Midlothian Council
Tuesday 29th August 2023
Item 8.1

Financial Monitoring 2023/24 – General Fund Revenue

Report by David Gladwin, Acting Chief Financial Officer

Report for Information

1 Recommendations

Council is recommended to:

a) Note projections of revenue costs and income in 2023/24 against budget;
b) Note the projected General Fund Reserve Balance at 31st March 2024;.and
c) 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 £0.928 million which represents 0.3% 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 put in place recovery actions.

2.3 The projection of the General Fund balance at 31st March 2024 is £13.797 million, of which £3.069 million is earmarked for specific use and a further £6.839 million relates to VAT claims leaving a non-earmarked General Fund balance of £3.889 million.

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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 variance against budget at quarter 1 are outlined below. Projections early in a financial year are difficult in many areas and come with a degree of uncertainty.

Overspends

- There remains £0.917 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. Council on 4th October 2022 agreed a saving of £0.083m in 23/24 rising to a recurring £0.250m for rationalisation of the office estate. Delivery of this remains at risk and is covered in detail elsewhere on today's agenda;
- The volume and value of school pupil transport invoices remains considerably higher than budgeted with a projected overspend of £0.790 million. A root and branch review of the service is well underway and is incorporated into the Transformation Blueprint. It is intended to bring an update report to the Business Transformation Steering Group (BTSG) in September;
- Sport and Leisure income projections remain lower than budgeted by £0.824 million in 2023/24. The income shortfall is partially offset by reduced running costs of £0.710 million in leisure facilities. An externally commissioned options appraisal report was completed recently and will help inform future service provision. This will be presented to BTSG in September;
- Costs pressures relating to the upkeep of the Council's fleet have been a challenge in recent years. Officers have responded by re-provisioning areas of service and implementing some cost containment measures. In the current financial year projected costs are higher than ever stemming from ageing vehicles and higher volumes of external contracting than planned. Vehicle downtime has necessitated external vehicle hire to support service continuity. The projected overspend is £0.813 million. Management are reviewing both the approach to maintaining the Council's fleet and the multi-year Fleet Replacement Plan. Mitigating actions will be reported to Members in due course;

- The Destination Hillend Business Plan approved by council on 13th December 2022 contained customer income from the Alpine Coaster. The civil engineering works part of the build project is behind schedule due to unforeseen issues with the routing of mains supply water pipes involving Scottish Water and Transport Scotland for resolution. This, in turn, delays construction of the Alpine Coaster. It is projected that no income will be received from the coaster in 2023/24 leading to a financial pressure of £0.483 million;
- The Council has successfully reduced the use of temporary accommodation for homeless presentations replaced with permanent tenancies. This changes the split of voids and service charge costs between the Housing Revenue Account and the General Fund with a detrimental impact on the General Fund of £0.423 million. Methodology is under review and may result in a revision once options are appraised;
- Pressure on the Additional Support Needs (ASN) service is considerable. Investment in infrastructure is taking place to move with demand. Meanwhile, some expensive out of authority placements and other bespoke packages are in place and give rise to a projected overspend of £0.311 million;
- Insurance costs are projected to exceed budget by £0.251 million. Annual premiums have risen considerably and costs of settling some existing claims have been higher than previously provided for. The Risk and Resilience Group continue to provide oversight;
- Customer income from the Trade Waste service is lower than provided for in the budget. The customer base is contracting and management are reviewing the implications of this service offer. The overspend is £0.200 million;
- Business in Council run cafes and the outside catering service is considerably slower than experienced pre-pandemic and may not fully recover leading to an overspend of £0.170 million. Management are reviewing the offering.

Underspends

- Loan Charges are projected to underspend by £2.442 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 £0.707 million. As projections are in advance of the new school year they carry a particular risk;
- 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 £0.544 million;
- Fuel prices are now much lower than forecast when the 2023/24 budget was set giving rise to a projected underspend of £0.209 million;
- Income from roads construction charging exceeds budget by £0.163 million due to some large one-off receipts in 2023/24;
- The cost of residential, day education and family placements for children is projected to be £0.154 million less than budget.

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.

<u>Pay and funding</u>

3.5 Employees whose pay negotiations are covered by the Scottish Joint Council (SJC) trade unions have not agreed a pay award for 2023/24. The latest employer offer equates to an average uplift of 5.5% in-year with a higher percentage uplift for lower grades. This offer has been rejected with possible industrial action ahead.

3.6 Funding for the 2023/24 offer as it stands involves an assumption of 3% in council budgets with the remaining 2.5% provided by the Scottish Government. 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. It is assumed that any further financial implications from a revised offer will be fully funded by government.

3.7 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 £56.581 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)]

5 General Fund Reserve

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

	£ million	£ million
General Fund Reserve at 1 April 2023		**34.194**
Planned movements in reserves		
Application of Budgets carried forward from 2022/23 for use in 2023/24	(15.243)	
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)	
		(16.469)
Overspend per appendix 1		(0.928)
Projected application of earmarked reserve to fund Public Realm works		(3.000)
General Fund Balance at 31 March 2024		**13.797**

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

	£ million
General Fund Balance at 31 March 2024	**13.797**
Earmarked for specific purposes	
To support Council Transformation Blueprint	(3.069)
General Reserve at 31 March 2023	**10.728**
VAT Windfall	(6.839)
Revised General Reserve at 31 March 2024	**3.889**

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 The General Reserve, excluding windfall VAT income, of £3.889 million is below the minimum set in the Reserves Strategy. However, at the time of writing this report, settlement of the first of the two VAT claims is in the process of being paid as notified by HMRC on Friday 4th August. The Council's 2022/23 accounts provided for a net settlement of £5.192 million for this claim including backdated compound interest. The actual value is expected to be around £0.160 million higher. This will be reflected in the Quarter 2 position and will move the General Reserve back well in excess of minimum value thus countering the need for immediate recovery action.

5.4 In the current financial climate the General Reserve must be viewed in the context of MTFS projections showing a gap of approximately £35 million through to 2028/29 after reflecting June Council decisions. Until there is significant progress towards a balanced MTFS it is 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. At quarter 1 there is insufficient quality data to make meaningful projections for energy costs and building maintenance. Activity is in place to ensure this will be rectified for quarter 2.

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 – Additional Report Implications
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.