



**REPORT TO: ECONOMIC GROWTH, HOUSING AND ENVIRONMENTAL
SUSTAINABILITY COMMITTEE ON 16 FEBRUARY 2021**

SUBJECT: REVENUE BUDGET MONITORING TO 31 DECEMBER 2020

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

1. REASON FOR REPORT

1.1 To advise Committee of the revenue budget monitoring position to 30 December 2020 and of the current estimated out-turn for 2020/21.

1.1 This report is submitted to the Economic Growth, Housing and Environmental Sustainability Committee following a decision of Moray Council on 17 June 2020 to agree a simplified committee structure as a result of the COVID-19 pandemic. In the case of this committee the combining of the delegated responsibilities of Economic Development and Infrastructure, Community Services (Housing and Property) and Finance (budget, capital and revenue monitoring) (para 9 of the minute refers).

2. RECOMMENDATION

2.1 It is recommended that Committee considers and notes:

- (i) the budget monitoring position of £573,000 over budget for 2020/21 as at 30 December 2020;**
- (ii) that this position consists of an underspend on Devolved School budgets of £1,236,000, an overspend on Social Care services delivered on behalf of the Moray Integration Joint Board (MIJB) of £882,000 an overspend of £5,344,000 on Covid related expenditure and an underspend on other services of £4,417,000;**
- (iii) movement of £1,630,000 in the General Revenue Grant, as detailed in paragraph 3.4;**
- (iv) the current estimated out-turn for 2020/21 of an underspend of £2,505,000 and shortfall in Council Tax income of £2,400,000, a net £105,000 underspend, the retention under the Business Rates Incentivisation Scheme (BRIS) £1,859,000 and additional funding**

for loss of income £1,191,000 resulting in a decrease in projected net expenditure of £3,155,000 which has the effect of a projected return of £2,640,000 to the Council's ear marked reserves for transformation and reduction of planned use of free general reserves of £515,000; and

- (v) **The position regarding Moray Integration Joint Board (MIJB) as described in paragraph 8.3, with no cost implications for the Council.**

3. BACKGROUND

- 3.1 When the revenue budget for 2020/21 was approved by Moray Council on 3 March 2020 (paragraph 3 of the minute refers), General Revenue Grant of £162,442,000 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 £45,700,000 were anticipated. Budgeted expenditure of £210,490,000 was agreed, and this required projected use of £2,348,000 of the Council's General Reserves to balance the budget.
- 3.2 On 12 August 2020 the Emergency Cabinet approved additional expenditure of £437,000 to be funded from General Reserves. On 2 September 2020 Council approved adjustments to the base budget to reflect variances during 2019/20 which were projected to continue into 2020/21. The net effect of these adjustments was to reduce budgeted expenditure by £156,000. All of these adjustments have been posted to departments.
- 3.3 In addition to the Council's core budget, monies allocated to schools through the Devolved School Management (DSM) scheme and not spent are brought forward from previous years. The DSM balance brought forward in 2020/21 is £466,000 (2019/20 £10,000). In addition to this, unused funding of £660,000 received in 2019/20 for the Pupil Equity Fund and £431,000 for expansion of Early Learning and Childcare has been carried forward into 2020/21 in accordance with the grant conditions.
- 3.4 Variations to General Revenue Grant (GRG) since quarter 2 amounting to £1,630,000 have been notified. This relates to additional funding for Covid agreed by Scottish Government: £371,000 for the safe reopening of schools; £23,000 Environmental Health Officer funding during Covid, £45,000 for Test and Protect and £1,191,000 funding for loss of income during Covid.
- 3.5 With these adjustments the Council's overall General Services revenue budget currently stands at £217,922,000.
- 3.6 Funding of £3,940,000 for the expansion of Early Learning and Childcare (ELC) was included in base budget. Grant funding of £9,345,000 has been notified for 2020/21 and the budget will be adjusted to reflect this additional funding. Scottish Government has given permission for ELC funding to be

allocated to certain expenditure on response to the COVID-19 pandemic and this has been taken into account as the estimated result for the year was developed. ELC is funded by specific grant, but for transparency it is included in the government grant figure in **APPENDIX 3**.

- 3.7 Reconciliation of the movements in the base budget from that which was approved by the Moray Council on 2 March 2020 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 December 2020 with the budget to 30 December 2020.
- 4.2 Overall the position at 30 December 2020 is expenditure over budget to date of £573,000 or 0.4% of budget to date (including services delivered on behalf of the Moray Integrated Joint Board).
- 4.3 The principal areas of overspend and underspend across the Council are summarised below:
- 4.3.1 In Children and Families and Criminal Justice Services, there is an overall underspend to date of £2,081,000. This is predominantly due to £1,300,000 relating to Out of Area placements partly due to children transitioning into adult services; £80,000 on a contract for residential care for children with disabilities, due to two of the three children originally in this service having made the transition to adult services; fostering fees and allowances are underspent by £244,000; the adoption service is underspent by £162,000, due to one-off income received and reduced placements with external providers and area teams are underspent by £231,000 relating to Self Directed Support, home to school transport for foster children and their operational budgets. As agreed by Council on 16 December 2020 (paragraph 7 of the minute refers) the underspend on Children and Families will be transferred to the ear-marked reserves for transformation of services.
- 4.3.2 Devolved School budgets are underspent by £1,236,000 at the end of the third quarter, £441,000 in primary schools and £795,000 secondary schools.
- 4.3.3 The impact of the Covid-19 pandemic and lockdown measures have had significant impact on budgets during the first half of the year. All services are generating less income than budgeted, with a total shortfall of £4,507,000 for the year to date. This includes loss of leisure income, catering income, car parking income, planning and building control fees and also loss of internal revenue income due to roads DLO staff time being unable to be recharged to capital. Funding of £1,191,000 for loss of income has been notified by

Scottish Government. The income loss scheme does not cover internal recharges to capital.

- 4.3.4 The loss of income is partially offset by underspends in many services due to works and expenditure being unable to be incurred or completed. The main service underspends total £4,010,000, which includes repairs and maintenance, energy costs, landfill tax from reduced tonnage landfilled, school transport contract (with supplier relief paid at 75% of the contract value during schools closure in lockdown), catering supplies, purchases of tyres and parts for the Council's fleet of vehicles, corporate training. Payments from the Scottish Welfare Fund (SWF) are also below budget. After an initial spike in demand, requests reduced, partly due to the circumstances of lockdown, with house moves being prevented and so claims for grants for household furniture and white goods reducing and partly due to alternative sources of funding being made available.
- 4.3.5 There is also directly related Covid expenditure totalling £837,000. This is made up of £606,000 in Education, relating to set up costs of the Hub and payments to supply teachers during the first lockdown; £120,000 in Housing, mainly relating to the setting up of temporary accommodation and agency costs and £111,000 in Environmental and Commercial services for relief staff and agency staff payments.
- 4.3.7 When MIJB set its budget for 2020/21 it included a financial recovery and transformation plan amounting to £1,944,000 for 2020/21. Progress against the recovery plan has been impeded by the pandemic. At the end of quarter 3, there is an overspend across both Council and NHS services of £556,000. 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 £883,000. Funding may be made available by the Scottish Government for IJB's to fund unachievable savings due to the pandemic. No details have yet been received.
- 4.3.8 In addition to the impact on expenditure discussed in paragraphs 4.3.3 to 4.3.7, a further impact of the pandemic has been a reduction in Council Tax income. As at 30 December Council Tax income collected is £2,400,000 below what would be expected in the normal course of events.
- 4.4 **APPENDIX 8** gives details of budget monitoring for Environmental and Commercial services and Economic Growth and Development services that are usually reported to the Economic Development and Infrastructure Services Committee.

5. BUDGET PRESSURES AND NEW DUTIES

- 5.1 Budget pressures recognised when the budget was approved on 3 March 2020 are released when the pressure crystallises to the extent that it can be

accurately quantified. Provisions to meet budget pressures and new duties totalling £234,000 have been released in quarter 3.

- 5.2 Provisions still held centrally at the end of quarter 3 total £5,921,000 and are detailed in **APPENDIX 5** and given a RAG assessment for likelihood of requirement.
- 5.3 Eleven provisions are assessed as red or no longer required, seven of these have been previously reported to Committee: £65,000 for RHI payments; £139,000 for school meals; £40,000 additional whole life costing for Lossiemouth High School; £80,000 Moray Growth Deal economic impact assessments; £120,000 for site clearance at Bilbohall; £101,000 rapid rehousing transition; £22,000 for NDR reform.
- 5.4 The other four provisions which have now been assessed as red or no longer required are: £272,000 for school counselling; £257,000 additional support for learning; £80,000 relating to school roll numbers and £23,000 Environmental Health Officer funding during Covid. A new school counselling service will be the subject of a tender process and the service will not commence until April 2021. This provision is therefore not required in 2020/21. The additional funding for support for learning will not be required in 2020/21. Following the October census £194,000 was drawn down for school roll numbers, which leaves a balance of £80,000 which is not required. Additional funding received for Environmental Health Officer during Covid is not required until 2021/22.
- 5.5 Four provisions are assessed as amber, for uncertainty of requirement: Registrars £11,000; Linkwood primary school running costs £76,000; and improvement and modernisation programme £1,748,000 (budgeted to be funded from capital receipts with the full £2,000,000 budget provision for capital receipts still shown in central provisions). The handover of Linkwood primary school was delayed and full provision made for running costs will not be required in 2020/21. Part of the balance of provision for expenditure on the improvement and modernisation programme will be required in 2021/21. The level of use of capital receipts will be the subject of a separate report to Council at a later date.
- 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. There have been no new pressures for 2020/21 identified during quarter 3. The budget will continue to be reviewed for any emerging pressures and any further recommendations made to Council for 2021/22.

7. SAVINGS

- 7.1 Savings of £3,102,000 were approved when the budget was set on 3 March 2020. These savings comprised increased income of £48,000 from inflationary uplifts to charges for services; one-off savings of £582,000, and other permanent savings of £2,472,000.
- 7.2 To date budgets for charges have been adjusted in full. Temporary savings of £43,000 have been posted to departmental budgets, £677,000 less than in quarter 2 due to the final Leisure VAT refund claim being reversed following an audit adjustment to the 2019/20 annual accounts. This recognised the income in 2019/20 and is reflected in an increased free general reserves figures as at 31 March 2020.
- 7.3 Of the originally approved permanent savings, a balance of £611,000 remains in central provisions as at the end of December. These are detailed in **APPENDIX 6** and given a RAG assessment for anticipated achievement.
- 7.3.1 Eight savings totalling £317,000 are assessed as red, five of these have been previously reported to Committee: £14,000 saving for customer services use of e-forms; savings of £55,000 from the review of Property Services; £83,000 relating to the commercialisation of the sport/ leisure service; £32,000 relating to public conveniences, and £36,000 balance of savings relating to the relocation of staff from Auchernack and Forres community centre.
- 7.3.2 The other three savings which have now been assessed as red are £3,000 relating to the members service reduction in hours is not achievable until 2021/22. Savings of £7,000 relating to management restructures for transportation has not been progressed during 2020/21. 1 project under the Improvement and Modernisation Programme totalling £87,000 for ICT & digital schools admin will not be achieved in 2020/21
- 7.3.3 Three savings totalling £273,000 are assessed as amber. These all relate to 3 projects under the Improvement and Modernisation Programme that were paused during lockdown at this point it is unclear whether savings will be achieved during this financial year.
- 7.3.4 One saving relating to management restructure for catering and cleaning £21,000 will be achieved before year end.

8. ESTIMATED OUT-TURN

- 8.1 **APPENDIX 2** summarises the second estimated out-turn position for each service area, comparing the estimated expenditure to the financial year-end with the budget to 31 March 2021.
- 8.2 Overall the estimated out-turn position for 2020/21 is expenditure under budget of £1,589,000 or 0.7% of budget to date (including services

delivered on behalf of the Moray Integrated Joint Board).

- 8.3 The estimated out-turn position for 2020/21 for Health & Social Care is an overspend of £916,000 on services provided by the Council to MIJB. The overall projected outturn for all MIJB services is £36,000 underspend. As the MIJB has a cost sharing agreement between the Council and NHS Grampian, an adjustment to reflect the agreement is shown. This decreases the budget shortfall for which the Council is liable by £916,000, to bring the MIJB to a breakeven position. This brings the total anticipated variance in expenditure for 2020/21 to an underspend of £2,505,000.
- 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 out-turn variances are summarised below:
- 8.4.1 In Children and Families and Criminal Justice Services, there is a total projected underspend of £2,684,000. This predominantly relates to £1,730,000 for out of area costs, partly due to a contract for residential care for children with disabilities, due to two of the three children originally in this service having made the transition to adult services. Fostering fees and allowances are projected to be underspent by £310,000; £106,000 relating to contracts that have ended during the year: the adoption service is projected to be underspent by £202,000, due to one-off income received and reduced placements with external providers and social work area teams are projected to be underspent by £313,000 relating to Self Directed Support, home to school transport for foster children and operational budgets. The underspend will be transferred to the ear-marked reserve for transformation of Council services (see paragraph 4.3.1).
- 8.4.2 Staff savings from vacancies and appointment below top of scale across all services are anticipated to exceed the overall budget provision by £1,852,000. Variances are anticipated across all services due to the impact of the pandemic upon the recruitment process and the ability for services to fill vacancies.
- 8.4.3 The impact of the Covid pandemic and lockdown measures have had significant impact on the budgets to date and a continued level of impact was always anticipated but is now expected to be worse, given the second lockdown. All services are generating less income than budgeted, now projected to total £4,473,000 at the year end. This includes loss of leisure income, catering income, car parking income, trade waste, planning and building control fees. There is also £1,781,000 projected loss of income due to roads DLO staff costs and property service fees being unable to be recharged to capital. Forecasted direct costs of response to the pandemic are £837,000 as detailed in paragraph 4.3.5. This puts the estimated additional costs of the pandemic at £7.1 million, £0.7 million below the estimate reported to Council on 1 December 2020. Since the quarter 2 report, the estimate of direct costs (net of specific grant funding received) has been reduced by £403,000 by further application of grant funding, the estimate of lost income has increased

by £218,000 following the latest lockdown and property service fee lost income has been reduced by £351,000. This estimate was based on schools returning on 1 February 2021. The financial impact of the pandemic has been regularly reported to Council and is constantly changing as additional funding is awarded and costs change in response to changing circumstances. The estimated out-turn does not include additional costs of heating schools in the ventilation regime required.

- 8.4.4 Council Tax income is considerably below the level budgeted for. An estimate of a shortfall against budget of £2,400,000 is included in the estimated out-turn for the year. This is consistent with the estimated shortfalls reported previously.
- 8.4.5 The overall estimated out-turn is for net expenditure less government funding and Council Tax receipts of around £1million less than that reported at the end of quarter 2. Since the quarter 2 report funding of £1.2 million for loss of income has been notified to the Council. Other major variances are a reduction in income due to the VAT refund of £0.7 million now being recognised in 2020/21; MIJB is now forecast to come in on budget and so £0.1 million expenditure is removed from the estimate; net impact of the pandemic is reduced by £0.7 million and slippage on the use of a number of provisions for budget pressures of a further £0.4million is now forecast.

Movement in forecast	£million
SG grant for lost income	1.2
Recognition of VAT refund	(0.7)
MIJB improved out-turn	0.1
Pandemic	0.7
Budget provisions	0.4
Other cumulative effect	(0.7)
Total	1.0

9. **FREE GENERAL RESERVES**

- 9.1 The balance on general reserves (excluding DSM and ear-marked reserves) as at 1 April 2020 was previously reported as £14,639,000. Following the audit of the annual accounts, an audit adjustment was required (see paragraph 7.2 which increased the general reserves by £710,000 to £15,349,000.
- 9.2 Use of reserves totalling £2,348,000 was approved to balance the 2020/21 budget. Since then the BRIS retention of £1,859,000 for a three year period was notified to the Council and this reduces the need to use reserves in 2020/21. The Moray Council on 12 August 2020 approved an additional use of reserves totalling £437,000, as listed in **APPENDIX 7**, and on 2 September 2020 approved a net budget reduction of £156,000, reducing the underlying need to use reserves. The Moray Council on 16 December 2020 approved

one-off savings and the impact of these is reflected in the projected out-turn for the year.

- 9.3 In the report to Council on 2 September on short term financial planning, the estimated impact of the pandemic was £8.4 million to be funded out of reserves. In the report to Committee on 1 December the impact of Covid on the reserves was reduced by £600,000 due to the application of ELC grant funding and this has further been reduced again following the revised estimated actuals, this is again in part due to the application of further grant funding and through a revised methodology of property fee allocations. The short term financial planning report to Council on 20 January noted the grant funding of £1,191,000 for loss of income due to the pandemic, further reducing the call on reserves.
- 9.4 The impact of the estimated out-turn is a reduction in the use of reserves of £105,000, with a transfer to ear-marked reserves of £2,640, leaving an estimated free balance of £13,235,000 at 31 March 2021.

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.
- (e) **Staffing Implications**
No staffing implications arise directly from this report.
- (f) **Property**
No property implications arise directly from this report.
- (g) **Equalities**
No equalities implications arise directly from this report.

(h) Consultations

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

11. CONCLUSION

- 11.1 The financial position of the Council at the end of December 2020 is an overspend against General Services Revenue Budget of £573,000 (including services delivered on behalf of the Moray Integration Joint Board).**
- 11.2 Variations in General Revenue Grant totalling £1,630,000 have been notified to the council.**
- 11.3 There are no additional budget pressures noted for Council services at quarter 3. The estimated out-turn position consists of an underspend of £2,505,000 less £2,400,000 Council Tax income below budget, £1,191,000 additional funding from redetermination and the BRIS retention, a net underspend of £3,155,000, of which £2,640,000 falls to be transferred to ear-marked reserves for transformation.**

Author of Report: Deborah O'Shea, Principal Accountant

Background Papers: Held by author

Ref: