

**Financial Monitoring 2021/22 – General Fund Revenue****Report by Gary Fairley, Chief Officer Corporate Solutions****Report for Noting****1 Recommendations**

- a) Note the projected financial position and the associate risks with projections at this stage in the financial year;
- b) Note that as instructed by Council on 29<sup>th</sup> June 2021 a review of the deliverability of savings targets for the current year as a consequence of the pandemic has been completed and is reflected in the revised budgets set out in appendix 1;
- c) Note that COVID recovery plans aligned to the £2 million additional earmarked reserve continue to be developed; and otherwise
- d) 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 2021/22 and details of material variances against budget. The projected budget performance figures shown in appendix 1 result in a projected net underspend of £0.323 million for the year which is 0.13% of the revised budget.
- 2.2 Council on 29<sup>th</sup> June, during consideration of paper 8.9 Financial Monitoring 2020/21 General Fund Revenue, instructed that a review of the deliverability of savings targets for the current year, as a consequence of the pandemic, and also service budget pressures be progressed and reflected in the next monitoring report. The outcome of this work, which involved both the removal of some savings targets and mitigating underspends, with no net impact on the projected General Fund Balance is reflected in the revised service budgets detailed in appendix 1.
- 2.3 The projection of the General Fund Balance at 31<sup>st</sup> March 2022 is predicated on the financial impact of the Covid-19 Pandemic continuing to be met from the available funding, whether ring fenced for specific purposes, or from the general funding provided.

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**Report Contact:**

Gary Fairley, Chief Officer Corporate Solutions

[gary.fairley@midlothian.gov.uk](mailto:gary.fairley@midlothian.gov.uk)

0131 271 3110

### 3 Background

- 3.1 This report encompasses all performance against revenue budget including additional costs incurred and projected lost income due to the Covid-19 pandemic.
- 3.2 The main areas of projected service budget variances projected at quarter 1 are outlined below and covered in more detail at appendix 2. As ever, projections early in a financial year are difficult in many areas and come with a degree of risk. The continued exceptional operating environment across many services during the first quarter has only added to this.

#### Projected Overspends

- A higher than planned value of works relating to the repair and maintenance of the Council's operating fleet is being externally contracted giving rise to a projected adverse variance against budget of £0.406 million. Management action is in place to carefully manage spend in this area and also to accelerate service review work that is underway;
- The annual review of Insurance premiums as provided for in the contract, alongside some potentially higher value new claims in 2021/22, has resulted in an increase giving rise to a projected overspend of £0.285 million. The main drivers for increased premium are the Council's claims experience and a general market pressure felt across the sector. The contract is due for re-tendering in July 2022 and preparatory work is underway;
- There remains £0.465 million of Medium Term Financial Strategy (MTFS) cost reductions to be finalised relating to Management Reviews. Clearly the pandemic has impacted on progress but all are now at the implementation stage with officers now working to conclude these at pace.

These are more than offset by favourable movements against budget:

- The impact of vacant posts across the Council of £0.654 million. Many of these are posts which are within the scope of the MTFS Management Review proposals and will be removed from the Council's staffing establishment as reviews are progressed to completion;
- Latest projections of actual pupil numbers across the spectrum of learning settings for children and young people are lower than provided for in the budget thus giving rise to a positive variance in Education of £0.573 million. Clearly this position may be subject to change once schools resume for the 2021/22 academic term and census information becomes available;
- Pressure on Family Placement and Residential Respite budgets has eased giving rise to a positive variance of £0.295 million.

Again, projections will be very sensitive to change as the year progresses.

- 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.
- 3.4 COVID funding provided to the Council by the Scottish Government late in 2020/21 alongside other funding streams aligned to COVID recovery were carried forward from 2020/21 to 2021/22. Funding continues to be applied in year to match costs and lost income with the planning assumption that the remainder will be applied in 2021/22 or in future years to mitigate the impact of the pandemic and support increase service costs across Midlothian.
- 3.5 The provision for pay awards included in the approved budget approved reflected the Scottish public sector pay policy for 2021/22 published at the time and as members are aware Government subsequently revised the pay policy. The pay position projected at Quarter 1 is based on the current offers made to the SJC and SNCT bargaining groups which broadly still reflects this revised public sector pay policy. Although this is greater than the provision made in the approved budget the additional £675,000 (£40 million nationally) funding provided in the Local Government Finance (Scotland) Order 2021 was applied to provide an increase provision in the revised budget for pay awards.

#### **4 Delegation of resources to Midlothian Integration Joint Board**

The approved budget provided for the allocation of £47.724 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 £47.739 million. The allocation will also be increase to reflect the pay awards once these are settled.

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).

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.

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

The projected balance on the General Fund as at 31 March 2022 is as follows:

	£ million	£ million
<b>General Reserve at 1 April 2021</b> ( subject to audit)		<b>6.358</b>
<i>Planned movements in reserves</i>		
Council Transformation Programme Costs	(0.348)	
Severance Costs	(0.034)	
		(0.382)
Projected underspend per appendix 1		0.323
<b>Projected General Fund Balance at 31 March 2022</b>		<b>6.299</b>

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

	£ million
<b>Projected General Fund Balance at 31 March 2022</b>	<b>6.299</b>
<i>Earmarked for specific purposes</i>	
Enhancement to Reserves earmarked for training	(0.157)
Set aside as approved in June 2021	(2.000)
<b>Projected General Reserve at 31 March 2022</b>	<b>4.142</b>

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 approve the adoption of 2% of the approved budgeted net expenditure (excluding resources delegated to the IJB) to be considered a minimum. This equates to £3.650 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 restatement of reserve position.

The projected General Reserve of £4.142 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.

Similarly there is an expectation that there will be a recovery in the service overspends projected at quarter 1. 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 first quarter of the year. The material variances detailed in appendix 2 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 early 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 ineffective feeder systems or incomplete service information which in previous years has resulted in previously unreported or significantly adjusted variances at the financial year end. Financial Management CMT on 11th August considered these

areas and is continuing to support 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. In that respect, there is a risk that the quantum provided to fund the removal of curriculum charging falls short of the income budgeted to be collected. Work is underway to assess the full impact of the removal of these charges on school budget and compare that to the funding provided.

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 exiting 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 1-2 financial tables**