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**REPORT TO: ECONOMIC DEVELOPMENT AND INFRASTRUCTURE SERVICES COMMITTEE ON 5 SEPTEMBER 2023**

**SUBJECT: ENVIRONMENTAL AND COMMERCIAL SERVICES AND ECONOMIC GROWTH AND DEVELOPMENT SERVICES (ECONOMIC DEVELOPMENT) CAPITAL AND REVENUE BUDGET MONITORING TO 30 JUNE 2023**

**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 June 2023 (QTR 1).**

**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 2023/24 was approved by a meeting of Moray Council on 1 March 2023 (paragraph 4 of the minute refers). The approved 2023/24 Capital Plan for Environmental and Commercial services is £30,005,000 with a projected expenditure of £24,295,000. Although budget managers have expressed confidence that a high proportion of the projects will spend to current budget there has been a low spend to date. Continued volatile conditions in the construction industry and in supply chains of materials are causing contractors to decline to tender for works or tender for prices significantly above estimates, resulting in reduced scope of works being retendered. This figure should be treated as the maximum approved spend in

the year. An estimated spend figure will be developed and reported as part of the quarter 2 capital monitoring report

- 3.3 As some sizeable projects span more than one year this report includes a separate **APPENDIX 4** giving details of expenditure on projects which span more than one financial year.
- 3.4 The indicative 10 year capital plan will be reviewed in conjunction as part of the financial planning process to reflect the impact of continued construction inflation and further increased interest rates on the affordability of the plan. As a short term savings measure, capital budget managers have also been asked to review planned expenditure for 2023/24 with a view to delaying projects or otherwise reducing expenditure in 2023/24.

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

- 4.1 The revenue budget for 2023/24 was approved by Moray Council on 1 March 2023 (paragraph 5 of the minute refers) **APPENDIX 1** details the Environmental and Commercial Services Revenue Budget position to 30 June 2023.

#### **4.2 REVENUE BUDGET POSITION 30 JUNE 2023**

<b>Annual Budget</b>	<b>Budget Year to Date</b>	<b>Actual &amp; Committed Year to Date</b>	<b>Variance Year to Date</b>
<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
28,977	7,004	6,257	747 underspend

- 4.3 Environmental and Commercial Services actual and committed budget has an overall Underspend to budget, of £747,000 for the period to 30 June 2023. The position is shown in **APPENDIX 1**.
- 4.4 The key variances to budget date are as follows: Fleet Services £98,000 under budget with variances in income offsetting overspends in transport and plant costs, energy and materials. Consultancy - Engineering Design is under spent by £178,000 in total which is partially due to a £200,000 grant received in Emergency Planning from the Scottish and Southern Electricity Networks (SSEN) Resilient Communities Fund, which is aimed at helping communities become more resilient in the face of storms, severe weather and prolonged power loss. The grant is expected to be spent in full. The underlying overspend within the quarter is related to timing of spend against budget phasing. Roads Management £314,000 underspend, Waste Management £58,000 underspend on Leachate and recycling. Building Cleaning & Catering £79,000 underspend on food costs, although income is currently on target. A saving has been agreed relating to underspend but will not be reported until Quarter 2. Food costs are no longer as closely linked to income as they were following the extension of universal Free School Meals from Nursery to Primary 5. Uptake may gradually rise as time goes on. This is the same trend as last year which had a significant underspend on food costs. Some food prices didn't increase as much as anticipated last year but there is expected to be an increase in wheat products as the situation in Ukraine is

affecting supplies. All variances will be monitored closely and reported by Finance to Corporate Committee as the year progresses.

- 4.5 Revenue budget monitoring for Quarter 1 is expected to be reported in the first instance to Corporate Committee on 29 August 2023.

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

### **5.1 REVENUE BUDGET POSITION 30 JUNE 2023**

<b>Annual Budget 2023/24 £000s</b>	<b>Budget Year to Date £000s</b>	<b>Actual &amp; Committed Year to Date £000s</b>	<b>Variance Year to Date £000s</b>
735	-273	-322	49

- 5.2 Development Services - Economic Development, the variance to projection is an underspend of £49,000 due to £45,000 returned from East of Scotland loans fund.

## **6. ENVIRONMENTAL AND COMMERCIAL SERVICES CAPITAL BUDGET TO 30 JUNE 2023.**

- 6.1 **APPENDIX 2** details the Environmental and Commercial Services Capital Budget position to 30 June 2023 (QTR1). The total Capital Plan budget of £30.005 million has an actual spend at the end of June 2023 of £2.105 million and a projected spend at end of March 2024 of £24.295 million. Details of the projected variances from the approved Capital Plan are set out in para 7.9.

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

- 6.3 Expenditure on Land and Building to 30 June 2023 totals £48,000. The main items of expenditure were Cemetery Infrastructure and Waste Management Moycroft,

- 6.4 Expenditure on Infrastructure assets to 30 June totals £796,000. The main items of expenditure were £119,000 spend on A941 New Craigellachie Bridge, £123,000 on replacement of street lighting columns and lights, and also various road safety and harbour works.

- 6.5 Expenditure on Vehicles, Plant and Equipment to 30 June 2023 totals £1,262,000. £78,000 was spent on electric vehicle charging points. The main item of expenditure was £1,111,000 on the Vehicle & Plant Replacement Programme, this was delayed from 2022/23 due to the current lead time for the delivery of vehicles.

## **7. PROJECTED OUTTURN AND PROJECT DEFERRALS**

- 7.1 Budget managers have been recommended to update projected estimates of expenditure on capital projects in 2023/24. Projects are graded for confidence of achieving projected expenditure with high confidence rated as green, medium confidence as amber and low confidence as red. A summary

of the ratings is given in the table below. The spend projections provided by budget managers are based on the best information available at this time.

<b>Risk Status</b>	<b>RAG</b>	<b>No of Projects</b>	<b>Projected Expenditure 2023/24 £000</b>
High confidence of spend to estimate	G	42	14,846
Medium confidence of spend to estimate	A	5	9,434
Low confidence of spend to estimate	R	4	15
		<b>51</b>	<b>24,295</b>

- 7.2 A red risk status in the table above highlights areas where there a low level of confidence in estimated expenditure. The following have been identified by budget managers as having a red status:

<b>Project</b>	<b>Capital Plan 2023/24 £000s</b>	<b>Projected Expenditure 2023/24 £000s</b>
<b>Land and Buildings</b>		
Replacement Household Waste Recycling Centre (HWRC)	800	0
<b>Infrastructure</b>		
Bridges (2 projects)	405	15
Timber Traffic	840	0
<b>TOTAL</b>	<b>2,045</b>	<b>15</b>

- 7.3 Capital spend was for land acquisition for a replacement household waste recycling centre (HWRC) subject to award of grant finding to develop a new site. Project is no longer going ahead and the budget will not be utilised.
- 7.4 Two bridge projects are currently predicting a status of red Blackwater Bridge Lower Cabrach and new Bishopmill Bridge. Included in the capital plan was £15,000 for works at Blackwater Bridge – this expenditure is no longer required and no spend will therefore be incurred. The capital plan approved when the budget was set included £390,000 for works to Bishopmill Bridge. However, urgent works have been identified at Viewmill Bridge the plans for Bishopmill Bridge will be deferred to allow for this to take place. However, the works at Viewmill could be delayed due to environmental constraints.
- 7.5 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 manager’s control. The following have been identified by budget managers as having an amber status:

<i>Project</i>	<b>Capital Plan 2023/24 £000s</b>	<b>Projected Expenditure 2023/24 £000s</b>
<b>Land &amp; Buildings</b>		
NESS Energy for Waste Plant	5,304	5,304
<b>Infrastructure</b>		
Bridges (2 projects)	1,538	218

<b>Vehicles, Plant &amp; Equipment</b>		
Vehicle & Plant Replacement Programme	5,798	2,120
Children's Play Area Equipment	234	234
<b>TOTAL</b>	<b>12,874</b>	<b>11,355</b>

- 7.6 Spend on the Council's share of the costs of the construction phase of the NESS Energy for Waste Plant is dependent on contractors achieving agreed milestones which trigger payments and may be subject to change. This is the last year of construction with the plan anticipated to be live in the current financial year. An element on contingency was built into the budget and it is not anticipated that this will be required. However, under the terms of the agreement the primary supplier is permitted to claim for exceptional costs associated with a delay out with their control. The Project Board, representing the Local Authorities' interests, is in commercial negotiations as to the value of this claim. Until these negotiations progress to a later stage it is not possible to quantify any liability.
- 7.7 Expenditure on the planned project at Lea Bridge in Forres is dependent on the findings of inspections.
- 7.8 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.
- 7.9 Details of the projected variances as at June 2023 from the current approved capital programme, summarised in **APPENDIX 1**, is set out below:

Description	Ref	Underspend/ (Overspend) £000s
<b>Land and Buildings</b>		
Replacement HWRC	7.10	800
<b>Infrastructure</b>		
Bridges	7.11	2,001
Timber Traffic	7.12	840
<b>Vehicles, Plant &amp; Equipment</b>		
Vehicle Replacement Programme	7.13	3,378
Gull Proof Bins	7.14	(7)
Orchard Road Signals	7.15	(44)
<b>TOTAL</b>		<b>6,968</b>

- 7.10 **Lands and Buildings - Replacement HWRC** - This budget was for the land acquisition in relation to the construction of a Replacement HWRC, which was subject to the award of a funding application to Zero Waste Scotland. This was unsuccessful and the project is therefore not proceeding.
- 7.11 **Infrastructure – Bridges –**  
A941 New Craigellachie Bridge – Work is currently ongoing on this project with the next phase due to start in quarter 2. At this stage it is projected that there will be an underspend of £274,000 in this financial year.

A941/100 Blackwater Bridge – No further work is required on this project so it is expected after approval by Corporate Committee on 29 August 2023 that the full budget of £15,000 will be removed from the capital plan.

A941/340 New Bishopmill Bridge - The capital plan includes £390,000 for works to Bishopmill Bridge. However, urgent works have been identified at Viewmill Bridge the plans for Bishopmill Bridge will be deferred to allow for this to take place subject to approval by Corporate Committee on 29 August 2023.

Aldunie Bridge Cabrach/Dykeside Bridge – Unbudgeted expenditure of £2,000 has been incurred in the current financial year relating to minor works carried over from this project which was carried out in 2022/23 The project had a budget of £485,000, out turned £425,000 in 2022/23 and will still be under budget after taking this expenditure into account.

Remote Footbridges – This heading is currently forecasting an underspend of £19,000. Subject to approval by Corporate Committee on 29 August 2023, it is expected that this amount will be carried forward in full to allow for work at the Sanquhar Loch Footbridge to be carried out.

- 7.12 **Timber Traffic** – The Council has been unable to secure funding through the Strategic Timber Transport Scheme (STTS) in the current financial year. Subject to approval by Corporate Committee on 29 August 2023 it is expected that the full budget of £840,000 will be removed from the capital plan.
- 7.13 **Vehicle & Plant Replacement** – At the moment the projection for this project is to spend £3,378,000 (based on vehicles ordered to date) which is an underspend of £2,120,000 against the budget of £5,798,000. However global factors such as the war in Ukraine, the pandemic and Brexit have caused major manufacturer factory shutdowns making it difficult to predict delivery times of vehicles, and therefore the levels of expenditure. It is expected that the budget will be reduced by the amount of the anticipated underspend £2,120,000 in quarter 2.
- 7.14 **Gull Proof Bins – This budget is** currently projecting a small overspend of £7,000 which is due to an increase in the price of bins per unit since the budget was approved. Committee approval was previously given to purchase a specific number of bins, action will be taken to decrease the current projected overspend in QTR 2.
- 7.15 **Orchard Road Signals** – Late invoices totalling £44,000 were sent by the signals provider after year end which were not taken into account in previous reporting. Orchard Road is a developer obligation funded scheme where we have sought an infrastructure first approach, whereby the council agreed to provide up-front capital funding for the infrastructure, with existing and future developer obligations providing the long term funding. The signals equipment are an integral part of the project and the exclusion of this cost from the previous financial reporting was an error on Transportation's part. The overall rise in project costs has been down to the increase in construction costs experienced between 2020 (when the Project Mandate was completed) and 2023 (when the project was completed). Additional work was also required to provide new electronically controlled gates for a property whose access lies within the junction.

## 8. **AMENDMENTS TO CAPITAL PLAN**

- 8.1 The following amendments to the capital plan are expected, subject to approval in the first instance by Corporate Committee on 29 August 2023.

Amendments	Para	2023/24 £000s	2024/25 £000s
<b>Land &amp; Buildings</b>			
Replacement HWRC	5.13	(800)	-
<b>Infrastructure</b>			
Bridges	5.14/ 6.3	(124)	409
Timber Traffic	5.16	(840)	-
<b>TOTAL</b>		<b>(3,064)</b>	<b>409</b>

- 8.2 **Viewmill Bridge** – Viewmill Bridge carries the C26E over a drainage ditch between Miltonduff and the A96. The Network Criticality of the bridge is categorised as “Important” because it is on a Priority 1 gritting route. This bridge was struck by a vehicle on 19 April 2023, causing significant damage to the western parapet and one on the main supporting beams. The eastern parapet was damaged when struck by a vehicle in 2018 and this has not yet been repaired. The resulting damage means the bridge is no longer safe for use by vehicular traffic and has been closed in the interest of public safety. Subject to approval by Corporate Committee on 29 August 2023 it is expected to be recommended that £300,000 is added to the capital plan to replace the bridge. Replacing the bridge will extend its serviceable life and widening the bridge will reduce the risk of accidental damage in the future and the associated repair costs.

## 9. **RISK AND EMERGING ISSUES**

- 9.1 Budget managers have been requested to identify any specific areas of risk for the projects in the Capital Plan for which they are responsible.
- 9.2 A risk to the capital plan in recent years has been an increase in the cost of materials and scarcity of many materials which are key for the construction industry. This is partly a world-wide reaction to the pandemic, and partly due to Brexit, but the war in Ukraine is also having an impact. This is still seen as a risk but the impact and likelihood is reducing.
- 9.3 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. The figures in the 10 year plan are based on current costs and are likely to increase by the time the project is undertaken. This consideration will form part of the review of the 10 year plan.
- 9.4 The cost to the Council of borrowing is based on interest rates at the time. However, continued relatively high levels on inflation are expected to mean that the current pattern of interest rate rises is likely to continue and this will have an impact on the cost to the Council and will this will underpin the review

of the 10 year plan as part of the financial planning process for 2024/25 and beyond.

- 9.5 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 world-wide shortage of semi-conductors.
- 9.6 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 inhouse as a result of poor response to tender requests.
- 9.7 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.
- 9.8 The Council has a target by which it aims to become Net Zero. The cost of achieving this is unknown but is likely to be considerable and will have significant implications for future capital expenditure
- 9.9 Projects can be subject to risks which are out with the direct control of the Council, such as poor weather conditions and some assets such as harbours are particularly vulnerable to bad weather events.
- 9.10 No other project risks have been specifically identified by budget managers.

## **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.

The capital plan is one of the vehicles through which the Council's priorities can be delivered. The approved capital plan for 2023/24 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 June 2023 is £6.257 million against a budget to end June of £7.004 million giving an underspend of £747,000. The annual revenue budget for 2023/2024 is currently £28.471 million.



Economic Growth and Development Services – (Economic Development) Revenue spend to 30 June 2023 is £-322,000 against a budget year to date of £-273,000 giving an underspend variance of £49,000.

Environmental and Commercial Services - Capital spend is £2,105 million to 30 June 2023.

- (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. Achieving net zero will have significant implications for future planned capital expenditure
- (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 Services Officer and Environmental and Commercial Services Management Team and Budget Managers. Any comments have been taken into consideration.

## **11. CONCLUSION**

### **11.1 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 June 2023.**

Author of Report: Nichola Urquhart, Quality Management Systems Officer

Background Papers:

Ref: SPMAN-524642768-874