

HIGHLAND COUNCIL

Agenda Item	3
Report No	RES/01/19

Committee: Resources Committee

Date: 27th February 2019

Report Title: Corporate Revenue Monitoring Report to 31st December 2018

Report By: Director of Corporate Resources / Depute Chief Executive

1. Purpose/Executive Summary

- 1.1 This report provides a summary of the actual spend in the first three quarters of financial year 2018/19 together with a forecast year end outturn position.
- 1.2 Net spend on services in the first three quarters the year totalled £345.785m.
- 1.3 Based on present expenditure trends a net year end overspend of £5.550m is forecast. This amount would need to be funded from the Council's reserves at year end should no changes to the forecast position occur over the remainder of the year. The forecast reflects a significant deterioration from the £2.238m overspend forecast at the end of Q2.
- 1.4 The Council's Executive Leadership Team remains committed to reduce this forecast overspend to ensure a balanced budget is delivered by year end and no draw down from non-earmarked reserves is required. A review of earmarked reserves will take place to see if any funding previously set aside can now be released for general use.
- 1.5 The report also provides a summary of the delivery of the approved budget savings required to deliver a balanced budget in 2018-19 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 31st December 2018 and note the estimated year end forecast
 - note the status of budgeted savings in the year

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 positions have been reported to the respective strategic committees. Overall the Council is reporting a net overspend of £5.899m against service budgets.
- 3.2 The 'Financed By' section of **Table D** provides information on the Council's key sources of external funding. Council tax income (net of Council Tax Reduction) is currently forecast to be £0.349m in excess of budget for the year. This excess will partially offset some of the service overspends outlined in the sections below.
- 3.3 The combination of the net service overspend of £5.899m, less the net excess income of £0.349m equates to the sum of £5.550m that would need to be funded from reserves at year end as further outlined in section 5 of this report.
- 3.4 **Appendix 2** provides a summary of forecast variances by service and expenditure and income type. Forecast overspends mainly relate to non-staffing expenditure with some mitigation from underspends against staffing budgets and income in excess of target levels.
- 3.5 The Care and Learning Service is projecting a year end overspend of £3.112m, a deterioration from the £0.923m overspend forecast at Q2. The overspend, and significant movement, arise primarily from ongoing pressures on looked after children. This subject is covered in more detail in the Care and Learning revenue monitoring report and the Placement Services Change Programme Update- both of which were reported to the Care, Learning and Housing committee in January. A link to those reports is provided in the background papers section of this report.
- An additional area of overspend has emerged in relation to Additional Support Needs. This overspend arises from staffing overspends in special schools along with an overspend on ASN in mainstream settings.
- 3.6 Community Services are forecasting a year end overspend of £0.362m, a slight improvement from the Q2 position. The most significant pressures are in relation to the delayed implementation of approved budget savings for car park income and public conveniences. The pressures are considerably mitigated by underspends across the remainder of the service.
- 3.7 The Development and Infrastructure service is reporting a forecast year end underspend of £0.771m. A major element of the underspend relates to income in excess of budget from building warrant fees and investment properties. The effect of management action across the service is offsetting any cost pressures that have arisen.
- 3.8 As the management action detailed in section 4 of this report has taken effect all other service areas are reporting an underspend position. The positions for Corporate Resources, Welfare Services and the Chief Executive's Office are all covered by separate reports on this committee agenda.

- 3.9 Whereas in previous years a year-end underspend has arisen against the loans charges budget the work done to review the capital programme and associated loans charges earlier this year has better aligned the loans charges budget with anticipated spend. Whilst the outturn for this budget will depend on the total capital spend in year and the interest rate at which any new borrowing is taken out, a spend in line with budget is currently forecast.
- 3.10 Negotiations on staff pay awards have been continuing over the course of the financial year and no formal agreement has yet been reached. The pressure of £1.699m shown on the 'unallocated budget' line of Appendix 1 reflects the additional cost, over that budgeted, of the current pay offers to both teaching and non-teaching staff. The Scottish Government have committed to fund part of the proposed pay award for teaching staff and an assumption has been made around the level of funding that will be received.

4. Management Actions to deliver a balanced budget

- 4.1 The worsening position since quarter 2 has been monitored by the Council's Executive leadership team and a suite of management actions introduced. It is hoped that these actions will impact positively on the forecast outturn position in the remainder of the year.
- 4.2 Extra recruitment controls have been introduced in the short term where jobs are only put to advert if deemed essential. This has been backed up by a restriction on recruiting agency staff. This measure has seen a significant reduction in the number of posts being advertised. As part of good budget practice a number of service budgets do however have staff turnover or vacancy management savings elements which need to be delivered prior to any additional savings being realised.
- 4.3 A freeze on non-essential spend until the end of the year covering a wide range of expenditure types has also been implemented. Directors have instructed the effective implementation of this approach within their service areas. The effects of this action have already been seen in a number of areas, not least in the amount of travel undertaken across the organisation.
- 4.4 A review of all the Council's reserves and balances has been initiated. In particular this review will focus on earmarked balances, i.e. those held for a particular purpose, to ensure they are still being held appropriately. Any balances found to be surplus to requirements will be transferred to non-earmarked balances or used to address budget pressures in the current year.
- 4.5 Under consideration as part of the review of earmarked balances is the Devolved Schools Management (DSM) balance. These balances represent historic accumulated under or overspends against school budgets. As a way of dealing with the significant pressures facing the Council discussion has been ongoing with Headteachers around the reduction or complete removal of any balances held.

5. Housing Revenue Account

- 5.1 As shown in **Appendix 3** the Housing Revenue Account (HRA) is forecast to deliver a balanced budget. A link to the more detailed monitoring report on the HRA can be found in the background papers section of this report.

- 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. As described in section 4.4 a review of earmarked balances is underway.
- 6.2 The Executive Leadership Team remains committed to delivering a balanced budget by year end. Any year end overspend would however require to be funded from the Council's non-earmarked balances.
- 6.3 The Council's non-earmarked general fund reserve currently sits at £8.462m, below the minimum level suggested by Audit Scotland for this reserve of 2% of annual revenue budget. If the currently forecast net year end overspend of £5.550m transpires the level of that reserve would fall to £2.912m.
- 6.4 A reserve of such a low level exposes the Council to the risk of not having enough funding to invest in transformational change or address any cost pressures that might arise during the remainder of the year.

7. Budget savings

- 7.1 In order to deliver a balanced budget for the year budget savings of £13.105m were approved in February 2018. 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 in full to service budgets, details of those savings can be seen at **Appendix 5**. For the savings marked as amber a shortfall of £2.711m is anticipated, which is a constituent part of the overall forecast overspend figure as seen on **Appendix 1**.
- 7.4 In approving the budget for 2018/19 the Council agreed to an ambitious saving of £2.25m to be delivered from redesign activity. Approval of this saving allowed for other savings proposals relating to reductions in front line services to be removed from consideration.
- 7.5 Work to deliver this redesign saving continues but at present only £0.332m of the total saving is forecast to be delivered in the current year. A programme of work is being put in place to ensure this saving is delivered in full in 2019/20

and will focus on the key areas of energy consumption, income generation and travel. Further shortfalls in the procurement saving of £0.753m are also forecast.

8. Implications

8.1 Resource implications are as noted in this report.

8.2 A number of risks remain that could have a significant impact on the outturn position currently forecast. Services that are demand-led, such as looked after children or winter maintenance may see significant moves in cost over the year from that currently forecast.

As detailed in section 3.10 of the report, staff pay awards for 2018-19 have not yet been agreed. Any changes to the offers currently on the table would have an impact on the monitoring position reported.

Other risks include the resolution of the holiday pay backpay issue in excess of the level budgeted or a failure to deliver planned savings. The later in the year that any of these risks crystallise, the less opportunity there will be to take mitigating actions to offset the cost.

8.3 There are no legal, equality, climate change/Carbon Clever, rural or Gaelic implications arising as a direct result of this report.

Designation: Director of Corporate Resources / Depute Chief Executive

Date: 1st February 2019

Author: Edward Foster, Head of Corporate Finance and Commercialism

Background Papers:

https://www.highland.gov.uk/download/meetings/id/74758/item_4_housing_revenue_account_and_non-hra_budget_monitoring

https://www.highland.gov.uk/download/meetings/id/74761/item_7_care_and_learning_revenue_budget_monitoring_201819

https://www.highland.gov.uk/download/meetings/id/74765/item_11_placement_services_change_programme_update

https://www.highland.gov.uk/download/meetings/id/74812/item_5_-_development_and_infrastructure_service_revenue_budget_monitoring_to_31_december_2018

https://www.highland.gov.uk/download/meetings/id/74821/item_14_-_community_services_revenue_budget_monitoring_report_%E2%80%93_1_april_to_31_december_2018

Revenue Expenditure Monitoring Report - General Fund Summary

1 April to 31 December 2018

	Actual Year to Date £000	Annual Budget £000	Year End Estimate £000	Year End Variance £000
Table A: By Service				
Care and Learning	229,156	340,889	344,001	3,112
Chief Executive's Office	4,138	4,909	4,791	(118)
Corporate Resources	24,629	27,063	26,392	(671)
Community Services	43,079	62,541	62,903	362
Development and Infrastructure	37,699	48,743	47,972	(771)
Welfare Services	4,505	5,416	4,991	(425)
Service Total	343,206	489,561	491,050	1,489
Valuation Joint Board	1,917	2,550	2,550	0
Non Domestic Rates reliefs	662	671	671	0
Loan Charges	0	56,744	56,744	0
Interest on Revenue Balances	0	(330)	(330)	0
Unallocated Budget	0	8,951	10,650	1,699
Unallocated Corporate Savings	0	(3,051)	(340)	2,711
Total General Fund Budget	345,785	555,096	560,995	5,899

Table B: By Subjective

Staff Costs	240,863	326,182	323,706	(2,476)
Other Costs	260,092	436,096	447,482	11,386
Gross Expenditure	500,955	762,278	771,188	8,910
Grants	(51,972)	(57,881)	(59,738)	(1,857)
Other Income	(103,198)	(149,301)	(150,455)	(1,154)
Total Income	(155,170)	(207,182)	(210,193)	(3,011)
Total Revenue Expenditure	345,785	555,096	560,995	5,899

Table C: Appropriations to Reserves
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Contribution to earmarked balances	325	325	325	0
Contribution to Other reserves	2,604	2,604	2,604	0
Total Contributions to Balances	2,929	2,929	2,929	0

Table D: Financed By

Aggregate External Finance as notified	234,129	434,757	434,757	0
Additional resources	432	432	432	0
Council Tax	114,153	119,609	119,958	349
Use of earmarked balances	0	2,908	2,908	0
Use of non earmarked balances	0	100	5,650	5,550
Use of Other reserves	0	219	219	0
Total General Fund Budget	348,714	558,025	563,924	5,899

Revenue Expenditure Monitoring Report - General Fund Summary

1 April to 31 December 2018

	Staff Costs Variance £000	Other Costs Variance £000	Grants Variance £000	Other Income Variance £000	Total Variance £000
Table A: By Service					
Care and Learning	(801)	4,154	(255)	14	3,112
Chief Executive's Office	(19)	20	0	(119)	(118)
Corporate Resources	(546)	(27)	0	(98)	(671)
Community Services	(126)	495	(500)	493	362
Development and Infrastructure	(984)	2,315	(658)	(1,444)	(771)
Welfare Services	0	19	(444)	0	(425)
Valuation Joint Board	0	0	0	0	0
HiTrans Requisition	0	0	0	0	0
Non Domestic Rates reliefs	0	0	0	0	0
Loan Charges	0	0	0	0	0
Interest on Revenue Balances	0	0	0	0	0
Unallocated Budget	0	1,699	0	0	1,699
Unallocated Corporate Savings	0	2,711	0	0	2,711
Total General Fund Budget	(2,476)	11,386	(1,857)	(1,154)	5,899

Revenue Expenditure Monitoring Report - Housing Revenue Account Summary
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1 April to 31 December 2018

	Actual Year to Date £000	Annual Budget £000	Year End Estimate £000	Year End Variance £000
Staff Costs	3,997	5,959	5,693	(266)
Other Costs	16,973	28,903	29,196	293
Loan charges and interest	0	17,169	17,094	(75)
Gross Expenditure	20,970	52,031	51,983	(48)
House Rents	(35,780)	(49,437)	(49,165)	272
Other rents	(1,694)	(2,158)	(2,314)	(156)
Other income	(617)	(374)	(442)	(68)
Interest on Revenue Balances	0	(62)	(62)	0
Gross Income	(38,091)	(52,031)	(51,983)	48
Total HRA	(17,121)	0	0	0

Revenue Expenditure Monitoring Report - General Fund Budget

1 April to 31 December 2018

	£m	£m
Budget as agreed by Highland Council on 15 Feb 2018		576.027
Less : Ring-fenced grant (Gaelic, Criminal Justice, Attainment Funding)		(7.749)
Grant Funding Redeterminations:		
1 + 2 Languages	0.132	
Discretionary Housing Payments (DHP)	0.175	
DHP Admin Funding	(0.002)	
Share of SG reallocation of Teacher Induction funding	(0.006)	
Early Years (Ring-fenced Grant)	1.842	
Criminal Justice Social Work (Ring-fenced Grant)	0.224	
School clothing grants	0.195	
Free Sanitary products in Schools	0.087	
Whole System Approach	0.025	
Access to Sanitary Products Public Bodies	0.054	
Free Child Burials	0.010	
RRTP Homelessness	0.061	
	<u>2.797</u>	
Less : Redeterminations of Ring-fenced Grants	<u>(2.066)</u>	0.731
Agreed use of non-earmarked balances		
Commerical Investment Fund	<u>0.100</u>	0.100
Use of earmarked balances		
Developer Contributions	0.597	
Commissioned Child Health	0.190	
IRA Gaelic Extension	0.154	
Strategic Change Fund (Spend to save)	0.255	
SCDF Dilapidations Fulton House	<u>0.086</u>	1.282
Contribution to earmarked balances		
Local Government Elections	(0.085)	
Redesign	(0.040)	
Commerical Investment Fund	(0.100)	
Holiday Pay	<u>(0.100)</u>	(0.325)
Contribution to Other Reserves		
Adopted Lands Fund	<u>(0.004)</u>	(0.004)
Presentational adjustments		
Offset CTRS expenditure budget against Council Tax Income budget	(12.366)	
Affordable Housing contribution included in Appendix 1 Reserves section	(2.600)	
	<u></u>	(14.966)
Total General Fund Budget at 31st December 2018		<u><u>555.096</u></u>

Revenue Expenditure Monitoring Report - General Fund Budget
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1 April to 31 December 2018

Table A Unallocated Budget

	£m
Provision for holiday pay	
Pension strain costs	0.373
Pay awards	7.947
Pressures - Energy	0.352
Pressures - Revenue consequences of capital - flooding	0.050
Grant funding - 1+2 Languages	0.132
Rates Budget - to be allocated once services confirmed	0.043
Grant funding - Access to Sanitary Products Public Bodies	0.054
Unallocated Budget at 31 December 2018	<u><u>8.951</u></u>

Table B : Unallocated Corporate Savings

	£m	Delivery RAG
Service Redesign	2.120	A
Procurement	0.877	A
Insurance	0.054	G
Unallocated Corporate Savings at 31 December 2018	<u><u>3.051</u></u>	

Revenue Expenditure Monitoring Report - General Fund Balance

1 April to 31 December 2018

General Fund Balance

	Earmarked balances £m	Non- earmarked balances £m	Total £m
Balance at 1 April 2018	16.500	8.562	25.062
Use of balances included in budget as agreed by Highland Council on 16 Feb 2017	(1.626)	0.000	(1.626)
Use of balances per Appendix 4	(1.282)	(0.100)	(1.382)
Contribution to balances per Appendix 4	0.325	0.000	0.325
Total movement in balances	<u>(2.583)</u>	<u>(0.100)</u>	<u>(2.683)</u>
Balance as at 31 Dec 2018	<u>13.917</u>	<u>8.462</u>	<u>22.379</u>
<i>Projected outturn per Appendix 1 :</i>			
Net service overspend	0.000	(5.899)	(5.899)
Appropriations to Other Reserves	0.000	0.000	0.000
Additional financing	0.000	0.349	0.349
Total projected outturn	<u>0.000</u>	<u>(5.550)</u>	<u>(5.550)</u>
Projected Year End General Fund Balance	<u>13.917</u>	<u>2.912</u>	<u>16.829</u>

Analysis of all service budget savings by RAG ranking

Appendix 7

Table 1

	Total			Total
	Green	Amber	Red	
Care and Learning	1.985	0.015	0.000	2.000
Chief Executive's Service	0.580	0.000	0.000	0.580
Corporate Resources	1.412	0.280	0.000	1.692
Community Services	1.361	0.367	1.718	3.446
Development and Infrastructure	1.080	1.256	0.000	2.336
Unallocated Savings	0.054	2.997	0.000	3.051
Total	6.472	4.915	1.718	13.105