



REPORT TO: MORAY COUNCIL ON 7 DECEMBER 2022

SUBJECT: REVENUE BUDGET MONITORING TO 30 SEPTEMBER 2022

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

1. REASON FOR REPORT

- 1.1 To advise Council of the revenue budget monitoring position to 30 September 2022 and of the current estimated out-turn for 2022/23.
- 1.2 This report is submitted to Council in terms of Section III A (2) of the Council's Administrative Scheme relating to monitoring current revenue expenditure against approved budget.

2. RECOMMENDATION

2.1 It is recommended that Council considers and notes:

- (i) the budget monitoring position of £644,000 under budget for 2022/23 as at 30 September 2022;**
- (ii) that this position consists of an underspend on Devolved School budgets of £531,000, an overspend on Social Care services delivered on behalf of the Moray Integration Joint Board (MIJB) of £976,000, an underspend on Health & Social Care (Non MIJB) £448,000 and an underspend on other services of £641,000;**
- (iii) movement of £660,000 in the General Revenue Grant, as detailed in paragraph 3.4;**
- (iv) the current estimated out-turn for 2022/23 which includes a loans pool holiday, reducing expenditure by £7,583,000 and a further underspend of £4,099,000 resulting in a decrease in the planned use of Council reserves by £11,602,000 from that budgeted for; and**
- (v) the emerging budget pressures noted in paragraph 6.1.**

3. BACKGROUND

- 3.1 When the revenue budget for 2022/23 was approved by Moray Council on 22 February 2022 (paragraph 4 of the minute refers), General Revenue Grant of

£180,723,000 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 £46,555,000 were anticipated. Budgeted expenditure of £240,732,000 was agreed, and this required projected use of £10,335,000 of the Council's Ear Marked Reserves and use of financial flexibilities totalling £3,120,000 to balance the budget. There were expected to be two types of financial flexibility available to the Council in 2022/23 when the budget was set: use of capital receipts to fund Covid-related expenditure and expenditure on transformation expected to generate financial savings and a loans principal holiday. Confirmation of both was expected. Confirmation of the ability to take a loans principal holiday has been received but the Treasury has advised Scottish Government that the use of capital receipts to fund Covid-related revenue costs would score against the Scottish Government capital allocation and so this financial flexibility has been withdrawn. To replace this it is currently budgeted to use additional ear-marked reserves.

- 3.2 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 DSM balance brought forward in 2022/23 is £1,288,000 (2021/22 £1,342,000). Unused Pupil Equity Fund of £1,046,000 received in 2021/22 and £44,000 funding for nursery snacks and fundraising have been carried forward into 2022/23 in accordance with the grant conditions
- 3.3 On 29 June 2022 Council approved additional expenditure of £1,449,000 to be funded from Ear-marked Reserve for Covid. The majority of these adjustments (£1,102,000) have been posted to departments during quarter 1. The additional provision for the expansion of Universal Free School Meals to Primary 5 (full year effect from 2021/22) and slippage on provision of CO2 monitors for schools approved to be funded from reserves totalling £347,000 will be actioned before the quarter 3 budget monitoring report, which will be reported to.
- 3.4 Variations to General Revenue Grant (GRG) amounting to £660,000 have been notified. This consists of additional funding for SNCT pay award £585,000 and £75,000 for Local Heat and Energy Efficiency strategies (LHEES). Funding has not yet been drawn down but will be required for quarter 3.
- 3.5 With these adjustments the Council's overall General Services revenue budget currently stands at £253,079,000.
- 3.6 Reconciliation of the movements in the base budget from that which was approved by the Moray Council on 22 February 2022 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 2022 with the budget to 30 September 2022.
- 4.2 Overall the budget position at 30 September 2022 is expenditure under budget to date of £644,000 or 0.6% of budget to date (including services delivered on behalf of the Moray Integrated Joint Board (MIJB)).
- 4.3 The principal areas of overspend and underspend across the Council are summarised below.
- 4.4 In Health and Social Care (non MIJB), there is an underspend of £448,000 primarily due to funding received from the Scottish Government for the Ukrainian resettlement scheme. A report is due to go to Committee to propose allocation of the funding across the services.
- 4.5 Devolved School budgets are underspent by £531,000 at the end of the second quarter, £157,000 in primary schools and £374,000 in secondary schools. There is also an underspend in central supply staff of £117,000.
- 4.6 The MIJB is reporting an overspend across both Council and NHS services during quarter 2 of £1,454,000. 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 £976,000.
- 4.7 Waste services are overspent by £117,000 on fuel costs due to all vehicles having to use white diesel and not red diesel due to changes in legislation. Provision for this pressure was made when the budget was set but has proven to be inadequate, due to rising fuel costs.
- 4.8 Governance, Strategy and Performance are overspent on housing benefits £96,000, Scottish welfare fund £48,000 and an underspend on discretionary housing payments (DHP) of £29,000 as at quarter 2, (Scottish Government allocated additional funding for DHP during 2021/22 and is in the process of clawback and redistribution of funds). There is also an overspend of £156,000 on local government elections.
- 4.9 Income budgets across the Council are showing both positive and negative variances. Sports and leisure facilities were expected to continue to see reduced income in the aftermath of covid restrictions and budgets were adjusted according. Recovery is ahead of forecast with income for quarter 2 £186,000 above the revised target. Income from trade waste is £110,000 below target, continuing the trend during the pandemic, however, income from the sale of recyclates is currently £221,000 above target (this is a very volatile market). Fees from building standards and planning applications are in aggregate £76,000 above target. Catering income is £66,000 below budget but this is more than offset by a related underspend of £191,000 on food and other catering supplies.

5. BUDGET PRESSURES & ADDITIONS

- 5.1 Budget pressures recognised when the budget was approved on 22 February 2022 are released when the pressure crystallises to the extent that it can be accurately quantified. Provisions to meet budget pressures and new duties totalling £3,869,000, have been released in quarter 2 and these are itemised in **APPENDIX 4**.
- 5.2 Provisions still held centrally at the end of quarter 2 total £3,661,000 and are detailed in **APPENDIX 5** and given a RAG assessment for likelihood of requirement.
- 5.3 Ten provisions are assessed as red, as no longer being required: £64,000 for removal of music tuition fees and core curriculum charges as funding has been received via redetermination; £57,000 removal of music tuition charges balance is not required; clearance of Bilbohall site for housing development £120,000 as work on site is delayed and will not be required in this financial year; £12,000 for free period products and £26,000 for Easter study provision which are no longer required. The following provisions balances are now not required until 2023/24: DSM/ class contact time review £13,000; Moray Growth Deal contribution to STEM £3,000; Development plan scheme transportation appraisals £200,000 and annual maintenance of automatic bollards £7,000.
- 5.4 Twelve provisions are assessed as amber, for uncertainty of requirement: Free school meals extension balance (£402,000) will depend on uptake from the new school year in August. Additional funding for teachers £215,000 new positions are unlikely to be in place before January, so balance required is not yet known. £337,000 school roll numbers, £100,000 estimated for quarter 3 and balance not required; £468,000 for additional teachers, £243,000 required to be drawn down in quarter 3 and the balance will not be required until 2023/24; Economic recovery plan £193,000 commitments against the balance are not yet known, but will not be required in full in this financial year; Moray Growth deal support balance of £30,000 not expected to be required. £297,000 consolidated living wage, £420,000 Living wage retrospection and overspend of £242,000 on the National insurance increase are all interlinked and with the removal of the additional 1.25% National insurance due in quarter 3 the overall commitment is yet unquantified. Revised IMP £582,000 is not expected to be fully required until 2023/24; £63,000 school real time data, the department is looking into alternative ways of utilising this due to being unable to recruit and £120,000 for Youth work (Buckie and Forres) engagement has only just started and commitment will be required from quarter 3 but full amount will not be required in this financial year.
- 5.5 Three provisions that are classed as green have drawn down more than the original allocation. Health & Social Care Package costs were estimated at £185,000 split over 2021/22 and 2022/23. Due to a delay in the commencement of the package the full amount was not drawn down until 2022/23. The budget pressure for National Insurance 1.25% increase was £240,000 more than provided for but this element correlates to the consolidated living wage, for which there is a provision. Within the budget a provision was included for the consolidated living wage and the retrospective

payments of £1,145,000. To date £428,000 has been drawn down along with the over allocation for NI of £240,000. The change in NI rates from November will see this being reduced, with the balance of the provision not being fully required. The budget pressure for energy costs was estimated at £411,000 however due to the increase in the cost of energy since that estimate was made this was underestimated by £1,224,000. The prices of gas and electricity for 2022/23 were not fixed until March 2022, after the budget was approved.

5.6 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 2 are listed in the table below:

	Para Ref	Estimated full year effect £000s
Estimated under provision of staff pay award	6.3	4,125
Increase in interest rates	6.4	1,800
Total		5,925
		=====

6.2 As mentioned in paragraph 5.4 the budget pressure for utilities costs calculated on the cost of energy reported in the annual Energy report in the autumn of 2021 was insufficient and the cost of gas and electricity continues to increase and will be a further budget pressure in 2022/23.

6.3 When the budget was set a provision of £2,519,000 was included for a 2% pay award for all staff. The SJC pay award has now been agreed and will be paid in quarter 3 at differentiated rates across the pay scale, averaging 5% nationally. Negotiation continues on teachers' pay. On an assumption of 5% across the board, an budget pressure of £4,125,000 (excluding social care staff within the MIJB funding envelope) arises. This will in large part be offset by additional funding from Scottish Government and the estimated actuals take account of the additional funding.

6.4 There is an emerging budget pressure for the Council due to the increase in interest rates which is expected to be £1,800,000, based on interest rates of 4%. The bank rate is expected to continue to be increased in the face of rising inflation rates. However, it is still possible to borrow from other local authorities at a rate lower than the Public Works Loans Board (PWLb) are currently offering. This is another volatile area which is being closely monitored and actively managed.

6.5 The budget will continue to be reviewed for any emerging pressures and further recommendations will be made to future Committees when required.

7. SAVINGS

- 7.1 Savings of £1,576,000 were approved when the budget was set on 22 February 2022. These savings comprised one-off savings of £68,000 and other permanent savings of £1,508,000.
- 7.2 Temporary savings of £68,000 will accrue from the refund due from Grampian Valuation Joint Board, the amount of which will be confirmed when the accounts are audited and approved by the Board at the meeting when the audited accounts are approved. The audit has been delayed and it is unclear when Audit Scotland will complete the audit.
- 7.3 Of the originally approved permanent savings, a balance of £336,000 remains in central provisions as at the end of September. These are detailed in **APPENDIX 6** and given a RAG assessment for anticipated achievement.
- 7.4 One saving totalling £20,000 is assessed as red. The saving relating to the closure of Auchernack are unlikely to be achieved in 2022/23 because it will only be realised when the building is disposed of.
- 7.5 Three savings totalling £263,000 are assessed as amber. These savings relate to the Improvement and Modernisation programme (IMP) Stream 2: ICT & Digital – schools admin £94,000, IMP Stream 4: Review & Expansion of Flexible working £44,000 and Lean review £125,000. These will be kept under review.
- 7.6 The other unposted savings are assessed as green - these are expected to be achieved during this financial year.
- 7.7 In addition to the savings approved when the budget was set, additional savings of £69,000 accrue from the increase in NI threshold. There was a late posting of a vacancy factor increase of £36,000 relating to 2021/22. A further saving of £25,000 relates to a vacant post advised by the service to be no longer required. £3,000 saving following the janitor restructuring. £49,000 saving from home tuition and £650,000 relating to childrens services approved at Council on 29 September 2022 (para 16 of the minute refers). Further savings approved at that meeting have yet to be posted.

8. ESTIMATED OUT-TURN

- 8.1 **APPENDIX 2** summarises the first estimated out-turn position for each service area, comparing the estimated expenditure to the financial year-end with the budget to 31 March 2023.
- 8.2 Overall the estimated out-turn position for 2022/23 is expenditure under budget of £11,602,000 or 4.6% of budget for the year (including services delivered on behalf of the Moray Integrated Joint Board).
- 8.3 The estimated out-turn position for 2022/23 for Health & Social Care is an overspend of £2,368,000 on services provided by the Council to MIJB. The overall projected overspend for all MIJB services is £3,366,000. However, due

to additional funding received and reserves brought forward, there is expected to be enough reserves to cover this overspend for 2022/23. The MIJB has a cost sharing agreement between the Council and NHS Grampian, but due to the use of reserves an adjustment to reflect the agreement is not anticipated to be required.

- 8.4 The principal areas of overspend and underspend across the Council reflect the major variances mentioned in section 4 of this report. Details of projected out-turn variances are summarised below:
- 8.5 Staff savings from vacancies and appointment below top of scale across all services are anticipated to exceed the overall budget provision by £855,000, reflecting difficulties in recruiting and retaining staff. Income budgets across the Council are showing both positive and negative variances, with a projected net effect of £179,000 over achievement. This includes increased leisure income and recycles but with a reduction in income for catering income, car parking income, trade waste, planning and building control fees.
- 8.6 In Children Services, there is a total projected underspend of £461,000. This relates primarily to delays in new contracts for services being implemented (£270,000). Adoption allowances, legal fees and placements are projected to be underspent by £73,000; fostering fees and allowances projected to be £160,000 underspent ; one-off income received from adoption placement is projected to give an underspend of £33,000 and throughcare/aftercare grants are expected to be £38,000 underspend to year end. This is being reduced by overspends in direct payments of £85,000; area teams £26,000 and home to school transport £18,000.
- 8.7 In Education there is an estimated overspend of £529,000 due to increased costs and the reduction in specific grant for Early Learning & Childcare. A budget pressure of £2 million was recognised when the budget was set, due to current demand for this service. The service has been reviewed with a view to containing costs and the recommendations of the review will be reported to Education, Children's and Leisure Services Committee.
- 8.8 General Services Housing are projecting a minor overspend of £17,000, but this is the result of a projected underspend of £319,000 on the Rapid Rehousing Transition Plan, the funding for which will be required to be carried forward into 2022/23, masking overspends elsewhere in the service. There are also project slippages projected in Economic Development totalling £185,000.
- 8.9 Loans charges are expected to be underspent by £5,801,000 due to a combination of loans pool repayment holiday - £7,583,000 underspend – and increased interest payments of £1,782,000, based on a loans pool rate of 4%.
- 8.10 Centrally held provisions are expected to underspend by £4,099,000. This is mainly due to slippage, with a number budget pressures and additions, as identified in section 5 and totalling £2,593,000, not being required in this financial year and to additional savings as itemised in paragraph 7.7 and totalling £832,000.

9. **RESERVES**

- 9.1 The balance on general reserves (excluding DSM and ear-marked reserves) as at 1 April 2022 was £5,000,000. This is the minimum level of reserves that can be held on free general reserves in terms of reserves policy.
- 9.2 Moray Council on 29 June 2022 approved an additional use of covid ear marked reserves totalling £1,449,000, as detailed in paragraph 3 (paragraph 14 of the Minute refers). Moray Council on 30 August 2022 approved additional use of covid ear marked reserves totalling £960,000 for employability (paragraph 8 of the minute refers). The impact of this is an estimated balance of £7,228,000 at 30 September 2022. The additional budget pressures totalling £66,000 noted above have reduced this balance and will continue to do so as and when it crystallises. This further reduces the estimated balance to 30 September 2022 to £7,162,000.
- 9.3 Balances at 30 September 2022 for other ear marked reserves are £4,388,000 for Transformation and £5,688,000 for Council priorities.

10. **SUMMARY OF IMPLICATIONS**

- (a) **Moray 2026: A Plan for the Future and Moray Corporate Plan**
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 37% of the additional costs incurred. Rising inflation presents a risk to the Council's budget. The current economic climate is very volatile and there is a higher than normal risk that the estimated actuals are significantly different from the actual out-turn at 31 March.
- (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) Climate Change and Biodiversity Impacts

No climate change and biodiversity impacts arise directly from this report.

(i) 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 2022 is an underspend against General Services Revenue Budget of £644,000 (including services delivered on behalf of the Moray Integration Joint Board).

11.2 Variations in General Revenue Grant totalling £660,000 have been notified to the council.

11.3 There are additional budget pressures totalling £5,925,000 noted for Council services in section 6 at quarter 2.

11.4 The estimated out-turn position consists of an underspend of £11,602,000, including the impact of the loans pool holiday.

11.5 The Council has approved use of £14,924,000 from Covid ear-marked reserves.

Author of Report: Deborah O'Shea, Principal Accountant

Background Papers: Held by author

Ref: