



REPORT TO: MORAY COUNCIL ON 12 FEBRUARY 2020

SUBJECT: REVENUE BUDGET MONITORING TO 31 DECEMBER 2019

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

1. REASON FOR REPORT

- 1.1 To advise Council of the revenue budget monitoring position to 31 December 2019 and of the current estimated out-turn for 2019/20.
- 1.2 This report is submitted to Council in terms of Section III A (8) 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 £723,000 under budget for 2019/20 as at 31 December 2019;**
- (ii) that this position consists of an underspend on Devolved School budgets of £778,000, an overspend on Social Care services delivered on behalf of the Moray Integration Joint Board (MIJB) of £1,351,000 and an overspend on other services of £50,000 after receipt of £1,325,000 one-off income;**
- (iii) movement of £208,000 in the General Revenue Grant, as detailed in paragraph 3.4;**
- (iv) the current estimated out-turn for 2019/20 consists of an underspend of £619,000 for services; £1,325,000 one-off income; unallocated provisions (including additional savings of £1,691,000) of £3,604,000 and an overspend on Social Care services delivered on behalf of the Moray Integration Joint Board (MIJB) of £632,000, resulting in a decrease in the use of Council reserves of £4,916,000; and**
- (v) there are no new emerging budget pressures as at 31 December 2019;**

(vi) the position regarding Moray Integration Joint Board (MIJB) as described in paragraph 8.3, with cost implications of £632,000 for the Council; and

(vii) commitments of £272,000 against reserves as summarised in section 9.

2.2 It is recommended that Committee approves setting aside £881,000 budgeted to be spent on transformation of services into an ear-marked reserve for implementing Council priorities.

3. BACKGROUND

3.1 When the revenue budget for 2019/20 was approved by Moray Council on 27 February 2019 (paragraph 4 of the minute refers), General Revenue Grant (GRG) of £157,236,000 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 £41,530,000 were anticipated. Budgeted expenditure of £203,954,000 was agreed, and this required projected use of £5,188,000 of the Council's General Reserves to balance the budget.

3.2 On 8 May 2019 Council approved additional posts budgeted at a cost of £119,000 in 2019/20. On 27 June 2019 Council approved adjustments to the base budget to reflect variances during 2018/19 which were projected to continue into 2019/20. The net effect of these adjustments which included an increase of £955,000 in budgeted Council Tax receipts was to reduce budgeted expenditure by £1,121,000. At the same meeting additional expenditure of £118,000 to be funded from General Reserves was also approved. A further adjustment of £871,000 for Council Tax was notified in quarter 3. All of these adjustments have been posted to departments as at 31 December 2019.

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 balance brought forward in 2019/20 is £10,000 (2018/19 £448,000). Unused funding of £61,000 received in 2018/19 for the expansion of Early Learning and Childcare (ELC) has been carried forward into 2019/20 in accordance with the grant conditions.

3.4 A variation to General Revenue Grant (GRG) of £208,000 has been notified in quarter 3. This relates to access to counselling through schools and additional budget will be allocated when required. This is in addition to the variations amounting to £195,000 net reduction notified in quarter 2 noted by Council on 27 November 2019.

3.5 Funding of £5,507,000 for ELC has been notified for 2019/20. ELC is funded by specific grant.

3.6 With these adjustments the Council's overall General Services revenue budget currently stands at £208,279,000.

- 3.7 Reconciliation of the movements in the base budget from that which was approved by the Moray Council on 27 February 2019 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**.
- 3.8 The budget structure had not been amended for the staffing restructure agreed by Council on 25 September 2019 by end December 2019 and the budgets reported in this report still reflect the old structure. Work to disaggregate the budgets and transfer them is underway and it is anticipated that this will be completed during February 2020. The Council's Financial Regulations stipulate budget reporting for Corporate Services. This will be amended when the Financial Regulations are given their annual review, which is due in early course, and the reporting level for future budget monitoring reports will reflect the new structure.

4. BUDGET POSITION

- 4.1 **APPENDIX 1** summarises the current position for each service area, comparing the actual expenditure for the year to 31 December 2019 with the budget to 31 December 2019.
- 4.2 Overall the budget position at 31 December 2019 is expenditure under budget to date of £723,000 or 0.5% 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 Devolved School budgets are underspent by £778,000 at the end of the third quarter, £194,000 in primary schools and £584,000 secondary schools. A significant quarter 4 spend from devolved school budgets has been common practice over the years. The central supply teachers budget is overspent by £259,000 for the second quarter.
- 4.3.2 Integrated Children's Service is showing an under spend of £117,000 relating to adoption and fostering due to a large movement from foster carers to kinship carers, who don't receive fees. There are also variances relating to operational budgets for area teams and the inclusion service totalling £55,000.
- 4.3.3 There are a number of fluctuations in income across the Council. Housing and Property rental income £92,000, gas generation from Dallachy landfill site £19,000, rental income from leasing car parking spaces £48,000 and various development services £21,000 are more than expected at the end of the third quarter. However the income expected from school meals is £106,000 below target, and building and development control fees are £238,000 less than expected. The income from waste recyclates is also £132,000 below target. Income also includes one-off receipts from insurance claim £417,000 and from a VAT refund arising from having opted to treat leisure income as exempt £904,000.

- 4.3.4 Central repairs and maintenance budget is currently £176,000 under budget due to slippage in planned repairs.
- 4.3.5 Other major variances in Direct Services mainly relate to underspends in the catering supplies and transport costs budget, totalling £53,000. Landfill tax is also under budget, by £72,000.
- 4.3.6 There is an overspend of £127,000 for additional pension costs mainly due to the strain on the fund costs.
- 4.3.7 When MIJB set its budget for 2019/20 it included a financial recovery plan amounting to £3,070,000 over the years 2019/20 to 2021/22. In quarter 2 the MIJB reported that this target is not being achieved and the overspend in quarter 3 has increased. There is an overspend across both Council and NHS services during quarter 3 of £2,752,000. 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 £1,351,000.

5. BUDGET PRESSURES AND NEW DUTIES

- 5.1 Budget pressures recognised when the budget was approved on 27 February 2019 are released when the pressure crystallises to the extent that it can be accurately quantified. Provisions to meet budget pressures and new duties totalling £464,000 have been released in quarter 3 and are detailed in **APPENDIX 4**.
- 5.2 Provisions still held centrally at the end of quarter 3 total £4,574,000 and are detailed in **APPENDIX 5** and given a RAG assessment for likelihood of requirement.
- 5.3 Six provisions are assessed as red or unlikely to be needed: £22,000 for industrial estate voids, with rental income from industrial estates above budget to date; £91,000 reduction in teachers' pension scheme discount; £6,000 economic development restructure, £8,000 for children's services pressures, £10,000 for ERDMS extension and £1,049,000 for Integrated Children's Services out of area placements. The budget pressure for industrial estate voids has been partly allocated, reduction in teachers' pension scheme discount rate was for a full year effect but the pension increase was not until September; and economic development restructure and children's services pressures have been partially allocated and the balance is not now anticipated to be required in this financial year. The ERDMS project extension has now finished and posts merged into Customer Services so the provision for additional funding is not required. The out of area placements are based on forecast spend and for the third quarter there has been a number of transitions to adult services, which has resulted in no funding required to be drawn down. A detailed report will be going to a future meeting of the Children and Young People's Services Committee.
- 5.4 Two provisions are assessed as amber, as the cost exceeded provision by £5,000 for school roll numbers and the provision for the Improvement and Modernisation program is now expected to be required for 2020/21.

5.5 All other provisions still held centrally are expected to be required in full at this juncture. It is proposed that the provisions for Investment in Change (£500,000) and the Improvement and Modernisation program (£381,000) are transferred to an ear-marked reserve, facilitating the achievement of Council priorities

6. **EMERGING BUDGET PRESSURES**

6.1 Emerging budget pressures are noted throughout the year as they are identified. There are no emerging budget pressures for 2019/20 as at 31 December 2019.

7. **SAVINGS**

7.1 Savings of £10,124,000 were approved when the budget was set on 27 February 2019. These savings comprised increased income of £18,000 from inflationary uplifts to charges for services; one-off savings of £149,000, and other permanent savings of £9,957,000.

7.2 To date budgets for charges have been adjusted by £13,682. The remaining balance of £4,318 has been reviewed as part of the estimated actual process and budgets will be adjusted accordingly in quarter 4. Temporary savings of £156,579 have been posted to departmental budgets, £7,579 more than the impact of the approved temporary savings estimated when the budget was set.

7.3 Of the originally approved permanent savings, a balance of £449,207 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 £569,079 are assessed as red. The full provision for savings from increase in NI threshold and contracts renewal is not achievable. A saving from Accounts Payable electronic processing has not yet been realised as it is dependent upon an ICT solution, which has yet to be developed.

Following on from Committee decision on 25 September 2019:

Essential Skills Savings not approved	£146,000
Libraries not achieved	£25,000
ESOL deferred in 2020/21	£12,000
Janitors deferred in 2020/21	£36,000

Roads Maintenance for road patching vehicle and dual purpose vehicles/tippers will not be achieved due to unforeseen operational issues and a phased replacement program will achieve minimal savings. Implementation of parking charges at additional locations has not progressed in 2019/20, resulting in the £5,000 saving not being achieved.

- 7.3.2 Savings of £300,000 from the commercialisation of the sports and leisure service were approved in the budget. Of this £60,000 is still held centrally. £24,000 of this relates to a miscalculation of the impact of uptake of Fit Life membership. It is considered that this is unlikely to be achieved. Potential savings from Elgin Community Centre have been assessed and the balance of £36,000 will not be achieved.
- 7.3.3 The allocated budget for income from Fit Life reflects the target increase in numbers. The budget for quarter 3 was £859,000 and the income reflected in the General Ledger and thus in this report has broadly been attained – actual income recorded of £843,000. However, this does not reflect the level of default on payment of Fit Life membership fees. The problems experienced immediately following the campaign for increased membership are being resolved. The true picture requires to take into account outstanding debt. There are outstanding debts from the second quarter of 2019/20 totalling £6,993. The real shortfall of income to budget is therefore £22,993, or 2.7% of budgeted income.
- 7.3.4 Five savings totalling £206,249 are assessed as amber. Reduction in cleaning hours at schools will not be achieved in full in 2019/20 due to 6 months of pay protection. The effect of the review of Property Service will not be achieved in 2019/2020 as proposals have yet to be agreed. These are the subject of another report on the agenda for this Council meeting. Relocation from Auchernack and Forres Community centre staff restructure has been delayed and the building is now closed, but the full savings will not be achievable in this financial year. The split of the DSM budget saving between 2019/20 and 2020/21 was incorrect and the balance of the saving approved for 2019/20 will not be achieved this year but will be taken in 2020/21. The balance of the schools central admin will not be achieved as it is related to the Library and ESOL savings which were not approved by Committee.
- 7.3.5 The other unposted savings are assessed as green - these are expected to be achieved or substantially achieved during this financial year.

8. ESTIMATED OUT-TURN

- 8.1 **APPENDIX 2** summaries the updated estimated out-turn position for each service area, comparing the estimated expenditure to the financial year-end with the full year budget as at 31 December 2019.
- 8.2 Overall the estimated out-turn position for 2019/20 is expenditure under budget to date of £5,548,000 or 3.3% of budget (excluding services delivered on behalf of the Moray Integrated Joint Board). This significant underspend in large part arises from one-off income (£1.3 million) and additional savings (£1.7million), some of which are also one-off. Growth in Council Tax base accounts for a further £1.9 million - £4.9 million in total. Council services are anticipated to underspend by £0.6 million – 0.4% of budget (excluding social care).

- 8.3 The estimated out-turn position for 2019/20 for Health & Social Care is an overspend of £1,643,000 on services provided by the Council. The overall projected overspend for all MIJB services is £1,707,000. As the MIJB has a cost sharing agreement between the Council and NHS Grampian, an adjustment to reflect the agreement is shown. This reduces the budget shortfall for which the Council is liable to £632,000, this is an increase of £79,000 from the quarter 2 estimate. This brings the total anticipated variance for 2019/20 to an underspend of £4,916,000.
- 8.4 The principal areas of overspend and underspend across the Council largely reflect the major variances mentioned in paragraph 4 above. Details of out-turn variances are summarised below:
- 8.4.1 Lifelong Learning , Culture and Sport Service is estimated to be £310,000 under budget at the end of the financial year, mainly due to staffing vacancies, and a projected underspend in the repairs and maintenance budget of £155,000.
- 8.4.2 Integrated Children's Services are estimated to be £447,000 under budget at the end of the financial year. This primarily relates to fostering and adoption services. Fostering is underspent on fees and allowances by £145,000 due to a large movement from foster carers to kinship carers, who don't receive fees, and on school travel by £25,000, due to improved monitoring of school transport. The Adoption service is projected to underspend on external adoption placements and post adoption support by £44,000; £21,000 on adoption allowances and £14,000 from income from other authorities for adoption placements in Moray. £65,000 underspend on self-directed support whilst the service is still expanding as well underspends in the team operational budget of £52,000 and £30,000 additional funding for the Whole Systems Approach, due to implementation being slow.
- 8.4.3 Expenditure on schools is forecast to be £165,000 underspent with staffing vacancies higher than budgeted for, including a delay in filling 3 vacant Education Support Officer posts and delays in filling ELC positions. A £40,000 underspend on facilitating school improvements is expected, due to lack of staff to implement the projects and with a forecast overspend of £275,000 on supply teachers arising from cover for sickness and maternity leave and from excess staff. No variance is forecast for devolved school budgets, on the assumption that any overspends or underspends fall within the limits of the DSM Scheme permitted carry forwards.
- 8.4.4 The Housing and Property Service is projecting an underspend of £330,000. A net income of £417,000 is estimated as a one-off payment for the insurance claim for Isla Bank Mills. Property service fee income is expected to be £386,000 below target income, primarily due to a change in the charging method, as well as reduced programme for 2019/20. Corporate repairs and maintenance are forecast to be £152,000 below budget.

- 8.4.5 Direct Services are projected to be almost on budget. The recycling budget is expected to overspend by £190,000 by the end of the financial year due to the continuing market fluctuations in the cost of recycling mixed paper. Trade waste income is expected to have a shortfall of £95,000, as there has continued to be a reduction in use of this service following the price increase in April 2018. Catering is estimated to be £24,000 over budget primarily due to a lower uptake of school meals. However, income from garden waste £56,000 is above target and bulky uplifts £4,000 is expected to be above target, Grounds maintenance is estimated to be £85,000 under spent primarily due to increased income and car parking income is expected to be £48,000 above target.
- 8.4.6 Waste Management is underspending on leachate, which is expected to be £25,000 under budget by the year end and landfill tax, due to reduced tonnage being landfilled is anticipated to be under budget by £55,000.
- 8.4.7 Development Services are also projected to spend almost exactly on budget. There is an expected shortfall of £180,000 in planning fee income and £58,000 shortfall in building standards income. Income for both services is dependent on market activity and currently we are encountering lower levels of applications due to the economic investment, which is out with our control. This is largely offset by vacancies.
- 8.4.8 Corporate services are projected to under spend by £887,000, this is primarily due to the one off income of £908,000 relating to the VAT leisure claim, which is reduced by other minor variances.
- 8.4.9 Staff savings from vacancies and appointment below top of scale are anticipated to exceed the overall budget provision by £936,000. Major variances are anticipated in Development Services (£208,000 above target), Corporate Services (£79,000 above target), Lifelong Learning, Culture Support (£76,000 above target) and Chief Executive's Services (£103,000 above target). These services had posts held vacant pending restructuring. There is an anticipated shortfall of £11,000 in Integrated Children's Services.
- 8.4.10 Loans charges are expected to be £207,000 under budget at the year end due to the impact of capital projects which have slipped or been deferred. The timing of spend will reduce loan charges for 2019/20 and 2020/21. It is unlikely that the recently announced increase in Public Works Loans Board (PWLB) interest rates will impact on loans charges in 2019/20, as we are managing through short term borrowing.
- 8.4.11 As indicated in section 5 of this report not all provisions held centrally will be required to be released. It is estimated that a balance of £2,299,000 for additional costs will be retained centrally at the year end, along with a balance of £1,691,000 additional savings made. However, it is currently estimated that an additional £168,000 will be needed for inflationary rises relating to NDR and recycling contract.

9. GENERAL RESERVES

- 9.1 The balance on general reserves (excluding DSM and ear-marked reserves) as at 1 April 2019 was £12,276,000. Use of reserves totalling £4,016,000 was approved to balance the 2019/20 budget, with a further £1,172,000 committed for investment in change.
- 9.2 The Moray Council on 8 May 2019 approved an additional use of reserves totalling £119,000 and on 28 June 2019 approved a net budget reduction of £1,121,000, reducing the underlying need to use reserves to £2,895,000, and also additional funding from reserves for specific items, totalling £118,000. Moray Council on 27 November 2019 approved an additional use of reserves of £3,000. This budget was released in full in quarter 3. Commitments of £4,307,000 against general reserves are detailed in **APPENDIX 7**.
- 9.3 Policy and Resources Committee on 3 September 2019 approved the introduction of an ear-marked reserve for council priorities / transformation of £2,000,000, this reduces the level of free balance. As detailed in para 5.5 above it is proposed to move £881,000 to an ear marked reserve, which will also reduce the level of free balance.
- 9.4 The impact of the estimated out-turn is a reduction in the use of reserves of £4,916,000, leaving an estimated free balance of £10,004,000 at 31 March 2020.

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.
- (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 around 40% of the additional costs incurred. When the budget for 2019/20 was set it was anticipated that the MIJB recurring overspend from 2018/19 would be met from additional funding from Scottish Government passed through the local government settlement. The MIJB approved a Recovery Plan which anticipated budget pressures for 2019/20 being contained within

the overall funding from NHS Grampian and Moray Council. The current position is a projected overspend of £1,707,000 million.

(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) 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 2019 is an underspend against General Services Revenue Budget of £723,000 (including services delivered on behalf of the Moray Integration Joint Board).

11.2 Variations in General Revenue Grant totalling £208,000 have been notified to the council during quarter 3.

11.3 Not all savings approved by the Council for 2019/20 will be achieved. Some of this is due to timing differences. Where savings will not be made they have been largely outweighed by additional savings, although the additional savings are in different areas and not related.

11.4 There are no additional budget pressures noted for Council services at quarter 3. The estimated out-turn position consists of an underspend of £5,548,000, including one-off receipts of £1,325,000, less the overspend of £632,000 relating to MIJB, a total of £4,916,000.

Author of Report: Deborah O'Shea, Principal Accountant

Background Papers: Held by author

Ref: DOS/LJC/