

Agenda Item	10.
Report No	CP/11/20

THE HIGHLAND COUNCIL

Committee: **Communities and Place Committee**

Date: **19th August 2020**

Report Title: **Communities and Place Revenue Monitoring Report to 30th June 2020**

Report By: **ECO Communities and Place**

1. Purpose/Executive Summary

- 1.1 This report provides a summary of the actual spend in the first quarter of financial year 2020/21 together with a forecast year end outturn position.
- 1.2 This is the first revenue report for the new Communities and Place Service. Because the service generates significant income externally and internally (through re-charges to other Council services) the budget monitoring report contains information on income and expenditure, showing both gross and net budgets. Annual gross income totals £52.285m and annual budgeted expenditure totals £85.464m, providing a net annual budget of £33.179m.
- 1.3 At the end of quarter 1 2020/21, income of £7.187m was generated and £16.576m was spent, providing a net spend on services totalling £9.389m.
- 1.4 As reported corporately to Corporate Resources Committee and Council meetings Covid 19 has created budget pressures, particularly in relation to additional covid project costs, inability to plan for and deliver all service savings agreed and significant disruption to service income. Income streams from waste collected, environmental health services, public conveniences and grounds maintenance services have all be adversely affected.
- 1.5 At the end of quarter 1, a budget gap of £4.84m is forecast, largely due to lost income. This position may change depending on progress made with income recovery, ongoing expenditure controls, and any additional Government funding that may become available. New pressures may also arise. In quarter 2 we expect to report on additional waste costs incurred from supporting tourism, a higher number of visitors 'staycationing' and wild camping.
- 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.

- 1.7 Capital monitoring will be reported for the service from quarter 2 and after the Council has confirmed the capital programme for the service for 2020/21.

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. net spend at the end of quarter 1 totalled £9.389m;
- iii. based on the best available information to date, a service budget gap of £4.84m is forecast to end 2020/21;
- iv. almost every area of service relies in income to pay for services and this is significantly disrupted this year because of covid impacts. A loss of income is the key driver of the service's budget gap;
- v. the budget gap may change positively or negatively depending on: the application of expenditure and recruitment controls, adjusting services to meet budget savings agreed; in-year income recovery, identifying new income and procurement opportunities, drawing down any further Government grant support and any new recovery costs emerging; and
- vi. further adjustments will be made in future quarterly reporting to reflect the updated apportionment of costs and savings across the new ECO structure, improved monthly profiling of income and expenditure and any other resourcing issues emerging including Brexit impacts.

3. Implications

3.1 Resource implications

This report highlights the quarter 1 revenue position and the forecast budget gap for 2020/21. Covid impacts are still emerging and will be tracked and reported in future monitoring.

3.2 Legal implications

The service budget supports delivery of a range of statutory services. Income generation is permitted and an integral part of the service budget, covering £52.285m of expenditure. Covid projects run in the service are part of the legal response required during a pandemic and they have resource implications.

3.3 Community implications (Equality, Poverty, Rural and Island)

Services have been adjusted during the covid response and covid projects have delivered new support to communities. Some communities have been impacted more than others and resourcing for humanitarian assistance will take this into account going forward.

3.4 Climate Change implications

Quarter 1 staff travel has reduced but some fleet costs have increased as a result of covid projects. Overall business miles will have reduced and this will mean fewer carbon emissions. This will be reported corporately.

3.5 Risk implications

The Communities and Place service budget relies on over £52m of income to pay for service running costs. Service income applies to nearly every service area. This brings considerable risk to achieving a balanced budget, especially when most income generating services are demand-led. Covid disruption to date has brought additional cost, lost income and lost savings achievement and these are not mitigated by reduced expenditure at quarter 1. Consequently, there is a risk to sustaining service delivery at

current levels and risks of not sustaining service delivery. There is risk that further pressures will emerge either from local outbreaks of covid, further recovery from covid or other external factors including Brexit.

3.6 Gaelic implications

There are no Gaelic implications arising from this report.

4. **Background and Quarter 1 service position**

4.1 In moving from 4 Directorates to 8 Executive Chief Officer (ECO) remits a new combination of services is brought together for the Communities and Place Service. Members attended a workshop about the service responsibilities on 26th February 2020 to help with agenda planning, to identify topics for Member briefings and to identify any service areas for further scrutiny. This presentation of the revenue budget monitoring aims to improve the financial detail provided to Members by:

- reporting actual and forecast income as well as expenditure, so reporting gross as well as net budgets; and
- providing more detail in the description of the service areas within the budget.

4.2 As noted in the corporate revenue monitoring report for quarter 1 for Corporate Resources Committee, the exercise to realign all budgets to the new ECO structure would be challenging in the best of times and some realignment to the budget allocations across services is likely to be required over the remainder of the year to ensure that budgets exactly match the areas of responsibility of each Executive Chief Officer. Further adjustments are likely to be reported in future monitoring reports.

4.2 Appendix 1 shows the total annual net budget of £33.179m, the net budget by service activity, the actual net spend in quarter 1 and the forecast net spend to the year end. The waste budget accounts for the largest area of net expenditure. Staff costs comprise 53% of the net budget and the service is reliant on over £52m of income from external and internal sources.

4.3 By end June 2020, net spend totalled £9.389m. This is over profile and an over-spend of £4.84m is forecast by the end of March 2021. Various assumptions are made in this forecast as described in section 5 below. Work is underway to mitigate this overspend, although at this time the extent of the budget gap cannot be closed.

4.4 Appendix 2 provides more information on the net budget by showing the different service areas in more detail along with the gross income and gross expenditure positions.

4.5 That shows income applies to nearly every service area. This brings considerable risk to achieving a balanced budget, especially when £52.285m of income is required to pay for service running costs and most income generating services are demand-led.

4.6 Appendix 2 shows the greatest expenditure is found in the range of waste management services, and notably for waste disposal and recycling centres in the net budget. Kerbside waste collection services are normally almost entirely paid for by income generated and more than half of the street cleaning budget is paid from income generated.

4.7 A Member workshop is arranged in advance of the Committee meeting on waste management services. This should help explain the complex environment waste services operate in, affected by market changes, significant legal and compliance requirements, budget arrangements involving significant income, high costs of contracted services and re-procurement required. The Council also has a Waste

Strategy Working Group considering these matters and how the Council can comply with the landfill ban which will come into force in 2025. In 2020/21 the Council expects to pay landfill tax of around £7.8m (£4.3m directly and £3.5m indirectly through waste disposal contracts). A report on waste projects underway and the minutes of the most recent Waste Strategy Working Group minutes are reported separately to this meeting of the Committee.

- 4.8 Public health and bereavement services are all reliant on income to some extent. Any surplus on bereavement services, burials and cremations is required to contribute to capital costs associated with the service. A report updating members on bereavement services and the approach to burial ground extensions is presented separately to this Committee meeting. That highlights there are 33 burial grounds with estimated capacity of less than 6 years. There may be resourcing implications arising from the Competition and Markets Authority (CMA) investigation into funeral services and implications will be assessed and reported to Members when known. Given the timing of the final direction due in March 2021, any budget implications would be from 2021/22 onwards.
- 4.9 The grounds maintenance and play areas services are expected to generate 70% of the gross budget in income. Services are provided to areas of council housing and funded from the Housing Revenue account (HRA), and to other organisations including Highlife Highland.
- 4.10 The community support, contact and engagement services cover the ward management function, the policy team and a range of our customer services. Income streams relate mainly to wedding ceremonies.
- 4.11 The stores and logistics functions are provided for all Council operations and led in the service. Most costs are recovered from other service budgets and these are considerable at over £13m.
- 4.12 Leadership and administration costs are still be correctly apportioned across the 8 ECO areas and they relate mainly to staff costs. The data reported is expected to change in future monitoring reports.
- 4.13 Appendix 2 shows that at the end of quarter 1 gross spend was £16.576m, gross income was £7.187m and the net spend totalled £9.389m. Forecast net spend shows a budget gap of £4.84m. This is described more fully below.
- 4.14 Appendix 2 shows that if service expenditure was proportionately spread across each quarter, expenditure at the end of quarter 1 is under profile by £4.79m. However, using the same comparison for income, by the end of quarter 1 it is also under profile by £5.884m. Further work is required to profile income and expenditure more accurately to enable greater assurance in forecasting out-turns.

5. Service budget variances

- 5.1 Corporate reporting on the Council's revenue budget overall highlights 5 areas contributing to the budget gap. These are:
- Covid mobilisation costs- principally the costs of the initial response activity;
 - lost income- budgeted income from fees, charges and recharges not expected to be delivered;
 - challenges in delivering approved savings- planned savings activity not expected to be delivered due to Covid 19;
 - recovery costs- additional costs associated with the return to 'normal' activity over the remainder of the financial year; and

- reduced costs – costs saved in specific areas as a result of lockdown.

5.2 Each of these areas contributes to the budget gap in the Communities and Place Service. Initial mobilisation costs in responding to covid are found in additional deaths planning, fleet costs and other costs associated with humanitarian assistance. Food fund support was provided to assist with humanitarian assistance and as reported to Council in July 2020 a new offer of Government grant for humanitarian assistance was made in July with grant claims to be submitted in quarter 2. If this funding is awarded this will help to alleviate some of the gap.

5.3 Lost income is a significant issue for the Communities and Place service. Covid disruption meant commercial waste customers reduced as businesses closed, weddings were cancelled or postponed, public convenience charges were suspended, a range of income generating environmental health services were suspended and the grounds maintenance service was significantly reduced and remains reduced. The extent of the disruption is reported separately in the service's covid response report to this meeting of the Committee.

5.4 The service is not expecting to deliver all savings agreed by the Council in budget-setting meetings. Savings associated with service redesign are particularly challenging when they require longer lead in time and staff consultation. The need to focus on the service response to covid has taken all the management time available. Some savings can still be delivered. The savings agreed at Council in March 2020 require to be apportioned across the 8 ECO areas. Progress with Communities and Place service savings can be reported in quarter 2 monitoring.

5.5 Additional recovery costs are still being identified and more may arise. They include:

- additional costs associated with providing an enhanced waste and litter service from July because of additional visitors 'staycationing' and wild camping in the region this year;
- redesigning humanitarian assistance as community support co-ordination, as agreed at Council in July 2020; and
- any costs arising from the Test and Protect programme.

5.6 Some costs have reduced in quarter 1 during our covid response. This includes reduced contract costs for waste, staff costs associated with over time and seasonal employment, and some plant costs. However, some of these costs may be deferred into quarter 2 onwards, for example as household waste recycling centre use increases. The reduction in expenditure however, is offset by the considerable underachievement of income in quarter 1. It is not yet clear how much of this income can be recovered in year.

6. Mitigation and resourcing developments

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 Current mitigation includes:

- reducing expenditure across all possible areas;
- compliance with recruitment controls;
- reviewing budget savings potential and retaining some adjusted levels of service in waste and grounds maintenance to meet budget savings agreed;
- beginning work on monthly profiling initially of income, based on historic patterns;

- income recovery in 2020/21;
- identifying new income generating proposals and processes (e.g. extending the garden waste collection scheme where capacity exists);
- reviewing procurement processes and contracts in the service and contract spend corporately on grounds maintenance and waste skip services to explore if in-sourcing provides better value; and
- claiming all available and relevant Government grants and bidding for further support where possible.

6.3 Further developments underway to report in future quarterly monitoring include:

- claiming Government grant to support humanitarian assistance and community support coordination;
- identifying Brexit implications, particularly in relation to Export Health Certificates; and
- how the service can support disaggregated budgets further to Area Committees.

Date: 10.8 20

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COMMUNITIES AND PEOPLE / PLACE SERVICES BUDGET 2020/21 - JUNE MONITORING

	£'000 Annual Budget	£'000 Actual YTD	£'000 Year End Estimate	£'000 Year End Variance
BY ACTIVITY				
Waste Management Services	24,981	3,527	27,273	2,292
Public Health & Bereavement Services	2,237	734	2,937	700
Community Spaces	2,288	802	2,970	682
Community Support, Contact & Engagement	2,260	1,278	2,478	218
Stores & Logistics	532	2,904	1,380	848
Administration & Leadership	881	144	981	100
TOTAL	33,179	9,389	38,019	4,840
BY SUBJECTIVE				
Staff Costs	45,699	9,762	43,739	(1,960)
Other Expenditure	39,764	6,814	41,413	1,649
Gross Expenditure	85,463	16,576	85,152	(311)
Grant Income	(248)	50	(284)	(36)
Other Income	(52,036)	(7,237)	(46,849)	5,187
Total Income	(52,284)	(7,187)	(47,133)	5,151
NET TOTAL	33,179	9,389	38,019	4,840

COMMUNITIES AND PLACE SERVICES BUDGET 2020/21 - JUNE MONITORING

Appendix 2

	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												
Waste Management Services												
Kerbside Refuse Collections	11,775	2,366	11,816	41	(11,814)	(1,992)	(9,527)	2,287	(39)	374	2,289	2,328
Waste Disposal (Transfer, Haulage & Landfill)	16,664	1,980	16,227	(437)	(2,979)	(533)	(2,591)	388	13,685	1,447	13,636	(49)
Recycling Centres, Transfer & Treatment	17,719	3,088	17,735	16	(8,456)	(1,617)	(8,302)	154	9,263	1,471	9,433	170
Street Cleaning	4,957	792	4,947	(10)	(2,885)	(557)	(3,032)	(147)	2,072	235	1,915	(157)
Public Health and Bereavement Services												
Environmental Health & Regulation	3,098	735	3,132	34	(804)	(57)	(609)	195	2,294	678	2,523	229
Bereavement Services, Burials & Cremations	4,695	1,090	4,711	16	(5,728)	(1,222)	(5,325)	403	(1,033)	(132)	(614)	419
Public Conveniences	1,178	191	1,090	(88)	(202)	(3)	(62)	140	976	188	1,028	52
Community Spaces												
Grounds Maintenance & Play Areas	7,666	1,474	7,447	(219)	(5,378)	(672)	(4,477)	901	2,288	802	2,970	682
Community Support, Contact and Engagement												
Ward & City Management	627	254	605	(22)	0	(21)	(18)	(18)	627	233	587	(40)
Ward Discretionary Grant	336	129	336	0	0	0	0	0	336	129	336	0
Policy & Community Support Co-ordination	372	136	330	(42)	12	273	(18)	(30)	384	409	312	(72)
Customer Contact (Service Points, Service Centre & Registrars)	1,530	550	1,442	(88)	(617)	(43)	(199)	418	913	507	1,243	330
Stores and Logistics												
Fleet & Plant	12,042	3,173	12,647	605	(12,095)	(490)	(11,958)	137	(53)	2,683	689	742
Stores	1,329	266	1,337	8	(882)	(75)	(757)	125	447	191	580	133
Travel Desk	138	30	111	(27)	0	0	0	0	138	30	111	(27)
Administration												
Service leadership and administration	1,338	322	1,258	(80)	(457)	(178)	(277)	180	881	144	981	100
TOTAL	85,464	16,576	85,171	(293)	(52,285)	(7,187)	(47,152)	5,133	33,179	9,389	38,019	4,840