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| HIGH LIFE HIGHLAND  REPORT TO BOARD OF DIRECTORS  23 August 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 period ending 30 June 2016.  It is recommended that Directors note:   1. the current financial position of High Life Highland as detailed in **Appendix A;** 2. the financial results for the 3 months to 30 June 2016 report a slight negative variance on budget of £3,850; 3. the projected final out-turn for the year remains on target to the approved budget; 4. the award of contracts to Randak Design and Technogym; 5. the update on VAT; and 6. make any additions or amendments and approve the risk register. |

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| **1.** | **Business Plan Contribution** |
| 1.1 | This report supports the highlighted Business Outcome 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 30 June 2016** |
| 3.1  3.2  3.3  3.4 | The out-turn figure for the period to 30 June 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**.  This shows total revenues in under budget by £59K, Staff costs under budget by £28K and other costs under budget by £35K.  A commentary on the major variances (over £5K) is provided at**Appendix C**. |
| **4.** | **CCFM Update** |
| 4.1 | This is the subject of a separate report to the Board. |
| **5.** | **VAT Update** |
| 5.1  **6**.  6.1 | Preliminary work to review the VAT position has been completed with Ernst & Young with a view to scheduling a meeting with HMRC in September.  **Risk Register Review**  The Risk Register is regularly reviewed by the Finance and Audit Committee, however it is brought annually to the Board for approval. The Board will be asked to identify any risks that are not included in the register and score these and approve the register as part of the annual review. The Risk Register is attached at **Appendix D.** |
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| **7.**  7.1 | **Tenders Approved/Contracts Awarded**   |  |  |  | | --- | --- | --- | | Randak Design Consultants | Design and supply of a Pocket-size fold-out Map for Inverness Centre | Jul-Aug 16 | | Technogym | Provision of Fitness Equipment | Aug 16-Jul 20 | |
| **8.** | **Implications** |
| 8.1  8.2  8.3 | Resource Implications – there are no new resource implications associated with the recommendations of this report. Once the VAT position is clarified an adjustment may be required.  Legal Implications – there are no new legal implications arising from the content of this report.  Risk Implications – there are no new risks arising from the content of this report*.* |
| **Recommendations** It is recommended that Directors note:   1. the current financial position of High Life Highland as detailed in **Appendix A;** 2. the financial results for the 3 months to 30 June 2016 reports a slight negative variance on budget of £3,850; 3. the projected final out-turn for the year remains on target to the approved budget; 4. the award of contracts to Randak Design and Technogym; 5. the update on VAT; and 6. make any additions or amendments and approve the risk register. | |

Signature:

Designation: Chief Executive

Date: 15 August 2016

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

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| **Consolidated Results** | **Annual Budget** | **YTD Budget** | **YTD Actuals** | **YTD Variance** |
| Income | 25,675,429 | 6,174,294 | 6,233,596 | (59,302) |
| Other Costs | (6,777,979) | (1,591,393) | (1,626,308) | 34,915 |
| Staff Costs | (18,897,450) | (4,749,502) | (4,777,739) | 28,237 |
| **Surplus ( Deficit)** | **0** | **166,601** | **170,451** | **(3,850)** |

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

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| **Sector** | **Annual Budget** | **YTD Budget** | **YTD Actuals** | **YTD Variance** | **Percentage variance on YTD budget** |
| Adult | (645,447) | (140,584) | (139,195) | 1,389 | 0.99% |
| Archives | (658,215) | (178,622) | (164,280) | 14,342 | 8.03% |
| Arts | (231,319) | (71,774) | (70,645) | 1,129 | 1.57% |
| Facilities | (2,119,140) | (422,921) | (433,917) | (10,996) | -2.60% |
| Libraries | (3,636,701) | (849,502) | (849,554) | (52) | -0.01% |
| Management | (2,405,185) | (628,064) | (628,513) | (449) | -0.07% |
| Museums | (868,724) | (292,844) | (292,937) | (93) | -0.03% |
| Outdoor | (116,028) | (26,661) | (35,607) | (8,947) | -33.56% |
| SLA | 12,628,708 | 3,213,143 | 3,213,143 | 0 | 0.00% |
| Sports | (547,593) | (370,568) | (370,752) | (184) | -0.05% |
| Youth work | (1,400,356) | (398,204) | (398,193) | 11 | 0.00% |
| **Surplus ( Deficit)** | **0** | **(166,601)** | **(170,451)** | **(3,850)** |  |

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

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| --- | --- | --- | --- | --- | --- | --- | --- |
| **Sector** | **Variance YTD - Income** | **% Variance to YTD Budget (Income)** | **Variance YTD – Other Costs** | **% Variance to YTD Budget (Other Costs)** | **Variance YTD - Staff** | **% Variance to YTD Budget (Staff Costs)** | **Variance YTD** |
| Adult | 503 | 4.02% | 4,440 | 27.65% | (3,554) | -2.59% | 1,389 |
| Archives | (990) | -7.85% | 141 | 1.58% | 15,190 | 8.33% | 14,342 |
| Arts | (2,775) | -47.35% | 1,490 | 7.22% | 2,414 | 4.24% | 1,129 |
| Facilities | 8,905 | 0.38% | (3,074) | -0.71% | (16,827) | -0.72% | (10,996) |
| Libraries | (717) | -3.01% | (872) | -0.64% | 1,537 | 0.21% | (52) |
| Management | 2,806 | 18.10% | (2,405) | -0.79% | (849) | -0.25% | (449) |
| Museums | 76 | 0.06% | (99) | -0.04% | (70) | -0.04% | (93) |
| Outdoor | (9,931) | -47.87% | (674) | -7.90% | 1,659 | 4.27% | (8,947) |
| Sports | 30,844 | 181.20% | (10,170) | -63.50% | (20,858) | -5.61% | (184) |
| Youth work | 30,580 | 281.25% | (23,692) | -56.30% | (6,878) | -1.87% | 11 |
| **Surplus ( Deficit)** | **59,302** |  | **(34,915)** |  | **(28,237)** |  | **(3,850)** |

**NOTE:**

**Sports** - The overall budget variance YTD is (0.05%) and the budget will be met for 2016/17. The reason for the variances on each of the three categories is that the additional income brought in by Active Schools cannot be budgeted for as definite income and similarly the associated costs cannot be included in the budget.

**Youth work** - The overall budget variance YTD is nil and the budget will be met for 2016/17. Youth Workers secure grants (mainly Ward discretionary grants) throughout the year, however, this cannot be budgeted for as a definite income source and the associated costs, seasonal staff and project costs associated with the delivery of the grant are not included in the budget.

**Outdoor** - The income targets are recognised as being aggressive for the Outdoor activities budget. There is a structural shortfall of £30K in the overall budget as this was initially taken as a saving in previous years and is currently under consideration.

**Explanation of Major Variance (Over £5K) – By Activity Appendix C**

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| **Services** | **Variance - Total** | **Income** | **Other Costs** | **Staff Costs** |
| Adult | **1,389** | On target – Variance less than £5K | On target – Variance less than £5K | On target – Variance less than £5K |
| Archives | **14,342** | On target – Variance less than £5K | On target – Variance less than £5K | Staff Vacancy – Will be filled in the last six months. |
| Arts | **1,129** | On target – Variance less than £5K | On target – Variance less than £5K | On target – Variance less than £5K |
| Facilities | **(10,996)** | Income is over budget of £8.9K | On target – Variance less than £5K | Staff Costs are over budget – additional up front cost required by additional income. |
| Libraries | **(52)** | On target – Variance less than £5K | On target – Variance less than £5K | On target – Variance less than £5K |
| Management | **(449)** | On target – Variance less than £5K | On target – Variance less than £5K | On target – Variance less than £5K |
| Museums | **(93)** | On target – Variance less than £5K | On target – Variance less than £5K | On target – Variance less than £5K |
| Outdoor | **(8,947)** | Income Under budget by £(9.9K), refer to Note 1 | On target – Variance less than £5K | On target – Variance less than £5K |
| Sport | **(184)** | Income Over budget £30K – Active Schools (AS) Events Programme, additional income to be offset against additional costs | Costs Over budget (£10K) – costs to run AS programme activities | Staff Costs Over budget (£20.8K) – costs to run AS programme activities, mainly Payments to Sports Instructors. |
| Youth Work | **11** | Income over budget £30.5K, grants received in Q1 – will balance out to year end in line with additional expenditure. | Other Costs Over budget by (£23K) Project costs and will be offset against grant income due in Quarter 2 | Staff Costs Over budget by (£6.8K) Seasonal Staff Costs and will be offset against grant income due in Quarter 2 |

**APPENDIX D**

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| **Risk No** | **Risk Rating** | **Above  the Line** | **Progress/Status R / A / G** | **Risk Description/ Short Name** | **Vulnerability** | **Trigger** | **Consequences** | **Owner** | **Lead officer** | **Date added** |
| HLH03 | **D3** | No |  | Estate condition/ building failure | Failure of a building/s | Long term poor PR - damage to reputation | Local reputation damage | **Board / SMT** | **DW** | Dec-11 |
| HLH04 | **E2** | No |  | System failures, such as IT | Failure of a major system. Move to new IT infrastructure could lead to failure/interruption caused by split in contract | Inability to deliver contract | Reputational damage | **SMT** | **DW** | Dec-11 |
| HLH05 | **C2** | Yes |  | Over reaching/over commitment | Failure of significant projects and pressure on central services | Long term poor PR - damage to reputation | Staff stress, missed deadlines | **Board / SMT** | **IM** | Dec-11 |
| HLH06 | **D3** | No |  | Changes to the political landscape | Lack of understanding / agreement on respective roles | Missed opportunities to work in partnership | Missed opportunity for service development | **Board** | **IM** | Dec-11 |
| HLH07 | **E2** | No |  | Poor or ineffective working relationship between the Council and the HLH Board | Lack of partnership approach | Missed opportunities to work in partnership | Missed opportunity for service development | **Board** | **IM** | Dec-11 |
| HLH08 | **D3** | No |  | Poor working relationship between HLH SMT and Council service staff | Lack of partnership approach | Missed opportunities to work in partnership | Missed opportunity for service development | **SMT** | **IM** | Dec-11 |
| HLH09 | **E2** | No |  | Poor or ineffective working relationship between the HLH Board and SMT | Lack of understanding / agreement on respective roles | Inappropriate allocation of responsibilities | Ineffective strategic management of HLH | **Board / SMT** | **IM** | Dec-11 |
| HLH10 | **F2** | No |  | Ineffective governance of HLH by the Board | Failure to establish effective code of corporate governance | Failure to control expenditure and to achieve income targets | Financial insolvency and delivery of CLL services reverts to the Council | **Board** | **IM/ MAM** | Dec-11 |
| HLH14 | **E2** | No |  | Future changes to the legislation that the removes the benefit of the NNDR saving attributable to the Council | No control over political direction that could influence decision | Change to legislation | Cuts to front line CLL services | **SMT** | **IM** | Dec-11 |
| HLH15 | **E2** | No |  | Major health and safety breach | Failure of health and safety systems | Major health and safety incident dealt with inappropriately | Reputational damage | **SMT** | **DW** | Dec-11 |
| HLH17 | **D3** | No |  | Poor project planning and management (see projects) | Failure of significant projects | Missed opportunities to work in partnership | Minor financial impact | **SMT** | **DW** | Dec-11 |
| HLH18 | **E2** | No |  | Breakdown in management/ staff relations | Industrial action | Inability to deliver contract | Delivery of CLL services reverts to the Council | **SMT** | **IM** | Dec-11 |
| HLH19 | **C2** | Yes |  | Non-achievement of income and expenditure targets and failure to control expenditure to achieve revised targets leading to inability to deliver service contract. Aggressive targets for 2016/17 means a greater requirement for scrutiny | Failure to control expenditure and to achieve income targets | Inability to deliver contract | Service Delivery Contract | **Board** | **IM** | Dec-11 |
| HLH20 | **E1** | No |  | Pension deficit continues to grow | Pension scheme fails to recover its financial position | Regular pension review | Financial viability of company affected | **SMT** | **GW** | Dec-11 |
| HLH22 | **D2** | No |  | Insufficient succession planning | Inability to appoint any gaps in the management team | Critical vacancy infilled | Temporary loss of efficiency | **SMT** | **IM** | Dec-11 |
| HLH25 | **E3** | No |  | Failure to implement the Data protection Policy results in action by the Data protection Commissioner | Lack of control of data management | Changes to Data protection regarding European legislation | Prosecution, fine, damage to reputation | **SMT** | **DW** | Dec-12 |
| HLH 28 | E2 | No |  | HC Savings consultations process leaves HLH vulnerable to criticism | Reputation of High Life Highland is affected | Press and public criticism of HLH with reputational damage | reputational damage to HLH | **Board/ SMT** | **IM** | 26/04/13 |
| HLH 29 | D2 | No |  | THC ICT reprovision project (beyond 2016) | Reputational damage as HLH unable to deliver service ambitions | THC unable/unwilling to deliver HLH ICT requirements | HLH limited to THC ICT systems, contracts and associated costs | **SMT** | **DW** | 05/03/14 |
| HLH 30 | C3 | No |  | Specific Council decisions impact increasingly on HLH | Restricts flexibility in HLH decisions | Not being consulted on decisions e.g. service points/capital | Missed opportunity for prioritisation | **SMT** | **IM** | 05/03/14 |
| HLH 31 | D2 | No |  | Significant changes in Council senior management | Inertia | New appointments by HC have no awareness of HLH | Impact on day to day operation and savings proposals leading to relationship breakdown | **SMT** | **IM** | 05/03/14 |
| HLH34 | E3 | No |  | Misuse of Social Media | Reputational damage to company | Public criticism | Reputational damage to company | **SMT** | **JWM** | 08/10/14 |
| HLH36 | E3 | No |  | Ensuring updates from THC on any Health and safety notifications received that impact on the Property Agreement | Reputational damage and loss of service | Public criticism | Reputational damage to company | **SMT** | **DW** | 02/03/15 |
| HLH 39 | C2 | Yes |  | Change to formula for Services Fee from THC | Unknown pressures | Unknown pressures materialising | Further savings/ discussions with THC required | **Board** | **IM** | 27/01/16 |
| HLH41 | B2 | Yes |  | Underpayment of Vat | Budget implications | Report by Ernst and Young confirming underpayment | Discussions with HMRC on payments due and future calculations | **SMT** | **GW** | 27/05/16 |
| HLH42 | D2 | No |  | Effects of Brexit as yet unknown, low risk at present | Uncertainty in financial markets leads to reduced public finances. Unknown at present – watching brief. | UK, then Scottish Government Budget reviews 2017/18 and 2018/19 | Larger saving target than otherwise predicted | **IM** | **GW** | 27/07/16 |
| HLH43 | C3 | No |  | Lost income through capital projects | Income lost through closures for renovations of property not reimbursed by THC | Previous practice of reimbursement not agreed to. | In year loss to HLH | **DW** | **FH** | 27/07/16 |
| HLH44 | C3 | No |  | Negative publicity associated with services delivery where HLH is incorrectly viewed as being at fault due to the actions of third parties | HLH receives negative publicity for decisions of third parties that impact on property/programmes operated by HLH | Closure/reduction of THC service which has an impact on HLH delivered services | Negative media and public perception that HLH is at fault | **IM** | **JWM** | 27/07/16 |

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| **Risk Profile** | | |  |  |  |  |  |  |
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| Likelihood | **A** |  |  |  |  |  | A  B C D E F | - Very High  - High  - Significant  - Low  - Very Low  - Almost Impossible |
|  | **B** |  |  | HLH41 |  |  |  |  |
|  | **C** |  | HLH30  HLH43  HLH44 | HLH05 HLH19  HLH39 |  |  |  |  |
|  | **D** |  | HLH03 HLH06  HLH08  HLH17 | HLH22 HLH29 HLH31 HLH42 |  |  | I II III IV | - Catastrophic  - Critical  - Marginal  - Negligible |
|  | **E** |  | HLH25 HLH34 HLH36 | HLH04 HLH07 HLH09 HLH14 HLH15 HLH18 HLH28 | HLH20 |  |  |  |
|  | **F** |  |  | HLH10 |  |  |  |  |
|  |  | **IV** | **III** | **II** | **I** |  |  |  |
|  |  | Impact |  |  |  |  |  |  |