

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

### **Summary**

This report provides Directors with an update on the financial performance of High Life Highland for the period ending 31 January 2016; discusses the THC/HLH funding formula; 2016/17 savings target and savings programme; and the initiation of a tax and VAT review.

It is recommended that Directors:

- i. note the financial results for the 10 months to 31 January 2016 report a positive variance of £124,988 on budget as detailed in **Appendix A**;
- ii. note that with continued proactive management and after allowing for the £181K one off requirement from the transfer of business with Inverness leisure the projected final out-turn for the year is forecasted to be circa £140K surplus to the approved budget;
- iii. note the change to method of calculation of HLH Service Delivery Fee;
- iv. note the confirmed savings target and final list of savings measures for 2016/17 as detailed in **Appendix D**;
- v. agree the budget for 2016/17;
- vi. note there were no substantial breaches of internal controls in 2015/16;
- vii. note the award of contracts as detailed in **section 7** of the report; and
- viii. homologate the decision to award the contract to Ernst and Young outwith the normal Financial Regulations.

## **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 to 31 January 2016**

- 3.1 The out-turn figure for the period to 31 January 2016 has been prepared. HLH's consolidated financial performance for the year is summarised by the 9 business areas at **Appendix A**. The out-turn for the period is split by cost category (revenues, staff costs and other costs) at **Appendix B**.
- 3.2 The £124,988 under budget to date is made up of income in excess of budget by £242K (1.1%), staff costs under budget by £149K (0.9%) and other costs over budget by £266K (4.1%).
- 3.3 A commentary on the major variances (over £5K) is provided at **Appendix C**.
- 3.4 The projection to the year end is showing a surplus to budget of circa £140K.

### **4. Change to method of calculation of HLH Service Delivery Fee**

- 4.1 The Council has proposed to change the method of calculation of the HLH Services Fee. This is in parallel with a similar proposal to simplify arrangements for budgets now devolved from THC to NHS Highland. The difference between the two methods of calculation is as follows:

#### **Existing formula**

Annually – Previous year's roll forward Services Fee adjusted for:

- Agreed % Savings (Decrease)
- Agreed Inflation on Income (Decrease)
- Additional Feeds from THC for pressures (Increase)
- Salary/Pension Increase etc.(Increase)

#### **New method - Single percentage**

- Government reduction to THC is applied to the HLH previous year's roll forward Services Fee
- HLH funds all budget pressures, eg salary/pension increase (no additional feed from THC).

### **5. Assessment of Risk and Recommendation of Finance and Audit Committee**

- 5.1 The Finance and Audit Committee met on two occasions, on an informal and then formal basis to discuss this matter on 15 January and 16 February 2016 respectively, meetings to which all Directors were invited.
- 5.2 Based on: an assessment of projected targets for 2016/17 and beyond; the removal of the complex and time absorbing annual negotiations; the lack of clarity associated with current method of adjustments and consequential uncertainty about what the Council will fund, particularly in regard to 'in-year' adjustments; and in particular the removal of annual income targets so that HLH can retain all income from price increases and improved performance, the Finance and Audit Committee agreed that HLH should accept the Council's proposal to move to a single percentage calculation for the HLH Services Fee.

## **6. HLH savings target and list of savings measures for 2016/17**

- 6.1 During 2015, planning began to meet a target budget reduction to HLH, based on the then 1.6% reduction from the Scottish Government to the Council. At the 20 August 2015 Board meeting Directors delegated budget discussions to the Finance and Audit Committee with all Board members invited to attend meetings. Just prior to Christmas 2015, the planning target was updated to 4.31% reflecting the increased target faced by the Council. The financial effect of this updated figure, together with the HLH measures to address the revised target, are summarised in **Appendix D** to this report, in the form of the submission made on the subject to the Council by the deadline given, 15 January 2016.
- 6.2 It will be recommended that Directors note the list of savings measures as submitted to THC for the deadline of January 15, 2016.

## **7. BUDGET 2016/17 APPROVAL**

- 7.1 The proposed budget for 2016/17 will be sent out as a separate paper. The Board will be asked to approve the budget.

## **8. Ernst & Young (EY)- Tax review & Due Diligence**

- 8.1 Discussions took place at the Finance and Audit Committee meeting on 16 February 2016 with regard to the appointment of EY to undertake a detailed tax and due diligence review, taking account of the addition of Inverness Leisure and in preparation for the business case for the potential transfer of CCFM [discussed elsewhere on this agenda].
- 8.2 A significant element of the contract will involve EY reviewing HLH's current VAT structure, both retrospectively and moving forward to assess the liability to HMRC for the period October 2011 to date.
- 8.3 Given the urgency of the matter, the Chief Executive, in consultation with the Chairs of the HLH Board and the Finance and Audit Committee and following discussion at the Finance and Audit Committee of 16 February 2016, authorised the award of the contract outwith the normal Financial Regulations. Homologation for this decision is sought.

## **9. Annual Review of the Effectiveness of Internal Control**

- 9.1 The Finance and Audit Committee review all breaches of the Financial Regulations. There were no substantial breaches of controls reported in the calendar year 2015.
- 9.2 All matters arising from our 2015 Internal Audit have been addressed with corrective action issued and completed.
- 9.3 The Internal Audit 2016, dates to be confirmed, is on the management and control of Payroll.

## 10. Procurement - Tenders Approved/Contracts Awarded

10.1	Indoor Group Cycles	Jan 16-Nov 17	Anytime Leisure
	Creative Design	Nov 15-Oct 18	Dynam
	Level 3 Exercise for Older Adults Training course	Feb 16-Mar 18	Pure Training and Development

## 11. Implications

- 11.1 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.
- 11.2 Legal Implications – there are no new legal implications arising from the content of this report.
- 11.3 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.

## Recommendations

It is recommended that Directors:

- i. note the financial results for the 10 months to 31 January 2016 report a positive variance of £124,988 on budget as detailed in **Appendix A**;
- ii. note that with continued proactive management and after allowing for the £181K one off requirement from the transfer of business with Inverness leisure the projected final out-turn for the year is forecasted to be circa £140K surplus to the approved budget;
- iii. note the change to method of calculation of HLH Service Delivery Fee;
- iv. note the confirmed savings target and final list of savings measures for 2016/17 as detailed in **Appendix D**;
- v. agree the budget for 2016/17;
- vi. note there were no substantial breaches of internal controls in 2015/16;
- vii. note the award of contracts as detailed in **section 7** of the report; and
- viii. homologate the decision to award the contract to Ernst and Young outwith the normal Financial Regulations.

Signature:

Designation: Chief Executive

Date: 29 February 2016

Summary Results - Consolidated

APPENDIX A

Consolidated Results ( April - Jan )	BUDGET	YTD Budget	YTD Actual	Variance
Income	22,720,274	17,335,335	17,577,073	241,737
Other Costs	(6,513,026)	(3,196,974)	(3,462,570)	(265,595)
Staff Costs	(16,207,248)	(13,514,196)	(13,365,350)	148,846
<b>Surplus (Deficit)</b>	<b>-</b>	<b>624,165</b>	<b>749,153</b>	<b>124,988</b>

Breakdown of Results – By Activity

APPENDIX B

SECTOR	BUDGET	BUDGET YTD	ACTUAL YTD	VARIANCE YTD
Adult	(753,708)	(599,902)	(579,435)	(20,467)
Archives	(644,207)	(521,099)	(506,674)	(14,425)
Arts	(274,047)	(238,913)	(261,637)	22,724
Facilities	(2,331,591)	(1,716,274)	(1,732,105)	15,831
Libraries	(3,654,278)	(2,836,435)	(2,789,672)	(46,763)
Management	(2,391,696)	(1,885,417)	(1,939,915)	54,498
Museums	(554,756)	(445,347)	(410,265)	(35,083)
Outdoor	(112,393)	(88,959)	(83,515)	(5,445)
SLA	12,716,399	10,408,464	10,408,464	0
Sports	(495,860)	(200,873)	(189,968)	(10,905)
Youthwork	(1,503,863)	(1,251,081)	(1,166,126)	(84,955)
<b>Surplus (Deficit)</b>	<b>0</b>	<b>(624,165)</b>	<b>(749,153)</b>	<b>124,988</b>

Breakdown of Variance - By Activity

Appendix B (Contd)

SECTOR	Variance YTD INCOME	Variance YTD OTHER COSTS	Variance YTD STAFF	Variance YTD Total
Adult	19,616	4,161	(3,311)	20,467
Archives	5,351	(17,987)	27,061	14,425
Arts	(51,572)	12,752	16,096	(22,724)
Facilities	16,087	66,889	(98,807)	(15,831)
Libraries	(7,428)	(4,748)	58,939	46,763
Management	4,067	(61,200)	2,635	(54,498)
Management H&W	60,407	(59,682)	(725)	0
Museums	59,889	(42,529)	17,722	35,083
Outdoor	(55,182)	13,175	47,451	5,445
Sports	93,900	(87,651)	4,656	10,905
Youthwork	96,602	(88,776)	77,129	84,955
<b>Surplus (Deficit)</b>	<b>241,737</b>	<b>(265,595)</b>	<b>148,846</b>	<b>124,988</b>

16 Explanation of Variance (Over £5K) – By Activity after the impact of the £181K on costs

APPENDIX C

Services	Variance - Total	Income	Other Costs	Staff Costs
Adult	£20,467	Income over budget £19.6K , grant income	On target – Variance less than £5K	Staff Costs on target – Variance less than £5K
Archives	£14,425	Income over budget £5.4K, Income of £2K Health & well-being courses and £3K grant Income	Other costs over budget (£18K) Seasonal, grant offset due in Q4 £6K, £6K budget savings absorbed in Budgets.	Staff Costs under budget £27K – Staff Vacancy
Arts	(£22,724)	<i>Note 1.</i> In addition to TMC – Grant income target in Exhibition Unit was aggressive - shortfall in funding income £20K	<i>Note 1</i>	<i>Note 1</i>
Facilities	(£15,831)	Income over budget £16K,	Other costs under budget £67K Proactive management of new leases	<i>Note 2</i>
Libraries	£46,763	Income Under Budget £7.4K – Mainly letting £7K	On target – Variance less than £5K	Staff Costs under budget £59K – Staff Vacancy
Management H&W	£0	Income over budget £60.4K, grant income	Other costs over budget (£60K) – Costs associated with Grants	On target – Variance less than £5K
Management /SLA	(£54,498)	On target – Variance less than £5K	Other costs over budget (£61K), Accrual for Vat 15/16 £64K net liability	On target – Variance less than £5K
Museums	£35,083	Income is over budget by £60K, which is due mainly to the Highland Folk Museum donations over budget £41K, Balance Craft sales £6K and Grant Income IMAG £5K	Other costs over budget by ( £43K), £14K relate to IMAG Exhibits- Once off expenses collection items, £16K absorbed for Efficiency savings, Costs	Staff Costs under budget £17K – HFM under budget manual Staff & Staff Vacancy IMAG



			covered by Grant Income IMAG £5K	
Outdoor	<b>£5,445</b>	Income under budget (£55K) re training courses. <b>Note 3</b>	Other costs under budget 16. <b>Note 2</b>	Staff Costs under budget £47K - <b>Note 2</b>
Sport	<b>£10,905</b>	Income Over budget £94K – Active Schools (AS) Events Programme, additional income to be offset against additional costs	Costs Over budget (£87K) – costs to run ASC programme activities	Costs Over budget (£4.6K) – costs to run AS programme activities On target
Youth work	<b>£84,955</b>	Income over budget £97K – Grant income	Other Costs Over budget by (£88K) Seasonal is offset against grant	Staff Under budget by £77K Staff vacancies, £45K as a result of the recruitment process for key posts in the new structure which is now in place.
Surplus ( Deficit)	<b>£124,988</b>			

## NOTE 1 – Arts Variance YTD

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
<b>TOTAL</b>	<b>(14,661)</b>	<b>(24,908)</b>	<b>(10,247)</b>

### 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

- i. the “Love to Swim” programme
- ii. the development of Personal Training
- iii. 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.

## 2016/17 BUDGET BRIEFING PAPER - Report by HLH Chief Executive

**Summary**

The purpose of this briefing paper is to present the savings proposals by High Life Highland in order to meet the budget planning target from The Highland Council for the financial year 2016/17.

<b>1.</b>	<b>Background</b>
1.1	During 2015, planning began to meet a target budget reduction to High Life Highland (HLH), based on the then 1.6% reduction from the Scottish Government to the Council. Just prior to Christmas 2015, this target was updated to 4.31% reflecting the increased target faced by the Council.
<b>2.</b>	<b>Make Up Of HLH Savings Target</b>
2.1	<p><u>Target Services Fee reduction</u> is made up of</p> <ul style="list-style-type: none"> <li>• HLH roll forward net Fee (£12.4M), plus</li> <li>• IL roll forward net Fee £528K</li> </ul> <p>Savings target £12.9M x 4.31% = £556.7K</p> <p>Plus <u>pressures</u> – HLH and Inverness Leisure Combined</p> <ul style="list-style-type: none"> <li>• £200 IL amalgamation</li> <li>• £326K 1% salary / pension national awards</li> <li>• £218K National Insurance Rebate adjustment – Contracted out Pension – national agreement</li> </ul> <p><b>Total to find £1.3M</b></p>
<b>3.</b>	<b>Savings Proposals</b>
3.1	<p>The HLH proposals take an ambitious and challenging approach to income. Together with efficiencies, the proposals seek to minimise cuts to services. There is a risk that the savings targets will not be met, but based on the track record to date it is believed that this approach is appropriate and the risks manageable. The proposals are therefore listed in three sections; increased income [£530K]; efficiencies [£300K]; reduction in services [£470K], totalling £1.3M.</p> <p><u>Income</u> The income section is very ambitious and if not achieved, emergency measures may be required during the year.</p>

Planned business growth - New income and price increases <i>[building on programmes and initiatives begun in 2015/16 and an average price increase of 4%]</i>	£393,000
Catering, retailing and sales (IMAG, HFM, IBG, BNVC) <i>[continued focus on quality of product, service and profit margins]</i>	£22,000
Donations Policy <i>[using discretionary nature of services as reasoning for stimulating donations – across all non-paid for aspects of HLH]</i>	£115,000
<b>Sub total</b>	<b>£530,000</b>
<u>Efficiencies</u>	
Reduction in middle management posts	£100,000
Transfer of Inverness Leisure business to HLH <i>[efficiency target per December 2015 Highland Council meeting]</i>	£200,000
<b>Sub total</b>	<b>£300,000</b>
<u>Service Reduction / Removal</u>	
Remove Inverness Traditional Music Co-ordinator post	£15,000
Remove Adult Learning Commissioning Fund <i>[Fund used to commission adult learning classes and courses from community organisations. Does not affect directly provided literacy and numeracy classes]</i>	£180,000
Reduction in leisure facility opening hours <i>[Facility by facility review – eg open later, close earlier, break in middle of day]</i>	£75,000
Removal of creative learning budget <i>[budget used as project funding for arts projects in primary schools]</i>	£50,000
30% reduction in sessional youth work and youth project budget <i>[This reduction will sought to be partially mitigated through external funding applications]</i>	£130,000
Reduce Highland Youth Parliament residential conferences from two to one. <i>[replace the removed residential conference with local, non-residential youth parliament day conferences, seeking to tie in with the work of District partnerships]</i>	£20,000
<b>Sub total</b>	<b>£470,000</b>
<b>Total</b>	<b>£1.3M</b>