



REPORT TO: MORAY COUNCIL ON 30 JUNE 2021

SUBJECT: 2020/21 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 2020/21 and to seek approval of adjustment to the budget for 2021/22 where income and expenditure trends are forecast to continue into 2021/22 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 2021/22 was approved, as summarised in APPENDIX 1;**
- (ii) The major variances from the approved budget for 2020/21 totalling £24,055,000 as summarised in APPENDIX 2; and**
- (iii) A report on the use of the new ear-marked reserve for covid related expenditure will be submitted to Council or committee in early course, indicating the likely calls on this reserve.**

2.2 It is recommended that the Council approves:

- (i) Adjustments amounting to a net cost of £242,000 for variances which are anticipated to continue into 2021/22, as detailed in the table in paragraph 3.21; and**
- (ii) Additional budgets for projects subject to slippage in 2020/21 as detailed in paragraph 3.23 totalling £161,000 to be funded from free general reserves.**

3. **BUDGET VARIANCES**

- 3.1 The unaudited accounts for 2020/21 are subject to a separate report to this Committee. The unaudited accounts show that the balance on free general reserves remains the same at 31 March 2021 as at 31 March 2020.
- 3.2 The Council at a meeting on 3 March 2020 approved budgeted net expenditure of £210,490,000 which anticipated the use of £2,348,000 free general reserves (paragraph 3 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 £232,090,000, including use of ear-marked reserves: Devolved School Management (DSM) balances brought forward of £466,000; Early Learning Childcare expansion carried forward of £432,000 and Pupil Equity Funding carried forward of £660,000. The final budgeted use of free general reserves was £2,514,000, against an actual nil use of reserves, a variance of £2,514,000.
- 3.3 The budgeted use of general reserves is set out in the table below:

	£000s	£000s
Budgeted use of free general reserves @ March 2021		2,348
Additional budget approved and drawn down during the year	166	
Final budgeted use of free general reserves		2,514

- 3.4 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 6 October 2020; quarter two to EGH&ES Committee on 1 December 2020 and quarter three to EGH&ES Committee on 16 February 2021 (paragraph 12 of the Minute refers). The forecast at the end of quarter three was use of free general reserves of £1,998,000 after transfer of £2,640,000 estimated underspend on Children's Services to the ear-marked reserve for transformation of Council services. 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 2021/22. The final out-turn and main changes from the out-turns forecast at the end of December 2020 are summarised on a departmental basis in **APPENDIX 1**.
- 3.5 The principal variances from that forecast were additional funding from Scottish Government relating to the pandemic of £14,003,000 and services underspend £3,459,000 more than forecast. Significant amounts of the unforecast underspend relate to DSM budgets, with a total of £1,343,000 net underspends. Other smaller service underspends also relate to ring-fenced funding. The other single largest movement was in staff costs, within underspends from vacancies arising from the estimated £1,852,000 above the vacancy factor to £2,538,000, an increase of £686,000. Underspends totalling £161,000 arise from slippage in projects as itemised in paragraph 3.23. Council Tax income was £1,779,000 more than forecast. The forecast was based on cash receipts, the actual out-turn includes Council Tax for 2020/21 billed but not yet received.

Movement in use of free general reserves since final estimated actual	£000s	£000s
Predicted use of reserves		1,998
Additional Covid funding	14,003	
Other additional SG funding	154	
Further underspend in services	3,459	
Less increase in transfer to ear-marked reserves: DSM, PEF, ELC Transformation Covid related	(1,178) (324) (16,421)	
Increase in Loans charges	(10)	
Increase in Council Tax	1,779	
Movement in balance of provisions	536	
Total	1,998	
Actual use of free general reserves		Nil

3.6 When there is a significant difference between departmental out-turn and that forecast a review of budget variance is carried out to identify if there is scope for additional savings. In this instance no further savings have been identified. The review is summarised below.

3.7 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	(221)	2,538	
Income / recharges to capital and HRA	(5,177)	553	
Purchase of children's services / looked after children	-	2,451	
School DSM budgets	-	1,343	
Repairs and maintenance	(71)	927	
Energy costs	(14)	122	
Software licences	(53)	73	
Roads and Winter Maintenance	(1,715)	127	
PEF funding	-	802	
Other	(1,890)	3,970	
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Service underspend	(9,141)	12,906	3,765
Loans charges		2,445	
Balance on central provisions	(555)	2,173	
Balance of Covid related provisions	-	16,227	
Council Tax	(621)		
BRIS retention	-	1,859	
Government Grant	(440)		
Transfer to ear-marked reserves	(22,339)	-	
Total variance	(33,096)	35,610	2,514

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

- 3.9 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 2021/22 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	-	(221)	-	-
Income	3.10	(173)	(5,004)	-	-
Roads maintenance	3.11	-	(1,715)	-	-
Other		(325)	(1,703)	-	-
Total overspends		(498)	(8,643)	-	-
Underspends					
Staff / subcontractors	3.12	-	2,581	-	-
Income	3.13	48	505	-	-
Purchase / provision of care for children	3.14	600	1,851	744	-
Repairs and maintenance	3.15	-	927	-	-
Energy cost		-	122	-	-
PEF	3.16		802		
Other	3.17	132	3,995	-	-
Total underspends		780	10,783	-	-
Loan charges	3.18	-	2,445		
Balance on provisions	3.19	-	1,618		
Covid balance of provisions	3.19		16,227		
BRIS retention	3.20		1,859		
Government grant			(440)		
Transfer to ear-marked / capital reserves			(20,996)		
Council Tax		-	(621)		
Total net (over)/underspend		282	2,230	744	

- 3.10 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 £185,000. Financial services underachieved their vacancy target by £20,000 and the central supply budget was overspent by £16,000, 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.

- 3.11 The impact of the Covid-19 pandemic and lockdown measures have had significant impact on budgets during the first half of the year. All services are generating less income than budgeted, with a total shortfall of £5,177,000 for the year to date. This includes loss of leisure income, catering income, car parking income, planning and building control fees. Scottish Government provided funding of £1,191,000 for loss of income in 2020/21. There is a shortfall of income of £116,000 for Employment Services as the range of services and potential for income generation has changed over the years but the budget has not been adjusted. This service is currently managed with Social Care services but does not fall within the remit of Moray Integration Joint Board. Consideration is therefore being given to transferring some or part of this service into the Council's Economic Development function. It is recommended that the income budget is adjusted to reflect the current potential for income generation. The recurring shortfall also relates to historical issues. £100,000 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 against the currently approved capital plan and if necessary an emerging budget pressure reported as part of the financial planning process for 2022/23. £53,000 relates to a historical shortfall for legal recharges; £9,000 relates to shared accommodation historical shortfall and £11,000 relates to the corporate advertising income budget, all of these budgets are recommended to be reduced
- 3.12 Expenditure on roads maintenance exceeded budget by £1,715,000, £883,000 is due to winter maintenance, following the severe winter weather at the end of the year and £832,000 relates to loss of income due to staff and materials being unable to be recharged to Capital, due to Covid.
- 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 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 £4,200,000. The net underspend on staff and sub-contractors in 2020/21 was £2,360,000 above that provision. This is particularly high due to vacancies in pre-school provision as the service prepares for expanding the hours of early learning offered as well as being due to Covid following an effective recruitment freeze in the first lockdown. Allowing for that, and also that some savings arising from vacant posts were taken when the budget for 2021/22 was set, it is recommended to leave the provision at the same level for 2021/22 at the moment and to review the vacancy factor during 2021/22 when it is anticipated that spending patterns will be more normative, with a view to taking savings for 2022/23..

- 3.14 Income underspends arise from more income being received than budgeted for Waste, Harbours and Roads construction consent/traffic income as well as one-off income relating 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.
- 3.15 There is an underspend of £2,451,000 in the purchase/provision of care for young people. This consists of an underspend of £449,000 in fostering and adoption, £137,000 on Continuing Care and £1,865,000 relating to out of area placements. Savings of £744,000 were taken from Children's Services when the budget for 2021/22 was approved. Children's Services are currently being reviewed with a view to identifying whether further savings can be achieved and it is not recommended that any revision to budget is made at this time.
- 3.16 The budget for property repairs and maintenance was underspent by £927,000, split between corporate properties (£384,000), schools (£390,000), Grounds Maintenance (£92,000), burial grounds (£12,000), Urquhart Place (£27,000), war memorials (£22,000). This was partly due to slippage in planned repairs to corporate properties and schools and partly due to capitalisation of expenditure on Forres Community Centre roof repairs originally set against the revenue budget provision for repairs and maintenance but on review considered to be more appropriately treated as capital work. No further budget amendments are proposed.
- 3.17 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.
- 3.18 There is an overall underspend on other various budget headings. Within this is £21,000 relating to Council Tax penalty income/ Sheriff officer fees which have historically been underspent. It is proposed to take the underspend relating to Council Tax as a saving in 2021/22.
- 3.19 There is a one-off underspend on loans charges. This is due to borrowing at low rates of interest, partly as a result of the effect that the pandemic has had on the economy, and to slippage in the capital programme, again primarily due to the pandemic.
- 3.20 The balance on central provision which was underspent consists of £555,000 savings identified at the start of the year, which have not been achieved, this is principally the one-off VAT saving budget to be taken in 2020/21 but in fact recorded in 2019/20; £453,000 slippage on planned expenditure which has been delayed due to the impact of Covid (of which £360,000 relates to the Improvement and Modernisation Programme) both of which are carried forward into the budget for 2021/22. The planned expenditure is expected to be achieved in 2021/22. £17,512,000 additional funding received at the end of the year, primarily due to Covid, which will be carried forward into 2021/22 – the likely call on this funding is being scoped and will be reported in early course, current indications are that the repercussions of the pandemic will require significant use of this funding to compensate for the ongoing impact of

the pandemic; £573,000 balance of grant for the expansion of Early Learning and Childcare, which will be carried forward into 2021/22; budget pressures totalling £306,000 that were approved at the start of 2020/21 that were not required, and the provision for contingencies and inflation balance of £10,000 that was not required during the year. There is a recurring unachieved saving for the Multi-Functional Devices (MFD) finance lease of £30,000 relating to use by services charged to the HRA or delegated to MIJB and it is now recommended that this saving target is removed

3.21 The Business Rates Incentivisation Scheme (BRIS) sets targets over a three year period. 2020/21 was the second 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 2021/22.

3.22 In summary, the following budget adjustments are recommended:

	Budget increase £000s	Budget savings £000s	Net effect £000s
Income:			
Employment Services	160		
Shared accommodation/CSS	9		
Corporate advertising	11		
Legal recharges	53		
MFD finance lease savings unachieved as relate to HRA/MIJB	30		
CTax penalty income/ Sheriff officer fees		(21)	
Total	263	(21)	242

3.23 The proposed budget increase of £103,000 is slightly reduced by the proposed budget savings of £21,000, leaving a net budget increase required of £242,000.

3.24 Recruitment of staff to implement the Council's Rapid Rehousing Transition Plan (RRTP) has been delayed. The Council had funding of £97,000 for RRTP in the local government settlement for 2020/21 and it is proposed that the underspend on £97,000 is carried forward as budget in 2021/22 funded from free general reserve. The Council underspent by £11,000 on Community Planning in 2020/21. This budget is match-funding with Community Planning Partners (chiefly Police Scotland) and it is recommended that this is carried forward as budget in 2021/22 funded from free general reserves. The second lockdown caused slippage in some of the agreed measures to assist economic recovery and it is recommended that budget of £11,000 for pop-up shops and £19,000 for the Local Growth Accelerator Programme are carried forward as budget in 2021/22 funded from free general reserves. The underspend of £23,000 on Moray Growth Deal is also requested to be carried forward as additional expenditure on professional fees to assist with revision of Outline Business Cases for submission to Scottish and UK Governments will be incurred in 2021/22.

	£000s
R RTP	97
Community Planning	11
Economic Development	53
Total	161

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. The impact of the pandemic is still being assessed and the likelihood is that there is significant underlying need to call upon the ear-marked covid reserve to cushion this impact.

(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) 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 2021 was an improvement on the position forecast when the budget for 2021/22 was set. This report identifies major areas of variance between estimated actual and actual for 2020/21.**

- 5.2 The report also considers variances against budget with a view to identifying trends in expenditure and recommends an increase to the net budget of £242,000 to reduce ongoing variances in 2021/22.**
- 5.3 Slippage of £161,000 in projects planned for 2020/21 is recommended to be carried forward to 2021/22, funded from free general reserves.**
- 5.4 Significant levels of funding for covid related expenditure is carried forward in an ear-marked reserve – the likely level of call on this is being scoped and will be reported in early course. It is anticipated that there is significant underlying requirement for use of this funding.**

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Background Papers:
Ref: LP/LJC/

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