

Agenda Item	4
Report No	ECI/1/21

HIGHLAND COUNCIL

Committee: Economy and Infrastructure

Date: 4 February 2020

Report Title: Revenue Monitoring to 31 December 2020

Report By: Executive Chief Officer - Infrastructure and Environment

1. Purpose/Executive Summary

- 1.1 This report comments on the Quarter 3 Revenue monitoring position for the period to 31 December 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 £139.558m and annual budgeted expenditure totals £168.934m, providing a net annual budget of £29.376m. There has been a net increase in the budget of £2.606m from that reported at 30 September 2020 of £26.770m to £29.376m. The budget was increased due to the RHI budget of £1.481m transferring to Property & Housing, additional road maintenance budget of £1.000m and minor adjustments to Economic Development, Environment and Roads budgets of £0.125m
- 1.4 At the end of quarter 3, 2020/21, income of £114.024m was generated and £136.740m was spent, providing a net spend on services totaling £22.716m. COVID-19 Business Grants payments totaling £76.605m 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 £76.630m.
- 1.5 At the end of quarter 3, a budget gap of £8.941m 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 31 December 2020;
- iii. net spend at the end of quarter 3, totaled £22.716m;
- iv. based on the best available information to date, a service budget gap of £8.941m 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-19 impacts and the impact of BREXIT in particular to harbours income. 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 - The COVID-19 pandemic has severely impacted the Service's budget, largely through a loss of key income streams, and the latest restrictions will further influence the year end position. In addition the impact of Brexit is being felt with the current loss of income at Harbours. Whilst the vaccination process will lead to a better outlook for the coming financial year, there are likely to be significant issues continuing into the next financial year for the Service in restoring the previously achieved income levels.
- 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 31 December. The Service is showing an outturn of £38.317m against a net annual budget of £29.376m, representing an overspend of £8.941m. The majority of this overspend relates to COVID-19 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 public and school transport budgets due to contractual issues, additional back-to-school costs as a result of COVID-19 and the impact of BREXIT in relation to harbours income.
- 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-19 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-19 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. There is still to be a reconciliation of some of this pressure to the Property and Housing Service, given the new structure.
- 5.2 Investment Properties forecasts a reduction in income of £0.430m, due to the impact of COVID-19 as many retail units and other tenants have not paid rent during the lockdown period. This may increase due to the impact of the second lockdown and it is being monitored. 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 £0.178m mainly due to staff vacancies and restricted activity during the lockdown period.
- 5.4 Business Development and Employability forecasts an underspend of £0.068m due to staff vacancies and restricted activity during the lockdown period.
- 5.5 Housing Development and Private Sector Housing Grant forecasts an underspend of £0.075m, due to staff vacancies and restricted construction and PSHG activity during the lockdown period.
- 5.6 Planning and Environment forecast an underspend of £0.128m, due to acting up arrangements, staff vacancies, and the current restrictions on expenditure. The underspend assumes continued implementation of the above restrictions. The underspend has reduced from Q2 by £0.196m due to cost related to dangerous buildings and planning appeals.
- 5.7 **Planning and building warrant fee income**
 - 5.7.1 Planning and building warrant fee income is below target for the period to 31 December 2020 due to a reduction in the number of applications received. Therefore, the year-end estimate shows a shortfall of £1.686m, based on the number and scale of applications continuing at present rates. Currently forecasting an overall reduction of 28% against planning and building warrant fees to the end of the financial year. However, the year-end estimate will be kept under review in light of ongoing and likely further COVID-19 restrictions.
 - 5.7.2 Planning Fees: Planning has seen a slight improvement in fees from Q2. We are still anticipating a number of new renewables applications coming forward in Q4 which may reduce the target income gap. Currently forecasting an overall reduction of 27% against planning fees to the end of the financial year.
 - 5.7.3 Building Warrant Fees: Building Standards do not anticipate recouping this loss in income due to the continued restrictions, but we will review on a monthly basis. Currently forecasting an overall reduction of 29% against building warrant fees to the end of the financial year.

- 5.8 **Project Design Unit (PDU):** the PDU forecasts an under recovery of income of £0.093m. 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. Efforts have been made to recruit to Engineer posts that will help with efforts to increase efficiency and income target achievement.
- 5.9 **Energy and Sustainability:** £0.035m over achievement of income is due to the transfer of the RHI budget to Property & Housing service.
- 5.10 **Winter Maintenance:** An enhance gritting service for pavements and access to Vaccination centres has been agreed to help minimise the risks of trips and falls and consequential demands on the NHS. It is hoped that some of these additional costs can be set against the Council's COVID-19 costs, however the impact of this on the winter maintenance budget will be closely monitored.
- 5.11 **Roads Maintenance:** Forecasts an overspend of £0.687m. 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. Unfortunately, due to the new lockdown restrictions and the focus on Winter Maintenance in Q4, the ability of the service to catch up on these operations has significantly reduced.
- 5.12 **Engineering Services:** Forecasts an overspend of £0.204m. Due to the lack of construction activity in Q1 arising from COVID restrictions, there has been a reduction in income for Road Construction Consent fees. This budget is likely to be impacted further following a recommendation to revise fee levels which is the subject of a later report to this Committee. This will continue to be closely monitored.
- 5.13 **Lighting services:** Forecasts an underspend of £0.224m. Following the continuation of Capital LED works, there continues to be a saving on Energy Costs. The reduction in the overspend from Q2 is due to resources being used on revenue activities rather than capital LED works. However, the year-end estimate will be kept under review in light of possible further restrictions being introduced on construction activity in Q4.
- 5.14 **Subsidises and concessionary fares:** An overspend of £0.310m is predicted. This is due to the impact of contract price increases as with School Transport, and to having to provide separate public and school buses on some routes, both due to COVID-19. These increases have been offset to some extent by reduced concessionary fare reimbursement payments due to fewer people travelling during the pandemic.
- 5.15 **School Transport:** An overspend of £1.898m 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. This was the subject of a report to Council last month. Previous predictions were based on the potential cost of securing as many buses as possible if social distancing was to be required between pupils in school transport. The current prediction is based on actual costs since the return to school in August.
- 5.16 **Car Parks:** There is an Income shortfall predicted of £1.610m. £900K of this shortfall is the result of reduced parking income arising from the impact of COVID-19 Lockdown

and travel restrictions. £700K is the result of undeliverable savings / income target due to the Council being unable to progress the roll-out of parking charges during the pandemic and subsequent economic recovery.

5.17 **Harbours and Ferries:**

5.17.1 There is an income shortfall predicted of £1.967m for Harbour dues arising from the impact of COVID-19 Lock-down and continued uncertainty over the impact of BREXIT. At Lochinver for example, foreign vessels are not presently landing catches, preferring to operate out of Irish ports. Work is underway with Environmental Health to deal with some of the logistical challenges that firms are experiencing, and it is hoped the situation will improve.

5.17.2 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. However, following the new lockdown travel restrictions introduced at the end of Q3, and the impact of Brexit, the income shortfall outturn estimate has been adjusted again to reflect this.

6. **Mitigation**

6.1 As reported to the Corporate Resources Committee in November, the impact of COVID-19 and BREXIT on the Council's budget and operations and the actions being taken to mitigate them 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: 19 January 2021

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Background Papers: Monitoring Statement 31/12/2020

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

	£'000 Annual Budget	£'000 Actual YTD	£'000 Year End Estimate	£'000 Year End Variance
BY ACTIVITY				
Directorate	(1,781)	(1,753)	(950)	831
Economic Development	(1,213)	2,577	(1,061)	152
Housing Development	1,589	1,510	1,514	(75)
Planning, Environment & Building Standards	79	920	1,637	1,558
Infrastructure	(816)	(242)	(719)	97
Energy & Sustainability	(157)	(316)	(192)	(35)
Roads & Transport	35,243	21,763	39,689	4,446
Trading Operations	(3,568)	(1,743)	(1,601)	1,967
TOTAL	29,376	22,716	38,317	8,941
BY SUBJECTIVE				
Staff Costs	39,624	25,562	36,518	(3,106)
Other Expenditure	129,310	111,178	130,788	1,478
Gross Expenditure	168,934	136,740	167,306	(1,628)
Grant Income	(82,377)	(80,252)	(83,095)	(718)
Other Income	(57,181)	(33,772)	(45,894)	11,287
Total Income	(139,558)	(114,024)	(128,989)	10,569
NET TOTAL	29,376	22,716	38,317	8,941

INFRASTRUCTURE & ENVIRONMENT AND ECONOMY SERVICES BUDGET 2020/21 - DECEMBER 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	26	833	755	(1,859)	(1,779)	(1,783)	76	(1,781)	(1,753)	(950)	831
Economic Development												
Investment Properties	741	528	733	(8)	(3,881)	(2,834)	(3,443)	438	(3,140)	(2,306)	(2,710)	430
Economy & Regeneration	1,587	1,716	2,078	491	(188)	(1,067)	(857)	(669)	1,399	649	1,221	(178)
Business Development & Employability	1,454	974	1,687	233	(1,022)	1,756	(1,323)	(301)	432	2,730	364	(68)
Projects E & E	494	2,253	481	(13)	(398)	(2,418)	(417)	(19)	96	(165)	64	(32)
COVID Grants	76,630	76,605	76,630	0	(76,630)	(74,936)	(76,630)	0	0	1,669	0	0
Housing Development												
Housing Development & PSHG	2,484	2,094	2,409	(75)	(895)	(584)	(895)	0	1,589	1,510	1,514	(75)
Planning, Environment & Building Standards												
Management	(133)	92	125	258	0	0	0	0	(133)	92	125	258
Building Standards	1,623	1,241	1,616	(7)	(14)	(1)	0	14	1,609	1,240	1,616	7
Development Plans	745	460	621	(124)	(1)	0	(1)	0	744	460	620	(124)
Area Planning	2,212	1,573	2,127	(85)	0	0	(2)	(2)	2,212	1,573	2,125	(87)
Planning Appeals & Inquiries	50	92	109	59	0	(1)	(1)	(1)	50	91	108	58
Transport Planning	775	473	810	35	(296)	(74)	(317)	(21)	479	399	493	14
Environment	1,420	770	1,154	(266)	(165)	(125)	(153)	12	1,255	645	1,001	(254)
Projects P&BS	0	0	0	0	0	0	0	0	0	0	0	0
Planning Fee Income	0	138	187	187	(3,045)	(1,891)	(2,414)	631	(3,045)	(1,753)	(2,227)	818
Planning Fees Advertising	70	26	69	(1)	(178)	(132)	(176)	2	(108)	(106)	(107)	1
Building Warrant Fee Income	0	38	38	38	(2,984)	(1,759)	(2,155)	829	(2,984)	(1,721)	(2,117)	867
Infrastructure												
Project Design Unit	6,166	3,314	4,531	(1,635)	(7,009)	(3,579)	(5,281)	1,728	(843)	(265)	(750)	93
Flood Risk Assessment	31	23	31	0	(4)	0	0	4	27	23	31	4
Energy & Sustainability												
Energy & Sustainability	468	1,536	1,638	1,170	(625)	(1,852)	(1,830)	(1,205)	(157)	(316)	(192)	(35)
Roads & Transport												
Winter Maintenance	5,040	1,083	5,040	0	0	0	0	0	5,040	1,083	5,040	0
Roads Maintenance	24,998	13,586	22,629	(2,369)	(16,571)	(8,287)	(13,515)	3,056	8,427	5,299	9,114	687
Engineering Services	2,842	2,073	2,880	38	(516)	(317)	(350)	166	2,326	1,756	2,530	204
Flood Alleviation	30	11	27	(3)	0	0	0	0	30	11	27	(3)
Lighting Services	6,701	3,908	6,108	(593)	(3,261)	(2,625)	(2,892)	369	3,440	1,283	3,216	(224)
Integrated Transport Services	1,062	685	1,056	(6)	(83)	(100)	(113)	(30)	979	585	943	(36)
Subsidies & Concessionary Fares	7,589	5,288	7,899	310	0	0	0	0	7,589	5,288	7,899	310
School Transport	9,461	6,870	11,327	1,866	(51)	(6)	(19)	32	9,410	6,864	11,308	1,898
Car Parks	1,371	785	1,184	(187)	(3,369)	(1,191)	(1,572)	1,797	(1,998)	(406)	(388)	1,610
Trading Operations												
Harbours & Ferries	12,945	8,479	11,249	(1,696)	(16,513)	(10,222)	(12,850)	3,663	(3,568)	(1,743)	(1,601)	1,967
TOTAL	168,934	136,740	167,306	(1,628)	(139,558)	(114,024)	(128,989)	10,569	29,376	22,716	38,317	8,941