



REPORT TO: MORAY COUNCIL ON 28 JUNE 2023

SUBJECT: 2022/23 REVENUE OUT-TURN VARIANCES FROM BUDGET

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

1. REASON FOR REPORT

- 1.1 To advise the Council of the major variances from the approved budget in the actual out-turn for 2022/23 and to seek approval of adjustment to the budget for 2023/24 where income and expenditure trends are forecast to continue into 2023/24 and where there has been slippage in projects which are proposed to be funded from reserves.
- 1.2 This report is submitted to Council in terms of Section II (25) of the Council's Scheme of Administration relating to the approval of the annual estimates of revenue expenditure for all services and of Section III (B) (6) relating to monitoring current expenditure in relation to approved estimates.

2. RECOMMENDATION

2.1 It is recommended that the Council considers and notes:

- (i) The major variances in 2022/23 from those anticipated in February 2023, as summarised in APPENDIX 1;**
- (ii) That net expenditure is £5.5 million less than forecast, with £1.7m of that being Devolved School budgets (DSM) and Pupil Equity Funding (PEF) (and therefore not included in the estimated out-turn) and £1.3 million being funding received for refugees;**
- (iii) The major variances from the approved budget for 2022/23 as summarised in APPENDIX 2;**
- (iv) That the outturn of an underspend of £18.861 million consists of an underspend on services of £7.976 million (including DSM and PEF and unspent refugee funding); an underspend of £8.256 million on loans charges, additional income of £1.855 million, central provisions not required £0.774 million; and**

- (v) That a significant proportion of the underspend (including the element retained in central provisions) relates to slippage or delays in projects and timing differences in the release of reserves:

2.2 It is recommended that the Council approves:

- (i) Additional budgets for projects subject to slippage in 2022/23 as detailed in paragraph 3.29 to 3.38 totalling £2,158,000 to be funded from the covid ear-marked reserve; and
- (ii) Ongoing savings of £1,480,000.

3. BUDGET VARIANCES

- 3.1 The unaudited accounts for 2022/23 are subject to a separate report to this Committee. The unaudited accounts show that the balance on free general reserves remains at £5,000,000 at 31 March 2023, with ear-marked reserves totalling £40,698,000.
- 3.2 The Council at a meeting on 22 February 2022 (paragraph 4 of the minute refers) approved budgeted net expenditure of £240,732,000, which anticipated use of £3,120,000 financial flexibilities from utilising capital receipts to fund covid-related revenue costs. The UK government did not allow this use of capital receipts (Treasury permission was required) and the budgeted use of ear-marked reserves was increased in its place. Council Tax receipts of £46,555,000 were anticipated. The budget reported at quarter three was expenditure of £257,534,000. After adjustments for additional government grant funding announced at the end of the year and additional savings, the final budgeted expenditure by the end of the year was £258,227,000. This included the use of ear-marked reserves of £18,968,000, including: Devolved School Management (DSM) £1,288,000; Pupil Equity Funding £1,046,000, ELC nursery funds £44,000, Transformation earmarked funds £864,000 and Council priorities £902,000. A budget of £14,824,000 from covid reserves balanced the remaining spend.
- 3.3 The balance on general reserves excluding DSM and ear-marked reserves as at 1 April 2022 was £5,000,000. By Council policy this is the minimum level of reserves that can be held on free general reserves. The budgeted out-turn for free general reserves was to remain at the opening position of £5,000,000, and that remains the final position. Movement on ear-marked reserves is dealt with in paragraph 3.39.
- 3.4 Expenditure against budget was reported to Committee on a quarterly basis during the financial year. Quarter one was reported to Corporate Committee on 30 August 2022; quarter two to Full Council on 7 December 2022 and quarter three to Full Council on 8 March 2023 (paragraph 11 of the Minute refers). The forecast at the end of quarter three was an underspend of £11,967,000. Of this forecast underspend, £2,502,000 of slippage was in service departments (including Health & Social Care non MIJB element), £5,801,000 of an underspend in Loans Charges (which incorporated a saving of £7,583,000 from taking a loans pool holiday). A further £3,664,000 underspend in use of central provisions for inflation, new burdens, budget pressures and savings was

projected. This also resulted in a decrease in the planned use of reserves of £11,967,000. Forecast use of covid reserves were £2,811,000, a reduction of £11,070,000 when compared with the revised budget.

- 3.5 The final outturn for 2022/23 was an underspend against budget of £17,006,000; £5,039,000 more of an underspend than was forecast at quarter three. The forecast use of £6,282,000 reserves (Covid £2,811,000, DSM/PEF £2,378,000, Transformation £1,093,000) saw an actual increase in total reserves of £289,000 (Covid increasing by £638,000, DSM/PEF using reserves of £725,000 and others increasing by £376,000). Forecast versus actual Covid reserves required has a variance of £3,449,000. However, £2,158,000 of that arises from slippage in projects and additional income which will require to be spent. The balances and use of reserves is shown in a table in paragraph 3.40.
- 3.6 This report will look at each of the areas and explain variances between the estimated and the final out-turn, and the availability of reserves for 2023/24 onwards.
- 3.7 The forecast for the year is used as a key part of the budget setting process and the differences highlighted in this report can be used to amend the budget for 2023/24. The final out-turn and main changes from the out-turns forecast at the end of December 2022 are summarised on a departmental basis in **APPENDIX 1**.

Service Department Variances

- 3.8 The principal variances from those forecast were service underspends of £5,653,000 more than forecast. Part of the unforecast underspend is on earmarked budgets; including DSM budgets with a £949,000 underspend, and PEF with a £757,000 underspend. As these are held in earmarked reserves the estimated outturn doesn't take account of any variance as it is retained within the reserves. Note only £853,000 of DSM underspend will be carried forward in the earmarked reserve, with £96,000 retained in the covid reserve, due to policy of a 2.5% underspend limit.
- 3.9 The single largest cross service variance was in income, with an estimated net underspend of £329,000 at quarter three this increased to an actual of £1,747,000. The main income variances are refugee funding received of £1,298,000 and leisure income above target by £474,000. Staff costs, with underspends from vacancies, was estimated at £1,949,000 above the vacancy factor at and out turned at £2,049,000, an increase of £100,000.
- 3.10 The significant difference between departmental out-turn and that forecast indicates that a review of budget variance may highlight scope for additional savings. This is covered from para 3.13 below.
- 3.11 A summary of the variance against budget for the year by type of spend across the Council is set out in the table below:

	Overspend £000s	Underspend £000s	Net £000s
Staff	(391)	2,440	
Income / recharges to capital and HRA	(368)	2,115	
Purchase of children's services / looked after children	(33)	408	
Schools DSM and PEF	-	1,706	
NESS Waste Contract	-	551	
Roads and Winter Maintenance	(721)	-	
Other	(3,093)	4,827	
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Service underspend	(4,606)	12,047	7,441
Government Grant	(1,284)	-	
Council Tax income	-	1,132	
Interest transfer to capital & Statutory reserves	-	1,828	
Loans Charges	-	8,255	
Interest on Revenue Balances	-	715	
Balance on central provisions	-	774	
Transfer to ear-marked and other reserves		107	
Total variance	(5,890)	24,858	18,968

3.12 Major variances at departmental level are set out in **APPENDIX 2**.

3.13 The variances against the budget summarised above have been reviewed and classified as one-off or likely to be recurring. The classification takes into account the savings and other adjustments made when the budget for 2023/24 was approved. The overall position is summarised below:

	Para ref	Recurring £000s	Non- recurring £000s	Impact already included 2023/24 Budget £000s	Proposed further adjustment to 2023/24 Budget £000s
Overspends					
Staff / subcontractors	3.14	-	(391)	-	-
Income	3.16	(25)	(343)	-	-
Purchase of children's services / looked after children	3.17	-	(33)		
Energy Costs	3.18	-	(72)	1,544	-
Roads and WM	3.19	(700)	(21)	165	-
Other		(40)	(2,665)	-	-
Total overspends		(807)	(3,799)	-	-

	Para ref	Recurring £000s	Non- recurring £000s	Impact already included 2023/24 Budget £000s	Proposed further adjustment to 2023/24 Budget £000s
Underspends					
Staff / subcontractors	3.15	-	2,440	245	-
Income	3.16	219	1,896	-	219
Purchase / provision of care for children	3.17	-	408	-	-
Energy cost	3.18	-	63	-	-
Software Licences	3.20	11	12	-	11
Schools DSM and PEF	3.21	-	1,706	-	-
NESS Waste contract	3.22	-	551	725	-
Other		135	4,606	-	135
Total underspends		365	11,682	-	-
Government Grant		-	(1,284)		
Council Tax income		-	1,132		
Interest transfer to capital & Statutory reserves		-	1,828		
Loans Charges	3.23	-	8,255		
Interest on Revenue Balances		715	-		
Balance on central provisions	3.25	-	774		
Transfer to ear- marked and other reserves		-	107		
Total net (over)/underspend		273	18,695		

Staff / subcontractors

3.14 There are some minor overspends in staff and subcontractors within Housing and Property totalling £132,000, due to staff savings shortfall. In Fleet services there is a recurring difficulty in recruiting staff which has necessitated the use of sub-contractors, which is a more expensive way of delivering the service. In Education the central supply budget was overspent by £165,000.

3.15 Staff turnover can result in underspends, as the process of filling posts takes longer than the one month notice which most staff have to give. Underspends then accrue from vacancies whilst posts are filled and from new staff being appointed on lower points on the salary scale than more experienced staff who have left. Posts are budgeted for at top of scale. This is on-going and the

Council recognise this when setting its budget, by incorporating estimates of underspends arising from staff turnover allocated to each service based on a percentage of staffing costs for areas of the service where vacancies are not automatically covered by agency staff, additional hours etc. The net underspend on staff and sub-contractors in 2022/23 was £2,440,000 above that provision. This is particularly high due to vacancies in ASN which is £863,000 above its vacancy factor budget. This is partly due to normal turnover and because of difficulties in recruiting, as well as some vacancies being held as part of the review of the ASN services. A saving from increasing the allowance for vacant posts in line with the budgeted pay award was taken when the budget for 2023/24 was set and it is recommended not to increase any further at present but this will be reviewed as part of the financial planning process.

Income

- 3.16 The figures in the table above show a significant recovery from the Covid-19 pandemic and the impact that lockdown measures had in previous years. Some services are still showing a loss of income against budget: libraries (£57,000), corporate advertising (£11,000), trade waste (£195,000), catering (£88,000). In comparison, the projected income shortfall for these areas were: libraries £50,000, corporate advertising estimated to be on budget, trade waste £237,000 and catering £108,000. Car park income from service users was also under budget by £28,000 but, given the substantial loss of income due to the pandemic in the last couple of years, it shows a sign of recovery in that service.

Purchase / provision of care for children

- 3.17 In Children's Services, overspends in out of area placements were £33,000. Underspends of £408,000 include: delays in contracts being implemented of £214,000, throughcare and aftercare grants £41,000, income from adoption placements with other local authorities £36,000, fostering fees and allowances and income from adoption placement. Additional funding was received for Ukrainian and Syrian refugees which will be carried forward in reserves and used to fund future needs.

Energy

- 3.18 Energy costs, similarly, have overspends and underspends across services. Energy price increases were identified as a pressure when setting the budget, and increased further during the year so ending the year in line with budget is reassuring.

Other overspends

- 3.19 Expenditure on roads maintenance exceeded budget by £721,000, this is partly due to an overspend on the winter maintenance budget (£1,023,000) as the budget is set for a relatively mild winter. Hefty increases in the price of salt during the year are also a factor. A budget pressure was identified in the 2022/23 budget setting process and the budget was increased by £180,000. Salt usage was over budget by £105,000. Underspends elsewhere on planned maintenance were £302,000.

- 3.20 Overspends on software licences crosses multiple services and include annual support, maintenance as well as licence costs. There is an underspend in Development Services and £11,000 of this is identified as a recurring underspend so a possible saving.

Other underspends

- 3.21 The DSM and PEF are in the form of ring-fenced funding, and the underspends in this area, arising from the timing of projects, which are planned to spend by academic year, are held in ear-marked reserves and consequently do not impact on the free General Fund Reserve balance.
- 3.22 The income from the NESS Waste contract is a non-recurring contract to deposit waste at Dallachy until the NESS facility is operational. It is expected that this will be for one year only with the facility due to get underway later in 2023. Temporary savings have been included in the 2023/24 budget for this.

Loans Pool Variance

- 3.23 During the year loans charges were forecast to be underspent against budget of £5,801,000 due to a combination of a loans pool repayment holiday (a £7,583,000 underspend) and increased interest payments of £1,782,000.
- 3.24 Treasury forecasts early in the year were for interest rates to continue to rise during 2022/23 and remain at that level until starting to decrease in 2024. Reflecting on the fact that the bulk of the Council's temporary borrowing in the year was before the rates started to rise, the position taken was to base the calculations using a loans pool rate of 4%. A move from short-term borrowing to the Public Works Loans Board (PWLB) was anticipated in making this assumption. However, the availability of low interest rate loans from other local authorities has continued and no PWLB loans taken out. Consequently the actual interest rate was 3.5% resulting in lower interest charges than forecast.

Central Provisions Variance

- 3.25 When setting the annual budget, several assumptions are made regarding future costs: including inflation, pay awards, energy costs, loans charges etc. An amount to cover other specific budget pressures is also included: budget pressures arise from two sources – from external factors outwith the Council's control which affect expenditure, such as legislative change and demographics e.g. increased school rolls and from Council decisions which result in increased net expenditure. Together with savings (permanent and temporary) these make up central provisions that are released throughout the year as they materialise.
- 3.26 For central provisions in total, there is a difference of £2,890,000 between the forecast at quarter three and the final outturn positions.
- 3.27 Inflation had the largest variance during the year within central provisions. With an opening budget of £3,100,000 to allow for a 2% pay award, as well as other price increases the council are exposed to, the total released during 2022/23 was £12,182,000. Most of this was for pay awards, which saw service department budgets increase by over £10,500,000. Funding for pay awards

was explicitly awarded by the Scottish Government in the year as contributions towards pay awards, totalling £4,107,000. This funding is included in the Government Grant figure. An additional £2,007,000 of government funding was awarded through the capital grant but due to the uncertainties of how this funding would be treated in the accounts it was excluded from the budget and from estimated actuals. Now year-end entries have been processed, the funding is included in the tables above.

- 3.28 Savings achieved above the original budget target by £1,742,000; most are permanent savings and include increase to the vacancy factor budget following the pay awards, reversal of the National Insurance increase from November 2022, and other savings approved during the year.
- 3.29 Budget pressures and additions from service developments of £18,876,000 were approved at 2022/23 budget setting. The majority of budget pressures (£16,200,000) were posted to services during the year, with balances remaining in central provisions: school roll numbers £158,000, additional teachers £305,000, removal of music tuition fees and core curriculum charges £64,000 as government funding was provided, Economic Recovery plan £193,000, Development Plan Scheme transportation appraisals £200,000, clearance of Bilbohall site £120,000, consolidation living wage £297,000 and living wage retrospection £420,000, part year reversal of the National Insurance increase £144,000, Revised Improvement & Modernisation Plan £507,000. Service Developments untaken were: school real time data £63,000, Youth work (Buckie and Forres) £120,000, Levelling up fund balance of £221,000. Of these funding will be required in 2023/24 for transportation appraisals, youth work and Levelling Up.

Council Tax Variance

- 3.30 Council tax income was £912,000 more than budgeted. A prudent collection rate is used when estimating the level of Council Tax receipts and the rate used in the 2022/23 budget was 96% plus 2% for prior year recoveries. This is a lower rate than budgeted for in 2023/24, reflecting the assumption that collection rates would reduce during the pandemic and rise to normal levels over a 2 year period. The Scottish Government's decision to pay Cost of Living awards directly into the Council Tax account distorted the year's income making forecasting complex; the £150 Cost of Living payment from the Scottish Government contributed towards an increase in collection which is anticipated will be a one off. Receipts are also improving as the Taxation Services Team are resuming recovery on a regular basis having been limited due to the impact of Covid-19.
- 3.31 In summary, from the above paragraphs, it is recommended to adjust the budget for 2023/24 for the following recurring savings/additional income: increase Council Tax £400,000, from growth in Band D equivalent plus a small drop in Council Tax reduction, income £219,000, Interest On Revenue Balances £715,000, £11,000 for software licences in Development Services, members allowances/expenses £20,000, professional fees £10,000, and increase in recharges to Capital/HRA of £105,000 (included within Other underspends).

Funding from Reserves

- 3.32 The following table details the requirements to be funded from reserves in 2023/24, due to a mixture of project slippages with committed expenditure and funding for specific purposes. If approved, the funding from reserves of £2,176,000 would come from the covid earmarked reserve.

Section	Description	Para ref	£000s
Economic Development	Glenlivet Masterplan	3.33	9
Economic Development	Scotland Loves Local Moray	3.33	33
Economic Development	Business Gateway Economic Recovery and Brexit Support	3.33	24
Discretionary Housing Payments	DHP Awards	3.34	153
Burial Grounds	Headstone Inspections	3.35	10
Lands & Parks	Tree Inspections	3.36	40
Syrian Refugees	Funding from Home Office	3.37	25
Ukrainian Funding	Funding from Scottish Government	3.37	1,150
Unaccompanied Asylum Seeking Children	Funding from Home Office	3.37	125
Mental Health Pandemic Response	Funding from Scottish Government	3.38	19
Whole Family Wellbeing Fund	Funding received to support the development of holistic whole family support services.	3.39	546
Climate Change LHEES	Hub North Consultancy	3.40	15
Climate Change LHEES	Hub North Consultancy	3.40	9
Total			2,158

- 3.33 Slippage in three Economic Development projects which are committed is recommended to be funded from reserves. The Glenlivet masterplan is a two year commitment which saw approval for £10,000 in 2021/22 and £10,000 in 2022/23 towards a share of the cost of providing the Glenlivet masterplan; Scotland Loves Local Moray had slippage in staffing and the balance is for the one year post; Business Gateway Economic Recovery and Brexit Support is also for a match funding contribution. It is recommended that these projects are carried forward to be funded from covid reserves in 2023/24.
- 3.34 Discretionary Housing Payments – a £28,000 allocation from the Scottish Government was received late in 2022/23 and the grant letter gives permission to utilise in 2023/24. The remaining balance of £125,000 is subject to clawback as part of the 2023/24 funding calculations, therefore will need carried forward in this event.

- 3.35 A headstones inspections budget was created in the Burial Grounds service as part of a restructure in 2021/22. Until now that budget has been unspent due to specialist input needed. The budget in 2022/23 was phased for the end of the year but has slipped and is requested as a one off carry forward from the covid reserves so the works planned across the period 2022/24 can all be carried out in 2023/24.
- 3.36 Tree Inspections included a one off £40,000 budget that was transferred over from capital to revenue in 2022/23, with an additional recurring £20,000 revenue budget. There is currently no proactive tree inspection programme within the Council to identify and manage trees and woodlands on Council owned land and the one-off £40,000 will be used to start surveying trees in parks, cemeteries, play areas, woodlands etc. and to commence implementation of works from the survey which will in the longer term be funded from the recurring £20,000 budget. This will be based on a risk based approach i.e. where the greatest risk from tree hazards may be. A project mandate has been prepared. The procurement framework was still to be produced and a carry forward from reserves is requested so this can progress in 2023/24.
- 3.37 Funding received for Syrian refugees, Ukrainian refugees and unaccompanied asylum seeking children all have unspent balances at the end of 2022/23 and have partly committed on staff. It is recommended that they are all carried forward into 2023/24 to fully utilise the balances. This income was not included in the estimated actual (Quarter 3 forecast) for the year.
- 3.38 Mental Health Pandemic Response is mental health funding which is committed to a member of staff until July 2023.
- 3.39 The Whole Family Wellbeing funding was provided by the Scottish Government, to support the development of holistic whole family support services. The Scottish Government has committed to annual funding until 2025/26. The funding is managed through the Children's Service Planning Partnership and plans on spend have only just been agreed so require to be carried forward.
- 3.40 Slippage in the contract (stages 1-5) for Hub North Consultancy in the Climate Change Local Heat and Energy Efficiency Strategies (LHEES) of £15,000 and funding of £9,000 for stages 6-8 are recommended to be funded from covid reserves.

Reserves

- 3.41 The Council needs to retain a certain amount of free reserves in case of unforeseen contingencies or emergencies. The Council maintained a balance of £5,000,000, being the policy minimum, of free general reserves throughout 2022/23.

3.42 The Council has earmarked reserves for specific activities including Transformation, Moray Growth Deal, Council priorities and other service specific earmarked reserves including DSM and PEF. The covid reserve is currently used to cover any funding shortfalls. The table below shows the planned use of reserves in 2022/23; the original budget approved, the quarter three anticipated use of reserves, compared with the actual use of reserves in the year. The balances of each reserve at end of year are also shown.

	Budgeted Use of Reserves	Quarter 3 Anticipated Use of Reserves	Actual Use of Reserves 2022/23	Opening Balance 1/4/22	Transfers In/(Out)	Closing Balance 31/3/23
	£000	£000	£000	£000	£000	£000
General	-	-	-	5,000	-	5,000
<u>Earmarked</u>						
Covid	14,824	2,811	-	22,259	638	22,897
DSM	1,288	1,288	(436)	1,288	(436)	852
PEF	1,046	1,046	(289)	1,046	(289)	757
Transformation	864	1,093	-	5,480	-	5,480
Council Priorities	-	-	-	9,881	-	9,881
Other	946	44	-	455	376	831
Total	18,968	6,282	725	45,409	289	45,698

3.43 The use of covid reserves was budgeted at £14,824,000 and at quarter three forecast to reduce to £2,811,000. At year end there was no requirement for the transfer out of covid reserves, the balance actually increased by £638,000. This swing of almost £3,500,000 is due to a combination of factors that have been discussed above; lower expenditure than forecast in departments, some of which have been requested to be funded from covid reserves in 2023/24 thus affecting the available balance; lower loans charges than expected; and additional funding for the pay award via the capital grant.

4. SUMMARY OF IMPLICATIONS

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

Effective budget management is essential for the delivery of council services on a sustainable basis. Review of budget against actual for trends which are likely to continue assists in the process of budget management.

(b) Policy and Legal

No policy or legal implications arise directly from the contents of this report.

(c) Financial implications

Financial implications are discussed throughout the report. Recurring savings of £1.48 million have been identified. Part of the increased underspend arises from project slippage and income received for specific purposes and £2.2 million funding from reserves is recommended.

(d) Risk Implications

No risks arise directly from this report. The Council's base budget is over-committed and it requires to make significant savings over the next two years.

(e) Staffing Implications

None 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) Climate Change and Biodiversity Impacts

There are no implications arising directly from this report

(i) Consultations

Consultation with budget managers takes place during the financial year and requests for funding from reserves are reflected in the report.

5. CONCLUSION

- 5.1 The Council's final out-turn position on the General Fund as at 31 March 2022 was an improvement on the position forecast when the budget for 2023/24 was set. This report identifies major areas of variance between estimated actual and actual for 2022/23.**
- 5.2 The report also considers variances against budget with a view to identifying trends in expenditure and recommends savings of £1,080,000 for additional income and savings per para 3.32, and an increase in the Council tax of £400,000 (para 3.31) to the net budget in 2023/24.**
- 5.3 Slippage of £2,158,000 in projects planned for 2022/23 is recommended to be carried forward to 2023/24, funded from earmarked covid reserves.**

Author of Report: Susan Souter, Senior Accountant

Background Papers:

Ref: SPMAN-1293228629-886

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