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**REPORT TO: ECONOMIC DEVELOPMENT AND INFRASTRUCTURE SERVICES COMMITTEE ON 07 DECEMBER 2021**

**SUBJECT: ENVIRONMENTAL AND COMMERCIAL SERVICES AND ECONOMIC GROWTH AND DEVELOPMENT SERVICES (ECONOMIC DEVELOPMENT) CAPITAL AND REVENUE BUDGET MONITORING TO 30 SEPTEMBER 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 30 September 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 Policy and Resources Committee quarterly.
- 3.2 The Capital Plan for 2021/22 was approved by a meeting of Moray Council on 03 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 these 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 03 March 2021 (para 5 of the minute refers). The current total Revenue budget for Environmental and Commercial Services is £23,696 million in 2021/22.

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

4.1 **APPENDIX 1** details the Environmental & Commercial Services Revenue Budget position to 30 September 2021.

#### **4.2 REVENUE BUDGET POSITION 30 SEPTEMBER 2021**

<b>Annual Budget</b>	<b>Budget Year to Date</b>	<b>Actual &amp; Committed Year to Date</b>	<b>Variance Year to Date</b>
<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
23,696	10,192	10,800	-608

4.3 Environmental and Commercial Services actual and committed budget has an overall overspend to budget, of £608,000 for the period to 30 September 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 30 September 2021**

<b><u>Service</u></b>	<b>Ref Para</b>	<b>Overspend</b>	<b>Underspend</b>
		<b>£000s</b>	<b>£000s</b>
<b>Fleet Services</b>	<b>4.4</b>		25
<b>Engineering</b>		-42	

<b>Design</b>	<b>4.5</b>		
<b>Roads Management</b>	<b>4.6</b>	-451	
<b>Traffic &amp; Transportation Mgt</b>	<b>4.7</b>	-205	
<b>Waste Mgt</b>	<b>4.8</b>	-38	
<b>Building Catering and Cleaning</b>	<b>4.9</b>		166
<b>Parks &amp; Open Spaces</b>	<b>4.10</b>	-61	

#### **Explanation of major variances 30 September 2021:**

##### **4.4 Major Variance – Fleet Services**

Underspend of £25,000 is mainly due to seasonal budget variances. The internal recharge is charged equally over the 12 month period. At this point the full year maintenance costs for winter and annual overhauls have not been incurred by Fleet Services resulting in an apparent underspend.

##### **4.5 Major Variance – Engineering Design**

Overspend of £42,000 is mainly due to the time phasing of spend on Flood Prevention, which is forecast to be on budget at year end. Bridge works are progressing well and are on budget to date.

##### **4.6 Major Variance - Roads Management**

Overspend of £451,000 is mainly due to the timing of works and internal recharging, and is forecast to be on budget at end of financial year.

##### **4.7 Major Variance - Traffic and Transportation Management**

Overspend of £205,000 which is principally because of loss of income (car parks reduced footfall and road closures) due to Covid. £8,000 cost has been incurred for electricity for electric charging points which was not budgeted for.

##### **4.8 Major Variance - Waste Management** has an overall overspend of £38,000.

Main variances are:-

Income shortfall of £193,000 in trade waste due to Covid. Overspends of £64,000 on landfill tax and £24,000 on fuel. Underspends of Green Waste income £55,000- (an overachievement in income generated by the sale of a higher number of permits), Tipping income £51,000, recycling income and contracts expenditure £104,000 and staycation underspend £34,000.

##### **4.9 Major Variance – Building Cleaning and Catering**

Total underspend of £166,000 comprises of the following variances:  
Catering had a £330,000 underspend on food costs, £6,000 on admin costs and £6,000 transport costs as a result of the impact of Covid on services.

Other overspends as a result of Covid are £183,000 school meal income shortfall, £8,000 income shortfall in HQ catering income and a £16,000 facilities underspend on free sanitary products. Primary year 4's are now entitled to free school meals which has also reduced income.

- 4.10 **Major Variance – Parks & Open Spaces** Total overspend of £61,000 is as a result of the following variances:

External income shortfall of £31,000 to date in burial grounds (grounds maintenance) and £64,000 payment received from Dorenell windfarm.

Other overspends included transport costs £21,000, staffing (including redundancy) £34,000 and a shortfall in income rechargeable to other departments of £84,000.

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

### 5.1 REVENUE BUDGET POSITION 30 SEPTEMBER 2021

Annual Budget	Budget Year to Date	Actual & Committed Year to Date	Variance Year to Date
£000s	£000s	£000s	£000s
1,752	977	970	7

- 5.2 Development Services - Economic Development, the variance to projection is a minor underspend of £7,000.

## 6. **ENVIRONMENTAL AND COMMERCIAL SERVICES CAPITAL BUDGET TO 30 SEPTEMBER 2021.**

- 6.1 **APPENDIX 2** details the Environmental and Commercial Services Capital Budget position to 30 September 2021. The total Capital Plan budget of £27,044 million has an actual spend at the end of September 2021 of £7,282 million.
- 6.2 **APPENDIX 3** shows the projects within the Capital Budget with a summary of the ratings estimated by budget managers.
- 6.3 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.

### 6.3.1

Risk status	RAG	No. of projects	Projected expenditure 2021/22 £000s
High confidence of spend to estimate	G	38	19,838

Medium confidence of spend to estimate	A	12	3,281
Low confidence of spend to estimate	R	1	3,045
		<u>51</u>	<u>26,164</u>

6.3.2 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	Reason for rating	Para Ref	Projected Expenditure £000s
<b>Vehicles, Plant and Equipment</b>			
Vehicle and Plant Replacement Programme	Issues with supply	6.7.1 – 6.7.2	3,045

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

Project	Para ref	Projected Expenditure 2021/22 £000s
<b>Lands &amp; Buildings</b>		
Cemetery Provision in Moray	6.5.1	80
Parks & Open Spaces	6.5.2	100
<b>Infrastructure</b>		
Road Safety Provision	6.6.1	247
Cycling , Walking, Safer Streets (CWSS)	6.6.1	421
Road Improvements – Drainage Works	6.6.1	460
Street Lighting – Replacement Columns and Lights	6.6.1	550
Shougle Bridge	6.6.1	240
Wards Road Junction Improvements	6.6.1	250
Findochty Pontoons	6.6.1	600
<b>Vehicles, Plant &amp; Equipment</b>		
Orchard Road Signals	6.7.3	28
Chemical Waste Disposal Points	6.7.5	170
Children’s Play Areas	6.7.6	135
<b>TOTAL</b>		

- 6.4 A summary of the projected variances at September 2021 from the current approved capital programme, as detailed in **APPENDIX 1**, is set out below:

Description	Para ref	Underspend/ (Overspend) £000
<b>Land &amp; Buildings</b>		
Moycroft	6.5.3	(130)
Parks & Open Spaces Infrastructure	6.5.2	(79)
<b>Infrastructure</b>		
Timber Traffic Structural Works	6.6.2	500
A95 Meikle Cantlay Landslip	6.6.3	(15)
<b>Plant &amp; Equipment</b>		
Vehicle Replacement Programme	6.7.2	527
Upgrade Recycling Centres	6.7.4	(20)
	6.7.6	
Children's Play Areas		100
<b>Total</b>		<b>883</b>

## 6.5 Lands & Buildings

6.5.1 Expenditure on **Lands & Buildings** to 30 September 2021 totals £4,316,000. The major items of expenditure were £220,000 on replacing waterproofing and expansion joints at multi storey car parks and £4,011,000 on the NESS energy from waste project. **Cemetery Provision in Moray** is rated as Amber to achieve projected spend by the end of the financial year. The timing of spend on cemeteries has varied from that originally planned due to negotiations on the acquisition of land being started earlier. The outcome of these discussions are not yet known and costs on the initial work have yet to be confirmed.

6.5.2 **Parks and Open Spaces Infrastructure** is rated Amber and subject to approval by Corporate Committee on 30 November 2021, it is now planned to defer all but essential work on Parks & Open Spaces to meet health and safety requirements. The original plan for this budget was to carry out essential health and safety works, in addition there are some emerging priority works which are required and these are currently in the process of being costed. As part of the quarter 1 monitoring report £179,000 was deferred to 2022/23. Subject to Corporate Committee approval on 30 November 2021 it is expected to bring £79,000 back to 2021/22 to cover this increased expenditure.

6.5.3 **Moycroft** – This project has a projected overspend to budget of £130,000 at 30 September 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. The work is still

required and the department is in regular dialogue with the contractor with regards to the timing of the work.

## 6.6 Infrastructure

6.6.1 Expenditure on **Infrastructure** to 30 September 2021 totals £ 2,467,000. The table in 6.4 show that there are a number of infrastructure projects which have been rated by Managers as Amber in achieving projected spend at the end of the financial year. 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 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 interdependence between this programme and the higher priority LED replacement programme which is due to complete this year. Shougle Bridge is rated amber because of potential delays – negotiations with landowners are currently underway; Findochty pontoons because of delays getting the requisite Marine Scotland licence – work has commenced on site and is anticipated to complete in November.

6.6.2 **Timber Traffic Structural Works** – This budget is intended to be used as match-funding for bids to the Strategic Timber Transport Scheme (STTS). The Council's application to the Strategic Timber Transport Scheme (STTS) was unsuccessful. The reason given by STTS was that the planned projects were not strategic large improvement schemes. Subject to Corporate Committee approval on the 30 November 2021 it is expected that the requested underspend of £500,000 be carried forward to 2022/23. This will enable projects to be developed that will meet the STTS guidelines aimed at more strategic resurfacing projects.

6.6.3 **Meikle Cantlay Landslip** – When the work for this project was originally tendered, only one tender was received, which was significantly higher than originally forecast. Other suppliers did not submit a tender due to having large volumes of other works and no capacity to deliver the project. The budget was therefore expected to be deferred to 2022/23, subject to approval by Corporate Committee on 30 November 2021, it is planned to re-tender this work in the last quarter of the current financial year

## 6.7 Vehicles, Plant & Equipment

6.7.1 Expenditure on Vehicles, Plant & Equipment at 30 September 2021 was £499,000. The major items of expenditure were £315,000 on the vehicle & plant replacement programme and £103,000 on domestic and trade waste bins.

6.7.2 The **Vehicle and Plant replacement programme** is highlighted in table 6.3.2 a high risk of not achieving projected spend. The lead time for vehicle replacements 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. This project is projecting an underspend of £527,000. The vehicle and plant industry worldwide is in turmoil. Brexit and Covid have had an effect but the main issue is the worldwide production of semiconductors. Due to the pandemic the production of these moved towards laptops, tablets and smart phones due to the demand for homeworking. The automotive industry were still being supplied but supply was already under pressure when one factory was hit by a flood and the other by fire, so supply effectively stopped. Orders have been placed for vehicles but it is not known when they will be delivered. It is being requested, (subject to Corporate Committee approval on 30 November 2021) that the projected underspend of £527,000 be carried forward to 2022/23.

- 6.7.3 Works at Orchard Road traffic signals are to be undertaken in house by Roads Maintenance as there are drainage issues at the site which are to be resolved at the same time. There were some issues in awarding tenders for this work. Initial work has commenced on this project 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
- 6.7.4 **Upgrade Recycling Centres** – This budget for this heading was earmarked for upgrades at Gollachy Household Waste Recycling Centre (HWRC). In the quarter 1 monitoring report to Economic Growth, Housing and Environmental Sustainability Committee on 24 August 2021 (paragraph 7 of the minute refers) this budget was deferred until market conditions in the construction industry improve. Since then works have been identified which are now unavoidable. These include the installation of CCTV and new fencing as a result of break ins at the site. It was requested at Corporate Committee on 30 November 2021 to bring forward £20,000 from 2022/23 to cover these costs.
- 6.7.5 Phase 1 of the installation of chemical waste disposal points has suffered from minor delays and phase 2 has been progressing well. The status has been kept at amber due to issues regards signage design which is still to be resolved.
- 6.7.6 **Children's Play Areas** – The budget for this heading is profiled to deliver two play site upgrades per year at a cost of £50,000 each with the remaining budget to cover other priority replacements. Play area upgrade design is being carried out in conjunction with local communities using Participatory Budgeted (PB). Delays in the lead in times for the delivery of equipment will mean the level of spend is uncertain at this time and will be updated following the procurement exercise when more information will be available. Funding of £92,000 has been notified by the Scottish Government to fund playground replacements as announced in the Programme for Government and this will reduce the Council's borrowing requirement for spend on playground replacement in 2022/23, as the lead-in time following the funding announcement was insufficient to deliver further replacements in this financial year.



## **7. RISK AND EMERGING ISSUES**

- 7.1 Budget managers have been requested to identify any specific areas of risk for the projects in the Capital Plan for which they are responsible.
- 7.2 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.
- 7.3 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.
- 7.4 The main risk for the vehicle replacement programme is manufacturers failing to deliver to agreed timescales and this risk is heightened at this time.
- 7.5 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.
- 7.6 Lack of staff resources and staff turnover can impact on project timescales and other emerging work priorities can impact in scheduled works and this is reflected in delays where work planned to be out-sourced is being brought in-house as a result of poor response to tender requests.
- 7.7 There is a risk that time-limited funding is not spent within time-frame and that the Council therefore loses the opportunity to improve or create assets at no or reduced cost to the Council.
- 7.8 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 and work will be brought forward in early course to look at potential capital requirements and how this might best be funded, with a potential call on reserves to support this.
- 7.9 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 2021/22 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 spend to 30 September 2021 is £10,800,000 against a projection of £10,192,000 giving an over spend of £608,000.

Economic Growth and Development Services - (Development Services) revenue spend to 30 September 2021 is £970,000 against a budget to date of £977,000 giving a minor underspend variance of £7,000.

Direct Services capital spend is £7,282 million to 30 September 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 Rhona Gunn, Depute CE: Economy, Environment & Finance, Paul Connor, Principal Accountant, Head of Environmental and Commercial Services, Head of Economic Growth and Development Services, Legal Service Manager, Tracey Sutherland, Committee Service Officer 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 September 2021.**

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Background Papers:

Ref: SPMAN-424642768-515