

Financial Monitoring 2022/23 – General Fund Revenue**Report by David Gladwin, Acting Chief Financial Officer****Report for Information****1 Recommendations**

Council is recommended to:

- a) Note the projected financial position for the General Fund Reserve in financial year 2022/23 and the associated risks with projections at this stage in the year; and otherwise
- b) 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 2022/23 and to provide commentary on areas of material variance against budget. The projected budget performance figures as shown in appendix 1 result in a net underspend of £1.592 million for the year which is a £0.150 million improvement on the position at quarter 2 reported to Council on 15th November. The projected underspend is 0.58% of the revised budget.
- 2.2 The projected General Fund balance at 31st March 2023 is £6.049 million, of which £0.259 million is earmarked for specific use.
- 2.3 The projection of the General Fund Balance at 31st March 2023 is predicated on the ongoing financial impact of the Covid-19 Pandemic continuing to be met from the available funding, whether ring fenced for specific purposes, or from general funding provided.

Date: 3 February 2023**Report Contact:**

David Gladwin, Acting Chief Financial Officer

David.Gladwin@midlothian.gov.uk

0131 271 3113

3 Background

- 3.1 This report encompasses all performance against revenue budget for General Fund services including additional costs incurred and projected lost income as a consequence of the Covid-19 pandemic.
- 3.2 In response to the immediate and challenging financial outlook the Chief Executive introduced a moratorium on non-essential spend and a freeze on non-essential vacancies. Only a marginal impact of this will be reflected in quarter 3 figures presented in this report. A much more significant impact is expected at Final Outturn.
- 3.3 The main areas of projected service budget variances projected at quarter 3 are outlined below. As ever, projections during a financial year are difficult in many areas and come with a degree of risk. The implications of economic conditions prevalent during 2022/23 only adds to this this.

Projected Overspends

- There remains £1.212 million of Medium Term Financial Strategy (MTFS) cost reductions to be finalised mainly relating to Management Reviews across Place (£0.756 million), Sport & Leisure (£0.166 million) and also including a review of the Council's Creative Arts service (£0.290 million). Clearly the pandemic has impacted on progress with these but they are all are now at implementation stage. These cost pressures are partly mitigated by vacancies of £0.932 million held pending completion of reviews;
- Council run cafes and the outside catering service have reopened after a long period of closure. Business is considerably slower than experienced pre-pandemic and may not fully recover leading to a projected overspend of £0.283 million. Management are reviewing the offering;
- Insurance costs are projected to be over budget by £0.196 million due to provisions made for new or reopened claims on the Council. Whilst no individual claim is of particularly high value the volume of individual claims is higher than is customary. Council officers and loss adjusters review each claim with oversight by the Risk and Resilience Group. Quarter 3 figures do not reflect anything more than a normal winter impact of claims on the council including pot holes. The cold spell in December and early January may result in further costs;
- Additional budget was provided by Council in 22/23 to cover energy price increases. Consumption figures at quarter 3 indicate a further cost in excess of budget of £0.343 million;
- Costs of vehicle repairs mainly relating to external works exceeds budget by £0.173 million. A service review is underway alongside immediate cost containment measures;

- Customer income from the Trade Waste service is lower than provided for in the budget. The customer base is contracting and management are reviewing the implications of this. The projected overspend is £0.115 million;
- Costs of software and licencing due to increased cyber security measures and a continued move to cloud-based software gives rise to a projected overspend of £0.233 million;
- Fuel purchase costs for the Council's fleet are projected to be £0.135 million in excess of budget. Supply costs increased considerably in recent months although have now returned close to budgeted levels;
- The extent of the Council's response to adverse winter conditions in December results in a projected overspend for Winter Maintenance of £0.087 million.

These are more than offset by favourable movements against budget:

- Significantly higher surplus cashflow than expected linked to the current spend on Capital Programmes and the continued increasing interest rate environment has provided opportunity to generate a significantly higher return on short term deposits in 22/23 than was anticipated when the budget was set. Approved methodology for allocating Loan Charges between General Fund and Housing Revenue Account results in the vast majority of this upside benefitting the General Fund. Current projections, albeit in a fluctuating market, show an in-year underspend of £1.244 million;
- Council Officers from Midlothian and the City of Edinburgh Council (CEC), as part of the joint management and monitoring arrangements for the waste plant at Millierhill, have been working through calculations for third party income due. In 2022/23 it is projected that £0.726 million is due to Midlothian. Ongoing income is included in MTFS projections;
- Waste disposal costs are lower than budgeted by £0.364 million. Lower volumes are being found in domestic waste streams possibly as an impact of household behaviours seen during covid starting to unwind;
- The cost of family placements for children is projected to underspend by £0.216 million with a continued push to recruit foster carers;
- Savings continue to accrue from the avoidance of use of Bed and Breakfast accommodation for homeless clients. An underspend of £0.215 million is projected and this has been reflected in the 23/24 draft base budget.

- 3.4 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.

Covid Costs

- 3.5 Covid related funding provided to the Council by the Scottish Government alongside other funding streams aligned to Covid recovery were carried forward from 2021/22 to 2022/23. Funding continues to be applied in year to match costs and lost income with the planning assumption that the remainder will be applied in 2022/23 or in future years to mitigate the continued impact of the pandemic and support increased service costs across Midlothian.
- 3.6 In 2022/23 income levels in Sport and Leisure remain considerably lower than pre-pandemic although are substantially offset by reduced running costs. Enhanced cleaning measures implemented in sport and leisure facilities, schools and council offices during the pandemic remain in place until 31st March 2023.

Inflationary Pressures

- 3.7 Since the 2022/23 budget was approved there has been a rapid rise in inflation. This has manifested itself in considerable additional and unbudgeted costs in some service areas. Most visibly this is seen in energy prices and contractual inflation embedded in contracts, particularly for Public Private Partnerships (PPP). Council approved a supplementary estimate of £1.395 million on 23rd August to fund these.
- 3.8 Further unbudgeted costs of £0.135m are projected in 22/23 for fuel for Council operated fleet. Latest projections for energy costs do not indicate further inflationary costs beyond the available budget mainly due to forward purchasing.

Agreed Savings

- 3.9 Council on 4th October 2022 approved some operational efficiency measures totalling £1.227 million in 2023/24 as an early contribution to delivering a financially balanced MTF5. The following measures are now implemented in 2022/23 and reflected in the projected outturn figures in section 3.2 above.
- Leadership Review Corporate Solutions - £0.045m;
 - Place – review of temporary accommodation provision - £0.200m;
 - Sport and Leisure
 - Premises, Supplies and Services and Third Party Payments - £0.045m;
 - Reduction of Specialist Instructors - £0.035m.

The remaining measures will take a little more time to implement but will be progressed as quickly as possible.

Pay + National Insurance

- 3.10 The 2022/23 pay claims for the SJC bargaining group have now been concluded and are at implementation stage. The agreed offer represents:

- For those on the Local Government Living Wage and pay scale point (SCP) 19 to 24 and undifferentiated 5% or a £2,000 uplift (calculated on a nominal 36 hour working week), whichever is larger;
- A 10.2% increase for the lowest paid. For SCP 38 (£24,984) a 7.7% increase (£1,925) and for SCP 52 (£30,212) a 6.37% increase (£1,925); and
- An undifferentiated 5% or a £1,925 uplift (calculated on a nominal 36 hour working week), whichever is larger, capped for those currently earning £60,000 or more at a £3,000 uplift (based on a 37 hour working week).

It is estimated that this equates to a 7.23% increase in the Council's SJC paybill.

- 3.10 A flat offer of 5% has been made to and rejected by the Scottish Negotiating Committee of Teachers bargaining group along with a differentiated offer averaging at a little over 5%. Discussions are ongoing.

Funding

- 3.11 A pay increase of 2.5% was provided for in the 2022/23 base budget. The Scottish Government have provided additional funding for 3.73% of the increased cost:
- £140m revenue funding nationally of which £2.338m will flow to Midlothian as part of general revenue funding;
 - £120.6 million of Capital Funding (Capital Flexibilities) of which £2.014 million will flow to Midlothian as a capital grant. A one-off flexibility option to allow capital grant to fund in-year revenue expenditure has been developed with Scottish Government and CoSLA officials and has now been approved by Scottish Government Ministers approval. The process is:
 1. £2.014 million capital Grant is added to the Capital Fund;
 2. £2.014 million of the Capital Fund is applied to fund HRA Loans Fund Principal repayments;
 3. £2.014 million of existing budget for HRA Loans Fund Principal Repayments is removed and added to the HRA Reserve; and
 4. £2.014 million of HRA Reserve is transferred to General Fund Reserve and applied to fund pay.
- 3.12 The remaining 1%, estimated at £1.8 million, links into ongoing national discussions around funding flexibilities. Detail on deliverable options available for Councils is still unclear. The Scottish Government / CoSLA planning assumption was that there will be an option(s) that works for all Councils.

3.13 Council Officers have reviewed areas of the budget that could contribute to fund pay. The following areas have been identified and work continues to develop further:

- Employers National Insurance Savings – at Quarter 2 this was presented as a one-off enhancement of £0.400 million to the General Fund Reserve. Reflecting the real challenge to reach the target flexibility value this saving has been re-assigned to support this;
- One-off in-year savings to contribute to the pay funding gap;
- A review of 2021/22 budgets carried forward to 2022/23; and
- A strict approach to cross-year budget flexibility between 2022/23 and 2023/24.

At this stage it is not clear if these measures will be sufficient to meet the target and until this is known, risk remains that the Council will not have an complete funding solution and may need to fund the balance from reserves.

3.14 At this point no adverse variation has been reflected in the outturn projections for pay.

Building Maintenance Service

3.15 Financial outturn for 2021/22 reported to Council in June showed a considerable adverse variance of £0.788 million for the Building Maintenance Service. A subsequent discussion took place at Business Transformation Steering Group at which clear direction was given to officers to undertake a fundamental service review. Officers are progressing with the review.

3.16 The Building Maintenance Service is undergoing a whole systems service transformation. There are a number of work streams included in this programme with job performance, productivity and financial monitoring and sustainability addressed within the programme improvements. There is positive progress across these work streams and at this early stage the value of work invoiced at this point in the financial year has improved from previous years and there is also a higher value of supplier invoices accounted in the financial ledger. However, there remains insufficient quality data on which to base a robust financial projection. As a consequence there remains a risk, based on previous experience, of an adverse variance against budget arising which would deplete reserves.

4 Delegation of resources to Midlothian Integration Joint Board

4.1 The approved budget provided for the allocation of £56.438 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 increases the allocation to £56.593 million. It should be noted this does not include any additional in-year funding from the Council to support higher than budgeted pay awards for health and social care staff.

- 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 At this time the expectation is that delegated services will be delivered within the allocations provided and no provision has been made for an additional budget allocation from the Council.
- 4.4 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

- 5.1 The projected balance on the General Fund as at 31 March 2023 is as follows:

	£ million	£ million
General Fund Reserve at 1 April 2022		32.432
<i>Planned movements in reserves</i>		
Application of Budgets carried forward from 2021/22 for use in 2022/23	(19.923)	
Funding of Corporate Solution for 2022/23 Budget Supplementary Estimate for Inflationary Pressures	(5.576)	
Supplementary Estimate for costs of the additional public holiday	(1.395)	
Other movements	(0.030)	
	0.026	
		(26.898)
Application of Business Transformation Funding to support service re-design		(1.077)
Projected underspend per appendix 1		1.592
Projected General Fund Balance at 31 March 2023		6.049

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

	£ million
Projected General Fund Balance at 31 March 2023	6.049
<i>Earmarked for specific purposes</i>	
To support Council Transformation	(0.259)
Projected General Reserve at 31 March 2023	5.790

- 5.2 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 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 £3.835 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 projected General Reserve of £5.790 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.
- 5.4 Similarly there is an expectation that there will be a recovery in the service overspends projected at quarter 3 and an upside from the strict expenditure control measures that have been introduced. The impact of this recovery action will be reflected in future projections when they are validated.

Capital Receipts Flexibility

- 5.5 Council previously approved the use of a financial flexibility permitting the use of capital receipts to fund projects designed to transform service delivery or reduce costs. Capital Receipts of £0.534 million were set aside for this purpose. For the flexibility to apply they must be utilised by 31st March 2023.
- 5.6 There are very specific criteria set out in Scottish Government Finance Circular 7/2022 including:
- Expenditure must be non-recurring on a transformation / service redesign project where up-front costs generate ongoing savings or reduce demand;
 - Expenditure includes the set up and implementation costs of any new processes or arrangements, but not the ongoing revenue costs; and
 - A meeting of full Council must be provided with costs and benefits associated with individual projects eligible for this flexibility and provide formal approval.

5.7 The following areas of work are considered applicable. Officers are progressing these and final information will be presented to Council for approval as part of the 2022/23 Final Outturn report scheduled for June 2023.

- Client Travel Review;
- Sport and Leisure Review;
- Local by Default;
- Commercialisation;
- School week / curriculum review;
- Climate Change;
- Building Maintenance Review; and
- Customer Services Project.

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 second quarter of the 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.

At this 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 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.

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 not only for the current financial year but for future years.

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 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 financial tables