

The Highland Council
Resources Committee – 8 February 2017

Agenda Item	3
Report No	RES/ 01/17

Corporate Revenue Monitoring to 31 December 2016

Report by Director of Finance

Summary

The purpose of this report is to present the financial position of the revenue budgets of the General Fund and Housing Revenue Account (HRA) for the period from 1 April to 31 December 2016 and the estimated position for the 2016/17 financial year. It also presents an update on the status of savings removed from the budget in the year.

1. Background

- 1.1 This report presents the overall revenue budget monitoring position for the General Fund and HRA of the Council for the financial year 2016/17 as at 31 December 2016. It also considers the impact of some of the issues highlighted on the budget for 2017/18.
- 1.2 The Council's annual net budget of £561.7m incorporates £34.9m of budget savings approved by Council in February 2016 and December 2014. These savings were required as a result of the significantly reduced grant settlement from the Scottish Government as well as a number of unavoidable cost pressures.

2. Overview of Budgets

- 2.1 A corporate monitoring statement is attached at **Appendix 1**. The statement shows a forecast year end overspend of £1.517m (0.27%) against the Services Revenue Budget. The position at the end of the previous quarter was an overspend of £1.897m (0.33%).
- 2.2 This overspend will be partially mitigated by a forecast £0.885m of Council tax income that will be received in excess of the budgeted level. This excess has primarily arisen as a result of increased collection rates of prior year debts.
- 2.3 The combination of the two figures above means that at year end £0.632m would need to be drawn down from the non-earmarked general fund balance to match annual income to expenditure. As per **Appendix 6** this would reduce the non – earmarked general fund balance to £10.851m (approximately 1.95% of the annual budget).
- 2.4 The Council's Executive Leadership Team have committed to take all necessary action to ensure that by year end a balanced budget position is delivered and no drawdown from balances required.

3. Detail of Budgets

- 3.1 The unallocated budget line represents funding for corporate pressures as detailed in **Appendix 5**. The most significant of these pressures relate to the Council's requirements to comply with employment legislation. This line is showing as underspent because it is not anticipated that the funding will need to be transferred to service budgets in the current financial year.
- 3.2 The budget on the unallocated corporate savings line is also shown in **Appendix 5**. This line is showing as a budget pressure as it is not expected that any of these savings will be transferred to service budgets in the current year. More detail on approved budget savings is included in section 6 of this report.
- 3.3 The revenue budget for 2016/17 has increased by £5.939m to £561.670m from the budget agreed at Highland Council on 25 February. **Appendix 4** details the reasons for the change. In the last quarter the most significant change has been confirmation of anticipated funding from the Scottish Government of £2.210m, chiefly in respect of the Teachers' Induction Scheme, which is included on the line entitled Grant Funding Redeterminations.

4. Budget Variances

- 4.1 **Appendix 1** summarises the budget variances by service. The following paragraphs provide a summary of these anticipated year end variance positions with more detailed statements reported to the respective service committees. All services face potential budget pressures if approved budget savings are not fully delivered.
- 4.2 As requested at the previous meeting of this committee a new table has been produced which analyses individual service variances by expenditure category, this can be seen at **Appendix 2**.
- 4.2 The Care and Learning Service is projecting a year-end overspend of £0.668m which arises mainly from overspends on looked after children, school transport, property repairs and servicing and red or amber savings. These overspends have been partially offset by staffing vacancies across the service and a projected underspend on PPP contacts relating to a one off saving on utility costs.
- 4.3 The Chief Executive's office anticipates a small year-end underspend of £0.022m arising from savings on non-staff costs in the Policy and Reform budget.
- 4.4 The Corporate Development Service anticipates a year end overspend of £0.198m. The pressure on the core element of the service budget is £0.108m, mainly due to a reduction in training income. A £0.092m increase in the licencing income target approved as part of the corporate increase in charges cannot be delivered as there is no scope to increase income from statutory licensing fees as the Council does not have the authority to alter these fees.
- 4.5 Although anticipating a balanced position at the year end the Community Services budget currently has a pressure of £0.305m relating to street lighting electricity costs and a pressure of £0.150m due to a shortfall in the car parking

income target. The lighting pressure is linked to the capital investment for sodium lantern replacement with LED lanterns: the revenue saving return on investment is behind profile, with planned savings having slipped, to be achieved instead in later years. The shortfall in car park income includes the loss of income as a result of selling the top deck at the Inverness multi-storey car park. Savings from staff vacancies across the Service, increased income in respect of road condition consents, and an underspend on the flood alleviation budget compensate for both of the budget pressures.

- 4.6 The Development and Infrastructure Service anticipates a year end overspend of £0.234m. Given the change to subsidy requirements, the saving of £0.234m attributed to supporting Council renewable projects will not be achieved. The Service is continuing to have discussions to identify where this saving is to come from. However, given the point in the financial year, it is unlikely any further saving will be identified. Other pressures arising from the red and amber budget savings are being addressed by management action across the service.
- 4.7 The Finance Service anticipates an underspend of £0.454m arising from the management of staff vacancies (£0.337m) and increased income (£0.117m) from penalties on outstanding council tax and NDR debt, and a one off payment from the Department of Work and Pensions (DWP) to cover the work undertaken on benefit changes.
- 4.8 A saving of £0.150m is anticipated in loan charges due to continued favourable interest rates and a move towards a strategy of taking on a greater proportion of very short term borrowing. The achievement of this underspend will depend on the pace of delivery of the capital programme and the budgeted level of slippage being achieved. This issue is covered in more detail in the report on capital monitoring on this committee agenda.
- 4.9 Any unforeseen events, risks or other occurrences may impact on the forecast position. As the year progresses the opportunity for such items to emerge diminishes albeit there are seasonal factors which may yet influence the year end position.

5. Housing Revenue Account (HRA)

- 5.1 As shown in **Appendix 3** the HRA anticipates a balanced budget at year end. Underspends on loan charges, repairs and maintenance, staff vacancies, and an increase in non-housing rental income will allow an increase in the capital expenditure funded from revenue and cover a shortfall in Council house rental income.

6. Budget Savings

- 6.1 Approved budget savings of £34.9m are required to be delivered in-year in order to achieve a balanced budget. These budget savings were approved by Council in February 2016 and December 2014.
- 6.2 All budget savings have been ranked as Green, Amber or Red by the service director responsible for their delivery. This ranking reflects directors' assessments of whether the budget saving is being delivered, in full, in the intended manner. Any saving that is not being delivered in full will be factored

into the service variances reported above as a budget pressure. For a number of red and amber savings service directors have taken alternative action to ensure the required savings amount is delivered.

- 6.3 For any savings ranked as red it is unlikely that any element of the saving will be delivered in 2016/17. Those ranked as amber are ones where a significant risk to the delivery of the full value of the saving has been identified. In practice it is anticipated that a proportion of the total value of the amber savings will be delivered. Delivery of a number of amber savings has been delayed with full delivery expected in financial year 2017/18.
- 6.4 A summary of savings by service can be seen at **Appendix 7**. Full details of all service savings are reported to the respective service committees. Currently £26.712m of savings sit in the green category, £6.364m in the amber category and £1.820m sit in the red category.
- 6.5 **Appendix 8** provides a consolidated analysis of the total values of any red or amber corporate and transformational savings. These savings targets impact on all service budgets and each saving has a dedicated owner tasked to work with services to help deliver the saving. If these savings are not delivered in the intended way it is anticipated that service directors will identify alternative means of delivering the required level of saving.
- 6.6 As detailed in section 3.2, a number of the savings shown in **Appendix 8** have not been allocated to services. Those include savings related to schools energy incentives and attendance management. Work is ongoing to deliver these savings and once any cashable savings are identified these will be removed from service budgets.
- 6.7 Work undertaken by the schools energy working group and the energy and sustainability team has helped contribute to an overall 7% reduction in energy use from the period from April until November. Within that overall reduction there has also been a significant shift from gas and oil to biomass use.
- 6.8 The overall cost position is however relatively unchanged due an average increase in energy cost per unit of 9.4%. The shift to biomass consumption should have a positive effect on the Council's receipt of RHI payments.
- 6.9 With regard to attendance management a mandatory course for managers has been introduced with over 500 managers having attended by the end of December. To date the Attendance Support Officer has had involvement with 52 managers on an individual basis, ensuring relevant cases are being progressed.
- 6.10 Although it is too early to identify and provide narrative on trends, immediate improvements in the attendance indicators since the introduction of the new measures are encouraging. Between quarter 1 and quarter 2 the average number of days' absence reduced for non-teaching staff from 2.6 to 2.3 days and for teaching staff from 1.6 to 1.2 days. The number of employees initiating the long term absence trigger reduced from 924 to 834 between quarters 1 and 2 and the number of employees initiating the short term absence trigger reduced from 386 to 316 in the same period.

- 6.11 **Appendix 9** provides a list of service specific savings ranked as red or amber. These savings have been reported to their respective service committees and any elements of these savings not being delivered in the intended way are being managed by directors alongside other service pressures.

7. Revenue Balances

- 7.1 **Appendix 6** shows a forecast year end general fund non-earmarked revenue balance of £10.851m which equates to 1.95% of the Council's annual revenue budget. This percentage is at historically low levels and falls outside the 2-4% range suggested by Audit Scotland.

- 7.2 Having a non-earmarked general fund balance gives the Council the ability to manage any cost pressures that may emerge at any point in time as well as funding to effect transformational change. As part of the budget setting process for 2017-18 members may wish to consider whether efforts should be made to increase that balance.

- 7.3 Members are asked to agree a further reduction in this balance to fund costs associated with staff who left during the current financial year in order to secure the delivery of approved budget savings. Most of the costs of the voluntary redundancy exercise were accounted for in 2015/16 but decisions on teaching staff who left under the scheme were not made until earlier in the current year. Those staff did not leave the Council's employment until the autumn. Costs in relation to these staff total £1.233m and approval is sought for these to be funded from the non-earmarked general fund balance.

- 7.4 A further £0.304m drawdown from balances is also requested in order to fund pensions strain costs for staff who left outside of the voluntary redundancy scheme in order for approved budget savings to be delivered. In previous years central funding has been made available to services to meet these costs so services are not disadvantaged by having to directly fund costs of this nature as well as deliver budget savings.

- 7.5 If the drawdowns from balances detailed in sections 7.3 and 7.4 are approved the overall level of the non-earmarked balance would reduce to £9.314m or 1.68% of the annual revenue budget. Due to the ongoing pressure on the Council's non-earmarked balances work will be undertaken as part of the year end financial process to review the Council's earmarked balances and assess whether the reason for the earmarking of those balances remains valid. If it does not then some balances may be recommended for returning to the non-earmarked fund.

8. 2017/18 budget

- 8.1 The Council will set its revenue budget for 2017/18 on the 16th February and a number of the issues highlighted in this report will impact on the decisions that are to be taken.

- 8.2 As highlighted in section 6 of this report a number of the savings required for the current year, 2016/17, are not going to be delivered. Work is ongoing to review these savings to determine whether any savings, or element of savings, are not deliverable and require to be factored into the 2017/18 budget

workings as a pressure. Doing so will ensure that the year starts from a balanced position albeit it will require the identification of alternative savings.

- 8.3 A review of the red and amber savings in the current year would suggest that the most challenging savings to deliver are those where the actions required for delivery are unclear, where savings are of a more aspirational nature or where action for delivery is required across more than one of the Council's services.
- 8.4 As well as savings that have not been delivered services also face a number of other budget pressures, normally specific to a particular service area. Work has been done to review these with any areas where management action cannot contain the pressure on a recurring basis being considered for additional funding in 2017/18.
- 8.5 As highlighted in section 7 of this report the Council's non-earmarked general fund balance is at an historic low level and below the recommended range for such balances. In 2017/18 the Council may face further challenges in the delivery of budget savings, cost pressures as a result of other factors or have costs to bear arising from the delivery of savings, all of which would put a further call on those balances.

9. Implications

- 9.1 Resource implications are noted in this report.
- 9.2 There are no risk, legal, equality, climate change/Carbon Clever, rural or Gaelic implications arising as a direct result of this report.

Recommendation

Members are invited to consider the financial position of the General Fund and HRA revenue budgets at 31 December 2016 and to approve the estimated year end position.

Members are asked to approve the use of the general fund non-earmarked balance to fund the costs as described in paragraphs 7.3 and 7.4.

Members are asked to note the status of budgeted savings.

Designation: Director of Finance

Date: 30 January 2017

Author: Edward Foster, Head of Corporate Finance

Background Papers: Service monitoring statements

Revenue Expenditure Monitoring Report -General Fund Summary

1 April to 31 December 2016

	Actual Year to Date £000	Annual Budget £000	Year End Estimate £000	Year End Variance £000
Table A: By Service				
Care and Learning	266,260	391,544	392,212	668
Chief Executive's Office	4,049	5,060	5,038	(22)
Corporate Development	15,107	16,983	17,181	198
Community Services	42,640	54,434	54,434	0
Development and Infrastructure	8,846	8,147	8,381	234
Finance Service	11,804	13,061	12,607	(454)
Welfare Services	14,023	14,091	14,097	6
Service Total	362,729	503,320	503,950	630
Valuation Joint Board	1,917	2,550	2,550	0
Non Domestic Rates reliefs	729	701	729	28
Loan Charges	0	56,288	56,138	(150)
Interest on Revenue Balances	0	(180)	(180)	0
Unallocated Budget	0	595	0	(595)
Unallocated Corporate Savings	0	(1,604)	0	1,604
Total General Fund Budget	365,375	561,670	563,187	1,517

Table B: By Subjective

Staff Costs	231,862	322,414	317,556	(4,858)
Other Costs	273,678	447,779	452,155	4,376
Gross Expenditure	505,540	770,193	769,711	(482)
Grants	(46,245)	(62,108)	(62,350)	(242)
Other Income	(93,920)	(146,415)	(144,174)	2,241
Total Income	(140,165)	(208,523)	(206,524)	1,999
Total Revenue Expenditure	365,375	561,670	563,187	1,517

Financed By:

Aggregate External Finance as notified	243,533	435,652	435,652	0
Additional resources	2,826	5,036	5,036	0
Council Tax	114,361	116,327	117,212	885
Use of earmarked balances	4,485	4,485	4,485	0
Use of non earmarked balances	170	170	802	632
Total General Fund Budget	365,375	561,670	563,187	1,517

Revenue Expenditure Monitoring Report -General Fund Summary

1 April to 31 December 2016

	Staff Costs Variance £000	Other Costs Variance £000	Grants Variance £000	Other Income Variance £000	Total Variance £000
Table A: By Service					
Care and Learning	(2,790)	2,038	(36)	1,456	668
Chief Executive's Office	(10)	(12)	0	0	(22)
Corporate Development	(127)	69	0	256	198
Community Services	(250)	204	0	46	0
Development and Infrastructure	(1,344)	1,184	(89)	483	234
Finance Service	(337)	0	(117)	0	(454)
Welfare Services	0	6	0	0	6
Valuation Joint Board	0	0	0	0	0
Non Domestic Rates reliefs	0	28	0	0	28
Loan Charges	0	(150)	0	0	(150)
Interest on Revenue Balances	0	0	0	0	0
Unallocated Budget	0	(595)	0	0	(595)
Unallocated Corporate Savings	0	1,604	0	0	1,604
Total General Fund Budget	(4,858)	4,376	(242)	2,241	1,517

Revenue Expenditure Monitoring Report - Housing Revenue Account Summary

1 April to 31 December 2016

	Actual Year to Date £000	Annual Budget £000	Year End Estimate £000	Year End Variance £000
Staff Costs	3,193	4,806	4,691	(115)
Other Costs	13,337	25,713	27,530	1,817
Loan charges and interest	0	20,300	18,986	(1,314)
Gross Expenditure	16,530	50,819	51,207	388
House Rents	(36,365)	(48,769)	(48,487)	282
Other rents	(1,339)	(1,649)	(1,763)	(114)
Other income	(683)	(356)	(912)	(556)
Interest on Revenue Balances	0	(45)	(45)	0
Gross Income	(38,387)	(50,819)	(51,207)	(388)
Total HRA	(21,857)	0	0	0

Actual expenditure to date as % of annual budget

This year	33%
Last year	27%

Revenue Expenditure Monitoring Report - General Fund Budget
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1 April to 31 December 2016

	£m	£m
Budget as agreed by Highland Council on 25 Feb 2016		555.731
Less : Ring-fenced grant (Gaelic)		(0.940)
Grant Funding Redeterminations		2.224
Agreed use of non-earmarked balances		
Redundancy and Lump Sum	0.129	
Sensory Impairment	0.040	
		0.170
Use of/(contribution to) earmarked balances		
Children's Services Investment	0.094	
Citizens Advice Bureau	0.102	
Health Coordinator/Community Food and Health Practitioner	0.220	
ICT Investment Funds	0.585	
Strategic Change and Development Fund	0.066	
Count Your Cash	0.007	
Sensory Impairment	0.008	
Invergordon Rationalisation Project	0.020	
Developer Contributions	0.012	
Voluntary Severance Strain on Pension	3.366	
ICT PSN	* 0.016	
DHP's Benefits Promotion	* 0.034	
ICT Investment Funds	* 0.007	
Developer Contributions	* 0.014	
Osprey House Invergordon Rationalisation Project	* 0.005	
1 + 2 Languages	* (0.070)	
		4.485
Use of Other Reserves		
		0.000
Total General Fund Budget at 31st December 2016		561.670

* changes applied to budget during quarter 3 16/17

Revenue Expenditure Monitoring Report - General Fund Budget
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1 April to 31 December 2016

Table A Unallocated Budget

	£m
Provision for Auto-enrolment	0.166
Provision for Holiday Pay	0.400
Property Rationalisation VR savings	0.026
CTRS	0.003
Unallocated Budget at 31st December 2016	<u><u>0.595</u></u>

Table B Unallocated Corporate Savings

	£m
Schools Energy Incentives	0.531
Attendance Management	0.500
Transformation Savings	0.573
Unallocated Corporate Savings at 31st December 2016	<u><u>1.604</u></u>

Revenue Expenditure Monitoring Report - General Fund Balance

1 April to 31 December 2016

General Fund Balance

	Earmarked balances £m	Non- earmarked balances £m	Total £m
Balance at 1 April 2016 (Audited)	18.757	11.653	30.410
Use of balances included in budget as agreed by Highland Council on 25 Feb 2016	0.000	0.000	0.000
Use of balances per Appendix 3	(4.485)	(0.170)	(4.655)
Movement in balances per Appendix 1	(4.485)	(0.170)	(4.655)
Net service overspend per Appendix 1	0.000	(1.517)	(1.517)
Additional financing	0.000	0.885	0.885
Balance at 31st December 2016	14.272	10.851	25.123

Analysis of all service budget savings by RAG ranking

Appendix 7

Table 1

	Total			Total
	Green	Amber	Red	
Care and Learning	12.188	2.552	0.552	15.292
Chief Executive's Service	1.027	0.049	0.003	1.079
Community Services	3.922	1.470	0.249	5.641
Corporate Development	1.326	0.975	0.000	2.301
Development and Infrastructure	3.526	0.130	0.411	4.067
Finance	4.723	0.157	0.031	4.911
Unallocated Savings	0.000	1.031	0.574	1.605
Total	26.712	6.364	1.820	34.896

Corporate and transformation savings with red or amber rated elements

Appendix 8

Ref.	Activity Heading	Savings Proposal	2016/17 saving	Element Amber	Element Red
PIM16	Transport Programme	Seeking contract variation opportunities for school and public bus services provision; home-to-school transport efficiencies; future services provision re-tendering	0.625	0.119	
Corp 6	Recruitment Freeze	Recruitment freeze for non-exempt posts	0.575	0.008	
Corp - Schools Energy	Energy	Schools Energy Incentives	0.531	0.531	
Corp 8	Attendance Management		0.500	0.500	
Corp 4, TSP Proc 1 & 3, TSP WPP4-SSJV9	Procurement	Procurement Shared Service & Collaborative Spend	0.700	0.451	0.249
Corp 2	Fees & Charges	10% increase on all fees and charges that are not nationally set, or a different amount has already been agreed	0.487	0.295	
PIM1 & PIM20	Entitlements & Digital Services	Simplifying & streamlining entitlements applications processes Channel shift activity - increase the number of services accessible on-line, via the Council's website, and via the Council's Service Centre	0.435	0.233	0.206
Corp 3	Energy	Reduced consumption, pricing & behavioural change	0.250	0.223	
IG10	Support for Council Renewable Projects	Capital investment in wind farms, solar panels and exploitation of methane gas from Longman landfill site to generate electricity	0.234		0.234
	Information Management		0.232		0.117
TN008	ICT	Develop ICT architecture & related efficiencies	0.200	0.200	
Corp 1	Salary Sacrifice	Savings from salary sacrifice schemes	0.204	0.113	
Corp 7	Management and staffing savings	Agency Staff	0.168	0.004	0.054
PIM27	Reduction in Light Vehicles and Plant	3 year programme to reduce the number of items of light vehicles and plant utilised full-time by the Council	0.150	0.054	
WCG6	Employability	Social Impact Bonds	0.150		0.150
	Savings to be Identified		0.337		0.337
PIM2	Attendance Management	Reduction in sickness absence by continuing to adopt a robust and consistent approach to attendance management	0.147	0.009	0.106
PIM2A	Travel, Subsistence and Overtime	Reduction in the costs of staff travel, subsistence and overtime through management action and greater use of technology	0.124	0.051	
IG /7	Income Generation	Opportunities to be identified	0.180		0.180
WPP4-5-SSJV5	Shared Services - Corporate Fraud	Shared Service opportunity through more effective working with other local authorities	0.025		0.025
WPP4-SSJV4	Shared Services - Care Performance & Contracting	Opportunity to generate efficiency savings through a Shared Service model	0.032		0.032
Total			6.286	2.791	1.690

Service	Activity Heading	Savings Proposal	2016/17 £m	Ranking
C&L	Secondary Education	Introduce a standard timetabling structure across Highland secondary schools, based on 33 periods, which is the optimal staffing and timetabling model	0.075	R
C&L	Transfer of Residential Properties	Saving of the maintenance budget following the planned transfer of former ECS residential properties to Community Services	0.030	R
C&L	Management of Secondary School Facilities	Transfer of management of secondary school community use to HLH	0.025	R
C&L	Residential care	Cease use of all spot purchased beds with external contractor	0.550	A
C&L	Secondary Education	Use of more technology to deliver the curriculum	0.400	A
C&L	Conserved teacher salaries	Current national conservation of salary arrangement ends April 2016	0.200	A
C&L	School Catering	Redesign menu options to effect cost savings. The proposal will continue to meet required nutritional standards for school meals. The saving equates to a c4% reduction in food costs.	0.160	A
C&L	School Lets	Increased income from school lets, arising from school lets review and potential changes to that policy in relation to free lets.	0.150	A
C&L	Management and staffing savings	Management Savings - 2 posts- C&L senior management structure	0.150	A
C&L	Secondary Education	Re-job sizing secondary school promotion structures	0.100	A
C&L	Eden Court	16.8% saving target	0.100	A
C&L	School Lets	Over and above existing savings relating to the phasing out of free lets, look to further increase the charges levied on users.	0.035	A
C&L	School Transport	Review arrangements for Gaelic school transport provision to target a 6% saving against the current spend of £0.332m	0.020	A
C&L	School Transport	Review arrangements for school transport provision to denominational schools to target a 6% saving against the current spend of £0.070m	0.004	A
CD	ICT	Reduction in costs targeted from the new ICT Contract due to be awarded in July 2016 with commencement of delivery of service from early 2017. Savings for 2016/17 will be achieved by moving to the new Managed Print Service early.	0.250	A
CD	ICT	Re-procurement of mobile/landline telephony and SWAN savings	0.300	A
CEO	Emergency Planning	Reduction in Emergency Planning	0.035	A

CS	Car Parking	Weekend charging for the use of HQ car park	0.020	A
CS	Burials and Cremations	Accelerate agreed increase (increase agreed HC 18/12/14)	0.633	A
CS	Lighting	Street lighting - energy, LEDs, timings, spacings, controls	0.128	A
CS	Burials and Cremations	Increase interment charges by 10% pa for 4 years	0.091	A
CS	Burials and Cremations	Increase lair purchase charges by 12% in year 1 and 10% pa for the next 3 years	0.087	A
CS	Burials and Cremations	Increase cremation charges by 10% pa for 4 years	0.064	A
CS	Burials and Cremations	Increase interment charges to equal cremation charges in year 1 (+15%) and add 5% pa thereafter.	0.046	A
D&I	Environmental Studies	Provision of Advice in-house (consultancy cost saving)	0.050	A