



REPORT TO: ECONOMIC DEVELOPMENT AND INFRASTRUCTURE SERVICES COMMITTEE ON 22 MARCH 2022

SUBJECT: ENVIRONMENTAL AND COMMERCIAL SERVICES AND ECONOMIC GROWTH AND DEVELOPMENT SERVICES (ECONOMIC DEVELOPMENT) CAPITAL AND REVENUE BUDGET MONITORING TO 31 DECEMBER 2021

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 31 December 2021.**

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 2021/22 was approved by a meeting of Moray Council on 3 March 2021 (para 3 of the minute refers). Further amendments were approved by the Council at its meeting on 30 June 2021 (para 17 of the minute refers) and by the meeting Economic Growth, Housing and Environmental Sustainability Committee on 24 August 2021 (paragraph 7 of the minute refers) and the meeting of Corporate Committee on 30 November 2021 (paragraph 7 of the minute refers) and have been incorporated into this report. 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; 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 3 March 2021 (para 5 of the minute refers). The current total Revenue budget for Environmental and Commercial Services is £24,087 million in 2021/22.

4. ENVIRONMENTAL AND COMMERCIAL SERVICES REVENUE BUDGET

- 4.1 **APPENDIX 1** details the Environmental and Commercial Services Revenue Budget position to 31 December 2021.

4.2 REVENUE BUDGET POSITION 31 DECEMBER 2021

Annual Budget	Budget Year to Date	Actual & Committed Year to Date	Variance Year to Date
£000s	£000s	£000s	£000s
24,087	16,582	16,745	-163

- 4.3 Environmental and Commercial Services actual and committed budget has an overall overspend to budget, of £163,000 for the period to 31 December 2021. The position is shown in **APPENDIX 1** and summarised in the table below with major variances described in para 4.4 - 4.10 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 31 December 2021

<u>Service</u>	Ref Para	Overspend	Underspend
		£000s	£000s
Fleet Services	4.4	-60	
Engineering Design	4.5	-12	
Traffic & Transportation Mgt	4.6	-281	
Waste Mgt	4.7		66
Building Catering and Cleaning	4.8		244
Parks & Open Spaces	4.9	-91	
Covid 19	-	-33	

Explanation of major variances 31 December 2021:

4.4 Major Variance – Fleet Services

Overspend of £60,000 is mainly due to vehicle running costs and increases in the cost and carriage of spare parts as a result of Brexit and Covid 19.

4.5 Minor Variance – Engineering Design

Overspend of £12,000 is mainly due to a small overspend on software licenses and recoverable works which is forecast to be back on budget at year end.

4.6 Major Variance - Traffic and Transportation Management

Overspend of £281,000 which is principally because of loss of income (car parks reduced footfall and road closures) due to Covid.

4.7 Major Variance - Waste Management has an overall underspend of £66,000.

Main variances are:- £237,000 underspend on recycling costs/ income - the market is volatile but prices for paper/card are currently favourable leading to this underspend. Green waste income is £59,000 more than budgeted for. Tipping income is £84,000 higher than budget due to an increase in the usage of the service. There was also a £20,000 underspend on supplies and services at the end of Quarter 3.

Overspends: The trade waste service is still recovering due to Covid 19 and the budget was £230,000 under achieved at the end of December 2021. Customers are beginning to return but their needs have changed and some now require smaller bins, Landfill tax is overspent by £32,000 due to an increase in the tonnage being sent to landfill and partially offset by increased tipping income. Fuel costs were also £41,000 over budget at the end of December 2021.

4.8 Major Variance – Building Cleaning and Catering

Total underspend of £244,000 comprises of the following variances:

Catering had a £490,000 underspend on food costs, the underspend is mainly due to the low uptake of school meals due to Covid restrictions.

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

It should be noted that Parks and Open spaces are projecting an overall underspend of £56,000 at the year end - 31 March 2022. This underspend may be impacted by ongoing response to emergency tree works resulting from storms and in meeting the costs of an insurance claim. Total overspend of £91,000 at 31 December 2021 is as a result of the following variances.

Income surplus: Burial ground interment fees £33,000
Expenditure underspends in supplies and services of £13,000 and Dorenell core paths £25,000, other £14,000.

Overspends include: staffing costs (including voluntary redundancy) £8,000, transport including fuel costs £26,000, War Memorials maintenance £23,000 and Sanquhar Loch £4,000 (funded by reserves) other operational costs of £18,000

Income Shortfall: Burial Ground sale of lairs £9,000 and a shortfall in income rechargeable to other departments of £88,000. The service will continue to monitor the internal recharges as the forecast is based on an average of the current year to date and 2019/20, 2018/19 (excluding 2020/21 due to Covid).

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

5.1 **REVENUE BUDGET POSITION 31 DECEMBER 2021**

Annual Budget	Budget Year to Date	Actual & Committed Year to Date	Variance Year to Date
£000s	£000s	£000s	£000s
1,748	1,285	1271	14

5.2 Development Services - Economic Development, the variance to projection is an underspend of £14,000. Economic recovery project plans for business start up grants, small business consultancy and pop up shops – schemes have been slow to progress due to Covid restrictions and the additional workload of administration regarding Covid grants.

6. **ENVIRONMENTAL AND COMMERCIAL SERVICES CAPITAL BUDGET TO 31 DECEMBER 2021.**

6.1 **APPENDIX 2** details the Environmental and Commercial Services Capital Budget position to 31 December 2021. The total Capital Plan budget of £27.031 million has an actual spend at the end of December 2021 of £10.325 million with a total projected expenditure at end of March 2022 of £24.391 million.

- 6.2 Expenditure on Lands & Buildings to 31 December 2021 totals £5,039,000. The major items of expenditure were £325,000 on replacing waterproofing and expansion joints at multi storey car parks and £4,597,000 for the Council's contribution of the NESS energy from waste plant.
- 6.3 Expenditure on Infrastructure assets to 31 December 2021 totals £4,679,000. The main item of expenditure was £2,286,000 on roads resurfacing works throughout the Council area. Other items of expenditure include £702,000 on various bridge works and £405,000 for work on the pontoons at Findochty Harbour.
- 6.4 Expenditure on vehicles, plant and equipment to 31 December 2021 was £610,000, the main item of expenditure being £380,000 on the Vehicle & Plant Replacement Programme.
- 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 2021/22. 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 2021/22 £000s
High confidence of spend to estimate	G	36	8,300
Medium confidence of spend to estimate	A	15	1,957
Low confidence of spend to estimate	R	6	14,020
		<u>57</u>	<u>24,391</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
Land and Buildings			

NESS Energy for Waste	10,784	10,784	-
Infrastructure			
Road Safety Provision	247	25	222
Kerb Edge Replacement	50	-	50
A941/50 Dykeside	160	160	-
Vehicles, Plant and Equipment			
Vehicle and Plant Replacement Programme	3,045	3,045	-
Traffic signal replacement	6	6	-
TOTAL	14,292	14,020	272

- 6.9 The covid pandemic and issues within the supply chain for infrastructure projects have had an impact upon the timescales for NESS. There continues to be a high degree of uncertainty around expected level of spend this financial year and there may be a need for carry-over into 2022/23, however, for the current time it is felt prudent to leave spend on budget but classify as Red.
- 6.10 Given the relationship between active travel and road safety, there is a degree of cross-over in terms of scope and funding eligibility between the Road Safety and Cycling, Walking, Safer Streets (CWSS) budgets. Therefore, given the ring-fenced nature of the CWSS grant, these projects are being priorities to maximise utilisation of the grant. A programme of kerb edge replacement works has been unable to be developed due to increased focus on other areas of the capital plan and staff shortages within the Service. Work on the bridge at A941/50 Dykeside had been delayed due to costs being higher than the budget available but, as reported to the Meeting of Corporate Committee on 30 November (paragraph 7 of the minute refers) funding has been received from the Scottish Government through the Local Bridge Maintenance Fund and work is in the process of being re-tendered.
- 6.11 The lead time for purchase of vehicles is very long due to issues with the supply of small components to complete vehicles. There is therefore a high degree of uncertainty as to when vehicles will be delivered and hence costs incurred. Orders to the value of £3 million with potential for delivery in 2021/22 have been placed so the forecast £1 million underspend is the minimum underspend for the year. Due to staff focus being on other capital projects work is not progressing on the replacement of traffic signals.
- 6.12 An amber rating of confidence to spend budget highlights areas where there are issues impacting on the ability to project spend – generally indicating factors out with the budget manager’s control. The Covid-19 pandemic restrictions on contractors working practices have resulted in an increase in costs of construction. The impact of Brexit has also seen material and equipment costs increase and we are experiencing procurement delays due

to poor responses to tenders and delays in the supply of materials. Other factors creating uncertainties are noted below, mainly staff capacity, response to safety issues and service requirements

The following have been identified by budget managers as having an **Amber** status:

Project	Capital Plan 2021/2022 £000s	Projected Expenditure 2021/2022 £000s	Projected Variance 2021/22 £000s
Lands & Buildings			
Cemetery Provision in Moray	20	20	-
Parks & Open Spaces infrastructure	100	83	17
Infrastructure			
Road Safety Provision – Disability Adaptions	35	35	-
Cycling, Walking, Safer Streets (CWSS)	421	421	-
Road Improvements – Drainage Works	460	230	230
Road Improvements - footways	300	149	151
A95 Meikle Cantlay Landslip	1	1	-
Street Lighting – LED Replacement	144	144	-
Street Lighting replacement columns and lights	550	340	210
Shougle Bridge	108	108	-
U142.5 Nether Tomdow, U142.5 Willowbank, U142.5 Culach Burn	115	115	-
Wards Road Junction Improvements	101	101	-
Vehicles, Plant & Equipment			
Orchard Road Signals	28	28	-
Chemical Waste Disposal Points	170	170	-
Children’s Play Areas	12	12	-
TOTAL	2,565	1,957	608

- 6.13 The timing of spend on cemeteries was varied from that originally planned due to negotiations on the acquisition of land being started earlier than originally planned and budget was brought forward however these discussions are currently still ongoing so costs are not known at the current time. As reported to Economic Growth, Housing and Environmental Sustainability Committee on 24 August 2021 it is now planned to defer all but essential work on lands and parks to meet health and safety requirements. The budget was adjusted to reflect the estimate of necessary works at that stage but some urgent health and safety works have now been identified as detailed in paragraph 5.19 of this report. There is no guarantee that further urgent works will not be required.

- 6.14 As reported to a meeting of Corporate Committee on 30 November (paragraph 7 of the minute refers) there is a degree of cross-over in terms of scope and funding eligibility between the Road Safety and Cycling, Walking, Safer Streets (CWSS) budgets. Therefore, given the ring-fenced nature of CWSS, projects are being carefully considered to maximise utilisation of the CWSS funding. Drainage works are planned to be carried out after the majority of roads capital spend has taken place and are therefore vulnerable to an early onset of cold weather, as the teams would then be reallocated to gritting. Street lighting column replacement has been classed as amber because of the capacity of staff to undertake work on both Street Lighting projects. The tendering process for Shougle Bridge was delayed due to negotiations with landowners and is rated amber because of this delay.
- 6.15 Works at Orchard Road traffic signals are to be undertaken along with work to resolve drainage issues at the site. Initial work has commenced on this project, materials have been ordered and it is scheduled to begin in the current financial year, subject to lead in times for the supply of materials and the severity of the winter, with a planned completion date of summer 2022. There were minor delays to Phase 1 of the installation of chemical waste disposal points but phase 2 has been progressing well. The status of this project has been kept at amber due to issues regarding signage design which are still to be resolved. Play area upgrade design is being carried out in conjunction with local communities using Participatory Budgeting (PB) and delays in the lead-in times for the delivery of equipment means the level of spend is uncertain at this time and will be updated following the procurement exercise when more information will be available.
- 6.16 A summary of the projected variances at 31 December 2021 from the current approved capital programme, as detailed in **APPENDIX 1**, is set out below:

Description	Para ref	Underspend/ (Overspend) £000
Land & Buildings		
Moycroft	6.17	(130)
Cemetery Provision in Moray – Infrastructure	6.18	13
Parks and Open Space – Infrastructure	6.19	17
Infrastructure		
Road Safety Barrier Provision	6.20	222
Drainage and other works	6.21	230
Footways	6.22	151
Kerb Edge Replacement	6.23	50
Street lighting replacement columns and lights	6.24	210
C2E/40 Foths Burn Bridge	6.25	63
Cappies Bridge	6.26	43
Harbours Findochty Pontoons	6.27	106
Total		2,640

Lands & Buildings

- 6.17 **Moycroft** – This project has a projected overspend to budget of £130,000 at 31 December 2021. The estimates of spend are based on the best information available at the current time. Scottish Water and Covid disruption costs are still to be confirmed, and a final invoice from the contractor has yet to be received, all of which could vary the estimates up or down. Work on the cycle path has been delayed due to issues in the wider construction industry and due to difficulties in getting firms to tender for work. An alternative approach is now being pursued which will avoid access of refuse vehicles crossing the cycle path by creating an alternative access/egress point into the refuse vehicle parking area.
- 6.18 **Cemetery Infrastructure** – The budget of £100,000 against this heading was originally projected to be fully spent. However, the Council has received funding from the Scottish Government from the Nature Restoration Fund – the works to create a ‘rain garden’ at Clovenside Cemetery meet the criteria of this funding and it will therefore be utilised to fund this project, creating an underspend of £13,000 on this heading.
- 6.19 **Parks and Open Spaces Infrastructure** – The current work programme on this budget heading is dealing with priority and health and safety works only. At the moment it is projected that there will be an underspend of £13,000 but the timeline and costs of path works at Lossiemouth Harbour are currently not known, which may increase the costs and therefore reduce the underspend.

Infrastructure

- 6.20 **Road Safety Works** – Where possible, road safety projects under the Road Safety heading have been put on hold to enable focus on spending CWSS funding. At this stage it is projected that this will underspend by £222,000.
- 6.21 **Drainage and Other Works** – Due to staff shortages within the Service, and an increased capital allocation for Roads Surfacing projects, it is currently anticipated that this heading will underspend by £230,000 in the current financial year.
- 6.22 **Footways** – This heading is projected to underspend by £151,000 in the current financial year due to work being unable to be progressed due to staff shortages within the Service.
- 6.23 **Kerb Edge Replacement** – A programme of works has been unable to be developed for this heading due to staff shortages and difficulties in recruiting and a focus on the increased capital allocation for Roads Surfacing projects, creating a predicted underspend of £50,000.
- 6.24 **Street Lighting** – It is currently predicted that the project under this heading for column replacements is going to be underspent by £210,000 in the current financial year. This is due to difficulties in procuring materials required and staff shortages meaning that not all planned works will be completed.
- 6.25 **Bridges C2E/40 Foths Burn Bridge** – Savings were made during this project, which is now complete. This has meant that not all the budget was

required and there is an underspend of £63,000 projected by the end of the financial year.

- 6.26 **Bridges Cappies Bridge** – The budget for this project, which was for weight restrictions, was developed prior to the detailed design being carried out and had assumed the installation of additional features such as traffic lights and over-head gantries would be required. However the costs for this project were considerably less than anticipated as only new signage was required. This has resulted in an underspend of £43,000.
- 6.27 **Findochty pontoons** – Savings were made during this project, the main works of which are complete, apart from some minor works which are outside the scope of the contract. This has meant that not all the budget was required and there is an underspend of £106,000 projected by the end of the financial year.

7. **AMENDMENTS TO CAPITAL PLAN**

- 7.1 The following amendments to the capital plan are anticipated to be requested and subject to approval by Moray Council on 23 February 2022:

RISK AND EMERGING ISSUES

- 7.1.1 Budget managers have been requested to identify any specific areas of risk for the projects in the Capital Plan for which they are responsible.
- 7.1.2 As reported to Economic Growth, Housing and Environmental Sustainability Committee on 24 August (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. The construction industry is also over-heated and some recent procurement exercises have stalled. The Strategic Territory Partnering Board are also monitoring market volatility.
- 7.1.3 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.
- 7.1.4 The NESS Energy for Waste project is at a risk of delay due to Covid however it is not anticipated that this will impact on the current revenue and capital budget provision.
- 7.1.5 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 shortage of semi-conductors.

- 7.1.6 Projects can be subject to risks which are out with the direct control of the Council. Poor weather conditions can impact project timescales, as identified for Roads Drainage works and harbours renovation works.
- 7.1.7 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.
- 7.1.8 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.
- 7.1.9 Looking to the future there is a need to invest significantly in our infrastructure to underpin the Council's priorities of Our People, Our Place, Our Future. The Council's forecast financial situation is such that significant savings will be needed and realistically capital expenditure cannot be ignored when seeking to curtail costs. There will therefore be a difficult balancing act between investment needs and savings.
- 7.1.10 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**.

Environment and Commercial Services revenue spend to 31 December 2021 is £16,745,000 against a budget projection of £16,582,000 giving an over spend of £163,000.

Economic Growth and Development Services - (Development Services) revenue spend to 31 December 2021 is £1,271,000 against a budget to date of £1,285,000 giving a minor underspend variance of £14,000.

Direct Services capital spend is £10.328 million to 31 December 2021.

(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) 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, Principal Accountant (Paul Connor), 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 December 2021.

Author of Report: Nichola Urquhart, Quality Management Systems Officer

Background Papers:

Ref: SPMAN-524642768-655