The Highland Council / NHS Highland

Agenda Item	**9b**
Report No	**JMC/22/26**

Committee: **Joint Monitoring Committee**

Date: **3 December 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 2 of the current financial year. The Council's internal financial monitoring operates on a Quarterly reporting cycle.

1.3 This report is forecasting a net £10.490m overspend across all expenditure budgets, reducing to a net forecast £6.980m deficit once forecast excess council tax income and planned use of other reserves is considered. This contrasts with £2.498m forecast deficit at Quarter 1. There has been an increase in forecast Service overspends in a number of areas, including Children's Services, which is described further in this report, which are the main causes of the increased deficit forecast. 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 Actions are already underway, and further actions are being developed and progressed to mitigate the financial risks of a forecast deficit position. Members will be aware from past reports of Recovery Plan and other actions the Council has developed to get certain specific budgets, including Children's Services, back to a financially balanced and sustainable position. The impact of the forecast deficit would be a further reduction in the Council's Reserves position, with it forecast the General Reserve could reduce to £13.9m and if so, this would represent 1.6% of the Council's budget, well below the 3% policy target level for reserves. The risk to the Council is reserves would have much less capacity to deal with further or future unforeseen events and may also necessitate further and more challenging budget decisions in 2027/2028 or beyond, if the position doesn't improve in the current year. The focus is on achieving improvement within the current year.

1.5 The Council has already implemented a number of budget management and cost control actions, including actions around non-essential spend. Ongoing and concerted action is required to reduce the forecast deficit position.

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 a significant forecast deficit, and a deterioration in the position since Quarter 1. Actions are 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 2 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 the risks in relation to Council reserves if improvement is not achieved. While action is being taken, there is a risk that budget recovery plans and other actions take time to be implemented or do not deliver the intended full financial benefits. In addition, there remain a number of risks and uncertainties 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 2 financial year 2026/2027

5.1 **Appendix 1** sets out the Quarter 2 monitoring forecast for the Council overall. As summarised in the table below, a net deficit of £6.980m 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	16.868
Loan charges and other central budgets	-6.378
Council tax income	-0.748
Confirmed use of earmarked and other reserves	-2.762
Net overspend/deficit forecast for the year	6.980

5.2 The most significant movements from Quarter 1 to Quarter 2 are as summarised below:

- Health, Wellbeing and Social Care:
  - Children's Services: £5.147m overspend Quarter 2 (£nil variance Q1).
- Communities and Place:
  - Fleet: £2.449m overspend Quarter 2 (£1.109m overspend Quarter 1).

The main areas of overspend reflected within the overall Quarter 2 position are as summarised below. Further information on Children's Services is set out in section 6.

5.3 **Communities and Place** – an overspend of £3.696m against budget is forecast, this primarily relates to overspends related to fleet and Waste. The Waste service is estimating to be overspent by £1.400m due to increased residual waste arisings compared to previous years, increased fuel costs and increased costs of disposal of waste. The Fleet service is estimating an overspend of £2.449m which is an increase of £1.300m from Q1, the overspend is mainly due to revenue spend through lease costs. A Recovery plan is in place and includes a fleet reduction process and review of hired plant and fleet but based on the Quarter 2 figures recovery plan actions require review and need go further than had been assumed.

5.4 **Business Solutions** – an underspend of £0.218m is forecast, slightly higher but broadly in line with the Quarter 1 position. The main factors in the underspend position are underspends in staff costs, with these mitigating against some underlying contract cost pressures.

5.5 **Education and Learning** – The Quarter 2 forecast position is a projected overspend of £0.793m. The main contributor is continued pressure within the Special Schools budget, resulting in a forecast overspend of £1.079m. This reflects the ongoing funding requirement for additional support arrangements at Drummond School,

together with additional costs associated with covering planned leave at St Duthus and St Clement's The forecast pressure on the Additional Support Schools budget has increased slightly since Quarter 1 to £0.104m, primarily due to the planned recruitment of new Inclusion Support Officer posts, which has reduced the level of vacancy underspend, together with continued pressure on Educational Out of Authority placement costs. This has been partially offset by a reduction in the forecast pressure within the ASL Staffing Standard budget, supported by enhanced financial monitoring arrangements facilitated through the new service management structure. There remains a significant risk to the delivery of the recurring DSM Adjustments saving of £1.8m. Management action continues towards mitigating the forecast overspend through control of discretionary expenditure, careful management of recruitment activity while maintaining service delivery, and the planned use of Transitional Earmarked Reserves.

5.6 **Health and Social Care** - The Service is currently reporting an overspend of £5.147m as the forecast outturn position for Quarter 2 this is a significant deterioration from the Quarter 1 reported breakeven position. There have been eight new Out of Authority Placements in that period with a further placement anticipated. In total that means the total of out of authority placements are 36 including one young person in a secure placement. Further information is set out in section 6.

5.7 **Infrastructure, Environment and Economy** – an overspend of £4.110m against budget is forecast, and in the main this relates to overspends in Roads and Transport, Trading Operations, and Climate Change and Energy, and is broadly in line with the forecasts at Quarter 1. Roads and Transport are forecasting a year end overspend of £0.890m this is primarily due to car parking income targets not expected to be achieved and the rising costs of ASN transport. Trading operations are forecasting a year end overspend of £1.167m due to a drop in marine gas oil sales due to overall fuel price and overspend on the Corran Ferry due to Repairs and a reduction in passengers compared to previous years. Climate Change and Energy are forecasting £1.922m overspend which is largely due to under recovery of income against large scale projects.

5.8 **Performance and Governance** – a broadly balanced budget position is forecast at Q2 with this being a slight improvement against the Quarter 1 forecasts.

5.9 **Property and Housing** – The quarter 2 monitoring projects an overspend of £1.739m, which is mainly in relation to unachieved savings in Asset rationalisation and broadly in line with Quarter 1. Work is ongoing to review savings opportunities and based on the full range of asset rationalisation activities undertaken to date, currently in progress, and planned for delivery, it is considered that a number of savings could be achieved during the remainder of the financial year.

5.10 Resources & Finance – an underspend of £0.692m is forecast, with this being an increased underspend compared to Quarter 1. There are a number of underlying budget variances within this net position, and these include staff underspends delivered through workforce planning and ongoing process review and system improvement, with these underspends mitigating against pressures relating to tourism income and procurement savings achieved. Separate reports on this agenda provide further detail on the corporate cluster budget and delivery plan monitoring.

5.11 Welfare – an underspend of £0.117m is forecast, with this being slightly reduced from the forecast at Quarter 1 and relates mainly to the Housing Benefit budget.

5.12 The Inverness Castle Experience (TICE) - In relation to High Life Highland (HLH) and TICE, there is a £2.411m forecast financial impact for the Council, being a forecast deficit support requirement from HLH of £1.255m and over and above which the forecast that the Council's rental income assumptions of £1.156m for the Castle cannot be fulfilled this year. This represents an improvement and reduction in financial impact of £0.113m since Quarter 1.

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. **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 At Quarter 1 the Service was reporting a balanced year end taking account of the £3.5m investment. The forecasted end of year overspend is now £5.147m. This is of serious concern. Improvements in terms of the measures developed by the service in tandem with the Budget Recovery Plan, approved at the Council's Strategic Committee in November 2025, to address service pressures on a sustainable basis have taken place but have had limited impact to date. These have included, for example, a focus on the recruitment of both foster carers and kinship carers. The Children's Services Budget Recovery Plan ("the Plan") is a multi-year plan and is key to taking forward the vision of Children's Services as well as the need to address the budget position identified. Key to that delivery is the intention to, where possible, keep children in local placements which are provided by kinship or family members. Where foster care or a residential placement is required then that should also, where possible, be provided locally by the Council.

6.3 As of Quarter 2 the position has however worsened due, in part, to an increase in number of out of authority placements resulting a revised forecast of the now reported overspend. Key to addressing the overspend is the placement of children and young people and details of movement in that respect is included in the table below.

Appendix 3 **Shifting the Balance of Care - Progress in 2026/27**

	At Home (with SW support)	Kinship (Residency order)	Kinship	Provided Foster Carer	Purchased foster care	Children's Houses	Placements	Secure care	Total
Sep'25	109	127	99	96	53	26	34	2	546
Jan'26	103	127	99	113	48	26	41	5	562
Feb'26	94	127	102	117	47	26	41	5	559
Mar'26	90	128	100	117	48	26	42	4	555
Apr'26	89	129	102	117	47	24	38	3	549
May'26	96	127	104	117	48	24	43	0	559
Jun'26	100	129	105	115	49	23	46	0	567
Jul'26	101	129	107	114	49	21	47	0	568
Aug'26	104	127	111	114	47	22	48	0	573
Sept'26	110	134	107	114	48	23	45	1	582
Target Yr 1	109	127	101	96	53	26	35	3	550
RAG Status	●	●	●	●	●	●	●	●	●

6.4 The Committee will note that a further eight children and young people are now in a residential placement out of authority. This brings the total of out of authority placements to 36 including one young person in a secure placement. Members will be aware that these placements are the most costly, as well as not necessarily delivering the best outcomes to children and young people, and in terms of the figures have a negative impact. It should be stressed that decisions regarding out of authority placements are taken at a senior level, including all appropriate specialists, and are on the basis of being the only appropriate option. It should also be noted that estimated costs are on the basis of those 36 young people remaining in those placements taking into account the current estimated discharge date, but the Committee should be assured that work is ongoing to bring those dates forward and the young people concerned back to Highland.

6.5 It should also be noted that in terms of the Plan there will be ongoing work in terms of Self Directed Support (SDS) options which also contribute to the budget challenge. There will be monthly scrutiny of SDS plans under £10,000 and ongoing work in relation to higher value packages including a review of the current approval arrangements. In recognition of increasing demand, complexity of need and affordability pressures work progresses to implement a new Resource Assessment Model to support consistent and sustainable decision-making and a more transparent approach to resource allocation.

Designation: Chief Officer – Corporate Finance

Date: 17 November 2026

Author: Brian Porter, Chief Officer – Corporate Finance

Background Papers: None

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

Appendix 1

Revenue Expenditure Monitoring Report - General Fund Summary

Quarter 2: 1 Apr to 30 Sep 2026

	Actual Year to Date £000	Annual Budget £000	Year End Estimate £000	Year End Variance £000
Table A: By Service				
Communities & Place	23,942	44,985	48,681	3,696
Business Solutions	10,003	13,826	13,608	(218)
Education & Learning	121,847	315,460	316,253	793
Health, Wellbeing & Social Care	97,972	220,279	225,426	5,147
Infrastructure & Environment and Economy	10,245	48,175	52,285	4,110
Performance & Governance	6,686	7,369	7,368	(1)
Property & Housing	38,698	88,367	90,106	1,739
Resources & Finance	11,661	17,504	16,812	(692)
Welfare Services	6,752	9,099	8,982	(117)
Inverness Castle Experience	0	(900)	1,511	2,411
Service Total	**327,805**	**764,164**	**781,032**	**16,868**
Valuation Joint Board	2,154	4,075	3,798	(277)
Hi Trans	0	0	0	0
Green Freeport	0	0	0	0
Non Domestic Rates reliefs	958	927	958	31
Loan Charges	0	77,970	71,389	(6,581)
Unallocated Budget	0	3,039	3,488	449
Total General Fund Budget	**330,918**	**850,175**	**860,665**	**10,490**
Table B: By Subjective				
Staff Costs	215,680	515,069	503,875	(11,194)
Other Costs	222,343	560,732	578,843	18,111
Gross Expenditure	**438,023**	**1,075,801**	**1,082,718**	**6,917**
Grant Income	(49,089)	(77,120)	(75,091)	2,029
Other Income	(58,016)	(148,506)	(146,962)	1,544
Total Income	**(107,105)**	**(225,626)**	**(222,053)**	**3,573**
Total Revenue Expenditure	**330,918**	**850,175**	**860,665**	**10,490**
Table C: Appropriations to Reserves				
Contribution to earmarked balances	0	13,395	13,395	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**	**19,160**	**19,160**	**0**
Table D: Financed By				
Aggregate External Finance as notified	215,664	656,471	656,471	0
Additional resources	0	6,659	6,659	0
Council Tax	115,254	183,323	184,071	748
Use of earmarked balances	0	16,414	16,414	0
Use of non earmarked balances	0	0	6,980	6,980
Use of other reserves	0	6,468	9,230	2,762
Total General Fund Budget	**330,918**	**869,335**	**879,825**	**10,490**

HEALTH, WELLBEING AND SOCIAL CARE MONITORING STATEMENT 2026-27

Appendix 2

Quarter 2 - period to 30/09/2026	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	1,920	703	1,705	(216)	1,291	(160)	1,412	121	0	0	0	0	0	0	0	0	3,212	543	3,117	(95)
Business Support	1,930	908	1,795	(135)	(92)	4	12	104	0	0	0	0	0	0	0	0	1,838	912	1,808	(31)
Looked After and Accommodated Children																				
Kinship	488	155	333	(155)	1,997	1,316	2,631	634	0	0	0	0	0	0	0	0	2,485	1,471	2,964	479
HC Foster Care & Adoption	1,238	571	1,158	(79)	3,724	2,187	4,373	649	0	0	0	0	0	(0)	0	0	4,962	2,757	5,532	570
Children's Houses	8,610	4,143	8,201	(409)	767	395	984	217	(300)	(153)	(276)	24	0	5	5	5	9,077	4,390	8,915	(163)
Through care & aftercare	455	213	423	(32)	2,801	1,478	3,198	397	(1,650)	(671)	(2,093)	(443)	0	0	(16)	(16)	1,606	1,021	1,512	(94)
Looked After Children Support	397	220	429	32	105	147	163	59	0	0	0	0	0	0	0	0	501	367	592	91
Independent Foster Care	0	0	0	0	1,266	1,448	2,653	1,387	0	0	0	0	0	0	0	0	1,266	1,448	2,653	1,387
Independent and 3rd Sector placements	0	0	0	0	8,216	6,090	14,695	6,478	0	0	0	0	0	0	0	0	8,216	6,090	14,695	6,478
Family Teams and Youth Action																				
Family Teams - North	4,508	2,127	4,147	(361)	156	145	289	133	0	0	0	0	(1)	(1)	(1)	1	4,662	2,271	4,435	(227)
Family Teams - West	4,594	2,017	4,034	(560)	109	105	211	102	0	0	0	0	0	3	3	3	4,704	2,126	4,248	(455)
Family Teams - South	6,760	3,126	6,206	(554)	186	182	364	178	0	(1)	(1)	(1)	0	(3)	(3)	(3)	6,946	3,305	6,566	(380)
Family Teams (SCIM; FGDM & CRPT)	629	356	690	61	0	6	11	11	0	0	0	0	(35)	0	(35)	0	594	362	667	72
Highland Outreach	752	433	806	54	80	38	76	(4)	0	0	0	0	0	0	0	0	832	471	882	51
Youth Action Services	1,312	642	1,224	(88)	428	177	315	(114)	0	0	0	0	0	0	0	0	1,741	819	1,539	(202)
Disability Teams	2,008	1,029	2,052	44	64	110	221	156	0	0	0	0	0	0	0	0	2,073	1,139	2,273	200
Self Directed Support (SDS)	81	44	86	5	1,356	1,296	2,446	1,090	0	0	0	0	0	0	0	0	1,437	1,340	2,532	1,095
Social Work Trainees & Staff Training	920	365	822	(98)	33	9	33	(0)	0	0	0	0	(50)	0	(50)	0	903	374	805	(98)
Other Services for Children																				
Child Protection	1,167	599	1,226	58	38	69	138	101	(306)	(286)	(422)	(116)	0	89	0	0	900	472	942	43
Health and Health Improvement	1,482	679	1,380	(103)	58	33	65	7	(658)	(600)	(658)	0	0	0	0	0	883	111	787	(96)
Allied Health Professionals	4,104	2,020	4,024	(80)	268	162	324	56	0	0	0	0	0	0	0	0	4,372	2,183	4,348	(24)
Primary Mental Health Workers	805	395	821	16	13	9	18	5	0	0	0	0	0	0	0	0	818	404	839	21
Specialist Services	332	173	336	4	976	(42)	976	0	0	0	0	0	0	0	0	0	1,308	132	1,312	4
Quality Assurance & Review Team	329	167	317	(12)	9	3	5	(3)	0	0	0	0	0	0	0	0	338	170	323	(15)
Whole Family Wellbeing	655	324	655	(0)	2,551	1,158	2,551	0	0	0	0	0	0	0	0	0	3,206	1,483	3,206	(0)
Delegated Child Health income from NHSH	0	0	0	0	0	(0)	(0)	(0)	(11,696)	(5,323)	(11,696)	0	0	0	0	0	(11,696)	(5,323)	(11,696)	(0)
Sub-total	45,478	21,411	42,870	(2,608)	26,402	16,365	38,166	11,764	(14,610)	(7,033)	(15,146)	(536)	(86)	93	(96)	(10)	57,184	30,836	65,794	8,610
Recovery Plan Non-Recurring 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)
Net Total : Children's Services	**45,478**	**21,411**	**42,870**	**(2,608)**	**29,902**	**16,365**	**38,166**	**8,264**	**(14,610)**	**(7,033)**	**(15,146)**	**(536)**	**(86)**	**93**	**(96)**	**(10)**	**60,684**	**30,836**	**65,794**	**5,110**