

Financial Monitoring 2023/24 – General Fund Revenue**Report by David Gladwin, Chief Financial Officer and Section 95 Officer****Report for Information****1 Recommendations**

Council is recommended to:

- a) 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 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 net underspend of £0.134 million which is an improvement of £0.006 million from projections at quarter 3. The underspend represents 0.05% of the revised budget.
- 2.2 Areas of overspend 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 during 2023/24 and where possible put in place recovery actions. Also, in some cases, budgets in 2024/25 have been increased to align with current service costs.
- 2.3 The General Fund balance at 31st March 2024 is £46.339 million. 2023/24 is the first year of implementing accounting changes for service concessions which requires the full value of retrospection (£20.463 million) to be added to the General Fund Balance (Section 5.3 below). Including the planned use of service concession retrospection in the Medium Term Financial Strategy (MTFS) £37.021 million of General Fund Balance is earmarked for specific use thus leaving a non-earmarked General Fund balance of £9.318 million.

Date: 10 June 2024**Report Contact:** David Gladwin, Chief Financial Officer and Section 95 Officer

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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 and is delivering some staffing related and more general areas of underspend.

Performance against budget

- 3.3 The main areas of overspend against budget are outlined in tables 1 and 2 below and also describe mitigating measures and next steps.

Table 1: Material cost variances against budget

Budget	Overspend	Reason	Action Plan / Mitigating Measures	Next Steps
Pupil Transport	£1,157,000	Volume and value of school pupil transport invoices higher than budgeted.	<p>In October, Council agreed a consultation on pupil transport and this is now underway.</p> <p>A root and branch review of Council Transport is underway as part of the Transformation Blueprint.</p> <p>The 2024/25 budget for Pupil Transport was increased in recognition that time is required to reduce the existing service costs.</p>	Pupil Transport update report has been presented to Business Transformation Steering Group (BTSG). Actions to start work to address the findings of the report have been approved.
Fleet	£909,000	<p>Ageing vehicles and higher volumes of external contracting than planned.</p> <p>External vehicle hire to support service continuity.</p>	<p>Areas of service have been re-provisioned.</p> <p>Cost containment measures in place.</p> <p>Fleet Maintenance Review underway.</p> <p>Multi-year Fleet Asset Management Plan being developed.</p>	<p>Fleet replacement for ageing and costly maintenance has been accelerated as approved by Council on Tuesday 21st November.</p> <p>Items are now operational.</p>

Energy Costs	£444,000	Unit prices for electricity in 2023/24 as provided by Scotland Excel are higher than budgeted.		Engagement with Scotland Excel continues to develop understanding of unit price forecasts that are provided and also why they may vary over the course of a year.
Destination Hillend	£483,000	Alpine Coaster not completed during 2023/24 due to external delays impacting on civil engineering works.	Project Team accelerated the Alpine Coaster construction.	Coaster revised programme completion date on target.
Insurance	£387,000	Cost of Annual Premiums and higher than expected costs of existing claims. Higher than normal volume of claims during January to March mainly relating to road conditions.	Continual review of claims at the Risk and Resilience Group.	
Homelessness	£374,000	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 permanent housing supply.	The 2024/25 budget incorporates additional General Fund costs.
Additional Support Needs (ASN)	£341,000	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.
Winter Maintenance	£215,000	The Winter Maintenance Budget is calculated based on a certain level of service based on an average winter. Costs emanating from periods of very high rainfall were higher than customary.		A review of the Winter Maintenance budget in the context of service standards will be undertaken.
Building Repairs	£212,000	Unplanned costs in 2023/24 relating to scaffolding for Midlothian House and Reinforced Autoclaved Aerated Concrete (RAAC) surveys.	A report with recommendations on the future use of Midlothian House is scheduled for Council consideration in August.	Options for changing the use of Midlothian House are linked into the Estate Rationalisation strand of the Transformation Blueprint.

Scottish Government Grant	£188,000	A smaller value of funding than expected for the Teachers Induction Scheme was received reflecting activity in this area.		
Council Tax Reduction Scheme	£171,000	Foregone Council Tax income because eligibility for reductions is higher than projected costs which were based on population and price growth. Eligibility for the scheme is means tested and it is likely that the increase is linked to the cost of living crisis.	Budgets in 24/25 have been amended to reflect 23/24 costs.	

Table 2: Shortfalls against income targets in the Budget

Budget	Overspend	Reason	Action Plan / Mitigating Measures	Next Steps
Sport and Leisure	£259,000	Membership numbers, albeit increasing in recent months, remain lower than pre-pandemic. Non membership based Individual and group use remains lower than pre-pandemic. Snowsports instruction income exceeds budget.	Partly offset by reduced in-year running costs of £143,000. Externally commissioned options appraisal reported to BTSG with further work progressed on a Sport and Leisure Business Case.	Sport and Leisure update report was presented to BTSG on 4 th December and a more detailed options paper will be presented to BTSG in August.
Trade Waste	£96,000	Income is lower than budgeted targets.	Review of Service.	Waste Recycling Transformation Options presentation to BTSG on 9 th November. Further update to BTSG as part of Waste Review.
Cafes	£104,000	Income is lower than budgeted targets.	Review of offering embedded in Sport and Leisure update report.	Sport and Leisure update report was presented to BTSG on 4 th December 2023 and a more detailed options paper discussed at BTSG in May 2024.

There also remains £1.141 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 albeit one that is mitigated by in-year savings, particularly relating to vacancies.

Underspend

- Loan Charges underspent by £2.844 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 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.
- Except for 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 £0.927 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 was 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 impact in 2023/24 is £0.761 million;
- Income from roads construction charging exceeds budget by £0.440 million due to some large one-off receipts in 2023/24;
- Costs accumulated in the General Fund but properly chargeable to the Housing Revenue Account exceeded budget by £0.338 million;
- Over the course of 2023/24 in excess of £24 million of Housing Benefits were granted. It is common, due to Housing Benefit claims rules, to not receive the exact sum granted in Housing Benefit Subsidy from the Department of Work and Pensions and this varies from year to year. In 2023/24 the Council saw a net upside of £0.295 million relative to budget;

- Income from Planning fees exceeds budget by £0.242 million due to a large one-off receipt in 2023/24 and a higher than anticipated volume of applications;
- Fuel prices are now much lower than forecast when the 2023/24 budget was set giving rise to an underspend of £0.173 million;
- Income from Planning fees exceeds budget by £0.181 million due to a large one-off receipt in 2023/24 and a higher than anticipated volume of individual applications;
- Council Tax Income exceeds budget by £0.141 million due to a slightly higher Council Tax base than provided for in the budget.

3.4 The Corporate Management Team continue to meet 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 tables 1 and 2 above.

Pay Costs 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 was agreed late in 2023. Backdated payments have been made to all affected staff.

3.6 Funding for 2023/24 pay costs involved an assumption of 3% in council budgets enhanced by a range of Scottish Government funding as follows:

- Revenue funding of £155 million equating to £2.662 million for Midlothian.
- A further funding package of £80 million nationally involving:
 - £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.
- 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.
- £10 million additional Council contribution.

3.7 Additional Council contributions of £27.2 million outlined in section 3.6 equates to approximately £0.490 million of additional cost for Midlothian and Council have funded this by approving a supplementary estimate in 2023/24.

3.8 The Scottish Government did not provide funding in 2023/24 as planned for the £21 million of Employability Funding. Actual funding is now expected to flow in 2024/25.

3.9 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 £56.544 million.

4.2 Additional pay funding received from the Scottish Government in 2023/24, as discussed in section 3.6 above, provided an opportunity to provide MIJB with additional in-year funding of £0.794 million to contribute towards unbudgeted pay costs. Final in-year MIJB funding is £57.416 million.

4.3 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).

4.4 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 balance on the General Fund as at 31 March 2024 is as follows:

	£ million	£ million
General Fund Reserve at 1 April 2023		34.963
Service Concession Retrospection		20.463
<i>Planned movements in reserves</i>		
Application of Budgets carried forward from 2022/23 for use in 2023/24	(15.242)	
Utilisation of reserve to balance 2023/24 budget	(1.166)	
Utilisation of backdated service concessions to balance 2023/24 budget	(4.093)	
Utilisation of reserve to fund Public Realm works	(3.000)	
Supplementary Estimate for works at Mayfield Primary School and St Luke's Primary School	(0.060)	
Supplementary Estimate for Pay	(0.490)	(24.051)
Underspend per appendix 1		0.134
Final position with VAT Claims		(0.073)
Application of Transformation Blueprint funding		(0.432)
In-year budgets carried forward for use in 2024/25		15.335
General Fund Balance at 31 March 2024		46.339

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

	£ million
General Fund Balance at 31 March 2024	46.339
<i>Earmarked for specific purposes</i>	
Budgets carried forward and earmarked for use in 2024/25	(15.335)
Service Concession Retrospection to support the MTFS	(16.370)
To balance the 2024/25 Budget	(2.680)
To support Council Transformation Blueprint	(2.636)
General Reserve at 31 March 2024	9.318

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 £4.4 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 Council approved use of the financial flexibility related to Service Concessions. 2023/24 is the first year of accounting for these with the full value of retrospection of £20.463 million added to the opening General Fund Balance. Approved utilisation will run down the remaining value. As part of the MTFS Council approved application of Service Concession retrospection over a 5 year period hence the treatment of the unapplied balance of £16.370 million as an earmarked element of the General Fund Reserve.
- 5.4 The General Reserve is £9.318 million. This is £4.918 million in excess of minimum reserves strategy. Considering current financial pressures, the General Reserve must be viewed both in the context of £2.973 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 £20.6 million through to 2028/29. 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 Report Implications (Resource, Digital and Risk)

6.1 Resource

The performance against budget set out in this report presents the final position 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 continues to resolve this issue. In 2023/24 the Building Maintenance Service shows an on-budget position. As referenced in the Housing Revenue Account report at agenda item 8.2 today, in order to address Scottish Housing Quality Standard indicators, sustain continual improvement in void turnaround times and to respond to an increase in dampness reports, the Building Maintenance Services showed improved service productivity and performance with an 8% increase in jobs completed from the position in 2022/23.

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 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 – Midlothian Council
General Fund 2023/24
Performance against budget**

Function	Approved Budget	Revised Budget Expenditure	Revised Budget Income	Revised Budget Net £	Outturn £	(Underspend) / Overspend £
Management and Members	1,677,915	1,822,981	0	1,822,981	1,911,782	88,801
<u>Place</u>						
Corporate Solutions	23,956,110	49,864,544	(24,573,513)	25,291,031	24,854,786	(436,245)
Place	40,176,220	59,509,287	(17,592,549)	41,916,738	44,849,551	2,932,813
Central Costs	1,198,871	0	0	0	386,774	386,774
<u>People and Partnerships</u>						
Midlothian Integration Joint Board	56,593,028	65,833,216	(8,417,325)	57,415,892	57,415,892	0
Non-Delegated Services - Community Safety and Welfare Rights	421,250	757,858	(94,001)	663,857	614,530	(49,327)
Childrens Services, Partnerships and Communities	18,955,577	18,605,706	0	18,605,706	18,610,408	4,702
Education	120,906,768	147,140,164	(17,420,133)	129,720,031	129,876,460	156,429
Lothian Valuation Joint Board	581,659	581,659	0	581,659	562,251	(19,408)
Non Distributable Costs	898,936	898,936	0	898,936	807,870	(91,067)
GENERAL FUND SERVICES NET EXPENDITURE	265,366,334	345,014,352	(68,097,521)	276,916,831	279,890,304	2,973,473
Loan Charges	4,435,000	4,435,000	0	4,435,000	1,590,597	(2,844,403)
NDR Discretionary Relief	70,300	70,300	0	70,300	78,515	8,215
Investment Income	(110,736)	-175,000	(110,736)	(285,736)	(209,083)	76,653

Allocations to HRA, Capital Account etc.	(5,414,898)	(5,433,237)	0	(5,433,237)	(5,771,380)	(338,143)
	264,346,000	343,911,416	(68,208,257)	275,703,159	275,578,954	(124,205)
less Funding:						
Scottish Government Grant	(191,629,000)	0	(199,023,353)	199,023,353	198,835,474	187,880
Council Tax	(62,836,000)	0	(62,836,000)	62,836,000	62,976,681	(140,681)
Transfer from Housing Revenue Account	(2,014,000)	2,014,000	0	2,014,000	2,071,000	(57,000)
Service Concessions - in-year	(2,608,000)	2,608,000	0	2,608,000	2,608,485	(485)
Service Concessions - retrospection	(4,093,000)	4,093,000	0	4,093,000	4,092,524	476
Utilisation of Reserves	1,166,000	345,925,416	(330,067,610)	11,829,806	11,695,799	(134,007)