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**REPORT TO: MORAY COUNCIL ON 5 SEPTEMBER 2018**

**SUBJECT: REVENUE BUDGET MONITORING TO 30 JUNE 2018**

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

**1. REASON FOR REPORT**

- 1.1 To advise Council of the revenue budget monitoring position to 30 June 2018.
- 1.2 This report is submitted to Council 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 Council considers and notes:**

- (i) **the budget monitoring position of £156,000 under budget for 2018/19 as at 30 June 2018;**
- (ii) **that this position consists of an underspend on Devolved School budgets of £186,000, an overspend on Social Care services delivered on behalf of the Moray Integration Joint Board (MIJB) of £478,000 and an underspend on other services of £448,000;**
- (iii) **movement of £678,000 in the General Revenue Grant, as detailed in paragraph 3.4;**
- (iv) **emerging budget pressures as summarised in paragraph 6.2;**
- (v) **the position regarding Moray Integration Joint Board (MIJB) as described in paragraph 6.10, with cost implications of £1.3 million for the Council, and**
- (vi) **further commitments of £5.11 million against reserves as summarised in section 8.**

**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. 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 bar one for the Syrian resettlement program have been posted to departments as at 30 June 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 has been carried forward into 2018/19 in accordance with the grant conditions.
- 3.4 A variation to General Revenue Grant (GRG) of £678,000 has been notified. This relates to the expansion of Early Learning and Childcare. Additional budget will be allocated as required according to the Council's approved Early Learning and Childcare Expansion Delivery Plan.
- 3.5 The Council's overall General Services revenue budget currently stands at £200,954,000.
- 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 2** and allocations to departments from the provisions for Inflation and Contingencies, Additional Costs and Savings are listed in **APPENDIX 3**.

#### **4. BUDGET POSITION**

- 4.1 **APPENDIX 1** summarises the current position for each service area, comparing the actual expenditure for the year to 30 June 2018 with the budget to 30 June 2018.
- 4.2 Overall the budget position at 30 June 2018 is expenditure under budget to date of £156,000 or 0.3% 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 £60,000 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 1 of this year reflects further continued increase which is expected to continue throughout 2018/19. A report was presented to Children and Young Peoples Services Committee on 27 June 2018 (paragraph 14 of the minute refers).

- 4.3.2 Devolved School budgets are underspent by £186,000 at the end of the first quarter, £67,000 in primary schools and £119,000 secondary schools.
- 4.3.3 In the Education budget, the pupil equity funding for the academic year is £51,000 underspent to date and the central supply budget is underspent by £51,000.
- 4.3.4 The Building Services were budgeted to return a deficit at the end of quarter one, but have returned a surplus, showing a favourable variance of £275,000. This is due to additional income being generated, primarily on response and void repairs. Any surplus from internal trading (i.e. with other parts of the Council) falls due to be reallocated to the department charged for building services, in this case the Housing Revenue Account (HRA) and so the General Service account will not benefit from this surplus if it continues to the year end.
- 4.3.5 Property Services show an underspend to date of £60,000 relating to staffing. However, this budget is usually offset against any shortfall in fee income levied at year end. Budgeted fees are currently set at historic levels which are too high for the current capital plan and are being reviewed.
- 4.3.6 The recycling budget is overspent by £76,000 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 (see paragraph 6.5).
- 4.3.7 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 £3,452,000 have been released in quarter 1.
- 5.2 Provisions still held centrally at the end of quarter 1 total £3,627,000 and are detailed in **APPENDIX 4** and given a RAG assessment for likelihood of requirement.
- 5.3 Two provisions are assessed as red or unlikely to be needed: £50,000 for deferred income for permanent care and £60,000 for the teachers' pay award 2017/18 full year effect. 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 is already budgeted for in full.
- 5.4 Three provisions are assessed as amber, for uncertainty of requirement: increased costs of transportation from restructuring the school week (£143,000); transition costs into adult social care (£200,000); implementation of the Gaelic plan (£40,000). There is high uncertainty about the need for the first provision, pending the re-tendering of the school transportation contract,

and high uncertainty about the level of need for expenditure on the last two items. Any increased funding to MIJB for children transitioning into adult social care will require a business case and will be the subject of a report to Policy and Resources Committee.

5.5 All other provisions are expected to be required in full at this juncture.

## 6. **EMERGING BUDGET PRESSURES**

6.1 During the first 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
Out of area placements	6.2	328
Water charges increase	6.3	30
Waste paper charge increase	6.4	134
Employers liability insurance	6.5	14
EDRMS extension	6.6	70
Children's services	6.7	86
Meals on Wheels	6.8	78
		740
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6.2 Expenditure on out of area placements in Integrated Children's Services continues to exceed budget, despite the budget increase of £1,200,000, as reported to Children and Young People's Services Committee on 27 June 2018. The estimated cost for the year based on the current placements is £328,000.

6.3 Expenditure on metered water is expected to be £30,000 above budget. This situation is being monitored.

6.4 The market for recyclates is very volatile and the Council is inevitably exposed to changes in market conditions. After the budget for 218/19 was set, the contractor for paper recyclates confirmed that from March 2018 there would be a charge for waste paper of £27.04 per tonne for mixed paper due to the current deterioration in the market situation. The previous contract price had been for income to the Council of £1.26 per tonne. Estimated volume is 4,750 tonnes per year, which gave a total anticipated budget pressure of £134,000 for the year. Since then prices have dropped to £9.51 in June and to £1.54 in July. The recent reductions in price are encouraging but are no guarantee that the trend will not reverse.

6.5 The council's insurers have notified a 5% increase in the Employers liability premium due to several large claims on employer's liability following accidents at work. This increase is in addition to the budget pressure regarding insurance premium tax included when the 2018/19 budget was approved.

6.6 The EDRMS project team was originally planned to be disbanded in 2018/19. In order to complete the project contracts were extended for 5 fte during

2018/19 and a team of 4 fte will continue from 2019/20 onwards for ongoing support. This represents an additional cost to the council of £70,000 in 2018/19, which is considered to be an investment to achieve the full benefit of savings in staff time from more efficient working.

- 6.7 Emerging pressures now include £86,000 in 2018/19 and £25,000 in 2019/20 for pressures relating to Child Protection highlighted by Children's services and agreed at the Community Planning Partnership Chief Officers Group on 2 March 2018.
- 6.8 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 £78,000 budgeted income. There will be a reduction in food purchased, and this is being calculated, but no impact on staff time, consequently there will remain a budget pressure on the service.
- 6.9 All these emerging pressures will be reviewed at the end of quarter 2 and recommendations made as to funding when the first estimated actual for 2018/19 is developed and reported to Policy and Resources Committee in November 2018.
- 6.10 When MIJB set its budget for 2018/19 it noted a shortfall estimated to amount to £4.6 million, after identified savings of £1.06m. Following further consideration by the Board additional savings of £0.4 million have been identified, and the Board has agreed to use £0.85m reserves to part-fund the shortfall. This leaves a residual shortfall of £3.35m. It would appear to be unlikely that the Board would be able to implement savings to balance the budget within the next seven months, particularly given the overspend across both Council and NHS services during quarter 1. 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). On the basis of the current position as reported to MIJB on 30 August 2018 that continues to be the case, and there is clearly also a risk that Council may have to fund a share of both the £3.35m deficit and a further overspend against allocated budgets. This is by far the highest emerging budget pressure faced by the Council. However, it is important that in recognising this pressure the Council does not lose sight of the need to keep tight control over its own finances.

## **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 reviewed as part of the estimated actual process 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 £644,000 remains in central provisions as at the end of June. These are detailed in **APPENDIX 5** and given a RAG assessment for anticipated achievement.

7.3.1 Three savings totalling £118,000 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 June 2018, due to voids. The situation will be kept under review. The other relates to savings from restructure of Fleet Services. Jobs are currently being evaluated, therefore timing indicates that full savings will not be achieved during this financial year.

7.3.2 The other unposted savings are assessed as green - these are expected to be achieved or substantially achieved during this financial year, although there were still issues of detail to be clarified as at 30 June 2018. Nine of the approved savings, totalling £188,000, relate to the closure/ CAT of the town halls. The other projects comprise public conveniences (£31,000); the move to 3 weekly waste collections (£83,000); management restructure (£50,000) and reduction in borrowing costs for reprofiling capital spend (£200,000). These are expected to be agreed in detail and allocated during quarter 2.

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.

## **8. GENERAL RESERVES**

8.1 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.

8.2 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 released in quarter 1 totals £501,000 leaving a balance of £20,000 yet to be allocated. Commitments of £5,110,000 against general reserves are detailed in **APPENDIX 6**.

8.3 The free balance of £11,985,000 is likely to be reduced to meet the budget pressures identified in paragraph 6.1 and almost by at least the underlying MIJB overspend of £1,300,000. This would reduce the free balance in general reserves to £9,945,000.

## **9. 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 half 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**

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.

**10. CONCLUSION**

**10.1 The financial position of the Council at the end of June 2018 is an underspend against General Services Revenue Budget of £156,000 (including services delivered on behalf of the Moray Integration Joint Board).**

**10.2 Variations in General Revenue Grant totalling £678,000 have been notified to the council.**

**10.3 Additional budget pressures of £740,000 for Council services and £1,300,000 relating to MIJB have been recognised. These are likely to result in a call on general reserves.**

**10.4 The Council has previously approved use of £5.11 million from general reserves.**

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Background Papers: Held by author

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