



REPORT TO: MORAY COUNCIL ON 27 NOVEMBER 2019

SUBJECT: REVENUE BUDGET MONITORING TO 30 SEPTEMBER 2019

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

1. REASON FOR REPORT

- 1.1 To advise Committee of the revenue budget monitoring position to 30 September 2019 and of the current estimated out-turn for 2019/20.
- 1.2 This report is submitted to Committee in terms of Section III A (8) of the Council's Administrative Scheme relating to monitoring current revenue expenditure against approved budget.

2. RECOMMENDATION

2.1 It is recommended that Committee considers and notes:-

- (i) the budget monitoring position of £293,000 under budget for 2019/20 as at 30 September 2019;**
- (ii) that this position consists of an underspend on Devolved School budgets of £795,000, an overspend on Social Care services delivered on behalf of the Moray Integration Joint Board (MIJB) of £762,000 and an underspend on other services of £260,000;**
- (iii) movement of £195,000 in the General Revenue Grant, as detailed in paragraph 3.4;**
- (iv) the current estimated out-turn for 2019/20 of an underspend of £1,770,000, resulting in a decrease in the planned use of Council reserves;**
- (v) there are no new emerging budget pressures as at 30 September 2019;**
- (vi) the position regarding Moray Integration Joint Board (MIJB) as described in paragraph 8.3, with cost implications of £553,000 for the Council, and**
- (vii) commitments of £2,537,000 against general reserves as summarised in section 9.**

2.2 It is recommended that Committee approves the release from provisions:

- (i) £2,987 from reserves, for use in Buckie for regeneration, as detailed in paragraph 9.5; and**
- (ii) approval to cancel recycling centre permits from 1 April 2020 as a measure to control the overspend on recyclates**

3. BACKGROUND

- 3.1 When the revenue budget for 2019/20 was approved by Moray Council on 27 February 2019 (paragraph 4 of the minute refers), General Revenue Grant of £157,236,000 was estimated for the year, based on the latest amount notified to the Council and including estimates for further distributions of grant during the year. Council Tax receipts of £41,530,000 were anticipated. Budgeted expenditure of £203,954,000 was agreed, and this required projected use of £5,188,000 of the Council's General Reserves to balance the budget and find investment in change.
- 3.2 On 8 May 2019 Council approved additional posts budgeted at a cost of £119,000 in 2019/20. On 27 June 2019 Council approved adjustments to the base budget to reflect variances during 2018/19 which were projected to continue into 2019/20. The net effect of these adjustments was to reduce budgeted expenditure by £1,121,000. At the same meeting additional expenditure of £118,000 to be funded from General Reserves was also approved. All of these adjustments have been posted to departments as at 30 September 2019.
- 3.3 In addition to the Council's core budget, monies allocated to schools through the Devolved School Management (DSM) scheme and not spent are brought forward from previous years. The balance brought forward in 2019/20 is £10,000 (2018/19 £448,000). In addition to this, unused funding of £61,000 received in 2018/19 for the expansion of Early Learning and Childcare has been carried forward into 2019/20 in accordance with the grant conditions.
- 3.4 Variations to General Revenue Grant (GRG) amounting to a net reduction of £195,000 have been notified in quarter 2. This predominately relates to the reduction in funding for the additional element of the teachers' pension agreed by Scottish Government (£378,000) following a delay in implementing the increased contribution rate, Additional grant funding relating to increased access to free sanitary products (£20,000); one-off EU Exit (£50,000); Rapid Rehousing Transition Plans (£97,000), statutory appropriate adult (£9,000) and minor adjustments totalling a net increase of £7,000 made to the originally estimated GRG.
- 3.5 Funding of £5,507,000 for the expansion of Early Learning and Childcare (ELC) has been notified for 2019/20. ELC is funded by specific grant.
- 3.6 With these adjustments the Council's overall General Services revenue budget currently stands at £207,197,000.

- 3.7 Reconciliation of the movements in the base budget from that which was approved by the Moray Council on 27 February 2019 is shown in **APPENDIX 3** and allocations to departments from the provisions for Inflation and Contingencies, Additional Costs and Savings are listed in **APPENDIX 4**.

4. BUDGET POSITION

- 4.1 **APPENDIX 1** summarises the current position for each service area, comparing the actual expenditure for the year to 30 September 2019 with the budget to 30 September 2019.
- 4.2 Overall the budget position at 30 September 2019 is expenditure under budget to date of £293,000 or 0.3% of budget to date (including services delivered on behalf of the Moray Integrated Joint Board). All departmental budgets are underspent, bar Development Services and Health and Social Care Services.
- 4.3 The principal areas of overspend and underspend across the Council are summarised below:
- 4.3.1 Devolved School budgets are underspent by £795,000 at the end of the second quarter, £269,000 in primary schools and £526,000 secondary schools. The central supply teachers budget is overspent by £156,000 for the second quarter.
- 4.3.2 There are a number of fluctuations in income across the Council. Housing and Property rental income £69,000, fleet income £44,000, gas generation from Dallachy landfill site £13,000, green waste trade permits £51,000, rental income from leasing car parking spaces £54,000 and various development services £24,000 are more than expected at the end of the second quarter. However the income expected from school meals £114,000 below target and building and development control fees £180,000 are less than expected. The income from waste recyclates/ trade waste is also £136,000 below target. Income from recyclates fluctuates in response to the market. Generally it is on a downward trend. When recycling centres were introduced, the Council benefited from the sale of recyclates. This is now creating additional expenditure on disposal and in order to control this overspend it is recommended to cease the permits from 1 April 2020.
- 4.3.3 Other major variances in Direct Services are underspends in the catering supplies and transport costs budget, totalling £50,000. Landfill tax is also under budget, by £46,000.
- 4.3.4 When MIJB set its budget for 2019/20 it included a financial recovery plan amounting to £3,070,000 over the years 2019/20 to 2021/22. In quarter 2 the MIJB is reporting that this target is not being achieved. There is an overspend across both Council and NHS services during quarter 2 of £1,448,141. The figures included in this report relate purely to the services delivered by Moray Council on behalf of the MIJB and amount to an overspend of £761,840.

5. BUDGET PRESSURES AND NEW DUTIES

- 5.1 Budget pressures recognised when the budget was approved on 27 February 2019 are released when the pressure crystallises to the extent that it can be accurately quantified. Provisions to meet budget pressures and new duties totalling £2,677,000 have been released in quarter 2 and are detailed in **APPENDIX 4**.
- 5.2 Provisions still held centrally at the end of quarter 2 total £5,038,000 and are detailed in **APPENDIX 5** and given a RAG assessment for likelihood of requirement.
- 5.3 Four provisions are assessed as red or unlikely to be needed: £22,000 for industrial estate voids, with rental income from industrial estates above budget to date; £91,000 reduction in teachers' pension scheme discount; £6,000 economic development restructure, and £10,000 for ERDMS extension. The budget pressure for industrial estate voids has been partly allocated, reduction in teachers' pension scheme discount rate was for a full year effect but the pension increase was not until September; and economic development restructure has been partially allocated and the balance is not now anticipated to be required in this financial year. The ERDMS project extension has now finished and posts merged into Customer Services so the provision for additional funding is not required.
- 5.4 Two provisions are assessed as amber, for uncertainty of requirement: Integrated Children's Services out of area placements (£1,049,000) and Children's services (£17,000). The first provision is based on forecast spend and for the second quarter there has been a number of transitions to adult services, which has resulted in no funding required to be drawn down. A detailed report will be going to a future meeting of the Children & Young People's Services Committee. The second provision related to various elements. £9,000 for Child Protection will be utilised in quarter 3 and the balance of £8,000 will not be required in this year.
- 5.5 All other provisions are expected to be required in full at this juncture.

6. EMERGING BUDGET PRESSURES

- 6.1 Emerging budget pressures are noted throughout the year as they are identified. Pressures that were identified during quarter 1 are listed in the table below:

	Para Ref	Estimated full year effect £000s
DHP funding		30
Making Tax Digital software		15
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		45
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6.2 Both the interim funding for Discretionary Housing Payments (DHP) and Making Tax Digital (MTD) budget pressures have been met within existing budgets and no longer create a budget pressure.

6.3 The budget will continue to be reviewed for any emerging pressures and further recommendations made to Council in February 2020 if required.

7. **SAVINGS**

7.1 Savings of £10,124,000 were approved when the budget was set on 27 February 2019. These savings comprised increased income of £18,000 from inflationary uplifts to charges for services; one-off savings of £149,000, and other permanent savings of £9,957,000.

7.2 To date budgets for charges have been adjusted by £6,771. The remaining balance of £11,229 has been reviewed as part of the estimated actual process and budgets will be adjusted accordingly in quarter 3. Temporary savings of £156,579 have been posted to departmental budgets, £7,579 more than the target.

7.3 Of the originally approved permanent savings, a balance of £540,135 remains in central provisions as at the end of September. These are detailed in **APPENDIX 6** and given a RAG assessment for anticipated achievement.

7.3.1 Twelve savings totalling £777,288 are assessed as red. A saving from Accounts Payable electronic processing has not yet been realised as it is dependent upon an ICT solution, which has yet to be developed. The full provision for savings from increase in NI threshold and contracts renewal is not achievable.

Following on from Committee decision on 25 September 2019:

Essential Skills Savings not approved	£146,000
ESOL deferred in 2020/21	£12,000
Janitors deferred in 2020/21	£36,000
Libraries not achieved	£25,000

The new dual purpose pothole Jetpatcher vehicle was purchased as planned to replace two designated machines. However, due to operational issues including training and modifications required on the vehicle, it has been required to retain one of the old machines to ensure works were repaired on time therefore not fully meeting the saving target projected. In addition, a full review of vehicles has been undertaken and it has been agreed that the Service will dispose of 10 vehicles from its fleet. These vehicles are to be removed on a phased basis from October 2019 to the end of the financial year. However, the revenue saving is much lower than predicted due to the timing of disposal and the internal fleet charges which take into account vehicle depreciation and maintenance costs incurred.

Reduction in cleaning hours at schools will not be achieved in full due to 6 months of pay protection. The full year effect of the review of Property Service will not be achieved in 2019/200 as the Change Management Plan has yet to be approved. The split of the DSM budget saving between 2019/20 and 2020/21 was incorrect and the balance of the saving approved for 2019/20 will not be achieved this year but will be taken in 2020/21. The balance of the schools central admin will not be achieved in this financial year as it is related to the Library and ESOL savings which were not approved by Committee.

- 7.3.2 Savings of £300,000 from the commercialisation of the sports and leisure service, including Elgin Community Centre, were approved in the budget. Of this £71,000 is still held centrally. £24,000 of this relates to an over-estimation of the impact of uptake of Fit Life membership. It is considered that this is unlikely to be achieved. Further savings of £4,000 from Elgin Community Centre are anticipated.
- 7.3.3 The allocated budget for income from Fit Life reflects the target increase in numbers. The budget for quarter 2 was £539,000 and the income reflected in the General Ledger and thus in this report has broadly been attained – actual income recorded of £526,000. However, this does not reflect the level of default on payment of Fit Life membership fees. The problems experienced immediately following the campaign for increased membership are being resolved. The true picture requires to take into account outstanding debt. There are outstanding debts from the second quarter of 2019/20 totalling £5,377. The real shortfall of income to budget is therefore £18,377, or 3.4% of budgeted income.
- 7.3.4 Two savings totalling £80,149 are assessed as amber. HR/Payroll system is still expected to be achieved in part by the end of the financial year. Relocation from Auchernack and Forres Community centre staff restructure has been delayed and building is now expected to close in December, so the full savings will not be achievable in this financial year.
- 7.3.5 The other unposted savings are assessed as green - these are expected to be achieved or substantially achieved during this financial year.

8. ESTIMATED OUT-TURN

- 8.1 **APPENDIX 2** summaries the first estimated out-turn position for each service area, comparing the estimated expenditure to the financial year-end with the budget to 30 September 2019.
- 8.2 Overall the estimated out-turn position for 2019/20 is expenditure under budget to date of £2,323,000 or 1.1% of budget to date (excluding services delivered on behalf of the Moray Integrated Joint Board)

- 8.3 The estimated out-turn position for 2019/20 for Health & Social Care is an overspend of £1,494,000 on services provided by the Council. The overall projected overspend for all MIJB services is £1,580,000. As the MIJB has a cost sharing agreement between the Council and NHS Grampian, an adjustment to reflect the agreement is shown. This reduces the budget shortfall for which the Council is liable to £553,000. This brings the total anticipated variance for 2019/20 to an underspend of £1,770,000.
- 8.4 The principal areas of overspend and underspend across the Council reflect the major variances mentioned in paragraph 4 above. Details of out-turn variances are summarised below:
- 8.4.1 Integrated Children's Services, are estimated to be £341,000 under budget at the end of the financial year. This primarily relates to fostering and adoption services. Fostering fees and allowances are projected to be underspent by £140,000 due to a large movement from foster carers to kinship carers, who don't receive fees, and school travel by £35,000, due to improved monitoring of school transport. The Adoption service is projected to underspend on external adoption placements and post adoption support by £51,000; £24,000 on adoption allowances and £14,000 from income from other authorities for adoption placements in Moray.
- 8.4.2 Expenditure on schools is forecast to be almost on budget, with a forecast overspend on £250,000 on supply teachers arising from cover for sickness and maternity leave and excess staff sheltered by an underspend arising from vacant posts and slippage in filling new ELC posts.
- 8.4.3 A net income of £450,000 is estimated as a one-off payment for the insurance claim for Isla Bank Mills. This covers the reduction in Property service fee income, which is expected to be £386,000 short of the target primarily due to a change in the charging method, as well as reduced works programme for 2019/20.
- 8.4.4 The recycling budget is expected to overspend by £180,000 by the end of the financial year due to the continuing market fluctuations in the cost of recycling mixed paper. Trade waste income is expected to have a shortfall of £85,000, as there has continued to be a reduction in use of this service following the price increase in April 2018.
- 8.4.5 Waste Management is underspending on leachate, which is expected to be £70,000 under budget by the year end and landfill tax is anticipated to be under budget by £62,000.
- 8.4.6 There is an expected shortfall of £100,000 in planning fee income.
- 8.4.7 Staff savings from vacancies and appointment below top of scale are anticipated to exceed the overall budget provision by £237,000. Major variances are anticipated in Development Services (£150,000 above target) and Chief Executive's Services (£159,000 above target). Both these services had posts held vacant pending restructuring. There is an anticipated shortfall of £123,000 in Direct Services and £90,000 in Integrated Children's Services.

- 8.4.8 Loans charges are expected to be £217,000 under budget at the year end due to the impact of capital projects which have slipped or been deferred. The timing of spend will reduce loan charges for 2019/20 and 2020/21. It is too early to forecast whether the recently announced increase in Public Works Loans Board (PWLB) interest rates will impact on loans charges in 2019/20.
- 8.4.9 As indicated in section 5 of this report not all provisions held centrally will be required to be released. It is estimated that a balance of £3,726,000 for additional costs will be retained centrally at the year end, along with a balance of £888,000 additional savings made. However, it is currently estimated that an additional £152,000 will be needed for inflationary rises.

9. GENERAL RESERVES

- 9.1 The balance on general reserves (excluding DSM and ear-marked reserves) as at 1 April 2019 was £12,276,000. Use of reserves totalling £4,016,000 was approved to balance the 2019/20 budget, with a further £1,172,000 committed for investment in change.
- 9.2 The Moray Council on 8 May 2019 approved an additional use of reserves totalling £119,000 and on 28 June 2019 approved a net budget reduction of £1,121,000, reducing the underlying need to use reserves to £2,895,000, and also additional funding from reserves for specific items, totalling £118,000. This budget was released in full in quarter 1. Commitments of £4,304,000 against general reserves are detailed in **APPENDIX 7**.
- 9.3 Policy and Resources Committee on 3 September 2019 approved the introduction of an ear-marked reserve for council priorities / transformation of £2,000,000, this reduces the level of free balance.
- 9.4 The impact of the estimated out-turn is a reduction in the use of reserves of £1,770,000, leaving an estimated free balance of £7,742,000 at 31 March 2020.
- 9.5 At 31 March 2018 there was a balance of £2,987 from the Moray Town Partnership's allocation to Buckie. There has been a request from a local member that this funding is released from reserves and spent on regeneration projects approved by all three local members.

10. SUMMARY OF IMPLICATIONS

- (a) **Corporate Plan and 10 Year Plan (Local Outcomes Improvement Plan (LOIP))**
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.
- (c) **Financial implications**
The financial implications are addressed throughout the report.

(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. There is a risk to the council arising from the agreement that if the Moray Integrated Joint Board overspends the council will meet around 40% of the additional costs incurred. When the budget for 2019/20 was set it was anticipated that the MIJB recurring overspend from 2018/19 would be met from additional funding from Scottish Government passed through the local government settlement. The MIJB approved a Recovery Plan which anticipated budget pressures for 2019/20 being contained within the overall funding from NHS Grampian and Moray Council. The current position is a projected overspend of £1,580,000 Million. Clearly this increasing overspend poses a significant risk for the Council.

(e) Staffing Implications

No staffing implications arise directly from this report.

(f) Property

No property implications arise directly from this report.

(g) Equalities/Socio Economic Impact

No equalities implications arise directly from this report.

(h) Consultations

Consultation concerning Revenue Budget Monitoring is an on-going process with budget managers across the Council. CMT and Heads of Service have also been consulted in the preparation of this report and any comments incorporated.

11. CONCLUSION

- 11.1 The financial position of the Council at the end of September 2019 is an underspend against General Services Revenue Budget of £293,000 (including services delivered on behalf of the Moray Integration Joint Board).**
- 11.2 Variations in General Revenue Grant totalling £195,000 have been notified to the council.**
- 11.3 Not all savings approved by the Council for 2019/20 will be achieved. Some of this is due to timing differences. Where savings will not be made they have been largely outweighed by additional savings, although the additional savings are in different areas and not related.**
- 11.4 There are no additional budget pressures noted for Council services at quarter 2. The estimated out-turn position consists of an underspend of £2,323,000 less the overspend of £553,000 relating to MIJB, a total of £1,770,000.**

Author of Report: Deborah O'Shea, Principal Accountant
Background Papers: Held by author
Ref: DOS/LJC/