



REPORT TO: MORAY COUNCIL ON 29 JUNE 2022

SUBJECT: 2021/22 REVENUE OUT-TURN VARIANCES FROM BUDGET

BY: DEPUTE CHIEF EXECUTIVE (ECONOMY, ENVIRONMENT AND 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 2021/22 and to seek approval of adjustment to the budget for 2022/23 where income and expenditure trends are forecast to continue into 2022/23 and where there has been slippage in projects which are proposed to be funded from reserves.
- 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 2022/23 was approved, as summarised in APPENDIX 1;**
- (ii) The major variances from the approved budget for 2021/22 total £24,181,000 , which is made up of an underspend in service areas of £8,273,000 and on loans charges of £118,000, additional income of £2,348,000 and retained central provisions of £13,442,000 as summarised in APPENDIX 2; and**
- (iii) That a significant proportion of the underspend (including the element retained in central provisions) relates to slippage or delays in projects and timing differences in the release of reserves.**

2.2 It is recommended that the Council approves:

- (i) Additional budgets for projects subject to slippage in 2021/22 as detailed in paragraph 3.20 to 3.25 totalling £1,449,000 to be funded from ear-marked reserves for covid.**

3. **BUDGET VARIANCES**

- 3.1 The unaudited accounts for 2021/22 are subject to a separate report to this Committee. The unaudited accounts show that the balance on free general reserves is £5,000,000 at 31 March 2022, with ear-marked reserves totalling £40,236,000.

The Council at a meeting on 3 March 2021 approved budgeted net expenditure of £215,357,000, which anticipated use of £1,251,000 financial flexibilities under concessions approved to facilitate response to the pandemic and use of £10,000 free general reserves (paragraph 5 of the Minute refers). The final budget for the year, after adjustments for additional government grant funding announced during the year and additional savings was for expenditure of £246,262,000, including use of ear-marked reserves: Devolved School Management (DSM) balances brought forward of £1,342,000; Early Learning and Childcare expansion carried forward of £573,000, Pupil Equity Funding carried forward of £802,000, use of the ear-marked covid reserves of £11,214,000, use of the reserves for transformation and council priorities totalling £5,161,000 (some of which was planned for future years but the phasing of spend not developed in full) and use of free general reserves of £760,000. Council on 15 September 2021 (paragraph 27 of the Minute refers) also approved transfer from free general reserves of £8,816,000, £1,816,000 to the ear-marked reserve for Transformation and £7,000,000 to the ear-marked reserve for Council priorities. The budgeted out-turn for free general reserves was a balance of £5,000,000, and that is the final position. Movement on ear-marked reserves is dealt with in paragraph 3.4.

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

	£000s	£000s
Budgeted use of free general reserves @ March 2021		10
Additional budget approved and drawn down during the year		760
Final budgeted use of free general reserves		770

- 3.3 Expenditure against budget was reported to Committee on a quarterly basis during the financial year. Quarter one was reported to Economic Growth, Housing and Environmental Sustainability (EGH&ES) Committee on 24 August 2021; quarter two to Corporate Committee on 30 November 2021 and quarter three to Full Council on 23 February 2022 (paragraph 12 of the Minute refers). The forecast at the end of quarter three was a return to free general reserves of £2,132,000. 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 2022/23. The final out-turn and main changes from the out-turns forecast at the end of December 2021 are summarised on a departmental basis in **APPENDIX 1**.

- 3.4 The principal variances from that forecast were additional funding from Scottish Government of £4,985,000 announced since the forecast was made, with £1,436,000 being notified at the end of March 2022 and services underspend £4,132,000 more than forecast. Part of the unforecast underspend is on DSM budgets, with a total of £1,347,000 underspent, £1,288,000 of which is retained within the DSM reserve. The other single largest movement was in staff costs, within underspends from vacancies rising from the estimated £1,910,000 above the vacancy factor to £2,449,000, an increase of £539,000. Council Tax income was £912,000 more than forecast. The forecast was based on cash receipts, the actual out-turn includes Council Tax for 2021/22 billed but not yet received.

Movement in use of free general reserves since final estimated actual	£000s	£000s
Predicted use of reserves		770
Transfer to ear-marked reserves		8,816
Predicted decrease in free general reserve		9,586
Further underspend in services	4,132	
Less transfer to ear-marked reserves DSM, PEF	(2,743)	
Increase in Loans charges	(20)	
Unbudgeted SG funding at year end	1,436	
Increase in Council Tax	912	
Movement in balance of provisions:		
Additional savings	385	
Lower call on inflation provision	903	
Centrally held provisions	14,301	
Less budgeted use Transformation reserves, covid reserves	(5,161) (11,214)	
Transfer to capital receipts etc	(2,168)	
Total variance	763	
Actual decrease in free general reserves		10,349

- 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	(178)	2,458	
Income / recharges to capital and HRA	(1,264)	1,191	
Purchase of children's services / looked after children	-	2,146	
School DSM budgets	-	1,418	
Repairs and maintenance	(297)	254	

	Overspend £000s	Underspend £000s	Net £000s
Energy costs	-		
Strain on the fund			
Software licences	(146)	23	
Roads and Winter Maintenance	(545)	-	
PEF funding	-	1,046	
Other	(2,015)	4,300	
	-----	-----	
Service underspend	(4,318)	12,709	8,391
Balance on central provisions	-	13,442	
Council Tax	-	912	
General Capital Grant unapplied	-	1,217	
Government Grant	-	1,436	
Transfer to ear-marked and other reserves	(18,601)	-	
Total variance	(23,046)	29,843	6,797

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 2022/23 was approved. The overall position is summarised below:

	Para ref	Recurring £000s	Non- recurring £000s	Impact already included 2021/22 Budget £000s	Proposed further adjustment to 2021/22 Budget £000s
Overspends					
Staff / subcontractors	3.9	-	(178)	-	-
Income	3.10	(28)	(1,236)	-	-
Repairs and maintenance		-	(297)		
Roads maintenance	3.11	-	(545)	-	-
Other		(108)	(2,053)	(100)	-
Total overspends		(136)	(4,309)	-	-
Underspends					
Staff / subcontractors	3.12	-	2,458	-	-
Income	3.13	-	1,191	-	-
Purchase / provision of care for children	3.14	800	1,346	800	-
Repairs and maintenance		-	254	-	-
Energy cost		-		-	-
PEF	3.15		1,046		
Other	3.16	40	5,701	40	-

	Para ref	Recurring £000s	Non- recurring £000s	Impact already included 2021/22 Budget £000s	Proposed further adjustment to 2021/22 Budget £000s
Total underspends		840	11,996	-	-
Balance on provisions	3.17	-	13,442		
Covid balance of provisions	3.17		-		
Government grant			1,436		
Transfer to ear-marked / capital reserves	3.18		(17,384)		
Council Tax		-	912		
Total net (over)/underspend		704	6,093	740	

- 3.9 There are some minor overspends in staff and subcontractors within Fleet services where there is difficulty in recruiting staff which has necessitated the use of sub-contractors, which is a more expensive way of delivering the service, totalling £128,000. Financial services underachieved their vacancy target by £32,000, sheltered housing wardens were overspent by £11,000 which is not expected to continue and the central supply budget was overspent by £7,000, 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.
- 3.10 The impact of the Covid-19 pandemic and lockdown measures continue to have an impact on budgets but not as significant as last year. A range of services are generating less income than budgeted, with a total shortfall of £1,236,000 for the year to date. This includes loss of catering income, car parking income, planning and building control fees and trade waste. Some of the covid reserves were allocated to cover leisure services loss of income, which is why a variance for this service is not showing. . .
- 3.11 Expenditure on roads maintenance exceeded budget by £545,000, this is partly due (£317,000) to winter maintenance, and (£212,000) relating to planned maintenance, due to increased hours worked on patching roads as well as increase in cost of materials and plant and other minor overspends totalling £16,000.
- 3.12 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 at 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 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 £4,495,000. The net underspend on staff and sub-contractors in 2021/22 was £2,449,000 above that provision. This is particularly high due to vacancies in ASN partly due to normal turnover and some positions are being difficult to fill as well as some vacancies being held as part of the review of the ASN services. A saving from increasing the allowance for vacant posts in line with the budgeted pay award was taken when the budget for 2022/23 was set and it is recommended not to increase any further at present but this will be reviewed as part of the financial planning process.

- 3.13 Income underspends arise from more income being received than budgeted for Waste, Harbours, Industrial Estates and Moray Training as well as one-off income to Children's Services for a placement for an adopted child by another authority and miscellaneous land sales of small areas of land not held on the fixed asset register and therefore the receipt must be treated as revenue. It is not recommended to revise any budgets at this time, as the increased income from the sale of recyclates reflects a buoyant market but one which is prone to rapid change, harbours and industrial estate income will be reviewed in more detail later in the year and Moray Training income is considered one-off.
- 3.14 There is an underspend of £2,075,000 in the purchase/provision of care for young people. This consists of an underspend of £573,000 due to a contract for residential care in Moray ending, £322,000 relating to an underspend in the children with disabilities contract due to transition into adult services and £1,180,000 relating to out of area placements. Savings of £800,000 were taken from Children's Services when the budget for 2022/23 was approved. £752,000 was previously approved to be reinvested in to the Children's Services and it is not recommended that any further revision to budget is made at this time as the overall budget is currently being reviewed by the Head of Children's Services as part of the financial planning process.
- 3.15 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.
- 3.16 There is an overall underspend on other various budget headings. Within this is £40,000 relating to home tuition which has historically been underspent. It was approved to take the underspend relating to this as a saving in 2022/23.
- 3.17 The balance on central provision which was underspent consists of £207,000 additional savings achieved above the original budget target; £1,665,000 underprovision in inflation primarily due to the pay award which was backdated to January 2020. £1,293,000 additional funding received at the end of the year, which will be carried forward into 2022/23; £8,536,000 balance of grant for Covid, which will be carried forward into 2022/23; £4,182,000 balance on transformation which will be carried forward into

2022/23, £764,000 balance of funding received that is not required, and other minor variances totalling £125,000 that is not required.

3.18 In summary, from the above paragraphs there are no budget adjustments recommended for 2022/23

3.19 The following table details the requirements to be funded from reserves in 2022/23:

	Para ref	£000s
Rapid Rehousing Transition Plan (RRTP)	3.20	325
Community Planning Partnership	3.20	21
Tenant Hardship grant	3.20	39
Flexible Food Fund	3.21	123
Economic Recovery plan	3.22	186
Discretionary Housing Payment	3.22	145
Universal free school meals	3.23	295
CO2 monitors for schools	3.23	52
Syrian refugees	3.24	10
Whole family wellbeing	3.25	37
Mental Health pandemic response	3.25	129
Counselling funding	3.25	87
Total		1,449

3.20 Recruitment of staff to implement the Council's Rapid Rehousing Transition Plan (RRTP) has been delayed. The Council had funding of £338,000 for RRTP in the local government settlement for 2019/20 to 2021/22 and it is proposed that the underspend of £325,000 is carried forward as budget in 2022/23 funded from the covid ear-marked reserve. The Council underspent by £21,000 on Community Planning in 2021/22. This budget is match-funding with Community Planning Partners (chiefly Police Scotland) and it is recommended that this is carried forward as budget in 2022/23 funded from the covid ear-marked reserves. Tenant Hardship grants were underspent by £39,000 in 2021/22. Grants will continue to be awarded until the funds received from Scottish Government for this purpose are exhausted and it is recommended £39,000 is funded from the covid ear-marked reserves in 2022/23.

3.21 Flexible Food fund was underspent by £123,000 in 2021/22. It was agreed at committee on 6 April 2022 to delegate the use of this fund and augment the Scottish Welfare Fund budget, it is therefore recommended that this is carried forward as budget in 2022/23

3.22 The second lockdown caused slippage in some of the agreed measures to assist economic recovery and it is recommended that budget of £44,000 for pop-up shops, £100,000 for start up grants, £26,000 for Business Gateway and £16,000 for the Community wealth building officer's post are carried forward as budget in 2022/23 funded from ear marked covid reserves. Discretionary Housing payments were underspent by £145,000 in 2021/22, this was due to less applications being processed because of the additional claims for Scottish Welfare Fund and flexible food fund. The underspend is being clawed back by Scottish Government.

- 3.23 Scottish Government provided funding in the settlement for the expansion of Universal free school meals to primary 4 and 5. This funding was underspend by £295,000 in 2021/22. The expansion was fully implemented from January 2022 and uptake is now increasing. The Catering Service has requested that the one-off underspend from 2021/22 be carried forward to 2022/23 to cover the purchase of additional equipment and furniture. No capital funding was given to fund these items. Scottish Government provided grant funding, both capital and revenue, for the provision of CO2 monitors for schools. Moray's share included £52,000 revenue which remains unspent at the year end. Works are on-going in 2022/23 and it is recommended that this is carried forward to 2022/23, funded from covid ear-marked reserves.
- 3.24 Funding from the Home Office for Syrian refugees was underspent by £10,000 in 2021/22. Funding was received over a 5 year period and 2021/22 was the last year of this funding. It is recommended that this is carried forward into 2022/23 to fully utilise the balance.
- 3.25 Scottish Government gave late notification of funding for Whole Family wellbeing £37,000, Mental Health pandemic response £129,000 and Counselling funding £87,000 and this additional grant funding was therefore unable to be spent. It is therefore recommended that these amounts are carried forward into 2022/23 spend as budget in 2022/23 funded from covid ear-marked reserves.

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.

(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.

(e) Staffing Implications

None 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) Climate Change and Biodiversity Impacts

There are no implications arising directly from this report

(i) Consultations

Consultation with budget managers takes place during the financial year and requests for funding from reserves are reflected in the report.

5. CONCLUSION

- 5.1 The Council's final out-turn position on the General Fund as at 31 March 2022 was an improvement on the position forecast when the budget for 2022/23 was set. This report identifies major areas of variance between estimated actual and actual for 2021/22.**
- 5.2 The report also considers variances against budget with a view to identifying trends in expenditure and does not recommend any changes in the net budget in 2022/23.**
- 5.3 Slippage of £1,449,000 in projects planned for 2021/22 is recommended to be carried forward to 2022/23, funded from ear marked covid reserves.**

Author of Report: Deborah O'Shea, Principal Accountant

Background Papers:

Ref: LP/LJC/