

Agenda Item	6.
Report No	RES/25/19

THE HIGHLAND COUNCIL

Committee: Corporate Resources Committee

Date: 28 August 2019

Report Title: Corporate Revenue Monitoring report to 30th June 2019

Report By: Executive Chief Officer- Finance and Resources

1. Purpose/Executive Summary

- 1.1 This report provides a summary of the actual spend in the first quarter of financial year 2019/20 together with a forecast year end outturn position.
- 1.2 Net spend on services in the first quarter of financial year 2019/20 totalled £94.586m.
- 1.3 Based on present expenditure trends a year end overspend of £2.672m is forecast. The Council's Executive Leadership Team have committed to take the necessary action required to ensure a balanced budget is delivered by year end.
- 1.4 The report also provides a summary of the delivery of the approved budget savings required to deliver a balanced budget in 2019-20 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:
 - i. Consider the financial position of the General Fund and HRA revenue budgets as at 30 June 2019 and note the estimated year end forecast;
 - ii. note the status of budgeted savings in the year;
 - iii. note the action in progress intended to deliver a balanced budget by year end.

3. Implications

- 3.1 Resource implications are as noted in this report. If an overspend position is reported at year end this will need to be funded from the Council's reserves.
- 3.2 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 relating to unexpected items, such as adverse weather, may emerge during the year for which no specific contingencies are held.
- 3.3 There are no legal, equality, climate change/Carbon Clever, rural or Gaelic implications arising as a direct result of this report.

4. Service budget variances

- 4.1 **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 £2.672m against service budgets.
- 4.2 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.
- 4.3 **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.
- 4.4 A net overspend of £0.572m is forecast for the Care and Learning Service. The service continues to face pressures in the Looked After Children and ASN budgets which are the largest contributors to the net overspend position. Additional funding through the 2019-20 budget process, combined with management action through the management of contracts, have significantly reduced the forecast level of overspend in Looked After Children from the 18/19 position. Despite the delivery of significant savings from the ASN budget an overspend remains, primarily as a result of recurring overstaffing issues continuing from 2018/19.

Mitigation of these overspends from elsewhere in the Care and Learning budget comes primarily from the Early Years budget and underspends in Children's social work, mainly as a result of vacant posts.

- 4.5 A net overspend of £0.740m is forecast against the Community Services budget with the main contributory factors being an overspend against the public conveniences budget and anticipated shortfalls in income from car parking charges and road construction consents. Whilst being reported as on budget at the moment, the service considers the realisation of the harbours income target and the costs of an adverse winter as its most significant risks.
- 4.6 A net underspend of £0.450m is forecast for the Development and Infrastructure Service. Underspends are forecast against the economy and regeneration and housing development budgets, whilst income in excess of the budgeted level is forecast against investment properties and planning and building warrant fees. These underspends

more than mitigate pressures on the PPP budget and the under recovery of income from technical, design and project teams.

- 4.7 Both the Corporate Resources and Chief Executive's Office budget are reporting comparatively minor underspends, £0.126m and £0.148m respectively. Those underspends reflect minor underspends across the majority of service areas.
- 4.8 A budget pressure of £0.100m is showing against the Valuation Joint Board budget heading. Budget discussions with the VJB did not conclude until after the Council had set its own budget- as part of which the Council had assumed making a flat cash settlement to the VJB. The final VJB budget agreed requires an increased contribution of £0.287m from the Council- of which £0.134m can be funded from additional funding the Council has received from the Scottish Government for the implementation of the Barclay review. This gives rise to a potential pressure of £0.153m should the VJB fully spend its budget. Given the VJB has underspent its budget in previous years a reduced pressure of £0.100m is currently forecast.
- 4.9 The Loans Charges budget is currently forecast to be balanced at year end- in line with the performance for 2018/19. As outlined in section 8 of this report a review of loans charges is underway which may see a reduction in actual loans charges for the year.
- 4.10 As outlined in section 7 a pressure of £2.310m is forecast in relation to certain corporate savings that have not yet been allocated to service budgets not being fully delivered. This pressure is partially mitigated by a one off saving of £0.326m sitting within the unallocated budget line. This saving reflects money set aside to pay for the increased teachers' employer pension contribution rate which is not fully required this year due to implementation being effective from September rather than April.

5. Housing Revenue Account

- 5.1 As shown in **Appendix 3** the Housing Revenue Account (HRA) is forecast to deliver a balanced budget. Further details on the HRA position is reported to the Care, Learning and Housing Committee and a link to that report is provided in the background papers section of this report.
- 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 and details of the mitigation actions being taken are covered in section 8 of this report. 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 £7.925m, 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 £2.672m transpires the level of that reserve would fall to £5.253m.

- 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.
- 6.5 Although not covered by the figures provided in the appendices to this report the Council maintains a separate insurance fund. This fund represents the money set aside by the Council to meet the costs of self-insurance and costs either below the level of excess on external insurance policies or costs not covered by external insurance policies. At the end of financial year 2018/19 the uncommitted level of the fund was £2.333m but due the volume and value of claims that have been received in the year to date it is anticipated that the value of the fund will decrease by year-end.

7. Budget savings

- 7.1 In order to deliver a balanced budget for the year budget savings of £24.581m were approved in February 2019. A summary of the delivery of those savings can be seen at **Appendix 7**. Savings ranked as Category 1 are expected to be delivered in full, those in Category 2 have some challenges to the full delivery of the saving, and those in Category 3 have substantial challenges and are not expected to be fully 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 in Categories 2 or 3 a shortfall of £2.310m is anticipated, which is a constituent part of the overall £2.672m forecast overspend figure as seen on **Appendix 1**.
- 7.4 The corporate savings facing the greatest challenges to delivery are those relating to redesign, procurement, property asset management, commercial activity and energy. The officer Change Board affords a greater focus on maximizing the delivery of those savings whilst also allowing the early identification of particular savings which are facing challenges in delivery.

8. Mitigating actions

- 8.1 A number of mitigating actions are already in place in order to reduce overall spend to within the annual budget level with further actions under consideration. It is intended that as a result of these actions the overall budget position will become balanced by the year end.
- 8.2 Staffing controls have been in place since financial year 2018/19 whereby all recruitment is approved by the Resources Governance Group (senior officers and the Chair of the Corporate Resources committee) prior to it progressing to advert. That group is also focusing on controls around other types of staffing expenditure including agency staff, overtime and other off contract payments. The work of that group should therefore result in actual staffing spend for the year reducing from that currently forecast.

- 8.3 Additional controls around non-staffing spend are to be introduced and scrutinised either by the Resources Governance or an equivalent group. These controls will focus on the sign-off of any new contracts, any significant awards against existing frameworks and tighter controls around ordering and approving. As with the staffing controls the effectiveness of these measures will be seen by forecast spend against service non-staffing budgets reducing from their existing levels.
- 8.4 Consideration is also being given to either reducing or delaying spend against certain budget headings. Should the decision be made to proceed with this action planned spend could either be stopped altogether or delayed until the Council has greater assurance that it will balance its budget by year-end. Whilst such action would inevitably impact on service provision, areas where there are few existing contractual commitments (either employee or otherwise) are under consideration. Any overall corporate underspend as a result of this activity could be ring-fenced for spend in those specific areas in future years.
- 8.5 Certain new initiatives, both national and local, are coming in during 2019/20. Any delay in implementing these initiatives, or implementing them at a lower cost than any funding provided, would benefit the 2019/20 revenue budget.
- 8.6 A review of loans charges will take place during the remainder of the year in light of recent changes to loans fund regulation and clarity being received from Audit Scotland over the implementation of these regulations. This review will be tied in to the review of the Council's capital programme. Changing the profile of loans charges may allow immediate revenue savings which could be used to fund increased capital investment or balance the revenue budget- albeit such action may constrain the ability to fund new capital spend in the long term.
- 8.7 As a final point any activity that takes place to reduce existing pressures, as opposed to finding alternative measures to offset them, will also be pursued throughout the year. This activity will be focussed through the officer Change Programme Board which supports and scrutinises the delivery of change activity throughout the Council. Many of the projects within that programme are linked to the mitigation of existing pressures or delivery of approved budget savings and through the work of that board it is hoped that the current level of pressures reported may reduce as corporate change is delivered.

Designation: Executive Chief Officer- Finance and Resources

Date: 19th August 2019

Author: Edward Foster, Head of Corporate Finance

Background Papers:

https://www.highland.gov.uk/download/meetings/id/75582/item_6_development_and_in_frastructure_service_revenue_budget_20192020

https://www.highland.gov.uk/download/meetings/id/75597/item_21_community_services_revenue_budget_monitoring_report

https://www.highland.gov.uk/download/meetings/id/75621/item_11_care_and_learning_revenue_budget_monitoring_quarter_1_201920

https://www.highland.gov.uk/download/meetings/id/75619/item_9_housing_revenue_account_hra_and_non-hra_budget_monitoring_statement_to_30_june_2019

Revenue Expenditure Monitoring Report - General Fund Summary

1 April to 30 June 2019

	Actual Year to Date £000	Annual Budget £000	Year End Estimate £000	Year End Variance £000
Table A: By Service				
Care and Learning	57,634	360,223	360,795	572
Chief Executive's Office	1,628	5,547	5,399	(148)
Corporate Resources	6,140	25,755	25,629	(126)
Community Services	10,737	65,749	66,489	740
Development and Infrastructure	14,224	48,130	47,680	(450)
Welfare Services	2,778	5,403	5,403	0
Service Total	93,141	510,807	511,395	588
Valuation Joint Board	788	2,684	2,784	100
Non Domestic Rates reliefs	657	671	671	0
Loan Charges	0	56,839	56,839	0
Unallocated Budget	0	2,128	1,802	(326)
Unallocated Corporate Savings	0	(4,582)	(2,272)	2,310
Total General Fund Budget	94,586	568,547	571,219	2,672

Table B: By Subjective

Staff Costs	81,418	350,390	346,357	(4,033)
Other Costs	56,434	424,509	430,003	5,494
Gross Expenditure	137,852	774,899	776,360	1,461
Grants	(12,679)	(63,777)	(63,955)	(178)
Other Income	(30,587)	(142,575)	(141,186)	1,389
Total Income	(43,266)	(206,352)	(205,141)	1,211
Total Revenue Expenditure	94,586	568,547	571,219	2,672

Table C: Appropriations to Reserves

Contribution to earmarked balances	0	2,585	2,585	0
Contribution to Other reserves	0	0	0	0
Total Contributions to Balances	0	2,585	2,585	0

Table D: Financed By

Aggregate External Finance as notified	53,215	436,780	436,780	0
Additional resources	9,521	9,521	9,521	0
Council Tax	31,850	124,622	124,622	0
Use of earmarked balances	0	0	0	0
Use of non earmarked balances	0	0	2,672	2,672
Use of Other reserves	0	209	209	0
Total General Fund Budget	94,586	571,132	573,804	2,672

Revenue Expenditure Monitoring Report - General Fund Summary

1 April to 30 June 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	(1,561)	2,133	0	0	572
Chief Executive's Office	(27)	(49)	0	(72)	(148)
Corporate Resources	(122)	0	0	(4)	(126)
Community Services	(152)	(387)	0	1,279	740
Development and Infrastructure	(2,171)	1,713	(178)	186	(450)
Welfare Services	0	0	0	0	0
Valuation Joint Board	0	100	0	0	100
HiTrans Requisition	0	0	0	0	0
Non Domestic Rates reliefs	0	0	0	0	0
Loan Charges	0	0	0	0	0
Unallocated Budget	0	(326)	0	0	(326)
Unallocated Corporate Savings	0	2,310	0	0	2,310
	0	0	0	0	
Total General Fund Budget	(4,033)	5,494	(178)	1,389	2,672

Revenue Expenditure Monitoring Report - Housing Revenue Account Summary
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1 April to 30 June 2019

	Actual Year to Date £000	Annual Budget £000	Year End Estimate £000	Year End Variance £000
Staff Costs	1,340	6,230	5,734	(496)
Other Costs	5,634	28,354	28,853	499
Loan charges and interest	0	19,445	19,445	0
Gross Expenditure	6,974	54,029	54,032	3
House Rents	(5,832)	(51,134)	(50,964)	170
Other rents	(680)	(2,455)	(2,619)	(164)
Other income	13	(379)	(388)	(9)
Interest on Revenue Balances	0	(61)	(61)	0
Gross Income	(6,499)	(54,029)	(54,032)	(3)
Total HRA	475	0	0	0

Revenue Expenditure Monitoring Report - General Fund Budget
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1 April 2019 - 30 June 2019

	£m	£m
Budget as Agreed by Highland Council on 14 February 2019		581.325
Less : Contribution to earmarked balances included in agreed budget (Elections Fund, Change Fund)		(2.585)
Less : Ring-fenced grant (Gaelic, Criminal Justice, Attainment Funding, Early Years)		(21.328)
Grant Funding Redeterminations		
Discretionary Housing Payments	0.052	
Scottish Assessors Barclay Implementation	0.134	
Free Personal Care for under 65s	1.221	
Carers Act Extension (increase)	0.022	
Teachers 2018/19 & 2019/20 pay awards (estimate)	6.592	
Teachers 2019/20 pension increase (from Sep 2019) (estimate)	<u>2.921</u>	10.942
Agreed Use of Non-earmarked Balances		
	<u> </u>	0.000
Use of Earmarked Balances		
	<u> </u>	0.000
Contribution to Earmarked Balances		
	<u> </u>	0.000
Contribution to Other Reserves		
	<u> </u>	0.000
Presentational Adjustments		
CTR budget reduction offset against redesign savings target	0.272	
	<u> </u>	0.272
Total General Fund Budget at 30 June 2019		<u><u>568.626</u></u>

Revenue Expenditure Monitoring Report - General Fund Budget
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1 April 2019 - 30 June 2019

Table A : Unallocated Budget

	£m
Energy	0.937
Teachers pension rate increase	0.301
Auto-enrolment	0.300
Community Fund	0.210
Revenue consequences of capital - flooding	0.050
Grant Funding - 1 + 2 Languages	0.132
Grant Funding - Access to Sanitary Products - Public Bodies	0.131
Grant Funding - Whole System Approach	0.025
Rates	0.043
Roundings	(0.001)
Unallocated Budget at 30 June 2019	<u><u>2.128</u></u>

Table B : Unallocated Corporate Savings

	£m	Category
Service Redesign	0.960	3
Procurement	0.911	3
Service Income	0.700	1
Grey Fleet & Travel Desk	0.565	1 / 2
Property Asset Management	0.511	3
Energy	0.500	3
Commercial Activity	0.185	3
Reduction in Printing/Paper Costs	0.150	1 / 3
Lean Reviews	0.100	2
Unallocated Corporate Savings at 30 June 2019	<u><u>4.582</u></u>	

Revenue Expenditure Monitoring Report - General Fund Budget
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1 April 2019 - 30 June 2019

General Fund Balance

	Earmarked balances £m	Non- earmarked balances £m	Total £m
General Fund Balance at 1 April 2019 (unaudited)	12.374	7.925	20.299
(Use of)/contribution to balances included in budget as agreed by Highland Council on 14 February 2019	2.585	0.000	2.585
Removal of earmarked balances	0.000	0.000	0.000
Use of balances per Appendix 4	0.000	0.000	0.000
Contribution to balances per Appendix 4	0.000	0.000	0.000
Movement in balance per Appendix 1	2.585	0.000	2.585
Net service overspend per Appendix 1	0.000	(2.672)	(2.672)
Appropriations to other reserves	0.000	0.000	0.000
Additional financing	0.000	0.000	0.000
General Fund Balance at 30 June 2019	14.959	5.253	20.212

Revenue Expenditure Monitoring Report - General Fund Budget
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1 April 2019 - 30 June 2019

Analysis of Budget Savings by Category 1, 2 and 3

	Category 1 £m	Category 2 £m	Category 3 £m	Total £m
Care & Learning	10.546	0.450	0.744	11.740
Chief Executive's Service	0.000	0.000	0.000	0.000
Corporate Resources	3.021	0.000	0.000	3.021
Community Services	0.475	1.291	0.000	1.766
Development & Infrastructure	1.430	0.975	0.000	2.405
Allocated Corporate Savings	0.538	0.100	0.429	1.067
Unallocated Corporate Savings	0.840	0.600	3.142	4.582
	<u>16.850</u>	<u>3.416</u>	<u>4.315</u>	<u>24.581</u>