

HIGHLAND COUNCIL

Agenda Item	5.
Report No	RES/51/18

Committee: Corporate Resources Committee

Date: 21 November 2018

Report Title: Corporate Revenue Monitoring Report to 30th September 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 two quarters of financial year 2018/19 together with a forecast year end outturn position.
- 1.2 Net spend on services in the first two quarters the year totalled £220.142m.
- 1.3 Based on present expenditure trends a net year end overspend of £2.238m is forecast. This amount would need to be funded from the Council's reserves at year end should no changes to the forecast position occur over the remainder of the year. The forecast reflects a significant improvement from the £5.112m overspend forecast at the end of Q1.
- 1.4 The Council's Executive Leadership Team remains committed to further reduce this forecast overspend to ensure a balanced budget is delivered by year end and no draw down from reserves is required.
- 1.5 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 September 2018 and note the estimated year end forecast
- 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 £2.487m against service budgets.
- 3.2 The 'Financed By' section of **Table D** provides information on the Council's key sources of external funding. Council tax income (net of Council Tax Reduction) is currently forecast to be £0.249m in excess of budget for the year. This excess income will partially offset some of the service overspends outlined in the sections below.
- 3.3 The combination of the net service overspend of £2.487m, less the net excess income of £0.249m equates to the sum of £2.238m that would need to be funded from reserves at year end as further outlined in section 5 of this report.
- 3.4 **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.
- 3.5 The Care and Learning Service is projecting a year end overspend of £0.923m, an improvement from the £2.772m overspend forecast at Q1. The overspend 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 would see the pressure in the current year increasing.
- 3.6 Community Services are forecasting a financial year end overspend of £0.483m, a slight improvement from the Q1 position. The most significant pressures are in relation to the delayed implementation of approved budget savings for car park income and public conveniences, and a pressure on the recycling budget as a result of rising fuel costs.
- 3.7 All other service areas are reporting near balanced positions or underspends with any items of budget pressure being offset by increased income or other management action.
- 3.8 Work has been undertaken following completion of the external audit process to assess the potential outturn for the loans charges budget. As in quarter 1 a balanced position is reported.

Whereas in previous years a year-end underspend has arisen against this budget the work done to review the capital programme and associated loans charges earlier this year has better aligned the loans charges budget with anticipated spend. Whilst the outturn for this budget will depend on the total capital spend in year and the interest rate at which any new borrowing is taken out, a spend in line with budget is currently forecast.

- 3.9 The overall position reported at Q2 reflects a significant improvement from Q1. The level of overspend forecast is still substantial however and the Chief Executive has issued a clear directive to all staff that further corrective action is required.

Extra recruitment controls are being introduced in the short term where jobs will only be put to advert if deemed essential. This will be backed up by a restriction on recruiting agency staff.

A freeze on non-essential spend until the end of the year has also been implemented. Directors have been instructed to ensure the effective implementation of this approach within their service areas.

4. Housing Revenue Account

- 4.1 As shown in **Appendix 3** the Housing Revenue Account (HRA) is forecast to deliver a balanced budget.
- 4.2 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.

5. Reserves and Balances

- 5.1 **Appendix 6** summarises the movements on the Council's earmarked and non-earmarked balances during the course of the year.
- 5.2 The Executive Leadership Team remains committed to delivering a balanced budget by year end. Any year end overspend would however require to be funded from the Council's non-earmarked balances.
- 5.3 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 net year end overspend of £2.238m transpires the level of that reserve would fall to £6.324m.
- 5.4 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 remainder of the year.

6. Budget savings

- 6.1 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.
- 6.2 As part of the current 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.

- 6.3 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 £2.487m forecast overspend figure as seen on **Appendix 1**.
- 6.4 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.
- 6.5 Work to deliver this redesign saving continues but at present only £1m of the total saving is forecast to be delivered in the current year. Further shortfalls in the procurement saving (£0.329m) and in property asset management (£0.126m) are also forecast.

7. Implications

- 7.1 Resource implications are as noted in this report.
- 7.2 A number of risks remain that could have a significant impact on the outturn position currently forecast. Services that are demand-led, such as looked after children or winter maintenance may see significant moves in cost over the year from that currently forecast. Other risks include the agreement of a staff pay award in excess of the level budgeted or a failure to deliver planned savings. The later in the year that any of these risk crystallise, the less opportunity there will be to take mitigating actions to offset the cost.
- 7.3 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: 9th November 2018

Author: Edward Foster, Head of Corporate Finance and Commercialism

Background Papers:

[https://www.highland.gov.uk/download/meetings/id/74410/item_5 -
_development_and_infrastructure_service_revenue_monitoring](https://www.highland.gov.uk/download/meetings/id/74410/item_5_-_development_and_infrastructure_service_revenue_monitoring)

[https://www.highland.gov.uk/download/meetings/id/74422/item_18 -
_community_services_revenue_budget_monitoring](https://www.highland.gov.uk/download/meetings/id/74422/item_18_-_community_services_revenue_budget_monitoring)

https://www.highland.gov.uk/download/meetings/id/74303/item_8_care_and_learning_revenue_budget_monitoring_201819

Revenue Expenditure Monitoring Report - General Fund Summary

1 April to 30 September 2018

	Actual Year to Date £000	Annual Budget £000	Year End Estimate £000	Year End Variance £000
Table A: By Service				
Care and Learning	144,432	340,671	341,594	923
Chief Executive's Office	2,471	4,842	4,851	9
Corporate Resources	14,780	27,159	27,051	(108)
Community Services	26,131	62,037	62,520	483
Development and Infrastructure	26,398	48,782	48,642	(140)
Welfare Services	3,987	5,416	4,991	(425)
Service Total	218,199	488,907	489,649	742
Valuation Joint Board	1,278	2,550	2,550	0
Non Domestic Rates reliefs	665	671	671	0
Loan Charges	0	56,744	56,744	0
Interest on Revenue Balances	0	(330)	(330)	0
Unallocated Budget	0	9,354	9,354	0
Unallocated Corporate Savings	0	(3,517)	(1,772)	1,745
Total General Fund Budget	220,142	554,379	556,866	2,487

Table B: By Subjective

Staff Costs	159,168	327,225	324,732	(2,493)
Other Costs	141,501	396,212	400,376	4,164
Gross Expenditure	300,669	723,437	725,108	1,671
Grants	(14,032)	(19,983)	(19,703)	280
Other Income	(66,495)	(149,075)	(148,539)	536
Total Income	(80,527)	(169,058)	(168,242)	816
Total Revenue Expenditure	220,142	554,379	556,866	2,487

Table C: Appropriations to Reserves

Contribution to earmarked balances	125	125	125	0
Contribution to Other reserves	2,604	2,604	2,604	0
Total Contributions to Balances	2,729	2,729	2,729	0

Table D: Financed By

Aggregate External Finance as notified	150,568	434,757	434,757	0
Additional resources	195	195	195	0
Council Tax	72,108	119,609	119,858	249
Use of earmarked balances	0	2,328	2,328	0
Use of non earmarked balances	0	0	2,238	2,238
Use of Other reserves	0	219	219	0
Total General Fund Budget	222,871	557,108	559,595	2,487

Revenue Expenditure Monitoring Report - General Fund Summary

1 April to 30 September 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	(1,232)	2,313	(171)	13	923
Chief Executive's Office	13	20	0	(24)	9
Corporate Resources	(14)	44	0	(138)	(108)
Community Services	(276)	(36)	0	795	483
Development and Infrastructure	(984)	503	451	(110)	(140)
Welfare Services	0	(425)	0	0	(425)
Valuation Joint Board	0	0	0	0	0
HiTrans Requisition	0	0	0	0	0
Non Domestic Rates reliefs	0	0	0	0	0
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	(2,493)	4,164	280	536	2,487

Revenue Expenditure Monitoring Report - Housing Revenue Account Summary

1 April to 30 September 2018

	Actual Year to Date £000	Annual Budget £000	Year End Estimate £000	Year End Variance £000
Staff Costs	2,652	5,959	5,838	(121)
Other Costs	11,004	28,903	29,181	278
Loan charges and interest	0	17,169	17,094	(75)
Gross Expenditure	13,656	52,031	52,113	82
House Rents	(23,507)	(49,437)	(49,247)	190
Other rents	(1,130)	(2,158)	(2,347)	(189)
Other income	(457)	(374)	(457)	(83)
Interest on Revenue Balances	0	(62)	(62)	0
Gross Income	(25,094)	(52,031)	(52,113)	(82)
Total HRA	(11,438)	0	0	0

Revenue Expenditure Monitoring Report - General Fund Budget

1 April to 30 September 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		
Use of earmarked balances		
Developer Contributions	0.103	
Commissioned Child Health	0.190	
IRA Gaelic Extension	0.154	
Strategic Change Fund (Spend to save)	<u>0.255</u>	0.702
Contribution to earmarked balances		
Local Government Elections	(0.085)	
Redesign	<u>(0.040)</u>	(0.125)
Contribution to Other Reserves		
Adopted Lands Fund	<u>(0.004)</u>	(0.004)
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 September 2018		<u><u>554.379</u></u>

Revenue Expenditure Monitoring Report - General Fund Budget

1 April to 30 September 2018

Table A Unallocated Budget

	£m
Provision for holiday pay	0.400
Pension strain costs	0.373
Pay awards	8.047
Pressures - Energy	0.352
Pressures - Revenue consequences of capital - flooding	0.050
Grant funding - 1+2 Languages	0.132
Unallocated Budget at 30 September 2018	<u><u>9.354</u></u>

Table B : Unallocated Corporate Savings

	£m	Delivery RAG
Service Redesign	2.290	A
Procurement	0.947	A
Property Asset Management	0.226	A
Insurance	0.054	G
Unallocated Corporate Savings at 30 September 2018	<u><u>3.517</u></u>	

Revenue Expenditure Monitoring Report - General Fund Balance

1 April to 30 September 2018

General Fund Balance

	Earmarked balances £m	Non- earmarked balances £m	Total £m
Balance at 1 April 2018	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	(0.702)	0.000	(0.702)
Contribution to balances per Appendix 4	0.125	0.000	0.125
Movement in balances per Appendix 1	(2.203)	0.000	(2.203)
Net service overspend per Appendix 1	0.000	(2.487)	(2.487)
Appropriations to Other Reserves	0.000		0.000
Additional financing	0.000	0.249	0.249
General Fund Balance at 30th September 2018	14.297	6.324	20.621

Analysis of all service budget savings by RAG ranking

Appendix 7

Table 1

	Total			Total
	Green	Amber	Red	
Care and Learning	1.910	0.015	0.000	1.925
Chief Executive's Service	0.582	0.000	0.000	0.582
Corporate Resources	1.368	0.280	0.000	1.648
Community Services	0.869	0.815	1.708	3.392
Development and Infrastructure	1.011	1.030	0.000	2.041
Unallocated Savings	0.054	3.463	0.000	3.517
Total	5.794	5.603	1.708	13.105