Agenda Item	**8b**
Report No	**JMC/15/26**

The Highland Council/NHS Highland

Committee: **Joint Monitoring Committee**

Date: **24 September 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 1 of the current financial year, covering the period up to and including 30th June 2026. The Council's internal financial monitoring operates on a Quarterly reporting cycle.

1.3 This report sets out a forecast year-end deficit for the Council, whilst reporting a breakeven position for Integrated Children's Services functions following the application of £3.5m of non-recurring financial support, agreed through the budget setting process, to support delivery of the Children's Service Recovery Plan. Previous financial monitoring reports have consistently emphasised the imperative to address forecast overspends and the associated financial risks should mitigating actions fail to deliver the required improvements.

1.4 The forecast for 2026/27 takes account of budget decisions made in March of this year, and further budget and management actions, to mitigate and address the financial pressures occurring in 2025/26 and their impact into 2026/27.

1.5 Actions are in place, given it is essential that this position is addressed and improves over the course of the year, to avoid deficit and with the aim of delivering a net surplus to assist with returning general reserves back to the policy position. A net surplus of circa £4m-£5m would return the Council's General Reserves back to the policy level of holding a minimum level of General reserves equating to 3% of budget, i.e. a target of £25m. Actions are already underway, and further actions being progressed to mitigate these financial risks and with the intent of moving the Council into surplus for the year. The ongoing delivery of the Children's Service Recovery Plan is integral to achieving this outcome.

1.6 Achieving a surplus position on the Council's general fund will require ongoing and concerted action, and this includes a more rigorous approach to cost control and the approach to non-essential spending, which is being progressed as a key management action.

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;
ii. Note the explanations provided for any material variance 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** – The Quarter 1 forecast reflects a net deficit position and, as a consequence, presents a risk to the level of the Council's General Reserves. The report highlights the need for the Council to address this deficit and, where possible, achieve a surplus position by year end to offset overspending and support the restoration of General Reserves towards the Council's 3% policy target. There is a risk that budget recovery plans currently in place may take time to be fully implemented and deliver the intended financial benefits, meaning that actions taken may not fully address the in-year position. In addition, a number of risks and uncertainties remain that could impact the final outturn, including factors outwith the Council's direct control such as ongoing economic uncertainty, inflationary pressures, interest rate fluctuations, and increases in supply chain and fuel costs.

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 2026/2027

5.1 **Appendix 1** sets out the Quarter 1 monitoring forecast for the Council overall. As summarised in the table below, a net deficit of £2.498m 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, improvements in council tax income levels & contributions from reserves.

	Forecast Variance Against Budget for the Year £m
Combined Service overspend forecast	10.128
Loan charges and other central budgets	-4.183
Council tax income	-0.947
Confirmed use of earmarked and other reserves	-2.500
Net overspend forecast for the year	2.498

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 2025/2026 continuing into 2026/2027 and new and emerging pressure areas in year.

- Infrastructure, Environment and Economy - the overspend is mainly driven by continued slippage in Climate Change and Energy Saving targets, pressures within Trading Operations (Ferries and Harbours) linked to the Corran Ferry refit and maintenance programme, fuel price and demand challenges at harbours, and ongoing cost and income pressures within Roads and Transport.

- Communities and Place – a continuation of the overspend in Fleet, Kerbside Refuse Collections and Recycling Centres, Transfer & Treatment and Street Cleansing.

- Property and Housing – the overspend is primarily due to ongoing slippage in the delivery of asset rationalisation savings.

- Education and Learning – the overspend is as a result of continuing pressures in Additional Support for Learning mainly in the Special Schools & emerging risks around delivery of savings associated with Devolved School Management.

6 Integrated Children's Services Finance Update

6.1 In relation to Integrated Children's Services, **Appendix 2** sets out the Quarter 1 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 Quarter 1 monitoring indicates a forecast underspend of £0.014m, representing an essentially balanced financial position after accounting for the £3.5m provision for recovery plan financial support in 2026/2027. The financial support provided is non-recurring and was approved in recognition of the fact that the Children's Services recovery plan requires both time and targeted financial investment to allow planned actions to be progressed and sustainable improvements to be achieved. The Quarter 1 forecast highlights ongoing underlying financial pressures, which would have translated into a forecast overspend had it not been for the short-term financial support received. With the planned tapering out of recovery plan financial support in 2027/2028, it is essential that recovery plan actions take effect and have positive financial impact over the course of this year.

6.3 The variances within the Quarter 1 forecasts are summarised as follows;

Looked after Children £4.087m overspend. The forecast continues to reflect significant cost pressures within Independent and Third Sector placements, arising from sustained demand for residential care and high placement costs. Demand remains high, driven by increasing care needs, continuing care arrangements, delayed transitions to adult services, and placements directed through the Children's Hearing System. Addressing this pressure remains a key element of the Children's Recovery Plan, with proposals to expand in-house residential provision through the acquisition and refurbishment of properties expected to increase capacity, reduce reliance on external placements over time, and deliver both service and financial benefits.

Family Teams £0.137m underspend, reflecting the net impact of ongoing cost pressures within the Disability Teams relating to Self-Directed Support (£0.687m overspend), which are currently being offset by staffing underspends across the Family Teams.

Other Services for Children £0.375m underspend, primarily attributable to vacant posts across Health and Health Improvement, Allied Health Professionals, and Youth Action Services.

6.4 Mitigating Actions are required to address the overspends noted above are set out in the Recovery Plan. The key elements of that plan being;

- Increased Respite provision and associated SDS delivery
- Reduction in out of area costs and associated costs of 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.

6.5 Children's Services actions have been developed to support those key areas of work. These actions are supported by:-

- Budget Investment of £3.5m this year to support transformational change in Shifting the Balance of care.
- Capital investment of £1.8m to redevelop 3 properties and purchase 2 new properties as Children's Houses across Highland. These 5 Projects are currently being prioritised to increase Children's Houses capacity from 28 to 44.
- Continuing to Work with colleagues in NHS Highland to move eligible over-18s from children's units. This work has reduced the number of young adults awaiting NHS Highland care provision from 5 to 2 since 2025.
- Review all young people in Highland residential to fast-track moves if appropriate.
- Opening of a Children's House in Thurso and the re-opening of short-break disability units in Inverness and Caithness with increased day support in 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.
- Formation of a Kinship Team with increased family finding remit.
- Additional support staff to Kinship and foster carers to enhance retention and recruitment across Highland.

6.6 The scale of the underlying financial challenge is such that it is unlikely to be resolved within the current financial year. Delivery of the Recovery Plan, together with the associated investment, is expected to support longer-term financial sustainability. A further update will be provided at Quarter 2, when progress against planned actions and the emerging financial position will provide a clearer indication of the anticipated pace of recovery.

Designation:	Chief Officer – Corporate Finance
Date:	18 August 2026
Author:	Brian Porter, Chief Officer – Corporate Finance Jennifer McGonagle Strategic Lead Finance – People
Background Papers:	None
Appendices:	Appendix 1 – Quarter 1 Council Revenue Budget Forecast Appendix 2 – Quarter 1 Integrated Children's Services budget forecast

Appendix 1

Revenue Expenditure Monitoring Report - General Fund Summary

1 April to 30 June 2026

Table A: By Service

	Actual Year to Date £000	Annual Budget £000	Year End Estimate £000	Year End Variance £000
Communities & Place	10,899	52,155	54,461	2,306
C&P Packaging Extended Producer Responsibility Funding	0	(7,114)	(6,954)	160
Business Solutions	6,509	13,678	13,488	(190)
Education & Learning	42,037	314,167	314,804	637
Health, Wellbeing & Social Care	41,452	217,574	217,573	(1)
Infrastructure & Environment and Economy	(1,544)	47,181	51,158	3,977
Performance & Governance	3,572	7,223	7,260	37
Property & Housing	18,528	88,377	89,794	1,417
Resources & Finance	5,954	17,416	16,854	(562)
Welfare Services	4,197	8,959	8,782	(177)
Inverness Castle Experience	0	0	2,524	2,524
Service Total	**131,604**	**759,616**	**769,744**	**10,128**
Valuation Joint Board	1,167	4,075	4,075	0
Green Freeport	0	0	0	0
Non Domestic Rates reliefs	970	927	970	43
Loan Charges	0	77,970	72,895	(5,075)
Unallocated Budget	0	2,244	3,093	849
Total General Fund Budget	**133,741**	**844,832**	**850,777**	**5,945**

Table B: By Subjective

	Actual Year to Date £000	Annual Budget £000	Year End Estimate £000	Year End Variance £000
Staff Costs	86,240	510,985	502,755	(8,230)
Other Costs	92,087	557,670	568,615	10,945
Gross Expenditure	**178,327**	**1,068,655**	**1,071,370**	**2,715**
Grant Income	(26,632)	(76,280)	(74,586)	1,694
Other Income	(17,954)	(147,543)	(146,007)	1,536
Total Income	**(44,586)**	**(223,823)**	**(220,593)**	**3,230**
Total Revenue Expenditure	**133,741**	**844,832**	**850,777**	**5,945**

Table C: Appropriations to Reserves

	Actual Year to Date £000	Annual Budget £000	Year End Estimate £000	Year End Variance £000
Contribution to earmarked balances	0	9,020	9,020	0
Contribution to non-earmarked balances	0	0	0	0
Affordable housing contribution from 2nd homes council tax	0	3,754	3,754	0
Contribution to Other reserves	0	2,011	2,011	0
Total Contributions to Balances	**0**	**14,785**	**14,785**	**0**

Table D: Financed By

	Actual Year to Date £000	Annual Budget £000	Year End Estimate £000	Year End Variance £000
Aggregate External Finance as notified	82,284	656,471	656,471	0
Additional resources	0	1,941	1,941	0
Council Tax	51,457	183,323	184,270	947
Use of earmarked balances	0	11,414	11,414	0
Use of non earmarked balances	0	0	2,498	2,498
Use of other reserves	0	6,468	8,968	2,500
Total General Fund Budget	**133,741**	**859,617**	**865,562**	**5,945**

JMC - Integrated Childrens Services Financial Monitoring - Quarter 1 of 26/27 **Appendix 2**

30/06/2026	STAFF COSTS				OTHER COSTS				GRANT INCOME				OTHER INCOME				NET TOTAL			
	£'000 Annual Budget	£'000 Actual YTD	£'000 Year End Estimate	£'000 Year End Variance	£'000 Annual Budget	£'000 Actual YTD	£'000 Year End Estimate	£'000 Year End Variance	£'000 Annual Budget	£'000 Actual YTD	£'000 Year End Estimate	£'000 Year End Variance	£'000 Annual Budget	£'000 Actual YTD	£'000 Year End Estimate	£'000 Year End Variance	£'000 Annual Budget	£'000 Actual YTD	£'000 Year End Estimate	£'000 Year End Variance
BY ACTIVITY																				
Service Management and Support																				
Management Team	1,063	323	1,040	(23)	(634)	(191)	(641)	(6)	0	0	0	0	0	0	0	0	429	133	399	(30)
Business Support	1,657	408	1,595	(62)	3	8	3	0	0	0	0	0	0	0	0	0	1,661	416	1,598	(62)
																				(92)
Looked After Children																				
Family Based Care	1,250	346	1,424	175	6,003	1,704	6,710	707	0	0	0	0	0	0	0	0	7,253	2,050	8,134	882
Children's Houses	8,187	1,901	8,626	439	767	119	767	0	(300)	(81)	(700)	(400)	0	0	0	0	8,655	1,938	8,694	39
Independent and 3rd Sector placements	0	0	0	0	8,775	2,128	12,286	3,511	0	0	0	0	0	0	0	0	8,775	2,128	12,286	3,511
Through care & aftercare	318	87	323	6	2,639	589	2,639	0	(1,448)	(395)	(1,798)	(350)	0	0	0	0	1,509	281	1,164	(344)
LAC Management and Support	516	318	520	4	18	9	14	(4)	(315)	0	(315)	0	0	(2)	0	0	219	324	219	0
																				4,087
Family Teams																				
Family Teams - North	4,491	1,048	4,426	(65)	662	247	662	0	0	0	0	0	(1)	(0)	(1)	0	5,152	1,295	5,087	(65)
Family Teams - West	4,546	979	4,087	(459)	498	163	498	0	0	0	0	0	0	(1)	0	0	5,044	1,141	4,585	(459)
Family Teams - South	6,918	1,550	6,565	(353)	1,003	406	1,003	0	0	(1)	0	0	0	0	0	0	7,921	1,955	7,568	(353)
Highland Outreach	1,001	264	1,058	56	80	96	80	0	0	0	0	0	0	0	0	0	1,081	361	1,137	56
Disability Teams (incl SDS)	2,130	517	2,067	(63)	1,443	656	2,193	750	0	0	0	0	0	0	0	0	3,573	1,174	4,260	687
																				(134)
Other Services for Children																				
Child Protection	1,164	298	1,191	27	38	44	138	100	(306)	(258)	(333)	(27)	0	(0)	0	0	896	84	996	100
Health and Health Improvement	1,438	338	1,297	(141)	58	10	19	(40)	(658)	(600)	(658)	0	0	0	0	0	839	(252)	658	(180)
Allied Health Professionals	4,098	989	4,006	(92)	270	69	270	0	0	0	0	0	0	0	0	0	4,368	1,057	4,276	(92)
Primary Mental Health Workers	805	197	781	(25)	13	2	13	0	0	0	0	0	0	0	0	0	818	199	794	(25)
Specialist Services	196	61	239	42	71	99	71	0	0	0	0	0	0	0	0	0	267	161	310	42
Youth Action Services	1,330	296	1,159	(171)	424	110	424	0	0	0	0	0	0	0	0	0	1,754	406	1,583	(171)
Other Services for Children	1,586	511	1,559	(27)	3,457	526	3,464	7	0	0	0	0	0	0	0	0	5,043	1,037	5,023	(20)
Staff Training	898	186	868	(30)	33	5	33	0	0	0	0	0	0	0	0	0	930	191	900	(30)
																				(375)
Recovery Plan Investment	0	0	0	0	3,500	0	0	(3,500)	0	0	0	0	0	0	0	0	3,500	0	0	**(3,500)**
Delegated Child Health	0	0	0	0	0	(0)	0	0	(11,696)	(52)	(11,696)	0	0	0	0	0	(11,696)	(52)	(11,696)	**0**
Grand Integrated Childrens Services	**43,593**	**10,616**	**42,832**	**(762)**	**29,120**	**6,800**	**30,645**	**1,524**	**(14,723)**	**(1,388)**	**(15,500)**	**(777)**	**(1)**	**(3)**	**(1)**	**0**	**57,989**	**16,026**	**57,975**	**(14)**