Appendix B

Commentary on General Fund Directorates Revenue Budget Versus Actual

The 2018/19 budgets were set under the Council's previous management structure which included the People and Place Directorates. These Directorates ceased to exist on 1 April 2019 but are referred to in this report to be consistent with how the budget was originally prepared and presented during 2018/19.

PART 1 – Comments on Budget Compared to Actual

Summary Commentary

Relative to the budget set Total Net Expenditure on General Fund Services was £10.8 million lower than budget. This compares to the most recent projected position of £5.7m, an increase of £5.1m. Around 75% (£3.8m) of this £5.1m is however ring-fenced grant income (£2.8m); Devolved School Management (DSM) underspends (£0.9m) and previously approved carry forwards (£0.1m). All of these areas had been assuming an on budget position during the year in the budget monitoring reports to the Policy & Resources Committee in part because of their ring-fenced nature but in hindsight the expected savings in those areas should have been included in the last reported position. These monies cannot be used for any other purpose and although unused at 31 March 2019 need to be earmarked for use in 2019/20. After allowing for these adjustments the position is a £7.0m saving against the budget set. Most of this was known about or planned for during 2018/19 and in setting the 2019/20 budget as part of the Council's proactive financial management arrangements.

In broad terms variances within General Fund Services revenue budgets arose due to the following main reasons:-

a. Savings in staff costs (£4.8 million) – services again have delayed recruitment to posts due to pending reviews and change programme savings requirements. This also includes the balance of funding allowed for severance costs which may come from the pending reviews and change programme of £1.7m which will be earmarked in the General Fund Balance for use in future years.

b. Savings within the new facilities management service.

c. Slippage in projects and works – underspends against budgets in these areas arise for a variety of reasons but non-filling of staff posts is likely to be a factor where services simply haven't had the resource to progress projects in line with expected timelines.

d. Savings in budget provisions for pay ,energy and non-domestic rates costs

e. Additional income in some services

The savings on Directorate budgets for 2018/19 particularly in areas like staff costs also need to be viewed in the context of the further savings which have now been removed from Directorate budgets in 2019/20. A total of £5.9m of savings were implemented when the 2019/20 budget was set in February 2019 and this included savings and adjustments delivered through the Zero Based Budgeting programme of reviews

Directorate Commentaries

A high level commentary on revenue budget performance for each Council directorate is outlined below and should be read in conjunction with Appendix A.

- **Strategic Policy, Transformation and Public Sector Reform** – an overall saving against the adjusted controllable budget of £0.499 million is evident in respect of this area. The main areas of savings are detailed below.

- Strategic Policy & Economy – saved £0.304 million due mainly to staff slippage (£0.149m) and underspends on skills, marketing and payments to outside bodies (£0.170m), offset by minor variances in supplies & services & property costs.

- Governance & Change – returned savings of £0.145 million, which was mainly in relation to monies provided through the Change Fund not being required at the level expected due to delays in recruitment to posts (£0.138 million). This sum will be carried forward on a 100% basis in line with report 83/14.

▪ **People** – an overall saving against the adjusted controllable budget of £4.345 million (3% of adjusted budget) is evident in respect of the People Directorate. After allowing for earmarked grant income (£2.7 million), made up mainly of Early Years Revenue Grant (£1.9 million) and Pupil Equity Fund (PEF) (£0.6 million) both of which are ring-fenced for specific purposes and DSM balances held be Angus schools the adjusted position is £0.698 million.

- Directorate – is over budget by £0.063 million in the main due to unrealistic slippage targets inherited from the disaggregation of the former Quality & Performance budget, this has been rectified in the 2019/20 budget.

- Schools & Learning (DSM and Non-DSM elements combined) returned a saving position of £3.698 million, (3% of adjusted budget). This was almost entirely due to underspends on Early Years expansion and Pupil Equity Fund (PEF) funded costs (£2.5m) and within the Devolved School Management (DSM) budgets which are managed by Head Teachers of £0.931 million. The Early Years and PEF underspends were made on costs 100% funded from Scottish Government grant which is ring-fenced for these purposes and will be carried forward and earmarked with the Council's General Fund balance. DSM underspends are carried forward in full and are available for use by Angus schools during 2019/20.

- The Children, Families and Justice Service ended the financial year with a savings against budget of £0.175 million. This was mainly as a result of staff slippage, savings on volunteer mileage and increased grant income, offset by increased expenditure in relation to kinship and external fostering placements.

- Human Resources, Digital Enablement, Information Technology and Business Support has returned a saving compared to budget of £0.535 million which in the main is due to staff slippage (£0.200m) and various areas within 100% carry forwards from 2017/18 where spend has not materialised such as PAM Dayone (£0.056m), document scanning (£0.022m) and schools WiFi roll out being capitalised at year end (£0.160m), and other areas which were included within the digital strategy carry forward not being required.

▪ **Place** – an overall saving on the adjusted controllable budget of £0.401 million is evident in respect of the Place directorate, less than 1% of adjusted budget.

- Directorate & Business Support have finished the year £0.128 million over budget due to reduced recharges to the Housing Revenue Account (HRA) for services provided to the HRA, reduced recovery of common housing register income, lower than anticipated income from Southlinks caravan park all partially offset by staff slippage.

- Services to Communities finished the year over budget by £0.096 million, mainly due to reduced income from HRA recharges offset by savings in property costs.

- Communities ended the financial year 2018/19 under budget by £0.272 million, 1% of their adjusted budget. This was in the main due to reduced expenditure on waste vehicle replacement and debt repayments, a reduction in housing benefit payments due to the roll out of Universal Credit offset by additional spend on waste incineration and co-mingling contracts.

- Infrastructure Services, £0.013 million saving. This saving was due to staff slippage, reduction in winter maintenance costs, offset by overspends on marine fuel at Arbroath Harbour and reduced fee income through capital and staff cost recovery from HRA.

- Finance and Legal ended the year with a budget saving of £0.340 million. This mainly related to savings in staff costs (£0.260 million) due to staff turnover and delays in filling posts, savings in transport costs across members service and employee travel costs (£0.030 million) and various areas of supplies & services across the service (£0.043 million).

- **Other Services** – the Other Services budget holds a number of contingency and difficult to predict budgets. Actual expenditure can therefore be subject to significant variations compared to budget. An overall saving on the adjusted controllable budget of £0.604 million is evident in respect of Other Services and this was in the main due to the Provision for Additional Burdens contingency budget not being required in full (£0.450 million saving made). There were also a number of savings and overspends made within other services which have offset each other, these areas will require monitoring and perhaps further re-aligning in 2019/20. This can be difficult as some of these areas are unknown until the year end such as bad debt provision and HRA support service recharge.

- **Facilities Management** – The new Facilities Management (FM) service area finished its first year returning a saving of £0.692 million. The FM service area saw a number of budgets consolidated and a number of contracts renegotiated and savings have been achieved more quickly and at a higher level than was expected. Most of this saving was projected and reported through the year as coming from employee slippage, savings in excess mileage in respect of employee relocation under the agile programme and savings as a result of lower than anticipated rates and energy costs. The biggest savings being realised were against office consumables and courier / delivery service following the centralisation of service budgets in agile properties and corporate services. The saving will be analysed in further detail and it may be possible to increase the savings assumed from this source in the Council's Change Programme in 2019/20 and 2020/21.

- **Corporate Items** - There are a number of budgets held centrally under corporate items until service allocations are determined, the major items being pay award, severance and energy cost provisions. The previously reported saving of £1.7 million on severance costs was achieved. Savings on other budgets held centrally that have had no call or reduced need including non-domestic rates increases, energy costs and a balance on the 2018/19 pay award provision were also made amounting to £0.735 million in total.

- **Adult Services** - an overall saving on the controllable budget of £1.772 million is evident in respect of Adult Services. In accordance with the Integration Scheme this saving will be earmarked by the Council and held as Reserves on behalf of the Angus Integration Joint Board. Some £0.190 million of this has already been agreed as contributions towards specific projects in Procurement and Children and Families Services in 2019/20 so the reported position for the IJB itself is a saving on budget of £1.582 million.

Commentary on other General Fund Corporate Budgets

- Loan Charges – In setting the 2018/19 capital budget the Council agreed to a continuation of a special repayment strategy to help keep future loan charges affordable (report 64/18 refers). In closing the 2018/19 accounts a saving relative to budget of £2.799 million arose on the loan charges budget. £1.000 million of this was then applied as a special repayment to reduce the Council's debt, as agreed in report 64/18. The remainder of this saving (£1.799 million) has been earmarked to be carried forward into 2019/20 for possible further use in making additional special repayments of debt.

The level of saving projected on the 2018/19 loan charges budget (per report 64/18) was some £1.961 million prior to any application as a special repayment of debt, however this increased by £0.838 million as a result of a lower than anticipated Loans Fund Rate (4.28% as opposed to budget of 4.72%) and movements in the level of borrowing required

- Council Tax Income – Table 1 in the main Report shows that additional income of £0.615m has been received. This was over the budgeted amount of £0.200 million and reflects the ongoing strong collection performance. In addition the year end position on Council Tax Reduction Scheme (CTRS) has resulted in savings of £0.183 million due to demand/eligibility being less than expected. Officers are looking at ways to ensure maximum uptake of CTRS for those eligible and are also checking the grant support expectations for future years.

Commentary on Housing Revenue Account Revenue Budget Versus Actual

The Housing Revenue Account (HRA) covers the costs and incomes for providing the Council's Housing services. The HRA achieved an overall surplus of £0.611 million for the year for the reasons given below. All of this surplus will however be ear-marked within the HRA reserves and used for a future special debt repayment and to support the housing capital programme.

The main reasons for the surplus are outlined below:

- **Financing Charges –** £0.127 million lower than budgeted Loan Fund Charges as a result of a better than expected Loans Pool interest rate;

- **Supervision & Management –** £1.217 million under budget, mainly due to vacant staff posts (£0.320 million), savings on supplies and services (£0.244 million) and lower than budgeted recharges for support services (£0.656 million);

- **Loss of Rents –** £0.628 million higher than budget, primarily as a result of greater than expected voids (£0.256 million) and a requirement to increase the provision for bad debts by £0.412 million more than budgeted against potential future uncollectable debts. The bad debt provision increase is partially offset by £0.264 million of funding through temporary accommodation grant which has been transferred to the HRA reserves; and

- **Income –** £0.139 million lower than budgeted income, with the main elements being reduced service charge recoveries (£0.056 million) and lower than expected rental income from shops / offices (£0.041 million).

PART 2 – Comments on Budget Compared to Last Projection

It is important to assess how accurate the Council's budget monitoring processes are. Good budget management reduces the risk of surprises at the financial year end. The narrative below compares the year end position with the last projections prepared.

Commentary against Projected Outturn (Report 133/19) – General Fund Services

The most recent projected outturn for 2018/19 based on February 2019 ledgers showed a projected saving against budget for General Fund services overall of £5.652 million and the actual position is higher at £10.775 million. This is an increase of £5.123 million.

Table 1

Area	February 2019 Outturn (£m)	Movement (£m)	Final 2018/19 Outturn (£m)
Council Directorates	4.037	4.939	8.976
Capital Financing Costs	1.615	0.184	1.799
Total	**5.652**	**5.123**	**10.775**

The projected outturn report showed a saving on capital financing charges of £1.615 million and the actual position is higher at £1.799 million, an increase of £0.184 million due to lower interest costs.

In terms of the Services, the actual saving against budget is £4.939 million higher than anticipated. Although this is a significant movement around 75% (£3.8m) of this is ring-fenced grant income (£2.8m); Devolved School Management (DSM) underspends (£0.9m) and previously approved carry forwards (£0.1m which in hindsight should have been included in the projected position during 2018/19. After adjusting for these items the adjusted change between the actual and last projected position is £1.328 million.

Table 2 below shows this actual controllable budget movement:

Table 2

	Accounting Treatment	**£m**
Total Movement from Table 1		5.123
Scottish Government Grant Income Early Years Expansion (ring-fenced)	Requires to be earmarked in General Fund Balance	(1.908)
Pupil Equity Fund Grant (ring-fenced)	Requires to be earmarked in General Fund Balance	(0.570)
Devolved School Management	Underspend carry forward to following financial year	(0.931)
Other Earmarked Grants & Carry Forwards	Requires to be earmarked in General Fund Balance	(0.386)
TOTAL		**1.328**

The more significant movements when compared to Report 133/19 and the reasons for these are outlined as follows:-

- **Strategic Policy, Transformation and Public Sector Reform** – increased saving of £0.075 million, due to a number of minor variances across the service.

- **People** – the gross projected saving increased from £0.777 million to £4.345 million (a favourable movement of £3.568 million). This is almost wholly due to savings in Pupil Equity Fund monies, Early Years Revenue Grant from Scottish Government (both of which are ring-fenced) and savings in the Devolved School Management (DSM) budgets managed by schools. All of these areas had been assuming an on budget position during the year in the budget monitoring reports to the Policy & Resources Committee in part because of their ring-fenced nature but in hindsight the expected savings in those areas should have been included in the reported position. This will be corrected for 2019/20 revenue monitoring reports. Once these elements (detailed below of £3.409m) are adjusted for the true movement is a reduced saving of £0.079m.

  - Schools and learning outturn increased by £3.225 and this is in the main due to savings on Scottish Government Grant for Early Years expansion (£1.908m) and Pupil Equity Funding Grant (£0.570m) not being spent in year. Both of these will however will be carried forward in full for use in 2019/20 on a ring-fenced basis. There was also a saving on devolved school management budgets (£0.931m) which are managed directly by schools. This savings were offset by a number of smaller areas where the previously projected savings did not materialise (£0.184m).

  - Children, Families & Justice final outturn resulted in an increased saving of £0.200 million due to additional staff slippage (£0.100m) and the anticipated overspend on Kinship and Fostering payments did not materialise in full (£0.080m).

  - Human Resources, Digital Enablement, Information Technology and Business Support produced savings of £0.136 million more than previously projected due to a transfer of revenue spend to capital at the year end which was not included in outturn reported in April.

- **Place** – the gross projected savings position has increased from £0.041 million to £0.401 million, a movement of £0.360 million. This accounts for a less than 1% of the managed budget. This was mainly due to the following elements:

  - Directorate & Business Support – increased projected overspend by £0.108 million, due to charges to the HRA being less than previously expected, outturns were projected on estimates.

  - Services to Communities – favourable reduction of overspend by £0.283 million. There are a number of buildings within this division that were declared surplus or under alterations for locality hubs and therefore previously projected outturns within property costs finished showing a saving.

  - Communities – reduced the previously projected overspend of £0.121 million to an actual underspend of £0.393 million, a favourable movement of £0.443 million. This was mainly due to reduced spend on Waste vehicle replacement and debt repayments than projected through the year..

  - Infrastructure Services – the projected underspend was £0.324 million with the final underspend being less at £0.034 million, a reduction of £0.290 million. This mainly resulted from additional winter maintenance underspend, lower than anticipated quarter 4 fee receipts and higher than anticipated costs at Arbroath Harbour.

  - Finance & Legal – favourable movement from previous outturn of £0.103 million. This relates to underspends within legal & democratic services supplies & services, £0.093 million. Small movement in employee slippage, £0.020 million and expected shortfall in income did not materialise, £0.032 million.

- **Other Services** – the gross projected saving has decreased by £0.044 million from previous outturn report, less than 1% of adjusted budget.

- **Facilities Management** – finished with an increased savings from that previously projected of £0.178 million mainly down to additional savings on employee slippage, property costs and consumables.

- **Corporate Items** – ended with year with an additional saving of £0.795 million. These additional savings were in provisions for non-domestic rates increases, energy costs and the 2018/19 pay award all which cost less than the budget provisions made.

Commentary against Projected Outturn (Report 133/19) Housing Revenue Account

The reported projected surplus in February 2019 of £0.774 million has decreased to £0.611 million (a reduction of £0.163 million). The main movements in this regard were:

- **Financing Charges –** £0.127 million lower than budgeted Loan Fund Charges as a result of a better than expected Loans Pool interest rate;

- **Supervision & Management –** £0.533 million additional underspend mainly in relation to recharges for support services;

- **Loss of Rents –** £0.676 million adverse movement primarily as a result of the requirement to increase the bad debt provision by more than the budgeted amount;

- **Income -** £0.215 million adverse movement in income primarily relating lower than anticipated rental income from shops and offices as well as lower than projected service charge recoveries.