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**REPORT TO: SPECIAL MORAY COUNCIL ON 27 JUNE 2019**

**SUBJECT: 2018/19 REVENUE OUT-TURN**

**BY: CORPORATE DIRECTOR (CORPORATE SERVICES)**

**1. REASON FOR REPORT**

- 1.1 To advise the council of the actual out-turn for 2018/19 and the major variances from the approved budget for that year; to seek approval of adjustment to the budget for 2019/20 where income and expenditure trends are forecast to continue into 2019/20, and to seek approval to fund projects from reserves where there has been slippage in 2018/19 but projects will be completed in 2019/20.
- 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 out-turn for 2018/19 of a deficit of £4,819,000 on the General Fund;**
- (ii) the major variances from the approved budget for that year totalling £476,000 as detailed in APPENDIX 2;**
- (iii) general reserves at 31 March 2019 of £12,276,000 of which £4,012,000 are already committed: and**
- (iv) projected budget savings of £12,400,000 required in 2020/21, prior to the amendments recommended in paragraph 2.2 below.**

**2.2 It is recommended that the Council approves:**

- (i) adjustments amounting to net savings of £1,121,000 for variances which are anticipated to continue into 2019/20, as detailed in the table in paragraph 3.7; and**

- (ii) one-off budget provision for 2019/20 of £118,000 as detailed in paragraph 4.1, to be funded from the General Fund reserve.

### 3. **BUDGET VARIANCES**

3.1 The Council at a meeting on 14 February 2018 approved budgeted net expenditure of £199,105,000, which anticipated the use of £4,726,000 General Fund reserves (paragraph 10 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 £201,577,000, including Devolved School Management (DSM) balances brought forward of £448,000; Early Learning Childcare expansion carried forward of £196,000 and Pupil Equity Funding carried forward of £568,000.

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

	£000s	£000s
Budgeted use of general reserves @ February 2018		4,726
Additional budget approved and drawn down during the year	569	
Final budgeted use of reserves		5,295

3.3 Expenditure against this budget was reported to Committee on a quarterly basis during the financial year. Quarter one was reported to Moray Council on 5 September 2018; Quarter two to Policy & Resources Committee on 27 November 2018 and quarter three to Policy & Resources Committee on 12 February 2019 (paragraph 12 of the minute refers). The forecast at the end of quarter three was a net overspend of £2,132,000 which would result in use of general reserves of £9,307,000. 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 2019/20. The main changes from the out-turns forecast at the end of December 2018 are summarised in **APPENDIX 1**. The principal causes of net expenditure being less than forecast are increased income from Council Tax, which is inherently difficult to forecast (£955,000); increased income from Scottish Government, primarily accrued funding for the teacher's pay award, (£203,000); Business Rates Incentivisation Scheme retention (£452,000); the use of capital receipts to fund expenditure on transformation, following Scottish Government approval (£590,000); transfer of unspent Devolved School budgets to the General Fund (£609,000); reduction in loans charges (£154,000); services outturn £455,000 less than forecast.

3.4 A summary of the variance against budget is set out in the table below:

	<b>Overspend £000s</b>	<b>Underspend £000s</b>	<b>Net £000s</b>
Staff	(533)	873	
Income / recharges to capital and HRA	(1,260)	535	
Purchase of children's services / looked after children	(1,261)	564	
School budgets	-	713	
Less DSM carried forward	-	(10)	
Repairs and maintenance	-	695	
Transport	-	26	
Economic Development projects	-	41	
Roads Winter Maintenance	(62)	-	
Housing and welfare benefits	(141)	-	
Software licences	(37)	-	
PEF funding	-	583	
ELC expansion	-	50	
Cost of early retirement (one-off cost)	(1,570)	-	
Other	(648)	1,515	
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Service underspend	(5,512)	5,585	73
Loans charges	-	548	
Balance on central provisions	(799)	-	
Council Tax	-	955	
Government Grant	-	203	
BRIS retention	-	452	
Transfer to / from ear-marked reserves	(1,546)	-	
General Capital grant unapplied	-	590	
<b>Total variance</b>	<b>(7,857)</b>	<b>8,333</b>	<b>476</b>

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

3.6 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 2019/20 was approved. The overall position is summarised below:

	Para ref	Recurring £000s	Non-recurring £000s	Impact already included 2019/20 Budget £000s	Proposed further adjustment to 2019/20 Budget £000s
<b>Overspends</b>					
Staff / subcontractors	3.6.1	-	(533)	-	-
Income	3.6.2	(250)	(569)	(148)	(42)
MIJB Deficit		(441)	-	(555)	-
Purchase of children's services / looked after children	3.6.3	(1,261)	-	(1,230)	-
Winter maintenance		-	(62)	-	-
Housing & welfare benefits	3.6.4	-	(141)	-	-
Software licenses		(37)	-	(42)	-
Cost of early retirement (one off costs)		-	(1,570)	-	-
Other		-	(648)	-	-
Balance on central provisions	3.6.5	-	(799)	-	-
Transfer to ear marked reserves		-	(1,546)	-	-
<b>Total overspends</b>		<b>(1,891)</b>	<b>(5,966)</b>	<b>(1,975)</b>	<b>(42)</b>
<b>Underspends</b>					
Staff / subcontractors	3.6.6	114	759	-	114
Income / funding	3.6.7	85	450	50	13
Purchase / provision of care	3.6.8	-	564	-	-
School budgets	3.6.9	50	663	-	50
Repairs and maintenance	3.6.10	-	695	-	-
Transport		-	26	-	-
Economic Development		-	41	-	-
Council Tax	3.6.11	955	-	-	955
Government grant		-	203	-	-
BRIS retention		-	452	-	-
Loans charges	3.6.12	-	548	-	-
Other	3.6.13	189	1,003	95	31
<b>Total underspends</b>		<b>1,393</b>	<b>5,404</b>	<b>145</b>	<b>1,163</b>
<b>Transfer to ear</b>					

	Para ref	Recurring £000s	Non-recurring £000s	Impact already included 2019/20 Budget £000s	Proposed further adjustment to 2019/20 Budget £000s
<b>marked reserves</b>					
ELC Expansion	3.6.14	-	50	-	-
PEF Funding	3.6.14	-	583	-	-
DSM	3.6.14	-	(10)	-	-
Insurance	3.6.14	-	71	-	-
Transformational change use of capital receipts	3.6.15	-	(443)	-	-
Capital grants unapplied	3.6.15	-	590	-	-
Transformational change	3.6.15	-	700	-	-
Other funds		-	(5)	-	-
<b>Total transfer to ear marked reserves</b>		-	<b>1,536</b>	-	-
<b>Total net (over)/underspend</b>		<b>(612)</b>	<b>1,088</b>	<b>(1,830)</b>	<b>1,121</b>

3.6.1 Staff overspends generally relate to one-off payments relating to redundancy costs due to the implementation of savings as part of the 2019/20 budget proposals. A non-recurring overspend on central supply teachers of £138,000 has been incurred during 2018/19, due to difficulties in recruiting staff and sickness levels. 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.

3.6.2 Income was under budget in various services and will be reviewed for continuing trends when the estimated actual for the year is developed. Part of the shortfall lies within Property Services, where the historic budget for property fees for capital projects does not match the pattern of planned work under the Make Do and Mend policy. This budget will be reviewed by the service during the year following the change of policy from Make Do and Mend. Additional income generation by corporate advertising was not achieved during 2018/19 due to a delay in securing income from trunk roads and no uptake from advertising on vehicles. This recurring overspend was acknowledged as part of the budget setting for 2019/20, as part of the additional budget pressures in Appendix 2 of the report to Moray Council on 27 February 2019 (para 4 of the minute refers). Music instruction income was £42,000 under budget and this is expected to continue, due to pupils withdrawing from the service following the increase in charges in 2018/19. It is therefore recommended that the income budget is reduced for this service in 2019/20.

- 3.6.3 Expenditure on out of area placements exceeds budget by £1,234,000 and as placements continue into 2019/20 overspend is likely to continue. This recurring overspend was acknowledged as part of the budget setting for 2019/20, as part of the additional budget pressures in Appendix 2 of the report to Moray Council on 27 February 2019 (para 4 of the minute refers).
- 3.6.4 Expenditure on housing and welfare benefits exceeds the budget by £141,000, primarily due to an increase in the provision for bad debts and lower than expected private tenant overpayments recoveries. These budgets are inherently difficult to predict accurately, and these budgets were assumed to break even.
- 3.6.5 Expenditure on central provisions is £799,000 overspend however, we hold a credit provision of £1,000,000 in expectation of general departmental underspends.
- 3.6.6 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 £3,800,000. This provision was exceeded in 2018/19 by £873,000. Some savings arising from vacant posts were taken when the budget for 2019/20 was set, so no general increase in the provision for vacancies is proposed, but in line with the pay award for 2019/20, it is recommended to increase the vacancy target by 3%, totalling £114,000.
- 3.6.7 It is recommended that the budget for income for miscellaneous contract rebates is increased by £13,000 to reflect the recurring level of rebates received over the last few years. There is also a recurring underspend relating to harbours income, but that has already been taken into account when setting the 2019/20 budget.
- 3.6.8 There was one-off underspend in the purchase of care for Childrens service relating to a refund and a reduction in contract value.
- 3.6.9 The schools budgets are underspent by £713,000 of which £50,000 relates to on-costs and is recurring. It is therefore recommended that this is taken as a saving in 2019/20.

- 3.6.10 The budget for property repairs and maintenance was underspent. This was partly due to the continuing “Make do and mend “policy during 2018/19, which has been discontinued in 2019/20, and partly due to capitalisation of expenditure that was originally budgeted for in revenue. The capital programme is subject to a separate report to council.
- 3.6.11 When the budget was set, the in-year collection rate for Council Tax used to set the budget was 96.5%. The actual in-year collection rate for 2018/19 was 96.9%. Growth of houses was based on projected population growth for Moray. Actual growth in house numbers was higher than forecast. It is recommended that the budget for Council tax income is increased by £955,000 to reflect the increased tax base and higher collection. Accountancy and Revenues staff are reviewing how Council Tax income is monitored, with a view to predicting this more accurately.
- 3.6.12 There is a one-off underspend on Loans charges due to slippage on the capital programme and to the change of policy relating to the capitalisation of interest. This change in policy has already been reflected in 2019/20 when the budget was set.
- 3.6.13 It is recommended that the budgets for Non Domestic Rates (NDR) reliefs and Protecting Vulnerable Groups (PVG) scheme are decreased in line with what is projected to be recurring reduction in expenditure, by £10,000 and £21,000 respectively, and taken as a saving in 2019/20. There is also a recurring underspend relating to Interest on Revenue Balances, but that has already been taken into account when setting the 2019/20 budget.
- 3.6.14 Funding for the expansion of Early Learning and Childcare (ELC) and the Pupil Equity Fund (PEF) is in the form of ring-fenced funding, and the underspends in these area, arising from the timing of ELC projects and PEF, 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. The balance of DSM funding underspent in 2018/19 was approved to be taken as a saving for 2019/20 at the Special Moray Council meeting on 27 February 2019 (paragraph 4 of the Minute refers), leaving £10,000 carried forward to schools budgets in 2019/20. According to the practice in recent years, any insurance refunds have been credited to the insurance fund, to build up a reserve to cover claims beneath the council’s excess. £45,000 has been credited to the insurance fund in 2018/19.
- 3.6.15 Scottish Government gave approval for local authorities to use capital receipts to fund transformation. Following this, £590,000 was transferred to the general fund from the capital grants unapplied account and used to fund expenditure on transformational change of £443,000 as approved by Council on 8 May 2019 (paragraph 8 of the draft Minute refers). At Special Council meeting on 12 December 2018 (para 5 of the minute refers) £700,000 was approved to be earmarked for transformational change to be used to implement the Improvement and Modernisation Programme over a period of up to 2 years.

## **2019/20 BUDGET ADJUSTMENT**

3.7 The following budget adjustments are recommended:

	Budget increase £000s	Budget savings £000s	Net effect £000s
Income:			
Miscellaneous contract rebates	-	(13)	
Music tuition	42	-	
Schools on-costs	-	(50)	
PVG Scheme	-	(21)	
NDR reliefs	-	(10)	
Council tax	-	(955)	
Vacancy target	-	(114)	
<b>Net total proposed reduction in base budget</b>	<b>42</b>	<b>(1,163)</b>	<b>(1,121)</b>

3.7.1 The proposed budget increase of £42,000 is covered by the proposed budget savings of £1,163,000, a net saving of £1,121,000.

## **4. FUNDING FROM RESERVES**

4.1 A number of requests for funding to be made available from reserves have been made for a variety of projects. These are summarised in the table below:

	Para ref	£000s
Development of child poverty outcomes	4.2	5
Moray Growth Deal	4.2	5
Discretionary Housing Payments	4.2	29
Community Planning	4.3	25
Homelessness: temporary accommodation	4.4	15
Syrian Refugees	4.5	39
<b>Total</b>		<b>118</b>

4.2 Benefits Welfare are taking forward the new statutory requirement to develop child poverty outcomes in 2019/20 as part of the poverty group Fairer Moray Forum. Scottish Government awarded £5,000 additional funding in General Revenue Grant in 2018/19. This was received in March 2019 and is requested to be carried forward to fund work in this area in 2019/20. Moray Growth Deal requires £5,000 to complete the Computer Generated Imagery for Elgin Town Hall and Cooper Park in 2019/20. Discretionary Housing Payments are funded through General Revenue Grant and the final funding is confirmed at the year end. The underspend of £29,000 at the year end is requested to be carried forward and used to meet ongoing claims.

4.3 The Community Planning projects budget was underspent by £21,000 in 2018/19. This budget is partly funded by contributions from Community Planning Partners (CPP) and it is appropriate that their funding contributions are carried forward for the purpose intended. If approved the Community



Planning Officers Group plan to allocate £25,000 towards extending the funding of the temporary post of Community Support Officer to support local communities in the development and subsequent delivery of locality plans.

- 4.4 £345,000 additional funding was allocated for temporary accommodation in 2018/19 as part of the budget setting paper agreed by Moray Council on 14 February 2018 (para 10 of the minute refers). Expenditure of £102,000 was incurred during the year and a balance of £243,000 was left at the end of 2018/19. As part of the reconfiguration of temporary accommodation £15,000 is required in 2019/20 towards furniture for the temporary accommodations.
- 4.5 There was unspent grant monies of £39,000 in 2018/19 for the Syrian Resettlement Programme. It is requested that this is carried forward into 2019/20 to continue to deliver English language classes.

## 5. **GENERAL RESERVES**

- 5.1 The balance on General Reserves as at 31 March 2018 was £18,653,000. This comprised £448,000 ring-fenced DSM budget; £196,000 ring fenced Early Years Childcare expansion; £569,000 Pupil Equity Funding and £345,000 other ear-marked funds. The available free balance as at 31 March 2019 was therefore £17,095,000.
- 5.2 Use of general reserves amounting to £4,819,000 was required to fund expenditure in 2018/19. Consequently the balance on general reserves at 31 March 2019 is £12,276,000.
- 5.3 When the budget for 2019/20 was set, £3,812,000 from general reserves was required to balance the budget. A further £200,000 (full year effect in 2020/21 - £250,000) was approved to be funded from reserves in 2019/20 at Moray Council on 8 May 2019 (paragraphs 9 and 17 of the draft minute refer).
- 5.4 The total commitments against general reserves currently approved leave the following free balance:

	<b>£000s</b>	<b>£000s</b>
Opening balance		17,095
Deficit for 2018/19, net of DSM balance carried forward		(4,819)
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		12,276
<b>Less</b> current commitments against reserves		
To balance the 2019/20 budget	3,812	
Approved by Moray Council on 8 May 2019	200	
Proposed further commitments	118	
Proposed net budget reduction	(1,121)	
<b>Proposed use of reserves in 2019/20</b>	<b>3,009</b>	
<b>Estimated free balance @ 31 March 2020</b>		<b>9,267</b>

- 5.5 The Council's Reserves Policy, approved on 31 October 2018 (paragraph 4 of the Minute refers) is to retain a free balance on general reserves of £5 million or around 2.5% of the net General Services Revenue Budget. This amount was assessed by taking a view of the risks the council is exposed to which could result in unbudgeted spend. That risk review does not encompass all potential calls on the Council's reserves.
- 5.6 As budget pressures crystallise they are included in the draft budget for the year. There are potential budget pressures emerging which have not yet been included in the draft budget but which could result in a call on reserves. In particular, the cost of early retirement concomitant on budget savings is not included as a budget pressure. The cost of exit packages can now be funded from capital receipts, but only if the exit package is part of a transformation project. Exit packages cost the Council £1.5 million in 2018/19 and budget savings of a similar order to those approved in February 2019 are projected for the next three years, as discussed in section 6 of this report. It is therefore highly likely that exit packages will require to be funded by reserves in 2019/20.
- 5.7 Further potential budget pressures are: the cost of clearing land at Bilbohall for housing; potential for significant unplanned maintenance works at schools, taking into account the condition of many of the school buildings; potential cost of landfill (referred to in paragraph 6.3 below).
- 5.8 These issues will be reviewed and are likely to result in a recommendation that a portion of the free general fund reserves is ear-marked to make provision for expenditure on exit packages and possibly for other eventualities.

## 6. **SAVINGS**

- 6.1 It is crucial that the Council places emphasis on the medium term for financial planning purposes, as significant savings are projected to be required for 2020/21 and 2021/22 and general reserves are projected to be reduced to the minimum level agreed by Council in its Reserves Policy on 31 October 2018 (paragraph 4 of the Minute refers) during this period.
- 6.2 When the Council approved its budget for 2019/20 on 27 February 2019 (paragraph 4 of the Minute refers), it had before it the following projected savings:

2019/20	2020/21	2021/22
£M	£M	£M
10.3	12.2	7.1

Savings of £10.3 million had been identified for 2019/20, but only £2.3 million for 2020/21 and £0.4 million for 2021/22.

- 6.3 At its meeting on 8 May 2019, Council approved budget amendments (paragraphs 9 and 17 refer) totalling £200,000 (full year effect £250,000). These will be funded from reserves in 2019/20 and add to the savings required to be found in 2020/21. In addition to this, there is an emerging one-off budget pressure estimated to be in the order of £3 million for waste

disposal between the ban on landfill coming into effect on 1 January 2021 and the NESS energy from estate plant becoming operative. This one-off pressure can now be funded from reserves, given the improved position reported above. Accordingly, the savings target for 2020/21 is now £12.4 million.

- 6.4 Recurring variances from 2018/19 will assist the Council in 2019/20 and contribute £1,121,000 towards the savings target in 2020/21.
- 6.5 As noted in paragraph 7(d) below, savings are increasingly difficult to find as the Council reaches its ninth year of successive significant budget savings. The Council managed to achieve most of the savings approved in 2018/19, with additional savings being found to cover those not made. Savings for 2019/20 will be monitored in the usual way, and any at risk of not being made reported to the Corporate Management Team as soon as the risk of failure is identified. It is early in the year to judge how successful budget managers will be in achieving savings, but it can be reported that the saving approved by charging for garden waste permits has been achieved, with the target of £699,000 additional income being met in the first week of June.

## **7. 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.

### **(b) Policy and Legal**

No policy or legal implications arise directly from this report.

### **(c) Financial implications**

Financial implications are discussed throughout the report. Use of the council's general reserves as at 31 March 2019 was £4,819,000, £2,032,000 less than forecast at 31 December 2018.

£118,000 is recommended to be added to the budget for 2019/20 from reserves to meet outstanding commitments (paragraph 4.1).

Net on-going additional savings of £1,121,000 have been identified and recommended to be implemented (paragraph 3.7).

### **(d) Risk Implications**

The council is aware of the risks it faces in relation to the current range of services not being financially sustainable.

Another significant risk is that, as reported on a number of occasions, staff are stretched in many areas and the council is reliant on the goodwill of staff to a degree that is of concern to the Corporate Management Team.

A further risk arises from the funding commitment to meet 50% of any budget deficit incurred by the Moray Integration Joint Board. When the

budget was set a shortfall of £4.5 million against current commitments and projected expenditure was noted.

An additional significant risk is that savings are increasingly difficult to make and therefore there is a higher risk of approved budget savings not being achieved.

**(e) Staffing Implications**

As indicated in the risk implications above, there are concerns about the level of goodwill that is required from staff. In the short term this is acceptable for many employees, but it presents serious risks for individuals and the service the council is able to sustain in the medium and longer term.

**(f) Property**

No property implications arise directly from this report.

**(g) Equalities**

No equalities implications arise directly from this report.

**(h) Consultations**

The Corporate Management Team, has been consulted and comments incorporated into the report.

**8. CONCLUSION**

**8.1 This report identifies the council's final out-turn position on the General Fund as at 31 March 2019 and identifies major areas of variance between budget and actual for 2018/19. It also compares the actual out-turn with the forecast reported to Moray Council based on the position at 31 December 2018.**

**8.2 In addition to previous commitments to use general reserves, which total £4,012,000, the report recommends the use of Council reserves totalling £118,000 for projects which did not complete in 2018/19.**

**8.3 The report also recommends a reduction to the net budget of £1,121,000 to reduce ongoing variances in 2019/20. These reductions would reduce the commitments against general reserves, resulting in a projected free balance of £9,267,000.**

Author of Report: Deborah O'Shea, Principal Accountant

Background Papers:

Ref: LP/LJC/