

## **Financial Monitoring 2023/24 – General Fund Revenue**

**Report by David Gladwin, Chief Financial Officer and Section 95 Officer**

### **Report for Decision**

#### **1 Recommendations**

Council is recommended to:

- a) Approve increased funding of £0.794 million for the Midlothian Integration Joint Board in 23/24 to cover unbudgeted pay costs (section 4.2);
- b) Note projections of revenue costs and income in 2023/24 against budget;
- c) Note the projected General Fund Reserve Balance at 31<sup>st</sup> March 2024;
- d) Note recovery actions agreed by the Corporate Management Team in response to areas of projected overspend (section 3.3); and
- e) 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 B result in a projected net underspend of £0.128 million which is an improvement of £1.396 million from projections at quarter 2. The projected underspend represents 0.04% 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 where possible, put in place recovery actions.
- 2.3 The projection of the General Fund balance at 31<sup>st</sup> March 2024 is £12.109 million, of which £1.677 million is earmarked for specific use and a further £1.260 million relates to a VAT claim not yet settled leaving a non-earmarked General Fund balance of £9.172 million.

**Date: 2 February 2024**

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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 overspend against budget at quarter 3 are outlined in tables 1 and 2 below also describing mitigating measures and next steps. 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
Pupil Transport	£1,034,000	Volume and value of school pupil transport invoices higher than budgeted.	In October, Council agreed a consultation on pupil transport and this is now underway.  A root and branch review of Council Transport is underway as part of the Transformation Blueprint.	Pupil Transport update report to Business Transformation Steering Group (BTSG).
Fleet	£815,000	Ageing vehicles and higher volumes of external contracting than planned.  External vehicle hire to support service continuity.	Areas of service have been re-provisioned.  Cost containment measures in place.  Fleet Maintenance Review underway.  Multi-year Fleet Asset Management Plan being developed.	Fleet replacement for ageing and costly vehicles to maintain has been accelerated as approved by Council on Tuesday 21 <sup>st</sup> November.  Orders have been placed with suppliers.
Energy Consumption	£453,000	Unit prices for electricity as provided by Scotland Excel are higher than budgeted		
Destination Hillend	£483,000	Alpine Coaster not completed during 2023/24 due to delays with civil engineering works.	Project Team aim to accelerate the Alpine Coaster construction.	Regular update reports to governance forums.
Homelessness	£423,000	Service charge income	Improvement in void	Planned

		credited to the General for properties used to house homeless clients has reduced due to fewer temporary solutions in favour of permanent tenancies.	property turnaround times thus increasing available supply.	replacement of properties from future voids for temporary use purpose will improve service charge income position.
Additional Support Needs (ASN)	£341,000	Expensive out of authority placements and bespoke packages.	Creation of additional and improved infrastructure in Midlothian.	Continued development of ASN requirements in Learning Estate Strategy and the General Service Capital Plan.
Digital Software Costs	£265,000	Additional revenue costs as a consequence of a continued move to cloud based software.	A move to cloud-based software is a continuing trend and brings an additional revenue cost.	As assessment of future costs is complete and is reflected in future years budget projections.
Insurance	£211,000	Cost of Annual Premiums and higher than expected costs of existing claims.	Continual review of claims at the Risk and Resilience Group.	
Foster Care Allowance	£63,000	Cost of minimum Foster Care allowance exceeds Scottish Government funding		Fair funding discussions with the Scottish Government.

*Table 2: Shortfalls against income targets in the Budget*

Budget	Overspend	Reason	Action Plan / Mitigating Measures	Next Steps
Sport and Leisure	£664,000	Membership numbers, albeit increasing slightly in recent months, remain significantly lower than pre-pandemic.  Non membership based Individual and group use remains lower than pre-pandemic.	Partly offset by reduced in-year running costs of £546,000.  Externally commissioned options appraisal reported to BTSG with further work progressed.	Sport and Leisure update report was presented to BTSG on 4 <sup>th</sup> December and a more detailed options paper will follow.
Trade Waste	£111,000	Income is lower than budgeted targets.	Review of Service.	Waste Recycling Transformation Options presentation to BTSG on 9 <sup>th</sup> November.  Further update to BTSG as part of Waste Review.
Cafes	£139,000	Income is lower than budgeted targets.	Review of offering embedded in Sport	Sport and Leisure update report to

			and Leisure update report.	be presented to BTSG on 4th December and a more detailed options paper will follow.
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There also remains £1.043 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.

#### Underspends

- Loan Charges are projected to underspend by £3.519 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 £0.732 million. Pupil projections in the budget for the following academic year are finalised during base budget development work in December. In the 2023/24 academic year there has been a significant number of primary 1 deferrals and a lower than estimated number of children in Council run Early Years settings;
- 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 £0.606 million;
- Fuel prices are now much lower than forecast when the 2023/24 budget was set giving rise to a projected underspend of £0.176 million;
- Income from roads construction charging exceeds budget by £0.195 million due to some large one-off receipts in 2023/24;
- Income from Planning fees exceeds budget by £0.181 million due to a large one-off receipt in 2023/24 and a higher than anticipated volume of applications.

- 3.4 The Corporate Management Team continue to meet to consider the financial position agreeing, alongside the continued financial discipline measures referenced in section 3.2, a range of recovery actions and clear timescales for these as outlined in tables 1 and 2 above.

#### Pay Costs and Funding

- 3.5 The pay offer for employees whose pay negotiations are covered by the Scottish Joint Council (SJC) trade unions and also for Chief Officials was agreed late in 2023. Backdated payments have been made to all affected staff.
- 3.6 Funding for 2023/24 pay costs involves an assumption of 3% in council budgets enhanced by a range of Scottish Government funding as follows:
- Revenue funding of £155 million equating to £2.662 million for Midlothian.
  - A further funding package of £80 million nationally involving:
    - £22 million of Scottish Government Capital Grant to be converted to revenue;
    - £7 million funding previously set aside for the Child Abuse Compensation Scheme in 2023/24 used to fund pay and replaced in 2024/25;
    - £21 million Employability Funding. There are underspends in programmes across Scotland in 2023/24. These can be redistributed in 2023/24 and replaced in 2024/25.
    - £30 million Pupil Equity Funding using cross year flexibility between 2023/24 and 2024/25 for unspent balances in 2023/24 to fund pay. The Scottish Government will replace funding in 2024/25.
  - Utilisation of Council Reserves in 2023/24 to the tune of £17.2 million nationally with funding being replaced by the Scottish Government in 2024/25.
  - £10 million additional Council contribution.
- 3.7 Additional Council contributions of £27.2 million outlined in section 3.6 equates to approximately £0.490 million of additional cost for Midlothian and Council have funded this by approving a supplementary estimate in 2023/24.
- 3.8 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 £56.544 million.
- 4.2 Additional pay funding received from the Scottish Government in 2023/24, as discussed in section 3.6 above, provides an opportunity to provide MIJB with additional in-year funding to contribute towards unbudgeted pay costs. A proportionate share of funding equates to £0.794 million and it is recommended that Council agree to increase funding to MIJB by this value. Approval will increase in-year MIJB funding to £57.338 million.
- 4.3 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 activity are presented to the Integration Joint Board and are available on the committee management section of the Council website:-

[Midlothian Integration Joint Board \(cmis.uk.com\)](https://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
<b>General Fund Reserve at 1 April 2023</b>		<b>34.964</b>
<i>Planned movements in reserves</i>		
Application of Budgets carried forward from 2022/23 for use in 2023/24	(16.013)	
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)	
Supplementary Estimate for Pay	(0.490)	(17.729)
Underspend per appendix 1		0.128
Updated Assessment of VAT Claims		(0.226)
Cross year funding for pay		(0.636)
Projected application of Transformation Blueprint funding		(1.392)
Projected application of earmarked reserve to fund Public Realm works		(3.000)
<b>General Fund Balance at 31 March 2024</b>		<b>12.109</b>

Figures above do not include cross-year flexibility whereby service budgets not used in the current financial year and eligible to be carried forward for use in the next financial year are held in the General Fund balance at 31<sup>st</sup> March and released back to service budgets on 1<sup>st</sup> April. These will be assessed at quarter 4.

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

	£ million
<b>General Fund Balance at 31 March 2024</b>	<b>12.109</b>
<i>Earmarked for specific purposes</i>	
To support Council Transformation Blueprint	(1.677)
<b>General Reserve at 31 March 2023</b>	<b>10.432</b>
VAT Windfall to be settled	(1.260)
<b>Revised General Reserve at 31 March 2024</b>	<b>9.172</b>

- 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 £4.627 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 At quarter 1 the anticipated settlement value of £6.839 million from the outstanding VAT claims was shown in the earmarked element of the General Fund Reserve. During quarter 2 one of the claims was settled to a value of £5.353 million which was £0.160 million more than anticipated and this is now included in the non-earmarked element of the General Fund Reserve. The second claim remains outstanding with recent projections showing a settlement of £1.260 million which is £0.387 million lower than previously anticipated.
- 5.4 The General Reserve is projected to be £9.172 million. This is £4.545 million in excess of minimum reserves strategy. Considering current financial pressures, the General Reserve must be viewed both in the context of £3.696 million of underlying service pressures in 2023/24 (Appendix B - General Fund Services Net Expenditure) and the latest Medium Term Financial Strategy (MTFS) projected gap of approximately £20.3 million through to 2028/29. Until there is significant progress towards a balanced MTFS it remains 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. Information relating to the Building Maintenance Service has improved although there remains concern with its detail. Work is ongoing to resolve this issue. At this point it is expected that the Building Maintenance Service will show an on-budget position for 2023/24.

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 – Report Implications

Appendix B – Financial Table

## **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.

## **Appendix 1 - Financial table**