

Financial Monitoring 2022/23 – General Fund Revenue**Report by Gary Fairley, Chief Officer Corporate Solutions****Report for Decision****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;
- b) Approve a supplementary estimate of £1.395 million to cover unbudgeted inflationary pressures; and
- c) Otherwise 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 overspend of £0.225 million for the year which represents 0.08% of the revised budget.
- 2.2 With the assumption that Council will approve the supplementary estimate for inflationary pressures the projected General Fund balance at 31st March 2023 is £5.339 million, of which £1.336 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: 11 August 2022

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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 projected lost income as a consequence of the Covid-19 pandemic.
- 3.2 The main areas of projected service budget variances projected at quarter 1 are outlined below. As ever, projections early in 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 £1.334 million of Medium Term Financial Strategy (MTFS) cost reductions to be finalised mainly relating to Management Reviews across Place (£0.753 million), Sport & Leisure (£0.166 million), Corporate Solutions (£0.125 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 now at implementation stage. These cost pressures are partly mitigated by vacancies of £0.439 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 £0.238 million. Management are reviewing the offering;
- Insurance costs are projected to be over budget by £0.203 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 Safety Group;
- Costs of transporting young people to education settings exceeds budget by £0.139 million. A full review of school and children's services transport has been initiated;
- Costs of vehicle repairs mainly relating to external works exceeds budget by £0.134 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 £0.129 million.

These are partially offset by favourable movements against budget:

- Higher surplus cashflow and the current increasing interest rate environment has provided opportunity to generate a higher of return of £0.487 million on short term deposits than was anticipated when the budget was set;

- The cost of residential and day education placements for children is £0.445 million lower than budgeted. Investment in local supports rather than utilising external placements is driving this position but there remains a risk of expensive external placements at short notice and out with the Council's control;
- The cost of family placements for children is projected to underspend by £0.195 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 £0.213 million is projected.

- 3.3 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

- 3.4 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.

Inflationary Pressures

- 3.5 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). The latest assessment of unbudgeted costs comes to £1.395 million and it is recommended that Council fund this by way of a Supplementary Estimate.

Pay

- 3.6. The 2022/23 pay claims for all of the Local Government bargaining groups have yet to be concluded. At its meeting on 17 June 2022 COSLA Leaders agreed to mandate the Resources spokesperson to make a revised pay offer of 5% contingent on additional funding being provided by the Scottish Government. Recognising the significant affordability impact this will have for Councils it was agreed to continue discussions to make clear to Scottish Ministers that they must urgently identify and provide additional financial resource for Local Government to protect local services and current staffing levels.
- 3.7 Following a meeting on 3 August 2022 Mr John Swinney, Deputy First Minister and Cabinet Secretary for Covid Recovery wrote to Councillor Katie Hagmann, the COSLA Resources Spokesperson advising that

the Scottish Government was not in a position to provide the additional 3% funding (£277.5 million), as requested by COSLA Leaders but recognising the challenge for councils as employers in funding a fair and affordable pay offer for employees in the current climate advised that the Scottish Government will make a contribution towards the Local Government pay offer.

- 3.8 The letter confirmed a Scottish Government financial contribution of £140 million in 2022/23 to support a revised pay offer. This covered the whole local government workforce, including teachers. Whilst the letter noted the importance of clarification around this being a recurring contribution and whilst not providing confirmation at that time due to continued uncertainty in the UK Government's fiscal stance, it stated that consideration of this will be a priority in the annual budget process. Subsequently the Deputy First Minister has confirmed that the £140 million will be recurring funding.
- 3.9 Pay offers across all bargaining groups averaging 5% would result in an unbudgeted cost estimated at £3.8 million when compared to the 2.5% provision made in the 2022/23 budget. Midlothian's share of the £140 million is estimated at £2.4 million and therefore a 5% offer would represent a net unbudgeted cost of £1.4 million for 2022/23.
- 3.10 At its special meeting on 5th August 2022 COSLA Leaders confirmed that without additional, sustainable, funding from Scottish Government, Local Government will be unable to make a significantly increased pay offer to meet the trade union pay claims. Leaders remitted to the Resources Spokesperson to continue engagement with the Scottish Government to seek full funding of the shortfall needed to construct a baselined 5% offer and also remitted to the Finance Spokesperson to continue engagement with both the Scottish and UK Governments and to liaise with other local authority organisations to press for further financial help from the Treasury. COSLA Leaders will reconvene on 12th August 2022 to further consider the matter and so a verbal update will be provided to Council.
- 3.11 At this point no adverse variation has been reflected in the outturn projections for pay, if there is an unfunded element of any award at or above 5% further consideration will need to be given as to how this is funded within existing resources available to the Council.

Building Maintenance Service

- 3.12 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 have established a governance framework for this and a draft scope. Meanwhile detailed work continues to address some of the weaknesses previously identified.
- 3.13 At this stage there is insufficient quality data, principally in respect of service income, on which to base a meaningful financial projection. As

a consequence there is a considerable risk, based on previous experience, of an adverse variance against budget arising which would add to the reported overspend and further deplete reserves.

4 Delegation of resources to Midlothian Integration Joint Board

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 increase the allocation to £56.710 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 are expected to continue to be funded by government and accordingly at this time the expectation is that delegated services will be delivered within the allocations provided and so no provision has been made 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 Projected General Fund Reserve

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	(5.576)	
Supplementary Estimate for Inflationary Pressures	(1.395)	
Other movements	0.026	
		(26.868)
Projected overspend per appendix 1		(0.225)
Projected General Fund Balance at 31 March 2023		5.339

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	5.339
<i>Earmarked for specific purposes</i>	
To support Council Transformation	(1.336)
Projected General Reserve at 31 March 2023	4.003

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 £3.818 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.

The projected General Reserve of £4.003 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.

Similarly there is an expectation that there will be a recovery in the service overspends projected at quarter 1. The impact of this recovery action will be reflected in future projections when they are validated.

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 first 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 early 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 Governments 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 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 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