Moray Council

Tuesday, 22 February 2022

NOTICE IS HEREBY GIVEN that a Special Meeting of the **Moray Council** is to be held at **Remote Locations via Video Conference**, on **Tuesday, 22 February 2022** at **09:30.**

BUSINESS

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

GUIDANCE NOTES

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

THE MORAY COUNCIL

Moray Council

SEDERUNT

Councillor Shona Morrison (Chair)
Councillor Graham Leadbitter (Depute Chair)

Councillor George Alexander (Member)
Councillor James Allan (Member)
Councillor David Bremner (Member)
Councillor Frank Brown (Member)
Councillor Theresa Coull (Member)
Councillor John Cowe (Member)
Councillor Gordon Cowie (Member)
Councillor Lorna Creswell (Member)
Councillor John Divers (Member)
Councillor Tim Eagle (Member)
Councillor Ryan Edwards (Member)
Councillor Claire Feaver (Member)
Councillor Donald Gatt (Member)
Councillor Marc Macrae (Member)
Councillor Aaron McLean (Member)
Councillor Maria McLean (Member)
Councillor Ray McLean (Member)
Councillor Louise Nicol (Member)
Councillor Laura Powell (Member)
Councillor Derek Ross (Member)
Councillor Amy Taylor (Member)
Councillor Sonya Warren (Member)
Councillor Walter Wilson (Member)

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

SUBJECT: 2022/23 BUDGET AND 2022 TO 2025 FINANCIAL PLAN

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

1. REASON FOR REPORT

1.1 To ask Council to set the level of Council Tax for 2022/23, to agree the Council's revenue and capital budgets for 2022/23 and to consider the Council's Financial Plan for 2022 to 2025.

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

2. RECOMMENDATION

2.1 It is recommended that the Council approves:

(i) An increase of 3% on Council Tax for 2022/23;

(ii) Provision of £16,523,000 for budget pressures as listed in APPENDIX 2;

(iii) Further service developments totalling of £188,000 as described in paragraphs 4.18 and 4.19;

(iv) Savings totalling £1,576,000 as listed in APPENDIX 3;

(v) Budgeted expenditure of £240,733,000 for 2022/23;

(vi) Indicative budgets for 2023/24 and 2024/25 as set out in APPENDIX 1;

(vii) Capital expenditure for of £51,426,000 for 2022/2023 as set out in the indicative ten year Capital Plan in APPENDIX 4;

(viii) Funding for Moray Integration Joint Board (MIJB) to increase by £6,745,000 plus Moray's share of the £200 million still undistributed in 2022/23 compared to 2021/22 per the settlement letter from Scottish Government;

(ix) Use of financial flexibilities associated with the cost of the pandemic of £3,120,000;

(x) Use of ear-marked reserves totalling £1,191,000 for transformation and Council priorities and of £9,144,000 to balance the budget; and

(xi) That the Council Tax rebate announced at Stage Two of the Scottish Government's budget is delivered through crediting Council Tax accounts, where this is possible.

2.2 It is recommended that the Council notes:

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

(ii) That the budget is based on the Local Government Settlement issued by the Scottish Government on 16 December 2021 and the announcement of additional funding of £120 million on 27 January 2022 and that the Council's budget will be amended to reflect any changes made by the Scottish Parliament when the Scottish budget is approved; and

(iii) Projected additional savings requirements of £12,920,000 million in 2023/24 and £6,894,000 million in 2024/25.

3. BACKGROUND

3.1 The Council's revenue and capital budgets for 2022/23 fall due to be considered in an environment of considerable uncertainty about the state of the economy, due to the impact of the covid-19 pandemic and Brexit and geo-political pressures, with rising inflation and bank rates increasing; when the pay award for local government staff for 2022/23 is unknown and the teacher's pay award for 2021/22 still not agreed.

3.2 The Council receives around 80% of its revenue funding from Scottish Government. Over the last ten years, this grant funding has increased marginally in cash terms, and by considerably less than the cost of new duties required of local authorities. The cash increase in local government funding in 2022/23 is entirely in respect of Scottish Government requirements. Inflation increases for pay and prices and growth in demand for services in some areas have therefore had to be balanced by efficiency savings and cuts in services. The Council has made savings totalling £56 million since 2010/11 and it is increasingly difficult to identify areas where further savings can be made whilst delivering the statutory duties of a local authority. The Local Government settlement is for one year only but the Council is setting its 2022/23 budget in the context of longer term planning. The UK budget was for three years and indicated that the following two years will see a lower block grant from Westminster to Scottish Government. The budget forecasts are for flat cash, considered to be an optimistic assumption.

3.3 Income from Council Tax receipts is the other main source of income for the Council. The collection rate dropped in the early stages of the pandemic, with normal debt collection processes paused. With a return to normal debt management practice the collection rate has steadily increased, although it currently remains below pre-pandemic levels.

3.4 Regular reports on the financial planning process have been made throughout the year. The latest report was considered by the Council on 19 January 2022 (paragraph x of the Minute refers) and this indicated that the draft settlement for 2022/23 was below previous funding forecasts and reduced the estimated general revenue grant funding anticipated for 2023/24 and 2024/25.

3.5 For a number of years the Council relied on the use of free general reserves to balance the budget. The Council has been steadily reducing its reliance on reserves and only budgeted to use £10,000 (to cover one-off expenditure) to balance the 2021/22 budget. However, the Council was able to retain £1.9 million under the Business Rates Incentivisation Scheme (BRIS) and also planned to use financial flexibilities granted for the pandemic, both time-limited funding, totalling £3.1 million. The base expenditure budget was therefore overcommitted by that amount and the Council requires to reduce expenditure to remove this over commitment.

	Budgeted use of free general reserves		Actual (est act 2022/23)	
	£m		£m	
2017/18	7.611	3.8%	4.615	2.3%
2018/19	4.720	2.4%	3.787	1.9%
2019/20	2.094	1.0%	-	0%
2020/21	2.348	1.1%	-	0%
2021/22	0.010	0.0%	(2.132)	
2022/23	-	0%		

3.6 The Council needs to retain a certain amount of free reserves in case of unforeseen contingencies or emergencies. The Council's reserves policy as approved by Council on 15 September 2021 (paragraph 29 of the Minute refers) is to hold £5 million as free reserves. This equates to around 2.5% of budgeted revenue expenditure on General Services. The Council had free general reserves of £15.349 million at 31 March 2021. Following a report on financial planning to Council on 15 September 2021 (paragraph of the Minute refers) it was agreed to transfer £8.816 million into ear-marked reserves, £1.816 million for the next stage of the Improvement and Modernisation Programme (IMP), £4,000,000 to cover cash flow for Moray Growth Deal (MGD) and £3,000,000 for Council priorities. The current balance on free general reserves is £5,000,000.

3.7 Following the late receipts of monies from Scottish Government in March 2021 an ear-marked reserve for covid-related expenditure was set up. Some of the monies were specifically related to various strands of covid-related activity such as education recovery, some were completely free monies. All the windfall funding was transferred to this ear-marked reserve for ease of management. The reserve stood at £16,421,000 at 31 March 2021 and £5,141,000 has been committed to date. The Cabinet Secretary for Finance and the Economy has indicated her expectation that Council's use such reserves to cover any funding shortfalls in 2022/23.

4. REVENUE BUDGET

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

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

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

Provision for pay and prices

4.3 Provision of £3,100,000 is made within the budget for pay awards and some other inflationary increases in expenditure. No provision has been made for pay awards for health and social care services delivered under direction from MIJB, as additional confirmed funding of £6,745,000 for health and social care services plus a share of £200 million must be passed through from the Council to MIJB, under the terms of the settlement letter. Elements of this funding relate to particular areas of cost pressure eg increase in the minimum hourly rate paid to social care staff by social care providers. However, part of the additional funding comes with no conditions or additional duties associated with it. Consequently it is proposed that the Council does not increase its budget for social care by what had been estimated for pay awards, with the additional funding for social care services covering this.

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

4.5 Other inflationary increases included are for PPP/PFI contracts, fostering fees and allowances, school and other transport contracts, and increase in landfill tax rates.

Financing costs

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

New burdens

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

Budget pressures

4.8 Provision is also made within the draft budget for budget pressures which are not funded by Scottish Government. Some of these have already been approved by Council, some recognised as pressures in previous budget papers and some are newly emerging pressures. These are listed in **APPENDIX 2** to this report and total £16,523,000 for 2022/23. Indicative amounts are also shown for 2023/24 and 2024/25 where these are currently quantifiable. There are other known potential budget pressures which have not been included, either where it has not been possible to assess the financial impact or where it is considered that the Council can absorb the pressure within current budgets, as experience indicates that some budget pressures will be deferred or be lower than anticipated. Budget pressures recognised within the draft budget for 2023/24 are discussed below.

4.9 The additional funding for MIJB of £6,745,000 is included in budget pressures. A further budget pressure of £106,000 is noted, as the full year effect of an additional care package approved by Council on 20 September 2021 (paragraph x of the Minute refers)

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

4.11 Expenditure of the second strand for additional funding for education is included under budget pressures for Education Communities and Resource. A budget pressure of £1,100,000 in respect of Additional Support Needs (ASN) has been identified, due to growth in projected need and removal of one-off funding which has been sheltering additional demand in 2021/22. It is proposed to fund this budget pressure from the additional £1,315,000, with the balance shown as a further budget pressure. Scottish Government requires local authorities to review Devolved School Management (DSM) schemes periodically and is anticipated to introduce stipulation of reduced class contact time for teachers in the near future. This would also impact on the DSM scheme and there is currently no capacity to carry out the required work. A budget pressure of £44,000 is estimated to enable this work to be carried out. This Integration of the Fit Life scheme across Moray Leisure Centre and the Council is costing an additional £13,000 a year in licences. Moray Leisure Centre have identified a number of urgent works which require to be carried out in order to keep the Centre functioning, pending a longer term review of maintenance needs across the whole leisure estate. The works include repairing damage caused by Storm Arwen, with £75,000 included as an estimated budget pressure.

4.12 Council on 28 October 2020 (paragraph 14 of the Minute refers) approved in principle a number of actions to support economic recovery from the pandemic. £263,000 is included in 2022/23 in respect of these. Council on 19 January 2022 approved a budget pressure of £25,000 to enable the regrading of the Programme Manager for Moray Growth Deal (MGD) prior to advertising the vacant post. A project manager post for Early Years STEM was included in the budget for 2021/22. No appointment has been made to that post and the budget pressure has been rolled forward into 2022/23. Further budget pressures arise for MGD: £60,000 for a project officer for the Bus Revolution, which agrees to the Outline Business Case submitted to Council for approval on , and £75,000 to enable support for MGD to be increased by one project officer for MGD (may be part time to manage budget pressures) and 0.5 fte assistant accountant, in recognition of the level of reporting to Scottish Government, the requirements of which became evident in discussions with Scottish Government officials during the run up to the sign off of the Deal. The Planning Act 2019 and National Planning Framework 4 introduce a raft of new duties and an additional post of Senior Planning Officer is proposed to ensure these are carried out. A budget pressure of £60,000 is included in respect of this. A report to Planning and Regulatory Committee on 23 March 2021 identified new legislative requirements for transportation appraisals for the Local Development Scheme amounting to £250,000 over a two year period, commencing in 2022/23.

4.13 The impact of inflation and supply shortages is showing in increased cost under contracts. Gritting salt is expected to cost an additional £180,000 in 2022/23, rising to £235,000 in 2023/24. This is purchased through Scotland Excel. Our local contract for supply of meat to the catering service is seeing price rises amounting to £50,000 for the year. Car parking income dropped very significantly during the pandemic and is not expected to recover to pre-pandemic levels if hybrid working becomes the norm. Accordingly a budget pressure of £150,000 is included, as a notional amount until actual levels of income are established. Tree surveys and work arising from them had been included in the capital plan but the nature of the work makes this properly revenue spend. Given the safety issues potentially arising from ash die back the cost of one-off survey work of £40,000 plus on-going works of £20,000 a year are included as a budget pressure.

4.14 Legislation relating to records management, the protection of data and access to information has developed significantly over recent years, with the expectations of regulators and the public also increasing as well as the volume and complexity of requests for information. There is significant risk to the Council in terms of inspections and fines if we do not have appropriate systems and processes in place. To ensure the Information Governance and Records Management Team are adequately staffed to carry out their statutory duties an additional post of 1 fte Grade 8 Information Assurance Officer is proposed and a budget pressure of £44,000 included to cover the cost of this post. The Internal Audit team is another small team where increasing duties over the years has led to pressure on staff and the additional requirements arising from MGD has proved to be the tipping point for a request for additional staff to ensure statutory duties are covered and the requirements of the Public Sector Internal Audit Standards (PSIAS) are met. An additional post of 1 fte Grade 7 Assistant Auditor is proposed and a budget pressure of £40,000 is included to cover the cost of this post. Scottish Disability Assistance £44,000 (details to be confirmed).

4.15 When the budget for 2021/22 was approved a budget pressure of £39,000 across two years for the increased cost of licences for the Council’s position management and payroll system was included. The second tranche of £16,000 is included in budget pressures in 2022/23. Provision of £120,000 was included for the clearance of the site at Bilbohall to be developed for housing – the development was delayed and this provision has been carried forward into 2022/23. Provision of £725,000 has been made for the consolidation of the Living Wage into the Council’s pay structure, with a further provision for one-off costs of £420,000 for retrospective payments. £700,000 has been allowed for the cost of 1.25% uplift in employer's National Insurance contributions, as announced in the UK autumn budget. This will lead to budget pressure from suppliers, contractors and care providers but no allowance has been made for increased costs in these areas as an indirect result of the increase in employer's contributions. Energy cost increases of £625,000 across two years as reported to Council in the annual energy report are included as a budget pressure. Since these costs were reported energy costs have continued to rise. There is a risk that the provision is inadequate. Provision has also been made for rising cost of vehicle fuel and £128,000 is included in budget pressures. A further budget pressure of £110,000 arises from increased fuel duty. Release of £998,000 from the ear-marked reserve for Transformation is included – this reflects the profile of expenditure on education well-being approved by Council on 12 May 2021.

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

Service Developments

4.17 Two service developments have been approved during the financial year. At its meeting on 1 July 2021 Council approved provision of £430,000 to support the Levelling Up Fund (paragraph x of the Minute refers) and on 19 January 2022 Council approved £27,000 costs for software to increase awareness of phishing attacks with a view to increasing the Council's cybersecurity.

4.18 A further potential service development was recommended by Economic Development and Infrastructure Services Committee on 7 December 2021 (paragraph x of the minute refers) to be considered by Council for inclusion in the budget for 2022/23. This is for the onward sale of property level flood protection aids. The purchase of stock to enable a scheme to be launched on a cost recovery basis is estimated at £5,000 and this has been included in the draft budget.

4.19 Two further service developments are proposed, both on a one-off basis for one year: a temporary post to develop real time performance data reporting in schools, at an estimated cost of £63,000 and provision of £120,000 to be allocated through a Participatory Budgeting exercise to enable meeting spaces for your people in Buckie and Forres to be developed.

4.20 With these additions the total budgeted revenue expenditure for 2022/23 before savings is £242,309,000. A further potential budget pressure arises from flood prevention works requested at Garmouth / Spey Bay and reported to Council on 30 November 2022.

Funding

4.21 The bulk of the Council's funding is from government grant, given as a combination of General Revenue Grant and Non Domestic Rates distribution. The draft local government settlement in December 2021 included allocation of general grant funding totalling £176,918,000 for Moray. Not all funding has been allocated at this stage, and estimates of funding totalling £800,000 have been incorporated in the budget for areas where expenditure is included in base budget: funding for Discretionary Housing Payments (DHP), for the Teachers' Induction Scheme and for the removal of charges of core curriculum activities and music instruction. One-off funding of £120 million across all local authorities was announced on 27 January 2022 and the allocation to Moray is £1,997,000. This increases the general Scottish Government funding included in the budget to £179,715,000, plus £108,000 for new burdens, a total of £180,723,000.

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

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

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

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

COUNCIL TAX BY BAND 2021-22

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

Excludes Water and Sewerage
Source: As reported by the Local Authorities on the statistical return Council Tax Assumptions 2021

4.25 The resultant budgeted income to the Council for 2022/23 leaves a shortfall of income compared to expenditure of £15,031,000, which requires to be found from savings or the use of financial flexibilities to cover the additional cost of the pandemic, which failing from reserves.

5. SAVINGS

5.1 Savings totalling £1,024,000 have been approved to date and these are listed on **APPENDIX 3**, which also includes as a one-off saving the return of requisition from Grampian Valuation Joint Board following the audit of the annual accounts. Indicative savings of £263,000 from IMP have been rolled forward from 2021/22.

5.2 Further savings for 2022/23 totalling £221,000 are presented to Council today. These are listed on **APPENDIX 3** and discussed below.

5.3 Savings of £10,000 from reduced electricity consumption as the full year effect of fitting LED lights in sports halls in 2021/22 are anticipated.

5.4 Grampian Valuation Joint Board approved its budget and requisitions to the constituent authorities on 4 February 2022. The requisitions were reduced and the Council's share of the reduction amounts to £16,000.

5.5 The Council's budget includes a vacancy factor to reflect time lags in appointing replacement staff when staff leave and also that new staff are generally appointed at a lower point on the salary scale point. It is proposed that this factor is increased pro rata to the pay award and reflecting that there was no increase in the vacancy factor at two years' worth - £180,000.

5.6 The Council pays additional pension costs in respect of former staff who took early retirement, at a time when the Council bore additional costs to the pension scheme. The policy has changed and these costs are slowly reducing as the costs are paid off. A reduction of £15,000 is forecast in 2021/22 and it is proposed that this is taken as a saving in 2022/23.

5.7 If these additional savings are approved there is a residual funding gap of £13,455,000 for 2022/23. Costs of £3,120,000 arise within the budget because of continued expenditure and loss of income relating to the pandemic. Scottish Government has indicated that the financial flexibilities allowed for councils to deal with costs of covid-19, to be used as one-off measures in either 2020/21 or 2021/22, will be extended into 2022/23. The Council did not use financial flexibilities in either 2020/21 or 2021/22 and it is proposed that the Council exercise financial flexibilities in 2022/23. There are two financial flexibilities which could be used: use of capital receipts to fund covid-19 revenue costs or taking a loans principal repayment holiday to the extent of covid-19 costs incurred. The Council has previously agreed to use capital receipts to fund transformation of service delivery where this is anticipated to deliver savings, and this is the subject of a further report on the agenda for this meeting, however the concession allowing use of capital receipts in this way comes to an end on 31 March 2022. There was a balance of unused capital receipts of £2,722,000 at 31 March 2021 and a further £1,127,000 capital receipts have been generated in the first three quarters of this financial year, so there are funds available to more than cover the proposed financial flexibility and use of capital receipts for transformation. Using this financial flexibility maximises possible use of capital receipts to support the Council's revenue spend.

5.8 That reduces the funding shortfall to £10,335,000. £998,000 was approved to be spent from ear-marked reserves for transformation and £193,000 relates to loans charges to be met from the ear-marked reserves for MGD cash flow management. This leaves a balance of £9,144,000 as the true funding gap.

5.9 It is proposed that the gap is filled by using two ear-marked reserves: £704,000 repairs and renewals, a historic ear-marking relating to insurance excess for schools and no longer relevant, given the current insurance contract, and the balance of £8,440,000 using funds held in the covid reserves. As referred to in paragraph 3.7, there is an expectation from Scottish Government that councils will use these reserves to balance budgets in 2022/23.

5.10 Officers will continue with consideration of identification of potential savings including transformation proposals and report on these in early course with a view to making recommendations for in-year savings and thus reducing reliance on reserves.

6. CAPITAL BUDGET

6.1 The latest version of the Council's Capital Strategy was approved by Council on 19 January 2022. The Strategy identifies the Council's capital investment objectives as ensuring an adequate suite of assets to deliver the Council's services, in accordance with the Council's policies, strategies and plans, and priorities, legislative duties and other requirements and identifies as a key consideration when developing the Capital Plan the requirements to provide new infrastructure and facilities to accommodate planned local developments, along with expenditure arising from Asset Management Plans (AMPs).

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

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

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

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

6.4 This is an ambitious level of investment and given the requirement to make savings the capital plan requires to be revisited in early course. The Council's borrowing must comply with the Prudential Code, which requires borrowing to be affordable and sustainable. Given the level of projected savings required in 2023/24 and 2024/25 it is reasonable to suggest that borrowing of £400 million is not sustainable. As the bulk of the indicative capital plan is based on Asset Management requirements, to achieve a significant reduction in capital expenditure the Council must reduce its asset base.

6.5 The Council's Financial Regulations envisage the detail of capital works being approved by service committees at the start of the financial year, and that process is well established. Accordingly, as in previous years the Capital Plan is presented in outline format, with detail to be brought forward to service committees. The detail used to underpin the development of the capital plan for 2022/23 is set out below for information.

7. <u>10 YEAR CAPITAL PLAN</u>

7.1 There are a number of significant pieces of work being undertaken which will reshape the capital plan in future years. An overarching piece of work which will impact across asset types and specifically on buildings and vehicles is the Council's Climate Change Strategy. Depending on how the Council decides to take forward this strategy, an extensive programme of work will be required and funding will be needed for that programme. In addition to this, the Learning

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

Bridges

7.2 The Council's programme of bridge refurbishments is an asset management programme based on condition surveys and strategic importance, and is kept under review. Failing bridges can be life-extended by having weight restrictions placed on them, but this is not always a practical solution, depending on the type of traffic using the bridge and the availability of alternative routes. The indicative requirement over the 10 year plan is for expenditure of £18.5m, with £4,653,000 proposed for 2022/23. The main item in the work provisionally planned for 2022/23 consists of the second stage of the replacement Craigellachie bridge on the A941, with a budget of £3,789,000. The balance of spend is intended for strengthening and refurbishment of A941/100 Blackwater Bridge, Lower Cabrach, U117H/10 Bridge of Slateford, Tomnavoulin, replacement of U170E/20 Kirkhill Drive, Lhanbryde, preliminary works for refurbishment of A941/340 New Bishopmill Bridge, work on remote footbridges and the first stages of minor works on B9103/100 Boat O Brig Bridge, Orton and U173E/10 Lea Bridge, Forres.

Car Parks

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

Corporate

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

Economic Development

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

2022/23, with government grant of £6,538,000 anticipated. The profile of government grant funding is largely flat and so the Council will be borrowing to fund the grant between expenditure and income in the early years of MGD. The pattern will be reversed in later years. Other expenditure under this heading is the capital element of the Economic Recovery Plan, as approved at a meeting of Moray Council 28 October 2020 (paragraph 10 of the minute refers), with £1, 215,000 included in 2022/23 for the expansion of industrial estate provision.

Flood Risk Management and Coastal Protection

7.6 This budget line includes provision in future years for the construction of coastal flood protection schemes at Lossiemouth Seatown and Portessie. Both these schemes are contingent on grant funding from the Scottish Government. The only provision in 2022/23 is for residual expenditure on the Elgin flood alleviation scheme.

Harbours

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

ICT

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

Industrial Portfolio

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

Libraries and Leisure

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

Mortuary

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

Parks and Open Spaces

7.12 This budget covers new or extended cemetery provision in accordance with the Council's cemetery provision policy; upgrading existing cemetery infrastructure; an annual rolling programme of replacement of equipment in play areas, and upgrade of parks and open space infrastructure. The main part of the budget in 2022/22 (£1,710,000) is for additional cemetery provision in Elgin. The rolling programme of play area equipment is to refurbish 2 local play areas each year at a cost of £100,000 pa, with an additional £35,000 for the refurbishment of equipment and safer resurfacing. Work is planned to achieve a balance between play value – meeting customer needs through community engagement – and lower maintenance costs, eg replacing loose fill surfacing with rubber, which requires less maintenance, a spend to save approach. The programme has been progressed using Participatory Budgeting (PB) and in 2021/22 this was successful in leveraging in additional funding. £200,000 is allocated for upgrading parks and open space infrastructure - paths, car parks, steps, walls, fences, signage – and £50,000 for cemetery infrastructure.

Roads

7.13 On 11 February 2014 Moray Council made the decision to allow Moray's road condition to deteriorate, with a target to be at mid-point in the national table across the network as a whole by the end of the following 5 year period (paragraph 3 of the Minute refers). It was recognised that this would be a short-term measure and that in due course the capital budget would require to be increased to keep Moray's roads at the new target of mid-point in terms of conditions. The latest roads condition indicator (RCI) results were reported to Economic Growth, Housing, and Environmental Sustainability Committee on 16 February 2021. That indicated a slight improvement in RCI ratings. The next RCI results are due in November 2022. The draft capital plan for 2022/23 includes £4,350,000 for resurfacing, reconstruction, surface dressing, drainage, footways and kerb replacement. A further £750,000 is included for improvements to minor roads affected by timber traffic. This sum will be used as match-funding to leverage in external funding. £1,185,000 is also included for remedying the landslip at the A95 by the River Isla.

Road Safety

7.14 This budget heading covers a range of road safety measures: barriers, traffic islands, lines, pelican crossings, minor junction improvements, dropped kerbs, disabled parking spaces, road signs and markings. £279,000 is included in 2022/23, with budget deferred from 2021/22 included.

Street Lighting

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

Traffic

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

Waste Management

7.17 This budget includes £2,269,000 for the completion of the construction of the NESS Energy from Waste Plant. £300,000 is included for works at the Dallachy Landfill Site, Spey Bay, as this site remains operational and will be operational until either all void capacity within the site is utilised, or the 2025 landfill ban on biodegradable material comes into force. A budget of £800,000 for the purchase of land for a replacement Household Waste Recycling Centre (HWRC) in Elgin. The Council has submitted an expression of interest to Scottish Government Recycling Improvement Fund, a new fund from which it is hoped to be awarded grant funding for the replacement of the Chanonry Road HWRC, which is on a constrained site and operational only by virtue of the booking system in use. With Elgin's population increasing this site in not viable in the long term. The fund gives an opportunity to develop a replacement facility with the assistance of grant funding but the fund will not contribute towards the purchase of land. Provision of £225,000 is made for the upgrade of facilities at Gollachy Recycling Centre, Buckie in 2022/23. £100,000 is included for the purchase of new domestic and trade waste bins; £20,000 for replacement containers for recycling centres, and £15,000 for gull-proof bins.

Learning Estate Strategy

7.18 At a special meeting of Moray Council on 16 December 2020 Council approved "Developing a Strategic Approach to the Learning Estate" as a strategic document which will guide the long term development of the learning estate in Moray. The current assumptions within the 10 year plan will be re-examined and updated following a process of consultation and options appraisal. Substantial investment in the learning estate will be required and the priorities and capital sums required will need to be updated as the strategy is developed. Reflecting this, the budget for future years for refurbishments / new builds has been rolled together and will be allocated to specific projects once these are approved. In 2022/23 £4,992,000 has been allocated towards the design and preliminary works for the commencement of construction of the new Findrassie Primary School, Elgin. .

Schools BB and Other Minor Works

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

Astro-turf pitches

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

8. FUTURE YEARS AND BUDGET RISKS

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

8.2 Various components in the budget are used to develop best case, worst case and mid-point scenarios for financial planning purposes. The options set out for 2023/24 and 2024/25 lie within the best case to mid-point range and accordingly action needs to be taken to tackle the projected shortfall as early as possible.

8.3 It has always been planned that the Capital Plan would be amended following development of the Learning Estate Strategy, conclusion of the Leisure Review and adoption of the Climate Change Strategy and Action Plan. Given the financial restrictions now forecast an early review to set capital savings targets will take place.

8.4 The Council will review its operations using a hierarchy of saving routes: transformation of services; small scale spend to save; stopping and reducing services. Clearly transformation is the preferable route to deliver the scale of savings required and given the timescales this will require early and urgent consideration so that options for consideration can be presented to members of the Council formed after the May elections.

8.5 The Council set aside ear-marked reserves to facilitate transformation of services and Council priorities. Given the current financial situation it is clear that the Council's top priority must again be to create financially sustainable services. Whilst funds are earmarked for Transformation, the majority will be required to support MGD borrowing costs and climate change investments. Looking beyond this reserve, investment to improve where no savings are taken as a consequence will be a luxury which the Council cannot afford, and plans will require to be reviewed to recognise that.

8.6 The following areas are considered to represent high risk areas for the Council's budget in 2022/23 and future years:

- Pay awards
- Increasing inflation rates and interest rates
- Future settlements and level of effective ring-fencing of funds
- Social Care and ASN, where demand is escalating
- Early Learning and Childcare, where funding is decreasing and significant budget pressures have been identified

9. COUNCIL TAX REBATE FOR BANDS A – D

9.1 At Stage 2 of the Scottish Government budget process, the Cabinet Secretary for Finance and the Economy announced that funding would be made available for Council's for a Council Tax rebate of £150 for households in properties within Bands A to D for Council Tax. It is in the discretion of Council whether this is paid out to Council Tax payers or credited to Council Tax accounts. The latter is administratively easier and can be put into place in early course, however if this is to take place as a one-off credit to April 2022 payments amendment to the software used will be required

9.2 No guidance on the rebate has yet been received.

10. SUMMARY OF IMPLICATIONS

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

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

(b) Policy and Legal

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

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

(c) Financial implications

The Council's funding gap arises from an underlying overspend in 2021/22, pressures from inflation and service requirements in 2022/23 and reduced government funding, except for specified purposes.

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

A continued and heightened budget gap is forecast for 2023/24 and 2024/25. It is important that this is taken into account when considering budget proposals for 2022/23.
Early action to tackle the projected funding gap for 2023/24 and 2024/25 is required.

(d) Risk Implications

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

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

- The level of the pay award is unknown at present.
- Price inflation will impact on areas where no provision has been made for inflationary increases and this will add pressure to budgets. Budget Managers will need to control their expenditure to absorb any such pressure and may have to reduce service levels or identify further savings. The rate of inflation is rising and forecast to rise further.
- A particular risk relates to construction inflation and this could significantly impact on the capital plan
- Budget pressures may exceed the available allocation. The Corporate Management Team will be responsible for closely

monitoring the issues identified and will report any emerging issues to committee.

- Unforeseen factors can impact on the Council's position. There is no allowance made for contingencies.
- Government funding may be less than assumed for the elements yet to be allocated at Council level.
- Council Tax income may be less than anticipated, depending on the collection rate, rate of growth of Council Tax base, income from the levy and loss of income under the Council Tax Reduction Scheme and other reliefs.
- There may be slippage in achieving savings; savings may not be achieved in full, or the impact of spend-to-save measures may be less than anticipated.
- The cost of borrowing for capital expenditure will increase if the cost of borrowing rises.
- The impact on the Council of external economic factors, including BREXIT, is unpredictable, and could affect income generated from local taxes and from charges for services, as well as demand for services and benefit entitlement.
- The MIJB is anticipating to operate within budget in 2021/22 but only because Scottish Government has underwritten overspends in this financial year. There is no guarantee that there will not be an overspend in 2022/23 in the challenging environment in which it is currently operating and the Council is obliged to meet its share of any overspend, despite having no influence on the operation of the Board.

(e) Staffing Implications

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

(f) Property

There are no property implications arising directly from this report.

(g) Equalities/Socio Economic Impact

The equality duty

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

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

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

None of the proposed savings require an EIA.

(h) Socio-Economic Impact
The proposals do not impact on the socio-economic duty.

(i) Climate Change and Biodiversity Impacts
There are no implications for climate change and biodiversity arising from this report.

(j) Consultations
CMT and Heads of Service have been consulted in the preparation of this report.

11. <u>CONCLUSION</u>

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

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

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

(SPMAN-1293228629-666)

BUDGET OVERVIEW AS AT 15 FEBRUARY 2022

	2021/22	2022/23	2023/24	2024/25
Revenue Expenditure	£000s	£000s	£000s	£000s
Service allocations (assuming prior year savings are achieved)		239,957	241,437	231,687
Adjustments to brought forward figure:		(19,624)	(1,672)	(749)
Opening budget	239,957	220,333	239,765	230,938
Estimated over / (under) spend	(2,132)			
Pay and price increases		3,100	3,900	4,000
(Decrease) / Increase in Loan Charges		700	1,700	1,500
New Burdens		1,008	0	0
Budget pressures		16,523	1,890	940
Service developments – approved - proposed		457 188		
	237,825	242,309	247,255	237,387
Revenue Funding				
General Revenue Grant / NDRI	167,814	179,715	178,708	178,708
New burdens funding not included in grant above	8,810	1,008	0	0
Covid Funding (one-off)	2,628			
Council Tax	44,405	46,555	48,632	50,516
BRIS retention	1,882			
Release from Repairs and Renewals Reserve		704		
Financial Flexibilities - anticipated use of capital receipts to fund covid costs		3,120		
Funding from General Reserves:				
Further approved funding from Free General Reserves	10,349			
Funded from Ear-marked reserves:				
Transformation	3,415	998	749	0
Covid	9,901	8,440	2,840	0
MGD cash flow		193	759	1,136
Transfer to ear-marked reserve for Transformation	(1,816)			
Transfer to ear-marked reserve for Covid	(4,760)			
Transfer to other ear-marked reserves	(6,915)			
	235,713	240,733	231,687	230,360

			2021/22		2022/23		2023/24		2024/25
SAVINGS REQUIRED			2,113		1,576		15,567		7,346
Savings Summary									
Savings Approved:									
Approved when budget set			1,052		174		0		0
Temporary savings			143		68		0		0
Further savings approved					850		0		0
Indicative Savings from I&M Programme			191		263		557		362
Other savings proposed			188		221		2,090		90
Savings to be identified					0		12,920		6,894
			1,574		1,576		15,567		7,018
Estimated Free Balance on General Reserves			5,000		5,000		5,000		5,000
Estimated Balance on covid Reserve			11,280		2,840		0		0
Estimated Balance on Transformation Reserve Note (1)			8,134		7,136		6,387		6,387
Estimated balance on MGD cash flow reserve			4,000		3,807		3,048		1,912

Note 1: approved commitments have been netted off the balance on this reserve in 2021/22, except for the project for education well-being, where a profile of spend has been developed. As profiled spend is developed for other themes the profile of use of this reserve will be adjusted. A contingency of £1,200,000 was identified when projects were approved – this is included in the balance above but may require to be called on as the themes are developed.

APPENDIX 2

BUDGET PRESSURES

	Approved	2022/23 £000s	2023/24 £000s	2024/25 £000s
Social Care				
Additional funding per settlement		6,745		
Care package (fye)	MC 20/09/21	106		
Children in transition			200	200
Schools				
School roll numbers		860	700	522
Balance of additional education funding (first tranche)		329		
Findrassie Primary School				450
Removal of music tuition fees and core curriculum charges		64		
MS licences for schools		26		
Early Learning and Childcare		2,000		
Education Communities & Resources				
Additional Support Needs		1,100		
Balance of additional education funding (second tranche)		215		
Review of DSM / class contact hours		44		
Increase in Gladstone costs for new system		13		
Moray Leisure Centre maintenance		75		
Closure of swimming pools for refurbishment			55	55
Economic Growth & Development				
Budget Pressures associated with Economic Recovery Plan	MC 28/10/20	263	263	
MGD STEM Project Officer	MC 03/03/21	60		
MGD revenue contribution STEM				62
MDG PMO grade increase	MC 19/01/22	25		
MGD Bus revolution revenue		60		
MGD support		75		
Strategic Planning and Development		60		
Development Plan Scheme - transportation appraisals	Plan & Reg 23/03/21	200	(150)	(50)
Environmental & Commercial				
Gritting salt		180	55	
Meat contract		50		
Car parking		150		
Tree survey		60		
Governance etc				
Records management		44		
Internal Audit		40		

	Approved	2022/23 £000s	2023/24 £000s	2024/25 £000s
Corporate / cross service				
Renewal of iTrent contract (fye)	MC 03/03/21	16		
Clearance of Bilbohall Site for housing development	MC 03/03/21	120		
Consolidation of the Living Wage		725		
LW retrospection		420		
National Insurance 1.25% increase		700		
Revised IMP	MC 12/05/21	998	749	
Energy costs		411	214	
Increased fuel duty		106		
Vehicle fuel costs		110		
Budget Pressures Associated with Covid-19				
Ongoing reduction in leisure income post pandemic			(200)	(200)
Annual maintenance of automatic bollards Elgin High Street		7		
Staycation provision		25		
Scottish Disability Assistance		44		
TOTAL		**16,523**	**1,886**	**939**

APPENDIX 3

SAVINGS

	Approved	2022/23 £000s	2023/24 £000s	2024/25 £000s
Economic Growth and Development				
Development Management - planning applications: major projects/national fee review	MC 27/02/19	50		
Housing & Property Services				
Industrial Estate rental		104		
Schools				
Reduce ELC (to remove budget pressure)			2,000	
Education Resources and Communities				
Auchernack	MC 27/02/19	20		
Halls LED lighting	MC 03/03/21	10		
Environmental & Commercial Services				
Green waste permits	MC 19/01/22	50		
Children's Services				
Out of Area placements	MC 19/01/22	800		
Corporate / cross service				
GVJB requisition		16		
Vacancy factor		180	90	90
Additional pension costs		15		
Temporary Savings				
GVJB return of underspend		68		
TOTAL		**1,313**	**2,090**	**90**

INDICATIVE SAVINGS: IMPROVEMENT AND MODERNISATION PROGRAMME

	Agreed	2022/23 £000s	2023/24 £000s	2024/25 £000s
Stream 2: ICT & Digital - Schools Admin	MC 03/03/21	94	56	
Stream 4: Review & Expansion of Flexible Working	MC 03/03/21	44		
Stream 6: Transforming Children's Services – care placements Reduction in investment costs	ECLS 26/01/22		358 18	358 4
LEAN review		125	125	
TOTAL		**263**	**557**	**362**

Moray Council Capital Programme 2022/23 onwards

Area	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28	2028/29	2029/30	2030/31	2031/32	Total
Bridges	4,653	510	7,164	800	1,290	992	2,141	420	500	50	18,520
Car Parks	130										130
Corporate	4,997	4,578	3,571	3,571	3,571	3,571	3,572	3,572	3,572	3,572	38,147
Corporate Building H&S	40	40	40	40	40	40	40	40	40	40	400
Economic Development	13,356	18,804	15,506	13,995	2,745	4,368	3,756	1,133	1,030	1,261	75,954
Flood Risk Management & Coastal Protection	150	487	100	308		1,050	4,400				6,495
Harbours	744	283	217	1,160	300	900	300	300	900	300	5,404
ICT	553	611	579	542	502	632	502	562	502	502	5,487
Industrial Portfolio - land	256	310	675								1,241
Industrial Portfolio - new units	907	1,260		678	1,130			565			4,540
Industrial Portfolio - refurbishment	57	60	180	60	60	60	225	80	80		862
Industrial Portfolio - service sites	1,891		250	1,548			500	565			4,754
Libraries & Leisure	820	2,360	1,860	260	320	1,660	60	60	60	120	7,580
Mortuary Services	160										
Parks & Open Spaces	2,095	735	915	285	285	285	285	285	285	285	5,740
Road Improvements	6,285	7,100	7,800	8,900	10,600	12,600	11,100	11,100	11,100	11,100	97,685
Road Safety	360	366	334	328	330	407	312	312	312	312	3,373
School Estate	3,000	3,700	22,250	16,750	42,475	45,760	17,500	71,700	10,000	10,000	243,135
Schools - H&S	165	165	165	165	165	165	165	165	165	165	1,650
Schools - 3G pitches	1,000	300	300	250			300				2,150
Schools - Accessibility	40	40	40	40	40	40	40	40	40	40	400
Schools - New Build	4,992	10,682	920	256							16,850
Street Lighting	800	800	800	800	800	800	800	800	800	800	8,000
Traffic	215	23	39	7	43	43	1,061	39	39	39	1,548
Waste Management	3,759	488	131	120	120	120	120	120	120	120	5,218
Total expenditure	**51,425**	**53,702**	**63,836**	**50,863**	**64,816**	**73,493**	**47,179**	**91,858**	**29,545**	**28,706**	**555,423**

Funding											
Grants & Contributions	(15,629)	(18,199)	(14,760)	(16,619)	(15,346)	(15,835)	(15,821)	(14,852)	(15,615)	(10,063)	(152,739)
Loans	(35,096)	(35,347)	(48,920)	(34,088)	(49,314)	(57,502)	(31,203)	(76,851)	(13,775)	(18,488)	(400,584)
Receipts	(700)	(156)	(156)	(156)	(156)	(156)	(155)	(155)	(155)	(155)	(2,100)
Total funding	**(51,425)**	**(53,702)**	**(63,836)**	**(50,863)**	**(64,816)**	**(73,493)**	**(47,179)**	**(91,858)**	**(29,545)**	**(28,706)**	**(555,423)**
	0	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

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

SUBJECT: **HOUSING BUSINESS PLAN REVIEW 2022 AND HOUSING REVENUE ACCOUNT (HRA) BUDGET 2022/23**

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

1. REASON FOR REPORT

1.1 This report presents a summary of the findings of the Housing Business Plan Review which has recently been completed in addition to the Housing Revenue Account (HRA) Budget and Housing Investment Plan for 2022/23 for approval.

1.2 This report is submitted to Council in terms of section (II) (1) of the Council's Administrative Scheme relating to the setting of rent levels for council houses, garages etc.

2. RECOMMENDATION

2.1 It is recommended that the Council:

(i) considers and notes the main findings of the Housing Business Plan 2022 Review and notes that housing activities must remain fundable and affordable within the constraints of the accounting regime for housing;

(ii) agrees the proposed HRA Budget for 2022/23 (APPENDIX I) and Housing Investment Plan (APPENDIX II);

(iii) considers and notes the results of consultation with tenants on options for the 2022/23 rent increase;

(iv) agrees Council house rents increase of 1.5% for 2022/23;

(v) agrees that garage rents are increased by 7% (this is a two yearly increase);

(vi) agrees service developments at a cost of £456k, as detailed in paragraph 9.16;

(vii) agrees that grass cutting charges are increased by 3.5%; and

(viii) notes the three year projection to 2024-25 (APPENDIX III).

3. HOUSING BUSINESS PLAN REVIEW 2022

BACKGROUND

3.1 The Housing Business Plan was first developed in 2005 when Councils were required to demonstrate that they had the financial means to improve their housing stock to meet the Scottish Housing Quality Standard (SHQS). At that time, Moray Council's Business Plan was developed by Arneil Johnston Consultants, working alongside Council staff.

3.2 The Business Plan assesses the affordability and feasibility of Council plans in relation to housing over a 30 year period. It considers risk scenarios and tests the affordability of the Plan against these potential risks. The Business Plan is reviewed on a three year cycle and provides the assurance that the Council is able to fund its housing activities within the constraints of the accounting regime for housing.

3.3 The Business Plan was last reviewed in 2019 and was reported to Moray Council on 27 November 2019 (paragraph 13 of the minute refers). The 2019 Review identified that the Council could afford to build 50 new properties per annum over the next 3 years based on a rent increase of 3% in 2020/21.

4. 2022 REVIEW

4.1 The 2022 Business Plan Review aims to demonstrate how the Council can continue to ensure that stock is maintained at Scottish Housing Quality Standard (SHQS) levels and is brought up to the Energy Efficiency for Social Housing (EESSH) standards, whilst keeping a positive balance on the Housing Revenue Account (HRA).

4.2 It is a 30-year business plan model which takes account of all costs and income connected with the management and maintenance of the stock over that period. The Business Plan Modelling Tool used adheres to five key principles:

- Based on accurate information and sensible assumptions
  - Based on the HRA Budget
  - Evidence based on past performance
  - Reflects sensible projections going forward
- Sets out all areas of HRA budgeted expenditure
  - Including management, maintenance and investment
- Sets out all available income over time
  - Calculates rental income required to meet expenditure requirements
- Measures financial position over the next 30 years
  - Tests how much the Council needs to borrow and if this is affordable
- Supports scenario planning and risk assessment
  - Tests if the financial position can withstand risk
  - Tests impact on rent to ensure affordability

- Enable contingencies to be identified and tested

5. RISK ASSESSMENT AND SENSITIVITY ANALYSIS

5.1 An integral part of the development of the business plan is the identification and mitigation of risk in the business plan framework. It is recognised that Moray Council has adopted a positive approach to risk management by:

- Identifying the current risks to the Council associated with the provision of housing services;
- Identifying any additional risks arising or likely to arise in the lifetime of this plan;
- Quantifying and understanding the significance of these risks in terms of likelihood and impact, thereby enabling prioritisation;
- Considering existing arrangements for avoiding risk where possible and managing risks otherwise; and
- Developing action plans to assist in mitigating/controlling these risks.

5.2 To ensure the revised business plan can withstand risk, several individual and multiple risk factors which could potentially arise in the future have been tested on the outcomes of the business plan. These include risks arising from welfare reform, interest rate risk and potential risks arising from the uncertainty of the current economic environment.

5.3 Under these scenarios, the debt affordability and debt per unit increases compared to the baseline, however still within a range which could be managed and comparable with other local authorities. Interestingly a strategic decision to continue with a development programme of 50 properties per year from year 7 of the plan actually reduces the debt affordability %, albeit with a higher debt per unit.

6. KEY FINDINGS

6.1 The 2022 review determined:

- Supervision and Management costs are below the local authority average.
- No negative cash balances are evident throughout the life of the plan.
- Based on a rent strategy of CPI + 1%, the Council can maintain SHQS and meet EESSH standards.
- The additional investment required for SHQS & EESSHH would exceed the current affordability threshold of 35% after year 10.
- Considerations to manage this would be to increase the limit, implement a higher rent increase in the early years of the plan or to find efficiencies within the investment programme.

6.2 Accordingly the baseline plan is determined to be fundable and sustainable over the 30-year period, subject to the considerations regarding the current affordability threshold set out above.

7. RENT INCREASE CONSULTATION

7.1 Section 25 of the Housing (Scotland) Act 2001 allows landlords to increase rent (or any other charge payable) under a Scottish secure tenancy so long as they give tenants at least four weeks' notice of the increased rent due to be paid. Before they issue this notice, landlords must consult with tenants affected by the proposal and be able to demonstrate how they have taken regard of their views in reaching a decision about rent increases.

7.2 The consultation for 2022/23 was undertaken from 13 December 2021 until 14 January 2022, with surveys issued to 6,088 tenants by letter or email according with their communication preference.

7.3 Tenants were invited to express preference for one of three options:

Option one - 1.5%
This is below the rate of inflation, limits funding for the Council to improve stock and would require larger increases in future years to maintain the business plan.

Option two – 3.0%
This would be approximately the rate of inflation and would maintain current funding levels for stock improvements, however would remain below the business plan projection and therefore require larger increases in future years.

Option three – 4.5%
This would be slightly higher than the business plan projection and would therefore enable the Council to accelerate its programme for energy efficiency and stock improvement. Under this option we would commit to increasing our heating replacement programme by 10%, representing a total of over 500 properties benefitting from a new heating system by the year end. Taking cognisance of energy price rises, under this option we would also set aside a budget of £50k to provide direct assistance to those tenants who are struggling most with utility costs.

7.4 A total of 590 responses were received, representing a 9.7% response rate:
335 tenants (56.8%) opted for Option one – 1.5%
156 tenants (26.4%) opted for Option two – 3%
99 tenants (16.8%) opted for Option three – 4.5%

7.5 Given the clear preference for option one, this is the recommended rent increase for 2022/23. However, it is noted that tenants were advised in the consultation that this is below the rate of inflation and business plan assumption, therefore a higher increase will be needed in future years.

7.6 Based on this rent increase, Moray Council's rents will remain the lowest amongst local authority landlords and will continue to be affordable across the range of property types and sizes.

8. HRA BUDGET 2022/23

PROJECTED HRA OUTTURN 2021/22

8.1 On 18 February 2021, the Council agreed its HRA Budget for 2021/22 (paragraph 7 of the Minute refers). Reports on budgetary performance have been presented to Committee throughout 2021/22. Expenditure has been impacted by restrictions which have arisen in the course of the year and uncertain market conditions.

8.2 The most recent HRA budget monitoring report presented to the Housing and Community Safety Committee on 8 February 2022 identified the main variations in the projected outturns to 30 November 2021 as follows:-

Expenditure

Supervision and Management

8.3 An underspend of £145k was projected. This variance resulted from projected underspends in staffing (£126k), shared accommodation costs (£78k) and other minor cumulative net underspends (£32k). This was reduced by a projected overspend in voids (£91k).

Sheltered Housing

8.4 An overspend of £4k was projected due to excess energy costs.

Repairs and Maintenance

8.5 An underspend of £921k was projected. Planned/Cyclical works were projected to underspend by (£958k), which would be partially offset by an overspend in voids (£37k).

Financing Costs

8.6 An underspend of £99k was projected due to lower than estimated interest rates and the continued level of Capital from Current Revenue (CFCR) used to keep borrowing to a minimum. There was also a change in the loans pool method, with the first repayment in following year as opposed to half repayment in current year for new borrowing.

Bad and Doubtful Debts

8.7 An underspend of £20k was projected due to lower write-offs than originally expected.

CFCR

8.8 The level of Capital from Current Revenue (CFCR) was projected to increase by £1.163 m due to underspends elsewhere across the HRA budget.

Downsizing Incentive Scheme

8.9 An underspend of £32k is projected due to fewer transfers taking place.

Service Developments

8.10 An underspend of £40k was projected due to staffing vacancies and lower than anticipated expenditure on consultancy, with £17k being carried forward to 2022/23 for the Housing Need and Demand Assessment (HNDA).

8.11 Total expenditure on the HRA - was projected to be £90k lower than budgeted.

Income

8.12 Minor variations were projected for income on non-dwelling rents, house rents and other income during 2021/22.

8.13 Total income to the HRA was projected to be £90k lower than originally budgeted for 2021/22.

8.14 Overall, a surplus balance of £2.401m is projected for the HRA budget in 2021/22.

9. PROPOSED HRA BUDGET 2022/23

9.1 As in previous years, Officers have considered in detail the base budget agreed for 2022/23. Each cost centre within the HRA budget is scrutinised by the Head of Housing and Property, Finance staff and the budget service managers and this has included an assessment of the continued impact of COVID-19 on both income and expenditure. Whilst it is anticipated that the direct impact of pandemic restrictions will reduce in the 2022/23 financial year, the focus on service recovery and stock improvement will be undertaken in the context of volatile market conditions in terms of material and labour availability and price, which may impact upon the eventual output.

9.2 **APPENDIX I** details the proposed HRA Budget for 2022/23. Comments on the proposed budget can be made as follows:-

Expenditure

9.3 The total expenditure proposed amounts to £21.666m. The main areas of expenditure are considered below.

Supervision and Management

9.4 The budget proposed for supervision and management costs is £4.533m. This provides for a 2% pay award and also makes allowance for increased voids costs.

9.5 HRA statistics recently published by the Scottish Government, highlight that Moray continues to be in the lowest quartile of Councils with regards to supervision and management costs per house.

Sheltered Housing

9.6 The Sheltered Housing Budget is increased to £0.025m for 2022/23.

Housing Investment Plan

9.7 The Housing Investment Plan reflects the investment priorities which tenants identified within the recent tenant survey and regulatory requirements. The Council has also recently undertaken a stock condition survey to direct future investment in our properties, including replacement of older/inefficient heating systems as well as delivery of other home improvements (i.e. new kitchens, bathrooms, windows, etc.).

9.8 The revised Business Plan provides for the level of investment required to meet SHQS and EESSH standards. This indicates that the level of investment activity will increase significantly in future years and a project board is being constituted to coordinate and monitor the planning and expanded capacity needed to deliver the enhanced output. Projections in this area will remain subject to economic influences and supply chain variables, however being managed as a multi-year programme oversight will manage fluctuations in cost and availability. This may however lead to single year variances within the overall programme, which is typical of a multi-faceted plan of this scale and complexity.

9.9 Proposed revenue expenditure for Repairs and Maintenance of £7.929m, and capital expenditure for Planned Maintenance and Improvements of £10.610m is included in the Housing Investment Plan, summarised in **APPENDIX II**. These budgets make provision for typical levels of activity as well as an anticipated increase attributable to the lower level of reactive repairs reported out under pandemic restrictions, as well as the strategic investment priorities.

New Build Housing Programme

9.10 The Scottish Government has identified affordable housing as a key national strategic priority and committed to fund the building of 110,000 affordable housing by 2032. The current resource assumption for Moray is £11.2m in 2022/23 and £5.021m in 2023/24. However, the Government has indicated that the resource assumption is the minimum that can be expected and the Council should be prepared to accelerate the programme to take account of further funding allocations.

9.11 The Council's Local Housing Strategy (LHS) sets out the Council's objectives in relation to housing for the period 2019 to 2024. Following wide consultation with partners and tenants, the strategy was agreed by Communities Committee on 2 April 2019 (paragraph 8 of the minute refers). The key objectives of increasing the supply of affordable housing and tackling homelessness are included in the Council's Corporate Plan 2023. The Housing Needs and Demand Assessment completed in 2019 indicated that 424 new affordable houses are required per annum over a 10 year period to address current and projected housing need in Moray.

9.12 The Council's Strategic Housing Investment Plan (SHIP) approved by Housing and Community Safety Committee on 19 October 2021 (paragraph 5 of the Minute refers), makes provision for 50 Council house completions per year from 2022/23-2026/27. This is subject to Business Plan capacity but does give an indication of the potential number of houses that can be delivered on the basis of development opportunities and funding levels available over the lifecycle of the SHIP. Given there is some uncertainty with regards to the capacity of the local housing associations to develop, it can be assumed that the scale of the Council's house building programme will be a key factor in ensuring that the available resources are fully utilised in Moray.

Financing Costs

9.13 Financing costs are projected at £4.096m for 2022/23. This is an increase of £216k when compared to the previous year's budget.

Capital from Current Revenue (CFCR)

9.14 CFCR enables the Council to utilise available revenue resources to help fund capital projects and reduce the requirement for prudential borrowing. The Housing Investment Plan sets out the repairs and maintenance priorities for 2022/23. These will be financed through the HRA revenue and capital budgets. For 2022/23, it is proposed to set CFCR at £4.303m to allow the Council to maintain an operating surplus of £2.401m at year end.

Downsizing Incentive Scheme

9.15 It is proposed to maintain the annual budget for the Downsizing Incentive Scheme at £72k for 2022/23.

Service Developments

9.16 Service developments of up to £456k have been included in the budget for 2022/23 to reflect several emergent priorities, notably the capacity to deliver the enhanced investment programme, tenant participation and housing management resource. Each of these elements are significantly below benchmarked equivalents and are required to deliver service priorities and specific details will be reported to service committees in the course of the reporting year.

9.17 There is a statutory requirement to complete a Housing Need and Demand Assessment to facilitate the housing land allocations in the next Local Development Plan. The proposed budget for this activity is £17k, which has been carried forward from 21/22.

Income

9.18 Rental income is the primary source of income for the HRA. The HRA must balance (or the deficit must be funded from General Services). The level of income generated within the HRA continues to influence what the Council can fund with regards to its housing activities. Rent collection rates remain in the upper quartile compared with other local authority landlords.

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

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

The provision of new affordable housing, the maintenance of the Council's housing stock and dealing with homelessness are priorities identified within the Corporate Plan, the Council's Local Housing Strategy, the Strategic Housing Investment Plan (SHIP) and the Housing and Property Service Plan.

(b) Policy and Legal

There are no policy or legal implications arising from this report.

(c) Financial Implications

The 2022 Business Plan review provides for the the legislative work programmes that the Council will be required to deliver in future years and sets a rental framework within which it can be sustainably delivered. It concluded that an increase of CPI + 1% would ensure that the

Council's housing activities remain fundable and affordable. The business plan will remain under periodic review given the extent of investment activity and changing market conditions.

(d) Risk Implications
The 2022 Business Plan review included detailed risk assessment and sensitivity analysis, which demonstrated that the HRA remains within acceptable limits under the range of scenarios tested. Given the continued recovery from the impact of the pandemic and the extent of economic uncertainty, this position will be periodically reviewed and appropriate contingent measures taken.

(e) Staffing implications
There will be a number of posts funded under the service development budget in order to increase capacity in Housing Investment, Tenant Participation and Housing Management. Specific details of these will be reported to the service committee.

(f) Property
None.

(g) Equalities/Socio Economic Impact
There are no equalities/socio economic impacts arising from this report.

(h) Climate Change and Biodiversity Impacts
Delivery of the Housing Investment Programme will make a significant contribution to meeting EESSH standards within the Council's stock, thereby reducing energy ratings and carbon emmissions. Similarly the Council's affordable housing supply programme is predicated on delivering low-carbon developments.

(i) Consultations
This report has been prepared in consultation with Finance staff. Consultation on this report has also been carried out with the Head of Financial Services, the Head of Governance, Strategy and Performance, Tracey Sutherland, Committee Services Officer and Senior Managers within the Housing and Property Service and any comments received are reflected in this report.

11. <u>CONCLUSION</u>

11.1 This report presents the HRA Budget proposals for 2022/23. It also includes a three year financial projection to 2024/25. Following consultation a rent of 1.5% is recommended for 2022/23 and the reviewed business plan is thereafter predicated on CPI + 1% in order that the Council's housing activities remain sustainable and affordable.

Author of Report:	Edward Thomas, Head of Housing and Property
Background Papers:	Held by author
Ref:	SPMAN-1285234812-1036

Draft HRA Budget 2022-23 - Based on 1.5% rent increase **APPENDIX I**

Service Description	Annual Budget 2021-22	Projected Outturn to 31st March 2022	Projected Variance to 31st March 2022	Draft Budget 2022-23	Variation between 2021-22 & 2022-23
Expenditure	**£,000**	**£,000**	**£'000**	**£'000**	**£'000**
Supervision & Management	**4,297**	4,152	145	**4,533**	236
Sheltered Housing	**22**	26	(4)	**25**	3
Repairs and Maintenance	**7,678**	6,757	921	**7,956**	278
Financing Costs	**3,880**	3,781	99	**4,096**	216
Bad & Doubtful Debts	**225**	205	20	**225**	0
CFCR	**4,910**	6,073	(1,163)	**4,303**	(607)
Downsizing Incentive Scheme	**72**	40	32	**72**	0
Service Development	**119**	79	40	**456**	337
Total Gross Expenditure	21,203	21,113	90	**21,666**	463
Income	**£,000**	**£,000**	**£,000**	**£,000**	**£,000**
Non-dwelling rents	**229**	228	(1)	**242**	13
House rents	**20,880**	20,866	(14)	**21,335**	455
IORB	**4**	2	(2)	**2**	(2)
Other income	**90**	17	(73)	**87**	(3)
Total Income	21,203	21,113	(90)	**21,666**	463
Surplus / (Deficit)	**0**	0	0	**0**	
Balance carried forward		2,401		**2,401**	
Estimated Balance at end of Period	0	2,401		**2,401**	

1. The draft budget figure for Repairs and Maintenance varies by £27k from the figure in paragraph 9.9 due to the inclusion of Pest Control (£13k), Grass Cutting (£82k) and Grounds Maintenance (£32k), less the targeted DLO surplus (£100k).

APPENDIX II

HOUSING INVESTMENT PLAN 2022/23 – 2024/25

1. The investment proposals for 2022/23 to 2024/25 can be summarised as shown below:-

Investment Heading	Programme	2022/23 £'000	2023/24 £'000	2024/25 £'000
Response and Void repairs	Response Repairs	2,460	2,534	2,610
	Void House Repairs	1,427	1,469	1,513
	Gas Heating Repairs	600	618	637
	Total Response	**4,487**	**4,621**	**4,760**
Estate Works	Garage Upgrades	25	26	27
	Asbestos	360	371	372
	Estates/Forum Budget	230	230	200
	Landscape Maintenance	50	60	61
	Total: Estate Works	**665**	**687**	**660**
Cyclic Maintenance	Gas Servicing	360	371	382
	Solid Fuel Servicing	15	5	5
	ASHP Servicing	59	61	62
	Smoke Alarm Servicing	15	15	15
	PPR/Painterwork	358	678	698
	General Servicing	50	52	53
	Fire Risk Assessments		153	159
	Total: Cyclic Works	**857**	**1,335**	**1,374**
Planned Maintenance	Roof and Fabric Repairs	500	650	670
	Rainwater goods	450	463	477
	Central Heating	1,500	2,121	2,186
	Insulation	1,000	3,013	3,103
	EESSH/EESSH 2	1,000	4,138	4,262
	Warm Homes R4 c/f	1,860	0	0
	LCTIP c/f	2,600	0	0
	Kitchen Replacements	1,000	1,030	1,061
	Bathroom Replacements	175	361	371
	Plumbing Upgrades	51	52	53
	Electrical Upgrades	396	717	738
	Doors and Windows	1,100	853	884
	Safety & Security	21	21	21
	Common Stairs	0	0	0
	Shower Installations	50	51	53
	Sheltered Housing	10	10	11
	Smoke/CO2 Upgrades	375	0	0
	Decoration Vouchers	72	74	76
	Total: Planned	**12,160**	**13,554**	**13,966**
Other investment	Adaptations	360	360	360
	Enabling Budget	10	10	10
	Total: Other	**370**	**370**	**370**
Proposed Investment		**18,539**	**20,567**	**21,130**

2. Funding for Response and Void Repairs, Estates Improvements and Cyclic Maintenance is reflected within the Housing Revenue Account Budget for 2022/23. Two balances are carried forward from 2021/22: £1.860m from Warm Homes round 4 grant funding towards the installation of 245 new heating systems and £2.6m from the Low Carbon Infrastructure Transformation Programme (LCITP), which will support the installation of 121 Air Source Heat Pumps.

3. The Housing Business Plan (2022) proposed that planned expenditure would be met from available revenue resources, after allowing for a surplus of £1.100m on the HRA as a cushion for unexpected expenditure/variations in the year. Bearing in mind guidance regarding what works would be more appropriately deemed as 'capital' expenditure, expenditure on window/doors, kitchens and bathrooms, and heating improvements are treated as capital expenditure. Capital from Current Revenue (CFCR) also contributes to the funding of Planned Capital works from the Housing Revenue Account, with prudential borrowing meeting any further capital expenditure required. Other revenue planned works (roofs, rainwater goods, plumbing upgrades etc.) are funded from the Housing Revenue Account.

4. Capital expenditure proposed for 2022/23 to 2024/25 can be summarised as:–

Investment	**2022/23 £'000**	**2023/24 £'000**	**2024/25 £'000**
Doors and Windows	1,100	853	884
Central Heating	1,500	2,121	2,185
EESSH	1,000	4,138	4,262
Warm Homes R4 c/f	1,860	0	0
LCTIP c/f	2,600	0	0
Kitchen Replacements	1,000	1,030	1,061
Bathroom Replacements	175	361	371
Insulation	1,000	3,013	3,103
Smoke Detectors	375	0	0
Council House New Build	14,099	19,947	1,388
Total Capital Investment	**24,709**	**31,463**	**13,254**

5. For the same period, capital funding is projected at:-

Projected income	**2022/23 £'000**	**2023/24 £'000**	**2024/25 £'000**
CFCR	4,303	3,968	4,127
Prudential Borrowing	6,866	20,574	7,227
Scottish Government Grant	11,200	5,021	0
Other Grants	1,740	1,300	1,300
Council Tax Discount on 2nd homes	600	600	600
Total	**24,709**	**31,463**	**13,254**

Housing Revenue Account **APPENDIX III**

Three Year Projection

Service Description	**Annual Budget 2022-23**	**Annual Budget 2023-24**	**Annual Budget 2024-25**
Expenditure	**£,000**	**£,000**	**£,000**
Supervision & Management	4,533	5,098	5,200
Sheltered Housing	25	27	28
Repairs and Maintenance	7,956	9,079	9,291
Financing Costs	4,096	4,322	5,420
Bad & Doubtful Debts	225	234	243
CFCR	4,303	3,968	4,127
Downsizing Incentive Scheme	72	72	72
Service Developments	456	0	0
Total Gross Expenditure	21,666	22,800	24,381
Income	**£,000**	**£,000**	**£,000**
Non-dwelling rents	242	243	258
House rents	21,335	22,468	24,034
IORB	2	2	2
Other income	87	87	87
Total Income	21,666	22,800	24,381
Surplus / (Deficit)	0	0	0
Balance carried forward	2,401	2,401	2,401
Estimated Balance at end of Period	2,401	2,401	2,401

Item 5.

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

SUBJECT: **TREASURY MANAGEMENT STRATEGY STATEMENT AND PRUDENTIAL INDICATORS**

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

1. REASON FOR REPORT

1.1 The purpose of this report is to ask Council to approve the Treasury Management Strategy and the Investment Strategy for 2022/23 and to approve the indicators which will be used to measure the Council's performance in capital investment decisions.

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

2. RECOMMENDATION

2.1 It is recommended that the Council:

(i) approves the Treasury Management Strategy Statement for 2022/23;

(ii) approves the Investment Strategy for 2022/23 in APPENDIX 1;

(iii) approves the Prudential Indicators and Limits for 2022/23 in APPENDIX 3 and

(iv) notes the indicative Prudential Indicators and limits for 2023/24 and 2024/25.

3. BACKGROUND

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

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

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

4. TREASURY MANAGEMENT STRATEGY 2022/23

Current Treasury Position

4.1 The Council's borrowing and investments at 11 January 2022 are set out in the table below:

		Actual	Rate
		£000	%
Fixed Rate Debt	PWLB	**137,454**	**4.77**
	LOBO	**10,100**	**3.95**
	Market	**23,300**	**5.00**
Variable Rate Debt	PWLB	**-**	**-**
	LOBO	**-**	**-**
Temporary Borrowing – Local Authorities		**63,000**	**0.15**
Total External Borrowing		**223,854**	**3.52**
Other Liabilities		**52,831**	**n/a**
Total Gross External Debt		**276,685**	**n/a**
Investments **Short Term Investments**		**33,190**	**0.12**
Net Debt		**243,495**	**n/a**

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

Interest Rates Forecast

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

4.3 The Bank of England (BoE) increased the Bank Rate to 0.25% in December 2021 whilst maintaining its Quantitative Easing program at £895 billion. The authority's treasury adviser Arlingclose is forecasting that the Bank Rate will continue to rise in Quarter 1 2022 to subdue inflationary pressure and because of the perceived desire of the BoE to move away from emergency levels of interest rates.

The Arlingclose central case is for gilt yields (the interest rates paid on UK Government Bonds) to remain broadly at current levels over the medium-term. The rates payable on UK gilts for the short and medium-term yields are initially to increase but shifts lower later, while those for long-term yields the risk is to increase.

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

Borrowing Strategy 2022/23

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

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

4.6 By adopting the above approach, the Council is able to reduce net borrowing costs and reduce overall treasury risk. The benefits of either using internal resources or borrowing short-term will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. The Council's advisers will assist with this breakeven analysis which may determine whether the Council borrows additional sums at long-term fixed rates in 2022/23 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

4.7 The Council has previously raised the majority of its long-term borrowing from the PWLB but could consider long-term loans from other sources including banks and local authorities. The Council may also investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. PWLB loans are no longer available to local authorities planning to buy investment assets primarily for yield; the Council has never adopted this approach and will continue to avoid this activity in order to retain access to PWLB loans.

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

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

- HM Treasury's PWLB lending facility (formerly the Public Loans Works Board) and any successor body
- UK Local Authorities
- Any Bank or Building Society authorised to operate in the UK.
- UK public and private sector pension funds
- Capital market bond investors
- UK Municipal Bonds Agency PLC and other special purpose companies created to enable joint local authority bond issues

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

4.10 At 1 April 2021 the Council held £10.1 million of LOBO loans where the lender has the option to propose an increase in the interest rate at set dates, following which the Council has the option to either accept the new rate or to repay the loan at no additional cost. The Council will take the opportunity to repay the remaining LOBO loan at no cost if the opportunity arises.

4.12 The revised Prudential Code and Treasury Management Code of Practice published December 2021 states that it is not prudent for local authorities to make investment or spending decisions that increases the capital financing requirement and so leads to new borrowing unless directly and primarily related to the functions of the local authority. In short, the Council is not permitted to borrow to invest primarily for financial return.

4.13 The revised code reminds Local Authorities that the prime objective of their treasury management investment activities is the security of funds, and they should avoid exposing public funds to unnecessary or unquantified risk. It is not prudent to make any investment or spending decision where any financial returns are either related to the financial viability of the project in question or otherwise incidental to the primary purpose of the Local Authority.

Debt Rescheduling

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

4.15 The current low interest rate environment and changes in the rules regarding the premature repayment of PWLB loans has adversely affected the scope to undertake meaningful debt restructuring in recent years and there is no indication that this will change significantly during 2022/23.

Financial Derivatives

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

5. INVESTMENT STRATEGY 2022/23

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

5.2 The primary principles governing the Council's investment criteria is the security of capital and liquidity of its investments. The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. Where balances are expected to be invested for more than one year, the Council will aim to achieve a total return that is equal or higher than the prevailing rate of inflation in order to maintain the spending power of the sum invested. Under the current economic climate of rising inflation and relatively low interest rates this could become more challenging in the short to mid-term

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

6. TREASURY MANAGEMENT PRUDENTIAL INDICATORS

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

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

6.3 **Affordability**

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

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

Despite the current upward pressure on interest rates, the Council does not envisage difficulties for the future after taking into account current commitments and existing plans. The Treasury Management Team, in partnership with the Council's treasury advisors Arlingclose, will continue to monitor closely the situation around interest rates and take any necessary action to avoid risk to the council's finances.

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

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

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

6.7 The Indicators and Limits for 2022/23 are based on the General Services Capital Plan and Housing Revenue Account Investment Plan presented in separate reports for consideration at this meeting.

6.8 Prudential Indicators are for 2022/23 only as the capital plan for General Services is proposed for one year only, namely 2022/23. However, indicative figures for 2023/24 and 2024/25 are included based on the indicative 10 year capital plan included in the budget report to this meeting of Council.

6.9 Actual outturn figures for 2020/21 have previously been reported to Moray Council on 30 June 2021 (paragraph 16 of the minute refers) and these figures have also been included in the report for comparison purposes.

6.10 This report also updates the previously approved indicators for 2021/22 based on the latest estimated outturn for 2021/22.

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

(a) Moray 2026: A Plan for the Future and Moray Corporate Plan 2015 - 2017
None specifically arising from this report.

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

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

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

(c) Financial implications
All financial considerations are contained within the body of the report and the attached **APPENDICES 1 - 4**.

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

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

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

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

(e) Staffing Implications
None specifically arising from this report.

(f) Property
None specifically arising from this report.

(g) Equalities
None specifically arising from this report.

(h) Climate Change and Biodiversity Impacts
None specifically arising from this report.

(i) Consultations
This report has been produced in consultation with Arlingclose.

8. <u>CONCLUSION</u>

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

8.2 The Investment Strategy will ensure that the Council will achieve the optimum return on its investments whilst maintaining a high level of

liquidity to allow flexibility and above all ensure that the Council's investments are secure.

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

8.4 Prudential Indicators and Limits are proposed for 2022/23 only, as the proposed Capital Plan is for this year only. Indicative figures for 2023/24 and 2024/25 are identified.

Authors of Report: Paul Connor, Principal Accountant
Background Papers:
Ref:

SPMAN-1293228629-651

The Annual Investment Strategy 2022/23

1. Background

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

1.2 Both the Regulations and the CIPFA Code require the Council to invest its funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The Council's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving very low interest rates on investments. Where balances are invested for more than one year, the council will endeavour to achieve a total return that is at least equal to the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

1.3 The Annual Investment Strategy covers:

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

2. Creditworthiness Policy

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

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

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

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

2.4 The current minimum criteria was approved by Full Council on 27 February 2019 (Para 5 refers) and it is not proposed to alter these.

The Council's minimum criteria are:

- Banks – the Council will use banks which have at least the following Fitch or equivalent ratings.

  - Long Term: BBB+

- Building Societies – the Council will include Societies which meet the criteria for Banks outlined above.

- Money Market Funds – Long Term: AAAmmf (Fitch) or equivalent.

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

3. Investment Strategy

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

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

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

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

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

4. Permitted Investments

4.1 The Council will undertake the most appropriate form of investments in keeping with investment objectives, income and risk management requirements and prudential indicators. The Council may invest its surplus funds with any of the counterparty types in the table detailed in paragraph 4.4 below, subject to the limits shown and ensuring that the Council's environmental and social criteria are met.

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

- **Debt Management Agency Deposit Facility (DMADF).** This offers the lowest risk form of investment available to local authorities as it is effectively an investment placed with the UK Government. It is also easy to use as it is a deposit account and avoids the complications of buying and holding Government issued treasury bills or gilts. As it is low risk it also earns low rates of interest. The longest term deposit that can be made with the DMADF is 6 months.

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

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

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

- **Securities Issued or Guaranteed by Governments**

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

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

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

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

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

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

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

4. **Interest Rate Risk**: this is the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the Council's finances, against which the Council has failed to protect itself adequately. The Council has set

limits for its fixed and variable rate exposure in its previously agreed Treasury Indicators.

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

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

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

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

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

4.5 Controls on Treasury Risks

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

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

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

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

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

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

4.6 Unlimited Investments

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

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

5. Non Treasury Investments

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

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

5.3 The following table provides a summary of the Councils Non-Treasury Investments at 31 March 2021 and the maximum value of investments that the Council will hold.

	Actual Value at 31 March 2021 £m	**Max Value of Investments £m**
Investment Property * - Council	£0.862m	£10m
Share Holdings - Council	Note **	£0.1m
Loans to 3rd Parties Market Rate - Council	£0.403m	£2.0m
Loans to 3rd parties – Below Market Rate - Council	£0.019m	£0.5m
Investment Property * - Common Good Funds	£2.334m	£12m
Share Holdings - Common Good Funds	Nil	Nil
Loans to 3rd Parties Market Rate – Common Good Funds	Nil	£0.5m
Loans to 3rd parties – Below Market Rate – Common Good Funds	Nil	Nil
Investment Property * - Trust Funds	£0.080m	£1.0m
Share/ Unit Trust Holdings – Trust Funds	£2.863m	£3.5m

Notes

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

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

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

6. End of Year Investment Report

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

APPENDIX 2

THE MORAY COUNCIL
APPROVED COUNTERPARTIES LIST

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

Item 5.

UK Building Societies	Limit (£m)	Time Limit	Long Term Rating
Nationwide	5	35 days	A+/1/A+

Other Institutions	Limit (£m)	Time Limit	Long Term Rating
Debt Management Office	Unlimited	6 Months	A1-/Aa3/Aau
UK Local Authorities	5	2 years	

Money Market Funds	Limit (£m)	Time Limit	Long Term Rating
Standard Life Sterling Liquidity Fund	5	Call	AAAmf/Aaa-mf/AAAm
Federated Sterling Prime Fund	5	Call	AAAmmf/-/AAAm
Blackrock Institutional Sterling Liquidity Fund	5	Call	AAAmf/Aaa-mfAAAm
Insight Sterling Liquidity Fund	5	Call	AAAmf/-/AAAm
Deutsche Bank Managed Sterling Fund	5	Call	AAAmmf/Aaa-mf/AAAm
CCLA Public Sector Deposit Fund (UK)	5	Call	AAAmmf/-/-

Notes

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

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

APPENDIX 3

Prudential and Treasury Indicators

Capital Expenditure Indicators

1. Capital Expenditure

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

This indicator outlines capital spending plans for 2022/23 based on the proposed capital plan, with indicative figures for 2023/24 and 2024/25 based on the indicative 10 year capital plan.

For comparison purposes, the actual spend for 2020/21 is presented together with estimates for 2020/21 based on the latest figures at 31 December 2021.

	2020/21 Actual £000	**2021/22 Estimate £000**	**2022/23 Budget £000**	**2023/24 Budget £000**	**2024/25 Budget £000**
Capital Expenditure					
General Services	39,439	42,661	51,265	53,702	63,836
HRA *	11,858	15,136	24,709	31,463	13,254
Total Capital Expenditure	51,297	57,797	75,974	85,165	77,090
Financed by:					
Capital Receipts	-	-	700	156	156
Capital Grants	13,768	14,714	28,569	24,520	16,060
Revenue	6,421	8,298	4,903	4,568	4,727
Total Funding	20,189	23,012	34,172	29,244	20,943
Net financing need for the year	31,108	34,785	41,802	55,921	56,147

In General Services, the 2021/22 estimated capital expenditure includes a number of major projects. The most significant items are; £10.8m for the Council's share of the cost of the construction of the NESS Energy for Waste (EfW) facility in Aberdeen and £3.8m on Roads capital projects. In 2022/23 the NESS facility is budgeted to spend £2.3m and other significant projects include the Findrassie Primary School and investment in projects under the Moray Growth Deal.

The increase on the HRA from 2021/22 to 2022/23 relates principally to the phasing of the new build housing programme, with an increase of £7.6m. There is also an increase in investment in existing Housing Stock.

Capital grant and other contributions show an increase of £13.8m from 2021/22 estimated amounts to the 2022/23 budget, explained mainly by an increase in grants to fund HRA new builds and government grant funding for Moray Growth Deal.

2. Capital Financing Requirement

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

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

	2020/21 Actual £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000
Capital Financing Requirement (CFR)					
General Services	260,619	279,849	304,122	327,708	363,432
HRA	81,272	85,416	90,591	109,098	113,491
Total CFR	**341,891**	**365,265**	**394,713**	**436,806**	**476,923**
Movement in CFR	**20,729**	**23,374**	**29,448**	**42,093**	**40,117**
Net financing Need (Indicator 1)	31,108	34,785	41,802	55,921	56,147
Scheduled debt amortisation	(10,379)	(11,411)	(12,354)	(13,828)	(16,030)
Movement in CFR	**20,729**	**23,374**	**29,448**	**42,093**	**40,117**

Affordability Indicators

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

3. Ratio of Financing Costs to Net Revenue Stream

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

Service	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
General Services	8.00%	8.34%	8.90%	9.27%	10.25%
HRA	21.63%	18.20%	19.26%	19.30%	22.62%

The percentages in General Services from 2020/21 to 2024/25 reflect the ongoing general requirement to increase borrowing to fund capital expenditure in the capital plan, particularly in the Learning Estate, Roads and the Moray Growth Deal

The increase in percentages in the HRA from 2020/21 to 2024/25 reflects the ongoing requirement to increase borrowing due, in part, to the ongoing programme of new build housing.

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

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

	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Council Tax - Band D	£(36.37)	£13.47	£32.14	£32.32	£69.14
Average Weekly Housing Rents	£0.52	£(1.48)	£0.96	£0.68	£3.24

An increase in the calculated amount on Council Tax is indicative of the Council's requirement to borrow in order to fund the General Services Capital Plan. The increase in calculated amount on Council Tax in 2021/22 is low because the 2020/21 capital plan had significant slippage due to the Covid-19 pandemic and the subsequent knock-on effect in lead-time increases for materials and the wider supply chain. The projections for 2022/23 assume an element of catching up on planned spend. Included in 2023/24 are high cost projects of construction of Findrassie Primary School and Investment in the School Estate and in our roads network.

In the HRA, the increase in incremental impact on housing rents from 2022/23 onwards demonstrates that the capital investment plans, including for new affordable housing, require an incremental increase on average rents to fund the cost of additional borrowing.

Prudence Indicators

5. Gross Debt and the Capital Financing Requirement

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

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

	2020/21 Actual £000	2021/22 Estimate £000	2022/23 Estimate £000	2023/24 Estimate £000	2024/25 Estimate £000
Borrowing	253,978	280,530	311,478	354,893	396,520
Other Liabilities	56,009	52,381	51,331	50,009	48,499
Gross Debt	309,387	333,361	362,809	404,902	445,019
CFR	341,891	365,265	394,713	436,806	476,923
Under Limit By	31,904	31,904	31,904	31,904	31,904

The above figures confirm that the Council's borrowing will be under the Capital Financing Requirement due to the Council's policy in the economic climate of low interest rates of using internal balances and short term temporary loans.

External Debt Indicators

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

6. The Authorised Limit For External Debt

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

	2020/21 Actual Maximum £000	2021/22 Estimate Maximum £000	2022/23 Estimate Maximum £000	2023/24 Estimate Maximum £000	2024/25 Estimate Maximum £000
Borrowing	253,978	310,396	379,527	427,631	479,015
Other Liabilities	56,009	56,425	54,831	53,331	52,009
Total External Debt	309,987	366,821	434,358	480,962	531,024

The authorised limits shown above are based on the proposed capital investment plan for 2021/22 to 2024/25 and anticipated Other Liabilities and take account of Treasury Management policy and practice. The figures allow sufficient headroom for unanticipated cash movements. Total debt must include all liabilities relating to the financing of assets.

7. Operational Boundary for External Debt

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

Operational Boundary	2020/21 Actual Maximum £000	2021/22 Estimate Maximum £000	2022/23 Estimate Maximum £000	2023/24 Estimate Maximum £000	2024/25 Estimate Maximum £000
Borrowing	253,978	305,396	364,527	412,631	464,015
Other Liabilities	56,009	55,425	53,831	52,331	51,009
Total External Debt	309,987	360,821	418,358	464,962	515,024

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

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

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

8.1 Fixed and Variable Rate Limits

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

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

	2020/21 Actual	2021/22 Estimate	2022/23	2023/24 & 2024/25
Interest Rate Exposures	**Upper Limit**	**Upper Limit**	**Upper Limit**	**Upper Limit**
Limits on Fixed Interest Rates based on Net Debt	100%	100%	100%	100%
Limits on Variable Interest Rates based on Net Debt	0%	35%	35%	35%

8.2 Maturity Structure of Fixed Interest Rate Borrowing

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

	2020/21 Actual	2021/22		2022/23		2023/24 & 2024/25	
		Lower	Upper	Lower	Upper	Lower	Upper
< 12 months	23.56%	0%	30%	0%	30%	0%	30%
12 – 24 months	3.74%	0%	20%	0%	20%	0%	20%
2 – 5 years	9.75%	0%	25%	0%	25%	0%	25%
5 – 10 years	10.10%	0%	50%	0%	50%	0%	50%
>10 years	52.85%	0%	85%	0%	85%	0%	85%

8.3 Maximum Principal Sums Invested Greater than 364 days

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

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

INTEREST RATE FORECAST

	Mar 22 %	Jun 22 %	Sep 22 %	Dec 22 %	Mar 23 %	Jun 23 %	Sep 23 %	Dec 23 %	Mar 24 %	Jun 24 %	Sep 24 %	Dec 24 %
Bank Rate	**0.25**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**	**0.50**
3-mth Money Market	**0.55**	**0.55**	**0.60**	**0.60**	**0.60**	**0.60**	**0.65**	**0.65**	**0.65**	**0.65**	**0.65**	**0.65**
5-yr Gilt Yield	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.60**	**0.65**	**0.70**	**0.75**	**0.75**
10-yr Gilt Yield	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.85**	**0.90**	**0.90**	**0.95**	**0.95**
20-yr Gilt Yield	**1.05**	**1.10**	**1.10**	**1.10**	**1.10**	**1.15**	**1.15**	**1.15**	**1.20**	**1.20**	**1.20**	**1.20**
50-yr Gilt Yield	**0.75**	**0.80**	**0.85**	**0.90**	**0.95**	**1.00**	**1.05**	**1.05**	**1.10**	**1.10**	**1.15**	**1.15**

The forecast is based on the following underlying assumptions:

- The global recovery from the pandemic has entered a more challenging phase. The resurgence in demand has led to the expected rise in inflationary pressure, but disrupted factors of supply are amplifying the effect, increasing the likelihood of lower growth rates ahead. The advent of the Omicron variant of coronavirus is affecting activity and could to increases in prices and inflation
- The CPI inflation rate rose to 5.1% for November 2021 and is expected to rise higher in the near term. These factors prompted the MPC to raise the Bank Rate to 0.25% at the December 2021 meeting. Short term interest rate expectations remain on an upward trend.
- The Council's Treasury Management advisors, Arlingclose, expects the Bank Rate to rise to 0.5% in Q1 2022 but then remain there.
- The economic outlook appears weaker with household spending facing pressure from a combination of higher prices and tax rises. In the medium term the Omicron variant has already affected growth.
- Longer-term government bond yields remain relatively low despite the more hawkish signals from the BoE and Federal Reserve. Concerns remain amongst investors that significant monetary policy tightening in the near term will slow economic growth and prompt the need for looser monetary policy later. Geo-political and coronavirus risks are also driving buying in safe haven assets which are financial instruments that are expected to retain, or even gain value during periods of economic downturn.

APPENDIX 5

GLOSSARY OF TERMS

Bail-In: an arrangement in which creditors of a failing financial institution are required to cancel come of its debts as part of a plan to save it from collapse

Financial Instruments: are assets that can be traded, or they can also be seen as packages of capital that can be traded

Gilts: fixed-Interest loan securities (Bonds) issued by the UK Government

Gilt Yield: the interest raids paid on UK Government Bonds

Money Market Fund: a mutual fund that invests in highly liquid, near-term instruments

Safe Haven: a type of investment that is expected to retain or increase in value during times of market turbulence, for example: gold or defensive stocks

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

SUBJECT: USE OF CAPITAL RECEIPTS TO FUND TRANSFORMATION

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

1. REASON FOR REPORT

1.1 To request Council's approval to use capital receipts to fund a specified range of transformation or service redesign projects, in the terms permitted by Scottish Government as set out in Local Government Finance Circular No 4/2019.

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

2. RECOMMENDATION

2.1 It is recommended that Council:

i) approves the use of capital receipts to fund expenditure estimated at £290,000 in 2021/22 on the Improvement and Modernisation Programme and Digital Services, as set out in section 4 of this report; and

ii) notes that annual recurring savings of at least £3,195,000 are projected to be achieved from this and the last three years' investment of capital receipts.

3. BACKGROUND

3.1 Local authorities are required to use capital receipts to fund capital expenditure. Scottish Ministers are empowered by the Local Government Scotland Act 2003 to vary proper accounting practices by issuing statutory guidance. The Cabinet Secretary for Finance, Economy and Fair Work wrote to the COSLA Spokesperson for Resources on 10 December 2018 stating his intention to issue guidance enabling capital receipts to be used to fund service transformation. The statutory guidance was issued on 28 March 2019 as Local Government Finance Circular No 4/2019.

3.2 The Guidance covers expenditure in the financial years 2018/19 to 2021/22. To be funded from capital receipts, expenditure must be on a transformation or service redesign project where incurring up-front costs will transform service delivery in a way that reduces costs and/or demand for services in future years and generate on-going savings. Following the pandemic, use of capital receipts to fund covid-related costs was also permitted as one of the short-term financial flexibilities for local authorities. As the Council planned to invest in transformation projects this flexibility has not been exercised to date but it is being extended into 2022/23, whilst the period of funding for transformation ends on 31 March 2022.

3.3 The Guidance requires a report to be presented to Council for approval to use capital receipts to fund qualifying expenditure. The report is required to set out the total estimated cost of each project; the expected savings or service demand reduction; details of the expenditure and the amounts and value of capital receipts to be used. Without the approval of Council capital receipts cannot be used for this purpose.

3.4 Previous reports have been made to Council on 8 May 2019 for use of capital receipts in 2018/19 (paragraph 8 of the Minute refers), on 12 February 2020 (paragraph 11 of the Minute refers) for use of capital receipts in 2019/20 and on 10 March 2021 (paragraph 7 of the Minute refers) for use of capital receipts in 2020/21..

4. USE OF CAPITAL RECEIPTS 2021/22

4.1 Capital receipts of £1,127,000 have been generated in 2021/22 as at 31 December 2021. It is proposed to fund qualifying expenditure in 2021/22 from these receipts as set out below.

4.2 The Council, at a special meeting on 12 December 2018, approved an Improvement and Modernisation Programme (IMP) (paragraph 5 of the Minute refers). There have been regular update reports to Policy and Resources Committee and latterly to Education, Communities and Organisational Development Committee, and to Council, with the latest update on the overall programme to Council on 15 September 2021 (paragraph 23 of the Minute refers). It is proposed that expenditure incurred on projects forming part of IMP is funded from capital receipts. Expenditure of £533,000 has been incurred to date and current estimates are that expenditure of £215,000 will be incurred in 2021/22, with total savings from IMP currently projected at £1,415,000 from those areas where savings have been currently quantified.

4.3 In addition to costs directly attributable to IMP, the Council has a Business Change Officer in the ICT service. The cost of this post in 2021/22, including oncosts, is £60,000. The Council is a member of the Digital Office for Scottish Local Government, for an annual membership fee of £15,000. These costs relate to the support for change which digital services can bring about and the postholder has been supporting work carried out in relation to the Education admin review and other work under IMP and it is proposed that these costs in 2021/22 are funded from capital receipts.

4.4 The overall position of proposed investment and forecast savings is summarised in the table below:

Project	Cost 2018 to 2021 £000s	Projected Cost 2021/22 £000s	Actual Savings 2018 to 2021 £000s	Projected Savings 2021/22 £000s	Projected future savings £000s	Total projected savings £000s
IMP	459	215	86	-	1,390	1,476
Digital Services	287	75	44	-	150	194
Service restructure	398	-	1,112	53	-	1,165
CAT	53	-	189	-	-	189
Total	1,197	290	1,431	53	1,540	3,024

4.5 No further savings in respect of the programme of Community Asset Transfers (CAT) of town halls is anticipated as the facilities have been transferred to community groups.

4.6 No further savings in respect of service restructures were anticipated but further savings of £53,000 were realised in 2021/22 from a temporary post which had come to an end.

5. SUMMARY OF IMPLICATIONS

(a) Corporate Plan and 10 Year Plan (Local Outcomes Improvement Plan (LOIP))
Use of capital receipts to fund transformation assists in achieving the Council's priority of being financially sustainable.

(b) Policy and Legal
This report is made following statutory guidance issued by Scottish Ministers under section 12 (2)(b) of the Local Government in Scotland Act 2003, on proper accounting practices.

(c) Financial implications
The financial implications are addressed through the report. One-off investment in transformation totalling £290,000 added to one-off investment of £1,197,000 in 2018/19 to 2020/21 is currently projected to generate recurring annual savings of £3,024,000.

(d) Risk Implications
There are risks that projected savings are not achieved by the investment in transformation. Risks are mitigated by closely monitoring progress in achieving savings.

(e) Staffing Implications
There are no staffing implications arising directly from this report.

(f) Property

There are no property implications arising directly from this report.

(g) Equalities/Socio Economic Impact
There are no implications for equalities or the socio-economic duty arising directly from this report.

(h) Climate Change and Biodiversity Impacts
There are no implications fr climate change and biodiversity arising from this report.

(i) Consultations
The Corporate Management Team has been consulted in the preparation of this report.

8. CONCLUSION

8.1 The Council has generated capital receipts of £1,127,000 in 2021/22 to date and retains unused capital receipts from 2020/21 of £2,722,000 . This totals £3,849,000, which sum is available to invest in transformation projects, following approval by Council. Expenditure of £290,000 in 2021/22 is recommended. Savings of £1,431,000 have been generated with £53,000 forecast for 2021/22 and a further £1,540,000 anticipated in future years.

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

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