Midlothian Council
Tuesday 24 June 2025
Item No 8.1

Financial Monitoring 2024/25 – 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 £4.883 million to increase the budget for Midlothian Integration Joint Board to £69.072 million with the condition that any additional funding received to support immediate financial pressures in Adult Social Care is used to enhance the Council's General Fund Reserve (section 4).
(b) Note the enhancement to the General Fund Reserve of £5.526 million relating to the Loans Fund Review (section 5).
(c) Approve the application of £3.373 million of Loans Fund Review Savings to part-fund the supplementary estimate for Midlothian Integration Joint Board (recommendation (a)).
(d) Approve that the unused Loans Fund Review savings of £2.153 million are earmarked in the General Fund Reserve to offset borrowing costs already included in the Medium Term Financial Strategy (MTFS) with the timing of application to be agreed alongside the finalisation of the Capital Plan Prioritisation exercise (section 5.5).
(e) Approve that the remaining element of the supplementary estimate for Midlothian Integration Joint Board (£1.510 million) is funded by a release of Service Concession Retrospection funding that is currently earmarked in the General Fund Reserve.
(f) Approve an additional £1 million of earmarked reserves to enhance funding available to support delivery of the Transformation Blueprint, in particular relating to contract management, commissioning and income generation (section 6.4). Funding will be created by a re-purposing of other earmarked reserves with a detailed proposal presented to Council in September for approval. and otherwise
(g) 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 performance against service revenue budgets in 2024/25 and to provide commentary on areas of material variance against budget. The budget performance figures as shown in appendix 1 result in a net overspend of £3.311 million which is a deterioration of £1.143 million from projections at quarter 3. The overspend represents 1.1% of the revised budget.

2.2 Some areas of overspend relate to recurring and familiar areas of financial pressure or slower than planned delivery of savings measures. During 2024/25, in response to fiscal pressures, the Chief Executive instructed a moratorium on any spend that was not business critical and in addition, the Chief Executive has extended this directive into 2025/26 including robust and formal scrutiny arrangements to oversee Directors progress in monitoring the urgent recovery actions required.

2.3 The General Fund balance at 31st March 2025 is £32.029 million, of which £25.621 million is earmarked for specific use leaving a non-earmarked General Fund balance of £6.408 million.

2.4 Midlothian Integration Joint Board (MIJB) spend on Adult Social Care exceeded budget by £4.883 million and this requires to be funded in 2024/25.

2.5 To consider the element of earmarked General Fund Reserve required to support delivery of the Transformation Blueprint.

Date: 5th June 2025

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3 Background

3.1 This report encompasses all performance against revenue budget for General Fund services.

3.2 In response to the immediate and challenging financial outlook the Chief Executive, during the financial year 2022/23, introduced a moratorium on non-essential spend and a freeze on non-essential vacancies. This was recently heightened to a moratorium on any spend that is not business critical and it is expected that some areas of general spend, including staffing will reduce as a consequence. Some evidence of this can be seen in service spend in 2024/25 with increased delivery expected in 2025/26. In addition, the Chief Executive has extended this directive into 2025/26 including robust and formal scrutiny arrangements to oversee Directors progress in monitoring the urgent recovery actions required.

Performance against budget

3.3 The material areas of variance against budget at quarter 4 are outlined in table 1 below which also describes mitigating measures and next steps.

Table 1: Material cost variances against budget

Budget	Overspend	Reason	Action Plan / Mitigating Measures	Next Steps
Pupil Transport	£1,677,000	Volume and value of school pupil transport invoices higher than budgeted.	Council approval to proceed with the transport review was granted on 25th June 2024. This includes a root and branch review of practices, processes and costs	Where possible, early implementation of identified efficiencies. Passenger Transport Transformation project is well underway.
Staff Costs	£987,000	Maternity cover in schools (£540,000), staffing in excess of budget in Neighbourhood Services (£274,000), absence cover costs for cleaning and janitorial services (£206,000) and higher costs from deploying temporary resources to cover service areas with permanent recruitment challenges (£378,000). Offset by vacancies across the Council partly as a consequence of vacancy control.	Strategic Workforce Plan has being developed with recommendations approved. Continuation of enhanced level of vacancy control in line with mantra of business critical spend only.	Continual review of service costs. Full Implementation of Neighbourhood Services Review will reduce costs to budgeted levels. Continued action to find a permanent staffing solution for Procurement.

Housing Benefit Subsidy	£537,000	The 2024/25 Housing Benefit subsidy has been reduced by £517,000 as a consequence of an adjustment relating to an ongoing audit query from 2021/22 concerning the accuracy of Housing Benefit Claims paid following additional audit testing.	Discussion on this matter with the Department of Work and Pensions continues.	Revenues systems transformation work is at an early stage with BTSG approval of funding in place.
Insurance	£378,000	The volume of insurance claims settled, particularly relating to potholes, increased considerably during quarter 1 and whilst reducing a little during quarters 2 to 4 remains at a higher level than seen in previous years.	Internal processes to consider each claim have been reviewed with potential to increase repudiation rates and consequently minimise costs in 2024/25 and beyond.	Officer review meeting linking in with professional insurer advice.
Council Tax Income	£516,000	Whilst the Council Tax Base continues to grow total projected income is lower than budgeted. Household growth is slower than anticipated, the value of households eligible for a Single Person Discount has increased considerably from budgeted figures and a higher provision has been made for non-collection of Council Tax.	A detailed review has been carried out and informs Council Tax Income projections for future financial years as part of the MTFS.	The 2025/26 budget has been set applying the 2024/25 in-year position. This will be monitored closely during 2025/26 and also reflected in MTFS projections.
Waste Disposal	£529,000	Midlothian Council's share of income from the sale of electricity to the grid from the Residual Waste Plant was £376,000 lower than budgeted due to reduced wholesale electricity prices. The contract for disposal of Bulky Items expired in July. Tender responses necessitated an extension to the contract which came at an estimated additional cost for the current financial year of £77,000 including additional costs to separate upholstered materials.	The Waste Disposal budget in the MTFS has been updated with most recent energy prices.	Officers continue to review the unpredictability of energy prices and are working with colleagues, both internally and externally, to improve forecasting.

		A legislative change on treatment and haulage of air pollution contaminants has driven a higher cost than budgeted of £118,000.		
Fleet	£573,000	Ageing vehicles and higher volumes of external contracting than planned (£436,000). High cost repair during quarter 4. External vehicle hire in Waste Services to support service continuity (£137,000).	Areas of service have been re-provisioned. Cost containment measures in place. Fleet Maintenance Review underway. Multi-year Fleet Asset Management Plan approved by Council.	Pressure on the repairs budget continues with a spike in costs during quarter 4. A detailed review of this is underway. In some areas purchase of new vehicles have eased repairs costs and pressure will be eased further as the Fleet Replacement Plan is implemented. Control measures are in place to ensure only essential spend is incurred. A review of the operational need for all externally hired vehicles is underway.
Destination Hillend	£297,000	A later than expected opening date and carefully managed opening hours have resulted in a shortfall against budget of £297,000.	Opening hours are being extended.	Current customer numbers are in line with 2025/26 budget provision.
Winter Maintenance	£268,000	The available budget for 2024/25 was £1.064 million.	Spend continues to shift from cold weather response to wet weather response. Milder conditions provided opportunity to grit some lower priority areas.	

Roads	£203,000	Costs of the Lighting Service chargeable to the General Fund exceeded budget (£155,000). Damages to two bridges from vehicle accidents resulted in essential spend that was not fully recovered from third parties and the opportunity to accelerate remedial work on these bridges whilst closed was taken.		

Table 2: Shortfalls against income targets in the Budget

Budget	Overspend	Reason	Action Plan / Mitigating Measures	Next Steps
Cafes	£42,000	Income is lower than budgeted targets.	New menus have been introduced as a trial and will be fully implemented if successful. It is anticipated this development will move income received to targeted levels.	Trial underway and outcomes to be evaluated early in 2025/26.

There also remains £1.320 million of MTFS cost reductions either to be finalised or to be fully implemented. A number of these are taking longer than planned to implement with an impact on the 24/25 financial position. A detailed report on this was presented to the Business Transformation Steering Group (BTSG) on Monday 9th June with further updates scheduled on a half-yearly frequency.

<u>Underspends</u>

- Loan Charges are underspent by £1.320 million in 2024/25. There are three main factors:
  - Deferral of borrowing to later years to match timing of capital expenditure;
  - A reduction of £29 million in the borrowing requirement for 2024/25;
  - Higher than forecast surplus cash related directly to timing of capital expenditure thus providing opportunity to generate deposit income.
- Unit prices for the purchase of Electricity and Gas are considerably lower than those used to create the budget which was based on the latest available information from Scotland Excel. Consumption in some sites exceeds budget and these

are being looked at in more detail. Overall, there is an underspend of £0.360 million.

- Income from Roads Construction Charges has exceeded budgetary targets in 2023/24 and 2024/25. Whilst some of the additional income generated will be required to offset costs in future years or has been provided up-front and is reflected in budget carry forwards, £0.471 million can be recognised as an in-year 2024/25 variance.
- Sport and Leisure income exceeded budget by £0.371 million. Tonezone membership levels have continued to increase and are now 754 higher than a year ago. Customer income at Midlothian Snowsports Centre was higher than budgeted.
- With the exception of Additional School Needs (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 than expected pupil numbers thus giving rise to a positive variance of £0.406 million.
- Due to lower than budgeted school and nursey pupils the cost of preparing meals was £0.276 million lower than budgeted.
- Cost pass through from PPP contracts for utility costs is £0.249 million lower than budget due to reduced energy prices.
- The total cost of residential and day education placements for children and also for some non-residential services is £0.196 million less than budget.
- Non ring-fenced Scottish Government Grant is £0.175 million more than expected due to a distributional upside and provision of some additional funding relating to expenditure that was included in the approved budget.

Pay and funding

3.4 The pay award for 2024/25 equated to a total uplift of 4.27% in-year with, at each Spinal Column Point (SCP), a £0.67 uplift to the hourly rate or 3.6% (whichever is better).

3.5 Funding for 2024/25 pay costs involves an assumption of 3% in council budgets, another 0.2% funded from Council Reserves, with remaining costs provided by the Scottish Government. Midlothian Council budgeted at 3% for pay in 2024/25 with the additional 0.2% budget approved by Council on 27th August.

4 Delegation of resources to Midlothian Integration Joint Board

4.1 The approved budget provided for the allocation of £63.535 million to the Midlothian Integration Joint Board (MIJB) for the provision of delegated services.

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 Financial Monitoring reports covering all of the MIJB activities are presented to the Integration Joint Board. In addition, during 2024/25 several all member briefings took place with discussion covering the ongoing financial challenge. MIJB reports are available on the committee management section of the Council website:-

[Midlothian Integration Joint Board (cmis.uk.com)]

4.4 The final position for 2024/25 for MIJB will be presented to MIJB on Thursday 12th June. The financial position for Adult Social Care spend relative to budget was an overspend of £4.883 million, after the application of any available reserves. In accordance with the Scheme of Integration, overspends need to be funded by Partners and for Adult Social Care services this falls to Midlothian Council. It was hoped, in recognition of severe financial pressures in the Social Care sector, that some additional Scottish Government funding in 2024/25 to offset immediate pressures may have been provided to Councils but this did not happen.

4.5 It is therefore recommended that Council approve a supplementary estimate of £4.883 million to increase the IJB requisition in 2024/25 to £69.072 million but with a condition that if any additional funding relating to immediate financial pressures materialises it will be used to reinstate the unplanned utlisation of reserves in 2024/25.

5 Loans Fund Review

5.1 Council on 11th February 2020 approved a change to the accounting policy for repaying Loans Fund Advances to match the repayment term to the life of the asset that was funded (Asset Life Method). The accounting policy was applied both prospectively and retrospectively to all Loans Fund Advances made since 31st March 1996.

5.2 Application of the revised policy resulted in a reduction in prospective Loans Fund Principal Repayments over the life of the MTFS which helped support higher levels of capital expenditure at a time where resources are stretched. In addition, the prior year / retrospective overprovision of £8.250 milllion was available to use to further reduce the level of Loans Fund Principal Repayments over the life of the MTFS.

5.3 As part of a corporate solution to balance the 2021/22 budget some of the retrospective savings were applied. There remains £5.526 million retrospective savings unapplied.

5.4 In recent times, Capital Accounting has been an area of particular Scottish Government focus with consideration of some statutory changes which could have impacted on the availability for use of retrospective Loans Fund review savings. However, this has proven not to be the case, and the correct accounting treatment is for the Council to (like Service Concession Retrospection) recognise the unapplied savings of £5.526 million in the General Fund Reserve.

5.5 As a result, a value equivalent to General Fund Loans Fund Principal Repayments in 2024/25 of £3.373 million can be applied to fund in-year General Fund expenditure. The remaining balance of £2.153 million can be earmarked in the General Fund Reserve to support loan charges that are included in the MTFS. The profile of applying these can be considered further as Capital Plan Prioritisation work draws to a close.

6 General Fund Reserve

6.1 The balance on the General Fund as at 31 March 2025 is as follows:

	£ million	£ million
General Fund Reserve at 1 April 2024		**46.338**
Loans Fund Review Retrospective Savings (recommendation b)		5.526
Updated General Fund Reserve at 1 April 2024		**51.864**
Planned movements in reserves		
Application of Budgets carried forward from 2023/24 for use in 2024/25	(15.366)	
Utilisation of reserve to balance 2024/25 budget	(2.680)	
Utilisation of retrospective service concessions to fund costs in 2024/25	(4.093)	
Additional Scottish Government Funding	1.083	
Transformation funding applied	(1.292)	
Funding for pay (0.2%) – supplementary estimate	(0.330)	
Voluntary Severance Costs	(0.160)	
Other	0.002	
		(22.836)
Supplementary Estimate for MIJB (recommendation a)		(4.883)
Budgets carried forward for use in 2025/26		11.195
Overspend per appendix 1		(3.311)
General Fund Balance at 31 March 2025		**32.029**

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

	£ million
General Fund Balance at 31 March 2025	**32.029**
Earmarked for specific purposes	
Budgets carried forward for use in 2025/26	(11.035)
To support Council Transformation Blueprint	(1.504)
To balance the 2025/26 Budget	(0.163)
Planned use of Service Concession Retrospection (recommendation (e))	(10.767)
Planned use of Loans Fund Review Retrospection (recommendation (d))	(2.152)
General Reserve at 31 March 2025	**6.408**

6.2 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 £4.9 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.

6.3 The General Reserve of £6.4 million is £1.5 million above the minimum set in the Reserves Strategy. Considering current financial pressures, the General Reserve must be viewed both in the context of £4.3 million of service pressures in 2024/25 (Appendix 1 - General Fund Services Net Expenditure), the MTFS projected gap through to 2028/29 and also the ongoing financial pressure faced by MIJB. Until there is significant progress towards a balanced MTFS it remains sound financial practice to maintain a substantial buffer in the General Reserve to offset any further adverse performance against budget or delays in delivering savings measures.

6.4 The earmarked element of the General Fund Reserve to support delivery of the Transformation Blueprint, as shown in the previous table, is £1.504 million. Of this, all but £0.069 million is aligned to individual project funding approvals with spend anticipated in 2025/26 and 2026/27. Additional funding will be required to continue to progress transformation work aligned to the blueprint. This could be funded by a re-purposing of other earmarked reserves to provide an additional £1 million. The specific details of this will be presented to Council for approval as part of Quarter 1 Financial Monitoring for 2025/26.

7 Report Implications (Resource, Digital and Risk)

7.1 Resource

Performance against budget set out in this report presents the final position for the year ended 31st March 2025. Work continues across the council to reduce overspends and to progress at pace delivery of approved savings.

7.2 Digital

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

7.3 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 some previous years has resulted in previously unreported or significantly adjusted variances at the financial year end. CMT continues to consider these areas and supports actions to address the underlying issues and mitigate the risk associated with them. In 2024/25 forecasting of spend on Building Maintenance, Roads Maintenance, Fleet Repairs and Passenger Transport were all particular areas of concern.

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.

7.4 **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.

7.5 **Additional Report Implications**

See Appendix A

Appendices

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. A further round of community consultation is underway.

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 lasting 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 1 financial tables