REPORT TO: THE MORAY COUNCIL ON 7 DECEMBER 2016

SUBJECT: FINANCIAL PLAN REVIEW

BY: CORPORATE DIRECTOR (CORPORATE SERVICES)

1. <u>REASON FOR REPORT</u>

1.1 To enable the Council to review its financial plan for the current year and to note progress in relation to financial planning for 2017/18. The report also asks the Council to approve its financial contribution for the Energy from Waste collaborative project in the Council's 10 year capital plan.

1.2 This report is submitted to Council in terms of Section II (2) of the Council's Scheme of Administration relating to the annual estimates of capital and revenue expenditure and Section II (22) of the Council's Scheme of Administration relating to agreeing any new or additional capital projects and Section III (A) (7) relating to the acquisition and sale of land.

2. <u>RECOMMENDATION</u>

2.1 It is recommended that Council considers and notes:

(i) Progress to date in relation to financial planning for 2017/18; and

(ii) The consequences of the Make Do and Mend approach to the Capital Plan.

2.2 It is recommended that Council approves:

(i) The proposed amendments to the Capital Plan outlined in section 5 and reflected in APPENDIX 2 to this report.

(ii) The revision to the March Road project (the disposal of the site shown shaded in green in APPENDIX 3 and the leases of the sites shown shaded blue and yellow in APPENDIX 3) approved by Economic Development and Infrastructure Committee on 15 November 2016: and

(iii) capital funding for the NESS Energy from Waste plant as set out in paragraph 6.3.

3. BACKGROUND

3.1 The Council set the revenue budget for 2016/17 at its meeting on 17 February 2016 and completed its financial planning process for the current year on 30 March 2016 when it considered the 10 year capital plan and agreed a restricted version of the capital requirements for 2016/17.

3.2 On 30 March 2016 the Council also reviewed its governance arrangements in relation to capital projects and agreed that these should be considered on a bi-annual basis as part of a review of the entire capital plan. Whilst this was an improvement on the ad-hoc nature sometimes used to commit to additional capital projects a further improvement will be to ensure that the Council never looks at separate parts of its overall financial plan in isolation. Capital and revenue expenditure are directly linked, as capital projects are funded by loan charges, and those loan charges are paid for as an annual revenue expense. Therefore the Council should only approve additional capital projects if it is in a position to consider the implications of the ongoing loan charges that will arise.

3.3 The Council has established that it has insufficient annual income to meet its annual expenditure and therefore the increases in loan charges are adding to this problem. The Scottish Government has control of over 94% of the Council's income and therefore the options for tackling the annual shortfall, which is expected to increase, are restricted and at some point within the next two years will have to include significant reductions in service provision. The Council formally acknowledged this situation at its meeting on 30 March 2016, although at the same meeting Councillors approved more capital expenditure than recommended by the Asset Management Working Group

3.4 It is also notable that the Council has agreed to incorporate future financial plans within its corporate plans and this is regarded as further essential improvement in the Council's governance arrangements.

3.5 As part of the corporate planning process the Council had indicated that it would aim to prepare a draft financial plan for 2017/18 by mid-December. The idea was to enable a period of consultation with the public prior to final decisions being made in February 2017. Since submitting the corporate plan report to the Council meeting on 17 August 2016 the Corporate Management Team has commenced the detailed work that needs to be completed to prepare a robust plan. From this work it is apparent that the high level plan is not achievable, and this includes the completion of a draft financial plan for 2017/18 by mid-December. Meantime, work is progressing with the Transition Board, a cross-party group of Councillors, to prepare the groundwork for the five year plan, noting that the new Council will be working within a very constrained timescale to make the necessary changes for the Council to achieve financial sustainability.

3.6 It is also notable that at the time of targeting mid-December to report on a draft budget for consultation, the expectation had been that the UK budget for the public sector would have been announced and there would have been an up-to-date assessment for local government from the Scottish Government. The Chancellor presented his Autumn Statement on 23 November 2016 which made no major changes to the revenue allocation to Scotland but there was an increase in capital funding to Scotland of £800 million through Barnett consequentials as a result of additional capital investment south of the border.

3.6.1 A significant change was announced to growth percentages and inflation assumptions issued by the Office for Budget Responsibility (OBR) who are now anticipating lower growth and higher inflation for 2017/18.

3.6.2 The Scottish Government plan identifies a number of priorities, including education and health care. It has already committed to allocating £500 million additional funding above inflation to the NHS. It is silent on all other “unprotected” services including other local government services and therefore the assumption is that general funding for local authorities will be reduced.

3.7 Until the Scottish Local Government settlement is announced, the Council must make an estimate of the likely level of grant funding it will receive, based on a number of factors, including stated Government priorities. A reduction in General Revenue Grant has been assumed, and the working figure for 2017/18 through this financial year has been a grant reduction for Moray of just short of 1%. Recent government initiatives, such as the announced intention to directly fund schools outwith the local government settlement, suggest that this assumption may have been optimistic. For information the impact of larger reductions in grant funding is set out below:

Reduction in grant %	**Reduction in grant £000s**	**Total savings required £000s**	**Savings already Identified £000s**	**Savings Balance required 2017/18 £000s**
1%	1,563	14,100	1,100	13,000
1.5%	2,344	14,800	1,100	13,700
2%	3,125	15,600	1,100	14,500
2.5%	3,906	16,400	1,100	15,300
3%	4,679	17,200	1,100	16,100
4%	6,250	18,800	1,100	17.700
5%	7,813	20,300	1,100	19,200

4. ESTIMATED REVENUE OUTTURN

4.1 The estimated out-turns for both General Services revenue budget and the Capital Plan were reported to Policy and Resources Committee on 22 November 2016. At that time the estimated revenue out-turn for 2016/17 was an underspend of £759,000 (£742,000 departmental underspend plus £17,000 additional Council Tax income). However, that estimate did not include an estimate of fees for development work for the replacement of Lossiemouth High School. Since that report was drafted Scottish Government have confirmed that all of the Council's contribution must be treated as revenue expenditure, and the estimate based on the latest cost model is that fees of £640,000 will fall due in March 2017. Consequently, the current estimated out-turn for the year is an underspend of £119,000 and this will mean using £5 million from Council reserves.

4.2 The Moray Integration Joint Board (IJB)is now responsible for the budget for Adult Care services within the Moray Area and which fall within the Board's remit. The overall forecast outturn ton 31 March 2017, for the Moray IJB (including delegated Health Services from NHS) is £1,043,000. It is anticipated that slippage from the use of the additional monies supplied by the Scottish Government for Strategic Funds will meet this deficit as a one-off for 2016/17. The Chief Officer of the Moray IJB will work with her senior management team to identify savings to reduce the funding gap in 2017/18

4.3 It is estimated that the position for the Council's own services is a net recurring underspend of £744,000. The main causes of this underspend are additional savings found during 2016/17 (£235,000) and additional income generated (£376,000). These additional recurring savings have been incorporated in the Council's financial overview, which is used to develop the Council's financial plan and budget for the year.

5. CAPITAL PLAN 2016/17

5.1 Expenditure to 30 September 2016 and anticipated expenditure for the year under the Capital Plan were reported to Policy and Resources Committee on 22 November. A net overspend of £733,000 against the Capital Plan of £42,647,000 was forecast for 31 March 2017.

5.2 As a consequent of these projected variances, a number of amendments to the Capital Plan for 2016/17 are recommended and these are discussed in detail below.

5.3 Land and Buildings

5.3.1 Proposed Deferrals

5.3.1.1 The Schools Essential Works Programme included £60,000 for upgrading the gas pipework at Forres Academy. This work will not proceed in this financial year, as two invitations to tender both received a poor rate of response. The work is still required and it is proposed that the budget is deferred into 2017/18.

5.3.1.2 A budget of £10,000 was allocated for additional storage at Lhanbryde Primary School and it is proposed that this is also deferred into 2017/18, to allow consideration of requirements.

5.3.1.3 The replacement of hutted accommodation at Milne's Primary School was delayed due to protracted negotiations with Historic Scotland before planning permission could be obtained. Agreement has been reached and the project will commence towards the end of 2016/17, and it is, therefore, proposed that budget of £1,111,000 is deferred into 2017/18.

5.3.1.4 The residential facility for people with complex housing needs was originally projected to complete within 2016/17 but it is now anticipated that completion will be in 2017/18. A deferral of £442,000 is recommended.

5.3.1.5 The project to consolidate waste facilities at Moycroft is the subject of a detailed options appraisal and significant expenditure in 2016/17 is now not expected. It is recommended that the £1,690,000 budget for this project is deferred into 2017/18, with a similar shift of spend profile from 2017/18 to 2018/19.

5.3.1.6 The balance of £5,000 of a ring-fenced grant for expenditure on contaminated land remediation has been carried forward into 2016/17. It is anticipated that £3,000 will be spend and so it is proposed to defer £2,000 into 2017/18.

5.3.1.7 In total deferral of £3,315,000 on the above projects is recommended.

5.3.2 Proposed reductions

5.3.2.1 A number of projects included in the Schools Essential Works Programme are projected to be complete with expenditure slightly under budget: Buckie High School lighting upgrade (£7,000), Greenwards Primary School ASN base (£1,000), Hopeman Primary School roof and stonework (£6,000), Keith Grammar School lighting upgrade (£10,000), Lhanbryde Primary School noise abatement (£2,000) and Milne's High School exhaust ventilation (£7,000). A significant underspend of £195,000 is forecast on Speyside High School radon works, where a low cost solution has been found following further investigation. Legionella works in schools arising from inspections are projected to spend at £20,000 below budget. Provision of temporary accommodation for the new primary school in south Elgin is projected to underspend by £9,000. It is recommended that the Capital Plan is reduced by these underspends, £257,000 in total.

5.3.2.2 A budget of £25,000 was included for refurbishment of public toilets, but when these were inspected it was concluded that all public toilets were at B for condition and B for suitability, the Council's target standard, and so no work is planned for 2016/17. It is proposed that the Capital plan is reduced by £25,000 to reflect this.

5.3.2.3 A number of tenders received for works have come in at significantly below budget. Forres Academy ASN base (£49,000), Keith Grammar boiler replacement (£126,000) and the refurbishment of Forres swimming pool (£80,000) are projected to be completed below budget due to tender prices. The upgrade of recycling facilities at Keith recycling centre and road upgrade / resurfacing at Gollachy together are forecast to complete at £65,000 below budget, due to tender prices. Repairs to the Muckle Cross in Elgin are also projected to out-turn at £11,000 below budget based on the tender price.

5.3.2.4 In total, budget reductions of £613,000 are recommended, £331,000 based on tender price and £282,000 on other savings.

5.3.3 Proposed additions

5.3.3.1 The need for urgent works to address health and safety issues at recycling centres has been identified. It is proposed that £12,000 is added to the Capital Plan to allow for crumbling drainage channels at Moycroft to be replaced and a further £28,000 to manufacture and install two tanker gantries, one at Moycroft and the other at Dallachy. The issue of inspecting loads in ejection trailers, clearing any loose debris that could blow out in transit i.e. ensuring secure loads and netting repairs all working at height has been a long-running issue ever since the use of fall arrest harnesses was condemned some years ago. Various options for safe working at height have been considered but the most practical for checking and accessing the top of every load is a fixed gantry at both Moycroft and Dallachy. The additional £40,000 to allow for these works is more than covered by the savings on recycling upgrades achieved through the tender process.

5.3.3.2 The corporate budget for legislative requirements to buildings arising from inspection (legionella, fire risk assessments etc) was removed when the Capital plan was approved in March 2016 but unavoidable works of £18,000 have been instructed and it is recommended that the Capital Plan is adjusted to include budget of that amount.

5.3.3.3 In total, additions of £58,000 are recommended.

5.3.4 Proposed rescheduling of work

5.3.4.1 Replacement of the flat roof at Forres Academy is budgeted at almost £1,000,000 over two financial years. As a result of underspends in other projects in 2016/17, expenditure on this project has been advanced. The contractors are on site and it is recommended that £313,000 of the budget expenditure in 2017/18 is brought forward to 2016/17 to match the forecast spend in the year of £593,000.

5.3.4.2 It is also recommended that the Schools for the Future budget is reprofiled from 2017/18 to match the projected expenditure in 2016/17. £843,000 is recommended to be brought forward.

5.4 Infrastructure

5.4.1 Proposed deferrals

5.4.1.1 It is proposed that the Capital Plan is revised to reflect the decision of Economic Development and Infrastructure Services Committee on 20 September 2016 to seek external funding to replace the pontoons at Findochty harbour, by deferring the budget of £107,000 in 2016/17 into 2017/18.

5.4.2 Proposed rescheduling of work

5.4.2.1 It is proposed to bring forward budget of £8,000 to cover the cost anticipated to be incurred in 2016/17 on the access road to the new Elgin High School.

5.4.2.2 It is proposed that budget is brought forward to meet the cost of renovations at Buckie fishmarket prior to occupation related to windfarm development and to meet costs associated with the potential sale of the shipyard. These economic development related works total £68,000.

5.5 Vehicle, Plant and Equipment

5.5.1 Proposed reductions

5.5.1.1 The dredger construction is estimated to be completed at £150,000 below the budgeted amount. It is recommended that the capital plan is reduced by this amount.

5.5.2 Proposed additions

5.5.2.1 When the Capital Plan for 2016/17 was approved in March 2016 it was agreed to remove the budget for office furniture for one year. Some purchase of furniture has been inevitable, mainly arising from workplace Health and Safety assessment, and a budget of £2,000 is proposed to cover this expenditure to date.

5.5.3 Spend to Save

5.5.3.1 The CCTV camera system in Moray is owned and maintained by the Council and operated by Police Scotland at the police Station in Elgin. This is a partnership arrangement carried out through the work of the Public Protection Partnership and Community Safety Strategy. The system is old and in need of upgrading to avoid camera failures; the link to the Lossiemouth cameras failed in May 2016 due to vegetation growth impacting on the signal. BT will be replacing the existing system connections in 2018 but this is likely to result in increased line rentals. Options appraisals have identified an alternative solution involving replacement of the current cameras and maintenance contract at a cost of £60,000 and providing a revenue saving of £30,000 per annum over current arrangements. The current revenue budget would be reduced from £54,000 to £24,000. The alternative would be to cease operation of the CCTV system to save the £24,000 remaining in the budget but this is not supported by the Public Protection Partnership given the important role CCTV plays in crime prevention and detection. CCTV is utilised by Police Scotland in 28% of the investigations of incidents in town centres, and actively used in 6% of cases at the time an incident is occurring. It is recommended that £60,000 is added to the Capital Plan for 2016/17.

5.6 Flood Alleviation Schemes and Flood Risk Management

5.6.1 Feasibility studies and options appraisals for flood risk management at Portgordon and Lossiemouth Seatown are projected to complete by March 2017 and to out-turn at £110,000 below budget in total. It is recommended that the Capital Plan is reduced to reflect this saving.

5.6.2 Expenditure on the Elgin flood alleviation scheme is now projected to be £2,648,000 in 2016/17 and on the Forres (Findhorn and Pilmuir) flood alleviation scheme £280,000. The expenditure profile variance on the Elgin scheme was the subject of a report to Policy and Resources Committee on 25 October 2016 (item 6 of the minute refers). It is recommended that budget of £2,164,000 is brought forward from future years for the Elgin scheme and £136,000 for the Forres scheme. Both schemes are projected to out-turn within their overall budgets.

5.7 March Road, Buckie

5.7.1 The Capital Plan for 2016/17 includes £826,000 for the purchase of land to extend the provision of industrial sites at March Road, Buckie. The overall long-term plans for this site were reported to Economic Development and Infrastructure Services Committee on 15 November 2016 and it was agreed to recommend to Council that the Capital Plan for future years is amended to include the construction and lease of two purpose-built buildings – a garage and a warehouse – and to sell part of the site, all following specific requests from local businesses **(APPENDIX 3)** . It is estimated that the additional net capital cost of the development is £389,000, resulting in additional loans charges of £25,000, but that this will be covered by increased rental income of £52,000. The overall rate of return on the development would increase and show earlier, secure financial benefit. Expenditure on the purchase of land in 2016/17 is now anticipated to be £798,000, and it is recommended that the Capital Plan for 2016/17 is adjusted to reflect this, with expenditure of £1,478,750 across 2017/18 and 2018/19 and capital receipts of £595,000 during that period. To complete the project further expenditure of £1,603,000 will be required in future years.

5.8 Impact on loan charges

5.8.1 The impact of changes to the Capital Plan on loans charges in this year is to principal repayment only. The reduction of £3,422,000 to reflect slippage is estimated to reduce loans charges in 2016/17 by £40,000. Proposed savings on the plan from reduced costs, underspends and tender prices total £900,000 and are estimated to reduce loans charges in 2016/17 by £9,000. Expenditure reprofiled from future years is estimated to increase loans charges by £26,000. The proposed additions to the Capital Plan of £150,000 will have the impact of £4,000 in 2016/17. The net effect is a reduction in loans charges of £19,000. The position is summarised below:

Movement	**Impact £000**
Slippage	40
Reductions	9
Accelerated spend	(26)
Additions	(4)
Net effect	19

6. <u>ITEMS FOR CONSIDERATION</u>

6.1 The Asset Management Working Group has reviewed the direction provided by the Council in relation to “Make-Do-and-Mend” as the underlying basis for preparing the current capital plan. To assist those charged with implementing the policy a guidance note has been prepared, attached as **APPENDIX 1** to this report.

6.2 The table below sets out the impact on the Council’s revenue budget of the Make Do and Mend policy, compared to the baseline position. The Council’s anticipated capital expenditure, borrowing and loan charges for 2016/17 are given as background. The table then compares the expenditure, borrowing and loans charges which would be required to meet the asset management requirements of the Council’s current asset base with the anticipated expenditure, borrowing and loans charges under Make Do and Mend. For consistency, both 2017/18 columns include identified budget pressures. The Make Do and Mend policy is anticipated to generate revenue savings on loans charges of £107,000 in 2017/18.

	2016/17 £000s	2017/18 baseline £000s	2017/18 amended £000s
Capital expenditure	43,279	38,970	34,773
Borrowing	32,761	26,926	23,752
Estimated loan charges	13,307	14,299	14,192

6.3 The Council indicated its commitment to the NESS Energy from Waste project at the Council meeting on 25 October 2016. To enable the Council to take this project forward it will need to include its commitment to completion of the project in its 10 year Capital Plan. The legislative requirements in relation to waste management require the Council to cease using landfill and therefore a commitment to an alternative and the additional costs are unavoidable at this time. The total anticipated cost to the Moray Council of the next phase of the project (IAA2) is £717,000, of which £68,000 has been approved as revenue expenditure in 2016/17. It is recommended that future expenditure is made under the Capital Plan. The additional commitment required in the 10 year Capital Plan is as follows**:**

2017/18 £555,000
2018/19 £ 90,000
2019/20 £ 4,000

7. SUMMARY OF IMPLICATIONS

(a) Moray 2026: A Plan for the Future and Moray Corporate Plan 2015 - 2017
Effective budget management is an essential component of delivery of Council priorities on a sustainable basis.

(b) Policy and Legal
No Policy or Legal implications arise directly from the contents of this report. The report sets out the implications of implementing the Make Do and Mend policy for the Capital Plan in **APPENDIX 1**.

(c) Financial implications
The financial implications of amending the Capital Plan 2016/17 as proposed are a net increase in capital expenditure from the current capital plan of £242,000, resulting in a reduction in loan charges in 2016/17 estimated at £19,000.

The estimated revenue out-turn for 2016/17 identifies additional savings / income totalling £744,000. This reduces the amount of savings required to be found in 2017/18.

The Make Do and Mend policy is estimated to result in a reduction in the Capital Plan for 2017/18 of £2,092,000, resulting in loans charges savings of £107,000.

To complete the next stage of the Energy from Waste collaborative project is estimated to cost the Moray Council £717,000 over four financial years of which £68,000 was approved as part of the 2016/17 Revenue Budget.

The remaining balance of £649,000 to be included in the Capital Plan for 2017/18 and following two years is as follows:

2017/18	£555,080
2018/19	£ 90,000
2019/20	£ 4,000

(d) Risk Implications
There are no risk implications arising directly from this report. Budget managers are aware of their responsibilities for managing their budgets in accordance with the Council's Financial Regulations. The Make Do and Mend policy increases the risk of major element failure and / or increased maintenance costs in the future.

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

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

(g) Equalities
No equalities implications arise directly from this report.

(h) Consultations
CMT has been consulted in the preparation of this report and any comments incorporated.

8. CONCLUSION

8.1 The Council is making progress in the financial planning process for 2017/18 and has developed a work plan for the Transition Board as part of the process.

8.2 Guidance for the implementation of Make Do and Mend has been prepared and revenue savings of £107,000 from this policy are anticipated for 2017/18.

8.3 Following review, various amendments to the Capital Plan for 2016/17 are recommended.

8.4 **The revision to the March Road project approved by Economic Development and Infrastructure Committee on 15 November 2016 is recommended for approval by Council.**

8.5 **In light of the statutory requirement in relation to waste management the 10 year Capital Plan must reflect the Council's commitment to invest in the NESS Energy from Waste plant.**

Author of Report: Lorraine Paisey
Background Papers:
Ref: LP/LJC/ 239-1758 / 239-1760 / 239-1767 / 239-1763