

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

- a) Note the projected financial position and the work which is in place to secure improvement and otherwise;
- b) Note the contents of the report.

**2 Purpose of Report / Executive Summary**

The purpose of this report is to provide Council with information on the projections of performance against service revenue budgets in 2020/21 and details of material variances against budget. The projected budget performance figures shown in appendix 1 result in a projected net overspend of £0.485 million for the year which is 0.21% of the revised budget and a £0.705 million improvement on the Q1 position reported to Council in August.

The report also incorporates the financial impact of the Covid- 19 Pandemic as outlined in the Covid-19 Financial Update also on today's agenda and provides a projection of the General Fund Balance at 31<sup>st</sup> March 2021.

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### 3 Background

This report covers all performance against budget with the exception of the additional costs incurred and lost income experienced as a consequence of the Covid-19 pandemic. These are separately reported in the accompanying “Covid-19 Financial Update” report on today’s agenda and the net impact incorporated in the reserves projection.

The main areas of projected variance projected at quarter 2 are outlined below and covered in more detail at appendix 2. As ever, projections part-way through a financial year are difficult in many areas and come with a degree of risk. The exceptional operating environment across all services during this financial year has only added to this.

#### **Projected Overspends**

- There remains £2.739 million of Medium Term Financial Strategy (MTFS) cost reductions that remain to be fully and permanently delivered in 2020/21. Clearly the pandemic has impacted on progress but officers are now working to deliver these at pace;
- Disposal costs relating to increased residual waste tonnages of £0.371 million;
- Lost income of £0.325 million from reduction of or lower demand for chargeable Council Services; and
- Costs associated with an increase in children being accommodated during COVID of £0.146 million.

These are partly offset by favourable movements against budget:

- The impact of vacant posts across the Council of £1.865 million. Many of these are posts which are within the scope of the MTFS proposals and will be removed from the Council’s staffing establishment as reviews are progressed to completion;
- Borrowing costs of £0.527 million;
- Reduced running costs in some service areas of £0.307 million;
- Efficiencies in the service Homeless service giving rise to a projected underspend of £0.153 million; and
- Residential Respite places for Children of £0.278 million.

Relevant senior officers are required to deliver recovery actions at pace for the service areas that are projecting overspends and accordingly it is anticipated that the net projected overspend will reduce over the remainder of the year once the impact of the recovery action is validated.

Whist experiencing a reduction in the year for income from Planning Applications, Building warrants and registration fees it is anticipated that these represent deferred income which will be recovered later this year or most probably into the next financial year. Accordingly the 2020/21 budget has been adjusted to reflect this deferment of income.

As referenced in the Covid-19 Financial Update following relaxations intimated by the Scottish Government resources have been redirected from the Early Years expansion ring fenced grant to assist in offsetting the additional costs of providing Early Learning and Childcare for Key Workers. Members should note that there has been no increase in the specific grant provided to deliver the 1,140 hours provision and accordingly this exacerbates the funding challenge which already existed.

The table below provides a summary of the financial impact of the pandemic and associated funding:-

	<b>Impact</b>	<b>Government Grant</b>	<b>Flexibilities</b>	<b>Net Impact</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Response Costs	4,080	(1.331)	(1.081)	1.668
Net Income Loss	4.419	0	0	4.419
General Grant Support	0	(4.270)	0	(4.270)
	<b>8.499</b>	<b>(5.601)</b>	<b>(1.081)</b>	<b>1.817</b>

As highlighted above the divergence from budget is currently projected at £8.499 million excluding costs association with school reopening and also the impact of slippage in savings programmes as a consequence of the pandemic as outlined in appendix 2. Government funding to mitigate the divergence from budget currently stands at £5.601 million with a further £1.081 million of funding redirected from Early Years expansion and Pupil Equity funding.

In addition the revised quantum for the income loss scheme is currently £90 million of which the estimated share for Midlothian should be around £1 million. The actual support received will depend on a review of actual losses incurred by councils and subsequent final agreement of allocations. Accordingly this estimate will be subject to further refinement.

In addition, at this time, it is also assumed that the costs associated with Schools reopening will be contained within the quantum of the education recovery funding or other flexibilities.

#### **4 Delegation of resources to Midlothian Integration Joint Board**

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 to date reduce the allocation to £44.985 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 be funded by government. An overall funding allocation has been received by NHS Lothian and work is underway on the distribution of this funding over the four Lothian Health and Social Care Partnerships. Accordingly, at this time, the expectation is that this, together with action by the MIJB, will ensure that any pressures can be met from the budget allocated from the Council.

The next meeting of the MIJB is on 10th December 2020 where a financial update will be provided and papers for this meeting will be available on the following link:–

<https://midlothian.cmis.uk.com/live/Meetings/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/1183/Committee/11/SelectedTab/Documents/Default.aspx>

## 5 General Fund Reserve

The projected balance on 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 2019/20		(7.838)
<b>General Reserve at 1 April 2020</b>		<b>5.590</b>
<i>Planned movements in reserves</i>		
Council Transformation Programme Costs	(0.304)	
Severance Costs	(0.220)	
Deferred income for Planning, Building Control and Registrars	(0.694)	
		(1.218)
Overspend per appendix 1		(0.485)
<b>General Fund Balance at 31 March 2021</b>		<b>3.887</b>
<u>Impact of COVID-19 Response</u>		
Net COVID-19 Response Costs	(1.668)	
Net Loss of Income	(4.419)	
General Government Funding Support	4.270	

	(1.817)
Estimate of Income Loss Scheme funding	1.000
<b>General Fund Balance at 31 March 2021</b>	<b>3.070</b>

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

	£ million
<b>General Fund Balance at 31 March 2021</b>	<b>3.070</b>
<i>Earmarked for specific purposes</i>	
Budgets earmarked for Council Transformation	(0.155)
Enhancement to Reserves earmarked for training	(0.199)
Deferred income	0.694
<b>General Reserve at 31 March 2021</b>	<b>3.410</b>

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 equates to £3.3 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.

The projected General Reserve of £3.410 million is marginally 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 clear expectation that there will be a recovery in the service overspends projected at quarter 2. 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 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 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 appendix 2 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 remains a risk that actual costs and income losses may increase as events unfold over the remainder of the year or if local or national restrictions are reintroduced.

There are a number of areas where effective forecasting of spend against budget is hindered due to ineffective feeder systems or incomplete service information which in previous years has resulted in previously unreported or significantly adjusted variances at the financial year end. In 2019/20 building repairs and maintenance, roads maintenance, waste disposal and home to school transport all fell into this category and they remain risk areas in the current financial year. Work continues to address the underlying issues and mitigate the risk associated with them.

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 United Nations Convention on the Rights of the Child Bill 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 1-2 financial tables**