

HIGHLAND COUNCIL

Agenda Item	5
Report No	RES/13/19

Committee: Resources Committee

Date: 23rd May 2019

Report Title: Near Final Corporate Revenue Monitoring Report 2018/19

Report By: Director of Corporate Resources / Depute Chief Executive

1. Purpose/Executive Summary

- 1.1 This report provides a summary of the near final revenue budget spend for financial year 2018/19. The position is described 'near final' pending the completion of the year-end accounts and audit process.
- 1.2 Net spend on services for the year totalled £559.254m. This sum exceeded the budget available by £2.354m. This position reflects a substantial improvement from that forecasted at the end of quarter 3 when an overspend of £5.550m was forecast.
- 1.3 Net income received from Council tax was £0.074m in excess of budget.
- 1.4 Overall a year end deficit of £2.280m requires to be funded from the Council's non-earmarked general fund reserve. The impact of this deficit has been mostly offset by a review of earmarked reserves which has released £1.786m back into the non-earmarked reserve.
- 1.5 The Council's non-earmarked general fund reserve, which acts as a general contingency against unforeseen events or to meet unbudgeted costs, stands at £7.925m at 31st March 2019. The value of this reserve has reduced by £0.637m over the year due to the in-year budget deficit and other use of this fund, offset by the release of previously earmarked funds. At this level the reserve represents 1.4% of the 2018-19 net revenue budget.
- 1.6 As at 31st March 2019 the Council's total general fund reserves stand at £20.300m. Of these £12.375m are earmarked (i.e. held for specific purposes), with the balance of £7.925m not earmarked.

2. Recommendations

- 2.1 Members are asked to:
 - consider the near final financial position of the General Fund and HRA revenue budgets for 2018/19 and;
 - note the ensuing impact on reserves

3. Overall position

- 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 as part of the current strategic committee cycle. Overall the Council is reporting a net overspend of £2.354m 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) was £0.454m in excess of budget for the year. This excess mitigates the fact that Council tax income from second homes that requires to be retained for investment in affordable housing was £0.380m in excess of the budgeted level (as illustrated by the pressure showing in **Table C**)
- 3.3 The combination of the net service overspend of £2.354m, less the overall net excess on Council Tax income of £0.074m equates to the sum of £2.280m that needs to be funded from reserves at year end as further outlined in section 7 of this report.

4. Service budget variances

- 4.1 **Appendix 2** provides a summary of forecast variances by service and expenditure and income type. Forecast overspends mainly relate to non-staffing expenditure with some mitigation from underspends against staffing budgets and income in excess of target levels.
- 4.2 The Care and Learning Service is showing a year end overspend of £2.832m, a slight improvement from the £3.112m overspend forecast at Q3. The overspend arises primarily from ongoing pressures on looked after children, staffing overspends in special schools and an overspend on ASN in mainstream settings. The pressures in those areas have been somewhat mitigated by underspends across the majority of the other budget areas within the Care and Learning service, principally schools, family teams and specialist additional support services.
- 4.3 Community Services are showing an underspend of £0.427m, a significant improvement from the £0.362m overspend forecast at Q3. Within that overall position are significant pressures in relation to the delayed implementation of approved budget savings for car park income and public conveniences. Those pressures are fully mitigated by underspends across the remainder of the service.
- 4.4 The Development and Infrastructure service is reporting a year end underspend of £0.762m, broadly in line with that forecast in Q3. Significant underspends are showing as a result of income in excess of budget from planning and building warrant fees and investment properties. Though more than offset by underspends elsewhere, some pressures remain in this budget in relation to property revenue maintenance and energy and sustainability.
- 4.5 The Corporate Resources service is showing an underspend of £1.059m, an

improvement from quarter 3. The underspend arises as a result of posts being held vacant and other controls to reduce spend taking effect.

- 4.6 An underspend of £0.296m is reported against the budget for the Chief Executive's Office with underspends being reported across the majority of areas within the service.
- 4.7 Spending on welfare is underspent by £0.312m, with overspends on school clothing grants and housing benefit being more than offset by spend less than budget on discretionary housing payments.
- 4.8 Interest of revenue balances of £0.676m is considerably in excess of budget, delivering a surplus of £0.346m. This surplus has arisen as the interest rates on short term deposits have increased over the course of the year. Despite these increases in rates the loans fund has come in almost exactly on budget, showing a very slight overspend of £0.007m.
- 4.9 The unallocated budget line is showing an overspend of £0.098m. Further details of this budget can be seen in **Appendix 5**. Whilst certain contingency budgets held, and funding received, were not required for their intended purposes they were instead needed to help fund the cost of the staff pay award that was in excess of the level originally allowed for in the budget. The excess cost of the pay award was £0.946m which was offset by contingencies of £0.848m, giving an overall pressure of £0.098m.
- 4.10 Three corporate savings were not fully allocated to services during the year. The residual amounts that remained unallocated at year end can be seen in **Appendix 5**. Plans are in place to ensure these savings are fully delivered in 2019/20 so that there is no recurring pressure as a result of these savings not being delivered.

5. Management Actions to deliver a balanced budget

- 5.1 The worsening position since quarter 2 was monitored by the Council's Executive Leadership team and a suite of management actions introduced. These actions can be assumed to have contributed positively to the reduction in the overspend forecast at Q3 to that which prevailed at year end. These actions will continue into financial year 2019/20 in light of the financial challenges that lie ahead.
- 5.2 The key controls in place are around recruitment where jobs are only put to advert if deemed essential. This has been backed up by a restriction on recruiting agency staff. This measure has seen a significant reduction in the number of posts being advertised.
- 5.3 Further, a freeze on non-essential spend covering a wide range of expenditure types has also been implemented. Directors have instructed the effective implementation of this approach within their service areas. The effects of this action have already been seen in a number of areas, not least in the amount of travel undertaken across the organisation.
- 5.4 A review of all the Council's reserves and balances has taken place. This review had a particular focus on earmarked balances, i.e. those held for a particular purpose, to ensure they were still being held appropriately. Balances

totalling £1.786m were found to be surplus to requirements and have been transferred to non-earmarked balances during 2018-19. The effect of this transfer can be seen in **Appendix 6**.

- 5.5 The Devolved Schools Management (DSM) balance is included as part of that review of earmarked balances. The DSM balance represents historic accumulated under or overspends against school budgets. In order to mitigate the impact of the 2018/19 deficit on the general fund non-earmarked reserve, provide some contingency for future budget pressures and allow for spend-to-save investment the use of some of these balances is under consideration in conjunction with Head Teachers.

6. Housing Revenue Account

- 6.1 As shown in **Appendix 3** the Housing Revenue Account (HRA) has delivered a balanced budget. A more detailed monitoring report on the HRA will be presented to the Care, Learning and Housing Committee later this month.
- 6.2 The HRA has seen overspends in certain areas including an increase in the bad debts provision; repairs costs in excess of budget due to increased day to day repairs, gas servicing and repairs to empty homes; and loans charges coming in above the budgeted level. In addition income from house rents was below the budgeted level due to delays in the completion of new build properties.
- 6.3 These pressures have been managed by spending less on funding capital from current revenue which will have a consequential impact on the overall HRA borrowing requirement going forward.

7. Reserves and Balances

- 7.1 **Appendix 6** summarises the movements on the Council's earmarked and non-earmarked balances during the course of the year. The final position reflects the outcome of the review of earmarked balances as described in sections 5.4 and 5.5.
- 7.2 Overall the general fund balance has decreased by £4.762m over the course of the year to stand at £20.300m at 31st March 2019.
- 7.3 Detail of the movements in earmarked reserves can be seen in **Appendix 4**. These movements reflect funding being drawn down for spend on its intended purpose, funding being set aside for spend on specific items in 2019/20, and the effect of the review of earmarked balances which moved balances no longer required from the earmarked to the non-earmarked reserve. Overall, earmarked balances have reduced from £16.500m to £12.375m over the course of the year.
- 7.4 The movement in the non-earmarked balance reflects the overall budget deficit of £2.354m recorded in 2018/19. The reduction in the non-earmarked balance as a result of this deficit has been partially mitigated by the 'unearmarking' of certain balances as referred to in section 5.
- 7.5 At the 31st March the Council's non-earmarked general fund reserve sits at £7.925m, below the minimum level suggested by Audit Scotland for this

reserve of 2% of annual revenue budget. 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 in the future.

8. Budget savings

- 8.1 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 were delivered in full, those as amber have been partially delivered, and those as red remain undelivered.
- 8.2 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.

9. Implications

- 9.1 Resource implications are as noted in this report.
- 9.2 The position reported reflects the near final revenue position for 2018/19 and these figures will form part of the Council's unaudited annual accounts. There remains a risk that something will be identified as part of the audit of those accounts that will affect the reported position.
- 9.3 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: 15th May 2019

Author: Edward Foster, Head of Corporate Finance and Commercialism

Background Papers:

[https://www.highland.gov.uk/download/meetings/id/75260/item_5 -
_development and infrastructure service revenue budget %E2%80%93 near final ou
tturn 201819](https://www.highland.gov.uk/download/meetings/id/75260/item_5_-_development_and_infrastructure_service_revenue_budget_%E2%80%93_near_final_outturn_201819)

[https://www.highland.gov.uk/download/meetings/id/75262/item_16 -
_community services revenue budget %E2%80%93 near final outturn 201819](https://www.highland.gov.uk/download/meetings/id/75262/item_16_-_community_services_revenue_budget_%E2%80%93_near_final_outturn_201819)

Revenue Expenditure Monitoring Report - General Fund Summary

1 April to 31 March 2019

	Actual Near Final £000	Annual Budget £000	Year End Variance £000
Table A: By Service			
Care and Learning	349,646	346,814	2,832
Chief Executive's Office	4,805	5,101	(296)
Corporate Resources	28,695	29,754	(1,059)
Community Services	63,082	63,509	(427)
Development and Infrastructure	48,371	49,133	(762)
Welfare Services	4,979	5,291	(312)
Service Total	499,578	499,602	(24)
Valuation Joint Board	2,484	2,550	(66)
HiTrans Requisition	91	91	0
Non Domestic Rates reliefs	657	671	(14)
Loan Charges	57,120	57,113	7
Interest on Revenue Balances	(676)	(330)	(346)
Unallocated Budget	0	(98)	98
Unallocated Corporate Savings	0	(2,699)	2,699
Total General Fund Budget	559,254	556,900	2,354

Table B: By Subjective			
Staff Costs	329,849	336,606	(6,757)
Other Costs	449,242	430,912	18,330
Gross Expenditure	779,091	767,518	11,573
Grants	(68,897)	(63,598)	(5,299)
Other Income	(150,940)	(147,020)	(3,920)
Total Income	(219,837)	(210,618)	(9,219)
Total Revenue Expenditure	559,254	556,900	2,354

Table C: Appropriations to Reserves			
Contribution to earmarked balances	5,544	5,544	0
Contribution to Other reserves	3,197	2,817	380
Total Contributions to Balances	8,741	8,361	380

Table D: Financed By			
Aggregate External Finance as notified	434,757	434,757	0
Additional resources	2,650	2,650	0
Council Tax	120,063	119,609	454
Use of earmarked balances	7,883	7,883	0
Use of non earmarked balances	2,423	143	2,280
Use of Other reserves	219	219	0
Total General Fund Budget	567,995	565,261	2,734

Revenue Expenditure Monitoring Report - General Fund Summary

1 April to 31 March 2019

Staff Costs Variance £000	Other Costs Variance £000	Grants Variance £000	Other Income Variance £000	Total Variance £000
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Table A: By Service

Care and Learning	(2,393)	7,661	(1,320)	(1,116)	2,832
Chief Executive's Office	369	260	(521)	(404)	(296)
Corporate Resources	(741)	2,245	(216)	(2,347)	(1,059)
Community Services	(3,855)	1,271	(416)	2,573	(427)
Development and Infrastructure	(137)	4,234	(2,087)	(2,772)	(762)
Welfare Services	0	281	(739)	146	(312)
Valuation Joint Board	0	(66)	0	0	(66)
HiTrans Requisition	0	0	0	0	0
Non Domestic Rates reliefs	0	(14)	0	0	(14)
Loan Charges	0	7	0	0	7
Interest on Revenue Balances	0	(346)	0	0	(346)
Unallocated Budget	0	98	0	0	98
Unallocated Corporate Savings	0	2,699	0	0	2,699
	0	0	0	0	
Total General Fund Budget	(6,757)	18,330	(5,299)	(3,920)	2,354

Revenue Expenditure Monitoring Report - Housing Revenue Account Summary
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1 April to 31 March 2019

	Actual Near Final £000	Annual Budget £000	Year End Variance £000
Staff Costs	5,800	5,959	(159)
Other Costs	28,171	28,903	(732)
Loan charges and interest	17,995	17,169	826
Gross Expenditure	51,966	52,031	(65)
House Rents	(49,151)	(49,437)	286
Other rents	(2,297)	(2,158)	(139)
Other income	(457)	(374)	(83)
Interest on Revenue Balances	(61)	(62)	1
Gross Income	(51,966)	(52,031)	65
Total HRA	0	0	0

Revenue Expenditure Monitoring Report - General Fund Budget
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1 April to 31 March 2019

	£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	
Free Sanitary products in Schools	0.087	
Whole System Approach	0.025	
Access to Sanitary Products Public Bodies	0.054	
Free Child Burials	0.010	
RRTP Homelessness	0.061	
Teacher Pay Award	0.468	
Teachers Induction Scheme	1.724	
Seat Belts	0.021	
Child Poverty Action Reports	0.005	
	5.015	
Less : Redeterminations of Ring-fenced Grants	(2.066)	2.949
Agreed use of non-earmarked balances		
Commercial Investment Fund	0.100	
IORB	0.043	0.143
Use of earmarked balances		
Developer Contributions	2.289	
Commissioned Child Health	0.190	
IRA Gaelic Extension	0.154	
Strategic Change Fund (Spend to save)	0.255	
SCDF Dilapidations Fulton House	0.036	
ICT Earmarked Funds	2.163	
Developing the Young Workforce	0.070	
Redesign	0.052	
1+2 Languages	0.006	
ESF Poverty & Social Inclusion Fund	0.120	
Asset Management	0.006	
Sustainable Schools project Team	0.137	
Service Point	0.007	
DSM Balances	0.772	6.257
Contribution to earmarked balances		
Local Government Elections	(0.085)	
Redesign	(0.040)	
Commercial Investment Fund	(0.100)	
Holiday Pay	(0.100)	
Community Justice	(0.011)	
ICT Tech Fund	(0.128)	
Welfare	(0.125)	
Developers Contributions	(4.955)	(5.544)
Contribution to Other Reserves		
Insurance Fund	(0.213)	
Adopted Lands Fund	(0.004)	(0.217)
Presentational adjustments		
Offset CTRS expenditure budget against Council Tax Income budget	(12.366)	
Affordable Housing contribution included in Appendix 1 Reserves section	(2.600)	
	(14.966)	
Total General Fund Budget at 31st March 2019		556.900

Revenue Expenditure Monitoring Report - General Fund Budget
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1 April to 31 March 2019

Table A Unallocated Budget

	£m
Pressures - Energy	0.350
Pressures - Revenue consequences of capital - flooding	0.050
Rates Budget - to be allocated once services confirmed	0.043
Grant funding redeterminations	0.105
CRC Budget not Required	0.300
Pay Award	(0.946)
Unallocated Budget at 31 March 2019	<u><u>(0.098)</u></u>

Table B : Unallocated Corporate Savings

	£m	Delivery RAG
Service Redesign	1.934	A
Procurement	0.711	A
Insurance	0.054	A
Unallocated Corporate Savings at 31 March 2019	<u><u>2.699</u></u>	

Revenue Expenditure Monitoring Report - General Fund Balance

1 April to 31 March 2019

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)
Removal of Earmarked Balances	(1.786)	1.786	0.000
Use of balances per Appendix 4	(6.257)	(0.143)	(6.400)
Contribution to balances per Appendix 4	5.544	0.000	5.544
Movement in balance per Appendix 1	(4.125)	1.643	(2.482)
Net service overspend per Appendix 1	0.000	(2.354)	(2.354)
Appropriations to Other Reserves	0.000	(0.380)	(0.380)
Additional financing	0.000	0.454	0.454
General Fund Balance at 31st March 2019	<u>12.375</u>	<u>7.925</u>	<u>20.300</u>

Analysis of all service budget savings by RAG ranking

Appendix 7

Table 1

	Total			Total
	Green	Amber	Red	
Care and Learning	2.145	0.015	0.000	2.160
Chief Executive's Service	0.755	0.000	0.000	0.755
Corporate Resources	1.369	0.280	0.000	1.649
Community Services	1.724	0.000	1.728	3.452
Development and Infrastructure	1.990	0.400	0.000	2.390
Unallocated Savings	0.054	2.645	0.000	2.699
Total	8.037	3.340	1.728	13.105