

Agenda Item	6
Report No	RES/37/19

THE HIGHLAND COUNCIL

Committee: Corporate Resources Committee

Date: 20th November 2019

Report Title: Corporate Revenue Monitoring report to 30th September 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 two quarters of financial year 2019/20 together with a forecast year end outturn position.
- 1.2 Net spend on services in the first two quarters of financial year 2019/20 totalled £219.161m.
- 1.3 Based on present expenditure trends a net year end overspend of £0.364m is forecast. This represents a significant improvement from the forecast position at quarter 1 when an overspend of £2.672m was reported. 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 September 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 midway point 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 £1.622m 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 two of these funding streams are anticipated to deliver income £1.258m in excess of the level budgeted for the year.
- 4.3 The combined effect of the service budget overspend and excess income described in 4.1 and 4.2 above gives an overall forecast net overspend for the year of £0.364m. Should this position prevail at year end this amount would require to be funded from the Council's reserves.
- 4.4 The surplus income on the 'Additional resources' line reflects an expected £1.095m income from the Business Rates Incentivisation Scheme (BRIS). This income relates to the collection of non-domestic rates in 2017-18 and represents a 50 per cent share of the additional rates income generated with the other 50 per cent retained by the Scottish Government. The Scheme incentivises the growth of the local tax base within a local authority area and directly reflects the factors impacting growth that are within the local authority's control and not adversely influenced by factors completely outwith their ability to influence. By exceeding its local target the Council has benefitted from a share of surplus income generated.
- 4.5 Council tax income is also expected to deliver income £0.163m in excess of the level budgeted. The income on this line reflects Council Tax income net of any Council Tax Reduction (CTR). CTR is currently below the budgeted level.
- 4.6 **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.
- 4.7 A net overspend of £0.124m 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, with some smaller underspends showing across a number of other service budget headings.

- 4.8 A net overspend of £1.141m 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. Pressures have emerged in the second quarter in relation to refuse collection and recycling as a result of increased fuel costs and an anticipated increase in contract costs from quarter 4.
- 4.9 Some mitigation of the overspends is already being seen with underspends forecast against environmental and amenities budgets and the service continues to try to implement further management action and mitigation measures. 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.
- 4.10 A net underspend of £0.458m 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.
- 4.11 The Corporate Resources service is forecasting an underspend of £0.617m and this position reflects underspends across all significant service areas. Underspends arise primarily against staffing budgets and through careful management of various third party contracts. A more detailed report is provided later on this committee agenda.
- 4.12 The Chief Executive's Office is reporting an underspend of £0.246m. This position reflects underspends across the majority of service areas and a more detailed report is provided later on this committee agenda.
- 4.13 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.
- 4.14 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.
- 4.15 As outlined in section 7 a pressure of £2.210m 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 £0.508m 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 as well as other budgets which are not expected to be fully allocated.

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 Work is ongoing to recover the current forecast overspend 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 net overspend of £0.364m transpires the level of that reserve would fall to £7.561m.
- 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.

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 £2.210m is anticipated, which is a constituent part of the overall outturn 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. Evidence of the efficiency of these mitigating actions can be seen from the overall improvement in the forecast position from that reported at quarter 1. 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 the group should therefore result in actual staffing spend for the year continuing to reduce from that currently forecast.

8.3 Additional controls around non-staffing spend have been introduced at the Resources Governance Group. These controls 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 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.

8.5 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: 1st November 2019

Author: Edward Foster, Head of Corporate Finance

Background Papers:

https://www.highland.gov.uk/download/meetings/id/75912/item_7_care_and_learning_revenue_budget_monitoring_quarter_2_201920

https://www.highland.gov.uk/download/meetings/id/76053/item_17_community_services_revenue_budget_monitoring_report

https://www.highland.gov.uk/download/meetings/id/76041/item_5_development_and_infrastructure_service_revenue_budget_20192020

https://www.highland.gov.uk/download/meetings/id/75910/item_5_housing_revenue_account_hra_and_non-hra_budget_monitoring_statement_to_30_september_2019

Revenue Expenditure Monitoring Report - General Fund Summary

1 April to 30 September 2019

	Actual Year to Date £000	Annual Budget £000	Year End Estimate £000	Year End Variance £000
Table A: By Service				
Care and Learning	133,784	353,188	353,312	124
Chief Executive's Office	3,474	5,958	5,712	(246)
Corporate Resources	13,937	25,579	24,962	(617)
Community Services	25,601	64,320	65,461	1,141
Development and Infrastructure	35,869	57,326	56,868	(458)
Welfare Services	4,322	5,528	5,404	(124)
Service Total	216,987	511,899	511,719	(180)
Valuation Joint Board	1,505	2,684	2,784	100
Non Domestic Rates reliefs	669	671	671	0
Loan Charges	0	56,839	56,839	0
		0		0
Unallocated Budget	0	2,086	1,578	(508)
Unallocated Corporate Savings	0	(4,065)	(1,855)	2,210
Total General Fund Budget	219,161	570,114	571,736	1,622

Table B: By Subjective				
Staff Costs	167,378	350,430	346,492	(3,938)
Other Costs	158,913	425,916	431,082	5,166
Gross Expenditure	326,291	776,346	777,574	1,228
Grants	(23,536)	(29,216)	(29,127)	89
Other Income	(83,593)	(177,016)	(176,711)	305
Total Income	(107,129)	(206,232)	(205,838)	394
Total Revenue Expenditure	219,162	570,114	571,736	1,622

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	144,012	436,780	436,780	0
Additional resources	0	9,602	10,697	1,095
Council Tax	75,149	124,622	124,785	163
Use of earmarked balances	0	1,486	1,486	0
Use of non earmarked balances	0	0	364	364
Use of Other reserves	0	209	209	0
Total General Fund Budget	219,161	572,699	574,321	1,622

Revenue Expenditure Monitoring Report - General Fund Summary

1 April to 30 September 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	158	(55)	0	21	124
Chief Executive's Office	(66)	(57)	0	(123)	(246)
Corporate Resources	(761)	209	0	(65)	(617)
Community Services	(1,106)	1,715	161	371	1,141
Development and Infrastructure	(2,163)	1,676	(72)	101	(458)
Welfare Services	0	(124)	0	0	(124)
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	(508)	0	0	(508)
Unallocated Corporate Savings	0	2,210	0	0	2,210
	0	0	0	0	
Total General Fund Budget	(3,938)	5,166	89	305	1,622

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

	Actual Year to Date £000	Annual Budget £000	Year End Estimate £000	Year End Variance £000
Staff Costs	2,725	6,230	5,828	(402)
Other Costs	10,749	28,355	28,762	407
Loan charges and interest	0	19,445	19,645	200
Gross Expenditure	13,474	54,030	54,235	205
House Rents	(18,940)	(51,136)	(50,891)	245
Other rents	(1,365)	(2,455)	(2,887)	(432)
Other income	(356)	(377)	(395)	(18)
Interest on Revenue Balances	0	(62)	(62)	0
Gross Income	(20,661)	(54,030)	(54,235)	(205)
Total HRA	(7,187)	0	0	0

Revenue Expenditure Monitoring Report - General Fund Budget
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1 April to 30 September 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)	2.921	
Teachers Pensions Adjustment	(0.079)	
Appropriate Adults	0.022	
Free Sanitary Products Adjustment	0.009	
Brexit Funding	0.050	10.944
Agreed Use of Non-earmarked Balances		0.000
Use of Earmarked Balances		
Welfare Fund	0.125	
Change Fund	0.415	
Redesign	0.011	
Developer Contributions	0.935	1.486
Contribution to Earmarked Balances		0.000
Contribution to Other Reserves		0.000
Presentational Adjustments		
CTR budget reduction offset against redesign savings target	0.272	
		0.272
Total General Fund Budget at 30 September 2019		570.114

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

Table A : Unallocated Budget

	£m
Energy	0.937
Teachers pension rate increase	0.301
Auto-enrolment	0.202
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 - Access to Sanitary Products - Schools	0.009
Grant Funding - Appropriate Adults	0.022
Grant Funding - Brexit	0.050
Rates	0.043
Roundings	(0.001)
Unallocated Budget at 30 June 2019	<u><u>2.086</u></u>

Table B : Unallocated Corporate Savings

	£m	Category
Service Redesign	0.960	3
Procurement	0.836	3
Service Income	0.378	1
Grey Fleet & Travel Desk	0.565	1 / 2
Property Asset Management	0.511	3
Energy	0.455	3
Commercial Activity	0.185	2
Reduction in Printing/Paper Costs	0.075	3
Lean Reviews	0.100	2
Unallocated Corporate Savings at 30 June 2019	<u><u>4.065</u></u>	

Revenue Expenditure Monitoring Report - General Fund Budget
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1 April to 30 September 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	(1.486)	0.000	(1.486)
Contribution to balances per Appendix 4	0.000	0.000	0.000
Movement in balance per Appendix 1	1.099	0.000	1.099
Net service overspend per Appendix 1	0.000	(1.622)	(1.622)
Appropriations to other reserves	0.000	0.000	0.000
Additional financing	0.000	1.258	1.258
General Fund Balance at 30 June 2019	13.473	7.561	21.034

Revenue Expenditure Monitoring Report - General Fund Budget
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1 April to 30 September 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	0.540	1.016	0.210	1.766
Development & Infrastructure	2.055	0.100	0.250	2.405
Allocated Corporate Savings	1.484	0.100	0.000	1.584
Unallocated Corporate Savings	0.443	0.785	2.837	4.065
	<u>18.089</u>	<u>2.451</u>	<u>4.041</u>	<u>24.581</u>