

Agenda Item	5.
Report No	RES/36/18

HIGHLAND COUNCIL

Committee: Resources Committee

Date: 29th August 2018

Report Title: Corporate Revenue Monitoring Report to 30th June 2018

Report By: Director of Corporate Resources / Depute Chief Executive

1. Purpose/Executive Summary

- 1.1 This report provides a summary of the actual spend in the first quarter of financial year 2018/19 together with a forecast year end outturn position.
- 1.2 Net spend on services in the first quarter of financial year 2018/19 totalled £95.896m.
- 1.3 Based on present expenditure trends a year end overspend of £5.112m is forecast. Service directors have committed to take the necessary action required to ensure a balanced budget is delivered by year end.
- 1.4 Members will recognise that it is absolutely necessary to bring the 18/19 budget in on balance (or if possible) in underspend. The Council's reserves are already too low and face the challenges of projected major gaps in budget for the next 3 years. Immediate action is needed to recover the position, bring the 18/19 budget in on balance, and stabilise the position.
- 1.5 The Council's reserves are further exposed to a number of risks as outlined in paragraph 8.2, therefore delivering a balanced budget is critical. The budget strategy for 2019-22 will include proposals to restore reserves to a more appropriate level.
- 1.6 The report also provides a summary of the delivery of the approved budget savings required to deliver a balanced budget in 2018-19 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 the financial position of the General Fund and HRA revenue budgets as at 30 June 2018 and note the estimated year end forecast;
- note the actions proposed to restore a balanced position for 2018/19 as outlined in section 4;
- note the status of budgeted savings in the year.

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 have been reported to the respective strategic committees. Overall the Council is reporting a net overspend of £5.112m against service budgets.
- 3.2 The 'Financed By' section of **Table D** provides information on the Council's key sources of external funding. At present no variances are forecast against the Council's key funding streams.
- 3.3 **Appendix 2** provides a summary of forecast variances by service and expenditure and income type. Forecast overspends mainly relate to non-staffing expenditure and income shortfalls with some mitigation from underspends against staffing budgets.
- 3.4 The Care and Learning Service is projecting a year end overspend of £2.772m which arises primarily from ongoing pressures on looked after children. An action plan has been approved by the Care, Learning and Housing Committee, including additional capital investment, to support returning children to the Highland Area. These actions will take place over the next 3 years. Any delay in implementation may see the pressure in the current year increasing.
- 3.5 Community Services are forecasting a financial year end overspend of £0.611m. The most significant pressures are in relation to the delayed implementation of approved budgets savings for car park income and public conveniences.
- 3.6 All other service areas are reporting near balanced positions with any budget pressures being offset by increased income or other management action.
- 3.7 A balanced position is currently reported against the loans charges budget. This position will be reviewed during quarter 2 following completion of the external audit process, most particularly to reflect the principal element of loans charges repayments in respect of capital expenditure during financial year 2017/18. Preliminary work suggests that underspends of the level seen in 2017/18, mostly due to one-off items in that year, will not recur.

4. Proposed Approach to Address the Projected Overspend

- 4.1 The scale of the projected overspend is challenging but does only account for a relatively small proportion of the overall budget, albeit that remedial action needs to happen over the remaining seven months of the financial year. Addressing the forecast deficit is do-able with proportionate actions by Directors and Service Management Teams that requires an immediate correction to normal business.
- 4.2 Forecasting so early in the financial year is difficult and historically the Council has seen an improvement between the Quarter 1 forecast figures and the actual position recorded at the year end. That said, the level of improvement seen previously has been partially due to one-off items that are not expected to recur this year. In 2017/18 an improvement of only £1.6M was reported between the Quarter 1 forecast and the actual outturn.

- 4.3 Given the scale of the challenge it will be important to present a clear and balanced message which alerts budget holders to the need to change spending immediately. This is an opportunity to deliver a clear and assertive message about necessity and urgency which will be linked to directives about **cutting back further on recruitment, use of agency workers, travel and overtime**. A special “In Brief” to all staff will set this out.
- 4.4 A suite of tighter control measures will now be developed for recruitment, agency, travel and overtime to reduce expenditure and change perspectives. The changes must be seen to affect all budget-holders without obstructing the delivery of essential services. The control measures will be actively managed by the Executive Leadership team and some of this work will feed into the 3 year budget plan to be agreed by Council later this year.
- 4.5 It is a fundamental principle of budget management that each Service should manage within the resources allocated by Council. The first step in addressing the overspend therefore is to require each Service Director to amend spending plans to achieve a balanced out-turn at the year end.
- 4.6 In terms of Care and Learning and Community Services, the Directors and Service Management teams have been tasked with taking the action necessary to achieve a balanced out-turn and have developed a plan to amend spending plans. Many of these actions will involve deferring non-essential spending, accelerating savings, and restructuring recruitment as indicated above. Every attempt will be made to minimise the service impact but Members should recognise that some impact on service is inevitable. This will be reflected in future monitoring reports to the respective strategic committees.
- 4.7 The approach to addressing the projected overspend in Unallocated Corporate Savings of £1.745m involves a number of measures described below and requires significant further planned activity over the year. At present the projected overspend is reflective of activity to date, but there must be considerable opportunity to deliver additional savings this financial year through proactive work in service redesign, procurement, detailed peer review of budget income and expenditure, lean reviews and additional income. Considerable pace and priority needs to be given to this work in order to deliver the necessary results.
- 4.8 An update on progress will be reported to the next Committee in November reflecting the Quarter 2 updated forecasts.

5. Housing Revenue Account

- 5.1 As shown in **Appendix 3** the Housing Revenue Account (HRA) is forecast to deliver a balanced budget.
- 5.2 Should the HRA deliver a year end underspend that will afford the opportunity for capital expenditure to be funded directly from revenue funds. Funding of capital expenditure from revenue funds would reduce the overall HRA borrowing requirement and make consequential savings in future years' borrowing costs.

6. Reserves and Balances

- 6.1 **Appendix 6** summarises the movements on the Council's earmarked and non-earmarked balances during the course of the year.
- 6.2 At this relatively early stage of the financial year there remains the opportunity to recover the current forecast position. Any year end overspend will however require to be funded from the Council's non-earmarked balances.
- 6.3 The Council's non-earmarked general fund reserve currently sits at £8.562m, below the minimum level suggested by Audit Scotland for this reserve of 2% of annual revenue budget. If the currently forecast year end overspend of £5.112m transpires the level of that reserve would fall to £3.450m.
- 6.4 A reserve of such a low level exposes the Council to the risk of not having enough funding to invest in transformational change or address any cost pressures that might arise during the year. The Council is particularly exposed to the impact of another bad winter.
- 6.5 Restoring balances to a more appropriate level will form part of the budget strategy for 2019-22.

7. Budget savings

- 7.1 In order to deliver a balanced budget for the year budget savings of £13.105m were approved in February 2018. A summary of the delivery of those savings can be seen at **Appendix 7**. Savings ranked as green are expected to be delivered in full, those as amber have risks that the full value of the saving will not be delivered, and those as red are not expected to be delivered.
- 7.2 As part of this month's committee cycle services have been reporting the detail of the delivery of their savings. The full delivery of all approved budget savings is essential given the continuing squeeze on the Council's revenue budget.
- 7.3 A handful of corporate savings targets have not yet been allocated to service budgets, details of those savings can be seen at **Appendix 5**. For the savings marked as amber a shortfall of £1.745m is anticipated, which is a constituent part of the overall £5.112m forecast overspend figure as seen on **Appendix 1**.
- 7.4 In approving the budget for 2018/19 the Council agreed to an ambitious saving of £2.25m to be delivered from redesign activity. Approval of this saving allowed for other savings proposals relating to reductions in front line services to be removed from consideration.
- 7.5 Work to deliver this redesign saving continues but at present only £1m of the total saving is forecast to be delivered. Further shortfalls in the procurement saving (£0.329m) and in property asset management (£0.126m) are also forecast.

8. Implications

- 8.1 Resource implications are as noted in this report. The actions outlined in this report to restore a balanced budget position are critical to the financial sustainability of the Council.

- 8.2 At this relatively early stage in the year there is a substantial risk that unforeseen events occur which carry an additional cost burden. Services that are demand-led, such as looked after children or winter maintenance may see significant moves in cost forecast over the year from that currently forecast. Other risks include the agreement of a staff pay award in excess of the level budgeted for or a failure to deliver planned savings.
- 8.3 There are no legal, equality, climate change/Carbon Clever, rural or Gaelic implications arising as a direct result of this report.

Designation: Director of Corporate Resources / Depute Chief Executive

Date: 16th August 2018

Authors: Derek Yule, Director of Corporate Resources / Depute Chief Executive and Edward Foster, Head of Corporate Finance and Commercialism

Background Papers:

https://www.highland.gov.uk/download/meetings/id/73152/item_4_hc_report_revenue_budget_2018_19

[https://www.highland.gov.uk/download/meetings/id/73988/item_5 -](https://www.highland.gov.uk/download/meetings/id/73988/item_5_-_development_and_infrastructure_service_revenue_budget)

[_development_and_infrastructure_service_revenue_budget](https://www.highland.gov.uk/download/meetings/id/73988/item_5_-_development_and_infrastructure_service_revenue_budget)

[https://www.highland.gov.uk/download/meetings/id/74000/item_17 - community_services_revenue_budget](https://www.highland.gov.uk/download/meetings/id/74000/item_17_-_community_services_revenue_budget)

[https://www.highland.gov.uk/download/meetings/id/74018/item_7_care_and_learning_revenue_budget monitoring_201819](https://www.highland.gov.uk/download/meetings/id/74018/item_7_care_and_learning_revenue_budget_monitoring_201819)

Revenue Expenditure Monitoring Report - General Fund Summary

1 April to 30 June 2018

	Actual Year to Date £000	Annual Budget £000	Year End Estimate £000	Year End Variance £000
Table A: By Service				
Care and Learning	60,911	340,239	343,011	2,772
Chief Executive's Office	1,457	4,840	4,801	(39)
Corporate Resources	6,859	27,183	27,202	19
Community Services	11,535	61,981	62,592	611
Development and Infrastructure	11,348	48,779	48,779	0
Welfare Services	2,286	5,416	5,416	0
Service Total	94,396	488,438	491,801	3,363
Valuation Joint Board	825	2,550	2,550	0
Non Domestic Rates reliefs	675	671	675	4
Loan Charges	0	56,744	56,744	0
Interest on Revenue Balances	0	(330)	(330)	0
Unallocated Budget	0	9,205	9,205	0
Unallocated Corporate Savings	0	(3,597)	(1,852)	1,745
Total General Fund Budget	95,896	553,681	558,793	5,112

Table B: By Subjective

Staff Costs	77,808	327,247	326,544	(703)
Other Costs	62,183	434,305	440,016	5,711
Gross Expenditure	139,991	761,552	766,560	5,008
Grants	(13,361)	(57,913)	(58,072)	(159)
Other Income	(30,734)	(149,958)	(149,695)	263
Total Income	(44,095)	(207,871)	(207,767)	104
Total Revenue Expenditure	95,896	553,681	558,793	5,112

Table C: Appropriations to Reserves

Contribution to earmarked balances	125	125	125	0
Contribution to Other reserves	2,600	2,600	2,600	0
Total Contributions to Balances	2,725	2,725	2,725	0

Table D: Financed By

Aggregate External Finance as notified	66,832	434,757	434,757	0
Additional resources	195	195	195	0
Council Tax	29,749	119,609	119,609	0
Use of earmarked balances	1,626	1,626	1,626	0
Use of non-earmarked balances	0	0	5,112	5,112
Use of Other reserves	219	219	219	0
Total General Fund Budget	98,621	556,406	561,518	5,112

Revenue Expenditure Monitoring Report - General Fund Summary

1 April to 30 June 2018

	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	(578)	3,073	25	252	2,772
Chief Executive's Office	(20)	(13)	0	(6)	(39)
Corporate Resources	103	59	0	(143)	19
Community Services	(35)	338	0	308	611
Development and Infrastructure	(173)	505	(184)	(148)	0
Welfare Services	0	0	0	0	0
Valuation Joint Board	0	0	0	0	0
HiTrans Requisition	0	0	0	0	0
Non Domestic Rates reliefs	0	4	0	0	4
Loan Charges	0	0	0	0	0
Interest on Revenue Balances	0	0	0	0	0
Unallocated Budget	0	0	0	0	0
Unallocated Corporate Savings	0	1,745	0	0	1,745
Total General Fund Budget	(703)	5,711	(159)	263	5,112

Revenue Expenditure Monitoring Report - Housing Revenue Account Summary

1 April to 30 June 2018

	Actual Year to Date £000	Annual Budget £000	Year End Estimate £000	Year End Variance £000
Staff Costs	1,354	5,959	5,910	(49)
Other Costs	6,483	28,903	28,811	(92)
Loan charges and interest	0	17,169	17,169	0
Gross Expenditure	7,837	52,031	51,890	(141)
House Rents	(10,221)	(49,437)	(49,133)	304
Other rents	(567)	(2,158)	(2,434)	(276)
Other income	(60)	(374)	(261)	113
Interest on Revenue Balances	0	(62)	(62)	0
Gross Income	(10,848)	(52,031)	(51,890)	141
Total HRA	(3,011)	0	0	0

Revenue Expenditure Monitoring Report - General Fund Budget

1 April to 30 June 2018

	£m	£m
Budget as agreed by Highland Council on 15 Feb 2018		576.027
Less : Ring-fenced grant (Gaelic, Criminal Justice, Attainment Funding)		(7.749)
Grant Funding Redeterminations:		
1 + 2 Languages	0.132	
Discretionary Housing Payments (DHP)	0.175	
DHP Admin Funding	(0.002)	
Share of SG reallocation of Teacher Induction funding	(0.006)	
Early Years (Ring-fenced Grant)	1.842	
Criminal Justice Social Work (Ring-fenced Grant)	0.224	
School clothing grants	0.195	
	<u>2.560</u>	
Less : Redeterminations of Ring-fenced Grants	<u>(2.066)</u>	0.494
Agreed use of non-earmarked balances	<u> </u>	0.000
Use of earmarked balances	<u> </u>	0.000
Contribution to earmarked balances		
Local Government Elections	(0.085)	
Redesign	<u>(0.040)</u>	(0.125)
Contribution to Other Reserves	<u> </u>	0.000
Presentational adjustments		
Offset CTRS expenditure budget against Council Tax Income budget	(12.366)	
Affordable Housing contribution included in Appendix 1 Reserves section	<u>(2.600)</u>	(14.966)
Total General Fund Budget at 30th June 2018		<u><u>553.681</u></u>

Revenue Expenditure Monitoring Report - General Fund Budget

1 April to 30 June 2018

Table A Unallocated Budget

	£m
Provision for holiday pay	0.400
Pension strain costs	0.373
Pay awards	7.898
Pressures - Energy	0.352
Pressures - Revenue consequences of capital - flooding	0.050
Grant funding - 1+2 Languages	0.132
Unallocated Budget at 30 June 2018	9.205

Table B : Unallocated Corporate Savings

	£m	Delivery RAG
Service Redesign	2.290	A
Procurement	1.027	A
Property Asset Management	0.226	A
Insurance	0.054	G
Unallocated Corporate Savings at 30 June 2018	3.597	

Revenue Expenditure Monitoring Report - General Fund Balance

1 April to 30 June 2018

General Fund Balance

	Earmarked balances £m	Non- earmarked balances £m	Total £m
Balance at 1 April 2018 (unaudited)	16.500	8.562	25.062
Use of balances included in budget as agreed by Highland Council on 16 Feb 2017	(1.626)	0.000	(1.626)
Use of balances per Appendix 4	0.000	0.000	0.000
Contribution to balances per Appendix 4	0.125	0.000	0.125
Movement in balances per Appendix 1	(1.501)	0.000	(1.501)
Net service overspend per Appendix 1	0.000	(5.112)	(5.112)
Appropriations to Other Reserves	0.000		0.000
Additional financing	0.000		0.000
General Fund Balance at 30th June 2018	14.999	3.450	18.449

Analysis of all service budget savings by RAG ranking

Appendix 7

Table 1

	Total			
	Green	Amber	Red	Total
Care and Learning	1.908	0.015	0.000	1.923
Chief Executive's Service	0.582	0.000	0.000	0.582
Corporate Resources	1.341	0.280	0.000	1.621
Community Services	0.947	2.132	0.301	3.380
Development and Infrastructure	0.972	1.030	0.000	2.002
Unallocated Savings	0.054	3.543	0.000	3.597
Total	5.804	7.000	0.301	13.105