

Financial Monitoring 2020/21 – General Fund Revenue**Report by Gary Fairley, Chief Officer Corporate Solutions****Report for Decision****1 Recommendations**

It is recommended that Council:

- a) Set aside £2 million from the general reserve to help fund the County's continued recovery from the pandemic together with developing enhanced contingency planning arrangements.
- b) Otherwise 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 performance against service revenue budgets in 2020/21, details of material variances against budget and the General Fund Reserve.
- 2.2 This report incorporates all COVID related income and expenditure in 2020/21 with the divergence from approved budgets experienced during the year being fully funded by a combination of Government Grant, savings elsewhere in council budgets, application of some Early Years and Pupil Equity Fund ring-fenced funding and also an appropriation from the Housing Revenue Account reserve.
- 2.3 The budget performance figures shown in appendix 1 result in a net underspend of £0.759 million for the year being 0.33% of the revised budget and a £0.175 million improvement on the Q3 position reported to Council in February.
- 2.4 After reflecting the recommendation above to set aside funds the non-earmarked General Fund reserve would stand at £3.805 million.

Date: 18 June 2021**Report Contact:**

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3 Background

- 3.1 This report covers all performance against budget including the additional costs incurred and lost income experienced as a consequence of the Covid-19 pandemic. A separate report on today's agenda provides an overview of covid funding streams, divergence from budget and also an update in financial flexibilities.
- 3.2 The main areas of variance for the year outlined below are explained in more detail at appendix 2.

Overspends

- Costs of £0.444 million associated with family, residential and day placements for children due to both higher client numbers and extended periods of support;
- Winter maintenance costs of £0.386 million;
- Unsettled and at risk grant claims relating to EU funded projects of £0.193 million.

These are more than offset by favourable movements against budget:

- Reduced running costs in some service areas of £0.995 million;
- Borrowing costs of £0.427 million;
- Residential Respite places for Children of £0.382 million.

4 Delegation of resources to Midlothian Integration Joint Board

- 4.1 The approved budget provided for the allocation of £45.026 million to the Midlothian Integration Joint Board (MIJB) for the provision of delegated services. Minor technical adjustments to this allocation during the year reduced the allocation to £44.985 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 were fully funded by government grant and the final financial position was formally reported on Thursday 17th June 2021.

5 General Fund Reserve

5.1 The General Fund as at 31 March 2021 is as follows:

	£ million	£ million
Reserve as at 1 April 2020		13.428
Less earmarked reserves utilised in 2020/21		(7.838)
General Reserve at 1 April 2020		5.590
<i>Planned movements in reserves</i>		
Council Transformation Programme Costs	(0.141)	
Severance Costs	(0.226)	
Early Delivery of 21/22 MTFS	0.370	
		0.003
Underspend per appendix 1		0.759
In year budgets carried forward for use in 2021/22		23.313
General Fund Balance at 31 March 2021		29.665

The majority of the General Fund balance is earmarked for specific purposes and this is shown below:

	£ million
General Fund Balance at 31 March 2021	29.665
<i>Earmarked for specific purposes</i>	
Budgets carried forward and earmarked for use in 2021/22	(22.063)
Budgets earmarked to support Council Transformation	(1.598)
Earmarked for investment in training	(0.199)
General Reserve at 31 March 2021	5.805
Proposed set aside	(2.000)
Revised General Reserve at 31 March 2021	3.805

5.2 There is a higher level of carry forward at the yearend than in previous years. This is to be expected given that circa £437 million of Scottish Government Covid related funding was awarded in February / March 2021. Midlothian's share of this alone being circa £7.5 million. In addition a range of non covid funding was carried forward and is committed in the current financial year.

The table below summarises the carry forward position.

	£ million
In year budgets carried forward to 2021/22	
Scottish Government funding for designated use	£ 7.613
Covid funding paid in 2020/21 for use in 2021/22	£ 4.953
Other earmarked Covid funding	£ 3.923
Service carry forwards (including DSM)	£ 1.992
Education Recovery funding for summer term	£ 1.930
Service grant funding requiring specified use	£ 1.652
Transformation / Training Funding	£ 1.250
	£23.313
Other earmarked funds	
Transformation	£ 0.348
Training	£ 0.199
	£23.860

- 5.3 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 net expenditure (excluding resources delegated to the IJB) to be considered a minimum. This now equates to £3.634 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.
- 5.4 The General Reserve after the proposed set aside is of £3.805 million. The recommendation to set aside funds provides an opportunity for the Council to continue to support the County's recovery from the pandemic together with developing enhanced contingency planning arrangements. In particular, there is anticipated to be pressure in the current financial year and beyond to put in place interventions to support mental health and wellbeing, address financial insecurity, especially when furlough ends, and provide continued support with food and fuel for the community. It also provides the opportunity to review and develop enhanced contingency planning arrangements, building on the lessons learned during the pandemic, to have appropriate arrangements in place should there be any resurgence of the Covid pandemic or any other such event which could impact on the county.
- 5.5 There is also continued uncertainty over the financial impact of the pandemic with response cost pressures continuing and so it is considered essential to continue to maintain a minimum contingency for unforeseen or unplanned costs of circa £3.6 to £3.7 million.

6 Report Implications (Resource, Digital and Risk)

6.1 Resource

The projected performance against budget set out in this report presents the actuals for the year, subject to audit. Work continues into the current financial year to deliver service provisions within the approved budget and to progress at pace service transformation.

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 minimises 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 material variances detailed in appendix 2 highlight that the financial management and budgetary control arrangements have been effective in projecting the financial position and mitigating financial risk during the year.

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. In addition the extent to which the Council will be expected to contribute funding towards the National financial redress scheme is yet to be clarified. Both of these present a risk that would further reduce reserves from those currently projected. Further financial obligations may also arise as the implications associated with the UNCRC (Incorporation) (Scotland) Bill, which is awaiting 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 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 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 have impacted 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