

Agenda Item	9b
Report No	JMC-15-25

The Highland Council/NHS Highland

Committee: **Joint Monitoring Committee**

Date: **25 September 2025**

Report Title: **Finance Report – Highland Council**

Report By: **Chief Officer – 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, and that related to Integrated Children's Services functions delivered by the Council through the Lead Agency arrangement.
- 1.2 The figures presented reflect the year end forecast as at Quarter 1 of the current financial year, covering the period up to and including 30th June 2025. The Council's internal financial monitoring operates on a Quarterly reporting cycle.
- 1.3 The report sets out a forecast year-end deficit for the Council, including projected overspend on Integrated Children's Services functions. Reporting on this financial position within the Council, has been clear on the absolute need to address forecast overspends, and the risks should this not be achieved. This report also sets out the core actions being taken forward by the Council to mitigate and address the forecast overspends, including Budget Recovery Planning activity, with the clear expectation that the result of such activity should see improvement in the financial position going forward.

2. Recommendations

- 2.1 Members are asked to:
 - i. Consider the forecast financial position for the year as set out in this report and appendices;
 - ii. Consider the explanations provided for any material variances and actions being taken or proposed.

3. Implications

- 3.1 Resource - This report provides key financial information regarding the Council's budget and forecast financial performance against that budget, including specific information relating to Integrated Children's Services financial performance. The report reflects actions being taken to address variances and forecast overspends.

- 3.2 Legal – The Council has adopted the CIPFA Financial Management (FM) Code of Practice. The contents of this report aim to satisfy the requirement of Sections 6 and 7 of the CIPFA Financial Management Code- ‘Monitoring financial performance’ and ‘External financial reporting’.
- 3.3 Risk - There is a risk to the Council’s financial position, level of reserves and forward plans if overspending is not addressed over the course of the year. The Council holds reserves in excess of its policy target of 3%, however any overspend would impact on existing investment and change plans (supported by earmarked reserves) or the 3% reserve target. There is a risk that where budget recovery plans are in place, they may still take time to implement and take effect, such that actions taken do not wholly address the position in year. There remain some risks and uncertainty around pay settlements for some staff groups which could still impact the financial position for the year. The reported level of overspend in NHS Highland’s Adult Social Care budget is also considered a significant risk area.
- 3.4 Health and Safety (risks arising from changes to plant, equipment, process, or people) – no specific implications to highlight.
- 3.5 Gaelic – no specific implications to highlight.

4. Impacts

- 4.1 In Highland, all policies, strategies or service changes are subject to an integrated screening for impact for Equalities, Poverty and Human Rights, Children’s Rights and Wellbeing, Climate Change, Islands and Mainland Rural Communities, and Data Protection. Where identified as required, a full impact assessment will be undertaken.
- 4.2 Considering impacts is a core part of the decision-making process and needs to inform the decision-making process. When taking any decision, Members must give due regard to the findings of any assessment.
- 4.3 This is a monitoring report and therefore an impact assessment is not required.

5. Overall Council Financial Position – Quarter 1 financial year 2025/26

- 5.1 **Annex 1** sets out the Quarter 1 monitoring forecast for the Council overall. As summarised in the table below, a net deficit of £12.554m is forecast, it being driven by overspends at Service level (further details below and within Annex 1), mitigated in part by underspends on some central/corporate budgets and improvements in council tax income levels.

	Forecast Variance Against Budget for the Year £m
Combined Service overspend forecast	17.044
Loan charges and other central budgets	-3.042
Council tax income	-1.448
Net overspend forecast for the year	12.554

- 5.2 The main areas of overspend reflected within the overall Quarter 1 position are as summarised below. Which can be broadly grouped into existing/underlying pressure areas in 2024/25 continuing into 2025/26, new and emerging pressure areas in year, and unforeseen reductions in external funding which has been notified since the budget for the year was agreed.
- Communities and Place – overspend in Fleet management costs and unexpected reduction in Waste levy funding.
 - Health and Social Care – overspend in Looked After Children costs.
 - Infrastructure, Environment and Economy – the main areas contributing to this overspend are Trading Operations (Ferries and Harbours), Climate Change and Energy saving targets, and Roads and Transport cost pressures and income generation.
 - Property and Housing – slippage in savings delivery including asset rationalisation.
 - Corporate Services – some slippage in savings delivery including procurement and tourism income.
- 5.3 Given the overspending which had occurred in 2024/25, the Council initiated a number of actions in advance of, and into the start of the current financial year, the intent of which is to address underlying pressures and overspends and given the now forecast Quarter 1 outlook. The range of actions implemented include:
- the reversion back to standalone budget monitoring reports on Council Committee agendas (separate from performance reports) to provide the opportunity for greater focus on budget monitoring;
 - refinement and improvement to budget monitoring report templates, including a greater focus on actions being taken or proposed by Services to address variances and overspends;
 - further developments and improvements to financial system reports and dashboards available to budget holders and senior management to support monitoring;
 - a focused approach to budget recovery plans in targeted areas, supported by the Council's senior officer team. Ensuring a corporate support and challenge approach to budget recovery.
- 5.4 The actions as described driven by the need to address the forecast overspend position and mitigate the risks to the Council if overspending to this level is not addressed.

6. Integrated Children's Services Finance Update

- 6.1 In relation to Integrated Children's Services, **Annex 2** sets out the Quarter 1 forecast position. The statement at Annex 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 and adult service areas (i.e. management and other central costs) no attempt has been made to split the costs between the two functions given their fully integrated nature. Annex 2 therefore represents but one element of the totality of Health and Social Care as reflected on annex 1 (the

difference being Adult Service budgets not part of the Integrated Children's Services functions).

- 6.2 As can be seen, and in line with the commentary in section 5, a forecast overspend of £4.1m is shown against Integrated Children's Services, with this primarily arising in the Looked After Children budget heading. The main factors in this overspend include:

Independent and 3rd sector placements – That overspend arises as a result of the cost of beds which has increased over time (beyond inflation). The number of beds being purchased by the service is generally reducing – from 30 in 2019/2020 to fewer than 20 currently (which is a rise from 12 last year). Notwithstanding work being undertaken, demand for placements is not decreasing and is also impacted by continuing care requests as well as over 18s who although meeting criteria for input from adult social care has taken some time for NHSH to source appropriate packages. Placements made by the Children's Hearing System are also factors which contribute to increased demand for residential/secure high-cost provision. This is an area which forms a key element of the Families First initiative, and the action plan referred to will deliver change as well as having a positive financial impact.

Home in Highland Provision – This budget supports the educational provision of those young people who are not educated within mainstream education – many of whom have returned from out of area placements. The service has expanded to offer service to a cohort of young people – who are not necessarily looked after – but are not accessing mainstream education. The intention is to expand the Person Centred Portfolio to include the Learning Without Boundaries workstream which will involve the appointment of a Virtual Headteacher which is expected to have a positive impact on (learning) outcomes and the associated costs.

- 6.3 Given the overspends as forecast, a budget recovery plan review approach is being applied to the Health and Social Care/Children's Services budget, as for other focus areas. Within which the following actions are being considered or taken:

- Return of 12 young people to Highland this year (7 already returned).
- Change support provider for one care package at reduced cost.
- Work with NHS Highland to move eligible over-18s from children's units.
- Review all young people in Highland residential to fast track moves if appropriate.
- Work in terms of SDS in the light of new residential unit in Thurso to be operational and the re-opening of short-break disability units in Inverness, Caithness and Skye.
- Support Social Work and Residential staff to manage risk and retain children at home when safe to do so.
- Development of Virtual Headteacher role to address educational spend.
- Respite provision and associated SDS delivery.
- Out of area costs and associated costs returning children to Highland.
- Expansion of Fostering and Kinship options.
- Educational provision for children and young people returning to Highland and those unable to access mainstream provision.

Date: 27 August 2025

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Background Papers:

Appendices: Annex 1 – Quarter 1 Council Revenue Budget Forecast
 Annex 2 – Quarter 1 Integrated Children's Services budget forecast

Revenue Expenditure Monitoring Report - General Fund Summary
1 April to 30 June 2025

Actual Year to Date £000	Annual Budget £000	Year End Estimate £000	Year End Variance £000
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Table A: By Service

Communities & Place	14,632	46,536	49,116	2,580
C&P Packaging Extended Producer Responsibility Funding	0	-9,500	-7,000	2,500
Business Solutions	6,665	13,164	13,127	-37
Education & Learning	67,049	296,438	296,120	-318
Health, Wellbeing & Social Care	44,877	199,652	203,770	4,118
Infrastructure & Environment and Economy	9,354	45,124	50,721	5,597
Performance & Governance	2,509	6,609	6,578	-31
Property & Housing	23,712	87,907	90,357	2,450
Resources & Finance	5,424	14,476	14,651	175
Welfare Services	3,833	8,313	8,323	10
Service Total	178,055	708,719	725,763	17,044
Valuation Joint Board	970	3,626	3,626	0
Green Freeport		0	0	0
Non Domestic Rates reliefs	1,450	1,247	1,247	0
Loan Charges	0	72,782	69,782	-3,000
Unallocated Budget	0	17,025	16,983	-42
Total General Fund Budget	180,475	803,399	817,401	14,002

Table B: By Subjective

Staff Costs	112,696	478,989	470,627	-8,362
Other Costs	117,809	543,412	563,951	20,539
Gross Expenditure	230,505	1,022,401	1,034,578	12,177
Grant Income	-21,081	-77,505	-74,936	2,569
Other Income	-28,949	-141,497	-142,241	-744
Total Income	-50,030	-219,002	-217,177	1,825
Total Revenue Expenditure	180,475	803,399	817,401	14,002

Table C: Appropriations to Reserves

Contribution to earmarked balances	0	922	922	0
Contribution to non-earmarked balances	0	0	0	0
Affordable housing contribution from 2nd homes council tax	0	3,873	3,873	0
Contribution to Other reserves	0	11	11	0
Total Contributions to Balances	0	4,806	4,806	0

Table D: Financed By

Aggregate External Finance as notified	120,494	627,540	627,540	0
Additional resources	0	7,262	7,262	0
Additional resources - GCG - Pay award	0	0	0	0
Council Tax	59,981	164,426	165,874	1,448
Use of earmarked balances	0	2,848	2,848	0
Use of non earmarked balances	0	0	12,554	12,554
Use of other reserves	0	6,129	6,129	0
Total General Fund Budget	180,475	808,205	822,207	14,002

30/06/2025	STAFF COSTS				OTHER COSTS				GRANT INCOME				OTHER INCOME				NET TOTAL			
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
	Annual Budget	Actual YTD	Year End Estimate	Year End Variance	Annual Budget	Actual YTD	Year End Estimate	Year End Variance	Annual Budget	Actual YTD	Year End Estimate	Year End Variance	Annual Budget	Actual YTD	Year End Estimate	Year End Variance	Annual Budget	Actual YTD	Year End Estimate	Year End Variance
BY ACTIVITY																				
Service Management and Support																				
Management Team	1,312	309	1,312	0	(301)	8	(298)	4	0	0	0	0	0	0	0	0	1,011	317	1,014	4
Business Support	1,495	368	1,320	(176)	31	2	37	5	0	0	0	0	0	0	0	0	1,527	370	1,356	(171)
Unachieved Savings	(411)	0	(166)	245	0	0	0	0	0	0	0	0	0	0	0	0	(411)	0	(166)	245
Looked After Children																				
Family Based Care	1,254	307	1,227	(27)	6,447	1,653	6,504	57	0	0	0	0	(9)	17	0	9	7,692	1,977	7,731	39
Residential, In house	5,624	1,197	5,280	(344)	1,538	361	1,809	271	(1,374)	(1,530)	(1,374)	0	0	0	0	0	5,788	28	5,715	(73)
Respite, In house	1,907	510	1,907	0	866	30	866	0	0	0	0	0	0	3	0	0	2,773	543	2,773	0
Independent and 3rd Sector placements	0	0	0	0	8,643	2,935	11,210	2,567	0	0	0	0	0	0	0	0	8,643	2,935	11,210	2,567
Through care & aftercare	0	(30)	18	18	1,433	249	1,374	(59)	0	0	0	0	0	0	0	0	1,433	219	1,392	(41)
Home to Highland	1,073	376	1,454	380	513	100	479	(34)	(327)	0	(327)	0	0	1	0	0	1,259	477	1,605	346
LAC Management and Support	713	179	715	3	7	3	18	11	0	0	0	0	0	0	0	0	719	182	733	14
LAC Unallocated Savings	(1,319)	0	0	1,319	0	0	0	0	0	0	0	0	0	0	0	0	(1,319)	0	0	1,319
Family Teams																				
Family Teams - North	3,082	675	2,689	(393)	294	108	558	264	0	(0)	0	0	(1)	(0)	(1)	0	3,375	782	3,246	(129)
Family Teams - Mid	3,448	758	2,976	(472)	391	131	602	211	0	0	0	0	0	6	0	0	3,839	895	3,578	(261)
Family Teams - West	3,053	650	2,424	(629)	315	115	487	172	0	0	0	0	(2)	0	(2)	0	3,366	765	2,910	(457)
Family Teams - South	8,055	1,645	6,707	(1,348)	845	389	1,683	839	(15)	(1)	(15)	0	0	(1)	0	0	8,885	2,033	8,375	(509)
Self Directed Support (Direct Payments)	36	20	37	2	1,055	509	2,034	979	0	0	0	0	0	0	0	0	1,091	529	2,072	981
FT Unallocated Savings	(471)	0	0	471	0	0	0	0	0	0	0	0	0	0	0	0	(471)	0	0	471
Other Services for Children																				
Child Protection	1,054	241	979	(75)	41	27	66	25	(226)	(286)	(226)	0	0	0	0	0	869	(18)	819	(50)
Health and Health Improvement	1,552	322	1,379	(173)	130	15	135	5	(751)	(604)	(751)	0	0	0	0	0	931	(267)	763	(168)
Allied Health Professionals	4,164	1,065	4,041	(123)	223	66	387	164	0	(86)	0	0	(15)	0	0	15	4,372	1,044	4,428	56
Primary Mental Health Workers	704	195	704	0	10	1	12	2	0	0	0	0	0	0	0	0	714	197	716	2
Specialist Services	140	0	0	(140)	152	196	152	0	0	0	0	0	0	0	0	0	292	196	152	(140)
Youth Action Services	1,389	298	1,194	(195)	386	27	465	79	0	(8)	0	0	0	0	0	0	1,775	317	1,659	(116)
Other Services for Children	1,674	467	1,656	(19)	801	1,289	904	103	0	(52)	0	0	(1)	0	(1)	0	2,474	1,704	2,559	85
Staff Training	246	23	92	(154)	(0)	1	4	4	0	0	0	0	0	0	0	0	246	24	96	(150)
Independent Funds	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Unallocated Savings	(481)	0	(200)	281	0	0	0	0	0	0	0	0	0	0	0	0	(481)	0	(200)	281
Delegated Child Health	0	0	0	0	0	0	0	0	(11,562)	6,133	(11,562)	0	0	0	0	0	(11,562)	6,133	(11,562)	0
Grand Total Integrated Children's Services	39,293	9,574	37,745	(1,548)	23,820	8,215	29,489	5,669	(14,256)	3,565	(14,256)	0	(28)	26	(4)	24	48,829	21,380	52,973	4,145