

Agenda Item	6.b
Report No	JMC/11/22

Committee: The Highland Council / NHS Highland Joint Monitoring Committee

Date: 3rd August 2022

Report Title: Highland Council Finance report

Report By: Head of Finance

1. Purpose/Executive Summary

- 1.1 This report presents a general update to members of the JMC on the Highland Council's financial outturn for year 2021/22, along with an overview of the Council budget for 2022/23 and medium-term financial outlook.
- 1.2 The report also provides a more detailed view of the children's services elements of the Council's Health and Social Care budget for financial year 2021/22. Financial monitoring information for quarter 1 of financial year 2022/23 for the children's services budget is not yet available.
- 1.3 Copies of the Council's full accounts documents for financial year 2021/22 are available on the Council website- <https://www.highland.gov.uk/accounts>
As a result of sound financial management, close control of expenditure and the receipt of additional income the Highland Council's General Fund shows a surplus of £9.0m for the year. At year end the Council's General Fund non-earmarked reserve stands at £19.3m, marginally above the agreed target level for this reserve of 3% of the annual revenue budget.
- 1.4 Those reserves need to be seen in the context of a significantly challenging medium term financial outlook, with approved budget savings of £17.0m requiring to be delivered to ensure a balanced budget for 2022/23. The Council's March budget paper estimated a budget gap of £80.4m over the period from 2023/24 to 2026/27 a figure that is anticipated to have widened substantially as a result of recent inflationary pressures. The Council needs to invest in transformational change in order to ensure its medium-term financial sustainability.
- 1.5 The Council's Health and Social care budget showed an underspend of £3.9m for financial year 2021/22. The primary reasons for this underspend position were savings from vacant posts and that additional funds added to the budget in March 2021 to meet anticipated Covid service pressures around looked after children was not required.

2. Recommendations

- 2.1 Members are asked to:
- i) Note the contents of this report

3. Implications

- 3.1 There are no resource implications arising directly as a result of this report, rather it provides detailed information on the Council's financial position and future outlook.
- 3.2 The Council's annual accounts document identifies some of the key financial risks facing the Council. The Council's overall level of reserves places it in a strong position to deal with the challenges and opportunities that lie ahead.
- 3.3 There are no specific Legal, Community (Equality, Poverty, Rural and Island), Climate Change / Carbon Clever or Gaelic implications arising directly as a result of this report.

4. Highland Council- Annual Accounts 2021/22

- 4.1 The Annual Accounts summarise the transactions and provide the year end position for financial year 2021/22- the year ended 31st March 2022. Due to their size the accounts documents have not been appended to this report but are instead available on the Council's website at the link below:
www.highland.gov.uk/accounts
- 4.2 The management commentary section of the Council's accounts provides a high level overview of the Council's performance in the year. The management commentary is intended to assist users in understanding the objectives and strategy of the Council and provide a review of its business and financial performance in the year. In addition it provides information on the principal risks and uncertainties which are likely to affect the future development and performance of the Council.
- 4.3 The table below provides a high-level summary of the Council's useable reserves and their movements over the course of financial year 2021/22. More information on reserves can be seen in the management commentary section of the accounts and elsewhere in the accounts document.

	General Fund- Non- earmarked	General Fund- Earmarked	Other Useable reserves	Total
As at 31/3/21	£43.4m	£53.6m	£49.0m	£146.0m
21/22 movement	-£24.1m	+£45.9m	-£10.8m	+£11.0m
As at 31/3/22	£19.3m	£99.5m	£38.2m	£157.0m

- 4.4 The general fund non-earmarked reserve is the Council's core, general-purpose financial contingency, held to mitigate the impact of risks crystallising or allow for investment. At the 31st March 2022 the general fund non-earmarked reserve stands at £19.3m, a decrease of £24.1m over the year. A reserve at that level is marginally over the 3% target level agreed as part of the 2022/23 budget setting process. Audit Scotland recommend that councils maintain this reserve in the range of 2-4% of their annual revenue budget.

4.5 General fund earmarked reserves reflect funds set aside for spend or investment in specific areas. Some of these funds represent decisions taken locally whilst others reflect specific external funding streams or legislative requirements. These reserves have increased substantially over the year reflecting additional funds received during the year as well as a number of investment decisions made by the Council over the course of 2021/22 to repurpose non-earmarked reserves.

5. Highland Council- 2022/23 budget

5.1 The Council set its budget for financial year 2022/23 at the Council meeting on the 3rd March 2022. A link to the budget paper is provided in the background papers section of this report.

5.2 The budget paper identified a budget gap of £34.1m for 2022/23 which arises as a result of anticipated pay and other cost increases of £33.6m and a £2m recurring investment in roads, slightly offset by a net £1.5m increase in core funding received from government. The level of increase in this core funding (i.e funding for all Council services) is in marked contrast to additional funding received for specific government priority areas.

5.3 The Council's funding settlement for 2022/23 also included ring fenced funding for social care of £24.8m, around £17.1m of which was new funding with £7.7m continuing funding received in 2021/22. All of this funding will be made available for investment in adult social care and passported to NHS Highland as part of the adult social care quantum.

5.4 For 2022/23 the Council is closing its budget gap using the following measures:

- Increase Council tax rates and collection- £5.0m
- Benefit of savings delivered in prior years- £6.4m
- Agreed new savings to be delivered- £17.0m
- Use of reserves to offset covid budget pressures- £5.7m

6. Highland Council- medium term financial outlook

6.1 Section 7 of the Council's budget paper provided a medium-term outlook for the Council's finances in order to support medium term financial planning. It should be noted that beyond the proposals for 2022/23 no savings or actions for closing the medium-term gap have yet been approved.

6.2 A budget gap of £80.4m was identified for the period from 2023/24 to 2026/27. In identifying this gap a number of assumptions required to be made, particularly around pay, other cost pressures and changes in core government funding. Those assumptions were:

- Pay- an annual 2% uplift plus an allowance for increments
- Non-pay cost pressures- £10m in 2023/24 tapering down to £7m in 2026/27
- Change in core government funding- a flat cash annual settlement

6.3 These assumptions are being reviewed as part of the Council's ongoing medium-term financial planning with an update report to be taken to the Council meeting in September. Current indications are that these assumptions may be insufficient, with considerable upward pressure on pay, substantial inflationary increases being seen in certain contracts in 2022/23, and the Scottish Government Resource Spending Review suggesting that a flat cash settlement over the period is likely to be a 'best-case' scenario.

7. Health and Social Care service budget information

- 7.1 2021/22 year-end outturn and 2022/23 quarter 1 revenue monitoring statements for the Health and Social Care service will be presented to the Council's Health, Social Care and Wellbeing Committee on the 24th August. Due to the early scheduling of this JMC meeting the 2022/23 quarter 1 statements are not yet available to provide to JMC members.
- 7.2 The core principle of integration of teams, budget, structures, processes and systems has largely been successfully implemented in children's services. This integration has centred around improving outcomes for Highland's children and families including health outcomes. The commissioned child health resource currently embedded within the "Family Teams" includes health visitors, school nurses and staff nurses and all nursing support.
- 7.3 The resource outwith the Family Teams includes Child Protection, Looked After Children Nurses, Youth Justice, Health and Disability nurses and Primary Mental Health Workers, Health Development and Allied Health Professionals. This latter resource can be seen in the above lines in terms of underspends which have arisen principally as a result of vacancies. By contrast the "health" resource within the Family Teams is difficult to extrapolate as the resource in terms of staffing has been integrated with the "social work" staffing resource. The underspends in the family teams arise as a result of difficulties in recruiting to both social work and health visiting posts.
- 7.4 Relevant extracts of the overall 2021/22 outturn position for the Health and Social Care service relating to commissioned children's services are provided in the sections below along with a brief narrative on the respective outturn positions.

7.5 Looked after Children

	£'000 Annual Budget	£'000 Actual YTD	£'000 Year End Variance
Looked After Children			
Fostering & Adoption	5,560	5,998	438
Looked After Children (Residential) In house	3,526	2,958	-569
Looked After Children (Respite) In house	1,622	1,385	-238
Looked After Children (Residential) Independent / 3rd Sector	8,038	8,198	160
Looked After Children (Through care & aftercare)	2,033	1,181	-852
Looked After Children (Alternatives to OOA)	4,886	4,683	-203
Looked After Children Management and Support	624	347	-277
	26,290	24,750	-1,541

The looked after children budget is showing an underspend of £1.541m for 2021/22. This underspend is primarily attributable to a budget increase of £2.6m approved as part of the budget set in March 2021 not being required for its intended purpose. The budget increase was to meet an anticipated increase in the number of looked after children arising directly as a result of the covid pandemic. That level of increase did not materialise and, combined with positive work undertaken by the service to reduce the number of children in out of authority placements, has led to the overall underspend position.

7.6 Family Teams

	£'000	£'000	£'000
	Annual	Actual	Year End
	Budget	YTD	Variance
Family Teams			
Family Teams - North	2,798	2,501	-297
Family Teams - Mid	3,887	3,464	-423
Family Teams - West	2,954	2,811	-143
Family Teams - South	8,412	7,508	-905
Self Directed Support (Direct Payments)	599	24	-575
	18,650	16,308	-2,342

The family teams budget is showing an underspend of £2.342m. This underspend mostly relates to underspends against the staffing budget as many posts in this area remain hard to fill due to difficulties in attracting appropriately skilled staff. As described in the section below some of this underspend contributes to the service's staffing saving requirement shown on the unallocated saving line.

7.7 Other Services for Children

	£'000	£'000	£'000
	Annual	Actual	Year End
	Budget	YTD	Variance
Other Services for Children			
Child Protection	725	443	-282
Health and Health Improvement	572	580	7
Allied Health Professionals	3,803	3,404	-399
Primary Mental Health Workers	688	444	-244
Specialist Services	397	396	-1
Youth Action Services	1,647	1,421	-226
Other Services for Children	861	767	-94
Staff Training	173	118	-55
Independent Funds	0	0	0
Unallocated Savings	-1,433	34	1,467
	7,434	7,607	173

The Other Services for Children budget contains a variety of budget lines, many of which directly relate to health functions. As with the family teams the underspends on these lines mainly relate to difficulties in recruiting to posts. The unallocated savings line reflects a saving target to be delivered across all service areas which is offset by staffing underspends across the service.

7.8 For 2022/23 the Health and Social Care service is undertaking a budget realignment exercise in order to ensure the budget better reflects planned spend.

Designation: Head of Finance

Date: 27th July 2022

Author: Edward Foster, Head of Finance

Background Papers:

https://www.highland.gov.uk/download/meetings/id/80169/7_annual_accounts_202122

https://www.highland.gov.uk/download/meetings/id/79782/item_3_revenue_budget_20223_to_202425_buidseat_teachd-a-steach_agus_c%C3%ACs_comhairle