

The Highland Council/NHS Highland

Agenda Item	8b
Report No	JMC-04-26

Committee: Joint Monitoring Committee

Date: 12 March 2026

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 3 of the current financial year, covering the period up to and including 31st December 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.
- 1.4 With the Council on 5 March having agreed its budget for 2026/2027, and a number of key budget decisions of interest and relevance to the JMC, this report sets out a summary of those key budget decisions, relating to both Children's Services and Adult Social Care.

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;

- iii. Note the information set out regarding budget decisions made by Highland Council on 5 March 2026.

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.
- 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 3 financial year 2025/2026

- 5.1 **Appendix 1** sets out the Quarter 3 monitoring forecast for the Council overall. As summarised in the table below, a net deficit of £8.245m is forecast, it being driven by overspends at Service level (further details below and within **Appendix 1**), mitigated in part by underspends on some central/corporate budgets and improvements in council tax income levels. This forecast pre-dates the impact of any budget decisions made by the Council on 5 March, and referred to subsequently in this report.

	Forecast Variance Against Budget for the Year £m
Combined Service overspend forecast	14.886
Loan charges and other central budgets	-5.351
Council tax income forecast ahead of target	-1.290
Net overspend forecast for the year (at Q3)	8.245

5.2 The main areas of overspend reflected within the overall Quarter 3 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.
- 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 2024/2025, 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. 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.

5.5 A number of post Quarter end adjustments are set out below, which take account of budget decisions made by the Council on 5 March. Further information on the 5 March budget is set out later in this report. The table below indicates that based on

budget decisions made, and based on forecasts, the Council expects despite overspends and pressures, through re-purposing of reserves and other budget decisions, it should retain a General Reserve which meets its 3% policy target.

	£m
Net overspend for the year as part Quarter 3 forecasts, as shown above and within Annex 1.	8.245
Adjustment for post-quarter end matters including budget decisions by Council on 5 March*:	
- Adult Social Care deficit support 2025/2026*	5.000
- New additional reserve earmarking*	11.411
- Re-purposing of earmarked reserves into general reserve*	-21.900
- Other post-quarter end adjustments	-0.785
Opening General Reserve 1/4/2025	-26.951
Closing General Reserve Forecast 31/3/2026 (meeting the 3% target)	-24.980

6. Integrated Children's Services Finance Update

- 6.1 In relation to Integrated Children's Services, **Appendix 2** sets out the Quarter 3 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. **Appendix 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 As can be seen, and in line with the commentary in section 5, a forecast overspend is shown against Integrated Children's Services, with this primarily arising in the Looked After Children budget heading. The forecast overspend in Looked After Children of £5.397m represents an increase of £1.825m compared to Quarter 2 which is due to a number of new Out of Authority Placements. This overspend is partially offset by underspends, mainly resulting from vacancies, in Business Support (£0.219m), Other Services for Children (£0.984m) and Family Teams (£0.338m). A recovery plan has been developed by the service aligned with the Operational Delivery Plan. This plan sets out the financial and service delivery improvements to be achieved through projects within the Person-Centred Solutions Portfolio and was reported via the Council's Strategic Committee in November, with further update set out below.
- 6.3 The recovery plan has been developed which is intended to address the overall challenge in 3 phases:
- Phase 1 which looks to deliver in-year savings at an amount between £613k and £1.45m; and
 - Phases 2 and 3 which set out a medium term plan with a view to achieving balance over the next 3-year period.

Phases 2 and 3 are significant in terms of making lasting change. By way of context at the time of writing there are 580 (including UASC) children looked after by Highland Council. The Service provides accommodation to 471 of those children and young people. It is of note that the proportion of children looked after in Highland is broadly comparable with figures for the rest of Scotland. Nevertheless, it is the long-

term aim of the Service to seek to reduce that number and actively address the challenges in doing so. The intention is to reduce reliance on purchased foster placements and purchased residential placements, in particular those placements out of Highland. The approach is similar to that set out in the Strategic Plan for adult services in that there is an intention to shift the balance of care to local and family based placements.

7. Budget Decisions 5 March 2026 Council

7.1 On 5 March the Council met and agreed its revenue budget for 2026/2027, and indicative budgets for the forthcoming two financial years. Part of which also included specific decision regarding additional deficit support for Adult Social Care in 2025/2026.

The full report and appendices are available from the following [link](#).

7.2 Specific matters to highlight for JMC's interest include the following (with full details in the linked report):

Children's Services 2026/2027 and beyond:

- Tapered recovery plan support of £3.9m over two financial years, to provide additional short-term budget funding while recovery plan actions are implemented and take effect.

Adult Social Care 2025/2026:

- Decision to provide up to £5m of deficit support towards ASC 2025/2026 position.

Adult Social Care 2026/2027 and beyond:

- Provision of "pass-through" Scottish Government funding for Real living wage in commissioned services;
- Provision towards ASC pay costs;
- Reflection of previously agreed ASC saving targets, and other saving allocations and grant funding adjustments;
- An expected ASC quantum of recurring revenue funding of £156.285m for 2025/2026 being a net increase of £8.7m (5.9%) relative to the funding agreed by the Council in March 2025;
- Separate to the recurring funding quantum, £7m of "investment" being additional funding into the Adult Social Care transformation reserve fund;

Other decisions:

- Funding of £1.2m from the transformation reserve to support addressing the waiting list for Neurodevelopmental Assessment Services (NDAS).

Designation: Chief Officer – Corporate Finance

Date: 9 March 2026

Author: Brian Porter, Chief Officer – Corporate Finance

Appendices: Appendix 1 – Quarter 3 Council Revenue Budget Forecast
Appendix 2 – Quarter 3 Integrated Children's Services budget forecast

Highland Council - Revenue Expenditure Monitoring Report - General Fund Summary
--

Quarter 3 of 2025/26

	Actual Year to Date £000	Annual Budget £000	Year End Estimate £000	Year End Variance £000
--	--------------------------------	--------------------------	------------------------------	------------------------------

Table A: By Service

Communities & Place	37,690	47,928	51,341	3,413
C&P Packaging Extended Producer Responsibility Funding	0	-9,500	-7,000	2,500
Business Solutions	15,185	15,281	14,830	-451
Education & Learning	213,788	306,632	305,753	-879
Health, Wellbeing & Social Care	152,551	206,556	210,376	3,820
Infrastructure & Environment and Economy	28,387	46,004	52,637	6,633
Performance & Governance	4,585	6,891	6,782	-109
Property & Housing	53,934	90,124	89,967	-157
Resources & Finance	19,444	15,945	16,570	625
Welfare Services	10,203	8,966	8,457	-509
Service Total	535,767	734,827	749,713	14,886
Valuation Joint Board	0	3,626	3,596	-30
Green Freeport	0	0	0	0
Non Domestic Rates reliefs	1,209	1,247	1,247	0
Loan Charges	0	72,782	67,766	-5,016
Unallocated Budget	0	4,974	4,669	-305
Total General Fund Budget	536,976	817,456	826,991	9,535

Table B: By Subjective

Staff Costs	349,981	498,481	484,222	-14,259
Other Costs	329,103	547,716	566,438	18,722
Gross Expenditure	679,084	1,046,197	1,050,660	4,463
Grant Income	-50,644	-85,076	-81,041	4,035
Other Income	-91,464	-143,665	-142,628	1,037
Total Income	-142,108	-228,741	-223,669	5,072
Total Revenue Expenditure	536,976	817,456	826,991	9,535

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	376,783	627,540	627,540	0
Additional resources	0	11,857	11,857	0
Council Tax	160,193	164,426	165,716	1,290
Use of earmarked balances	0	12,310	12,310	0
Use of non earmarked balances (see note)	0	0	8,245	8,245
Use of other reserves	0	6,129	6,129	0
Total General Fund Budget	536,976	822,262	831,797	9,535

	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
BY ACTIVITY																				
Service Management and Support																				
Management Team	1,426	979	1,381	(45)	1,716	42	1,758	42	0	0	0	0	0	0	0	0	3,142	1,021	3,138	(3)
Business Support	1,605	1,078	1,413	(192)	84	4	58	(27)	0	0	0	0	0	0	0	0	1,689	1,082	1,471	(219)
																				(222)
Looked After Children																				
Family Based Care	1,045	1,018	1,425	380	5,049	5,274	6,572	1,523	0	0	0	0	(9)	4	(6)	4	6,084	6,295	7,991	1,907
Residential, In house	5,074	3,755	5,299	225	2,030	1,079	1,827	(203)	(2,061)	(2,495)	(2,751)	(690)	0	1	1	1	5,043	2,340	4,376	(667)
Respite, In house	3,180	2,179	2,901	(279)	239	226	323	85	0	0	0	0	0	(2)	(3)	(3)	3,419	2,404	3,221	(198)
Independent and 3rd Sector placements	0	0	0	0	8,695	8,531	12,651	3,956	0	0	0	0	0	0	0	0	8,695	8,531	12,651	3,956
Through care & aftercare	72	31	50	(22)	1,217	803	1,106	(112)	0	0	0	0	0	0	(43)	(43)	1,289	834	1,112	(177)
Home in Highland	1,097	1,138	1,561	464	405	434	591	186	(327)	(2)	(330)	(2)	0	(3)	(43)	(43)	1,175	1,567	1,779	605
LAC Management and Support	349	262	312	(36)	7	13	15	8	0	0	0	0	0	0	0	0	355	275	327	(29)
																				5,397
Family Teams																				
Family Teams - North	3,253	2,471	3,165	(88)	309	409	535	226	0	(0)	(0)	(0)	(1)	(1)	(1)	0	3,561	2,879	3,699	138
Family Teams - Mid	3,631	2,210	3,030	(601)	577	472	626	49	0	0	0	0	0	0	0	0	4,209	2,682	3,657	(552)
Family Teams - West	2,966	1,973	2,555	(411)	461	397	517	56	0	0	0	0	(2)	(4)	(4)	(3)	3,426	2,367	3,069	(357)
Family Teams - South	8,068	5,256	6,929	(1,139)	1,303	1,338	1,698	395	(15)	(2)	(3)	12	0	(2)	(2)	(2)	9,356	6,589	8,622	(734)
Self Directed Support	83	63	85	2	1,101	1,723	2,266	1,165	0	0	0	0	0	0	0	0	1,184	1,787	2,351	1,167
																				(338)
Other Services for Children																				
Child Protection	1,087	754	1,059	(29)	228	166	208	(20)	(413)	(597)	(413)	(0)	0	0	0	0	902	322	854	(48)
Health and Health Improvement	1,314	945	1,291	(23)	130	77	103	(27)	(628)	(686)	(628)	(0)	0	0	0	0	816	336	766	(49)
Allied Health Professionals	4,308	3,118	4,130	(178)	223	220	308	85	(95)	(86)	(127)	(32)	(15)	(0)	(15)	(0)	4,422	3,251	4,296	(126)
Primary Mental Health Workers	771	563	742	(28)	10	6	8	(2)	0	0	0	0	0	0	0	0	781	569	750	(30)
Specialist Services	146	109	145	(1)	43	171	90	47	0	0	0	0	0	0	0	0	189	280	235	46
Youth Action Services	1,356	909	1,159	(198)	428	221	445	16	0	(8)	(8)	(8)	0	0	0	0	1,785	1,122	1,595	(190)
Other Services for Children	2,575	1,556	2,137	(438)	1,600	1,918	1,620	20	(52)	(52)	(52)	0	(3)	(2)	(2)	1	4,120	3,419	3,703	(417)
Staff Training	799	489	642	(158)	(0)	8	11	11	0	0	0	0	0	(24)	(24)	(24)	799	474	629	(170)
Independent Funds	0	0	0	0	0	(14)	0	0	0	0	0	0	0	0	0	0	0	(14)	0	0
																				(984)
Delegated Child Health income	0	0	0	0	0	0	0	0	(11,562)	5,949	(11,562)	0	0	0	0	0	(11,562)	5,949	(11,562)	0
Grand Total Integrated Childrens Services	44,205	30,857	41,410	(2,795)	25,854	23,517	33,334	7,480	(15,153)	2,020	(15,873)	(720)	(30)	(33)	(142)	(112)	54,877	56,361	58,729	3,853