

## **Financial Monitoring 2023/24 – General Fund Revenue**

**Report by David Gladwin, Chief Financial Officer and Section 95 Officer**

### **Report for Decision**

#### **1 Recommendations**

Council is recommended to:

- a) Approve a supplementary estimate of £0.490 million to cover the unbudgeted cost of pay in 2023/24 (sections 3.6 and 3.7);
- b) Note projections of revenue costs and income in 2023/24 against budget;
- c) Note the projected General Fund Reserve Balance at 31<sup>st</sup> March 2024;
- d) Note recovery actions agreed by the Corporate Management Team in response to areas of projected overspend (section 3.3); and
- e) Note the contents of this report.

#### **2 Purpose of Report / Executive Summary**

- 2.1 The purpose of this report is to provide Council with information on projections of performance against service revenue budgets in 2023/24 and to provide commentary on areas of material variance against budget. The budget performance figures as shown in appendix 1 result in a projected net overspend of £1.268 million which is a deterioration of £0.340 million from projections at quarter 1. The projected overspend represents 0.45% of the revised budget.
- 2.2 Projected overspends mainly relate to recurring areas of financial pressure or slower than planned delivery of savings measures. The Corporate Management Team have discussed these in depth and where possible, put in place recovery actions.
- 2.3 The projection of the General Fund balance at 31<sup>st</sup> March 2024 is £11.399 million, of which £1.727 million is earmarked for specific use and a further £1.260 million relates to VAT claims not yet settled leaving a non-earmarked General Fund balance of £8.412 million.

**Date: 9 November 2023**

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### 3 Background

- 3.1 This report encompasses all performance against revenue budget for General Fund services including additional costs incurred and lost income as a consequence of the Covid-19 pandemic.
- 3.2 In response to the immediate and challenging financial outlook the Chief Executive, during the previous financial year, introduced a moratorium on non-essential spend and a freeze on non-essential vacancies. This moratorium remains in place.

#### Performance against budget

- 3.3 The main areas of projected overspend against budget at quarter 2 are outlined in the table below also describing mitigating measures and next steps. Projections part-way through a financial year are difficult in some areas and come with a degree of uncertainty.

Table 1: Material variances against budget

Budget	Overspend	Reason	Action Plan / Mitigating Measures	Next Steps
Pupil Transport	£879,000	Volume and value of school pupil transport invoices higher than budgeted.	In October, Council agreed a consultation on pupil transport and this is now underway.  A root and branch review of Council Transport is underway as part of the Transformation Blueprint.	Pupil Transport update report to Business Transformation Steering Group (BTSG) on 4th December.
Sport and Leisure	£726,000	Income target shortfall.	Partly offset by reduced in-year running costs of £561,000.  Externally commissioned options appraisal reported to BTSG with further work progressed.	Sport and Leisure update report to be presented to BTSG on 4 <sup>th</sup> December.
Fleet	£754,000	Ageing vehicles and higher volumes of external contracting than planned.  External vehicle hire to support service continuity.	Areas of service have been re-provisioned.  Cost containment measures in place.  Fleet Maintenance Review underway.  Multi-year Fleet Asset Management Plan being developed.	Fleet update report to be presented to BTSG on 4 <sup>th</sup> December.

Energy Consumption	£494,000	Unit prices for electricity as provided by Scotland Excel are higher than budgeted		
Destination Hillend	£483,000	Alpine Coaster not completed during 2023/24 due to delays with civil engineering works.	Project Team aim to accelerate the Alpine Coaster construction.	Regular update reports to governance forums.
Homelessness	£423,000	Service charge income credited to the General for properties used to house homeless clients has reduced due to fewer temporary solutions in favour of permanent tenancies.	Improvement in void property turnaround times thus increasing available supply.	Planned replacement of properties from future voids for temporary use purpose will improve service charge income position.
Additional Support Needs (ASN)	£311,000	Expensive out of authority placements and bespoke packages.	Creation of additional and improved infrastructure in Midlothian.	Continued development of ASN requirements in Learning Estate Strategy and the General Service Capital Plan.
Insurance	£173,000	Cost of Annual Premiums and higher than expected costs of existing claims.	Continual review of claims at the Risk and Resilience Group.	
Trade Waste	£193,000	Income is lower than budgeted targets.	Review of Service.	Waste Recycling Transformation Options presentation to BTSG on 9 <sup>th</sup> November.  Trade Waste Recommendation to BTSG on 4 <sup>th</sup> December.
Cafes	£184,000	Shortfall in meeting income targets.	Review of offering embedded in Sport and Leisure update report.	Sport and Leisure update report to be presented to BTSG on 4 <sup>th</sup> December.
Foster Care Allowance	£142,000	Cost of minimum Foster Care allowance exceeds Scottish Government funding		Fair funding discussions with the Scottish Government.

There also remains £1.096 million of Medium Term Financial Strategy cost reductions either to be finalised or fully implemented. A number of these are taking longer than planned to implement with an impact on the 23/24 financial position.

### Underspends

- Loan Charges are projected to underspend by £2.649 million in 2023/24. There are three main factors:
  - Higher than forecast and more sustained periods of surplus cash related directly to timing of capital expenditure thus providing opportunity to generate some deposit income;
  - Delays in in longer-term borrowing due to availability of existing funding to support capital programmes in 2023/24; and
  - Higher than budgeted deposit income from cash-backed reserves due to a significant increase in interest rates during 2023/24 from those expected when the budget was set.
- With the exception of ASN, costs across the spectrum of learning settings for children and young people are lower than provided for in the budget mainly due to lower pupil numbers thus giving rise to a positive variance of £0.906 million. Pupil projections in the budget for the following academic year are finalised during base budget development work in December. In the 2023/24 academic year there has been a significant number of primary 1 deferrals and a lower than estimated number of children in Council run Early Years settings;
- The Council continues to hold some non-critical vacancies across the Council, partly to mitigate delivery of planned saving and partly as a financial discipline measure. Management measures are in place to review each vacancy before approving recruitment. The net projected impact in 2023/24 is £0.310 million;
- Fuel prices are now much lower than forecast when the 2023/24 budget was set giving rise to a projected underspend of £0.178 million;
- Income from roads construction charging exceeds budget by £0.195 million due to some large one-off receipts in 2023/24.

- 3.4 The Corporate Management Team have met to consider the financial position agreeing, alongside the continued financial discipline measures referenced in section 3.2, a range of recovery actions and clear timescales for these as outlined in table 1 above.

### Pay and funding

- 3.5 The pay offer for employees whose pay negotiations are covered by the Scottish Joint Council (SJC) trade unions and also for Chief Officials has been agreed subject to an ongoing ballot of Unison members which closes on 20<sup>th</sup> November. The offer is:

#### From 1<sup>st</sup> April 2023

- For employees paid the Scottish Local Government Living Wage and National Spinal Column Points (SCP) 19 to 23: an increase in the hourly rate of £1.04.
- For employees on all other SCP an increase in the hourly rate of £1.00 or a 5.5% increase in their pay, whichever is worth more.

#### From 1<sup>st</sup> January 2024

- At any SCP where the 1<sup>st</sup> January 2024 hourly rate in the offer made on 3<sup>rd</sup> April is greater than the hourly rate effective from 1<sup>st</sup> April 2023 will receive a further uplift to achieve the full rate in the 3<sup>rd</sup> April 2023 offer.

3.6 Funding for the 2023/24 involves an assumption of 3% in council budgets. Midlothian Council budgeted at 2.5% for pay in 2023/24 but the positive financial position at the end of 2022/23 allowed the shortfall of 0.5% to be set aside as part of cross year flexibility. Remaining funding:

- The Scottish Government agreed to provide national revenue funding of £155 million equating to approximately £2.7 million for Midlothian.
- A further funding package of £90 million nationally is agreed and involves:
  - £22 million of Scottish Government Capital Grant to be converted to revenue;
  - £7 million funding previously set aside for the Child Abuse Compensation Scheme in 2023/24 used to fund pay and replaced in 2024/25;
  - £21 million Employability Funding. There are underspends in programmes across Scotland in 2023/24. These can be redistributed in 2023/24 and replaced in 2024/25.
  - £30 million Pupil Equity Funding using cross year flexibility between 2023/24 and 2024/25 for unspent balances in 2023/24 to fund pay. The Scottish Government will replace funding in 2024/25.
  - £10 million additional Council contribution.
- Utilisation of Council Reserves in 2023/24 to the tune of £17.2 million nationally with funding being replaced by the Scottish Government in 2024/25.

3.7 Additional Council contributions of £27.2 million outlined in section 3.6 equates to approximately £0.490 million of additional unbudgeted cost for Midlothian and Council are asked to fund this by approving a supplementary estimate.

3.8 Scottish Negotiating Committee for Teachers pay awards for the current financial year have been agreed and are fully funded in the budget.

#### 4 Delegation of resources to Midlothian Integration Joint Board

- 4.1 The approved budget provided for the allocation of £56.593 million to the Midlothian Integration Joint Board (MIJB) for the provision of delegated services. Minor technical adjustments to this allocation during the year to date reduces the allocation to £56.538 million.
- 4.2 In accordance with the Integration Scheme the MIJB is required to deliver delegated services within the budget allocations from the Council and NHS Lothian and where any overspend is projected to put in place a recovery plan to address that. As a last resort the integration scheme allows for the MIJB to seek additional financial support from its partners, either by way of an additional budget allocation or by “brokerage” (provision of additional resources in a year which are repaid in the following year).
- 4.3 Once SJC pay is finalised further consideration will be given to the MIJB in-year position. Financial Monitoring reports covering all of the MIJB activity are presented to the Integration Joint Board and are available on the committee management section of the Council website:-

[Midlothian Integration Joint Board \(cmis.uk.com\)](https://cmis.uk.com)

#### 5 General Fund Reserve

- 5.1 The projected balance on the General Fund as at 31 March 2024 is as follows:

	£ million	£ million
<b>General Fund Reserve at 1 April 2023</b>		<b>34.194</b>
Ukraine Funding finalised during 2023/24		0.770
<b>Updated General Fund Reserve at 1 April 2023</b>		<b>34.964</b>
<i>Planned movements in reserves</i>		
Application of Budgets carried forward from 2022/23 for use in 2023/24	(16.013)	
Utilisation of reserve to balance 2023/24 budget	(1.166)	
Supplementary Estimate for works at Mayfield Primary School and St Luke's Primary School	(0.060)	
Supplementary Estimate for Pay	(0.490)	(17.729)
Overspend per appendix 1		(1.268)
Updated Assessment of VAT Claims		(0.226)
Projected application of Transformation Blueprint funding		(1.342)
Projected application of earmarked reserve to fund Public Realm works		(3.000)
<b>General Fund Balance at 31 March 2024</b>		<b>11.399</b>

An element of the General Fund is earmarked for specific purposes and this is shown below:

	£ million
<b>General Fund Balance at 31 March 2024</b>	<b>11.399</b>
<i>Earmarked for specific purposes</i>	
To support Council Transformation Blueprint	(1.727)
<b>General Reserve at 31 March 2023</b>	<b>9.672</b>
VAT Windfall to be settled	(1.260)
<b>Revised General Reserve at 31 March 2024</b>	<b>8.412</b>

- 5.2 The Reserves Strategy approved by Council on 12th February 2019 requires Council to maintain an adequate level of General Reserve to provide a contingency for unforeseen or unplanned costs. In the financial context at that time Council approved the adoption of 2% of the approved budgeted net expenditure (excluding resources delegated to the IJB) to be considered a minimum. This now equates to £4.524 million. Council also agreed that where projections indicate that should the 2% minimum General Reserve balance be breached an immediate recovery plan be implemented to recover the position, failing which, the next available budget would need to provide for the reinstatement of reserve position.
- 5.3 At quarter 1 the anticipated settlement value of £6.839 million from the outstanding VAT claims was shown in the earmarked element of the General Fund Reserve. During quarter 2 one of the claims was settled to a value of £5.353 million which was £0.160 million more than anticipated and this is now included in the non-earmarked element of the General Fund Reserve. The second claim remains outstanding with recent projections showing a settlement of £1.260 million which is £0.387 million lower than previously anticipated.
- 5.4 The General Reserve is projected to be £8.412 million. This is £3.888 million in excess of minimum reserves strategy. Considering current financial pressures, the General Reserve must be viewed both in the context of £3.875 million of underlying service pressures in 2023/24 (Appendix 1 - General Fund Services Net Expenditure) and the latest Medium Term Financial Strategy (MTFS) projected gap of approximately £35 million through to 2028/29. Until there is significant progress towards a balanced MTFS it remains sound financial practice to maintain a buffer in the General Reserve to offset any further adverse performance against budget or delays in delivering savings measures.

## 6 Report Implications (Resource, Digital and Risk)

### 6.1 Resource

The projected performance against budget set out in this report presents the initial projections for the year. Work continues across the council to reduce overspends and to progress at pace delivery of approved savings.

Whilst this report deals with financial issues there are no financial implications arising directly from it.

## 6.2 **Digital**

Increased reliance and investment in digital solutions and digital first solutions will be a key element of future plans.

## 6.3 **Risk**

Section 95 of the Local Government (Scotland) Act 1973 requires all Local Authorities in Scotland to have adequate systems and controls in place to ensure the proper administration of their financial affairs.

The assessment of performance against budgets by services is underpinned by comprehensive financial management and budgetary control arrangements. These arrangements are central to the mitigation of financial risk.

Ensuring that adequate systems and controls are in place reduces the risk of significant variances arising, and where they do arise they help to ensure that they are identified and reported on and that appropriate and robust remedial action is taken. The primary purpose of this report is to provide an assessment of performance against budget for the full year. The material variances detailed in the report highlight that the financial management and budgetary control arrangements require continual review and enhancement if financial risk is to be effectively mitigated during the year.

There are some areas where effective forecasting of spend against budget is hindered due to incomplete service information which in previous years has resulted in previously unreported or significantly adjusted variances at the financial year end. Financial Management CMT continues to consider these areas and supports actions to address the underlying issues and mitigate the risk associated with them. Information relating to the Building Maintenance Service has improved although there remains concern with its detail. Work is ongoing to resolve this issue.

The financial projections are predicated on new burdens, including those arising from the Government's 100 day commitments to be fully funded. The position with outstanding pay awards and the potential for unfunded costs arising presents a significant risk to the Council's financial position.

The Council recognises the potential for compensation claims deriving from Scottish Government's Limitation (Childhood Abuse) (Scotland) Act 2017 which removes the three year time limit on claims of child abuse. Some claims will be historic and relate to Lothian Regional Council, Midlothian District Council or their predecessors and some will date post reorganisation and relate to Midlothian Council, and so presents a risk that would further reduce reserves from those currently projected. Further financial obligations may also arise as the implications associate with the The United Nations Convention on the



Rights of the Child (Incorporation) (Scotland) Bill, which has yet to secure Royal Assent, are more fully understood.

#### **6.4 Ensuring Equalities**

As changes to existing plans are developed the assessment of the impact of these proposals in relation to their impact on equalities and human rights will be carried out. This will help to ensure wherever possible that there are no negative impacts on equality groups or potential for infringement of individuals' human rights from the any of the proposals.

#### **6.5 Additional Report Implications**

See Appendix A

### **Appendices**

Appendix B – Financial tables

## **APPENDIX A – Report Implications**

### **A.1 Key Priorities within the Single Midlothian Plan**

The existing financial plans support the delivery of the key priorities in the Single Midlothian Plan. As the impact on the Council of the pandemic and recovery continues to unfold over the financial year any changes in the availability and allocation of resources will need to be considered in parallel to the actions proposed to continue to delivery key priorities.

### **A.2 Key Drivers for Change**

Key drivers addressed in this report:

- ☒ Holistic Working
- ☒ Hub and Spoke
- ☒ Modern
- ☒ Sustainable
- ☒ Transformational
- ☒ Preventative
- ☒ Asset-based
- ☒ Continuous Improvement
- ☒ One size fits one
- ☐ None of the above

### **A.3 Key Delivery Streams**

Key delivery streams addressed in this report:

- ☒ One Council Working with you, for you
- ☒ Preventative and Sustainable
- ☒ Efficient and Modern
- ☒ Innovative and Ambitious
- ☐ None of the above

### **A.4 Delivering Best Value**

The report does not directly impact on Delivering Best Value.

### **A.5 Involving Communities and Other Stakeholders**

The development of the Medium Term Financial Strategy reflects community consultation exercises carried out in 2019 and again in 2022 to help shape the drafting of the “Midlothian Promise” and the development of the Council’s Longer Term Financial Strategy.

In addition there is continued engagement with the recognised Trade Unions on the financial position.

## **A.6 Impact on Performance and Outcomes**

The Financial Strategy facilitates decisions on how Council allocates and uses its available resources and as such has fundamental implications for service performance and outcomes. The financial consequences of the pandemic will impact on the availability and allocation of resources in pursuit of key outcomes as set out in the Single Midlothian Plan for both the immediate and longer term and therefore the ability of the Council to continue to deliver services in a financial sustainable manner.

## **A.7 Adopting a Preventative Approach**

Maintaining the effectiveness of the Financial Strategy will support the prioritisation of resources to support prevention.

## **A.8 Supporting Sustainable Development**

There are no direct sustainability issues arising from this report and we will work to mitigate as far as feasible any sustainability issues which arise as a consequence of any of the changes to existing plans.

## Appendix B – General Fund 2023/24 – Performance against budget

			Revised Budget	Revised Budget	Revised Budget		(Underspend)
Function	Approved Budget		Expenditure	Income	Net	Outturn	/ Overspend
					£	£	£
Management and Members	1,942,186		2,046,814	0	2,046,814	2,079,814	33,000
<b>Place</b>	-	-	-	-			
Corporate Solutions	23,361,990		49,635,687	(24,573,513)	25,062,175	25,671,175	609,000
Place	40,506,069		59,190,700	(17,592,549)	41,598,151	44,751,151	3,153,000
Central Costs	1,198,871		5,117,543	0	5,117,543	5,290,543	173,000
<b>People and Partnerships</b>	-	-	-	-			
Midlothian Integration Joint Board	56,593,028		64,955,951	(8,417,325)	56,538,626	56,538,626	0
Non-Delegated Services - Sport and Leisure, Community Safety and Welfare Rights	421,250		587,128	(94,001)	493,126	464,126	(29,000)
Childrens Services, Partnerships and Communities	18,955,577		21,062,760	0	21,062,760	21,002,760	(60,000)
Education	120,906,768		148,187,017	(17,420,133)	130,766,883	130,762,883	(4,000)
Lothian Valuation Joint Board	581,659		581,659	0	581,659	581,659	0
Non Distributable Costs	898,936		898,936	0	898,936	898,936	0

<b>GENERAL FUND SERVICES NET EXPENDITURE</b>	265,366,334		352,264,194	(68,097,521)	284,166,674	288,041,674	3,875,000
Loan Charges	4,435,000		4,435,000	0	4,435,000	1,786,000	(2,649,000)
NDR Discretionary Relief	70,300		70,300	0	70,300	70,300	0
Investment Income	(110,736)		0	(110,736)	(110,736)	(110,736)	0
Allocations to HRA, Capital Account etc.	(5,414,898)		(5,414,898)	0	(5,414,898)	(5,414,898)	0
	264,346,000		351,354,596	(68,208,257)	283,146,340	284,372,340	1,226,000
less Funding:							
Scottish Government Grant	(191,629,000)		0	(195,110,410)	195,110,410	195,110,410	0
Council Tax	(62,836,000)		0	(62,836,000)	62,836,000	62,739,000	97,000
Transfer from Housing Revenue Account	(2,014,000)		2,014,000	0	2,014,000	2,069,000	(55,000)
Service Concessions - in-year	(2,608,000)		2,608,000	0	2,608,000	2,608,000	0
Service Concessions - retrospection	(4,093,000)		4,093,000	0	4,093,000	4,093,000	0
<b>Utilisation of Reserves</b>	1,166,000		353,368,596	(326,154,667)	23,185,929	24,453,929	1,268,000