

Financial Monitoring 2024/25 – 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 a supplementary estimate of £0.330 million to provide an additional 0.2% budget to fund pay costs; and otherwise
- b) 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 2024/25 and to provide commentary on areas of material variance against budget. The budget performance figures as shown in appendix 1 result in a projected net overspend of £1.773 million which represents 0.6% of the revised budget.
- 2.2 Some areas of projected overspend 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 31st March 2025 is £21.966 million, of which £14.783 million is earmarked for specific use leaving a non-earmarked General Fund balance of £7.183 million.

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3 Background

- 3.1 This report encompasses all performance against revenue budget for General Fund services.
- 3.2 In response to the immediate and challenging financial outlook the Chief Executive, during the financial year 2022/23, introduced a moratorium on non-essential spend and a freeze on non-essential vacancies. This moratorium remains in place and delivered some staffing related and more general areas of underspend during the last financial year.

Performance against budget

- 3.3 The material areas of projected variance against budget at quarter 1 are outlined in table 1 below which also describes mitigating measures and next steps. Accurate projections early in a financial year are difficult in many areas and come with a degree of uncertainty.

Table 1: Material cost variances against budget

Budget	Overspend	Reason	Action Plan / Mitigating Measures	Next Steps
Staff Costs	£1,021,000	Maternity cover in schools (£673,000), absence cover costs for cleaning and janitorial services (£229,000), additional resource in Building Maintenance Services (£250,000) and higher costs from temporary resources to cover service areas with permanent recruitment challenges (£150,000). Partially offset by vacancies across the Council.	Strategic Workforce Plan is being developed. Continuation of enhanced level of vacancy control.	Continual review of service costs. Review of interaction between the General Fund and the Housing Revenue Account for Building Maintenance.
Insurance	£693,000	The volume of insurance claims settled, particularly relating to potholes has increased considerably during quarter 1.	Internal processes to consider each claim are being reviewed with potential to increase repudiation rates and consequently reduce projected costs in 2024/25.	Officer review meeting linking in with professional insurer advice.
Pupil Transport	£657,000	Volume and value of school pupil transport invoices higher than budgeted.	Council approval to proceed with the transport review was granted on 25 th June 2024. This will include a root and branch review of practices, processes and costs.	Appointment of delivery partner. Where possible, early implementation of identified efficiencies.

Council Tax Income	£325,000	Whilst the Council Tax Base continues to grow total projected income is lower than budgeted. Slower than anticipated growth, timing of processing changes in household circumstances and increased pressure on household budgets will all be factors.	A detailed review is underway to develop a fuller understanding of influencing factors. Recent softening of interest rates will stimulate the new house build market.	
Fleet	£307,000	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 maintenance has been accelerated as approved by Council on Tuesday 21 st November. Items are now operational.
Building Repairs	£139,000	Costs in 2024/25 relating to scaffolding for Midlothian House.	A report with recommendations on the future use of Midlothian House is scheduled for Council consideration in October.	Options for changing the use of Midlothian House are linked to the Estate Rationalisation strand of the Transformation Blueprint.

Table 2: Shortfalls against income targets in the Budget

Budget	Overspend	Reason	Action Plan / Mitigating Measures	Next Steps
Cafes	£32,000	Income is lower than budgeted targets.	New menus have been introduced as a trial and will be fully implemented if successful. It is anticipated this development will move income received to targeted levels.	Trial underway and outcomes to be evaluated later in 2024/25.

There also remains £1.483 million of Medium Term Financial Strategy (MTFS) cost reductions either to be finalised or to be fully implemented. A number of these are taking longer than planned to implement with an impact on the 24/25 financial position. A detailed report on this will be presented to the Business Transformation Steering Group (BTSG) on Monday 19th August.

Council on 4th October 2022 agreed a saving of £0.250 million for rationalisation of the office estate. Delivery of this remains at risk.

Underspends

- Loan Charges are projected to underspend by £1.648 million in 2024/25. There are three main factors:
 - Deferral of borrowing to later years to match timing of capital expenditure;
 - A reduction of £22.2 million in the borrowing requirement for 2024/25;
 - Higher than forecast surplus cash related directly to timing of capital expenditure thus providing opportunity to generate some deposit income.
- With the exception of Additional School Needs (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 than expected pupil numbers thus giving rise to a positive variance of £0.974 million. As projections are in advance of the new school year they carry a heightened risk;
- The cost of residential and day education placements for children and also for some non-residential services is projected to be £0.248 million less than budget.

3.4 The Corporate Management Team met on Wednesday 7th August to consider the financial position agreeing, alongside the continued financial discipline measures referenced in section 3.2, a range of recovery actions and some areas of enhanced monitoring.

Pay and funding

3.5 Employees whose pay negotiations are covered by the Scottish Joint Council (SJC) trade unions have not yet agreed a pay award for 2024/25 and the agreed award for those covered by the Scottish Negotiation Committee for Teachers (SNCT) ended on 31st July 2024. The latest employer offer to SJC unions equates to a total uplift of 4.27% in-year with, at each Spinal Column Point (SCP), a £0.67 uplift to the hourly rate or 3.6% (whichever is better). This offer is currently being considered by unions. A revised offer has not yet been made to SNCT.

- 3.6 Funding for the 2024/25 offer as it stands involves an assumption of 3% in council budgets, another 0.2% funded from Council Reserves and the remaining costs provided by the Scottish Government with mechanisms to deliver this to be finalised. Midlothian Council budgeted at 3% for pay in 2024/25. The additional 0.2% equates to costs of approximately £0.330 million and this is recommended to be added to the approved budget by way of a supplementary estimate.

Destination Hillend

- 3.7 The wider Destination Hillend project approved by Council in December 2022 has been paused pending a review of tendered costs with an updated business case to be developed prior to further elected member engagement.
- 3.8 The first phase of the project included work on the road infrastructure and installation of an alpine coaster. This phase is almost complete and the coaster is due to open in the coming weeks. Whilst the 24/25 budget was set based on an opening date in July and reflected customer income projections embedded in the approved business case there was an expectation of a high initial level of interest on opening. Rather than re-engineer projected numbers to derive a variance at quarter 1 it feels more appropriate to wait for actual customer numbers on opening and to use these to inform a more accurate projection for 2024/25 at quarter 2.

4 Delegation of resources to Midlothian Integration Joint Board

- 4.1 The approved budget provided for the allocation of £63.535 million to the Midlothian Integration Joint Board (MIJB) for the provision of delegated services.
- 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 Financial Monitoring reports covering all of the MIJB activities 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)

- 4.4 MIJB next meet on Thursday 22nd August and will discuss projections for 2024/25 which show a very significant overspend albeit with mitigating actions underway. At this stage there is a heightened risk of MIJB requiring additional resource from Midlothian Council to be able to fund costs in 2024/25. Further information will be provided to Elected Members in a briefing scheduled for Tuesday 3rd September and in future financial monitoring reports.

5 General Fund Reserve

- 5.1 The projected balance on the General Fund as at 31 March 2025 is as follows:

	£ million	£ million
General Fund Reserve at 1 April 2024		46.338
<i>Planned movements in reserves</i>		
Application of Budgets carried forward from 2023/24 for use in 2024/25	(15.366)	
Utilisation of reserve to balance 2024/25 budget	(2.680)	
Utilisation of retrospective service concessions to fund costs in 2024/25	(4.093)	
Transformation funding applied to date during 2024/25	(0.130)	
Funding for pay (0.2%) – supplementary estimate	(0.330)	
		(22.599)
Overspend per appendix 1		(1.773)
General Fund Balance at 31 March 2025		21.966

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

	£ million
General Fund Balance at 31 March 2025	21.966
<i>Earmarked for specific purposes</i>	
To support Council Transformation Blueprint	(2.506)
Planned use of Service Concession Retrospection	(12.277)
General Reserve at 31 March 2025	7.183

- 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 £4.743 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 General Reserve of £7.183 million is £2.440 million above the minimum set in the Reserves Strategy. Considering current financial pressures, the General Reserve must be viewed both in the context of £3.096 million of underlying service pressures in 2024/25 (Appendix 1 - General Fund Services Net Expenditure), the latest Medium Term Financial Strategy (MTFS) projected gap of approximately £20.6 million through to 2028/29 and also the severe in-year pressure faced by MIJB. Until there is significant progress towards a balanced MTFS it remains sound financial practice to maintain a substantial 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.

Council is asked to provide additional funding of £0.330 million for pay costs in 2024/25 to increase total funding to 3.2%.

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

The 2024/25 Budget was finalised with some assumptions on Scottish Government Grant Funding. The Scottish Government removed £145 million of funding for teachers from General Revenue Grant to Ring-Fenced Revenue Grant (£2.786 million for Midlothian) with a wish to attach conditions around teacher numbers to this funding. Discussions have not been concluded and grant offer letters remain unsigned. Whilst this situation persists there remains a risk of not receiving all the expected funding.

Further Scottish Government funding, via UK Government consequential, is due to pass to Councils to fund the Employers Superannuation increase for Teachers. Funding for this has not yet been received and Councils have not been advised of timescales. The additional cost to Midlothian Council is approximately £1.8 million.

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. At quarter 1 there is insufficient quality data to make meaningful projections for energy costs and building maintenance recharges are under review. Activity is in place to ensure this will be rectified for quarter 2.

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 and ongoing 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

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 lasting 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 – Midlothian Council General Fund 2024/25 – Performance against budget

Function	Approved Budget	Revised Budget	Revised Budget	Revised Budget	Outturn	(Underspend)
		Expenditure	Income	Net		/ Overspend
				£	£	£
Management and Members	1,701,791	1,701,819	0	1,701,819	1,782,819	81,000
<u>Place</u>						
Corporate Solutions	25,455,179	49,103,422	(24,665,446)	24,437,976	25,276,976	839,000
Place	43,290,284	66,091,037	(17,282,056)	48,808,981	50,238,981	1,430,000
Central Costs	(504,556)	4,270,341	0	4,270,341	4,963,341	693,000
<u>People and Partnerships</u>						
Midlothian Integration Joint Board	63,534,354	72,156,673	(8,621,856)	63,534,817	63,534,817	0
Non-Delegated Services - Community Safety and Welfare Rights	710,635	861,208	(53,102)	808,106	808,106	0
Childrens Services, Partnerships and Communities	20,171,442	22,669,838	(765,932)	21,903,906	21,578,906	(325,000)
Education	144,975,521	158,434,635	(9,256,856)	149,177,779	149,580,779	403,000
Lothian Valuation Joint Board	581,659	581,659	0	581,659	581,659	0
Non Distributable Costs	898,936	898,936	0	898,936	873,936	(25,000)
GENERAL FUND SERVICES NET EXPENDITURE	300,815,246	376,769,568	(60,645,248)	316,124,320	319,220,320	3,096,000
Loan Charges	5,460,091	5,460,091	0	5,460,091	3,812,091	(1,648,000)
NDR Discretionary Relief	70,300	70,300	0	70,300	70,300	0
Investment Income	(110,736)	0	(110,736)	(110,736)	(110,736)	0
Allocations to HRA, Capital Account etc.	(5,536,901)	(5,536,901)	0	(5,536,901)	(5,536,901)	0
	300,698,000	376,763,058	(60,755,984)	316,007,074	317,455,074	1,448,000

less Funding:

Scottish Government Grant	(226,443,000)	0	(226,331,937)	226,331,937	226,331,937	0
Council Tax	(64,686,000)	0	(64,686,000)	64,686,000	64,361,000	325,000
Service Concessions - in-year	(2,796,000)	2,796,000	0	2,796,000	2,796,000	0
Service Concessions - retrospection	(4,093,000)	4,093,000	0	4,093,000	4,093,000	0
Utilisation of Reserves	2,680,000	383,652,058	(351,773,921)	18,100,137	26,762,137	1,773,000