

The Highland Council

Agenda Item	6b
Report No	JMC-25-23

Committee: Joint Monitoring Committee

Date: 15 December 2023

Report Title: Finance Report – Integrated Children’s Services

Report By: Head of Corporate Finance

1. Purpose/Executive Summary

- 1.1 This report sets out for members of the Joint Monitoring Committee (JMC), an update on the Council’s overall financial position for 2023/24, as well as the financial position for Integrated Children’s Services functions delivered by the Council through the Lead Agency arrangement.
- 1.2 The figures presented are drawn from the Council’s Quarter 2 financial monitoring reports. Updates on pressures and risks in the current year, and progress with savings delivery related to Integrated Children’s Services are also included within the report.
- 1.3 The report also provides an update regarding budget forecasting and planning for 2024/25 and beyond, setting out the forecast financial gap faced by the Council for that period and the actions being taken.

2. Recommendations

- 2.1 Members are asked to:
 - i. Note this report and financial forecast for Quarter 2 of 2023/24;
 - ii. Note the update provided regarding savings delivery for Integrated Children’s Services;
 - iii. Note the update provided regarding outlook for 2024/25 and beyond.

3. Implications

- 3.1 Resource – there are no specific recommendations with resource implications in this report. There report does however provide a comprehensive analysis of the revenue budget position, and quarter 2 forecasts relating to the Integrated Children’s Services budget.
- 3.2 Legal – no particular implications to highlight.

- 3.3 Community (Equality, Poverty, Rural and Island) – no particular implications to highlight. The services provided within the Integrated Children’s Services functions provide for needs across communities, within available resources.
- 3.4 Climate Change / Carbon Clever – no particular implications to highlight.
- 3.5 Risk – the report highlights a number of particular risk areas as they may impact on the revenue budget, in the current year and into future years. The report provides narrative relating to the current staffing and vacancy challenges facing aspects of the children’s services activities, and status update on savings delivery including service redesign.
- 3.6 Health and Safety (risks arising from changes to plant, equipment, process, or people) – no particular implications to highlight.
- 3.7 Gaelic – no implications.

4. Highland Council Overall Budget Position Quarter 2 of 2023/24

4.1 The Council’s revenue budget for the current financial year was based upon the following funding assumptions, with updates as at Quarter 2 shown. The movement in budgeted income from Scottish Government grant reflects revisions and additions to funding since the budget for the year was set, which primarily relate to funding for staff pay awards.

Description	Budget As Agreed March 2023 £m	Budget at Quarter 2 £m	Movement +/- £m
Scottish Government Grant Funding ex Ring-Fenced Grants	536.524	550.592	14.068
Council Tax Income	143.563	143.563	-
Use of Reserves*	23.270	19.448	-3.822
Budgeted Contribution to Earmarked Reserves*	-0.659	-0.659	-

Other Core Funding Assumptions:

Budget Savings agreed	22.195	22.195	-
Re-purposing of Council tax for 2 nd Homes income*	3.400	3.400	-

**Non-recurring items*

- 4.2 Regular reports to the Council, and past reports to JMC, have highlighted the extent to which the budget for the year is reliant upon a significant number of non-recurring funding measures. In particular, the use of reserves to balance the revenue budget is not a recurring or sustainable funding source and will require to be addressed on a sustainable basis going forward. This has consequences for the outlook for 2024/25 which is discussed later in this report.
- 4.3 The Quarter 2 revenue forecast for the Council overall, is an overspend at year end of £5.717m as set out in the table below. This is a deterioration since the Quarter 1

report, where the forecast had been £3.1m. The main contributory factors are overspends in the Council's Communities & Place, Housing & Property and Infrastructure, Environment and Economy Services related to income shortfalls, inflation and cost pressures. The most significant factor in the overall movement in forecast between Quarter 1 and Quarter 2 relates to the impact of the Corran Ferry being out of service. In total £3.3m of the overspend relates to this activity, and the effect of lost income, costs of mitigations and cost of repairs. The Services overspends are partly mitigated by an assumed level of council tax income ahead of budget.

	Annual Budget £m	Year-end forecast £m	Year-end variance £m
Expenditure			
Service budgets (Appendix 1, Table A- top half)	620.782	627.360	6.578
Other budgets (Appendix 1, Table A- bottom half)	93.853	93.888	0.035
Contribution to investment funds and other reserves (Appendix 1, Table C)	0.659	0.659	0
Total (X)	715.294	721.907	6.613
Income (Table D- top part)			
Government income	550.592	550.592	0
Budgeted Council tax income	143.563	144.459	0.896
Confirmed use of earmarked reserves	1.691	1.691	0
Total (Y)	695.846	696.742	0.896
Difference between expenditure and income to be funded from non-earmarked reserves- 'Budget (surplus)/deficit' (=X-Y)	19.448	25.165	5.717

Appendix 1 provides the Council's overall Quarter 2 budget monitoring position.

4.4 In relation to significant areas of financial risk and uncertainty, the following are the major areas.

- SJC staff pay award – since the last report to JMC, and post Quarter 2, this pay award has now been settled. While this provides clarity regarding cost, there remains further detail awaited regarding the Scottish Government funding package to support the pay award. A number of elements will require the Council to meet the cost in 2023/24 on the basis that Scottish Government has given commitments that funding would be provided in 2024/25 to compensate.
- Energy costs - a £8.9m unallocated budget provision for energy cost increases was made in the March budget, and this will be allocated during Quarter 3 when a clearer estimate of service needs will be available.

4.5 The following table gives a summarised assessment of progress with delivery of all Council savings for 2023/24.

Service	Total Approved Savings 2023/24 £m	Blue £m	Green £m	Amber £m	Red £m
Communities & Place	1.455	0.470	0.955	0.030	0.000
Depute Chief Executive	0.307	0.307	0.000	0.000	0.000
Education & Learning	9.559	0.685	8.249	0.625	0.000
Health & Social Care	3.138	0.000	0.190	2.948	0.000
Infrastructure, Environment & Economy	2.377	0.330	1.430	0.617	0.000
Performance & Governance	0.363	0.060	0.233	0.070	0.000
Property & Housing	3.430	0.000	2.640	0.790	0.000
Resources & Finance (including Welfare)	1.304	0.946	0.145	0.213	0.000
Service Savings Total	21.933	2.798	13.842	5.293	0.000
Add : Corporate Savings	0.250	0.000	0.000	0.250	0.000
Total	22.183	2.798	13.842	5.543	0.000

Blue-complete

5. Children's Services Budget Position 2023/24

- 5.1 The statement at **Appendix 2** reflects those elements of the structure of the Council's Health and Social Care service which include activity in this area. Where budget lines relate to both children's (social work and child health) and adult service areas, no attempt has been made to split the costs between the two functions. In overall terms, the net position is a small overspend of £0.003m forecast at year end. Underlying this total are a number of other offsetting variances, which are commented on in this section of the report.
- 5.2 JMC members will recall from past reports that a major budget element in the 2021/22 and 2022/23 budgets for Children's Services, was the inclusion of a time-limited budget for Covid-19 pressures. This was a budget sum of £2.6m in that first year and reducing to £1.9m in 2022/23. This sum was always intended in being a time-limited source of budget ending in 2022/23, and it was evident from the 2022/23 out-turn and past reports that the need for this budget had not been at levels expected, and it was a factor in the level of underspend reported in those prior years. This budget sum has not recurred into 2023/24 and is therefore a material budget adjustment, albeit as noted in this narrative, an adjustment which was not expected to have an impact based on expenditure trends in the past two years.
- 5.3 Other Services for Children: The single largest factor in this budget line is the sum of £2.948m of unallocated savings which are held against this budget, pending full implementation and allocation against the relevant budget lines in due course. As such until the savings are allocated this is showing as an overspend of £2.505m. It is important to note that in due course, once savings are allocated against relevant budget lines, this would be expected to reduce the underspends reported against those budget lines. This is particularly relevant when noting below the underspends currently being reported against Family Teams and Looked After Children. The description and status of these savings are as shown below.

Ref	Savings Description	Saving Amount £m	RAG status
1.3b	Family Teams - Reduce agency use (currently being used for vacant permanent posts). Replace with permanent post; and/or delete post; and/or	0.300	A

	reassess gradings where appropriate		
3.2	Health and Social Care Redesign	2.400	A
3.18	Family First Strategy	0.248	A
	Sub-total – within unallocated savings budget	2.948	

5.4 Family Teams – £1.098m year end forecast underspend. Past reports have highlighted a legacy underspend against this budget heading, as well as the actions being taken to (a) address some of the local and national challenges around recruitment, (b) redesign of the service and (c) re-alignment of the budget. The level of vacancies and the associated underspend is a cause for concern and reported as such to Council Committees. The Council’s risk register also reflects the risk associated with that level of staff vacancy.

5.5 Looked After Children - £1.272m year end forecast underspend. The budget forecast continues to reflect the positive trends being shown in Looked After Children, with it forecast that the number of children in out of authority residential provision was approaching the lowest level it had been at for some years. In turn, this is being reflected in the budget forecast. ‘The Promise’ is at the heart of practice within Highland Council. Consequently, the focus has been on shifting the balance of care so that children and young people remain at home – when safe to do so.

This is evidenced through our ‘Looked After Children’ statistics over a 3-year trend. From 2020 to 2022/23 there has been an 18-20% reduction in Looked After Children from:

- 495 (2020),
- 469 (2021),
- 402 (2022)
- 405 (2023). That figure is now at 415.

In terms of those children and young people in residential placements out with the Highland area, the outlook is extremely positive.

There are currently 9 children (down from 23 last year and 17 last quarter) out with the Highland area in spot purchased placements and only 14 in total both in and out of Highland. This is the lowest number of external residential placements ever and a result of significant, continuous effort by the Home to Highland team and the family teams. This will have a positive effect on the budget spend as well as improving outcomes and it is expected that those trends will be shown in reported variances going forward.

Whilst the trends in relation to residential placements is positive and it is anticipated that it will result in savings it should be noted that whilst the overall numbers are decreasing, the cost of living crisis is such that in real terms the cost of individual placements is significantly increasing. Consequently, we will be monitoring this situation closely and update Committee accordingly as the year progresses.

6. Forward Look – Financial Outlook 2024/25 and Beyond

6.1 The Council continues its budget planning relating to forward years, with a three-year financial planning approach being taken for 2024/25 to 2026/27. The level of forecast gap over the three-years is £108m, with £61.7m of that falling into 2024/25 due to the relatively higher level of inflationary pressure expected to face that year, and also a

legacy impact of the £23m of reserves being used to support the current 2023/24 budget, which requires to be sustainably addressed in 2024/25.

- 6.2 The scale of budget gap is significant and is also based on an assumed 'flat cash' settlement from Scottish Government for 2024/25. However, the actual level of settlement will only be known following the Scottish Government draft budget due to be published on 19 December. The Council is developing budget plans to address the forecast budget gap, with a significant level of budget savings required to balance the budget position. The Council on 29 February will formally set its budget and council tax for the coming financial year.

Designation: Head of Corporate Finance

Date: 1 December 2023

Author: Brian Porter, Head of Corporate Finance

Background Papers:

Appendices:

Revenue Expenditure Monitoring Report - General Fund Summary

1 April to 30 September 2023

	Actual Year to Date £000	Annual Budget £000	Year End Estimate £000	Year End Variance £000
Table A: By Service				
Communities & Place	25,772	41,431	42,365	934
Depute Chief Executive	8,388	12,469	12,461	(8)
Education & Learning	97,106	242,012	241,496	(516)
Health, Wellbeing & Social Care	76,842	183,935	183,837	(98)
Infrastructure & Environment and Economy	17,619	40,411	46,151	5,740
Performance & Governance	(2,030)	5,809	6,055	246
Property & Housing	35,448	74,249	74,747	498
Resources & Finance	7,101	13,404	13,186	(218)
Welfare Services	5,930	7,062	7,062	0
Service Total	272,176	620,782	627,360	6,578
Valuation Joint Board	1,603	3,140	3,140	0
Non Domestic Rates reliefs	2,607	2,624	2,765	141
Loan Charges	0	60,212	60,212	0
Unallocated Budget	0	29,820	29,714	(106)
Unallocated Corporate Savings	0	(1,943)	(1,943)	0
Total General Fund Budget	276,386	714,635	721,248	6,613

Table B: By Subjective

Staff Costs	215,601	408,802	404,680	(4,122)
Other Costs	180,984	526,734	540,512	13,778
Gross Expenditure	396,585	935,536	945,192	9,656
Grant Income	(63,795)	(92,940)	(93,155)	(215)
Other Income	(56,404)	(127,961)	(130,789)	(2,828)
Total Income	(120,199)	(220,901)	(223,944)	(3,043)
Total Revenue Expenditure	276,386	714,635	721,248	6,613

Table C: Appropriations to Reserves

Contribution to earmarked balances	0	640	640	0
Contribution to non-earmarked balances	0	0	0	0
Affordable housing contribution from 2nd homes council tax	0	0	0	0
Contribution to Other reserves	0	19	19	0
Total Contributions to Balances	0	659	659	0

Table D: Financed By

Aggregate External Finance as notified	162,362	529,105	529,105	0
Additional resources	0	16,062	16,062	0
Additional resources - GCG - Pay award	0	5,425	5,425	0
Council Tax	114,024	143,563	144,459	896
Use of earmarked balances	0	1,691	1,691	0
Use of non earmarked balances	0	19,448	25,165	5,717
Use of other reserves	0	0	0	0
Total General Fund Budget	276,386	715,294	721,907	6,613

HEALTH, WELLBEING AND SOCIAL CARE SERVICE - for JMC Report

Appendix 2

2023/2024		GROSS EXPENDITURE			GROSS INCOME			NET TOTAL			VARIANCE ANALYSIS			
Quarter 2, April to September		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
		Annual Budget	Actual YTD	Year End Variance	Annual Budget	Actual YTD	Year End Variance	Annual Budget	Actual YTD	Projected Outturn	Staffing Variance	Other Spend Variance	Income Variance	Total Variance
BY ACTIVITY														
Service Management and Support														
	Management Team	926	487	7	0	0	0	926	487	933	5	2	0	7
	Business Support	1,394	576	-139	0	0	0	1,394	576	1,255	-123	-16	0	-139
	COVID-19 Response	0	-1	0	0	-108	0	0	-109	0	0	0	0	0
	Sub-total	2,320	1,062	-132	0	-108	0	2,320	954	2,188	-118	-14	0	-132
Looked After Children														
	Fostering & Adoption	6,918	3,206	-102	0	-1	0	6,918	3,205	6,816	-69	-33	0	-102
	Residential, In house	2,559	1,344	-21	0	-393	0	2,559	951	2,538	-212	191	0	-21
	Respite, In house	1,393	892	225	0	0	0	1,393	892	1,618	166	59	0	225
	Independent and 3rd Sector placements	8,008	3,801	0	0	0	0	8,008	3,801	8,008	0	0	0	0
	Through care & aftercare	1,953	614	-731	0	0	0	1,953	614	1,222	71	-802	0	-731
	Home to Highland	5,934	2,411	-530	-401	-179	0	5,533	2,231	5,003	-664	134	0	-530
	LAC Management and Support	677	256	-113	0	0	0	677	256	564	-115	2	0	-113
	Sub-total	27,442	12,524	-1,272	-401	-573	0	27,041	11,950	25,769	-823	-449	0	-1,272
Family Teams														
	Family Teams - North	3,055	1,503	-173	0	0	-1	3,055	1,503	2,881	-187	14	-1	-174
	Family Teams - Mid	3,529	1,784	-186	0	-10	0	3,529	1,774	3,343	-154	-32	0	-186
	Family Teams - West	3,126	1,386	-319	0	-1	-1	3,126	1,385	2,806	-313	-6	-1	-320
	Family Teams - South	8,593	4,075	-558	-15	-5	-1	8,578	4,070	8,019	-639	81	-1	-559
	Self Directed Support (Direct Payments)	401	109	141	0	0	0	401	109	542	-1	142	0	141
	Sub-total	18,704	8,857	-1,095	-15	-16	-3	18,689	8,841	17,591	-1,294	199	-3	-1,098
Other Services for Children														
	Child Protection	996	421	-130	-124	-136	0	872	284	742	-133	3	0	-130
	Health and Health Improvement	1,524	653	20	-658	-305	0	865	348	885	13	7	0	20
	Allied Health Professionals	3,839	1,980	25	-11	-82	0	3,828	1,898	3,853	22	3	0	25
	Primary Mental Health Workers	607	293	-10	0	0	0	607	293	597	-6	-4	0	-10
	Specialist Services	401	205	0	0	0	0	401	205	401	0	0	0	0
	Youth Action Services	1,655	635	-343	0	-9	0	1,655	626	1,312	-310	-33	0	-343
	Other Services for Children	878	529	0	-7	0	7	871	529	878	-6	6	7	7
	Staff Training	179	43	-11	0	-4	0	179	39	168	-11	0	0	-11
	Independent Funds	0	-15	0	0	0	0	0	-15	0	0	0	0	0
	Unallocated Savings	-2,950	0	2,947	0	0	0	-2,950	0	-3	0	2,947	0	2,947
	Sub-total	7,129	4,744	2,498	-800	-536	7	6,328	4,207	8,833	-431	2,929	7	2,505
	Commissioned Children's Services income from NESH	0	0	0	-11,274	-111	0	-11,274	-111	-11,274	0	0	0	0
	TOTAL	55,595	27,187	-1	-12,490	-1,344	4	43,104	25,841	43,107	-2,666	2,665	4	3