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**REPORT TO: ECONOMIC DEVELOPMENT AND INFRASTRUCTURE SERVICES COMMITTEE ON 6 SEPTEMBER 2022**

**SUBJECT: ENVIRONMENTAL AND COMMERCIAL SERVICES AND ECONOMIC GROWTH AND DEVELOPMENT SERVICES (ECONOMIC DEVELOPMENT) CAPITAL AND REVENUE BUDGET MONITORING TO 30 JUNE 2022**

**BY: DEPUTE CHIEF EXECUTIVE (ECONOMY, ENVIRONMENT AND FINANCE)**

**1. REASON FOR REPORT**

- 1.1 To inform the Committee of the current position regarding Environmental and Commercial Services and Economic Growth and Development Services (Economic Development) Capital and Revenue Budgets.
- 1.2 This report is submitted to Committee in terms of Section III (A) (2) of the Council's Scheme of Administration relating to the consideration of Capital and Revenue Budgets and long term financial plans.

**2. RECOMMENDATION**

**2.1 It is recommended that Committee:**

- (i) **considers and notes the budget monitoring report for the period to 30 June 2022; and**
- (ii) **approves the funding allocation under the Switched on Fleets programme as set out in para 6.12.**

**3. BACKGROUND**

- 3.1 The Performance Management Framework 2020 (page 27) requires that progress against Capital and Revenue Expenditure and the Capital Plan is reported to the relevant Service Committee every Committee cycle. Expenditure is reported in the first instance to Corporate Committee (formerly Policy and Resources) quarterly.
- 3.2 The Capital Plan for 2022/23 was approved by a meeting of Moray Council on 22 February 2022 (para 4 of the minute refers). The current projected expenditure is an estimate that should be treated with caution due to volatile conditions within the Construction Industry and in supply chains of materials.

- 3.3 Policy and Resources Committee on 10 May 2016 agreed to amendments to the information provided in response to the Audit Scotland report “Major Capital Investment in Councils” (paragraph 7 of the Minute refers). Accordingly this report includes a separate **APPENDIX 4** giving details of expenditure on projects which span more than one financial year.
- 3.4 The Council recognises five principal drivers for capital expenditure: Legislative requirements, efficiencies or spend to save projects, maintenance of assets and operations at current approved levels, service developments, council priorities. Capital expenditure is funded from three sources: capital grants from Scottish Government and other sources; capital receipts from the sale of assets or from developer obligations; borrowing. When the Council borrows for capital expenditure, the capital financing charges incurred are met from the revenue budget. Therefore the Capital Plan has a direct impact on the revenue budget and the two are considered jointly at the same budget-setting meeting of Council. The Revenue budget was approved at a meeting of the Council on 22 February 2022 (para 4 of the minute refers). The Council has agreed savings of £1.576 million in 2022/23. The current total Revenue budget for Environmental and Commercial Services is £26,321 million in 2022/23. Any further amendments to the Capital and Revenue budgets are first approved by Policy and Resources Committee.

#### **4. ENVIRONMENTAL AND COMMERCIAL SERVICES REVENUE BUDGET**

4.1 **APPENDIX 1** details the Environmental and Commercial Services Revenue Budget position to 30 June 2022.

#### **4.2 REVENUE BUDGET POSITION 30 JUNE 2022**

<b>Annual Budget</b>	<b>Budget Year to Date</b>	<b>Actual &amp; Committed Year to Date</b>	<b>Variance Year to Date</b>
<b>£000s</b>	<b>£000s</b>	<b>£000s</b>	<b>£000s</b>
26,321	5,693	5,448	245

4.3 Environmental and Commercial Services actual and committed budget has an overall Underspend to budget, of £245,000 for the period to 30 June 2022. The position is shown in **APPENDIX 1** and summarised in the table below with major variances described in para 4.4 - 4.8 of this report. Underspends or Overspends are against projected budgets for the period only. Variances are further explained in this report. All variances will be monitored closely and reported to Committee as the year progresses.

#### **Position at 30 June 2022**

<b><u>Service</u></b>	<b>Ref Para</b>	<b>Overspend</b>	<b>Underspend</b>
		<b>£000s</b>	<b>£000s</b>
<b>Fleet Services</b>	<b>4.4</b>		128
<b>Traffic &amp;</b>	<b>4.5</b>		45

<b>Transportation Mgt</b>			
<b>Waste Mgt</b>	<b>4.6</b>	(75)	
<b>Building Catering and Cleaning</b>	<b>4.7</b>		79
<b>Parks &amp; Open Spaces</b>	<b>4.8</b>		64

#### **Explanation of major variances 30 June 2022:**

#### **4.4 Major Variance - Fleet Services**

Underspend of £128,000 is mainly due to internal recharge income exceeding budget. The Fleet hire budgets are to be reviewed and amended before Qtr 2.

#### **4.5 Major Variance - Traffic and Transportation Management**

Underspend of £45,000 is mainly due to the reduced internal recharges for PTU Public Transport Unit minibuses. Budgets to be reviewed before Qtr 2.

#### **4.6 Major Variance - Waste Management** has an overall overspend of £75,000. Main variances are:-

##### Overspends:

Trade Waste income £66,000 - The income shortfall to budget is mainly due to a reduction in customer numbers due to inactivity of various industries due to pandemic. The volume of customer contracts has returned to pre-Covid levels, however changes to the way commercial entities operate has an impact on their waste production. Trade waste collected through commercial contracts is based on the volume of waste that is generated in each specific facility. Customers who have reduced their volume of waste production or moved to using more recyclable materials will amend their contracts to reduce their overheads. In doing so, Moray Council retain the customer but the charge for the services provided is reduced due to the reduction or removal of disposal costs.

Leachate £22,000 - Leachate extraction is dependant of climate conditions as well as the composition and volume of waste within a cell. Wetter weather creates more leachate accumulation which increases the need for extraction and therefore, unavoidable higher costs. Leachate levels are monitored weekly. We are required to report our leachate levels to SEPA and the levels within our 5 cells were over the permitted threshold at a point earlier this year. We managed to negotiate an increase in servicing with our contractor to bring the levels back down and to within compliance levels. Phase 2 was still slightly over in July, but SEPA have acknowledged the work done to address the issue and operate in compliance with the site regulators.

Fuel £54,000 - The expenditure overspend is due to additional costs for fuel per litre.

Underspends: Recycling contracts income £73,000- the market is volatile but prices for card/ paper are currently favourable leading to this underspend.

#### **4.7 Major Variance – Building Cleaning and Catering**

Total Underspend of £79,000 comprises of the following variances:

Overspends: Catering income £89,000 income shortfall to budgeted target - There is a phasing error on free school meals which will be corrected in Qtr 2. When corrected it is expected that the income and expenditure will offset each other.

Underspend: Catering has a £168,000 underspend on food costs and supplies. This variance is partly due to secondary schools having exam leave and active days away from school and a reduced uptake. It should also be noted that food prices are fluctuating at present.

#### 4.8 **Major Variance – Parks & Open Spaces**

The net underspend of £64,000 mainly due to an underspend on the tree inspection budget. A tree specialist will be procured later this year. Burial grounds have a small income surplus to date. There is also an overspend on fuel costs and materials due to rising costs, which will be monitored as a possible budget pressure.

### 5. **ECONOMIC GROWTH AND DEVELOPMENT SERVICES (ECONOMIC DEVELOPMENT) REVENUE BUDGET**

#### 5.1 **REVENUE BUDGET POSITION 30 JUNE 2022**

Annual Budget 2022/23	Budget Year to Date	Actual & Committed Year to Date	Variance Year to Date
£000s	£000s	£000s	£000s
4,015	430	536	(106)

5.2 Development Services - Economic Development, the variance to projection is an overspend of £106,000. This is as a result of building standards income not achieving projection by £34,000 and planning income not achieved by £77,000. Variations in income levels are not unusual and are out with the control of the service. Fees are set nationally and income estimates are based on previous levels of applications, a single application for major development can command a fee in excess of £100k, it is therefore normal to see fluctuations against budget in each quarter and the current under achievement of budget is within the expected parameters for this budget. The income on these budgets does fluctuate and we can expect to see a deficit in some years and an over achievement of income in others due to the scale of income associated with larger applications.

### 6. **ENVIRONMENTAL AND COMMERCIAL SERVICES CAPITAL BUDGET TO 30 JUNE 2022.**

6.1 **APPENDIX 2** details the Environmental and Commercial Services Capital Budget position to 30 June 2022 (QTR 1). The total Capital Plan budget of £33.836 million has an actual spend at the end of June 2022 of £3.497 million and a projected spend at end of March 2023 of £31.978 million.

6.2 Expenditure on Lands & Buildings to 30 June 2022 totals £1,070 million. The major items of expenditure were £100,000 at Dallachy Landfill site and £440,000 for the Council's contribution of the NESS energy from waste plant –

construction phase. £500,000 was spent on place based investment which is fully funded by grant funding.

- 6.3 Expenditure on Infrastructure assets to 30 June 2022 totals £1,135,000. The main items of expenditure was £604,000 on roads resurfacing works throughout the Council area. Other items of expenditure include £198,000 on various bridge works and £196,000 on traffic- Wards Road Junction Improvements (developer obligations) and £85,000 on LCTT Speyside Way (grant funding).
- 6.4 Expenditure on vehicles, plant and equipment to 30 June 2022 was £1,292,000, the main item of expenditure being £1,189,000 on the Vehicle & Plant Replacement Programme. £63,000 was spent on car charge point upgrades and £100,000 on Domestic & Trade Waste Bins.
- 6.5 **APPENDIX 3** shows the projects within the Capital Budget with a summary of the ratings estimated by budget managers.
- 6.6 Budget managers have been requested to update projected estimates of expenditure on capital projects in 2022/23. Projects are marked red / amber / green. This column represents an assessment of projected expenditure at end of year - with green being a high confidence level of expenditure close to projected expenditure for the total of the year, medium confidence as amber and low confidence as red. There are various unknowns surrounding the impact that the situation in the wider construction industry and in supply chains will have and this is reflected in the value of projected expenditure in amber and red. A summary of the ratings is given in the table below.

6.7

Risk status	RAG	No. of projects	Projected expenditure 2022/23 £000s
High confidence of spend to estimate	G	46	29,658
Medium confidence of spend to estimate	A	8	825
Low confidence of spend to estimate	R	4	1,495
		<u>57</u>	<u>31,978</u>

- 6.8 A red status highlights areas where there is low level of confidence in estimated expenditure. The following have been identified by budget managers as having a **Red** status:

Project	Capital Plan £000s	Projected Expenditure 2021/2022 £000s	Projected Variance 2021/2022 £000s
<b>Infrastructure</b>			
U117H/10 Bridge of Slateford Tomnavoulin	232	250	-18
U82H Aldunie Bridge,	301	485	-184

Carbrach/ Dykeside Bridge			
U118E/10 Shougle Bridge	337	600	-263
Timber traffic	750	160	590
<b>TOTAL</b>	<b>1,620</b>	<b>1,495</b>	<b>125</b>

6.9 **Bridge of Slateford Tomnavoulin** - design works have been delayed and there is now a risk site works will be done in the winter months adding risk and cost. Based on current construction costs the project is now likely to cost £250,000.

6.10 **U82H Aldunie Bridge, Carbrach/ Dykeside Bridge/ Shougle Bridge**  
 Dykeside Bridge work was originally tendered as a stand-alone project, however, due to construction inflation the tender returns were significantly higher than the available budget. This project was deferred and re-tendered as a package with Aldunie Bridge and the budget was supplemented by grant funding from Scottish Government for lifeline bridges. Construction work on these bridges was completed in August 2022 at a total cost of £405,000. Some remedial works will be required to the road on the south side of Dykeside Bridge at an estimated cost of £10,000. This work will be complete by the end of September. **U118E/10 Shougle Bridge** refurbishment works to Shougle Bridge are currently underway and are due for completion in November 2022. The cost of this work, including risk, is £605,000.

6.11 **Timber Traffic - Moray** Council was only successful with one bid for grant funding support. Total cost of works is now expected to be £400,000 with STTF contributing 60% of eligible costs of works.

6.12 **Switched On Fleets:** £65,000 has been allocated to the Council as part of the Energy Savings Trust's Switched On Fleets programme. It is proposed that this funding is accepted and used to continue to add EV charging infrastructure for council fleet at depots in Buckie and Keith in line with stated service plan priorities.

6.13 An amber rating of confidence to spend budget highlights areas where there are issues impacting on the ability to project spend – generally indicating factors out with the budget manager's control. The Covid-19 pandemic restrictions on contractors working practices have resulted in an increase in costs of construction. The impact of Brexit has also seen material and equipment costs increase and we are experiencing procurement delays due to poor responses to tenders and delays in the supply of materials. Other factors creating uncertainties are noted below, mainly staff capacity, response to safety issues and service requirements

The following have been identified by budget managers as having an **Amber** status:

<b>Project</b>	<b>Capital Plan 2022/2023</b>	<b>Projected Expenditure 2021/2022</b>	<b>Projected Variance 2021/22</b>
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	£000s	£000s	£000s
<b>Lands &amp; Buildings</b>			
Parks & Open Spaces - Paths, car parks, steps, walls, fences, signage	140	140	0
<b>Infrastructure</b>			
Bridges – A941 New Craigellachie Bridge	3,786	3,000	786
Bridges – B9103/100 Boat O Brig Bridge Orton	4	15	-11
Harbours – Replacement of life expired elements and upgrades	500	500	0
Road Improvements – Kerb edge replacement	50	0	50
Street Lighting – Replacement columns and lights	800	800	0
<b>Vehicles Plant &amp; Equipment</b>			
Vehicle & Plant replacement programme	5,563	5,563	0
Environmental – Children's Play Areas (Parkland)	253	253	0
<b>TOTAL</b>	<b>11,096</b>	<b>10,271</b>	<b>825</b>

- 6.14 **Paths and Open Spaces** is rated as Amber of achieving projected spend - projects are still to be costed as team capacity issues has delayed progress.
- 6.15 **Bridges** - A941 New Craigellachie Bridge. Is rated as Amber. Tenders have been returned and were lower than original Capital Plan budget. It is expected that the budget may be reduced in the future, whilst still ensuring that there is adequate risk allowance within the project.
- 6.16 **Bridges** – B9103/100 Boat O Brig Bridge Orton. There is £4,000 in the Capital Plan for this project but costs are likely to be £15,000 due to the volatile current construction market.
- 6.17 **Harbours** – Replacement of life expired elements and upgrades. Tenders for the project have been returned and award less that allocated budget, it is likely the capital budget for this project will be reduced in the future.
- 6.18 **Road Improvements** – Kerb edge replacement is rated Amber due to increased focus /priorities on other areas of the capital plan and staff shortages within the Service. There is no projected spend this financial year.
- 6.19 **Street Lighting** – Replacement columns and lights is rated as Amber as there is a risk that the projected spend may not be achieved this financial year. This is due to current vacancies and difficulty recruiting staff which has led to late start of works on site.

- 6.20 **Vehicle & Plant replacement programme** - Global factors such as the Ukraine war, pandemic & Brexit have caused major manufacturer factory shut down therefore making vehicle and plant delivery an unknown. £4,361,533 orders have been committed to date.
- 6.21 **Children's Play Areas (Parkland)** –Supplier issues may impact on the final spend for this project. Play area upgrade design is being carried out in conjunction with local communities using Participatory Budgeting (PB) and delays in the lead-in times for the delivery of equipment means the level of spend is uncertain.

## 7. **RISK AND EMERGING ISSUES**

- 7.1 Budget managers have been requested to identify any specific areas of risk for the projects in the Capital Plan for which they are responsible.
- 7.2 As reported to Economic Growth, Housing and Environmental Sustainability Committee on 24 August 2021 (paragraph 7 of the minute refers) a risk to the capital plan is an increase in the cost of materials and scarcity of many materials which are key for the construction industry. Scotland Excel have informed the Council of unavoidable increases to costs on four of their frameworks and some key materials such as concrete, wood and steel are currently difficult to source and costlier if they are available. This is partly a world-wide reaction to the pandemic, and partly due to Brexit. The construction industry is also over-heated and some recent procurement exercises have stalled. The Strategic Territory Partnering Board are also monitoring market volatility.
- 7.3 There is a risk that contract inflation might increase the eventual cost of projects in future years of the capital plan and a risk that any deferment of projects relating to asset condition might result in element failure, potentially incurring unbudgeted costs.
- 7.4 The NESS Energy for Waste project is at a risk of delay due to Covid however it is not anticipated that this will impact on the current revenue and capital budget provision.
- 7.5 The main risk for the vehicle replacement programme is manufacturers failing to deliver to agreed timescales and this risk is heightened at this time due to the shortage of semi-conductors.
- 7.6 Projects can be subject to risks which are outwith the direct control of the Council. Poor weather conditions can impact project timescales, as identified for Roads Drainage works and harbours renovation works.
- 7.7 Lack of staff resources and staff turnover can impact on project timescales and other emerging work priorities can impact in scheduled works and this is reflected in delays where work planned to be out-sourced is being brought in-house as a result of poor response to tender requests.



- 7.8 There is a risk that time-limited funding is not spent within time-frame and that the Council therefore loses the opportunity to improve or create assets at no or reduced cost to the Council.
- 7.9 Looking to the future there is a need to invest significantly in our infrastructure to underpin the Council's priorities of Our People, Our Place, Our Future. The Council's forecast financial situation is such that significant savings will be needed and realistically capital expenditure cannot be ignored when seeking to curtail costs. There will therefore be a difficult balancing act between investment needs and savings.
- 7.10 No other project risks have been specifically identified by budget managers.

## **8. 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. The capital plan is one of the vehicles through which the Council's priorities can be delivered. The approved capital plan for 2022/23 and the outline ten year plan incorporates measures designed to address the LOIP priorities of building a better future for our children and young people, empowering and connecting communities and developing a diverse, inclusive and sustainable economy

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

There are no policy or legal implications arising directly from this report

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

The financial implications are highlighted within the report and detailed in **APPENDICES 1 – 4**.

Environment and Commercial Services revenue spend to 30 June 2022 is £5,448,000 against a budget projection of £5,693,000 giving an underspend of £245,000. The annual revenue budget for 2022/2023 is currently £26,321,000.

Economic Growth and Development Services - (Development Services) Revenue spend to 30 June 2022 is £536,000 against a budget year to date of £430,000, giving a overspend variance of £106,000.

Environmental and Commercial Services - Capital spend is £3.497 million to 30 June 2022.

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

Budget managers are aware of their responsibilities for managing budget allocations and approval for variance will be sought from Committee in line with the Financial Regulations.

### **(e) Staffing Implications**

There are no staffing implications arising from this report.

**(f) Property**

There are no Property implications arising from this report.

**(g) Equalities/Socio Economic Impact**

There are no equalities implications arising from this report because the report informs the Committee on budget monitoring.

**(h) Consultations**

This report has been prepared in consultation with Depute Chief Executive (Economy, Environment & Finance), Head of Environmental and Commercial Services, Head of Economic Growth and Development Services, Principal Accountant (Paul Connor), Legal Services Manager, Committee Service Officer (Lissa Rowan) and Environmental and Commercial Services Management Team and Budget Managers. Any comments have been taken into consideration.

**9. CONCLUSION**

**9.1 This report sets out the budget monitoring position and comments on variances for the Environmental and Commercial Services and Economic Growth and Development Services (Economic Development) Capital and Revenue Budgets for the period to 30 June 2022.**

Author of Report: Nichola Urquhart, Quality Management Systems Officer

Background Papers:

Ref: SPMAN-524642768-655