

The Highland Council

Agenda Item	7b
Report No	JMC/18/23

Committee: Joint Monitoring Committee

Date: 27 September 2023

Report Title: Finance Report – Integrated Children’s Services

Report By: Head of 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 for 2023/24, as well as the financial position for Integrated Children’s Services functions delivered by the Council through the Lead Agency arrangement.
- 1.2 The figures presented are drawn from the Council’s Quarter 1 financial monitoring reports. Updates on pressures and risks in the current year, and progress with savings delivery related to Integrated Children’s Services are also included within the report.
- 1.3 The report also gives context and a financial outlook relating to forthcoming financial years, based on recent financial analysis and reports to Council.

2. Recommendations

- 2.1 Members are asked to:
 - i. **NOTE** this report and financial forecast for 2023/24;
 - ii. **NOTE** the update provided regarding savings delivery for Integrated Children’s Services;
 - iii. **NOTE** the update provided regarding outlook for 2024/25 and beyond.

3. Implications

- 3.1 **Resource** – there are no specific recommendations with resource implications in this report. The report does however provide a comprehensive analysis of the revenue budget position, and quarter 1 forecasts relating to the Integrated Children’s Services budget.
- 3.2 **Legal** – No particular implications to highlight.
- 3.3 **Community (Equality, Poverty, Rural and Island)** – no particular implications to highlight. The services provided within the Integrated Children’s Services functions provide for needs across communities, within available resources.

- 3.4 **Climate Change / Carbon Clever** – No particular implications to highlight.
- 3.5 **Risk** – the report highlights a number of particular risk areas as they may impact on the revenue budget, in the current year and into future years. Of particular significance at this time are the financial implications relating to staff pay awards for 2023/24, for pay groups where a pay settlement has not been achieved. That results in an uncertainty and risk regarding costs and funding of pay awards. The report also provides narrative relating to the current staffing and vacancy challenges facing aspects of the children's services activities, and status update on savings delivery including service redesign.
- 3.6 **Health and Safety (risks arising from changes to plant, equipment, process, or people)** – No particular implications to highlight.
- 3.7 **Gaelic** – No particular implications to highlight.

4. Highland Council Overall Budget Position 2023/24

- 4.1 The Council's revenue budget for the current financial year was based upon the following funding assumptions, with updates as at Quarter 1 shown.

Description	As Agreed March 2023 £m	Current at date of Report £m	Movement +/- £m
Scottish Government Grant Funding ex Ring-Fenced Grants	536.524	550.443	13.919
Council Tax Income	143.563	143.563	-
Use of Reserves*	23.270	19.448	-3.822
Budgeted Contribution to Earmarked Reserves*	-0.659	-0.659	-

Other Core Funding Assumptions:

Budget Savings agreed	22.195	22.195	-
Re-purposing of Council tax for 2 nd Homes income*	3.400	3.400	-

**Non-recurring items*

- 4.2 Regular reports to the Council have highlighted the extent to which the budget for the year is reliant upon a significant number of non-recurring funding measures. In particular the use of reserves to balance the revenue budget is not a recurring or sustainable funding source and will require to be addressed on a sustainable basis going forward.
- 4.3 The Q1 revenue forecast for the Council overall, is an overspend at year end of £2.9m as set out in the table below. The main contributory factors are overspends in the Council's Housing & Property and Infrastructure, Environment and Economy Services related to income shortfalls, inflation and cost pressures, and the impact of the Corran Ferry being out of service. These factors are reflected in the 'Service Budget' as

shown in the table below. These service overspends are partly offset by council tax income being ahead of budget assumptions.

	Annual Budget £m	Year-end forecast £m	Year-end variance £m
Expenditure			
Service budgets (Appendix 1, Table A- top half)	619.314	622.369	3.055
Other budgets (Appendix 1, Table A- bottom half)	93.481	93.481	0
Contribution to investment funds and other reserves (Appendix 1, Table C)	0.659	0.659	0
Total (X)	713.454	716.509	3.055
Income (Table D- top part)			
Government income	550.443	550.443	0
Budgeted Council tax income	143.563	143.718	0.155
Confirmed use of earmarked reserves	0	0	0
Total (Y)	694.006	694.161	0.155
Difference between expenditure and income to be funded from non-earmarked reserves- 'Budget (surplus)/deficit' (=X-Y)	19.448	22.348	2.900

Appendix 1 provides the Council's overall Quarter 1 budget monitoring position. The line shown for 'Health, Wellbeing and Social Care' on that appendix represents the totality of that service budget, covering both adult and children's services. Separately appendix 2 this report provides further detail on the children's services aspect.

4.4 In relation to significant areas of financial risk and uncertainty, the following are the major areas.

- SJC staff pay award – this pay award has not yet settled and the funding set aside by the Council in March 2023 is held centrally pending resolution. Members will recall that the offer made to staff was predicated on a combination of core Council budget provision, plus additional funding from Scottish Government. There remains a risk and uncertainty as to what will be settled and the costs and funding associated with that pay group.
- Energy costs - a £8.9m unallocated budget provision for energy cost increases was made in the March budget, and this will be allocated during Quarter 2 and 3 when a clearer estimate of service needs will be available.

4.5 The following table gives a summarised assessment of progress with delivery of all Council savings for 2023/24.

Service	Total Approved Savings 2023/24 £m	Blue £m	Green £m	Amber £m	Red £m
Communities & Place	1.455	0.470	0.955	0.030	0.000
Depute Chief Executive	0.307	0.307	0.000	0.000	0.000
Education & Learning	9.559	0.685	8.249	0.625	0.000
Health & Social Care	3.138	0.000	0.190	2.948	0.000
Infrastructure, Environment & Economy	2.377	0.330	1.430	0.617	0.000
Performance & Governance	0.363	0.060	0.233	0.070	0.000
Property & Housing	3.430	0.000	2.640	0.790	0.000
Resources & Finance (including Welfare)	1.304	0.946	0.145	0.213	0.000
Service Savings Total	21.933	2.798	13.842	5.293	0.000
Add : Corporate Savings	0.250	0.000	0.000	0.250	0.000
Total	22.183	2.798	13.842	5.543	0.000

Blue-complete

5. Children's Services Budget Position 2023/24

- 5.1 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 no attempt has been made to split the costs between the two functions. In overall terms, the net position is a small overspend of £0.057m forecast at year end. Underlying this total are a number of other offsetting variances, which are commented on in this section of the report.
- 5.2 JMC members will recall from past reports that a major budget element in the 2021/22 and 2022/23 budgets for Children's Services, was the inclusion of a time-limited budget for Covid-19 pressures. This was a budget sum of £2.6m in that first year and reducing to £1.9m in 2022/23. This sum was always intended in being a time-limited source of budget ending in 2022/23, and it was evident from the 2022/23 out-turn and past reports that the need for this budget had not been at levels expected, and it was a factor in the level of underspend reported in those prior years. This budget sum has not recurred into 2023/24 and is therefore a material budget adjustment, albeit as noted in this narrative, an adjustment which was not expected to have an impact based on expenditure trends in the past two years.
- 5.3 Other Services for Children - £2.670m year end forecast overspend. The single largest factor in this budget line is the sum of £2.948m of unallocated savings which are held against this budget, pending full implementation and allocation against the relevant budget lines in due course. It is important to note that in due course, once savings are allocated against relevant budget lines, this would be expected to reduce the underspends reported against those budget lines. This is particularly relevant when noting below the underspends currently being reported against Family Teams and Looked After Children. The description and status of these savings are as shown below.

Ref	Savings Description	Saving Amount £m	RAG status
1.3b	Family Teams - Reduce agency use (currently being used for vacant permanent posts). Replace with permanent post;and/or delete post; and/or reassess gradings where appropriate	0.300	A

3.2	Health and Social Care Redesign	2.400	A
3.18	Family First Strategy	0.248	A
	Sub-total – within unallocated savings budget	2.948	

5.4 Family Teams – £0.662m year end forecast underspend. Past reports have highlighted a legacy underspend against this budget heading, as well as the actions being taken to (a) address some of the local and national challenges around recruitment, (b) redesign of the service and (c) re-alignment of the budget. The level of vacancies and the associated underspend, is a cause for concern and reported us such to Council Committees. The Council’s risk register also reflects the risk associated with that level of staff vacancy.

5.5 Looked After Children - £1.882m year end forecast underspend. The budget forecast continues to reflect the positive trends being shown in Looked After Children, with it forecast that the number of children in out of authority residential provision was approaching the lowest level it had been at for some years. With this in turn being reflected in the budget forecast. ‘The Promise’ is at the heart of practice within Highland Council. Consequently, the focus has been on shifting the balance of care so that children and young people remain at home – when safe to do so.

The follow trend data gives context to the financial forecast. From 2020 to 2022/23 there has been an **18-20%** reduction in Looked After Children from 495 (2020), 469 (2021), 402 (2022) and 405 (2023). Highland’s rate of children per 1,000 (population 0-17) that are Looked After is 9.3, which is less than comparator averages of 13.2 and less that the Scottish average which is 12.3.

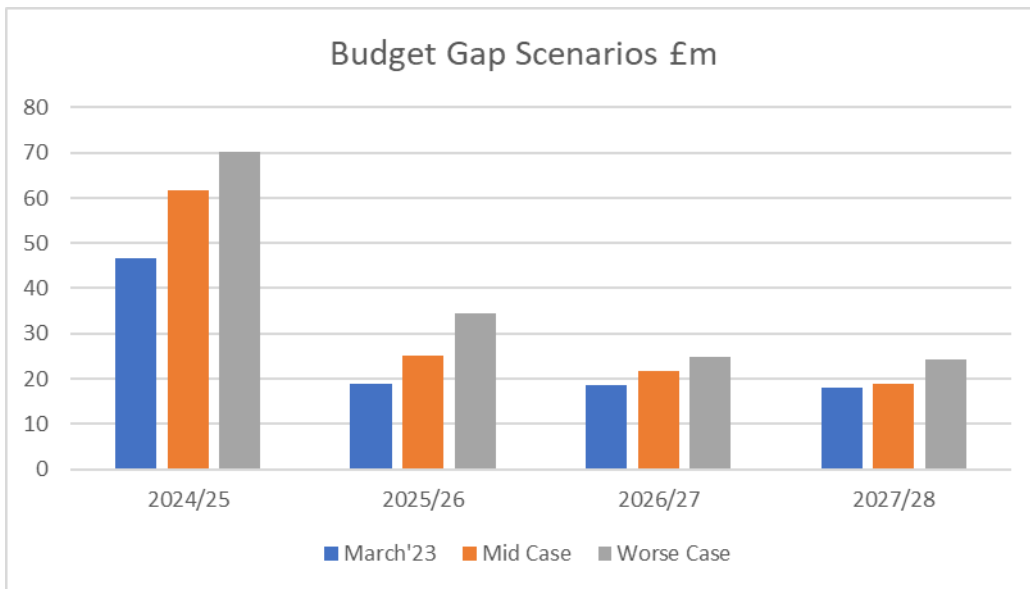
In terms of those children and young people in residential placements the outlook is also positive. There are currently **17 children (down from 23 last year)** outwith the Highland area in spot purchased placements and work is ongoing in relation to 9 of those children and young people with a view to their coming home to Highland. This will have a positive effect on the budget spend as well as improving outcomes and it is expected that those trends will be shown in reported variances in Quarter 2.

Whilst the trends in relation to residential placements is positive and it is anticipated that it will result in savings it should be noted that whilst the overall numbers are decreasing that the cost of living crisis is such that in real terms the cost of individual placements is significantly increasing. Consequently, we will be monitoring this situation closely and updating in future reports accordingly.

5.6 In relation to Fostering, Kinship and Adoption, there has been a review of allowances in relation to the payment of Foster carers and Kinship carers in acknowledgement that allowances have not increased for many years and as a result, this has had negative impacts on recruiting and retaining foster carers in particular. The use of local – Highland – provision is a key part of the Family First strategy in terms of seeking to keep children in their communities. It is intended that this strategy will – as well as improving outcomes for children and young people who are looked after – also contribute to savings by reducing reliance on purchased placements out of Highland which come at an increased cost. Work is ongoing in relation to showing those variances by Quarter 2. Meantime in terms of reporting positive trends the increase in allowances for Kinship Carers has meant that more family members are able to afford to take on the care of their younger relatives. There has also been an increase in the number of Kinship Orders being granted which not only legally secures the children with their kin but also has a positive impact on the budget spend.

6. Forward Look – Financial Outlook 2024/25 and Beyond

6.1 The Council on 14 September considered a mid-year budget update report, it provided financial context and an updated forecast relating to forthcoming financial years. Of particular note was that due to ongoing impact of inflation and interest rates, the budget gap currently forecast for 2024/25 and beyond was significantly higher than had been estimated in March of this year. The graph below sets out a summary of the scenarios, with the medium case scenario being a budget gap of £127m over the next 4 years, of which £61.7m is in 2024/25. The higher level in that first year being in part the reliance on reserves to balance the 2023/24 revenue budget (see section 4 of this report).



6.2 A multi-year budget approach will be taken, recognising the amount of time and scale of change necessary to return the Council to a financially sustainable position, with future reports to be considered by the Council going forward. The report to Council was clear that to achieve a financially sustainable position would require “significant cost reductions and changes in how and what levels of service are delivered.” Future reports to JMC will provide further budget update going forward.

Designation: Head of Corporate Finance

Date: 14 September 2023

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