

Agenda Item	6
Report No	RES/54/17

HIGHLAND COUNCIL

Committee: Corporate Resources Committee

Date: 15 November 2017

Report Title: Corporate Revenue Monitoring Report to 30 September 2017

Report By: Director of Corporate Resources

1. Purpose/Executive Summary

- 1.1 This report provides a summary of the actual spend to the end of the second quarter of financial year 2017/18 together with a forecast year end outturn position.
- 1.2 Net spend on services to the end of the second quarter of financial year 2017/18 totalled £231.927m.
- 1.3 Based on present expenditure trends a year end overspend of £1.439m is forecast. Service directors have committed to take the necessary action required to ensure a balanced budget is delivered by year end.
- 1.4 The report also provides a summary of the delivery of the approved budget savings required to deliver a balanced budget in 2017-18 along with an explanation of the position of the Council's key reserves at the year end.

2. Recommendations

2.1 Members are asked to:

- consider the financial position of the General Fund and HRA revenue budgets as at 30 September 2017 and note the estimated year end forecast
- note the status of budgeted savings in the year
- approve the mid-year budget virements as detailed in **Appendix 8**

3. Service budget variances

- 3.1 **Appendix 1** provides the usual monitoring statement format with **Table A** providing variance detail by service and other significant budget heads. Details of individual service Q2 positions will be reported to the respective strategic committees. Overall the Council is reporting a net overspend of £1.439m against service budgets.
- 3.2 This overall position represents an improvement from quarter one when a year end overspend of £2.678m was forecast. The paragraphs below will outline the significant movements in forecast arising during the second quarter of the year.
- 3.3 For context at the end of Q2 in the previous financial year, 2016/17, an overspend of £1.897m was forecast. By year end this position turned into an underspend of £1.912m. Due to closer control and review of certain budgets such an improvement in the overall position is not anticipated in the second half of this year, albeit the commitment given by Directors to deliver balanced budgets should give confidence that a balanced position will be achieved by year end.
- 3.4 The 'Financed By' section of **Table B** provides information on the Council's key sources of external funding. Council tax income is currently forecast to be £0.013m short of budgeted levels.
- 3.5 As previously requested by the committee **Appendix 2** provides a summary of forecast variances by service and expenditure and income type. Forecast overspends mainly relate to non-staffing expenditure and income shortfalls with some mitigation from underspends against staffing budgets.
- 3.6 The Care and Learning Service is projecting a year end overspend of £2.469m which compares to a forecast overspend of £0.897m in Q1. During the second quarter the forecast overspend on looked after children has increased significantly due to a rise in the number of independent residential and fostering placements requiring to be funded by this budget. Placements of this nature are very expensive and a small increase in their number can result in significant additional costs. The service is currently investigating as a matter of urgency the reason for this increase and how it might be mitigated. Other pressures on the C&L budget arise from unallocated savings, property repairs and servicing. The effect of these pressures is mitigated in part by vacancy management across the service.
- 3.7 Community Services are reporting a potential financial year end overspend of £0.969m with the most significant pressures in street lighting, car park income, homelessness and public convenience cleaning. This overall pressure has reduced from Q1 due to the management of vacancies and receipt of additional income.
- 3.8 The monitoring statement for Q2 reflects the old service structure before the creation of the Corporate Resources Directorate. One of the former services, Corporate Development, is showing a forecast overspend of £0.398m. This forecast pressure comprises a shortfall against the licencing income budget, a historic staffing saving target not able to be delivered, and pressures on the customer services budget.

- 3.9 A significant underspend of £3.121m is forecast against the loans charges budget. At quarter 1 a balanced position was reported pending the completion of the capital accounting entries and audit required as part of the final accounts process.
- 3.10 There are three main elements contributing to this underspend. Capital spend in 2016/17 was lower than assumed when setting the loans charges budget for 2017/18. A lower than expected level of capital spend results in a lower principal element of the loans charge. The 2016/17 assets requiring to be financed through loans charges have a longer asset life than was anticipated when setting the budget. A longer asset life means the principal element of the loans can be written down over a longer period of time resulting in a lower annual principal repayment. Finally a capital accounting adjustment identified through the year end process has a non-recurring impact of reducing this year's loans charge.

4. Mid-year budget virements

- 4.1 As part of a good budget management process managers are being asked to be more active in terms of their budget management- particularly realigning budgets during the financial year in order to move budgets from areas of underspend to address pressure areas. Managers are being encouraged to do this across individual cost centres, within specific service areas or indeed across entire service budgets if appropriate.
- 4.2 The underspend identified against the loans charges budget now affords the opportunity to address certain budget pressures across all service areas to better align corporate budget with spend. A significant advantage to doing this now will be that the baseline budget used for our budget setting for 2018 to 2023 will be more accurate and reduce the need for budget pressure funding to be added in to service budgets as part of the annual budget setting process.
- 4.3 As a result **Appendix 8** provides a list of proposed budget virements which Members are asked to approve. The items included on this list are those where management has satisfied itself that all possible management action to contain that budget pressure has been exhausted and spend cannot be reduced. Many of these pressures are longstanding and are causing the overall service overspends as reported in paragraphs 3.6 to 3.8.
- 4.4 The virements proposed above will not have any impact on the bottom line forecast outturn for the Council as they will not impact on forecast spend. Simply they reflect good practice and the better alignment of budget to spend.

5. Housing Revenue Account

- 5.1 As shown in **Appendix 3** the Housing Revenue Account (HRA) is forecast to deliver a balanced budget.
- 5.2 Should the HRA deliver a year end underspend that will afford the opportunity for capital expenditure to be funded directly from revenue funds. Funding of capital expenditure from revenue funds would reduce the overall HRA borrowing requirement and make consequential savings in future years' borrowing costs.

6. Reserves and Balances

- 6.1 **Appendix 6** summarises the movements on the Council's earmarked and non-earmarked balances during the course of the year. The principal movement relates to an earmarking of funds previously agreed by this committee.
- 6.2 At the midway stage of the financial year there remains the opportunity to recover the current forecast overspend, however any year end overspend would require to be funded from the Council's non-earmarked general fund reserve. That reserve is already below 2% of annual revenue budget, the minimum level suggested by Audit Scotland.

7. Budget savings

- 7.1 In order to deliver a balanced budget for the year budget savings of £16.368m are required to be delivered. A summary of the delivery of those savings can be seen at **Appendix 7**. Savings ranked as green are expected to be delivered in full, those as amber have risks that the full value of the saving will not be delivered, and those as red are not expected to be delivered.
- 7.2 As part of the current committee cycle services have been reporting the detail of the delivery of their savings. The full delivery of all approved budget savings is essential given the continuing squeeze on the Council's revenue budget.
- 7.3 A handful of corporate savings targets have not yet been allocated to service budgets, details of these savings can be seen at **Appendix 5**. A pressure of £0.898 is included in the overall forecast position reflecting assumed non-delivery or partial delivery of certain savings. A pressure of £0.398m reflects savings removed from the Transformational Savings Programme whilst £0.500m reflects the value of the approved procurement saving not expected to be delivered in the current year.
- 7.4 All savings for 2017/18 under the Transformational Savings Programme heading are reported as part of this report if the savings remain unallocated or in the relevant service monitoring report. The deliverability of programme savings for 2018/19 is being reviewed as part of the 2018 to 2023 budget process.

8. Implications

- 8.1 Resource implications are as noted in this report.
- 8.2 There are no risk, legal, equality, climate change/Carbon Clever, rural or Gaelic implications arising as a direct result of this report.

Designation: Director of Corporate Resources

Date: 6 November 2017

Author: Edward Foster, Head of Corporate Finance & Commercialism

Background Papers:

https://www.highland.gov.uk/download/meetings/id/72372/item_5_corporate_revenue_monitoring_report_to_30_june_2017

https://www.highland.gov.uk/download/meetings/id/72716/item_4_development_and_infrastructure_service_revenue_budget_monitoring_to_30_september_2017

https://www.highland.gov.uk/download/meetings/id/72733/item_19_community_services_revenue_budget_201718_%E2%80%93_monitoring_to_30_september_2017

Revenue Expenditure Monitoring Report - General Fund Summary

1 April to 30 September 2017

	Actual Year to Date £000	Annual Budget £000	Year End Estimate £000	Year End Variance £000
Table A: By Service				
Care and Learning	157,458	363,454	365,923	2,469
Chief Executive's Office	2,317	4,449	4,432	(17)
Corporate Development	7,531	17,237	17,635	398
Community Services	27,376	63,579	64,548	969
Development and Infrastructure	14,012	21,314	21,250	(64)
Finance Service	7,176	11,533	11,525	(8)
Welfare Services	14,124	17,382	17,318	(64)
Service Total	229,994	498,948	502,631	3,683
Valuation Joint Board	1,278	2,550	2,550	0
Non Domestic Rates reliefs	655	701	680	(21)
Loan Charges	0	58,604	55,483	(3,121)
Interest on Revenue Balances	0	(330)	(330)	0
Unallocated Budget	0	1,127	1,127	0
Unallocated Corporate Savings	0	(3,324)	(2,426)	898
Affordable Housing Contribution	0	2,600	2,600	0
Total General Fund Budget	231,927	560,876	562,315	1,439

Table B: By Subjective

Staff Costs	156,304	322,166	320,513	(1,653)
Other Costs	168,976	451,202	453,358	2,156
Gross Expenditure	325,280	773,368	773,871	503
Grants	(27,467)	(61,399)	(61,414)	(15)
Other Income	(65,886)	(151,093)	(150,142)	951
Total Income	(93,353)	(212,492)	(211,556)	936
Total Revenue Expenditure	231,927	560,876	562,315	1,439

Financed By:

Aggregate External Finance as notified	148,064	430,796	430,796	0
Additional resources	1,247	1,247	1,247	0
Council Tax	81,221	127,438	127,425	(13)
Use of earmarked balances	1,706	1,706	1,706	0
Use of non earmarked balances	(1,694)	(1,694)	(242)	1,452
Other reserves	1,383	1,383	1,383	0
Total General Fund Budget	231,927	560,876	562,315	1,439

Revenue Expenditure Monitoring Report - General Fund Summary

1 April to 30 September 2017

Staff Costs Variance £000	Other Costs Variance £000	Grants Variance £000	Other Income Variance £000	Total Variance £000
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Table A: By Service

Care and Learning	(1,374)	3,554	8	281	2,469
Chief Executive's Office	(24)	(5)	0	12	(17)
Corporate Development	184	97	0	117	398
Community Services	(211)	737	0	443	969
Development and Infrastructure	39	(268)	57	108	(64)
Finance Service	(267)	269	0	(10)	(8)
Welfare Services	0	16	(80)	0	(64)
Valuation Joint Board	0	0	0	0	0
Non Domestic Rates reliefs	0	(21)	0	0	(21)
Loan Charges	0	(3,121)	0	0	(3,121)
Interest on Revenue Balances	0	0	0	0	0
Unallocated Budget	0	0	0	0	0
Unallocated Corporate Savings	0	898	0	0	898
Affordable Housing Contribution	0	0	0	0	0
Total General Fund Budget	(1,653)	2,156	(15)	951	1,439

Revenue Expenditure Monitoring Report - Housing Revenue Account Summary
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1 April to 30 September 2017

	Actual Year to Date £000	Annual Budget £000	Year End Estimate £000	Year End Variance £000
Staff Costs	2,435	5,392	5,276	(116)
Other Costs	10,335	26,899	27,436	537
Loan charges and interest	0	18,943	18,643	(300)
Gross Expenditure	12,770	51,234	51,355	121
House Rents	(23,558)	(48,863)	(48,682)	181
Other rents	(998)	(1,954)	(1,971)	(17)
Other income	(560)	(356)	(641)	(285)
Interest on Revenue Balances	0	(61)	(61)	0
Gross Income	(25,116)	(51,234)	(51,355)	(121)
Total HRA	(12,346)	0	0	0

Revenue Expenditure Monitoring Report - General Fund Budget
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1 April to 30 September 2017

	£m	£m
Budget as agreed by Highland Council on 16 Feb 2017		568.639
Less : Ring-fenced grant (Gaelic, Criminal Justice, Attainment Funding)		(7.705)
Grant Funding Redeterminations		
Planning Fee Income	(0.070)	(0.070)
Agreed use of non-earmarked balances		
Council Redesign	0.050	
ICT Contract	1.644	
	_____	1.694
Use of/(contribution to) earmarked balances		
Council Redesign	(0.050)	
ICT Contract	(1.644)	
Developer Contributions	0.012	
	_____	(1.682)
Use of Other Reserves		
	_____	0.000
Total General Fund Budget at 30th September 2017		560.876

Revenue Expenditure Monitoring Report - General Fund Budget
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1 April to 30 September 2017

Table A Unallocated Budget

	£m
Provision for Holiday Pay	0.400
Additional property costs associated with capital investment	0.214
Pension strain costs	0.353
Provision for pay award in excess of 1%	0.162
Roundings	(0.002)
Unallocated Budget at 30th September 2017	<u><u>1.127</u></u>

Table B Unallocated Corporate Savings

	£m	Delivery RAG
Income Generation	0.085	A
Transport Programme	0.767	G
Reduction in Light Vehicles and Plant	0.133	G
Procurement	1.162	A
Energy	0.281	G
Service Redesign	0.422	G
Property Asset Management	0.076	A
Alternatives to deleted savings WCG/1 and reduced savings PIM/16	0.398	R
Unallocated Corporate Savings at 30th September 2017	<u><u>3.324</u></u>	

Revenue Expenditure Monitoring Report - General Fund Balance

1 April to 30 September 2017

General Fund Balance

	Earmarked balances £m	Non- earmarked balances £m	Total £m
Balance at 1 April 2017 (Unaudited)	14.665	11.820	26.485
Use of balances included in budget as agreed by Highland Council on 16 Feb 2017	0.000	0.000	0.000
Use of balances per Appendix 4	1.682	(1.694)	(0.012)
Movement in balances per Appendix 1	1.682	(1.694)	(0.012)
Net service overspend per Appendix 1	0.000	(1.439)	(1.439)
Appropriations to Other Reserves	0.000	0.000	0.000
Additional financing	0.000	(0.013)	(0.013)
General Fund Balance at 30th September 2017	16.347	8.674	25.021

Analysis of all service budget savings by RAYG ranking

Appendix 7

Table 1

	Total			Total
	Green	Amber	Red	
Care and Learning	2.781	0.824	0.049	3.654
Chief Executive's Service	0.309	0.078	0.000	0.387
Community Services	2.544	0.670	0.172	3.386
Corporate Development	1.122	0.096	0.000	1.218
Development and Infrastructure	2.362	0.000	0.050	2.412
Finance	1.987	0.000	0.000	1.987
Unallocated Savings	1.603	1.323	0.398	3.324
Total	12.708	2.991	0.669	16.368

List of proposed mid-year budget virements

Appendix 8

Budgets to be reduced:	£m	Reason
Loans charges	-1.840	Recurring underspend on loans charges due to increased asset lives and lower capital expenditure than anticipated
Budgets to be increased:	£m	Reason
C&L- property repairs and servicing	0.347	Longstanding pressure due to unavoidable contract costs Increasing demand for service and growing bad debt provision on income raised through rents and service charges to clients in temporary accommodation
CS- homelessness	0.300	Pressure due to over-ambitious targets set in previous years and the loss of income from selling the top deck of the
CS- car parking	0.400	Inverness multi-story car park in 2016
CD- licensing	0.150	Licensing income target unachievable with no scope to generate additional income
CD- unachievable staffing saving	0.091	Double counting of saving from VR scheme with no alternative able to be identified
Corporate- TSP savings	0.378	Savings approved by committee for removal from TSP- no alternative savings able to be found
Corporate- staffing initiatives	0.174	Funding for modern apprenticeship programme administration, attendance support officer and trade union representatives which would otherwise create an unbudgeted pressure across all service budgets