

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

- a) Council is recommended to 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 2021/22 and details of material variances against budget and the General Fund Reserve.
- 2.2 This report incorporates all COVID related income and expenditure in 2021/22 with related divergence from budgets fully funded by a combination of government grant, whether ring fenced for specific purposes, or from the general funding provided, and savings elsewhere in council budgets.
- 2.3 The budget performance figures shown in appendix 1 result in a net underspend of £3.091 million for the year being 1.28% of the revised budget and a £0.491m improvement from that reported at quarter 3.

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### 3 Background

- 3.1 This report encompasses all performance against revenue budget including additional costs incurred and lost income due to the Covid-19 pandemic.
- 3.2 The main areas of service budget variances for the year are outlined below and covered in more detail at appendix 2.

#### Overspends

- Costs exceeded income generated by £0.788 million for the Building Maintenance Service. Service turnover for the year was £6.405 million and the adverse variance reflects issues with productivity and job management combined with difficulties in obtaining material and rising prices;
- 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 an adverse variance against budget of £0.203 million, a further improvement from the positions reported at earlier quarters. Management action is in place to carefully manage spend in this area and also to accelerate service review work that is underway;
- As reported in earlier quarters the annual review of Insurance premiums as provided for in the contract, alongside some potentially higher value new claims received in 2021/22, gives rise to an overspend now at £0.595 million. The main drivers for increased premiums 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. During quarter 3 two high value claims dating back to the 1970's and 1980's were received and necessitated making a provision;
- The Council elected to withdraw from the partnership agreements with Scottish Government for the Employability Pipeline project and Social Inclusion programme. As a consequence grant monies of £0.144 million received are required to be repaid.
- As implementation of the Equipped for Learning project continues a detailed assessment of the allocation of costs between the revenue and capital accounts has resulted in an increase of £0.170 million in cost attributable to the revenue account. Overall, the cost of delivery of the programme remains within original estimates.

These are more than offset by favourable movements against budget:

- The impact of vacant posts across the Council of £1.925 million. Many of these are posts are within the scope of the MTFs Management Review proposals and will be removed from the

Council's staffing establishment as reviews are progress to completion;

- Costs across the spectrum of learning setting for children and young people are lower than provided for in the budget mainly due to lower pupil numbers than provided for thus giving rise to a positive variance in £2.289 million;
- Lower than budgets pressure on Family Placement and Residential Respite budgets gives rise to a positive variance of £0.242 million;
- When the budget was set the Council share of undistributed sums was estimated. Actual distribution, most notably for the Teachers Induction Scheme, was slightly higher. Total distributed Scottish Government Grant amounts to £185.609 million.

3.3 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 continued to be applied in-year to match costs and lost income. It is anticipated that funds remaining at 31 March 2022 will be fully utilised in 2022/23 to continue to mitigate the impact of the pandemic and support increased service costs across Midlothian.

3.4 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 settled pay awards were greater than the provision made in the approved budget with the additional £0.675 million (£40 million nationally) funding provided in the Local Government Finance (Scotland) Order 2021 applied to provide an increased provision in the revised budget for pay awards. Furthermore as part of a shared funding package to support additional pay costs of £48 million nationally the Scottish Government provided £30 million nationally, of which Midlothian's share was £0.506 million.

#### **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. The application of new Scottish Government funding and other minor technical adjustments to this allocation during the year to date increase the allocation to £50.598 million.

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 were funded by government and accordingly delegated services were delivered within the allocations provided and no provision has been necessary 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 General Fund Reserve

The balance on the General Fund as at 31 March 2022 reflects the utilisation of fiscal flexibilities and release of non-committed earmarked reserves to support setting a balanced budget for 2022/23.

Accordingly these cross year elements are reflected in the General Fund Balance at 31 March 2022 and as the tables below set out, are set aside as committed in 2022/23:

The table below sets out the position for the General Fund reserve:-

	£ million	£ million
Reserve as at 1 April 2021		29.672
Less earmarked provisions utilised in 2021/22		(23.314)
<b>General Reserve at 1 April 2021</b>		<b>6.358</b>
<i>Planned movements in reserves</i>		
Council Transformation Programme Costs	(0.460)	
Severance Costs	(0.051)	
Supplementary estimates	(0.080)	
Other movements	0.286	
		(0.305)
Fiscal Flexibilities adopted in year		3.365
Underspend per appendix 1		3.091
In year budgets carried forward for use in 2022/23		19.923
<b>General Fund Balance at 31 March 2022</b>		<b>32.432</b>

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

	£ million
<b>General Fund Balance at 31 March 2022</b>	<b>32.432</b>
<i>Earmarked for specific purposes</i>	
Budgets carried forward and earmarked for use in 2022/23	(19.923)
Council Transformation	(1.336)
Set aside to balance 2022/23 budget	(5.576)
<b>General Reserve at 31 March 2022</b>	<b>5.597</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 General Reserve of £5.597 million is above the minimum set in the Reserves Strategy but will only remain that way if there is no adverse performance against budget or any further draw on reserves in future years.

- 5.2 The distribution of funding by Scottish Government late in the year which relates to spending plans for the following financial year continues to impact on the level of earmarked funds carried forward from one financial year to the next. In addition a range ring fenced or specific service commitments were carried forward and are committed to fund expenditure in the current financial year.

Including these carry forwards in the General Fund Reserve balance at the yearend is a technical adjustment to comply with the Accounting Code. The funds are in the main committed in financial year 2022/23 and as such have used to augment service budgets to meet expenditure commitments in the current financial year.

The table below summarises the carry forward position.

	£ million
Scottish Government funding for designated use	£ 8.630
Covid funding utilised when setting 2022/23 budget	£ 1.675
Covid funding to mitigate service cost/lost income	£ 2.974
Education Recovery funding for summer term	£ 1.796
Devolved School Management carry forward	£ 1.123
Ring Fenced/Specific Service carry forwards	£ 2.647
Scottish Government Grant for pay pressures	£ 0.512
Supplementary Estimates to be applied in 2022/23	£ 0.080
Other Cross Year Service Funding	£ 0.486
	<b>£19.923</b>

## **6 Report Implications (Resource, Digital and Risk)**

### **6.1 Resource**

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 report on performance against budget for the full 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 there were some areas where effective forecasting of spend against budget was 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 Corporate Management team meetings are provided with an update on progress to resolve these areas and is continuing to support actions to address the underlying issues and mitigate the risk associated with them.

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.

As reported elsewhere on today's agenda the impact of cyber security breaches on public sector organisations can have devastating financial impact. Accordingly adequate mitigation of those risks continues to be essential to ensure the Council's financial sustainability.

### **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 is carried out. This helps 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 of changes in the funds available to support services continues to unfold 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 future Strategic Plans 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**