



REPORT TO: POLICY & RESOURCES COMMITTEE ON 27 NOVEMBER 2018

SUBJECT: REVENUE BUDGET MONITORING TO 30 SEPTEMBER 2018

BY: CORPORATE DIRECTOR (CORPORATE SERVICES)

1. REASON FOR REPORT

- 1.1 To advise Committee of the revenue budget monitoring position to 30 September 2018 and of the current estimated out-turn for 2018/19.
- 1.2 This report is submitted to Committee 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 Committee considers and notes:

- (i) the budget monitoring position of £410,000 over budget for 2018/19 as at 30 September 2018;**
- (ii) that this position consists of an underspend on Devolved School budgets of £552,000, an overspend on Social Care services delivered on behalf of the Moray Integration Joint Board (MIJB) of £1,125,000 and an underspend on other services of £163,000;**
- (iii) movement of £102,000 in the General Revenue Grant, as detailed in paragraph 3.4;**
- (iv) the current estimated out-turn for 2018/19 of an overspend of £2,024,000, resulting in an increase of £2,024,000 in use of Council reserves.**
- (v) emerging budget pressures as summarised in paragraph 6.2;**
- (vi) the position regarding Moray Integration Joint Board (MIJB) as described in paragraph 6.11, with cost implications of £532,000 for the Council, and**
- (vii) further commitments of £5,678,000 against reserves as summarised in section 8.**

2.2 It is recommended that Committee approves the release from provisions to meet budget pressures of:

- (i) £123,000 as identified in the report at paragraph 5.6;
- (ii) £78,000 as identified in the report at paragraph 6.2;
- (iii) £30,000 as identified in the report at paragraph 6.7.

3. BACKGROUND

- 3.1 When the revenue budget for 2018/19 was approved by Moray Council on 14 February 2018 (paragraph 10 of the minute refers), General Revenue Grant of £154,879,000 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 £39,500,000 were anticipated. Budgeted expenditure of £199,105,000 was agreed, and this required projected use of £4,726,000 of the Council's General Reserves to balance the budget.
- 3.2 On 28 June 2018 Council approved adjustments to the base budget to reflect variances during 2017/18 which were projected to continue into 2018/19 (paragraph 8 of the minute refers). The net effect of these adjustments was to reduce budgeted expenditure by £137,000. At the same meeting additional expenditure of £521,000 to be funded from General Reserves was also approved. All of these adjustments have been posted to departments as at 30 September 2018.
- 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 2018/19 is £448,000 (2017/18 £804,000). In addition to this, unused funding of £196,000 received in 2017/18 for the expansion of Early Learning and Childcare and £568,000 relating to the Pupil Equity Fund (PEF) have been carried forward into 2018/19 in accordance with the grant conditions.
- 3.4 A variation to General Revenue Grant (GRG) of £102,000 has been notified. This relates to increased level of school clothing grants (£70,000) and access to free sanitary products in schools (£32,000). Additional budget has been allocated.
- 3.5 The Council's overall General Services revenue budget currently stands at £201,672,000.
- 3.6 Reconciliation of the movements in the base budget from that which was approved by the Moray Council on 14 February 2018 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**.
- 3.7 In response to the Council's financial position the Chief Executive emailed all the Heads of Service on 5 September 2018, requesting that where possible expenditure is curtailed. Estimated expenditure takes this into account.

4. BUDGET POSITION

- 4.1 **APPENDIX 1** summarises the current position for each service area, comparing the actual expenditure for the year to 30 September 2018 with the budget to 30 September 2018.
- 4.2 Overall the budget position at 30 September 2018 is expenditure over budget to date of £410,000 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 Integrated Children's Services, Out of Area placements are £397,000 over budget to date. An increase in the number of children cared for and of expenditure since 2016/17 was recognised when the budget for 2018/19 was set and provision of £1,200,000 made to accommodate this. The overspend in quarter 2 of this year reflects further continued increase which is expected to continue throughout 2018/19. A report was made to Children and Young Peoples Services Committee on 27 June 2018 (paragraph 17 of the minute refers).
- 4.3.2 Devolved School budgets are underspent by £552,000 at the end of quarter 2, £193,000 in primary schools and £359,000 secondary schools.
- 4.3.3 Central Repairs and Maintenance budget is £111,000 under spent to date, primarily relating to planned repairs, in response to the directions of the Chief Executive, as detailed in paragraph 3.7.
- 4.3.4 The recycling budget is overspent by £82,000 due to market fluctuations in the cost of recycling mixed paper. The income budget for this is not being met since the Council are now incurring costs to have the paper taken away due to continuing market fluctuations in price.
- 4.3.5 As previously reported, there is an insurance recovery of £80,000 relating to a fire damaged property in Buckie. No expenditure against this is anticipated.

5. **BUDGET PRESSURES**

- 5.1 Budget pressures recognised when the budget was approved on 14 February 2018 are released when the pressure crystallises to the extent that it can be accurately quantified. Provisions to meet budget pressures and new duties totalling £1,011,000 have been released in quarter 2 and are detailed in **APPENDIX 4**.
- 5.2 Provisions still held centrally at the end of quarter 2 total £2,616,000 and are detailed in **APPENDIX 5** and given a RAG assessment for likelihood of requirement.
- 5.3 Three provisions are assessed as red or unlikely to be needed: £15,000 for Elgin High School facilities management; £50,000 for deferred income for permanent care and £57,000 for the full year effect of the teachers' pay award for 2017/18. The amount of deferred income received is still expected to decrease, but no budget is retained for this income and so no budget pressure remains to be mitigated. The teachers' pay award and Elgin High School facilities management are already budgeted for in full.
- 5.4 Three provisions are assessed as amber, for uncertainty of requirement: energy performance certificates (£80,000); change in school roll numbers (£542,000); and implementation of the Gaelic plan (£40,000). Following calculations by the Service only £28,000 will be required for the first provision for 2018/19, following the school pupil census return only £35,000 will be required for 2018/19, and there is high uncertainty about the level of need for expenditure on the Gaelic plan.
- 5.5 Two provisions fell short of requirements by £21,000 in total. The provision for insurance premium tax of £40,000 has been allocated however, the actual increase in the cost of insurance was £48,000 due an increase in employers liability (as reported to Council on 5 September 2018 in the budget monitoring report for quarter 1 (paragraph 6 of the minute refers)) , which has resulted in an overspend of £8,000. Provision of £143,000 was made for transport following the restructure of the school week. Following the re-tendering of the school transport contract it is now anticipated that no additional costs will arise for the change in hours within budget. However, due to changes in school roll numbers, transport costs have risen by £156,000, resulting in an overspend of £13,000.
- 5.6 There is a provision for increased funding of £200,000 to the MIJB for children transitioning into adult social care. The service has produced information relating to one client who transitioned from 1 April 2018. The care package will cost £123,000 for the year. The release of £123,000 is recommended.
- 5.7 All other provisions are expected to be required in full at this juncture.

6. **EMERGING BUDGET PRESSURES**

- 6.1 During the second quarter a number of budget pressures have emerged. Those which can be quantified at present are listed in the table below:

	Para Ref	Estimated full year effect £000s
Previously reported		
Water charges increase		30
Waste paper charge increase		134
Child Protection		86
Meals on Wheels	6.2	78
Increased		
Out of area placements	6.3	1,000
New		
Water rates exemption removal	6.4	17
Wildfowling Findhorn Bay	6.5	15
CSU post	6.6	38
Green waste recycling	6.7	30
		1,428
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- 6.2 Following WRVS withdrawal from the contract to deliver meals on wheels, that service is being delivered in different ways eg individual purchases a frozen meal and home carers support thereafter. Consequently meals are no longer being purchased from the Council's catering service. This represents a loss of £84,000 budgeted income. There is a corresponding reduction of £6,000 in food purchased but no impact on staff time. It is recommended that this budget pressure is now released to reflect the actual net loss of income to the service.
- 6.3 Expenditure on out of area placements in Integrated Children's Services continues to exceed budget, as reported to Children and Young People's Services Committee on 27 June 2018, despite the 2018/19 budget increase of £1,200,000,(paragraph 17 of the minute refers). The estimated overspend for the year based on the current placements is £1,000,000.
- 6.4 The exemption from water charges on vacant properties has been removed. Based on occupancy of council properties and water charges for 2017, there is a potential increased expenditure of £17,000.
- 6.5 A one-off budget pressure of £15,000 is included for the cost of full mediation over the issue of wildfowling in Findhorn Bay, as agreed at Moray Council on 6 June 2018 (paragraph 6 of the minute refers) .

- 6.6 A budget pressure has been included for a CSU post to support CAT transfers. Annual expenditure of £48,000 for a two year period was approved by Council on 11 April 2018 (paragraph 6 of the minutes refers). As the post was filled part way through the year the funding profile has been amended to be £38,000 being required in 2018/19.
- 6.7 As part of the savings considered by Council on 26 September 2018 (paragraph 6 of the minute refers) the introduction of a charge for recycling garden waste from 2019/20 was approved. There will be on-going annual expenditure of £20,000 for producing and distributing waterproof stickers for garden waste bins and one-off start-up costs for publicity. In order to introduce this charge from 1 April 2019, start-up and recurring costs estimated to total £30,000 require to be incurred in 2018/19. It is recommended that budget for this is now released to allow the service to proceed with implementation of the new charge.
- 6.8 All these emerging pressures will continue to be reviewed and further recommendations made to Policy and Resources Committee in February 2019 as appropriate.
- 6.9 When MIJB set its budget for 2018/19 it noted a shortfall estimated to amount to £4,596,000, after identified savings of £1,060,000. Following further consideration by the Board additional savings of £456,000 have been identified, and the Board has agreed to use £847,000 reserves to part-fund the shortfall. It would appear to be unlikely that the Board will be able to implement savings to balance the budget within the next four months, particularly given the overspend across both Council and NHS services during quarter 2. The Council at its special meeting on 28 June 2018 considered a report on Corporate and Financial Planning (paragraph 12 of the minute refers) which included consideration that MIJB was likely to require further funding of £1.3m to meet its budget shortfall (based on 40% of £3.2m deficit).
- 6.10 On the basis of the current position to be reported to MIJB on 29 November 2018 and the provisional forecast position to the financial year end the MIJB remain in a deficit position, but the projected deficit has reduced to £1,438,000. Based on agreed funding levels, Moray Council's share would be 37% of the deficit: £532,000. This is one of the most volatile budget pressure faced by the Council. It is important that in recognising this pressure the Council does not lose sight of the need for Social Care services to keep tight control over its own finances. As reported in **APPENDICES 1 and 2** there is a significant projected overspend on social care services for the year.
- 6.11 The figures included for MIJB in **APPENDIX 1** for the actual variance to date relates solely to the services provided by the Council. **APPENDIX 2** shows the overspend on the Council's services, with an adjustment to reflect the overall estimated liability for the Council at the year end, as included in paragraph 6.10 above.

7. **SAVINGS**

- 7.1 Savings of £6,253,000 were approved when the budget was set on 14 February 2018. These savings comprised increased income of £62,000 from charges for services; one-off savings of £638,000 and other permanent savings of £5,553,000.
- 7.2 To date budgets for charges have been adjusted by £59,000. The remaining balance of £3,000 will be drawn down in quarter 3 and budgets adjusted accordingly. Temporary savings of £643,000 have been posted to departmental budgets, £5,000 more than the target.
- 7.3 Of the originally approved permanent savings, a balance of £388,000 remains in central provisions as at the end of September. These are detailed in **APPENDIX 6** and given a RAG assessment for anticipated achievement. However, additional savings totalling £460,000 have been achieved to date and the original target has already been exceeded.
- 7.3.1 Thirteen savings totalling £294,000 are assessed as amber. Rental income for new industrial estates units is now not expected to come on stream until 2019/20. The provision for increased income from estates rental reviews has not been posted as rental for industrial estates is below budget at 30 September 2018, due to voids. The situation will be kept under review. Another two relate to savings from restructure of Fleet Services and from Roads restructure. Jobs are currently being evaluated, and so full year savings will not be achieved during this financial year. Nine of the approved savings, totalling £133,000, relate to the CAT of town halls, for which some savings have been achieved. The full saving will not be achieved due to deficit funding approved to be given to the Community Groups taking over the services. The level of deficit funding required is not currently known with certainty, although a cap has been approved.
- 7.3.1 There are 2 other unposted savings assessed as green - these are expected to be achieved or substantially achieved during this financial year. The projects comprise the move to 3 weekly waste collections (£11,000) and management restructure (£50,000); the proposed restructure is out for consultation.
- 7.4 On 28 June 2018 Council agreed to reverse £33,000 savings from reduction in school crossing patrollers. This sum is consequently recorded as red.
- 7.5 Additional savings have been achieved totalling £471,000. This predominantly relates to the review of the DSM scheme, where £218,000 savings identified for 2019/20 have been able to be realised during 2018/19. Further savings approved by Council on 26 September which were available to be taken in 2018/19 have been posted. Energy savings from efficiency measures reported to this committee on 2 October 2018 have generated savings of £28,000. Interim transport contracts for the period from August 2018 to February 2019 have delivered a saving of £90,000.

8. **ESTIMATED OUT-TURN**

- 8.1 **APPENDIX 2** summarises the first estimated out-turn position for each service area, comparing the estimated expenditure to the financial year-end with the budget to 30 September 2018.
- 8.2 Overall the estimated out-turn position for 2018/19 is expenditure over budget to date of £1,492,000 or 1% of budget to date (excluding services delivered on behalf of the Moray Integrated Joint Board).
- 8.3 The estimated out-turn position for 2018/19 for Health & Social Care is an over spend of £1,526,000 on services purely provided by the Council. 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 £532,000. This brings the total anticipated variance for 2018/19 to an overspend of £2,024,000.
- 8.3 The principal areas of overspend and underspend across the Council reflect the major variances mentioned in paragraph 4 above. Details of out-turn variances are summarised below:
- 8.3.1 In Integrated Children's Services, Out of Area placements are estimated to be £1,000,000 over budget at the end of the financial year. This overspend should be offset in part by an underspend of £170,000 for a children's services at Waulkmill, where an adult who has transitioned from children's services continues to reside. This reduces the in area provision for children and is contributing to the out of area overspend. There has been an increase in the number of children cared for and of expenditure since 2016/17 which is expected to continue throughout 2018/19 and beyond. A one-off refund of £184,000 has been received in respect of underspends on a contract for residential services in prior years. A report will be going to the Children & Young People's Committee in February 2019.
- 8.3.2 The central Repairs and Maintenance budget is expected to be £138,000 underspent due to a reduction in planned repairs as detailed in paragraph 3.7. Property Service fee income is expected to be £257,000 short of the target due to slippage in capital and HRA spend.
- 8.3.3 The recycling budget is expected to overspend by £130,000 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 £40,000, partly due to the change in frequency of collections as a consequence of implementation of a three weekly cycle to achieve savings on cost. There has also been a reduction in use of this service following the price increase in April 2018.
- 8.3.4 Waste Management continue to have overspends on leachate, which is expected to be £154,000 by the year end. The landfill cell will be capped in 2019/20 which should see a reduction in the overspend.

- 8.3.5 Staff savings from vacancies and appointment below top of scale are anticipated to exceed the budget provision by £98,000. Major variances are anticipated in Corporate Services (£159,000 above target) and Chief Executive's services (£194,000 above target), reduced by an anticipated shortfall of £255,000 in Direct Services.
- 8.3.6 There is an expected shortfall in income of £103,000 for the corporate advertising income due to a delay in securing income from trunk roads and there being no uptake of advertising on vehicles.
- 8.3.7 There is an expected underspend on loans charges of £143,000. This is based on a re-profiling of the capital plan to reflect slippage; acceleration; savings on some projects; additional costs on others, and deferred expenditure to reduce in-year costs. As an element of slippage occurs each year, a saving on loans charges of £200,000 for slippage was included in the budget. Further reduction in in-year costs has reduced the anticipated borrowing requirement. Income from Interest on Revenue Balances is anticipated to be higher than budget by £95,000 due mainly to an increase in interest rates during 2018/19. This is mirrored by a corresponding increase in the level of interest paid on outstanding loans.
- 8.3.8 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 £314,000 for additional costs will be retained centrally at the year end, along with a balance of £72,000 additional savings made. However, it is currently estimated that and additional £1,563,000 will be needed for inflationary rises. Pay awards for 2018/19 are not yet agreed. The provision of £2,500,000 made when the budget was set was based on the Scottish Government pay sector. The current pay offer of 3% up to £80,000 and a flat rate of £1,600 above that is now estimated to cost £3,972,000. This has been used when developing the estimated actuals. The overall budget position reported to Council on 26 June 2018 reflected an anticipated increase in the cost of the pay award from when the budget was set.

9. GENERAL RESERVES

- 9.1 The balance on general reserves (excluding DSM and ear-marked reserves) as at 1 April 2018 was £17,095,000. Use of reserves totalling £4,726,000 was approved to balance the 2018/19 budget.
- 9.2 The Moray Council on 28 June 2018 approved a net budget reduction of £137,000, reducing the underlying need to use reserves, and also additional funding from reserves for specific items, totalling £521,000. Budget has been fully released in quarter 2. PEF funding of £568,000 carried forward from 2017/18 has now been allocated. Commitments of £5,678,000 against general reserves are detailed in **APPENDIX 7**.

- 9.3 The impact of the estimated out-turn is a further reduction in reserves of £2,024,000, leaving an estimated free balance of £9,393,000 at 31 March 2019.

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.
- (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 September 2018 is an overspend against General Services Revenue Budget of £410,000 (including services delivered on behalf of the Moray Integration Joint Board).

11.2 Variations in General Revenue Grant totalling £102,000 have been notified to the council.

11.3 Additional budget pressures of £1,428,000 for Council services are noted. The estimated out-turn position consists of an overspend of £1,492,000 plus an overspend of £532,000 relating to MIJB, a total of £2,024,000. This will result in a call on general reserves.

11.4 Release of £231,000 from provisions is recommended to meet previously identified budget pressures which can now be quantified sufficiently to warrant budget adjustment.

Author of Report: Deborah O'Shea, Principal Accountant

Background Papers: Held by author

Ref: