

Financial Monitoring 2022/23 – General Fund Revenue**Report by David Gladwin, Chief Finance Officer (acting)****Report for Information****1 Recommendations**

Council is recommended to:

- a) Note specifically the projected financial position for the General Fund Reserve in financial year 2022/23 and the associated risks with projections at this stage in the year; and otherwise
- b) Note the contents of the 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 2022/23 and to provide commentary on areas of material variance against budget. The projected budget performance figures as shown in appendix 1 result in a net underspend of £1.442 million for the year which is a £1.667 million improvement on the position at quarter 1 reported to Council on 23rd August. The projected underspend represents 0.54% of the revised budget.
- 2.2 The projected General Fund balance at 31st March 2023 is £6.305 million, of which £0.265 million is earmarked for specific use.
- 2.3 The projection of the General Fund Balance at 31st March 2023 is predicated on the ongoing financial impact of the Covid-19 Pandemic continuing to be met from the available funding, whether ring fenced for specific purposes, or from general funding provided.

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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 projected lost income as a consequence of the Covid-19 pandemic.
- 3.2 The main areas of projected service budget variances projected at quarter 2 are outlined below. As ever, projections during a financial year are difficult in many areas and come with a degree of risk. The implications of economic conditions prevalent during 2022/23 only adds to this this.

Projected Overspends

- There remains £1.212 million of Medium Term Financial Strategy (MTFS) cost reductions to be finalised mainly relating to Management Reviews across Place (£0.756 million), Sport & Leisure (£0.166 million) and also including a review of the Council's Creative Arts service (£0.290 million). Clearly the pandemic has impacted on progress with these but they are all are now at implementation stage. These cost pressures are partly mitigated by vacancies of £0.675 million held pending completion of reviews;
- Council run cafes and the outside catering service have reopened after a long period of closure. Business is considerably slower than experienced pre-pandemic and may not fully recover leading to a projected overspend of £0.233 million. Management are reviewing the offering;
- Insurance costs are projected to be over budget by £0.292 million due to provisions made for new or reopened claims on the Council. Whilst no individual claim is of particularly high value the volume of individual claims is higher than is customary. Council officers and loss adjusters review each claim with oversight by the Risk and Safety Group;
- Costs of transporting young people to education settings exceeds budget by £0.089 million. A full review of school and children's services transport has been initiated;
- Costs of vehicle repairs mainly relating to external works exceeds budget by £0.105 million. A service review is underway alongside immediate cost containment measures;
- 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. The projected overspend is £0.116 million;
- Costs of software and licencing due to increased cyber security measures and a continued move to cloud-based software gives rise to a projected overspend of £0.204 million;
- The budget for the year for Council Tax Income is £58.496 million and this includes £1.350 million aligned to continued

housing growth in Midlothian. Projections at Q2 show a shortfall against budget of £0.160 million (0.27%). Whilst household growth to date does not differ significantly from budget setting assumptions further forecasting work is necessary alongside a review of collection rates. Further updates will be provided in upcoming Medium Term Financial Strategy (MTFS) reports and also within quarter 3 financial monitoring;

- Fuel purchase costs for the Council's fleet are projected to be £0.151 million in excess of budget. Supply costs increased considerably in recent months although have now returned close to budgeted levels.

These are more than offset by favourable movements against budget:

- Significantly higher surplus cashflow than expected linked to the current spend on Capital Programmes and the continued increasing interest rate environment has provided opportunity to generate a significantly higher return on short term deposits in 22/23 than was anticipated when the budget was set. Approved methodology for allocating Loan Charges between General Fund and Housing Revenue Account results in the vast majority of this upside benefitting the General Fund. Current projections, albeit in a fluctuating market, show an in-year underspend of £1.141 million;
- Council Officers from Midlothian and the City of Edinburgh Council (CEC), as part of the joint management and monitoring arrangements for the waste plant at Millierhill, have been working through calculations for third party income due. In 2022/23 it is projected that £0.734 million is due to Midlothian. Work continues to develop understanding of future year possibilities and an income assessment will be included in the next MTFS update;
- The cost of residential and day education placements for children is £0.340 million lower than budgeted. Investment in local supports rather than utilising external placements is driving this position but there remains a risk of expensive external placements at short notice and out with the Council's control;
- The cost of family placements for children is projected to underspend by £0.218 million with a continued push to recruit foster carers;
- Savings continue to accrue from the avoidance of use of Bed and Breakfast accommodation for homeless clients. An underspend of £0.210 million is projected.

- 3.3 Relevant senior officers are required to deliver recovery actions at pace for the service areas that are projecting overspends and accordingly it is expected that pressure in these areas may reduce over the remainder of the year once the impact of the recovery action is validated.

Covid Costs

- 3.4 Covid related funding provided to the Council by the Scottish Government alongside other funding streams aligned to Covid recovery were carried forward from 2021/22 to 2022/23. Funding continues to be applied in year to match costs and lost income with the planning assumption that the remainder will be applied in 2022/23 or in future years to mitigate the continued impact of the pandemic and support increased service costs across Midlothian.

Inflationary Pressures

- 3.5 Since the 2022/23 budget was approved there has been a rapid rise in inflation. This has manifested itself in considerable additional and unbudgeted costs in some service areas. Most visibly this is seen in energy prices and contractual inflation embedded in contracts, particularly for Public Private Partnerships (PPP). Council approved a supplementary estimate of £1.395 million on 23rd August to fund these.
- 3.6 Further unbudgeted costs of £0.115m are projected in 22/23 for fuel for Council operated fleet. Latest projections for energy costs do not indicate further inflationary costs beyond the available budget mainly due to forward purchasing and work is ongoing to understand the impact of food price inflation.

Agreed Savings

- 3.7 Council on 4th October 2022 approved some operational efficiency measures totalling £1.227 million in 2023/24 as an early contribution to delivering a financially balanced MTFs. The following measures are now implemented in 2022/23 and reflected in the projected outturn figures in section 3.2 above.

- Leadership Review Corporate Solutions - £0.045m;
- Place – review of temporary accommodation provision - £0.200m;
- Sport and Leisure
 - Premises, Supplies and Services and Third Party Payments - £0.045m;
 - Reduction of Specialist Instructors - £0.035m.

The remaining measures will take a little more time to implement but will be progressed as quickly as possible.

Pay + National Insurance

- 3.8 The 2022/23 pay claims for the SJC bargaining group have now been concluded and are at implementation stage. The agreed offer represents:
- For those on the Local Government Living Wage and pay scale point (SCP) 19 to 24 and undifferentiated 5% or a £2,000 uplift (calculated on a nominal 36 hour working week), whichever is larger;
 - A 10.2% increase for the lowest paid. For SCP 38 (£24,984) a 7.7% increase (£1,925) and for SCP 52 (£30,212) a 6.37% increase (£1,925); and

- An undifferentiated 5% or a £1,925 uplift (calculated on a nominal 36 hour working week), whichever is larger, capped for those currently earning £60,000 or more at a £3,000 uplift (based on a 37 hour working week).

It is estimated that this equates to a 7.23% increase in the Council's SJC paybill.

- 3.9 An offer of 5% had been made to and rejected by the Scottish Negotiating Committee of Teachers bargaining group. Discussions are ongoing.

Funding

- 3.10 A pay increase of 2.5% was provided for in the 2022/23 base budget. The Scottish Government have provided additional funding for 3.73% of the increased cost:
- £140m revenue funding nationally of which £2.338m will flow to Midlothian as part of general revenue funding;
 - £120.6 million of Capital Funding (Capital Flexibilities) of which £2.014 million will flow to Midlothian as a capital grant. A one-off flexibility option to allow capital grant to fund in-year revenue expenditure has been developed with Scottish Government and CoSLA officials and is awaiting Scottish Government Ministerial approval. Until agreement by all parties is reached (including Audit Scotland) there remains a risk that the Council will not have adequate revenue funding in place for the pay award.
- 3.11 The remaining 1%, estimated at £1.8 million, links into ongoing national discussions around funding flexibilities. Detail on options available for Councils is awaited and the planning assumption is that there will be an option within that works for all Councils. However, until this is known, risk remains that the Council will not have an adequate funding solution and may need to fund this from existing resources.
- 3.12 At this point no adverse variation has been reflected in the outturn projections for pay.

National Insurance

- 3.13 The UK Government reversed the 1.25% Health and Social Care additional levy on Employers National Insurance rates. This will be implemented from 6th November 2022 and is projected to reduce the Council's total paybill by around £0.400 million in 2022/23. As work is ongoing to embed the change in detailed workings the projected underspend for the year is not reflected in section 3.2 of the report but instead is shown separately in the General Fund Reserve movement in section 5.

Building Maintenance Service

- 3.14 Financial outturn for 2021/22 reported to Council in June showed a considerable adverse variance of £0.788 million for the Building

Maintenance Service. A subsequent discussion took place at Business Transformation Steering Group at which clear direction was given to officers to undertake a fundamental service review. Officers are progressing well with the review.

- 3.15 Whilst the value of work invoiced at this point in the financial year has improved from previous years there remains insufficient quality data on which to base a robust financial projection. As a consequence there remains a risk, based on previous experience, of an adverse variance against budget arising which would add to the reported overspend and further deplete reserves.

4 Delegation of resources to Midlothian Integration Joint Board

- 4.1 The approved budget provided for the allocation of £56.438 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 increase the allocation to £56.710 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 Additional costs incurred by the MIJB in response to the Covid-19 pandemic are expected to continue to be funded by government and accordingly at this time the expectation is that delegated services will be delivered within the allocations provided and so no provision has been made for an additional budget allocation from the Council.
- 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 \(cmis.uk.com\)](http://cmis.uk.com)

5 Projected General Fund Reserve

- 5.1 The projected balance on the General Fund as at 31 March 2023 is as follows:

	£ million	£ million
General Fund Reserve at 1 April 2022		32.432
<i>Planned movements in reserves</i>		
Application of Budgets carried forward from 2021/22 for use in 2022/23	(19.923)	
Funding of Corporate Solution for 2022/23 Budget	(5.576)	
Supplementary Estimate for Inflationary Pressures	(1.395)	
Supplementary Estimate for costs of the additional public holiday	(0.030)	
Other movements	0.026	
		(26.898)
Application of Business Transformation Funding to support service re-design		(1.071)
Projected underspend per appendix 1		1.442
Projected saving from Employers National Insurance rate cut		0.400
Projected General Fund Balance at 31 March 2023		6.305

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

	£ million
Projected General Fund Balance at 31 March 2023	6.305
<i>Earmarked for specific purposes</i>	
To support Council Transformation	(0.265)
Projected General Reserve at 31 March 2023	6.040

- 5.2 The Reserves Strategy approved by Council on 12 February 2019 needs the Council to maintain an adequate level of General Reserve to provide a contingency for unforeseen or unplanned costs and that in the financial context at that time 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 £3.818 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 projected General Reserve of £6.040 million is above the minimum set in the Reserves Strategy but will only remain that way if there is no further adverse performance against budget or any further draw on reserves. There is also the continued uncertainty over the financial impact of the pandemic and funding assumptions together with essential response costs relating to weather conditions during the winter period.

- 5.4 Similarly there is an expectation that there will be a recovery in the service overspends projected at quarter 2. The impact of this recovery action will be reflected in future projections when they are validated.

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 projected performance against budget for the full year based on activity in the second quarter of the 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.

At this point in the financial year there is a heightened risk that actual costs and income level may vary across the remainder of the financial year. The projected financial position could also deteriorate if local or national restrictions were to be reintroduced. In addition the risk of adverse weather has the potential to create pressure on service budgets over the remainder of the year

There are a 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.

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 not only for the current financial year but for future years.

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 reflected a community consultation exercise carried out in 2019 which has also helped shape the drafting of the “Midlothian Promise” and the early development of the Council’s Longer Term Financial Strategy.

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

A.6 Impact on Performance and Outcomes

The Financial Strategy facilitates decision 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 1 financial tables