

Agenda Item	6
Report No	RES 02/20

THE HIGHLAND COUNCIL

Committee: Corporate Resources Committee

Date: 30 January 2020

Report Title: Corporate Revenue Monitoring report to 31 December 2019

Report By: Executive Chief Officer- Finance and Resources

1. Purpose/Executive Summary

- 1.1 This report provides a summary of the actual spend in the first three quarters of financial year 2019/20 together with a forecast year end outturn position.
- 1.2 Net spend on services in the first three quarters of financial year 2019/20 totalled £351.553m.
- 1.3 Based on present expenditure trends a net year end underspend of £0.452m is forecast. This represents an improvement from the forecast position at quarter 2 when an overspend of £0.364m was reported.
- 1.4 In light of the improved financial governance and focus on making all services more efficient it is expected that the overall financial position has the potential to significantly increase further in the remainder of the year, albeit certain risks remain.

2. Recommendations

- 2.1 Members are asked to:
 - i. Consider the financial position of the General Fund and HRA revenue budgets as at 31 December 2019 and note the estimated year end forecast;

3. Implications

- 3.1 Resource implications are as noted in this report. The current forecast underspend would lead to an overall increase in the Council's reserves but should the position reverse and an overspend position arise at year end this will need to be funded from the Council's reserves.

- 3.2 Although the end of the year is drawing closer there is a substantial risk that unforeseen events occur which carry an additional cost burden. Services that are demand-led, such as looked after children or winter maintenance may see significant moves in cost from that currently forecast. Other risks relating to unexpected items, such as adverse weather, may emerge during the year for which no specific contingencies are held.
- 3.3 There are no legal, equality, climate change/Carbon Clever, rural or Gaelic implications arising as a direct result of this report.

4. Wider Budget context

- 4.1 As Members will be aware the Accounts Commission have recently published their Best Value Assurance Report (BVAR) on the Highland Council. Whilst this report will be brought to the March Council meeting for full discussion the relevant key findings of the report are outlined below as they provide important context to the overall revenue position. When considering balances, reserves and future plans, Members will want to consider this overall context.
- 4.2 A number of key excerpts from the report in relation to financial performance are below:
- *'We are concerned in particular that the council is not demonstrating that it is financially sustainable. In recent years the council has a poor record of meeting budget gaps..... Recent improvements in financial governance and controls will be vital in delivering this requirement'*
 - *'We note with concern the Controller's conclusion that the council is not demonstrating all aspects of Best Value, but we acknowledge that there has been an increase in the pace of the change required to do this.'*
 - *'Difficult decisions lie ahead for the council, requiring effective leadership. We therefore urge elected members to continue to work constructively together with officers and communities'*
 - *'The council has struggled to achieve agreed financial savings in-year resulting, for example, in the care and learning service consistently overspending compared to budget. The council recognises it needs to contain spending in-year to live within its financial means. It has established more robust financial and governance controls to reverse this trend. Given the low level of reserves there is only limited contingency to meet unplanned costs. Therefore, it is important that across the council all savings are achieved, and transformational change is delivered.'*
 - *'It will be very challenging for the council to meet all of its commitments and priorities during a period of significant change and with reducing resources. There are currently nine overarching strategic priorities and 22 strategic improvement priorities set out in the council's corporate plan.'*

- 4.3 The messages included in the Best Value report compliment those previously reported to Council by officers, not least in the Revenue Budget Strategy report of the 5th September 2019, which highlighted that the Council is facing a budget gap of between £66m and £93m over the next three years.

5. Service budget variances

- 5.1 **Appendix 1** provides the usual monitoring statement format with **Table A** providing variance detail by service and other significant budget heads. Given the change in committee and corporate structure arrangements no service-specific monitoring statements for Quarter 3 will be reported. This report will summarise the key movements in service outturn forecasts over the last quarter. Links to the service-specific Q2

monitoring reports are provided at the end of this paper. Overall the Council is reporting a net overspend of £0.926m against service budgets.

- 5.2 The 'Financed By' section of **Table D** provides information on the Council's key sources of external funding. At present two of these funding streams are anticipated to deliver income £1.378m in excess of the level budgeted for the year.
- 5.3 The combined effect of the service budget overspend and excess income described in 4.1 and 4.2 above gives an overall forecast net underspend for the year of £0.452m. Should this position prevail at year end this amount would be added to the Council's reserves.
- 5.4 The surplus income on the 'Additional resources' line reflects an expected £1.095m income from the Business Rates Incentivisation Scheme (BRIS). This income relates to the collection of non-domestic rates in 2017-18 and represents a 50 per cent share of the additional rates income generated with the other 50 per cent retained by the Scottish Government. The Scheme incentivises the growth of the local tax base within a local authority area and directly reflects the factors impacting growth that are within the local authority's control and not adversely influenced by factors completely outwith their ability to influence. By exceeding its local target the Council has benefitted from a share of surplus income generated.
- 5.5 Council tax income is also expected to deliver income £0.283m in excess of the level budgeted. The income on this line reflects Council Tax income net of any Council Tax Reduction (CTR). CTR is currently below the budgeted level.
- 5.6 **Appendix 2** provides a summary of forecast variances by service and expenditure and income type. Forecast overspends mainly relate to non-staffing expenditure with mitigation from underspends against staffing budgets.
- 5.7 A net underspend of £2.421m is forecast for the Care and Learning Service. As previously reported the service continues to face significant pressures in the Looked After Children and ASN budgets. These overspends have been more than offset from underspends elsewhere in the Care and Learning budget.

Overall the Care and Learning position has improved by £2.545m from the position reported at Q2. The key drivers behind the movement are reductions in the ASN overspend as a result of active management of those budgets, and reductions in the anticipated forecast spend in family teams, both of which have been partially offset by a worsening in the forecast overspend in Looked After Children budgets as a result of additional needs and demands on the service. Rigorous approaches to financial governance are improving compliance and adherence to policy linked to budget spend whilst removing excessive use of ad-hoc allocations to schools.

- 5.8 A net overspend of £1.283m is forecast against the Community Services budget with the main contributory factors being an overspend against the public conveniences budget and anticipated shortfalls in income from car parking charges and road construction consents. Pressures also exist in relation to refuse collection and recycling as a result of increased fuel costs and an anticipated increase in contract costs from quarter 4 onwards. All these pressures were reported as part of the Quarter 2 monitoring to the Environment, Development and Infrastructure committee in November 2019.

The overall overspend has increased by £0.142m from Q2, with the pressure in relation to public conveniences increasing and a pressure emerging in relation to school transport

as additional demands are placed on the service. These areas of increased overspend have been mitigated, to some degree, by reductions in forecast spend across other service areas.

- 5.9 A net overspend of £0.860m is forecast for the Development and Infrastructure Service. The position reflects a deterioration of £1.318m from Q2. The overall movement includes the required recognition in the year end accounts of a write down of the value of the loan to the Inverness Airport Business Park by £0.422m. This write down is required to comply with accounting regulations and relates to the expected delay in receiving any repayment of this loan as reported to the Environment, Development and Infrastructure committee on the 6th November.

Further adverse movements in the overall position arise as a result of reductions in the RHI income forecast, a reduction in the forecast level of planning income (although still in excess of budgeted levels), and an increase in the expected under-recovery of income from technical, design and project teams.

Within the overall Development and Infrastructure position underspends are forecast against the economy and regeneration and housing development budgets, whilst income in excess of the budgeted level is forecast against investment properties and planning and building warrant fees. As previously reported a pressure remains on the PPP budget.

- 5.10 The Corporate Resources service is forecasting an underspend of £1.252m, a £0.635m increase from the position reported at Q2. The overall position reflects underspends across all significant service areas. Underspends arise primarily against staffing budgets and through careful management of various third party contracts and increases in these underspends have effected the overall improvement in the Corporate Resources position.
- 5.11 The Chief Executive's Office is reporting an underspend of £0.245m. This position reflects underspends across the majority of service areas and has not changed significantly from the position reported at quarter 2.
- 5.12 A budget pressure of £0.059m is showing against the Valuation Joint Board budget heading. Budget discussions with the VJB did not conclude until after the Council had set its own budget- as part of which the Council had assumed making a flat cash settlement to the VJB. The final VJB budget agreed requires an increased contribution of £0.287m from the Council- of which £0.134m can be funded from additional funding the Council has received from the Scottish Government for the implementation of the Barclay review. This gives rise to a potential pressure of £0.153m should the VJB fully spend its budget. Based on the latest VJB budget forecasts a reduced pressure of £0.059m is reported.
- 5.13 A pressure of £3.324m is forecast in relation to certain corporate savings that have not yet been allocated to service budgets. Those savings can be seen at **Appendix 5** and for the savings marked as in Categories 2 or 3 a shortfall of £3.324m is anticipated.
- 5.14 This pressure has risen from £2.210m as reported at Quarter 2 as progress in the delivery of the savings has not been as intended. The corporate savings facing the greatest challenges to delivery are those relating to redesign, procurement, property asset management, commercial activity and energy. The increase in overspend is due to slippage in the procurement, service income and redesign targets. Whilst delivery of these savings has slipped, work is in progress to ensure they are fully delivered in financial year 2020-21.

A further cause of the increase in the pressure is due to the accounting treatment of the grey fleet saving. Whilst work has taken place to significantly reduce the spend in this area, service budgets have not yet been reduced. As forecast expenditure against service budgets reflects that reduced travel spend it would not be appropriate from an accounting perspective to show this as 'on budget' in the unallocated savings line as that would reflect a double counting of the saving.

A change in approach to the management of corporate savings is in the process of being implemented ensuring that clear ownership and accountability is allocated to an Executive Chief Officer for each saving. Delivery will be monitored through an intensive weekly focus on delivery and governance that effects the cultural change required to ensure financial sustainability.

- 5.15 The unallocated savings pressure is partially mitigated by a one off saving of £0.587m sitting within the unallocated budget line. This saving reflects money set aside to pay for the increased teachers' employer pension contribution rate which is not fully required this year due to implementation being effective from September rather than April as well as other budgets which are not expected to be fully allocated.

6. Housing Revenue Account

- 6.1 As shown in **Appendix 3** the Housing Revenue Account (HRA) is forecast to deliver a balanced budget. This overall position is unchanged from that reported at quarter 2.
- 6.2 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.

7. Reserves and Balances

- 7.1 **Appendix 6** summarises the movements on the Council's earmarked and non-earmarked balances during the course of the year.
- 7.2 The Council's non-earmarked general fund reserve currently sits at £7.925m, below the minimum level suggested by Audit Scotland for this reserve of 2% of annual revenue budget and below the Council's own target level of 3%. In line with Council policy if the currently forecast year end net underspend of £0.452m transpires the level of that reserve would increase to £8.377m, but that would still represent only 1.47% of the annual revenue budget
- 7.3 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 year.

8. Material considerations for the remainder of the year

- 8.1 In light of the wider financial context officers are still endeavouring to further reduce spend this year as any additional underspend would bolster Council balances. Members are reminded of the target level for general fund non-earmarked balances, agreed in February 2019 as part of the budget, of 3% of annual revenue budget (approximately £17m)

- 8.2 Staffing controls and additional controls around non-staffing spend remain in place and it is anticipated that the positive impact of these measures may further increase the currently forecast underspend. In addition, activity is taking place to reduce existing pressures or otherwise identify compensatory underspends which may lead to an improved overall position by year-end.
- 8.3 Work is also underway to review all external funding streams received outwith the core general revenue grant funding. In certain areas, including the delivery of 1140 hours in Early Years, reviews are underway to ensure all policy outcomes are delivered in the most cost-effective way. As long as it is not specifically 'ring-fenced', any funding received in excess of that needed to deliver high-quality, priority policy outcomes will be added to the Council's reserves.

Designation: Executive Chief Officer- Finance and Resources

Date: 22nd January 2020

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Background Papers:

https://www.highland.gov.uk/download/meetings/id/75912/item_7_care_and_learning_revenue_budget_monitoring_quarter_2_201920

https://www.highland.gov.uk/download/meetings/id/76053/item_17_community_services_revenue_budget_monitoring_report

https://www.highland.gov.uk/download/meetings/id/76041/item_5_development_and_infrastructure_service_revenue_budget_20192020

https://www.highland.gov.uk/download/meetings/id/75910/item_5_housing_revenue_account_hra_and_non-hra_budget_monitoring_statement_to_30_september_2019

https://www.highland.gov.uk/download/meetings/id/75757/item_16_revenue_budget_strategy_202021_to_202223

https://www.highland.gov.uk/download/meetings/id/74855/item_3_revenue_budget_201920_to_202122

Revenue Expenditure Monitoring Report - General Fund Summary

1 April to 31 December 2019

	Actual Year to Date £000	Annual Budget £000	Year End Estimate £000	Year End Variance £000
Table A: By Service				
Care and Learning	222,896	353,193	350,772	(2,421)
Chief Executive's Office	5,729	5,970	5,725	(245)
Corporate Resources	21,093	25,411	24,159	(1,252)
Community Services	43,068	65,064	66,347	1,283
Development and Infrastructure	49,587	57,574	58,434	860
Welfare Services	6,291	5,528	5,433	(95)
Service Total	348,664	512,740	510,870	(1,870)
Valuation Joint Board	2,221	2,684	2,743	59
Non Domestic Rates reliefs	668	671	671	0
Loan Charges	0	56,839	56,839	0
		0		0
Unallocated Budget	0	2,047	1,460	(587)
Unallocated Corporate Savings	0	(4,065)	(741)	3,324
Total General Fund Budget	351,553	570,916	571,842	926

Table B: By Subjective

Staff Costs	254,912	353,510	345,397	(8,113)
Other Costs	258,088	427,991	437,485	9,494
Gross Expenditure	513,000	781,501	782,882	1,381
Grants	(34,241)	(33,810)	(34,361)	(551)
Other Income	(127,206)	(176,775)	(176,679)	96
Total Income	(161,447)	(210,585)	(211,040)	(455)
Total Revenue Expenditure	351,553	570,916	571,842	926

Table C: Appropriations to Reserves

Contribution to earmarked balances	0	4,681	4,681	0
Contribution to Other reserves	0	0	0	0
Total Contributions to Balances	0	4,681	4,681	0

Table D: Financed By

Aggregate External Finance as notified	232,995	436,780	436,780	0
Additional resources	0	12,049	13,144	1,095
Council Tax	118,558	124,622	124,905	283
Use of earmarked balances	0	1,937	1,937	0
Use of non earmarked balances	0	0	(452)	(452)
Use of Other reserves	0	209	209	0
Total General Fund Budget	351,553	575,597	576,523	926

Revenue Expenditure Monitoring Report - General Fund Summary

1 April to 31 December 2019

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	(3,335)	1,658	(353)	(391)	(2,421)
Chief Executive's Office	(98)	(35)	0	(112)	(245)
Corporate Resources	(1,381)	227	0	(98)	(1,252)
Community Services	(1,066)	2,528	(450)	271	1,283
Development and Infrastructure	(2,233)	2,415	252	426	860
Welfare Services	0	(95)	0	0	(95)
Valuation Joint Board	0	59	0	0	59
HiTrans Requisition	0	0	0	0	0
Non Domestic Rates reliefs	0	0	0	0	0
Loan Charges	0	0	0	0	0
Unallocated Budget	0	(587)	0	0	(587)
Unallocated Corporate Savings	0	3,324	0	0	3,324
	0	0	0	0	
Total General Fund Budget	(8,113)	9,494	(551)	96	926

Revenue Expenditure Monitoring Report - Housing Revenue Account Summary
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1 April to 31 December 2019

	Actual Year to Date £000	Annual Budget £000	Year End Estimate £000	Year End Variance £000
Staff Costs	4,091	6,230	5,454	(776)
Other Costs	17,005	28,355	29,074	719
Loan charges and interest	0	19,445	19,680	235
Gross Expenditure	21,096	54,030	54,208	178
House Rents	(32,587)	(51,136)	(50,894)	242
Other rents	(2,075)	(2,455)	(2,803)	(348)
Other income	(486)	(377)	(449)	(72)
Interest on Revenue Balances	0	(62)	(62)	0
Gross Income	(35,148)	(54,030)	(54,208)	(178)
Total HRA	(14,052)	0	0	0

Revenue Expenditure Monitoring Report - General Fund Budget
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1 April to 31 December 2019

	£m	£m
Budget as Agreed by Highland Council on 14 February 2019		581.325
Less : Contribution to earmarked balances included in agreed budget (Elections Fund, Change Fund)		(2.585)
Less : Ring-fenced grant (Gaelic, Criminal Justice, Attainment Funding, Early Years)		(21.328)
Grant Funding Redeterminations		
Discretionary Housing Payments	0.052	
Scottish Assessors Barclay Implementation	0.134	
Free Personal Care for under 65s	1.221	
Carers Act Extension (increase)	0.022	
Teachers 2018/19 & 2019/20 pay awards (estimate)	6.592	
Teachers 2019/20 pension increase (from Sep 2019) (estimate)	2.921	
Teachers Pensions Adjustment	(0.079)	
Appropriate Adults	0.022	
Free Sanitary Products Adjustment	0.009	
Brexit Funding	0.050	
Scottish Crown Estate	1.292	
Counselling in Schools	0.754	
Operational Contingency Fund	0.111	
Personal Licence Holder Renewal	0.010	
Rapid Rehousing Transition Plans (RRTPs)	0.280	13.391
Agreed Use of Non-earmarked Balances		
		0.000
Use of Earmarked Balances		
Welfare Fund	0.125	
Change Fund	0.415	
Redesign	0.011	
Investment Fund APSE Commercialisation Workshop	0.011	
Brexit	0.001	
HOL pension liability	0.222	
Developer Contributions	1.152	1.937
Contribution to Earmarked Balances		
Scottish Crown Estate	(1.292)	
Counselling in Schools	(0.754)	
Brexit Funding	(0.050)	(2.096)
Contribution to Other Reserves		
		0.000
Presentational Adjustments		
CTR budget reduction offset against redesign savings target	0.272	
		0.272
Total General Fund Budget at 31 December 2019		570.916

Revenue Expenditure Monitoring Report - General Fund Budget
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1 April to 31 December 2019

Table A : Unallocated Budget

	£m
Energy	0.937
Teachers pension rate increase	0.301
Auto-enrolment	0.202
Community Fund	0.210
Revenue consequences of capital - flooding	0.050
Grant Funding - 1 + 2 Languages	0.132
Grant Funding - Access to Sanitary Products - Public Bodies	0.131
Grant Funding - Access to Sanitary Products - Schools	0.009
Grant Funding - Appropriate Adults	0.022
Grant Funding - Personal Licence Holder Renewal	0.010
Rates	0.043
Unallocated Budget at 31 December 2019	<u><u>2.047</u></u>

Table B : Unallocated Corporate Savings

	£m	Category
Service Redesign	0.960	3
Procurement	0.836	3
Service Income	0.378	2
Grey Fleet & Travel Desk	0.565	2
Property Asset Management	0.511	3
Energy	0.455	3
Commercial Activity	0.185	2
Reduction in Printing/Paper Costs	0.075	3
Lean Reviews	0.100	2
Unallocated Corporate Savings at 31 December 2019	<u><u>4.065</u></u>	

Revenue Expenditure Monitoring Report - General Fund Budget
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1 April to 31 December 2019

General Fund Balance

	Earmarked balances £m	Non- earmarked balances £m	Total £m
General Fund Balance at 1 April 2019	12.374	7.925	20.299
(Use of)/contribution to balances included in budget as agreed by Highland Council on 14 February 2019	2.585	0.000	2.585
Removal of earmarked balances	0.000	0.000	0.000
Use of balances per Appendix 4	(1.937)	0.000	(1.937)
Contribution to balances per Appendix 4	2.096	0.000	2.096
Movement in balance per Appendix 1	2.744	0.000	2.744
Net service overspend per Appendix 1	0.000	(0.926)	(0.926)
Appropriations to other reserves	0.000	0.000	0.000
Additional financing	0.000	1.378	1.378
General Fund Balance at 31 December 2019	15.118	8.377	23.495