



Agency Board Meeting 26 July 2022

Board Report Number: SEPA 28/22

Financial Monitoring Report Ending 31st May 2022

Summary:	This report is to advise Board on SEPA's financial performance for the financial year to date as of 31 st May 2022.
Risks:	The financial risks are detailed separately in Annex A in private session.
Resource and Staffing Implications:	Resourcing and staffing implications are outlined in Annex A risk no R006.
Equalities:	No equalities impacts have been included. It is assumed that business cases for changes in posts have included their impact on equalities.
Environmental and Carbon Impact:	No assessment of the environmental or carbon impact is included. It is assumed that business cases for expenditure have included their environmental and carbon impact statements.
Purpose and audience of the report:	The Board is asked to consider and discuss SEPA's financial performance for the year to 31 st May 2022. Agency Board, Scottish Government, Public
Report Author:	Vicky Muir, Senior Finance Business Partner Rosaleen Burke, Head of Finance Sponsor: Stuart McGregor, Chief Officer, Finance
Appendices:	Annex A: Analysis of financial risks – submitted to private session.

1. Executive summary

1.1 SEPA is forecasting the following outturn against its financial targets for the year:

- A forecast overspend of £448k resulting in a surplus of £3,652k in operating expenditure, against a budgeted surplus of £4,100k. Management accountants will continue to work with portfolios to understand year to date variances and produce accurate forecast outturns.

In arriving at the £448k forecast overspend we have:

- Based the staff cost forecast on year-to-date costs extrapolated to the year-end plus the estimated pay award.
- Included forecast vacancy savings of £1,269k against the target of £1,838k, a forecast shortfall of £569k.
- Assumed the pay award will be paid in line with SG pay policy guidance.
- Assumed a decrease of £250k in the flexi/annual leave balances from March 2022 to March 2023.
- Utilised the full £500k general contingency.
- Assumed that the non-staff savings targets of £228k will be achieved.
- Assumed most of the charging income will outturn on budget.
- Excluded the potential £640k (2%) in year reduction in Grant in Aid. The SG have commissioned an exercise for SEPA to model the impact of a 2% Grant in Aid reduction in the current financial year.

- An investment of £4,100k in non-current assets which is in line with budget.
- A positive cash balance of £1,202k.

1.2 The period 2 monthly financial report (Table 1) shows a year-to-date deficit of £2,677k against a budgeted deficit of £3,109k; £432k less than budget.

1.3 **Forecast outturn** (Table 1) shows a surplus of £3,652k, which is £448k less than the budgeted surplus of £4,100k required to fund SEPA's capital expenditure programme resulting in a forecast overspend of £448k in operating expenses.

1.3.1 The significant variance in staff costs is mainly a result of vacancy savings being £569k less than the budgeted target of £1,838k.

1.3.2 The forecast overspend in other staff costs is in relation to temporary workers and recruitment both of which were traditionally funded from vacancy savings. Sufficient savings are not being generated to fund these costs

1.3.3 Supplies and Services assume a £0 balance in the general contingency against a £500k budget, this is being used to partly offset overspends in staff and other staff costs.

1.3.4 The annual billing run is planned for the end of July, and the vast majority of income is currently forecast to be in line with budget.

Table 1

Scottish Environment Protection Agency Income & Expenditure Account 2022-23						
Period Ended 31st May 2022	Year to date			Full Year		
Description	Actual £'000	Budget £'000	Var. £'000	Outturn £'000	Budget £'000	Var. £'000
Grant in Aid	11,000	11,000	0	44,808	44,808	0
Charging Schemes	1,863	1,781	81	43,611	43,568	43
Other Income	99	49	50	4,754	4,733	21
Total Income	12,961	12,830	131	93,173	93,109	64
Staff Costs	10,324	10,722	399	63,089	62,475	(614)
Other Staff Costs	84	9	(75)	475	249	(226)
Transport Costs	59	140	81	1,070	1,060	(10)
Supplies & Services	2,496	2,498	2	14,466	14,852	386
Property Costs	1,792	1,686	(106)	5,121	5,073	(48)
Depreciation/impairment	883	883	0	5,300	5,300	0
Total Operating Costs	15,639	15,939	301	89,521	89,009	(512)
Operating Surplus/ (Deficit)	(2,677)	(3,109)	432	3,652	4,100	(448)

2. Detailed financial commentary

Income (Table 2)

- 2.1 Income for the year is forecast at £93,173k; £64k more than budget for the year. This is mainly due to a forecast increase in application income of £20k, special waste consignment notes £22k, and income from International Services £22k. International Services have an income budget of £300k, and they are currently forecasting income of £320k.
- 2.2 Budgeted income has increased by £2.3m since budget set, the majority of which £2.1m was in relation to grant income from the Water Environment Fund this will be offset by increased expenditure.
- a) Grant in Aid (GiA)**
- 2.3 SEPA's GiA is currently set at £44,808k, this is in line with budget set. The Scottish Government has commissioned an in year spending review, requesting the agency to outline the consequences of a 2% reduction in baseline GiA. This would reduce budget GiA by approximately £640k, this reduction is not built into current forecasts.
- b) Charging Scheme income**
- 2.4 Full year Charging Scheme income is expected to outturn at £43,611k, which is £43k more than budget.
- 2.5 Application income forecast outturn is £20k more than budget with £212k excess income in Waste, £91k in Air applications, and £13k across Land and RSA applications expected to be offset by lower-than-expected income on Water applications (£296k). This is forecast on a straight-line basis and is subject to change.
- 2.6 Subsistence Income is forecast to come in on budget as the annual billing run or quarterly bills have not yet been issued. The annual billing run should be completed by July and the forecast figures will be updated to reflect this, it is anticipated that the annual billing run will be in the region of £35m, of

which £12.5m relates to Scottish Water. The forecast currently includes an increase (£22k) in income from Special Waste consignment notes forecast based on the year to date and past year income

2.7 An analysis of Charging Scheme income can be found below:

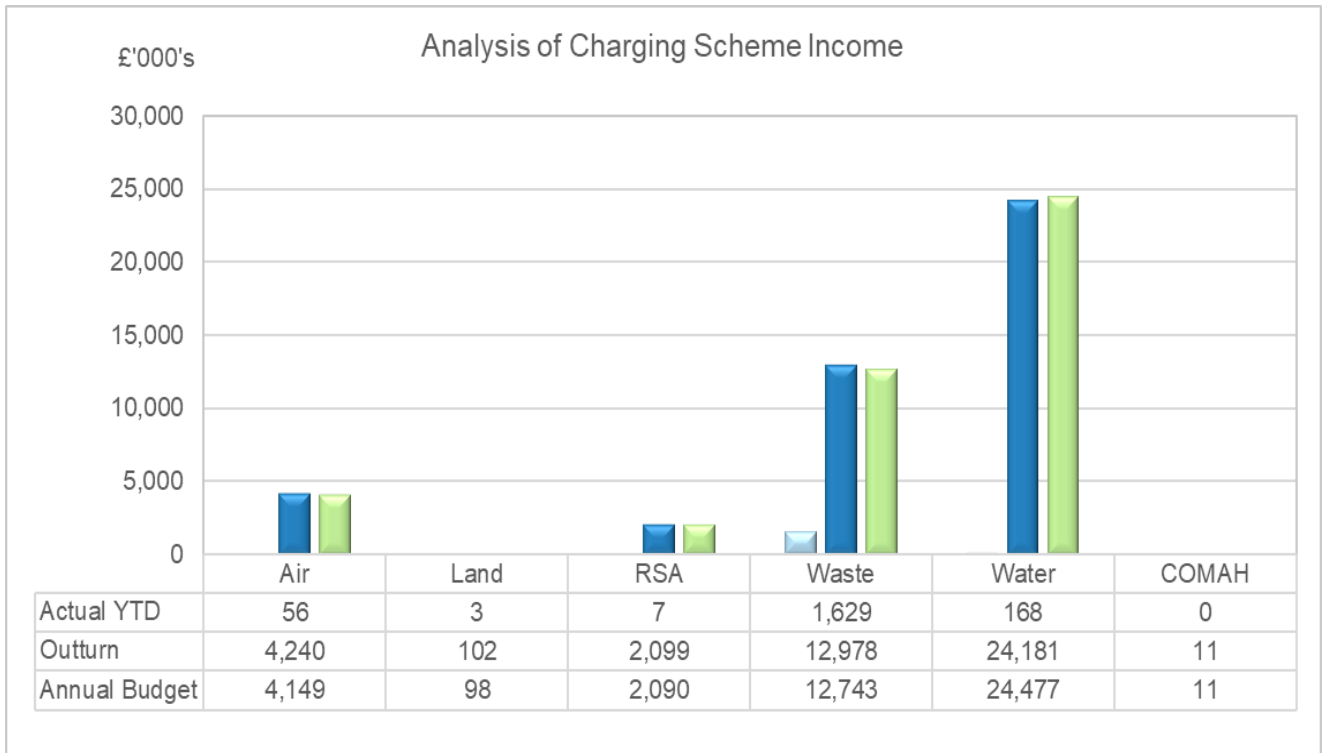


Table 2

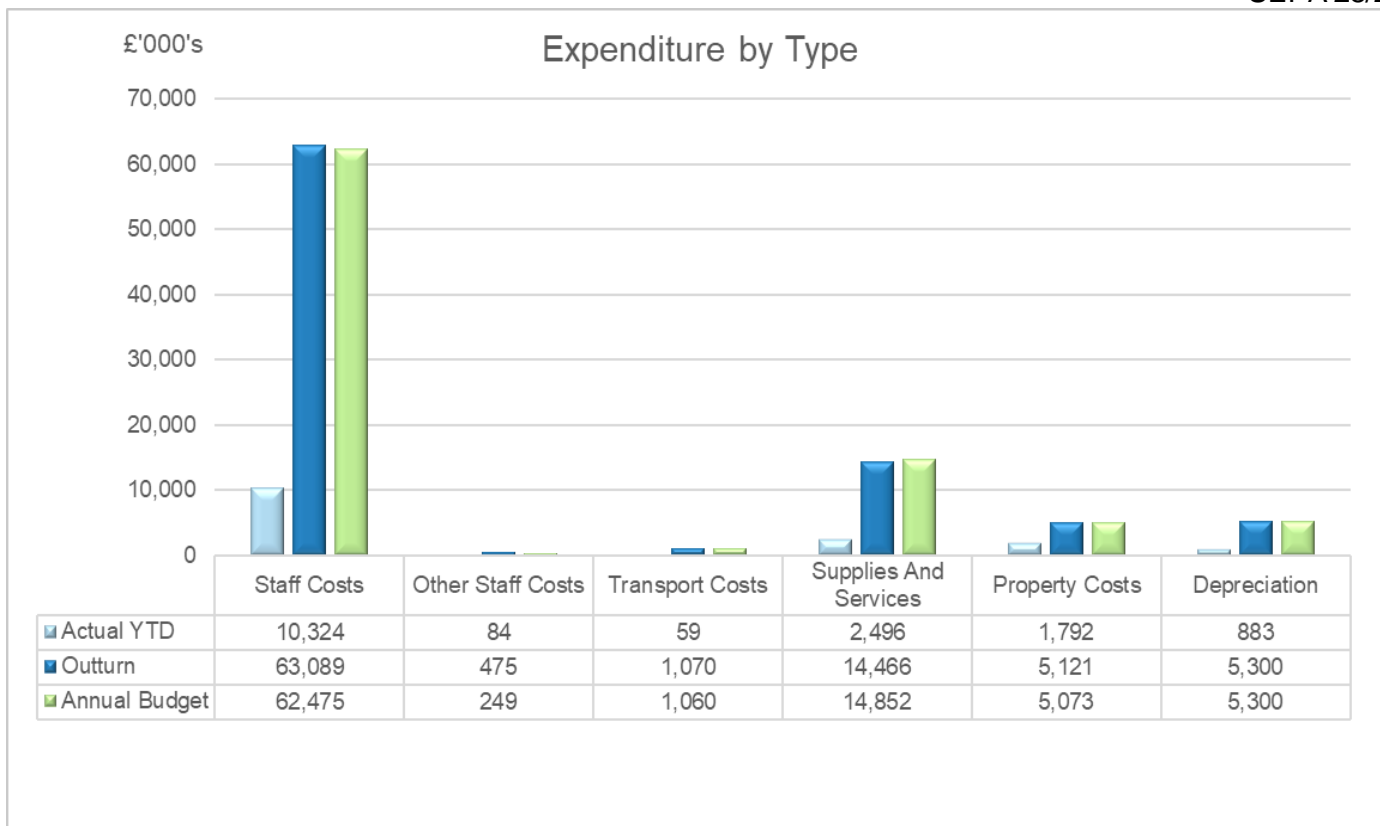
c) Other Income

2.8 Budgeted income is £4.4m, the majority of which £2.8m relates to Water Environment Funds from the Scottish Government to fund the restoration of rivers. The forecast outturn for other income is £21k higher than budget, this is primarily due to an increase in forecast income from International Services of £20k and £2k expected from an Enforcement undertaking offset by a forecast reduction in bank interest of £1k. International Services have an income budget of £300k, they are currently forecasting income of £320k

3. Expenditure

3.1 Full year operating costs are forecast at £89,521k, £512k more than budget.

3.2 The charts below show forecast expenditure against budget for the year by expenditure type.



Staff costs

- 3.3 Staff costs are underspent £399k year to date. Salary and on costs are underspent by £375k with overtime and other allowances underspent by £24k. Year to date spends do not yet account for in year pay increases.
- 3.4 The full year forecast is an overspend on staff costs of £614k, arising from forecast overspends in salaries and oncosts of £569k and overtime and allowances of £45k.
- 3.5 The staff cost budget included a vacancy savings target of £1,838k, forecast savings are currently £1,269k resulting in a forecast shortfall of £569k. The staff cost forecast is based on year-to-date costs extrapolated to the year-end plus the estimated pay award. We are currently assuming the pay award will be paid in line with SG pay policy guidance.
- 3.6 SEPA in implementing a summer recruitment freeze from the start of July, and this will be reviewed mid-August as the budget position becomes clearer.
- 3.7 Portfolios are currently reviewing their staff costs budgets and are highlighting concerns about their ability to generate the required savings and meet delivery targets. This target is challenging as there were no vacancies included at budget set and it will only be achieved through the careful management of vacancies, and this may impact on service delivery.
- 3.8 The forecast includes a decrease of £250k in the flexi/annual leave balances from March 2022 to March 2023. The estimated cost of staff annual leave/flexi balances as of March 2022 was £2.7m, compared to £2m pre cyber and COVID-19. This figure may reduce further but this can only be calculated with any real accuracy in March.

Other Staff Costs

- 3.9 Other Staff Costs are overspent by £75k year to date; with a full year forecast overspend of £226k, of which £180k relates to temporary workers and £46k to recruitment fees. Temporary workers and recruitment fees were historically funded from vacancy savings, however, as the forecast vacancy savings are below budget, we are currently forecasting an overspend in this area. Given the position

with the staff costs forecasts, portfolios should carefully consider how temporary workers are being funded before recruitment.

- 3.10 The training budget is currently forecast in line with budget £164k, however there are concerns that this is insufficient to undertake essential technical training, and AMT have commissioned further analysis to be carried out in this area to determine specific requirements.

Supplies & Services

- 3.11 Full year forecast is currently showing a £386k underspend. There are several offsetting variances across expenditure heads, however, within the forecast it is assumed that.

- Non-staff savings targets of £228k will be achieved.
- The general contingency of £500k will be used to offset forecast overspends

- 3.12 Management accountants continue to work with portfolios to understand year to date variances and produce accurate forecast outturns. Some of the more significant overspend variances which require further investigation include: £67k on laptops and peripherals, £90k on servers, £110k on consultancy, £29k in sub contracted work, £27k on equipment maintenance contracts, £11k in equipment purchase, and £10k in the legal contingency offset by an underspend of £295k on software maintenance.

Property costs

- 3.13 There is a forecast overspend in property costs of £48k, this is mainly associated with preventative property maintenance of £36k and cleaning of £54k, primarily because of the exceptional additional cleaning required for the reopening of buildings. These are currently being offset by underspends in rates of £17k and property maintenance of £36k. Total expenditure on property maintenance is forecast at £826k, of which £156k relates to gauging stations.

4. Capital

- 4.1 SEPA's capital budget provided by SG for the year is £4,100k – we are currently managing a capital programme of £4,747k. The plan has been prioritised and will be carefully managed to guard against the risk of overspending. Managing a plan which exceeds budget should ensure we fully utilise the capital funds available. Committed expenditure as at the end of May was £2.9m.

5. Financial risks

- 5.1 The current year main financial risks are analysed further in Annex A, which is considered in private session. It is assumed all 2021-22 risks were closed on 31st March 2022. There are currently no funds in the general contingency to mitigate against these risks.

6. Recommendation

- 6.1 Board is asked to consider and discuss SEPA's financial performance for the period ending 31st May 2022.

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Date: 17th June 2022