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| HIGH LIFE HIGHLAND  REPORT TO BOARD OF DIRECTORS  16 June 2016 | AGENDA ITEM  REPORT No HLH /16 |

## **FINANCE REPORT - Report by Chief Executive**

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| **Summary** This report provides Directors with an update on the financial performance of High Life Highland for the financial year 2015/16.  It is recommended that Directors note:   1. the draft year end out-turn, subject to Audit, for 2015/16 for High Life Highland as detailed in **Appendix A** reports a surplus of £247,714 to Unrestricted Reserves and a transfer to Restricted Reserves of £60,202 in respect of grant income; 2. the changes to the approved budget for 2016/17; 3. the update on the ongoing VAT investigations; and 4. the award of contracts as detailed in **paragraph 8** of this report. |

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| **1.** | **Business Plan Contribution** |
| 1.1 | This report supports the highlighted Business Outcomes from the High Life Highland (HLH) Business Plan:   1. **To advance sustainable growth and financial sustainability** 2. **Deliver the Service Delivery Contract with THC** 3. Improving staff satisfaction 4. Improving customer satisfaction 5. A positive company image 6. Services designed around customers and through market opportunities 7. Sustain a good health and safety performance 8. A trusted partner |
| **2.** | **Background** |
| 2.1 | Directors of HLH receive a Finance Report on a quarterly basis. The primary purpose of the report is to summarise the financial performance of the organisation and its subsidiaries. |
| **3.** | **Financial Performance for the year 2015/16** |
| 3.1  3.2  3.3 | The Management Accounts, subject to Audit, for the financial year 2015/16 have been prepared. HLH’s consolidated financial performance for the year is summarised in **Appendix A.** The results for the year are further split by cost category (revenues, staff costs, other costs) and the 9 business areas in **Appendix B**.    The net position is £247,714 positive to budget with a commentary on the major variances (over £5K) provided in **Appendix C.**  The £247,714 positive budget is made up of income in excess of budget by £315K (1.42%), staff costs under budget by £263K (1.6%) and other costs over budget by £331K (5.6%). |
| **4.** | **Changes to Approved budget** |
| 4.1  4.2 | **Appendix D** details the changes to the budget 2016/17, which was approved subject to changes in March 2016, together with explanations.  New additions to the services fee are still to be finalised for the IRA and Wick community campuses. |
| **5.**  5.1  5.2 | **Ernst & Young (EY) – VAT, Company-wide review**  Following Board approval to work with EY on VAT, a letter dated 20 April 2016, has been sent to HMRC advising of a potential underpayment of VAT relating to partial exemption and input tax.  The timescales moving forward are:   1. mid July 2016 – Company-wide analysis to be completed for retrospective VAT position; and 2. July 2016 - EY to approach HMRC on HLH’s behalf to discuss:    1. treatment of Grant Income; and    2. prior years from October 2011.   While, at this early stage, an estimate of when the process will be concluded cannot be provided, it is likely that the analysis and discussions with HMRC will be on going for a number of months.  In the meantime, an accrual has been provided for in the Management Accounts for 2015/16 to cover the potential increased payments relating to 2015/16. |
| **6.** | **Annual Review of Financial Regulations** |
| 6.1 | A review of the Financial Regulations and Standing Orders remains on-going throughout the year and there are no issues to report. |
| **7.** | **Annual Review of Insurance** |
| 7.1 | HLH Insurance Cover is included as part of The Highland Council Insurance Cover. THC regularly reviews the Insurance Cover and forwards a detailed schedule annually to HLH. The insurance renewed on 1 April 2016 for 2016/17 and new additions are advised throughout the year as and when required. |
| **8.**  8.1 | **Procurement - Tenders Approved/Contracts Awarded**   |  |  |  | | --- | --- | --- | | The Design Concept Ltd | Design and Fit Out of Wick Campus Library and Reception Area | Mar-Oct 2016 | | AOC Archaeology Group | Townscape Heritage Digital Trails | Mar 16-Oct 17 | | Ian White Associates Landscape Architects | Glenmore Feasibility Study | Apr-Jun 16 | |
| **9.** | **Policies update** |
| 9.1 | The Risk Management Policy was reviewed in April 2016 and deemed fit for purpose with no changes required. |
| **10.** | **Implications** |
| 10.1  10.2  10.3 | Resource Implications – the cost of the tax and VAT review is not available as this report goes to print, although it may be by the date of the meeting.  Legal Implications – there are no new legal implications arising from the content of this report.  Risk Implications – there is a risk that current tax and VAT arrangements are not fully up to date and that back payment may be required. |

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| **Recommendations** It is recommended that Directors note:   1. the draft year end out-turn, subject to Audit, for 2015/16 for High Life Highland as detailed in **Appendix A** reports a surplus of £247,714 to Unrestricted Reserves and a transfer to Restricted Reserves of £60,202 in respect of grant income; 2. the changes to the approved budget for 2016/17; 3. the update on the ongoing VAT investigations; and 4. the award of contracts as detailed in **paragraph 8** of this report. |

Signature:

Designation: Chief Executive

Date: 3 June 2016

**Summary Results - Consolidated** **APPENDIX A**

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| **Consolidated Results 2015/16** | **Budget** | **Actual** | **Variance** |
| **Income** | £22,229,517 | £22,544,932 | £315,415 |
| **Other Costs** | (£5,920,761) | (£6,251,618) | (£330,857) |
| **Staff Costs** | (£16,308,756) | (£16,045,600) | £263,156 |
| **Surplus ( deficit)** | **£0** | **£247,714** | **£247,714** |

**Breakdown of Results – By Activity APPENDIX B**

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| **Sector** | **Budget** | **Actual** | **Variance** |
| **Adult** | (£755,545) | (£611,134) | £144,411 |
| **Archives** | (£646,750) | (£612,112) | £34,638 |
| **Arts** | (£274,820) | (£303,030) | (£28,210) |
| **Facilities** | (£2,349,924) | (£2,251,133) | £98,791 |
| **H&W** | £0 | £1,335 | £1,335 |
| **Libraries** | (£3,663,465) | (£3,608,250) | £55,215 |
| **Management** | (£2,346,426) | (£2,399,156) | (£52,730) |
| **Museums** | (£556,672) | (£498,050) | £58,622 |
| **Outdoor** | (£112,869) | (£118,136) | (£5,267) |
| **SLA** | £12,716,399 | £12,543,338 | (£173,061) |
| **Sports** | (£501,607) | (£464,537) | £37,070 |
| **Youth-work** | (£1,508,321) | (£1,431,422) | £76,900 |
| **Surplus ( deficit)** | **£0** | **£247,714** | **£247,714** |

**Breakdown of Variance - By Activity Appendix B (Contd)**

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| **Sectors** | **Variance Income** | **Variance Other Costs** | **Variance Staff Costs** | **Total Variance** |
| **Adult** | £66,603 | £82,744 | (£4,935) | £144,411 |
| **Archives** | (£4,099) | (£6,502) | £45,239 | £34,638 |
| **Arts** | (£60,839) | £2,165 | £30,464 | (£28,210) |
| **Facilities** | £108,568 | £82,139 | (£91,915) | £98,791 |
| **H&W** | £79,157 | (£77,096) | (£725) | £1,335 |
| **Libraries** | £7,393 | (£21,923) | £69,745 | £55,215 |
| **Management** | £4,751 | (£69,342) | £11,861 | (£52,730) |
| **Museums** | £84,843 | (£57,781) | £31,560 | £58,622 |
| **Outdoor** | (£61,750) | £6,406 | £50,077 | (£5,267) |
| **SLA** | (£169,215) | (£3,846) | £0 | (£173,061) |
| **Sports** | £113,469 | (£88,910) | £12,511 | £37,070 |
| **Youth-work** | £146,538 | (£178,910) | £109,271 | £76,900 |
| **Surplus ( deficit)** | **£315,418** | **(£330,857)** | **£263,153** | **£247,714** |

**Explanation of Variance (Over £5K) for 2015/16 APPENDIX C**

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| **Services** | **Variance - Total** | **Income** | **Other Costs** | **Staff Costs** |
| Adult | **£144,411** | Income over budget £66.6K , grant income with associated Additional Other Costs | Variance £82.7K, underspend on the Adult literacy budget of **£89K to fund IL** Fund. Underspend on thematic Projects £35K, Additional Other Costs for Grants related projects (£48.6K) | On target – Variance less than £5K |
| Archives | **£34,638** | On target – Variance less than £5K | Variance £6.5K – Savings “Am Baile” project due to rebate from THC £5.4K | Staff Costs under budget £45.2 K – Staff Vacancy. £**11K allocated to IL Fund.** |
| Arts | **(£28,210)** | ***Note 1.*** In addition to TMC – Grant income target in Exhibition Unit was aggressive -shortfall in funding income £20K | ***Note 1*** | ***Note 1*** |
| Facilities | **£98,791** | ***Note 2*** | Variance £82K, Savings on lease costs £94K | ***Note 2*** |
| Libraries | **£55,215** | Variance £7.3K, Grant Income £5K with associated Other costs | Variance (£21.9K), £9K ICT, £3.5K Book fund, Equipment & Office Supplies £5K | Variance £69.7K, Structural Budget Savings realised early, **£17K allocated to IL Fund.** |
| H&W | **£1,335** | Variance £79.2K, Grant Income | Variance (£77.1K) – Costs to deliver Projects |  |
| Management | **(£52,730)** | On target – Variance less than £5K | Variance (£69.3K) additional accrual Vat Irrecoverable. | Variance £11.8K, Staff Vacancy |
|  |  |  |  | **APPENDIX C (Cont’d)** |
| SLA | **(£173,061)** | Variance (£169.2K), IL Fund (£181K), IORB £12K. | Variance (£3.8K) on SLA, recharged back to THC |  |
| Museums | **£58,622** | Variance £84.8K, HFM £49K donations over budget £41K, Craft sales £6K and IMAG £27K Grant Income £5K and £12K Invoice to THC to cover artefacts from fund held by the Council. | Variance (£57.7K), HFM (£35K), (£9.5K Training consultancy, (£12.3K absorbed efficiencies for service, (£10K) Cost of Sales goods for resale and (£20K) IMAG Exhibits. | Staff Costs under budget £31.5K – HFM under budget manual Staff  **£2K allocated to IL Fund.** |
| Outdoor | **(£5,267)** | Variance (£61.7K) re training courses**. *Note 3*** | Variance £6.4K. ***Note 3*** | Variance £50K - ***Note 3*** |
| Sport | **£37,070** | Variance £113.4K – Active Schools (AS) Events Programme, additional income to be offset against additional costs | Variance (£88.9K) – costs to run ASC programme activities | Variance £12.5K – Staff Recruitment |
| Youth work | **£76,900** | Variance £146.5K – Grant income | Variance (£178.9K) Seasonal is offset against grant | Variance £109K as a result of the recruitment process for key posts in the new structure which is now in place and Underspend on Seasonal Staff Budget £27K  **£60K allocated to IL Fund.** |
| Surplus ( Deficit) | **£247,714** |  |  |  |

**APPENDIX C (Cont’d)**

**NOTE 1 – Arts Variance YTD**

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| **TMC** | **BUDGET** | **ACTUAL YTD** | **VARIANCE YTD** |  |
| Income | 29,231 | 316 | (28,915) |  |
| Other Costs | (11,931) | (1,710) | 10,221 |  |
| Staff Costs | (31,961) | (23,514) | 8,447 |  |
| **TOTAL** | **(14,661)** | **(24,908)** | **(10,247)** |  |
| **Redundancy included in Staff Costs £16,475** | | |  |  |
| Redundancy was delayed by a month | | |  |  |
| Initially the full year’s budget was allocated to cover the redundancy | | | | |
| Staff Costs were incurred for April 2015 | | |  |  |

**NOTE 2 – Facilities Budget**

**Facilities**

**STAFF**: The actual spend reports a pressure on staffing budgets, this relates to the back fill staff costs to facilitate staff training costs for

1. the “Love to Swim” programme
2. the development of Personal Training
3. adult fitness training including Gym Instruction, Spinning and Metafit and other operational requirements including pool plant training.

Further grant income of £19K is due in Q4 to offset these costs, leaving a balance of £79K for back fill.

**NOTE 3- Outdoor Budget**

An in-depth review of the Outdoor budget together with a detailed reforecast to year was undertaken which takes accounts of the new structure. It is forecast to come in on target to budget with the loss of Income offset against staff costs, mainly down to managing the recruitment process year to date. All staffing establishment is now in place.

**APPENDIX D**

**Changes to Approved Budget**

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| --- | --- | --- | --- | --- |
| **Sectors** | **Revised Budget** | **Original Budget Approved (March '16)** | **Difference** |  |
| Adult | (645,447) | (592,447) | (53,000) | ESF Funding Project Complete |
| Archives | (658,216) | (658,225) | 9 |  |
| Arts | (233,315) | (253,315) | 20,000 | Donations Income Target |
| Facilities | (2,119,143) | (2,195,443) | 76,300 | Refer To NOTE1 |
| Libraries | (3,636,697) | (3,643,518) | 6,820 | Refer To NOTE1 |
| Management | (2,405,197) | (2,314,530) | (90,667) | Refer To NOTE1 |
| Museums | (866,724) | (866,724) | 0 |  |
| Outdoor | (116,028) | (116,028) | 0 |  |
| SLA | 12,628,708 | 12,593,171 | 35,537 | Refer To NOTE1 |
| Sports | (547,586) | (550,086) | 2,500 | Donations Income Target |
| Youth work | (1,400,355) | (1,402,856) | 2,501 | Donations Income Target |
|  | 0 | 0 | 0 |  |

**APPENDIX D (Cont’d)**

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| **NOTE 1** |  |  |  |  |  |
|  | **Difference** | **Explanation** |  |  |  |
| **Libraries** | 6,820 | (35,537) | Bettyhill / Broadford Service Points (transfer from Council ) | |  |
|  |  | 22,357 | Aviemore Library Staff Costs transferred to Facilities | |  |
|  |  | 20,000 | Donations Income Target transferred to Services |  |  |
|  |  | 6,820 |  |  |  |
|  |  |  |  |  |  |
| **SLA - Management fee** | 35,537 | 35,537 | Fee for Bettyhill / Broadford Service Points (transfer from Council ) | | |
|  |  |  |  |  |  |
| **Facilities** | 76,300 | 23,657 | IL to Budget Transfer to Management ( Insurance) | |  |
|  |  | (22,357) | Aviemore Library Staff Costs transferred to Facilities | |  |
|  |  | 75,000 | Donations Income Target Transferred from Management | |  |
|  |  | 76,300 |  |  |  |
|  |  |  |  |  |  |
| **Management** | (90,667) | (23,657) | IL Insurance Budget transferred to management | |  |
|  |  | 53,000 | ESF Adjustment |  |  |
|  |  | (115,000) | Donations Income Target transferred to Services | |  |
|  |  | (5,010) | Miscellaneous |  |  |
|  |  | 90,667 |  |  |  |
|  |  |  |  |  |  |