off savings of £143,000 projected for 2021/22 and £24,000 for 2022/23;
- (v) Additional funding received for loss of income bringing the projected free general reserves at 31 March 2021 to £15.8 million; and
- (vi) Projected savings requirements of £4 million in 2022/23 and £4.2million in 2023/34.

**3. BACKGROUND**

- 3.1 The Council's revenue and capital budgets for 2021/22 fall due to be considered in an environment of considerable uncertainty about the state of the economy, following the covid-19 pandemic and Brexit, the impact of neither of which can yet clearly be assessed; at a time when the pay award for local government staff is unknown; before the Scottish Government budget is passed, and before the UK budget is announced.
- 3.2 The Council receives around 80% of its revenue funding from Scottish Government. Over the last ten years, this grant funding has increased marginally in cash terms, and by considerably less than the cost of new duties required of local authorities. Inflation increases for pay and prices and growth in demand for services in some areas have therefore had to be balanced by efficiency savings and cuts in services. The Council has made savings totalling £55 million since 2010/11. The Local Government settlement is for one year only but the Council is setting its 2021/22 budget in the context of longer term planning. The Council's updated Medium to Long Term Financial Strategy forms another item on the agenda of this Council meeting.

- 3.3 Income from Council Tax receipts is the other main source of income for the Council. The normal process of debt management of outstanding Council Tax was paused during the recent pandemic. Currently the collection rate for receipts is 1.6% below the comparable period in 2020. The number of householders qualifying for Council Tax Reduction has risen. Both those factors have been adjusted for when preparing the budget but this is an area where the full impact of the pandemic is difficult to forecast with any degree of confidence.
- 3.4 Regular reports on the impact of the pandemic on the Council's finances have been made throughout the year, in addition to more general reports on the financial planning process. The most recent report on the financial planning process was considered by the Council on 20 January 2021 (paragraph x of the Minute refers) and this indicated that the use of financial flexibilities given by Scottish Government to enable local authorities to manage the costs of the pandemic were likely to be recommended as part of the budget report for 2021/22.
- 3.5 For a number of years the Council has relied on the use of free general reserves to balance the budget. The Council has been steadily reducing its reliance on reserves but still budgeted to use £2.3 million to balance the 2020/21 budget. The base expenditure budget is therefore overcommitted and the Council requires to reduce expenditure to remove this overcommitment.

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

- 3.6 The Council needs to retain a certain amount of free reserves in case of unforeseen contingencies or emergencies. The Council's reserves policy as approved by Council on 31 October 2018 (paragraph 5 of the minute refers) is to hold £5 million as free reserves. This equates to around 2.5% of budgeted revenue expenditure on General Services. The Council had free general reserves of £15.349 million at 31 March 2020. Projections, as reported to Economic Development, Housing and Environmental Sustainability Committee on 16 February 2021, were that £2.114 million would be used to meet expenditure in 2020/21. Since then the Council has been notified of additional funding of £2.8 million for loss of income. The updated projected balance on free reserves at 31 March 2021 is £15.818 million.
- 3.7 Despite the considerable uncertainties regarding key elements of the budget at this late stage the level of free general reserves projected to be available as at 31 March 2021 gives assurance that the Council should be able to cope with considerable variance from budget assumptions without breaching its reserves policy.

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

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

- 4.1 The draft revenue budget for 2021/22 to 2023/24 is set out in **APPENDIX 1** to this report.
- 4.2 The starting point for the 2021/22 budget is the budget allocated to departments and loans charges for 2020/21. The brought forward Devolved School Management balance and other funding from ear-marked reserves is removed and budgets adjusted to reflect the reinstatement of temporary savings and the full year effects of budget adjustments made for part of 2020/21 only. The resultant starting point for the 2021/22 budget is expenditure of £209,509,000.
- 4.3 Provision for pay and prices  
Provision of £3,470,000 is made within the budget for pay awards and some other inflationary increases in expenditure. No provision has been made for pay awards for health and social care services delivered under direction from MIJB, as additional funding of £1,383,000 for health and social care services must be passed through from the Council to MIJB, under the terms of the settlement letter. Part of this funding is related to increase in the Real Living Wage and will be required to fund uplift in contract prices from social care providers. The bulk of the funding however comes with no conditions or additional duties associated with it. Consequently it is proposed that the Council does not increase its budget for social care by what had been estimated for pay awards, with the additional funding for social care services covering this.
- 4.3.1 The pay award for staff on SJC conditions 2021/22 is currently the subject of negotiation. The bid from the Joint SJC Trades Unions is for a flat rate increase of £2,000 or 6% of salary, whichever is the greater. The proposed budget allows for a flat rate 2% increase. There is clear disparity here and the amount allowed for pay award is one of the high risk areas of the proposed budget. The amount included for pay inflation is £2,500,000.
- 4.3.2 Other inflationary increases included are for PPP/PFI contracts, the Grampian Valuation Joint Board requisition, fostering fees and allowances, school and other transport contracts, National Care Home Contract, electricity and gas price increases and increase in landfill tax rates.
- 4.4 Financing costs  
The Capital Plan is discussed in section 6 of this report. The full year effect of borrowing in 2020/21 and the estimated impact of planned capital expenditure in 2021/22 are included in the draft revenue budget. This results in a projected decrease of £1,500,000 in 2021/22, reflecting the low cost of borrowing noted when estimated actuals were reported to Economic Growth, Housing and Environmental Sustainability Committee on 1 December 2020 (paragraph x of the Minute refers).

#### 4.5 New burdens

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

#### 4.6 Budget pressures

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

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

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

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

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

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

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

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

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

#### 4.8 Funding

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

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

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

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

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

#### COUNCIL TAX BY BAND 2020-21

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

Excludes Water and Sewerage

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

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



## 5. **SAVINGS**

- 5.1 When the budget for 2020/21 was set a range of savings proposals were approved, some of which would not be fully achieved or not achieved at all until 2021/22. Further savings were approved on 2 September 2020, when the unaudited accounts were reviewed, on 16 December 2020 and on 18 February 2021, when the annual review of charges for services was approved. All previously approved savings are listed in **APPENDIX 3**. Where the timing of savings has been delayed due to the pandemic or other factors savings have been adjusted accordingly.
- 5.2 Further savings for 2021/22 totalling £801,000 are presented to Council today. These are listed on **APPENDIX 3** and discussed below.
- 5.3 The financial planning report to Council on 20 January 2021 included an estimate of permanent savings to Children's Services. These derive from reductions in spend on Out of Area and Additional Resource Packages, fostering fees (with an increase in kinship carers), foster home to school travel, two contracts which have come to an end, external adoption placements and staff travel associated with out of area placements. These total £957,000. Against this is set an overspend on throughcare / aftercare grants of £55,000, giving a net saving of £902,000. It is proposed that £744,000 of this is taken as recurring savings and £158,000 held to fund three new posts: Public Protection Lead (Grade 11 – cost £68,000), Policy Assurance / Policy (Grade 10 – cost £60,000) and admin (Grade 5 – cost £30,000), to support the ongoing quality and efficiency programme in the service. A proposal for the posts will be presented to the Education, Communities and OD Committee for approval. While the work to consider potential delegation of the service to Moray Integration Joint Board has started, it has been considerably slowed due to the response required to the current pandemic and the interim Head of Service post must therefore continue to ensure the leadership of the service until any other configuration can be considered. The MIJB Chief Officer proposes to cover the cost pressure which is the differential in the budget for the post through non-recurrent savings generated during the year. The governance for this post was approved by Council on 16 December 2020 (paragraph 10 of the Minute refers).
- 5.4 It is also proposed that the target income budget for garden waste permits is increased by £57,000 to more nearly reflect the actual income generated in 2020/21.
- 5.5 Temporary savings of £143,000 for 2020/21 are anticipated, from one-off income streams. A refund of requisition from Grampian Valuation Joint Board of £80,000 is anticipated and an estimate of £43,000 from repayment of Business Loan Scotland loans as reported to Policy and Resources Committee on 29 October 2019 (item 9 of the Minute refers). Citizen's Advice Bureau (CAB) contacted the Council to offer a one-year reduction in the grant support received by the Council and that reduction is included in temporary savings.
- 5.6 If these additional savings are approved there is a funding gap of £1,166,000 for 2021/22. Additional costs of £1,025,000 arise within the budget because of continued costs of dealing with covid-19 issues, and increased Council Tax Reduction of £330,000. Scottish Government has given council financial

flexibilities to deal with costs of covid-19, to be used as one-off measures in either 2020/21 or 2021/22. It is proposed that the Council exercise financial flexibilities in 2021/22. There are two financial flexibilities which could be used: use of capital receipts to fund covid-19 revenue costs or taking a loans principal repayment holiday to the extent of covid-19 costs incurred. A modelling exercise will be carried out to establish which of the two is most likely to be advantageous. As the Council has previously agreed to use capital receipts to fund transformation of service delivery where this is anticipated to deliver savings this maximises possible use of capital receipts – at present it seems unlikely that all capital receipts will be required to fund transformation proposals.

## **6. CAPITAL BUDGET**

- 6.1 The latest version of the Council's Capital Strategy was approved by Council on 18 February 2021. The Strategy identifies the Council's capital investment objectives as ensuring an adequate suite of assets to deliver the Council's services, in accordance with the Council's policies, strategies and plans, and priorities, legislative duties and other requirements and identifies as a key consideration when developing the Capital Plan the requirements to provide new infrastructure and facilities to accommodate planned local developments, along with expenditure arising from Asset Management Plans (AMPs).
- 6.2 Accordingly, the Capital Plan is framed by the following drivers for expenditure:
- Local Development Plan and other Council plans (specifically for Economic Development)
  - Asset Management Planning
  - Expenditure arising from Legislative Requirements
  - Improvement and Modernisation Programme/efficiencies
  - Funded Government Priorities
  - Other Developments to meet Council Priorities
  - Responsive Expenditure

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

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

- 6.4 The Council's borrowing must comply with the Prudential Code, which requires borrowing to be affordable and sustainable. As identified in a report to Council on 30 March 2016 (paragraph 7 of the minute refers) the Council's overall financial position is not sustainable in the long term and the capital plan for future years requires to be reduced. As the bulk of the indicative capital plan is based on Asset Management requirements, to achieve a reduction in capital expenditure the Council must reduce its asset base, and this issue was last reported in the Property Asset Management Appraisal (PAMA) update approved by Council on 29 October 2019 (paragraph 13 of the minute refers).
- 6.5 As well as the work currently being carried out under the PAMA, there are other significant pieces of work which will shape the development of the Council's ten year capital plan, in particular the Learning Estate Review, Leisure Review and Climate Change Strategy and Action Plan. Accordingly the detail of the plan for future years is not well developed at this stage across all headings.
- 6.6 The Council's Financial Regulations envisage the detail of capital works being approved by service committees at the start of the financial year, and that process is well established. Accordingly, the Capital Plan is presented in outline

format, with detail to be brought forward to service committees and in line with other major projects which will impact on the capital plan.

- 6.7 Based on indicative high level work about the likely amount of spend the draft plan shows considerable growth in years six to ten of the indicative ten year capital plan. This shows the value of scoping out work at a high level for the medium term, as this gives the Council good prior warning that there is an increasing need to review its asset base and service delivery arrangements in order to respond to this forecast increase in demand, or – and particularly in the case of the Learning Estate – to attempt to source funding for the level of work which has been identified as required.
- 6.8 Provision has been made in the later years of the ten year plan for funding for school re-build or refurbishment. Plans will be developed following approval of a Learning Estate Strategy to guide that process. In the meantime, no provision has been made for Scottish Government Grant Funding, which under current arrangements would take the form of revenue support.

## **7. 10 YEAR CAPITAL PLAN**

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

### **7.2 Bridges**

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

### **7.3 Car Parks**

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

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

#### **7.4 Corporate**

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

#### **7.5 Economic Development**

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

#### **7.6 Flood Risk Management and Coastal Protection**

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

#### **7.7 Harbours**

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

cost than the indicative budget previously included in the capital plan for 2020/21.

#### **7.8 ICT**

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

#### **7.9 Industrial Portfolio**

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

#### **7.10 Libraries and Leisure**

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

### **7.11 Parks and Open Spaces**

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

### **7.12 Roads**

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

### **7.13 Road Safety**

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

### **7.14 Street Lighting**

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

### **7.15 Traffic**

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

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

#### **7.16 Waste Management**

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

#### **7.17 Schools New Builds**

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

#### **7.18 Schools BB and Other Minor Works**

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



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

**7.19 Astro-turf pitches**

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

**8. FUTURE YEARS**

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

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

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

**9. ADDITIONAL FUNDING AND USE OF RESERVES**

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

9.2 The late funding announcements are:

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

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

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

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

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

- 9.5 When estimated actuals were developed it was assumed these funding streams – which were known earlier in the year – would be used in full. Therefore approval of this spend in 2021/22 would have no impact on current projections of the level of reserves.
- 9.6 As noted in paragraph 3.6 the Council has also been notified of additional funding to compensate for loss of income during the pandemic. This funding was calculated using information regarding income lost by both the Council and Moray Leisure Ltd. £146,000 of the additional £2.8 million funding relates to Moray Leisure Centre and it is recommended that £146,000 is remitted to Moray Leisure Ltd.
- 9.7 Under the Devolved School Management (DSM) scheme, underspends on DSM in any one financial year are held in an ear-marked reserve and released to the schools in question in the following financial year. The scheme places a cap on the amount which can be carried forward and the current cap is 2.5% of each school's DSM budget. Due to pandemic restrictions planned works in a number of schools were unable to be carried out and thus they have DSM balances which are above 2.5%. In recognition that this is due to circumstances outwith the school's control it is recommended that cap is removed for this year only to enable the planned works to be carried out in 2021/22 without financial detriment to the schools.

## 10. **SUMMARY OF IMPLICATIONS**

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

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

### **(b) Policy and Legal**

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

The Local Government (Scotland) Act 2003 (section 35) places a duty on local authorities to manage their capital expenditure. It also provides for Scottish Government to issue regulations for the governance of capital

expenditure. In practice this means that compliance with the CIPFA Prudential Code is in effect a statutory duty.

**(c) Financial implications**

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

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

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

**(d) Risk Implications**

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

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

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

**(e) Staffing Implications**

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

**(f) Property**

There are no property implications arising directly from this report.

**(g) Equalities/Socio Economic Impact**

**The equality duty**

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

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

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

None of the proposed savings require an EIA.

**Socio-Economic Impact**

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

**(h) Consultations**

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

## **11. CONCLUSION**

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

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

Author of Report: Lorraine Paisey, Chief Financial Officer

Background Papers: