

HIGHLAND COUNCIL

Agenda Item	4
Report No	ECI/25/20

Committee: **Economy and Infrastructure**

Date: **4 November 2020**

Report Title: **Revenue Monitoring to 30 September 2020**

Report By: **Executive Chief Officer - Infrastructure and Environment**

1. Purpose/Executive Summary

- 1.1 This report comments on the Quarter 2 Revenue monitoring position for the period to 30 September 2020.
- 1.2 The report covers the Infrastructure, Environment and Economy Budgets, and comments on the main budget variances for which these Services have direct responsibility.
- 1.3 The budget monitoring report contains information on income and expenditure, showing both gross and net budgets. Annual gross income totals £139.409m and annual budgeted expenditure totals £166.179m, providing a net annual budget of £26.770m. There has been a net decrease in the budget of £1.722m from that reported at 30 June 2020 of £28.492m to £26.770m. The budget was decreased due to the funding received for Crown Estates of £1.742m and minor adjustments to Roads, Economy & Regeneration and Project Design Unit budget of £0.020m.
- 1.4 At the end of quarter 2, 2020/21, income of £100.303m was generated and £112.356m was spent, providing a net spend on services totaling £12.053m. COVID Business Grants payments totaling £74.834m have been paid through this Service, and to reflect the payments are fully funded by Scottish Government grant, both other expenditure and grant income budgets have been increased by £75m.
- 1.5 At the end of quarter 2, a budget gap of £11.847m is forecast, largely due to lost income. This position may change depending on progress made with income recovery and ongoing expenditure controls.
- 1.6 A number of refinements to the budget reporting are still to be made for the new service budget. Any changes will be reported in future monitoring reports. New opportunities for savings and income potential are also being explored.

2. Recommendations

- 2.1 Members are asked to note:-

- i. the more detailed reporting of gross income and gross expenditure to improve scrutiny of net budgets as set out in the Appendices;
- ii. the Revenue Monitoring position for the period to 30 September 2020;
- iii. net spend at the end of quarter 2, totaled £12.053m;
- iv. based on the best available information to date, a service budget gap of £11.847m is forecast to end 2020/21;
- v. many areas of the Service rely on income to pay for services and this was significantly disrupted this year because of covid impacts. A loss of income is the key driver of the Service's budget gap;
- vi. the budget gap may change positively or negatively depending on: applying expenditure and recruitment controls, aligning services to meet budget savings agreed; income recovery in 2020/21; and
- vii. further adjustments will be made in future quarterly reporting to reflect the updated apportionment of costs and savings across the new structure.

3. Implications

- 3.1 Resource - Resource implications are discussed in the report.
- 3.2 Risk - Risk implications to the budget position, and budget assumptions, will be kept under regular review and any risks identified reported to future Committees.
- 3.3 Community (Equality, Poverty and Rural), Climate change/ Carbon Clever, Legal, and Gaelic - There are no implications arising as a direct result of this report.

4. Infrastructure, Environment and Economy Revenue Budget 2020/21

- 4.1 **Appendix 1** is the monitoring statement showing actual expenditure and the estimated year-end outturn against the budget at 30 September 2020. The Service is showing an outturn of £38.617m against a net annual budget of £26.770m, representing an overspend of £11.847m. The majority of this overspend relates to Covid related income shortfalls in planning fees and building warrant income, car parking income, harbour and ferry income, investment property income, roads consents income, and the pressures on the school transport budget due to contractual issues and additional back-to-school costs as a result of COVID.
- 4.2 **Appendix 2** provides more information on the net budget by showing the service areas in more detail along with the gross income and gross expenditure positions. The main issues and variances are explained at section 5 of this report.
- 4.3 From the 1 April 2020, the Service has taken steps to achieve the 2020/21 savings through vacant posts and spending controls, however due to COVID this year has become very uncertain and pressures have arisen as a result that were not foreseen. The Service remains focused on minimizing expenditure through vacancy controls and by minimizing discretionary expenditure where possible in order to help with the pressures from COVID and also to achieve the budget savings allocated where possible.

5. Main Issues and Variances

- 5.1 The Directorate Section includes all of the Service's unallocated efficiency savings from previous years which are yet to be allocated permanently to other budget headings in the Service.

- 5.2 Investment Properties forecasts a reduction in income of £0.534m, due to the impact of COVID- 19 as many retail units and other tenants have not paid rent during the lockdown period. Staff are working with tenants to agree repayment plans some backlog rent may not be paid until next financial year.
- 5.3 Economy and Regeneration forecasts an underspend of £0.167m mainly due to staff vacancies and restricted activity during the lockdown period.
- 5.4 Housing Development and Private Sector Housing Grant forecasts an underspend of £0.115m, due to staff vacancies and restricted construction and PSHG activity during the lockdown period.
- 5.5 Planning and Environment forecast an underspend of £0.324m, due to acting up arrangements, staff vacancies and the current restrictions on expenditure. The underspend assumes continued implementation of the above restrictions.
- 5.6 Planning and building warrant fee income
- 5.6.1 Planning and building warrant fee income is below target for the period to 30 September 2020 due to a reduction in the number of applications received. Therefore, the year-end estimate shows a shortfall of £1.764m, based on the number and scale of applications continuing at present rates. However, the year-end estimate will be revised at Q3 to reflect any improvement in number of applications received.
- 5.6.2 Planning Fees: Q2 has seen a 28% reduction (£0.429m) against a target of (£1.522m) in fees. Planning has seen a slight improvement in fees from Q1 and with the prospect of a number of new renewables applications, based on discussion with the industry over the financial year there is scope to recoup some of the loss of income and close the gap. It is too soon to anticipate how the sector will recover but will review on a quarterly basis. Currently forecasting an overall reduction of 29% against planning fees to the end of the financial year.
- 5.6.3 Building Warrant Fees: Q2 has seen a 28% reduction (£0.413m), against a target of (£1.492m) in fees. Currently we do not anticipate recouping this loss in income but will review on a quarterly basis. It is too soon to anticipate how the construction sector will recover. Currently forecasting an overall reduction of 29% against building warrant fees to the end of the financial year.
- 5.7 Project Design Unit forecasts an under recovery of income of £0.109m. Income to the PDU is dependent on both permanent and agency staff (who are used for site supervision to level out peaks in workload) and vacancies exist and during the pandemic no agency staff have been retained. Analysis of income to date and projected income levels based on existing staffing levels show an under recovery on the budgeted income.
- 5.8 Energy and Sustainability previously reported an underspend due to increased income. To be prudent income is shown in line with the previous year, resulting in a slight overspend.
- 5.9 Roads Maintenance: Only essential construction work could be undertaken as a result of COVID-19 in Q1. The restrictions significantly impacted on the cyclical maintenance and surface dressing operations that would normally be undertaken. In addition, less capital works have been carried out than anticipated over the summer months which has resulted in a loss of productivity in the roads trading account in Q1 and Q2.

- 5.10 Engineering Services: Due to the lack of construction activity in Q1, there has been a reduction in Road Construction Consent fees, but the year-end position has improved from that shown in Q1. This will continue to be closely monitored.
- 5.11 Lighting services: This is also the case for savings on Energy Costs. Following the continuation of Capital LED works, there continues to be a saving on Energy Costs.
- 5.12 School Transport: An overspend in School Transport is predicted due to the impact of Contract Price increases, Social Distancing requirements and back-to-school reopening costs, all due to COVID-19.
- 5.13 Car Parks: There is an Income shortfall arising from the impact of COVID-19 Lockdown and travel restrictions, but the year- end position improved from that shown in Q1, due to increased parking income over the summer months.
- 5.14 Harbours and Ferries: There is an income shortfall for Harbour dues arising from the impact of COVID-19 Lock-down and continued uncertainty over the impact of BREXIT. There has been an improvement in fares income from the Corran Ferry in Q2, due to the relaxation of travel restrictions and increased visitor numbers over the summer months.

6. Mitigation

- 6.1 As reported to the Corporate Resources Committee in August 2020, the impact of covid on the Council's budget and operations and the actions being taken to mitigate it are still very much emergent. Certain aspects of the response are still to be determined and the figures reported here reflect the best information we have at the time of writing this report.
- 6.2 Mitigation includes:
- reducing expenditure across all possible areas;
 - compliance with recruitment controls;
 - reviewing budget savings potential; and
 - meeting budget savings agreed.

Designation: Executive Chief Officer Infrastructure and Environment

Date: 14 October 2020

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Background Papers: Monitoring Statement 30/09/2020

Appendix 1

INFRASTRUCTURE & ENVIRONMENT AND ECONOMY BUDGETS 2020/21 - SEPTEMBER MONITORING

	£'000 Annual Budget	£'000 Actual YTD	£'000 Year End Estimate	£'000 Year End Variance
BY ACTIVITY				
Directorate	(1,781)	(1,362)	(964)	817
Economic Development	(1,213)	1,415	(839)	374
Housing Development	1,589	722	1,474	(115)
Planning, Environment & Building Standards	65	639	1,505	1,440
Infrastructure	(816)	(197)	(707)	109
Energy & Sustainability	(1,638)	(181)	(1,614)	24
Roads & Transport	34,132	12,168	41,408	7,276
Trading Operations	(3,568)	(1,151)	(1,646)	1,922
TOTAL	26,770	12,053	38,617	11,847
BY SUBJECTIVE				
Staff Costs	39,533	16,839	37,291	(2,242)
Other Expenditure	126,646	95,517	128,394	1,748
Gross Expenditure	166,179	112,356	165,685	(494)
Grant Income	(80,747)	(78,428)	(81,460)	(713)
Other Income	(58,662)	(21,875)	(45,608)	13,054
Total Income	(139,409)	(100,303)	(127,068)	12,341
NET TOTAL	26,770	12,053	38,617	11,847

INFRASTRUCTURE & ENVIRONMENT AND ECONOMY SERVICES BUDGET 2020/21 - SEPTEMBER MONITORING

	GROSS EXPENDITURE				GROSS INCOME				NET TOTAL			
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
	Annual Budget	Actual YTD	Year End Estimate	Year End Variance	Annual Budget	Actual YTD	Year End Estimate	Year End Variance	Annual Budget	Actual YTD	Year End Estimate	Year End Variance
BY ACTIVITY												
Directorate												
Director & Business Team	78	398	806	728	(1,859)	(1,760)	(1,770)	89	(1,781)	(1,362)	(964)	817
Economic Development												
Investment Properties	742	372	759	17	(3,881)	(1,417)	(3,364)	517	(3,139)	(1,045)	(2,605)	534
Economy & Regeneration	1,594	817	1,475	(119)	(188)	(960)	(236)	(48)	1,406	(143)	1,239	(167)
Business Development & Employability	1,447	597	1,395	(52)	(1,022)	1,987	(947)	75	425	2,584	448	23
Projects E & E	493	1,477	496	3	(398)	(1,582)	(417)	(19)	95	(105)	79	(16)
COVID Grants	75,000	74,834	74,834	(166)	(75,000)	(74,710)	(74,834)	166	0	124	0	0
Housing Development												
Housing Development & PSHG	2,484	1,307	2,369	(115)	(895)	(585)	(895)	0	1,589	722	1,474	(115)
Planning, Environment & Building Standards												
Management	(133)	61	129	262	0	0	0	0	(133)	61	129	262
Building Standards	1,623	749	1,507	(116)	(14)	0	0	14	1,609	749	1,507	(102)
Development Plans	745	304	617	(128)	(1)	0	(3)	(2)	744	304	614	(130)
Area Planning	2,212	1,055	2,141	(71)	0	0	(2)	(2)	2,212	1,055	2,139	(73)
Planning Appeals & Inquiries	50	41	51	1	0	(1)	(1)	(1)	50	40	50	0
Transport Planning	775	330	646	(129)	(296)	(74)	(152)	144	479	256	494	15
Environment	1,406	486	1,090	(316)	(165)	(74)	(145)	20	1,241	412	945	(296)
Projects P&BS	0	0	0	0	0	0	0	0	0	0	0	0
Planning Fee Income	0	101	123	123	(3,045)	(1,194)	(2,265)	780	(3,045)	(1,093)	(2,142)	903
Planning Fees Advertising	70	17	72	2	(178)	(83)	(180)	(2)	(108)	(66)	(108)	0
Building Warrant Fee Income	0	23	22	22	(2,984)	(1,102)	(2,145)	839	(2,984)	(1,079)	(2,123)	861
Infrastructure												
Project Design Unit	6,166	2,184	4,553	(1,613)	(7,009)	(2,397)	(5,291)	1,718	(843)	(213)	(738)	105
Flood Risk Assessment	31	16	31	0	(4)	0	0	4	27	16	31	4
Energy & Sustainability												
Energy & Sustainability	468	1,042	1,582	1,114	(2,106)	(1,223)	(3,196)	(1,090)	(1,638)	(181)	(1,614)	24
Roads & Transport												
Winter Maintenance	5,040	340	5,040	0	0	0	0	0	5,040	340	5,040	0
Roads Maintenance	23,998	8,980	22,685	(1,313)	(16,571)	(5,225)	(14,039)	2,532	7,427	3,755	8,646	1,219
Engineering Services	2,731	1,343	2,833	102	(516)	(203)	(298)	218	2,215	1,140	2,535	320
Flood Alleviation	30	7	40	10	0	0	0	0	30	7	40	10
Lighting Services	6,701	2,204	6,076	(625)	(3,261)	(2,190)	(2,985)	276	3,440	14	3,091	(349)
Integrated Transport Services	1,062	444	1,034	(28)	(83)	(86)	(89)	(6)	979	358	945	(34)

GROSS EXPENDITURE			
£'000	£'000	£'000	£'000
Annual Budget	Actual YTD	Year End Estimate	Year End Variance

GROSS INCOME			
£'000	£'000	£'000	£'000
Annual Budget	Actual YTD	Year End Estimate	Year End Variance

NET TOTAL			
£'000	£'000	£'000	£'000
Annual Budget	Actual YTD	Year End Estimate	Year End Variance

BY ACTIVITY
Subsidies & Concessionary Fares
School Transport
Car Parks
Trading Operations
Harbours & Ferries
TOTAL

7,589	3,189	7,589	0
9,461	3,451	13,380	3,919
1,371	429	1,174	(197)
12,945	5,758	11,136	(1,809)
166,179	112,356	165,685	(494)

0	0	0	0
(51)	(5)	(27)	24
(3,369)	(510)	(1,005)	2,364
(16,513)	(6,909)	(12,782)	3,731
(139,409)	(100,303)	(127,068)	12,341

7,589	3,189	7,589	0
9,410	3,446	13,353	3,943
(1,998)	(81)	169	2,167
(3,568)	(1,151)	(1,646)	1,922
26,770	12,053	38,617	11,847