



REPORT TO: MORAY COUNCIL ON 2 SEPTEMBER 2020

SUBJECT: 2019/20 REVENUE OUT-TURN VARIANCES FROM BUDGET

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

1. REASON FOR REPORT

- 1.1 To advise the council of the major variances from the approved budget in the actual out-turn for 2019/20 and to seek approval of adjustment to the budget for 2020/21 where income and expenditure trends are forecast to continue into 2020/21.
- 1.2 This report is submitted to council in terms of Section II (25) of the Council's Scheme of Administration relating to the approval of the annual estimates of revenue expenditure for all services and of Section III (B) (6) relating to monitoring current expenditure in relation to approved estimates.

2. RECOMMENDATION

- 2.1 It is recommended that the Council considers and notes:
- (i) The major variances from those anticipated when the budget for 2022/21 was approved, as summarised in APPENDIX 1; and
 - (ii) The major variances from the approved budget for 2019/20 totalling £7,672,000 as summarised in APPENDIX 2.
- 2.2 It is recommended that the Council approves adjustments amounting to net savings of £156,000 for variances which are anticipated to continue into 2020/21, as detailed in the table in paragraph 3.24.

3. BUDGET VARIANCES

- 3.1 The unaudited accounts for 2019/20 were reported to the Emergency Cabinet on 1 July 2020 (paragraph x of the Minute refers). The unaudited accounts show an increase in the balance on free general reserves of £2,363,000 at 31 March 2020 compared to 31 March 2019.

3.2 The Council at a meeting on 27 February 2019 approved budgeted net expenditure of £203,954,000 which anticipated the use of £5,188,000 free General Fund reserves (paragraph 4 of the minute refers). The final budget for the year, after adjustments for additional funding from reserves, additional government grant funding announced during the year and additional savings, approved was for expenditure of £207,397,000, including use of ear-marked reserves: Devolved School Management (DSM) balances brought forward of £10,000; Early Learning Childcare expansion carried forward of £61,000 and Pupil Equity Funding carried forward of £583,000. The final budgeted use of free general reserves was £3,483,000, against an actual return to reserves of £2,363,000, a variance of £5,846,000.

3.3 The budgeted use of general reserves is set out in the table below:

	£000s	£000s
Budgeted use of free general reserves @ February 2019		5,188
Additional budget approved and drawn down during the year	121	
Increase in Council Tax budget approved in year	(1,826)	
Final budgeted use of free general reserves		3,483

3.4 Expenditure against budget was reported to Committee on a quarterly basis during the financial year. Quarter one was reported to Policy & Resources Committee on 3 September 2019; Quarter two to Moray Council on 27 November 2019 and quarter three to Moray Council on 12 February 2020 (paragraph 12 of the minute refers). The forecast at the end of quarter three was use of free general reserves £272,000 plus £704,000 release from repairs and renewals reserve - £3,339,000 difference from the actual out turn. The forecast for the year is used as a key part of the budget setting process and the differences highlighted in this report can be used to amend the budget for 2020/21. The main changes from the out-turns forecast at the end of December 2019 are summarised in **APPENDIX 1**. The principal variances from that forecast are Business Rates Incentivisation Scheme retention (£1,859,000) as reported to the Emergency Cabinet on 1 July 2020 and services outturn £1,799,000 less than forecast. Loans charges were £623,000 higher than forecast. Council Tax income was £289,000 less than forecast

Movement since final estimated actual	£000s	£000s
BRIS retention of NDRI		1,859
Underspend in services	2,696	
Less transfer to ear-marked reserves adj for PEF 2018/19 carry forward	(887) 583	
		2,392
Loans charges		(623)
Council Tax		(289)
Total		3,339

3.5 The significant difference between departmental out-turn and that forecast indicates that a review of budget variance may highlight scope for additional savings.

3.6 A summary of the variance against budget for the year by type of spend across the Council is set out in the table below:

	Overspend £000s	Underspend £000s	Net £000s
Staff	(833)	1,622	
Income / recharges to capital and HRA	(1,139)	910	
VAT refund / insurance claim (net)		1,194	
Purchase of children's services / looked after children	-	334	
School budgets	-	471	
Repairs and maintenance	(8)	693	
Energy costs		59	
Software licences	(122)	47	
Roads and Winter Maintenance	(294)	-	
PEF funding	-	685	
Other	(1,055)	1,922	
Share of MIJB overspend	(767)		
	-----	-----	
Service underspend	(4,218)	7,937	3,719
Loans charges	(416)	-	
Balance on central provisions	-	4,626	
Council Tax	(289)		
BRIS retention	-	1,859	
Transfer to / from ear-marked reserves	(3,785)	660	
Capital Grant unapplied / capital receipts used	(1,008)	480	
Total variance	(9,716)	15,562	5,846

3.7 Major variances at departmental level are set out in **APPENDIX 2**.

3.8 The variances against the budget have been reviewed and classified as one-off or likely to be recurring. The classification takes into account the savings and other adjustments made when the budget for 2020/21 was approved. The overall position is summarised below:

	Para ref	Recurring £000s	Non-recurring £000s	Impact already included 2020/21 Budget £000s	Proposed further adjustment to 2020/21 Budget £000s
Overspends					
Staff / subcontractors	3.9	-	(833)	-	-
Income	3.10	(380)	(759)	-	211
Software licenses		(56)	(66)	-	-
Roads maintenance	3.11	(47)	(247)	-	47
Other		(82)	(981)	-	-
Share of MIJB overspend	3.12	(767)			
Total overspends		(1,332)	(2,886)	-	258
Underspends					
Staff / subcontractors	3.13	-	1,622	-	117
Income / funding	3.14	275	635	48	-
VAT refund / insurance claim			1,194		
Purchase / provision of care	3.15	-	334	-	-
School budgets	3.16	-	471	-	-
Repairs and maintenance	3.17	100	593	100	-
Energy cost	3.18	25	34	-	25
PEF	3.19		685		
Other	3.20	113	1,856	-	103
Total underspends		513	7,424	148	245
Loan charges	3.21	-	(416)		
Balance on provisions	3.22		4,626		
BRIS retention	3.23	1,859			
Transfer to earmarked / capital reserves			(3,653)		
Council Tax			(289)		
Total net (over)/ underspend		1,040	4,806		

3.9 The main areas of overspend on staff and subcontractors were in Fleet services and supply teachers. Difficulty in recruiting staff for Fleet services necessitated the use of sub-contractors, which is a more expensive way of delivering the service and resulted in an overspend of £236,000. That

situation has continued into 2020/21 but the recent down-turn in the oil and gas industry has seen an easing of the situation and it is not proposed to adjust the budget at present. The central supply budget was overspent by £482,000, due to difficulties in recruiting teaching staff, sickness levels and an increase in maternity cover. This situation is not expected to continue and the use of central supply will be managed by the service. Vacancies or savings from appointments not at top of scale considerably outweigh staffing overspends. (see paragraph 3.13 below). One-off costs associated with staff redundancies to achieve approved budget savings amounted to £111,000.

- 3.10 Income was under budget in various services. The largest single shortfall (£174,000) was for Employment Services. This service is currently managed with Social Care services but consideration is therefore being given to transferring some or part of this service into the Council's Economic Development function. The budget shortfall will be considered as part of the review of service delivery, structure and management and no adjustment to budget is proposed at this juncture. Part of the shortfall (£83,000) lies within Property Services, where the historic budget for property fees for capital projects does not match the pattern of planned work following the cessation of the Make Do and Mend policy. This budget will be reviewed by the service when the capital plan is reviewed later this year. Income generation by the library service was under budget during 2019/20. Part of the shortfall is due to a change in how the European Computer Driving Licence (ECDL) is funded. It is therefore recommended that the budget is adjusted to reflect a more reasonable target income under the new arrangement. The COVID-19 lockdown will clearly result in a further shortfall in 2020/21 but an adjustment of £27,000, reflecting the 2019/20 shortfall, is proposed, to ensure that the base budget is consistent with normal operation of the service. Throughout 2019/20 the income from sale of recyclates has been below budget and the overall variance at the year was a shortfall of £140,000. The Council no longer receives income from waste paper and cardboard and it is recommended that the budget of £209,000 is removed. Income from scrap metal has been £28,000 against a budget of £3,500 for the past 2 years and it is recommended that the removal of the budget for sale of waste paper and cardboard is partly offset by increasing the budget for sale of scrap metal by £24,500.
- 3.11 Expenditure on roads maintenance exceeded budget by £269,000, this was predominantly due to winter maintenance. The costs of salt used has been fairly consistent over the past 2 years and it is recommended that the budget of £353,000 is increased to £400,000 to reflect the cost of salt.
- 3.12 The budget position of MIJB will be reviewed when estimated actuals for 2020/21 are developed. No provision to cover any recurrent overspend is proposed at present. This is however a high risk area for the Council.
- 3.13 Staff turnover can result in underspends, as the process of filling posts takes longer than the one month notice which most staff have to give. Underspends then accrue from vacancies whilst posts are filled and from new staff being appointed on lower points on the salary scale than more experienced staff who have left. (Posts are budgeted for a top of scale). This is on-going and the council recognised that when setting its budget, by incorporating estimates of underspends arising from staff turnover. The estimate was originally based

on 3.5% of budgeted salaries in areas where vacancies are not automatically covered by relief staff or sub-contractors. The estimate was a conservative one, and has consistently been exceeded. The current provision across the council (excluding Health and Social Care) is £3,914,000. The net underspend on staff and sub-contractors in 2019/20 was £900,000. This is particularly high due to vacancies in pre-school provision as the service prepares to expand the hours of early learning offered. Allowing for that, and also that some savings arising from vacant posts were taken when the budget for 2020/21 was set, it is still considered that there is scope to increase the vacancy provision in 2020/21. It is recommended to increase the vacancy target by 3%, totalling £117,000, in line with the pay award, and thereafter to increase the provision by a further £169,000, bringing the total vacancy provision for 2020/21 to £4,200,000 which is around 5% of the non-social care, non-schools staffing budgets. Given the level of underspend in 2019/20 and the fact that recruitment has been paused during lockdown this is considered to be a low risk saving.

- 3.14 Income above budget has been generated in a number of areas. The main areas – car parking, industrial estate rentals – either have been or are likely to be considerably reduced in 2020/21 as a result of lockdown. Consequently no budget amendments are recommended.
- 3.15 There is an underspend of £334,000 in the purchase/provision of care for young people. This consists of an underspend of £199,000 in fostering and adoption, £109,000 in Self Directed Support and £26,000 on Continuing Care. Children’s Services are currently being reviewed and it is not recommended that any revision to budget is made at this time.
- 3.16 The schools’ budget is underspent by £471,000 which predominately relates to the devolved school budgets: primary schools £232,000 and secondary schools £234,000. This underspend is carried forward in an ear-marked reserve.
- 3.17 The budget for property repairs and maintenance was underspent, split equally between corporate properties and schools. This was partly due to slippage in planned repairs to corporate properties and partly due to capitalisation of expenditure of £253,000 originally set against the revenue budget provision for schools repairs and maintenance but on review considered to be more appropriately treated as capital work. A budget reduction of £100,000 on corporate repairs and maintenance was included in the 2020/21 budget when that budget was approved in March 2020. Not further budget amendments are proposed.
- 3.18 Spend on electricity was under budget in a number of locations. Completion of the street lighting LED replacement programme resulted in further reductions in the cost of electricity for street lighting and it is proposed that the £25,000 underspend in 2019/20 is taken as a further saving in 2020/21.
- 3.19 The Pupil Equity Fund (PEF) is in the form of ring-fenced funding, and the underspends in this area, arising from the timing of projects, which are planned to spend by academic year, are held in ear-marked reserves and consequently do not impact on the free General Fund Reserve balance.

- 3.20 The budget for contaminated land investigations has been underspent by £52,000 in 2018/19 and 2019/20. It is therefore proposed that this budget is reduced. The budget for landfill tax was underspend by £51,000 in 2019/20 as the tonnage of waste to landfill continues to reduce. It is proposed that this budget is reduced in 2020/21.
- 3.21 There is a one-off overspend on loans charges. Part of the overspend is due to slippage on the three major projects where assets are still under construction in 2019/20 and on which the Council had budgeted to capitalise interest. Overall expenditure on these projects was £4.4 million less than planned and therefore the proportion of interest paid by the Council on borrowing over the year was significantly less than planned. That increased the proportion of interest which was charged to revenue.
- 3.22 The balance on central provision which was underspent can be analysed into £656,000 additional savings being identified during the year; £1,206,000 additional funding received but utilised at the year end; £414,000 balance of ELC grant, which will be carried forward into 2020/21; budget pressures totalling £2,020,000 that were approved at the start of 2019/20 that were not required, and a general contingency provision of £330,000 which was not required during 2020/21. The additional savings have been reported as and when identified and include £517,000 reduction in NDR following appeals as to the valuation of buildings, mainly schools. Funding received in 2019/20 and planned to be spent in 2020/21 was the subject of a report to the emergency Cabinet on 12 August 2020 paragraph x of the Minute refers). A budget pressure of £1,049,000 for Out of Area placements was approved when the budget for 2019/20 was set. However, the young people to which this pressure related made the transition to adult services during 2019/20 and the pressure was therefore removed as the expenditure is now accounted for against the MIJB budget.
- 3.23 The Business Rates Incentivisation Scheme (BRIS) sets targets over a three year period. 2019/20 was the first year of the current three year period. The Council exceeded its target buoyancy and was permitted to retain £1,859,000 for each of the three years in the period. Consequently this retention has now been included in the budget for 2020/21 and 2021/22.
- 3.24 In summary, the following budget adjustments are recommended:

	Budget increase £000s	Budget savings £000s	Net effect £000s
Income:			
ECDL	27		
Sale of recyclates	184		
Salt for winter maintenance	47		
Street lighting electricity		(25)	
Vacancy target		(286)	
Contaminated land investigation		(52)	
Landfill tax		(51)	
Total	258	(414)	(156)

- 3.25 The proposed budget increase of £258,000 is covered by the proposed budget savings of £414,000, a net saving of £156,000.

4. SUMMARY OF IMPLICATIONS

(a) Corporate Plan and 10 Year Plan (Local Outcomes Improvement Plan (LOIP))

Effective budget management is essential for the delivery of council services on a sustainable basis. Review of budget against actual for trends which are likely to continue assists in the process of budget management.

(b) Policy and Legal

No policy or legal implications arise directly from the contents of this report.

(c) Financial implications

Financial implications are discussed throughout the report. Net savings of £156,000 are recommended in 2020/21.

(d) Risk Implications

No risks arise directly from this report. The Council's base budget is over-committed and it requires to make savings over the next two years. The net savings recommended in this report help towards this.

(e) Staffing Implications

None arise directly from this report. The increase in staff savings recommended is intended to reflect the reality of staff turnover rather than to act as a restriction on the ability of services to recruit towards their approved establishment.

(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

The Corporate Management Team and Heads of Service have been consulted in the preparation of this report and any comments incorporated into the report.

5. CONCLUSION

- 5.1 The Council's final out-turn position on the General Fund as at 31 March 2020 was an improvement on the position forecast when the budget for**

2020/21 was set. This report identifies major areas of variance between estimated actual and actual for 2019/20.

- 5.2 The report also recommends considers variances against budget with a view to identifying trends in expenditure and recommends a reduction to the net budget of £156,000 to reduce ongoing variances in 2020/21.**

Author of Report: Deborah O'Shea, Principal Accountant

Background Papers:

Ref: LP/LJC/