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| HIGH LIFE HIGHLAND  REPORT TO BOARD OF DIRECTORS  15 June 2017 | AGENDA ITEM  REPORT No HLH /17 |

## **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 2016/17.  It is recommended that Directors note:   1. the draft year end out-turn, subject to Audit, for 2016/17 for High Life Highland as detailed in **Appendix A** reports a surplus of £119,232 to Unrestricted Reserves for the year and a transfer from Restricted Reserves to Unrestricted Reserves (Grant income) of £115,675 giving a total transfer to Unrestricted reserves of £234,907; 2. the award of contracts to Caterpods and Creative Services (Scotland) Ltd. as detailed in **paragraph 9** of this report; and 3. approve the three year Audit plan proposal. |

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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 2016/17** |
| 3.1  3.2 | The Management Accounts, subject to Audit, for the financial year 2016/17 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 £234,907 positive to budget with a commentary on the major variances (over £5K) provided in **Appendix C.** Included in the £234,907 is £80,000 of Libraries savings realised in 2016/17 which is now taken as structural savings in 2017/18 and £87,000 of planned underspend in Adult Literacy fund which has been identified for Budget savings |
| **4.**  4.1  **5.** | **Financial Performance YTD 2017/18**  Taking account of year end reporting requirements the April results were not ready for inclusion in the report.  **Internal Controls – 3 Year Programme** |
| 5.1  5.2 | The proposed three year Internal Audit plan for HLH, under the SLA with The Highland Council covers the following three topics as follows:  **Year 1** - HR : Recruitment and Disclosure Checking  **Year 2** - Health &Safety/Property (RPO and Database)/Facilities operational Procedures.  **Year 3** - Performance Statistics Centralised Administration and User Numbers.  The Audit plan was discussed at the Finance and Audit Committee meeting on 22 May 2017. |
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| **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 over and forwards a detailed schedule annually to HLH. The insurance renewed on 1 April 2017 for 2017/18 and new additions are advised throughout the year as and when required. |
| **8.**  8.1 | **Procurement - Tenders Approved/Contracts Awarded**   |  |  |  | | --- | --- | --- | | Caterpods Ltd | Ice Cream Trailer for Highland Folk Museum | Mar-Jun 17 | | Creative Services (Scotland) Ltd | Facilitation of Cultural Sector Consultation | Mar-Jun 17 | |
| **9.** | **Director attendance at Finance and Audit Committee** |
| 9.1 | HLH Board Directors at the annual review and appraisal workshop in December 2015 agreed that all Directors should attend one meeting per annum of the Finance and Audit Committee to allow a fuller understanding of the detailed scrutiny undertaken of the work of HLH, this to be reported to the HLH Board at the first meeting of the financial year. For 2016/17, all Directors have attended a minimum of one meeting, apart from Mark Tate who is aware and will attend a meeting as soon as diary allows. |
| **10.** | **Implications** |
| 10.1  10.2  10.3 | Resource Implications – there are no new resource implications arising from the content of this report  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 2016/17 for High Life Highland as detailed in **Appendix A** reports a surplus of £119,232 to Unrestricted Reserves for the year and a transfer from Restricted Reserves to Unrestricted Reserves (Grant income) of £115,675 giving a total transfer to Unrestricted reserves of £234,907; 2. the award of contracts to Caterpods and Creative Services (Scotland) Ltd. as detailed in **paragraph 9** of this report; and 3. approve the three year Audit plan proposal. |

Designation: Chief Executive

Date: 1 June 2017

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

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| **Sector** | **Annual Budget** | **Actual** | **Variance** | **T/fer from Restricted Reserves ( Income)** | **Surplus T/fer to "Unrestricted Reserves"** |
| Income | £25,677,691 | £26,108,725 | £431,034 | £115,675 | £546,709 |
| Other Costs | (£6,958,204) | (£7,203,382) | (£245,178) | £0 | (£245,178) |
| Staff Costs | (£18,719,487) | (£18,786,111) | (£66,624) | £0 | (£66,624) |
| Surplus /(Deficit) | £0 | £119,232 | £119,232 | £115,675 | £234,907 |

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

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| **Sector** | **Annual Budget** | **Actual** | **Variance** | **T/fer from Restricted Reserves**  **(Income)** | **Surplus T/fer to "Unrestricted Reserves"** |
| Adult | (£628,447) | (£525,797) | £102,650 | £0 | £102,650 |
| Archives | (£643,215) | (£581,329) | £61,886 | £0 | £61,886 |
| Arts | (£251,314) | (£270,556) | (£19,242) | £0 | (£19,242) |
| Facilities | (£2,170,036) | (£2,208,818) | (£38,782) | £21,717 | (£17,065) |
| Libraries | (£3,623,635) | (£3,564,012) | £59,623 | £0 | £59,623 |
| Management | (£2,540,272) | (£2,509,428) | £30,844 | £0 | £30,844 |
| Museums | (£763,683) | (£747,683) | £16,000 | £6,944 | £22,944 |
| Outdoor | (£116,028) | (£138,858) | (£22,830) | £0 | (£22,830) |
| SLA | £12,708,399 | £12,708,399 | £0 | £0 | £0 |
| Sports | (£547,587) | (£588,874) | (£41,287) | £59,729 | £18,442 |
| Youth work | (£1,424,182) | (£1,453,812) | (£29,630) | £27,285 | (£2,345) |
| Surplus /(Deficit) | £0 | £119,232 | £119,232 | £115,675 | £234,907 |

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

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| **Sector** | **Income** | **% Variance on YTD Budget Income** | **Other Costs** | **% Variance on YTD Budget Other Costs** | **Staff Costs** | **% Variance on YTD Budget Staff Costs** | **Restricted Reserves (Income)** | **Grand Total** |
| Adult | (£4,447) | -7.11% | £89,281 | 59.92% | £17,816 | 3.29% | £0 | £102,650 |
| Archives | £88,856 | 73.42% | (£25,250) | -54.13% | (£1,720) | -0.24% | £0 | £61,886 |
| Arts | £4,195 | 8.59% | (£2,170) | -2.82% | (£21,267) | -9.53% | £0 | (£19,242) |
| Facilities | (£49,548) | -0.54% | £60,813 | 2.64% | (£50,047) | -0.55% | £21,717 | (£17,065) |
| Libraries | (£18,768) | -14.18% | (£1,624) | -0.20% | £80,015 | 2.72% | £0 | £59,623 |
| Management | £24,113 | 92.74% | (£18,754) | -1.61% | £25,485 | 1.82% | £0 | £30,844 |
| Museums | £34,412 | 8.94% | (£40,274) | -9.82% | £21,862 | 2.96% | £6,944 | £22,944 |
| Outdoor | (£35,475) | -42.75% | £10,003 | 16.81% | £2,642 | 1.89% | £0 | (£22,830) |
| Sports | £141,306 | 13.24% | (£119,896) | -92.76% | (£62,697) | -4.22% | £59,729 | £18,442 |
| Youth work | £164,391 | 265.18% | (£115,308) | -135.35% | (£78,713) | -5.62% | £27,285 | (£2,345) |
| Mgnt H&W Projects | £81,999 | 100.00% | (£81,999) | 100.00% | £0 | 0.00% | 0 | £0 |
| Surplus /(Deficit) | £431,034 | 1.68% | (£245,178) | 3.52% | (£66,624) | 0.36% | £115,675 | £234,907 |

**Explanation of Variance (Over £5K) for 2016/17 APPENDIX C**

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| **Sector** | **Variance** | **Note** |
| Adult | 102,786 | Planned underspend on Adult Literacy Fund £86K – marked as budget savings. Staff vacancy for part of the year £17K. |
| Archives | 61,886 | Staff Vacancies £45K, Net return (after offsetting income and other costs) from Conservation Project £22K. |
| Arts | (18,103) | Staff Costs over budget – Back fill for staff sickness cover and additional costs unplanned for exhibition unit. |
| Facilities | (46,892) | Overall Income targets were achieved with the exception of a budgeted events income target of £50K. Other costs came in under budget. Staff Variance of £50K is covered in Designated Reserves IL (See note1) |
| Libraries | 59,623 | Staff Vacancies £80K – taken as structural savings. Negative variance on income of £18K, donations and lending Charges. |
| Management | 23,044 | Staff Vacancies in ICT/ Business Support and HR £25K after allowing for costs on pension strain for early release, Over spend on consultants fees, CCFM and VAT £19K, Income includes Interest on Revenue balance £9K.  Note: all Pension Strain costs have been provided for – no outstanding charges for future years. |
| Museums | 18,444 | Net positive variance HFM £3.8K and IMAG £5.5K |
| Outdoor | (23,038) | The income targets for Outdoor Activities were recognised as being aggressive resulting in a shortfall of £23K for the year-end. This was a structural budget issue and has been dealt with in 2017/18 budgets. |
| Sports | 18,442 | The planned transfer from Restricted Reserves is the Active Schools sports budget which was budgeted as Income during the year. |

**NOTE: Inverness Leisure Merger**

**At the point of transfer, IL reserves were £734,293 of which £521,793 was designated to cover the TUPE costs for Staff T&C’s to cover the first two years following the merger.**

**In line with this agreement and amount of £202,362 will be transferred from Designated funds to Unrestricted Reserves for 2016/17.**