



**REPORT TO: ECONOMIC DEVELOPMENT AND INFRASTRUCTURE
SERVICES COMMITTEE ON 7 FEBRUARY 2023**

**SUBJECT: ENVIRONMENTAL AND COMMERCIAL SERVICES AND
ECONOMIC GROWTH AND DEVELOPMENT
SERVICES (ECONOMIC DEVELOPMENT) CAPITAL AND
REVENUE BUDGET MONITORING TO 30 SEPTEMBER 2022**

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

1. REASON FOR REPORT

- 1.1 To inform the Committee of the current position regarding Environmental and Commercial Services and Economic Growth and Development Services (Economic Development) Capital and Revenue Budgets.
- 1.2 This report is submitted to Committee in terms of Section III (A) (2) of the Council's Scheme of Administration relating to the consideration of Capital and Revenue Budgets and long term financial plans.

2. RECOMMENDATION

- 2.1 **It is recommended that Committee considers and notes the budget monitoring report for the period to 30 September 2022.**

3. BACKGROUND

- 3.1 The Performance Management Framework 2020 (page 27) requires that progress against Capital and Revenue Expenditure and the Capital Plan is reported to the relevant Service Committee every Committee cycle. Expenditure is reported in the first instance to Corporate Committee (formerly Policy and Resources) quarterly.
- 3.2 The Capital Plan for 2022/23 was approved by a meeting of Moray Council on 22 February 2022 (para 4 of the minute refers). The current projected expenditure is an estimate that should be treated with caution due to volatile conditions within the Construction Industry and in supply chains of materials.
- 3.3 Policy and Resources Committee on 10 May 2016 agreed to amendments to the information provided in response to the Audit Scotland report "Major Capital Investment in Councils" (paragraph 7 of the Minute refers). Accordingly this report includes a separate **APPENDIX 4** giving details of expenditure on projects which span more than one financial year.

- 3.4 The Council recognises five principal drivers for capital expenditure: Legislative requirements, efficiencies or spend to save projects, maintenance of assets and operations at current approved levels, service developments, council priorities. Capital expenditure is funded from three sources: capital grants from Scottish Government and other sources; capital receipts from the sale of assets or from developer obligations; and borrowing. When the Council borrows for capital expenditure, the capital financing charges incurred are met from the revenue budget. Therefore the Capital Plan has a direct impact on the revenue budget and the two are considered jointly at the same budget-setting meeting of Council. The Revenue budget was approved at a meeting of the Council on 22 February 2022 (para 4 of the minute refers). The Council has agreed savings of £1.576 million in 2022/23. The current total Revenue budget for Environmental and Commercial Services is £26.099 million in 2022/23. Any further amendments to the Capital and Revenue budgets are first approved by Corporate Committee or Full Council, depending on the timing of meetings.

4. **ENVIRONMENTAL AND COMMERCIAL SERVICES REVENUE BUDGET**

- 4.1 **APPENDIX 1** details the Environmental and Commercial Services Revenue Budget position to 30 September 2022.

4.2 **REVENUE BUDGET POSITION 30 SEPTEMBER 2022**

Annual Budget	Budget Year to Date	Actual & Committed Year to Date	Variance Year to Date
£000s	£000s	£000s	£000s
26,099	10,877	10,661	216

- 4.3 Environmental and Commercial Services actual and committed budget has an overall Underspend to budget, of £216,000 for the period to 30 Sept 2022. The position is shown in **APPENDIX 1** and summarised in the table below with major variances described in para 4.4 - 4.9 of this report. Underspends or Overspends are against projected budgets for the period only. Variances are further explained in this report. All variances will be monitored closely and reported to Committee as the year progresses.

Position at 30 September 2022

<u>Service</u>	<u>Ref Para</u>	<u>Overspend</u>	<u>Underspend</u>
		£000s	£000s
Fleet Services	4.4		130
Engineering Design	4.5	79	
Traffic & Transportation Mgt	4.6		43
Waste Mgt	4.7	40	
Building Catering	4.8		147

and Cleaning			
Parks & Open Spaces	4.9		19

Explanation of major variances 30 September 2022:

4.4 Major Variance - Fleet Services

A total underspend of £130,000 is mainly due to the following variances. Major variances over budget are spare parts £73,000 and under budget items include roads fund licences £25,000, insurance recoveries £16,000 and internal recharges to departments £163,000.

4.5 Major Variance – Engineering Design

Overspend of £79,000 on Lossiemouth east beach demolition costs, which was approved to be funded from reserves £80,000. Any underspend on staffing due to vacancies will be offset by external consultants.

4.6 Major Variance - Transportation

Underspend of £43,000 is mainly due to Car Park Income favourable to budget by £11,000, harbours income £19,000 favourable and Roads Construction consent favourable by £12,000. Advertising income was £9,000 below budget and school transport costs were £8,000 over relating to additional service provision during the works at Blackwater bridge.

4.7 Major Variance - Waste Management has an overall overspend of £40,000. Main variances are:-

Overspends:

Trade Waste & events income £110,000 - The income shortfall to budget is mainly due to a change in customer behaviour post covid.

Trade waste collected through commercial contracts is based on the volume of waste that is generated in each specific facility. Customers who have reduced their volume of waste production or moved to using more recyclable materials will amend their contracts to reduce their overheads. In doing so, Moray Council retain the customer but the charge for the services provided is reduced due to the reduction or removal of disposal costs

Fuel costs £117,000 over, Leachate £38,000 over budget (landfill site recently capped which leads to increased leachate initially but this is expected to decrease over time). Landfill tax £84,000 overspend.

Underspends

Recycling income and costs are £221,000 favourable to budget. However this is a volatile market and prices for paper/card can change quickly. Green Waste income £18,000 better than budget, Bulky waste/bin income £24,000 better than budget and tipping income £41,000 better than budget, although this is offset via increased landfill tax. Other minor underspends to budget include waste disposal licensing £8,000 and advertising costs £7,000.

4.8 Major Variance – Building Cleaning and Catering

Total Underspend of £147,000 comprises of the following variances:

Underspend: Catering has a £191,000 underspend on food costs and supplies. The Catering service has experienced a number of major

challenges over the last couple of years including menu changes due to new nutritional standards, provision of nursery meals, above inflation food prices, universal free school meals expanded to Primary 4-5's. The underspend in food costs and supplies is due to efficiencies of scale for the additional meals for nursery and Primary 4-5 Universal Free School Meals UFSM. The uptake of UFSM is not yet at the projected uptake of 78% and some food prices have not been as high as anticipated. Admin & travel were underspent by £11,000. Catering income £66,000 income shortfall to budgeted target is due to not providing functions to other departments and HQ services, secondary income is still lower than pre covid plus adult meals uptake is low. Free period products underspent by £10,000.

4.9 **Major Variance – Parks & Open Spaces**

The net underspend of £19,000 is due to better than budget income in Burial Grounds. Overspends in Open Spaces relate to higher fuel costs (£30k) but these have been offset by income from the Housing Revenue Account and Flood Alleviation grounds maintenance works. Fuel costs will continue to be monitored as a potential budget pressure.

5. **ECONOMIC GROWTH AND DEVELOPMENT SERVICES (ECONOMIC DEVELOPMENT) REVENUE BUDGET**

5.1 **REVENUE BUDGET POSITION 30 SEPTEMBER 2022**

Annual Budget 2022/23	Budget Year to Date	Actual & Committed Year to Date	Variance Year to Date
£000s	£000s	£000s	£000s
4,592	1,753	1,629	124

- 5.2 Development Services - Economic Development, the variance to projection is an underspend of £124,000. Fee income from building standards and planning applications are in aggregate £76,000 above target. Income from street naming and numbering was also favourable by £7,000. Other minor variances across the service make up the balance of the underspend.

6. **ENVIRONMENTAL AND COMMERCIAL SERVICES CAPITAL BUDGET TO 30 SEPTEMBER 2022.**

- 6.1 **APPENDIX 2** details the Environmental and Commercial Services Capital Budget position to 30 September 2022 (QTR 2). The total Capital Plan budget of £28.864 million has an actual spend at the end of September 2022 of £5.977 million and a projected spend at end of March 2023 of £29.864 million.
- 6.2 Expenditure on Lands & Buildings to 30 September 2022 totals £1.193 million. The major items of expenditure to date were £347,000 at Dallachy Landfill site and £757,000 for the Council's contribution of the NESS energy from waste plant – construction phase.
- 6.3 Expenditure on Infrastructure assets to 30 September 2022 totals £3.169 million. The main items of expenditure were £398,000 on the U82H/ 10

Aldunie Bridge, Cabrach combined Dykeside bridge project. £144,000 was spent on Knockando Bridges and £168,000 on the Lossiemouth Bridge.

£1.608 million was spent on roads resurfacing works throughout the Council area and a further £169,000 on road drainage works.

Other items of expenditure include £137,000 on various Road Safety works and £200,000 on LCTT Speyside Way (grant funded). Work to improve the Junction at the Wards / Edgar Road were predominantly funded by £372,176 of Developer Obligations. This work was completed in August 2022 at a total cost of £382,982. As such, none of the Developer Obligation funding will be returned to the developer.

- 6.4 Expenditure on vehicles, plant and equipment to 30 September 2022 was £1.615 million, the main item of expenditure being £1.384 million on the Vehicle & Plant Replacement Programme, a significant proportion of which is slippage from 2021/22 due to the current lead time for the delivery of vehicles. £69,000 was spent on Children's Play Areas; £52,000 was spent on car charge point upgrades and £53,000 on Domestic & Trade Waste Bins and £19,000 on Gull Proof Bins.

- 6.5 **APPENDIX 3** shows the projects within the Capital Budget with a summary of the ratings estimated by budget managers.

- 6.6 Budget managers have been requested to update projected estimates of expenditure on capital projects in 2022/23. Projects are marked red/amber/green. This column represents an assessment of projected expenditure at end of year - with green being a high confidence level of expenditure close to projected expenditure for the total of the year, medium confidence as amber and low confidence as red. There are various unknowns surrounding the impact that the situation in the wider construction industry and in supply chains will have and this is reflected in the value of projected expenditure in amber and red. A summary of the ratings is given in the table below.

6.7

Risk status	RAG	No. of projects	Projected expenditure 2022/23 £000s
High confidence of spend to estimate	G	56	19,725
Medium confidence of spend to estimate	A	8	8,019
Low confidence of spend to estimate	R	4	1,051
		<u>61</u>	<u>28,795</u>

- 6.8 A red status highlights areas where there is low level of confidence in estimated expenditure. The following have been identified by budget managers as having a **Red** status:

Project	Capital Plan £000s	Projected Expenditure 2021/2022 £000s	Projected Variance 2021/2022 £000s
Infrastructure			
U117H/10 Bridge of Slateford Tomnavoulin	16	16	0
U82H Aldunie Bridge, Carbrach/ Dykeside Bridge	450	485	(35)
U118E/10 Shougle Bridge	589	550	39
Roads -Kerb Edge replacement	25	0	25
TOTAL	1,080	1,051	29

- 6.9 Three bridge projects are currently predicting a status of red (Bridge of Slateford, Aldunie Bridge/Dykeside Bridge and Shougle Bridge). Current construction industry inflation, along with complex negotiations with land owners are contributing to this status.
- 6.10 A lack of staff resources with the Roads service has impacted on priority to identify locations for kerb edge replacement works. The budget has been reduced by £25,000 and a further review will be carried out when preparing the monitoring for quarter 3.
- 6.11 **Amber Rating**
An amber rating of confidence to spend budget highlights areas where there are issues impacting on the ability to project spend – generally indicating factors outwith the budget managers control. The following have been identified by budget managers as having amber status:

Project	Capital Plan £000s	Projected Expenditure 2022/23 £000s	Projected Variance 2022/23 £000s
Land & Buildings			
Park & Open Spaces Infrastructure	140	140	-
Infrastructure			
Street Lighting – Replacement Columns and Lights	800	800	-
Bridges (2 projects)	3,820	3,046	774
Footways	250	250	-
Vehicles, Plant & Equipment			
Vehicle & Plant Replacement Programme	3,531	3,531	-
Children's Play Area Equipment	253	253	-
TOTAL	8,794	8,020	774

- 6.12 Capacity issues in the Land and Parks team have seen delays in progressing Parks Infrastructure projects.
- 6.13 Staff vacancies within the Roads Service are impacting on plans for footways projects and street light column replacements. Bridge projects for a new Craigellachie Bridge and Boat O Brig Bridge at Orton are both classed as amber based on tender returns and construction industry inflation.
- 6.14 The lead time for vehicle replacements is very long due to issues with the supply of small components to complete vehicles and there is therefore a high degree of uncertainty as to when vehicles will be delivered. There is a similar situation with regards to Play Area Equipment.
- 6.15 Details of the projected variances as at September 2022 from the current approved capital programme, summarised in **APPENDIX 3**, is set out below:

Description	Ref	Underspend /(Overspend) £000s
Infrastructure		
Bridges	6.16	864
Kerb Edge Replacement	6.17	25
Wards Road Junction Improvements	6.18	(118)
Vehicles, Plant & Equipment		
Gull Proof Bins	6.19	(2)
Replacement Household Waste and Recycling Centre (HWRC)	6.20	300
TOTAL		1,069

6.16 Bridges

A941 New Craigellachie Bridge – Tenders have been returned for this project and were lower than budget. At this stage it is projected that the project will cost £3 million, currently £786,000 less than budget.

A941/100 Blackwater Bridge – The original budget for this project was £613,000 and the anticipated cost is £400,000 which includes a risk allowance of £100,000 to allow for any unforeseen circumstances that may occur.

Boat O Brig Bridge Orton – There is a budget of £4,000 for design and preparatory work in 2022/23, with construction planned for 2023/24. An alternative solution has been identified that will cost a total of £15,000, which is significantly less expensive than the original two stage solution.

Aldunie Bridge Cabrach/Dykeside Bridge – The original budget, partly funded by Lifeline Bridges Funding was £571,000. This project has been completed at a total cost of £485,000.

U118E/10 Shougle Bridge – Tender has been awarded and costs are projected to be £550,000 versus a budget of £589,000. Final compensation has yet to be agreed with landowners and this could increase costs.

Knockando Bridges – This project is now complete and with a slight overspend of £14,000 due to remedial works that were required to address a safety issue with the new parapet alignment.

- 6.17 **Kerb Edge Replacement** – Lack of staff resources within the Roads Service has meant that work to identify locations for kerb edge replacement works has been unable to be carried out and an underspend of £25,000 is currently projected at this stage of the year. A further review will be carried out when preparing the monitoring for quarter 3.
- 6.18 **Wards Road Junction Improvements** – During construction of the project a number of design reviews led to additional work being undertaken in terms of cable ducting and lighting for bollards, accommodation works for the adjacent development and construction depths.
- 6.19 **Gull Proof Bins** – This heading will overspend by £2,000 due to an increase in the unit price of bins.
- 6.20 **Replacement HWRC Elgin** – A land assessment is currently underway for the construction of a new HWRC for Elgin. Some sites have been identified as suitable for the project and within budget. However, if the land in question is not purchased, another assessment will be required and costs could change significantly. The sites under consideration are commercially sensitive.

7. RISK AND EMERGING ISSUES

- 7.1 Budget managers have been requested to identify any specific areas of risk for the projects in the Capital Plan for which they are responsible.
- 7.2 As reported to Economic Growth, Housing and Environmental Sustainability Committee on 24 August 2021 (paragraph 7 of the minute refers) a risk to the capital plan is an increase in the cost of materials and scarcity of many materials which are key for the construction industry. Scotland Excel have informed the Council of unavoidable increases to costs on four of their frameworks and some key materials such as concrete, wood and steel are currently difficult to source and costlier if they are available. This is partly a world-wide reaction to the pandemic, and partly due to Brexit, and the war in Ukraine is also having an impact. The construction industry is also overheated and some recent procurement exercises have stalled. The Strategic Territory Partnering Board are also monitoring market volatility.
- 7.3 There is a risk that contract inflation might increase the eventual cost of projects in future years of the capital plan and a risk that any deferment of projects relating to asset condition might result in element failure, potentially incurring unbudgeted costs.
- 7.4 The main risk for the vehicle replacement programme is manufacturers failing to deliver to agreed timescales and this risk is heightened at this time due to the shortage of semi-conductors.

- 7.5 Projects can be subject to risks which are outwith the direct control of the Council. Poor weather conditions can impact project timescales.
- 7.6 Lack of staff resources and staff turnover can impact on project timescales and other emerging work priorities can impact in scheduled works and this is reflected in delays where work planned to be out-sourced is being brought in-house as a result of poor response to tender requests. Poor responses to tender requests are an increasing phenomenon and work is on-going with organisations such as Hubco to attempt to improve market engagement, as well as support from the Procurement team to engage local suppliers and contractors. Lack of staff resources is a more intractable problem and current recruitment difficulties, coupled with additional funding stream with short time envelopes for spend, which adds pressure to staff workloads, is creating difficulties.
- 7.7 There is a risk that time-limited funding is not spent within time-frame and that the Council therefore loses the opportunity to improve or create assets at no or reduced cost to the Council.
- 7.8 No other project risks have been specifically identified by budget managers.

8. 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. The capital plan is one of the vehicles through which the Council's priorities can be delivered. The approved capital plan for 2022/23 and the outline ten year plan incorporates measures designed to address the LOIP priorities of building a better future for our children and young people, empowering and connecting communities and developing a diverse, inclusive and sustainable economy

(b) Policy and Legal

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

(c) Financial implications

The financial implications are highlighted within the report and detailed in **APPENDICES 1 – 4**.

Environmental and Commercial Services revenue spend to 30 September 2022 is £10.661 million against a budget to end September of £10.877 million giving an underspend of £216,000. The annual revenue budget for 2022/2023 is currently £26.099 million.

Economic Growth and Development Services – (Development Services) Revenue spend to 30 September 2022 is £1.629 million against a budget year to date of £1.753 million giving an underspend variance of £124,000. The annual revenue budget for 2022/2023 is currently £4.592 million.

Environmental and Commercial Services - Capital spend is £5.977 million to 30 September 2022.

(d) Risk Implications

Budget managers are aware of their responsibilities for managing budget allocations and approval for variance will be sought from Committee in line with the Financial Regulations.

(e) Staffing Implications

There are no staffing implications arising from this report.

(f) Property

There are no Property implications arising from this report.

(g) Equalities/Socio Economic Impact

There are no equalities implications arising from this report because the report informs the Committee on budget monitoring.

(h) Climate Change and Biodiversity Impacts

There are no climate change or Biodiversity impacts arising from this report,

(i) Consultations

This report has been prepared in consultation with Depute Chief Executive (Economy, Environment & Finance), Head of Environmental and Commercial Services, Head of Economic Growth and Development Services, Chief Financial Officer, Legal Services Manager, Committee Service Officer (Lissa Rowan) and Environmental and Commercial Services Management Team and Budget Managers. Any comments have been taken into consideration.

9. CONCLUSION

9.1 This report sets out the budget monitoring position and comments on variances for the Environmental and Commercial Services and Economic Growth and Development Services (Economic Development) Capital and Revenue Budgets for the period to 30 September 2022.

Author of Report: Nichola Urquhart, Quality Management Systems Officer

Background Papers:

Ref: SPMAN-524642768-832