

Agenda Item	7.
Report No	RES/18/17

HIGHLAND COUNCIL

Committee: Corporate Resources Committee

Date: 14th June 2017

Report Title: Corporate Revenue Near Final Monitoring Report for 2016/17

Report By: Director of Finance

1. Purpose/Executive Summary

- 1.1 This report provides a summary of the 'near-final' revenue budget position for 2016-17. This position and the wider accounts will be subject to external audit scrutiny over the coming months so there is the possibility that any issues identified as part of the audit process may change this figure.
- 1.2 Overall there was a net underspend on services of £0.934m- this represents a considerable improvement on the position reported at the end of quarter 3 (a £1.517m overspend).
- 1.3 In addition the Council received income from Council tax and grant funding from the Scottish government £0.978m in excess of budget- a slight improvement on the position previously reported.
- 1.4 The combination of these two figures means an overall net underspend for the Council in 2016-17 of £1.912m. Of this £1.779m will be added to the Council's non-earmarked general fund balance with £0.133m added to specific reserves.
- 1.5 The report also provides a summary of the delivery of the near £35m of approved budget savings required to deliver a balanced budget in 2016-17 along with an explanation of the position of the Council's key reserves at the year end.

2. Recommendations

2.1 Members are asked to:

- consider and agree the financial position of the General Fund and HRA revenue budgets as at 31 March 2017
- note the status of budgeted savings in the year
- approve the earmarking of £1.644m from the general fund balance to address cost phasing issues associated with the new ICT contract

3. Service budget variances

- 3.1 **Appendix 1** provides the usual monitoring statement format with **Table A** providing variance detail by service and other significant budget heads. Details of individual service positions will be reported to the respective strategic committees. Overall the Council is reporting a net underspend of £0.934m against service budgets.
- 3.2 The improved position from that reported at quarter 3 is illustrative of the Council reducing its spend in advance of the 2017-18 financial year where a further £20.344m of budget savings require to be delivered.
- 3.3 The 'Financed By' section of **Table B** provides information on the Council's key sources of external funding. Council tax income exceeded the budget by £0.607m primarily due to increased collection of prior year debts whilst £0.371m of income above the budgeted level was received from the Scottish Government.

4. Housing Revenue Account

- 4.1 As shown in **Appendix 2** the Housing Revenue Account (HRA) achieved a balanced budget. Underspends on loan charges, housing repairs, staff vacancies, rent voids and an increase in other non-rental income allowed an increase in the capital expenditure funded from revenue, covered a shortfall in Council house rental income and higher level of bad debt provision.
- 4.2 The funding of capital expenditure from revenue funds will reduce the overall HRA borrowing requirement and make consequential savings in future years' borrowing costs.

5. Reserves and Balances

- 5.1 The combination of the figures reported at 2.1 and 2.3 gives a surplus for the financial year of £1.912m. Of this sum £0.133m relates to affordable housing and needs to be transferred to the appropriate reserve for that purpose. The balance of £1.779m will be added to the Council's non-earmarked general fund balance.
- 5.2 **Appendix 5** summarises the movements on the Council's earmarked and non-earmarked balances during the course of the year. Over the course of the year the earmarked balances, i.e. balances held for use for specific purposes, have reduced by a net £4.091m. Details of the movements in individual balances can be seen at **Appendix 7**.
- 5.3 Overall the non-earmarked balance has reduced by £0.289m during 2016/17. Net reductions in the balance during the course of the year of £2.069m have been mostly offset by the year end surplus of £1.779m.
- 5.4 **Appendix 3** details the use of non-earmarked balances during the course of the year and reflects decisions taken by this Committee or full Council.
- 5.5 At the time of the award of the new ICT contract Members were made aware that annual costs are not phased equally over the duration of the 7 year contract. Costs are front-loaded into the early years of the contract with the

overall net savings from the contract delivered from substantial reductions in the annual charge in the later years.

- 5.6 Modelling work has been undertaken to forecast all ICT revenue costs over the life of the new contract and, excluding the impact of potential contract indexation, is forecasting a net saving of £10.628m over the period until 2023/24.
- 5.7 In years 1 and 2 of the model (financial years 2017/18 and 2018/19) costs are in excess of the annual budget. It is therefore recommended that £1.644m of the general fund balance is earmarked to meet these costs. The savings delivered from 2019/20 onwards can be used to rebuild balances or otherwise factored in to the Council's longer term budget planning.
- 5.8 The year-end balance on the non-earmarked fund of £11.364m equates to 2% of the final 2016/17 budget. If the necessary ICT earmarking in the above section is approved the balance will reduce to £9.720m or 1.73% of the budget- below the 2-4% range suggested by Audit Scotland.
- 5.9 Having a non-earmarked general fund balance gives the Council the ability to manage cost pressures that may emerge at any point in time as well as funding to effect transformational change. Having a balance below the suggested range gives the Council only limited scope to address such issues. As part of the budget setting process for future years members are encouraged to increase that balance to within the suggested 2-4% range.

6. Budget savings

- 6.1 In order to deliver a balanced budget for the year budget savings of £34.895 were required to be delivered. A summary of the delivery of those savings can be seen at **Appendix 6**. Savings ranked as green have been delivered in full, those as amber have been partially delivered, and those as red not delivered.
- 6.2 As part of this month's committee cycle services will be reporting the detail of the delivery of their savings. Whilst some savings ranked as red have been assessed as undeliverable and that saving requirement removed from budgets as part of the 2017/18 budget process the requirement for delivery of others remains. The full delivery of all approved budget savings is essential given the continuing squeeze on the Council's revenue budget.
- 6.3 In 2016/17 a handful of corporate savings targets were not allocated to service budgets, details of these savings can be seen at **Appendix 4**. As a temporary measure these have been offset by underspends in other areas of the Council's budget.

7. Implications

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

Date: 26th May 2017

Author: Edward Foster, Head of Corporate Finance

Background Papers:

Revenue Expenditure Monitoring Report -General Fund Summary

1 April to 31 March 2017

	Annual Budget £000	Year End Actual £000	Year End Variance £000
Table A: By Service			
Care and Learning	388,475	387,824	(651)
Chief Executive's Office	5,197	5,088	(109)
Corporate Development	17,969	17,945	(24)
Community Services	58,301	58,944	643
Development and Infrastructure	7,421	7,276	(145)
Finance Service	13,035	12,252	(783)
Welfare Services	14,091	14,063	(28)
Service Total	504,489	503,392	(1,097)
Valuation Joint Board	2,550	2,405	(145)
HiTrans Requisition	91	91	0
Non Domestic Rates reliefs	701	729	28
Loan Charges	56,288	55,785	(503)
Interest on Revenue Balances	(180)	(353)	(173)
Unallocated Budget	649	0	(649)
Unallocated Corporate Savings	(1,605)	0	1,605
Total General Fund Budget	562,983	562,049	(934)

Table B: By Subjective

Staff Costs	323,782	314,605	(9,177)
Other Costs	445,530	460,469	14,939
Gross Expenditure	769,312	775,074	5,762
Grants	(62,930)	(65,948)	(3,018)
Other Income	(143,399)	(147,077)	(3,678)
Total Income	(206,329)	(213,025)	(6,696)
Total Revenue Expenditure	562,983	562,049	(934)

Financed By:

Aggregate External Finance as notified	435,652	436,023	371
Additional resources	5,079	5,079	0
Council Tax	116,327	116,934	607
Use of earmarked balances	4,091	4,091	0
Use of non earmarked balances	2,069	290	(1,779)
Appropriations to other reserves	(235)	(368)	(133)
Total General Fund Budget	562,983	562,049	(934)

Revenue Expenditure Monitoring Report - Housing Revenue Account Summary

1 April to 31 March 2017

	Annual Budget £000	Year End Actual £000	Year End Variance £000
Staff Costs	5,002	4,795	(207)
Other Costs	25,517	27,703	2,186
Loan charges and interest	20,300	18,979	(1,321)
Gross Expenditure	50,819	51,477	658
House Rents	(48,769)	(48,479)	290
Other rents	(1,649)	(1,721)	(72)
Other income	(356)	(1,221)	(865)
Interest on Revenue Balances	(45)	(56)	(11)
Gross Income	(50,819)	(51,477)	(658)
Total HRA	0	0	0

Revenue Expenditure Monitoring Report - General Fund Budget
--

1 April to 31 March 2017

	£m	£m
Budget as agreed by Highland Council on 25 Feb 2016		555.731
Less : Ring-fenced grant (Gaelic)		(0.940)
Grant Funding Redeterminations		2.267
Agreed use of non-earmarked balances		
Redundancy and Lump Sum	0.129	
Sensory Impairment	0.040	
Inverness Property Rationalisation	* 0.150	
Voluntary Redundancy	* 1.342	
Non VR Pension Strain Funded from Balances	* 0.357	
Business Loans Scotland	* 0.337	
EERS Compensation Payments	* 0.185	
MI & Digital First	* 0.010	
By Election	* 0.026	
Local Government Election	* 0.063	
Equal Pay Provision	* (0.616)	
Interest on Earmarked Reserves	* 0.046	
		2.069
Use of/(contribution to) earmarked balances		
Children's Services Investment	0.149	
Citizens Advice Bureau	0.102	
Health Coordinator/Community Food and Health Practitioner	0.220	
ICT Investment Funds	1.423	
Strategic Change and Development Fund	0.066	
Count Your Cash	0.007	
Voluntary Severance Strain on Pension	3.366	
DHP's Benefits Promotion	0.034	
Developer Contributions	0.035	
Property Rationalisation Projects	* (0.116)	
Community Justice Earmarking	* (0.002)	
Non VR Pension Strain Funded from Balances	* 0.076	
30 Princess St	* 0.056	
CEEF	* 0.012	
Business Loans Scotland - Earmarking	* (0.221)	
Decriminalised Parking Enforcement	* 0.377	
European Projects Earmarking	* (0.394)	
Council Redesign	* 0.098	
DSM Balances	* (1.150)	
Interest on Earmarked Reserves	* (0.046)	
		4.091
Use of Other Reserves		
Repairs & Renewals Fund	0.009	
Insurance Fund	(0.244)	
		(0.235)
Total General Fund Budget at 31st March 2017		562.983

* changes applied to budget during quarter 4 16/17

Revenue Expenditure Monitoring Report - General Fund Budget
--

1 April to 31 March 2017

Table A Unallocated Budget

	£m
Provision for Auto-enrolment	0.166
Provision for Holiday Pay	0.400
Property Rationalisation VR savings	0.033
Redeterminations	0.050
Unallocated Budget at 31st March 2017	<u><u>0.649</u></u>

Table B Unallocated Corporate Savings

	£m
Schools Energy Incentives	0.531
Attendance Management	0.500
Transformation Savings	0.574
Unallocated Corporate Savings at 31st March 2017	<u><u>1.605</u></u>

Revenue Expenditure Monitoring Report - General Fund Balance

1 April to 31 March 2017

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	(4.091)	(2.069)	(6.160)
Movement in balances per Appendix 1	(4.091)	(2.069)	(6.160)
Net service underspend per Appendix 1	0.000	0.934	0.934
Appropriations to Other Reserves	0.000	(0.132)	(0.132)
Additional financing	0.000	0.978	0.978
Balance at 31st March 2017	14.666	11.364	26.030

Analysis of all service budget savings by RAYG ranking

Appendix 6

Table 1

	Total			
	Green	Amber	Red	Total
Care and Learning	12.283	2.457	0.552	15.292
Chief Executive's Service	1.076	0.002	0.001	1.079
Community Services	4.651	0.990	0.000	5.641
Corporate Development	2.001	0.300	0.000	2.301
Development and Infrastructure	3.562	0.121	0.384	4.067
Finance	4.867	0.000	0.044	4.911
Unallocated Savings	0.000	0.000	1.605	1.605
Total	28.440	3.870	2.586	34.896

Movement in earmarked reserves during 2016/17
Appendix 7

	Balance at 31/03/16 £000	Transfers out £000	Transfers in £000	Interest on balances £000	Balance at 31/03/17 £000
Developers' Contributions	2,111	-835	800	12	2,088
Strategic Change and Development Fund	2,408	-300	150	10	2,268
IT Investment Fund	1,513	-647	78	4	948
Devolved School Management	3,613	0	1,150	0	4,763
Grants and Match Funding	1,115	-377	493	3	1,234
Business Rates Incentivisation Scheme	377	-377	0	0	0
Welfare Issues	656	-31	0	3	628
Pathfinder	1,839	-729	0	7	1,117
Central Energy Efficiency Fund	365	-186	174	1	354
Inverness Royal Academy Extension	153	0	0	1	154
Discretionary Housing Payments	10	-10	0	0	0
Badaguish Outdoor Centre	456	0	0	2	458
Walks to Water	125	0	0	0	125
Developing the Young Workforce	398	-144	0	2	256
Citizens Advice Bureaux Transitional	102	-102	0	0	0
Council Redesign	150	-98	0	0	52
Voluntary Redundancy Scheme	3,366	-3,366	0	0	0
Business Loans Scotland	0	0	221	0	221
Total	18,757	-7,202	3,066	45	14,666