

# The Highland Council/NHS Highland

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| Agenda Item | <b>7b</b>        |
| Report No   | <b>JMC/21/25</b> |

**Committee:** Joint Monitoring Committee

**Date:** 4 December 2025

**Report Title:** Finance Report – Highland Council – Quarter 2

**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 2 of the current financial year, covering the period up to and including 31 August 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. The Quarter 2 position reflects an improvement from Quarter 1, as a result of budget recovery actions. 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 further improvement in the financial position going forward.

## 2. Recommendations

- 2.1 Members are asked to:
  - i. **note** the forecast financial position for the year as set out in this report and appendices; and
  - ii. **note** 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 2 financial year 2025/26

- 5.1 **Appendix 1** provides the Quarter 2 financial forecast for the Council. The current projection, summarised in the table below, shows a net deficit of £8.555m, which is an improvement of £3.999m compared to the Quarter 1 forecast of £12.554m. £3.060m of this relates to net improvement in the overall Service budget forecasts, with the remaining £0.939m improvement across other budgets and council tax income.

|  | Forecast Variance Against Budget for the Year £m |
|--|--|
| Combined Service overspend forecast    | 13.984   |
| Loan charges and other central budgets | -3.887   |
| Council tax income                     | -1.542   |
| Net overspend forecast for the year    | 8.555  |

5.2 The main areas of overspend reflected within the overall Quarter 2 position are as summarised below. Which can be broadly grouped into existing/underlying pressure areas in 2024/2025 continuing into 2025/2026, 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. Given the scale of the overspend within Fleet, a comprehensive review has commenced, and a Budget Recovery Plan is in place. An initial positive impact of this plan is reflected in the Quarter 2 outturn, with further improvements anticipated over the next two quarters.
- Health and Social Care – overspend in Looked After Children and Family Teams costs as detailed within section 6 of this report.
- 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. Budget Recovery plans have been prepared and are being implemented for Property Repairs and Maintenance and Asset Rationalisation savings.
- Corporate Services – some slippage in savings delivery including procurement and tourism income.

5.3 Despite the welcome improvement in forecasts since Quarter 1, there remains an overspend forecast and remaining risks and uncertainties in the budget. A continued focus on budget recovery and cost control is in place, with the objective of further reducing the overspend position.

5.4 Overspends pose a risk to the organisation by reducing reserves available to support agreed change and investment plans, creating uncertainty around those plans, and increasing the requirement for budget savings in the next financial year. These risks will remain until further progress is made and the impact of Budget Recovery Action Plans is evidenced in future reports.

## 6. Integrated Children’s Services Finance Update

6.1 In relation to Integrated Children’s Services, **Appendix 2** sets out the Quarter 2 forecast position. 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 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 **appendix 1** (the difference being Adult Service budgets not part of the Integrated Children's Services functions).

- 6.2 Integrated Children's Services is forecasting an overspend of £3.454m for Quarter 2. This marks an improvement on the Quarter 1 position of £4.145m, with a positive movement of £0.691m achieved through recovery actions to date.

The main factors contributing to the Quarter 2 forecast overspend include;

**Independent and 3rd sector placements** – This budget has historically been overspent as a result of the increasing cost of commissioned placements which have escalated over time and ahead of inflation. These pressures have previously been largely offset by underspends elsewhere in the service. The reduction of such placements is a key focus of the Recovery Plan developed by the Service at phases 2 and 3 and the use of the independent and commissioned sector will be reported regularly to the Strategic Committee in order to track progress in delivering the Plan.

**Family Based Care** – This budget line is also under pressure and, like the preceding item, is a key focus of the work being addressed by the Recovery Plan. Whilst it is an area which has not previously been consistently overspent, the pressure arises in part as a result of the portion of the previously unallocated savings that has now been transferred into this budget line. It is also an area which forms a key part of the budget recovery plan and the intention is that there will be an improvement in the budgetary position as a result of increased reliance on kinship placements and in house foster placements thereby reducing reliance on more expensive purchased foster placements.

**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. As Members will be aware, the Person Centred Solutions Portfolio now includes a Learning Without Boundaries workstream which includes the appointment of a Virtual Headteacher which is expected to have a positive impact on (learning) outcomes and the associated costs. Some of these costs will also reduce as there is a reduction in the numbers both leaving and returning to Highland.

- 6.3 Children's Services have developed a Budget Recovery Plan to address the current financial challenges whilst also improving the outcomes for Highland's most vulnerable children and young people. The Plan aligns with the Operational Delivery Plan and sets out the financial and service delivery improvements to be achieved through projects within the Person Centred Solutions Portfolio, with a particular focus on the Home in Highland Programme.

The recovery plan, as set out in **Appendix 3**, focuses on the following key areas:

- 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.

It is recognised that the financial challenge is unlikely to be dealt with within this financial year and Members will note the plan refers to work being delivered over three key phases and over the next 3 – 5 year period.

Designation: Chief Officer – Corporate Finance

Date: 10 November 2025

Author: Brian Porter, Chief Officer – Corporate Finance  
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Background Papers: N/A

Appendices: Appendix 1 – Quarter 2 Council Revenue Budget Forecast  
Appendix 2 – Quarter 2 Integrated Children’s Services Budget Forecast  
Appendix 3 – Children’s Services Budget Recovery Plan

|   |
|---|
| <b>Revenue Expenditure Monitoring Report - General Fund Summary</b> |
|---|

|                  |
|------------------|
| <b>Quarter 2</b> |
|------------------|

|  | Actual<br>Year to Date<br>£000 | Annual<br>Budget<br>£000 | Year End<br>Estimate<br>£000 | Year End<br>Variance<br>£000 |
|--|--------------------------------|--------------------------|------------------------------|------------------------------|
|--|--------------------------------|--------------------------|------------------------------|------------------------------|

**Table A: By Service**

|  |                |                |                |               |
|--|----------------|----------------|----------------|---------------|
| Communities & Place                                    | 24,408         | 47,852         | 50,303         | 2,451         |
| C&P Packaging Extended Producer Responsibility Funding | 0              | -9,500         | -7,000         | 2,500         |
| Business Solutions                                     | 11,847         | 14,037         | 14,014         | -23           |
| Education & Learning                                   | 138,767        | 300,630        | 299,797        | -833          |
| Health, Wellbeing & Social Care                        | 80,173         | 201,671        | 205,099        | 3,428         |
| Infrastructure & Environment and Economy               | 13,049         | 45,742         | 51,731         | 5,989         |
| Performance & Governance                               | 4,980          | 6,922          | 6,662          | -260          |
| Property & Housing                                     | 34,978         | 89,651         | 90,471         | 820           |
| Resources & Finance                                    | 11,806         | 15,704         | 16,075         | 371           |
| Welfare Services                                       | 5,594          | 8,313          | 7,854          | -459          |
| <b>Service Total</b>                                   | <b>325,602</b> | <b>721,022</b> | <b>735,006</b> | <b>13,984</b> |
| Valuation Joint Board                                  | 1,875          | 3,626          | 3,420          | -206          |
| Green Freeport   | 0              | 0              | 0              | 0             |
| Non Domestic Rates reliefs                             | 1,551          | 1,247          | 1,247          | 0             |
| Loan Charges   | 0              | 72,782         | 69,143         | -3,639        |
| Unallocated Budget                                     | 0              | 6,090          | 6,048          | -42           |
| <b>Total General Fund Budget</b>                       | <b>329,028</b> | <b>804,767</b> | <b>814,864</b> | <b>10,097</b> |

**Table B: By Subjective**

|                                  |                |                  |                  |               |
|----------------------------------|----------------|------------------|------------------|---------------|
| Staff Costs                      | 220,078        | 492,473          | 481,869          | -10,604       |
| Other Costs                      | 196,308        | 542,679          | 557,801          | 15,122        |
| <b>Gross Expenditure</b>         | <b>416,386</b> | <b>1,035,152</b> | <b>1,039,670</b> | <b>4,518</b>  |
| Grant Income                     | -35,757        | -88,009          | -82,111          | 5,898         |
| Other Income                     | -51,601        | -142,376         | -142,695         | -319          |
| <b>Total Income</b>              | <b>-87,358</b> | <b>-230,385</b>  | <b>-224,806</b>  | <b>5,579</b>  |
| <b>Total Revenue Expenditure</b> | <b>329,028</b> | <b>804,767</b>   | <b>814,864</b>   | <b>10,097</b> |

**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        |
| <b>Total Contributions to Balances</b>                     | <b>0</b> | <b>4,806</b> | <b>4,806</b> | <b>0</b> |

**Table D: Financed By**

|  |                |                |                |               |
|--|----------------|----------------|----------------|---------------|
| Aggregate External Finance as notified | 225,678        | 627,540        | 627,540        | 0             |
| Additional resources                   | 0              | 7,262          | 7,262          | 0             |
| Additional resources - GCG - Pay award | 0              | 0              | 0              | 0             |
| Council Tax                            | 103,350        | 164,426        | 165,968        | 1,542         |
| Use of earmarked balances              | 0              | 4,216          | 4,216          | 0             |
| Use of non earmarked balances          | 0              | 0              | 8,555          | 8,555         |
| Use of other reserves                  | 0              | 6,129          | 6,129          | 0             |
| <b>Total General Fund Budget</b>       | <b>329,028</b> | <b>809,573</b> | <b>819,670</b> | <b>10,097</b> |

| 31/08/2025  | 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         |                   |                   |       |
|   | 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 |       |
| <b>BY ACTIVITY</b>                                |               |               |                   |                   |               |               |                   |                   |                 |              |                   |                   |               |            |                   |                   |               |               |                   |                   |       |
| <b>Service Management and Support</b>             |               |               |                   |                   |               |               |                   |                   |                 |              |                   |                   |               |            |                   |                   |               |               |                   |                   |       |
| Management Team                                   | 1,338         | 494           | 1,330             | (8)               | (350)         | 16            | (345)             | 5                 | 0               | 0            | 0                 | 0                 | 0             | 0          | 0                 | 0                 | 0             | 987           | 510               | 984               | (3)   |
| Business Support                                  | 1,625         | 630           | 1,411             | (213)             | 31            | 2             | 3                 | (29)              | 0               | 0            | 0                 | 0                 | 0             | 0          | 0                 | 0                 | 0             | 1,656         | 632               | 1,414             | (242) |
| <b>Looked After Children</b>                      |               |               |                   |                   |               |               |                   |                   |                 |              |                   |                   |               |            |                   |                   |               |               |                   |                   |       |
| Family Based Care                                 | 536           | 528           | 1,210             | 674               | 5,638         | 2,603         | 6,284             | 646               | 0               | 0            | 0                 | 0                 | (9)           | 35         | (9)               | 0                 | 6,165         | 3,166         | 7,484             | 1,319             |       |
| Residential, In house                             | 5,600         | 2,194         | 5,137             | (462)             | 1,538         | 585           | 1,478             | (60)              | (1,374)         | (1,850)      | (1,374)           | 0                 | 0             | (0)        | 0                 | 0                 | 5,763         | 929           | 5,241             | (522)             |       |
| Respite, In house                                 | 1,945         | 905           | 2,188             | 242               | 866           | 49            | 514               | (352)             | 0               | 0            | 0                 | 0                 | 0             | 2          | 0                 | 0                 | 2,812         | 956           | 2,702             | (110)             |       |
| Independent and 3rd Sector placements             | 0             | 0             | 0                 | 0                 | 8,643         | 4,668         | 11,360            | 2,717             | 0               | 0            | 0                 | 0                 | 0             | 0          | 0                 | 0                 | 8,643         | 4,668         | 11,360            | 2,717             |       |
| Through care & aftercare                          | 32            | 5             | 18                | (13)              | 1,118         | 407           | 1,179             | 61                | 0               | 0            | 0                 | 0                 | 0             | 0          | 0                 | 0                 | 1,150         | 412           | 1,197             | 47                |       |
| Home to Highland                                  | 1,166         | 631           | 1,437             | 271               | 405           | 199           | 437               | 33                | (327)           | 0            | (327)             | 0                 | 0             | 1          | 0                 | 0                 | 1,243         | 832           | 1,547             | 304               |       |
| LAC Management and Support                        | 542           | 305           | 352               | (190)             | 7             | 6             | 14                | 7                 | 0               | 0            | 0                 | 0                 | 0             | 0          | 0                 | 0                 | 549           | 311           | 366               | (183)             |       |
| <b>Family Teams</b>                               |               |               |                   |                   |               |               |                   |                   |                 |              |                   |                   |               |            |                   |                   |               |               |                   |                   |       |
| Family Teams - North                              | 3,334         | 1,172         | 3,257             | (77)              | 294           | 191           | 484               | 190               | 0               | (0)          | (0)               | (0)               | (1)           | (0)        | (1)               | 0                 | 3,627         | 1,362         | 3,740             | 113               |       |
| Family Teams - Mid                                | 3,479         | 1,332         | 3,162             | (318)             | 391           | 222           | 552               | 160               | 0               | 0            | 0                 | 0                 | 0             | 6          | 0                 | 0                 | 3,871         | 1,560         | 3,713             | (157)             |       |
| Family Teams - West                               | 3,081         | 1,130         | 2,735             | (347)             | 315           | 185           | 481               | 166               | 0               | 0            | 0                 | 0                 | (2)           | (2)        | (4)               | (2)               | 3,395         | 1,313         | 3,212             | (183)             |       |
| Family Teams - South                              | 8,057         | 2,841         | 7,380             | (678)             | 845           | 659           | 1,619             | 774               | (15)            | (1)          | (1)               | 14                | 0             | (1)        | (3)               | (3)               | 8,887         | 3,498         | 8,995             | 108               |       |
| Self Directed Support (Direct Payments)           | 83            | 35            | 84                | 1                 | 1,055         | 915           | 2,189             | 1,134             | 0               | 0            | 0                 | 0                 | 0             | 0          | 0                 | 0                 | 1,138         | 950           | 2,272             | 1,134             |       |
| <b>Other Services for Children</b>                |               |               |                   |                   |               |               |                   |                   |                 |              |                   |                   |               |            |                   |                   |               |               |                   |                   |       |
| Child Protection                                  | 1,090         | 417           | 1,075             | (15)              | 41            | 39            | 18                | (23)              | (227)           | (235)        | (229)             | (2)               | 0             | 0          | 0                 | 0                 | 905           | 221           | 864               | (40)              |       |
| Health and Health Improvement                     | 1,506         | 549           | 1,507             | 1                 | 130           | 36            | 130               | 1                 | (750)           | (604)        | (750)             | 0                 | 0             | 0          | 0                 | 0                 | 886           | (19)          | 888               | 2                 |       |
| Allied Health Professionals                       | 4,307         | 1,748         | 4,154             | (153)             | 223           | 121           | 273               | 50                | (54)            | (86)         | (54)              | 0                 | (15)          | 0          | (15)              | 0                 | 4,460         | 1,783         | 4,357             | (103)             |       |
| Primary Mental Health Workers                     | 770           | 317           | 741               | (29)              | 10            | 3             | 8                 | (2)               | 0               | 0            | 0                 | 0                 | 0             | 0          | 0                 | 0                 | 780           | 320           | 749               | (31)              |       |
| Specialist Services                               | 145           | 0             | 145               | (0)               | 60            | 296           | 36                | (24)              | 0               | 0            | 0                 | 0                 | 0             | 0          | 0                 | 0                 | 205           | 296           | 181               | (24)              |       |
| Youth Action Services                             | 1,356         | 512           | 1,284             | (71)              | 386           | 44            | 405               | 19                | 0               | (8)          | (0)               | (0)               | 0             | 7          | 0                 | 0                 | 1,741         | 555           | 1,689             | (52)              |       |
| Other Services for Children                       | 1,629         | 869           | 1,126             | (503)             | 1,404         | 1,375         | 1,452             | 49                | 0               | (52)         | 0                 | 0                 | (1)           | (2)        | (1)               | 0                 | 3,031         | 2,190         | 2,577             | (454)             |       |
| Staff Training                                    | 798           | 67            | 609               | (188)             | (0)           | 1             | 2                 | 2                 | 0               | 0            | 0                 | 0                 | 0             | 0          | 0                 | 0                 | 798           | 68            | 612               | (186)             |       |
| Independent Funds                                 | 0             | 0             | 0                 | 0                 | 0             | (16)          | 0                 | 0                 | 0               | 0            | 0                 | 0                 | 0             | 0          | 0                 | 0                 | 0             | (16)          | 0                 | 0                 | 0     |
| <b>Delegated Child Health</b>                     |               |               |                   |                   |               |               |                   |                   |                 |              |                   |                   |               |            |                   |                   |               |               |                   |                   |       |
| Delegated Child Health                            | 0             | 0             | 0                 | 0                 | 0             | 0             | 0                 | 0                 | (11,562)        | 6,055        | (11,562)          | 0                 | 0             | 0          | 0                 | 0                 | (11,562)      | 6,055         | (11,562)          | 0                 |       |
| <b>Grand Total Integrated Children's Services</b> | <b>42,418</b> | <b>16,682</b> | <b>40,342</b>     | <b>(2,075)</b>    | <b>23,049</b> | <b>12,606</b> | <b>28,572</b>     | <b>5,523</b>      | <b>(14,310)</b> | <b>3,219</b> | <b>(14,298)</b>   | <b>11</b>         | <b>(28)</b>   | <b>44</b>  | <b>(33)</b>       | <b>(5)</b>        | <b>51,129</b> | <b>32,551</b> | <b>54,583</b>     | <b>3,454</b>      |       |

### Children's Services Budget Recovery Plan

#### Summary

This report provides a summary of the progress to date towards addressing the overall service overspend coupled with forward planning to deliver a sustainable and balanced budget over a 3 years.

The main areas of focus are:

1. Looked After Children (LAC) – shifting the balance of care
2. Budgetary control actions underway including current actions (Phase 1) and those where mitigating actions will show effect after 2025/2026 (Phase 2).

In terms of the number of Highland's looked after children, these are as follows:

- Total Looked After Children 580 (including UASC)
- Looked after and accommodated 471
- Looked after at home 109

Whilst the focus of this Plan is in terms of those children and young people who are looked after and accommodated, the service intends in addition to seek to reduce the number of children who are looked after by focussing on early intervention and family support. That work is ongoing and whilst it will have a beneficial financial impact it has not been included in the projected cost reduction figures in this Plan.

#### Recovery Plan

Taking the cohort of 66 children requiring residential care at present and the requirement to balance the budget within 3-5 years, the following assumptions within Children's Services are made to enable the budget to be brought back into balance in 2029/2030:

- Kinship Care - we will increase our Kinship Carers to 280 by 2030. This will mean that 48% of all Looked after children will be cared for within this service (the previous target was 220 by 2028). The revised target is comparable with best performing Local Authorities.
- Highland Council residential and foster provision is better value than commissioned residential and foster placements and allows children to remain close to their local communities. Section 1 below identifies the shift to Highland Council residential provision over this period. This would require support from Estates Services in repair and procurement of properties and would also require capital projects to be approved within the Capital Programme. Capacity would increase from 26 to 40 care spaces available. Typical Highland Council residential cost per week per bed per child £2,974 compared to average cost of current commissioned placements £6,542. Average annual cost of a Highland Council foster placement is £28,236 compared to average cost of commissioned foster placement £59,744.

## Looked After Children (LAC) - Shifting the Balance of Care

**Table 1.1**

Table 1.1 demonstrates how shifting the balance of care to family-based care with a more ambitious approach is likely the most effective strategy to reduce the current overspend. The scenario presented below reflects 48% of the looked after population in Kinship care and increases capacity in provided residential from 26 to 40 care spaces. The goals we have set ourselves are evidently ambitious but between the imperatives of addressing the financial deficit coupled with the need to return children from commissioned services to Highland Council delivered services require this level of ambition and commitment.

Our analysis and modelling confirm that Highland Council provision is more cost effective. Our children require us to be this ambitious for them, alongside due diligence in terms of ensuring they receive a consistent, high quality care experience.

Success is dependent on maximizing the use of kinship care in addition to non-commissioned services. Success is also dependent on building resilience in the fostering service. This extends beyond the number of foster carers. We also need to ensure both kinship carers and foster carers have the requisite level of support and skills to manage children. What we have less control over is the number of unaccompanied asylum-seeking children we are mandated to receive. The service will review how it supports UASC, as continuing to use the current model may become unsustainable.

| Shifting Balance of Care - 48% Kinship & Increased Provided Residential Care Places |                           |                         |                       |                       |                      |                      |                                 |                                 |                    |             |                   |                 |
|---|---------------------------|-------------------------|-----------------------|-----------------------|----------------------|----------------------|---------------------------------|---------------------------------|--------------------|-------------|-------------------|-----------------|
|   | At Home (with SW support) | Kinship (inc Residency) | Provided Foster Carer | Purchased foster care | Prospective adopters | Provided residential | Home in Highland (Commissioned) | Home to Highland (Commissioned) | UASC + Crisis Care | Secure care |                   |                 |
| Current   | 109                       | 228                     | 96                    | 53                    | 6                    | 26                   | 20                              | 17                              | 22                 | 3           | 580               |                 |
| Average cost per placements   |                           | 8,777                   | 28,236                | 59,744                |                      | 73,231               | 284,848                         | 317,622                         |                    | 284,848     |                   |                 |
| <b>2526 Budget</b>  |                           | <b>1,533,401</b>        | <b>1,300,000</b>      | <b>1,737,077</b>      |                      | <b>1,904,018</b>     | <b>5,060,171</b>                | <b>3,582,554</b>                |                    |             | <b>15,117,221</b> |                 |
| 2526  | 109                       | 228                     | 96                    | 53                    | 6                    | 26                   | 20                              | 17                              | 22                 | 3           | 580               |                 |
| 2627  | 109                       | 228                     | 99                    | 50                    | 6                    | 26                   | 20                              | 12                              | 22                 | 3           | 575               |                 |
| 2728  | 109                       | 240                     | 101                   | 37                    | 6                    | 38                   | 13                              | 6                               | 22                 | 3           | 575               |                 |
| 2829  | 109                       | 255                     | 114                   | 18                    | 6                    | 35                   | 7                               | 6                               | 22                 | 3           | 575               |                 |
| 2930  | 109                       | 280                     | 110                   | 0                     | 6                    | 40                   | 0                               | 6                               | 22                 | 2           | 575               |                 |
|   |                           |                         |                       |                       |                      |                      |                                 |                                 |                    |             |                   |                 |
|   | At Home (with SW support) | Kinship (inc Residency) | Provided Foster Carer | Purchased foster care | Prospective adopters | Provided residential | Home in Highland                | Home to Highland                | UASC + Crisis Care | Secure care | Budget            | Projected Spend |
| 2526  |                           | 2,001,156               | 2,710,656             | 3,166,432             |                      | 1,904,006            | 5,696,960                       | 5,399,574                       |                    | 854,544     | 15,117,221        | 21,733,328      |
| 2627  |                           | 2,001,156               | 2,795,364             | 2,987,200             |                      | 1,904,006            | 5,867,869                       | 3,925,808                       |                    | 880,180     | 15,117,221        | 20,361,583      |
| 2728  |                           | 2,106,480               | 2,851,836             | 2,210,528             |                      | 2,782,778            | 3,928,538                       | 2,021,791                       |                    | 906,586     | 15,117,221        | 16,808,537      |
| 2829  |                           | 2,238,135               | 3,218,904             | 1,075,392             |                      | 2,563,085            | 2,157,674                       | 2,062,227                       |                    | 924,717     | 15,117,221        | 14,240,134      |
| 2930  |                           | 2,457,560               | 3,105,960             | -                     |                      | 2,929,240            | -                               | 2,103,471                       |                    | 628,808     | 15,117,221        | 11,225,039      |

**Note:** Table 1.1 also reflects the impact of 5 young people transitioning out of children's services due to the age profile.

## Risks & Assumptions

All scenarios:

- takes into account the current approved savings measures
- reflects the overall population of looked after children remaining static at 575 (580 in July 2025, less 5 young people transitioning out of children's services for 2025/2026 due to the age profile). There is a risk that any increase in the LAC population would have an adverse impact on projections.
- assumes phasing in over three years an SDS resource-based allocation method to bring budget back on target by 2028/2029. Any delay to this would have an adverse effect on projections.
- assumes there will be recruitment activity across the Service in the region of £1m over financial years 2026/2027 & 2027/2028. Any movement would impact on projections.
- assumes that pay awards will be funded via the MTFP process therefore no assumptions around pay awards have been factored into the projections
- takes into account an element of inflationary price increase between 2-3% in the commissioned services for Home in Highland, Home to Highland & Secure Care allowing some capacity for costs in excess of what may be available through the MTFP pressures funding.

## Budgetary Control Actions underway (Grip & Control)

**Phase 1** - Work has been ongoing on identifying and progressing actions to address and reduce the overspend. The table below demonstrates the budget areas being reviewed and further updates will be factored into future monitoring statements as outcomes become clearer:

| <b>PHASE 1</b>   | <b>Minimum Reduced Spend</b> | <b>Maximum Reduced Spend</b> | <b>Comments</b>   |
|--|------------------------------|------------------------------|---|
| Staffing Establishment Review                                | £200,000                     | £300,000                     | Recurring – housekeeping of staffing budget & reduction in agency costs.                          |
| Contract Scrutiny  | £177,000                     | £300,000                     | Initially one-off but will feature in procurement / commissioning review                          |
| Achieved efficiency Savings                                  | £66,000                      | £166,000                     | Recurring – allocation of saving target and budgetary control                                     |
| Increase respite<br>In-house short breaks<br>from October 25 | £50,000                      | £115,540                     | Recurring will reduce the requirement for specific SDS packages as short break capacity increases |
| Underspend in<br>Respite Investment                          | £110,000                     | £250,000                     | One-off – delay in implementation of short break provision  |
| Ensure compliance<br>with eligibility criteria.              | £0                           | £300,000                     | This saving is calculated on having audited 10% of existing SDS cases                             |
| Car Club - cost of<br>cancellations                          | £10,000                      | £20,000                      | Recurring – change in practice by staff   |
| <b>Estimated Totals</b>                                      | <b>£613,000</b>              | <b>£1,451,540</b>            |   |

**Phase 2** – This stage of the review focuses on identifying and implementing actions that will improve the budget position over the 12-month period beginning in September 2025. The full financial impact of these actions is expected to be realised in the 2026/2027 financial year. The potential impact is outlined in the table below.

| <b>PHASE 2</b>                                   | <b>Minimum reduced spend</b> | <b>Maximum reduced spend</b> | <b>Comments</b>   |
|--|------------------------------|------------------------------|---|
| Increase Overnight short breaks to 1400 per year | £189,000                     | £556,000                     | Additional 3 bed capacity of short breaks 365 days Minimum 1 child per night maximum 3 children per night |

Phase 2 will also include an assessment of the capital investment required to refurbish existing assets or acquire new properties to facilitate the projected expansion of in-house residential provision.

### **Phase 3 – Medium-Term Budget Recovery and Transformation**

As outlined in Section 1 of this report, the budget strategy for the next 3–5 years will require significant service transformation, with a key focus on shifting the balance of care from externally purchased services to in-house provision.

This phase is underpinned by a dual-purpose action plan designed to deliver on two strategic objectives:

1. To keep Highland’s children within their own families and/or communities wherever possible, and by doing so,
2. To address the financial challenge without compromising the quality of care provided to children.

The table below provides an estimate of the potential budgetary impact associated with achieving the following outcomes:

- Increasing the proportion of looked after children in Kinship Care to 48% of the total population.
- Expanding in-house residential care capacity by 14 places (from 26 to 40).
- Phasing in a Self-Directed Support (SDS) resource-based allocation model to bring the budget back on target by 28/29.

| <b>Impact on Projected Service Outturns</b>       | <b>25/26 @ Q1<br/>Over/(Under)<br/>Spend £m</b> | <b>26/27<br/>Over/(Under)<br/>Spend £m</b> | <b>27/28<br/>Over/(Under)<br/>Spend £m</b> | <b>28/29<br/>Over/(Under)<br/>Spend £m</b> | <b>29/30 £m<br/>Over/(Under)<br/>Spend £m</b> |
|---|---|--|--|--|---|
| 48% Kinship & Increased Provided Residential Care | 4.1   | 3.5  | 0.4  | (2.4)                                      | (5.4)   |