

Financial Monitoring 2024/25 – General Fund Revenue**Report by David Gladwin, Chief Financial Officer and Section 95 Officer****Report for Information****1 Recommendations**

Council is recommended to 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 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 projected net overspend of £2.200 million which is a deterioration of £0.427 million from projections at quarter 1. The projected overspend represents 0.7% of the revised budget.
- 2.2 Some areas of projected overspend 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 on 31st March 2025 is £21.501 million, of which £14.742 million is earmarked for specific use leaving a non-earmarked General Fund balance of £6.759 million.

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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.

Performance against budget

- 3.3 The material areas of projected variance against budget at quarter 2 are outlined in table 1 below which also describes mitigating measures and next steps. Accurate projections during a financial year are difficult in some areas and come with a degree of uncertainty.

Table 1: Material cost variances against budget

Budget	Overspend	Reason	Action Plan / Mitigating Measures	Next Steps
Staff Costs	£1,521,000	Maternity cover in schools (£554,000), staffing in excess of budget in Neighbourhood Services (£326,000), absence cover costs for cleaning and janitorial services (£239,000), additional resource in Building Maintenance Services (£250,000) and higher costs from deploying temporary resources to cover service areas with permanent recruitment challenges (£234,000). Partially offset by some vacancies across the Council.	Strategic Workforce Plan is being developed. Continuation of enhanced level of vacancy control.	Continual review of service costs. Full Implementation of Neighbourhood Services Review will reduce costs to budgeted levels. Review of interaction between the General Fund and the Housing Revenue Account for Building Maintenance.
Pupil Transport	£968,000	Volume and value of school pupil transport invoices higher than budgeted.	Council approval to proceed with the transport review was granted on 25 th June 2024. This will include a root and branch review of practices, processes and costs.	Appointment of delivery partner. Where possible, early implementation of identified efficiencies.
Insurance	£632,000	The volume of insurance claims settled, particularly relating to potholes, increased considerably during quarter 1 and whilst reducing a little during	Internal processes to consider each claim are being reviewed with potential to increase repudiation rates and consequently reduce	Officer review meeting linking in with professional insurer advice.

		quarter 2 remains at a higher level than seen in previous years.	projected costs in 2024/25.	
Council Tax Income	£600,000	<p>Whilst the Council Tax Base continues to grow total projected income is lower than budgeted.</p> <p>Household growth is slower than anticipated, the value of households eligible for a Single Person Discount has increased considerably and a higher provision has been made for non-collection of Council Tax.</p>	A detailed review is underway to develop a fuller understanding of influencing factors and to ensure they are reflected in future years budget setting.	
Waste Disposal	£404,000	<p>The contract for disposal of Bulky Items expired in July. Tender responses necessitated an extension to the contract which came at an additional cost for the current financial year of £267,000 including additional costs to separate upholstered materials.</p> <p>A legislative change on treatment and haulage of air pollution contaminants has driven a higher cost than budgeted of £137,000.</p>		
Fleet	£317,000	<p>Ageing vehicles and higher volumes of external contracting than planned.</p> <p>External vehicle hire in Waste Services 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 19th December 2023.</p> <p>Items are now operational.</p>
Building Repairs	£153,000	Costs in 2024/25 relating to scaffolding for Midlothian House.	A report with recommendations on the future use of Midlothian House is scheduled for Council consideration in November.	Options for changing the use of Midlothian House are linked to the Estate Rationalisation strand of the Transformation Blueprint.

Table 2: Shortfalls against income targets in the Budget

Budget	Overspend	Reason	Action Plan / Mitigating Measures	Next Steps
Cafes	£58,000	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 later in 2024/25.

There also remains £1.450 million of Medium-Term Financial Strategy (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 19th August.

Council on 4th October 2022 agreed a saving of £0.250 million for rationalisation of the office estate. Delivery of this remains at risk.

Underspends

- Loan Charges are projected to underspend by £1.627 million in 2024/25. There are three main factors:
 - Deferral of borrowing to later years to match timing of capital expenditure;
 - A reduction of £25.2 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. An underspend of £0.751 million is forecast. Consumption projections remain consistent with budget.
- 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 £0.768 million.
- The cost of residential and day education placements for children and also for some non-residential services is projected to be £0.364 million less than budget.

Pay and funding

- 3.4 With the exception of Unison members, all employees now have an agreed pay award for the current financial year. The award equates 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). Discussions with Unison continue.
- 3.5 Funding for 2024/25 pay costs as it stands involves an assumption of 3% in council budgets, another 0.2% funded from Council Reserves with remaining costs provided by the Scottish Government with a variety of mechanisms to deliver this. Midlothian Council budgeted at 3% for pay in 2024/25 with the additional 0.2% budget approved by Council on 27th August.

Destination Hillend

- 3.6 The wider Destination Hillend project approved by Council in December 2022 has been paused pending a review of tendered costs with an updated business case to be developed prior to further elected member engagement.
- 3.7 The first phase of the project included work on the road infrastructure and installation of an alpine coaster. This phase is complete and the coaster is operational. The 24/25 budget was set based on an opening date for the coaster in July and reflected customer income projections embedded in the approved business case. Whilst the Coaster has proven to be very popular the later than expected opening date alongside carefully managed initial opening hours have resulted in a projected shortfall of income of £0.125 million against budget in the current financial year.

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 and are available on the committee management section of the Council website:-

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

- 4.4 MIJB met on Thursday 24th October and discussed quarter 2 projections for 2024/25 which show a very significant overspend albeit with mitigating actions underway. At this stage there is a very significant risk of MIJB requiring additional resource from Midlothian

Council to be able to fund costs in 2024/25. Detailed engagement with elected members has taken place and will continue.

5 General Fund Reserve

- 5.1 The projected balance on the General Fund as at 31 March 2025 is as follows:

	£ million	£ million
General Fund Reserve at 1 April 2024		46.338
<i>Planned movements in reserves</i>		
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)	
Transformation funding applied to date during 2024/25	(0.171)	
Funding for pay (0.2%) – supplementary estimate	(0.330)	
Other	0.003	
		(22.637)
Overspend per appendix 1		(2.200)
General Fund Balance at 31 March 2025		21.501

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

	£ million
General Fund Balance at 31 March 2025	21.501
<i>Earmarked for specific purposes</i>	
To support Council Transformation Blueprint	(2.465)
Planned use of Service Concession Retrospection	(12.277)
General Reserve at 31 March 2025	6.759

- 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 £4.743 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 of £6.759 million is £2.016 million above the minimum set in the Reserves Strategy. Considering current financial pressures, the General Reserve must be viewed both in the context of £3.227 million of underlying service pressures in 2024/25 (Appendix 1 - General Fund Services Net Expenditure), the latest Medium Term Financial Strategy (MTFS) projected gap of approximately £20.6 million through to 2028/29 and also the severe in-year 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 Report Implications (Resource, Digital and Risk)

6.1 Resource

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

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

The 2024/25 Budget was finalised with some assumptions on Scottish Government Grant Funding. The Scottish Government removed £145 million of funding for teachers from General Revenue Grant to Ring-Fenced Revenue Grant (£2.786 million for Midlothian) with a wish to attach conditions around teacher numbers to this funding. Discussions have not been concluded and grant offer letters remain unsigned. Whilst this situation persists there remains a risk of not receiving all the expected funding.

Further Scottish Government funding, via UK Government consequentially, is due to pass to Councils to fund the Employers Superannuation increase for Teachers. Funding for this has not yet been received and Councils have not been advised of timescales. The additional cost to Midlothian Council is approximately £1.8 million.

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. At quarter 2 projections for building maintenance recharges remain under review. Activity is in place to ensure this will be rectified for quarter 3.

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 and ongoing 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. 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