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| HIGH LIFE HIGHLAND REPORT TO BOARD OF DIRECTORS22 March 2017 | AGENDA ITEM 8 REPORT No HLH 2 /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 period ending 31 January 2017.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 10 months to January 2017 report a surplus of £64,256;
3. the projected final out-turn for the year is a surplus to budget of c. £130K;
4. the award of contract to Angus Ross Ltd
5. the update on VAT;
6. no breaches in internal controls during 2016/17: and

approve1. the Ernst and Young Phase 2 VAT review;
2. the extension to Ernst & Young Contract for Audit Services to December 2017; and
3. the High Life Highland 2017/18 budget.
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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
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| **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 subsidiary.  |
| **3.** | **Financial Performance to January 2017** |
| 3.13.23.3 | The out-turn figure for the period to January 2017 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**. A commentary on the major variances (over £5K) is provided at**Appendix C**. |
| **4.** | **VAT Update** |
| 4.14.24.34.4 | Submission for all of the years (2012/13 to 2015/16) has been made to HMRC. HMRC has raised assessments in line with the submissions made. There are no outstanding liabilities with all payments having been processed.As part of the review, potential savings of c. £120K have been identified in relation to the Service Level Agreements (SLA’s) which are in place with the Council. A meeting took place in December 2016 with The Highland Council's Finance team and E&Y to discuss the possibility of restructuring the arrangements. Subject to agreement with THC, agreement would also need to be reached with HMRC on the VAT treatment of the supplies made by the Council on the basis of a sound operational and commercial rationale for revising the current arrangements. The benefit of this approach is that it will provide assurance that the revised arrangements will not be challenged by HMRC in the future. Discussions took place at the Finance and Audit Committee meeting on 27 February 2017 regarding the appointment of Ernst & Young (EY) to undertake Phase 2 of the Tax review as this represents a natural continuation of the VAT work which has been completed by E&Y to date. The Finance and Audit Committee recommend the approval to proceed. This would be an exception to the normal procurement process. |
| **5.**5.1 |  **Budget 2017/18 Approval**The Budget was presented and discussed in detail at the Finance and Audit Committee meeting on the 27 February 2017, **Appendix D** details the draft budget 2017/18 for approval. |
| 5.2 | **Appendix E** details the savings for 2017/18, which is incorporated in the budget presented for approval. |
| **6.**6.1 | **Ernst & Young – Contract for Audit Services**Discussions took place at the Finance and Audit Committee meeting on 27 February 2017 for an extension to be granted to the current contract to December 2017 which allows for the current year's audit to be completed, at which time a full ITQ will take place for a five year contract.  |
| **7.**7.1 | **Tenders Approved/Contracts Awarded**

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| **Supplier** | **Service Details** | **Contract Period**  |
| Angus Ross Ltd | Public Art Commission for Rugby Club in partnership with THC | Jan-Aug 17 |

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| **8.** | **Annual Review of the Effectiveness of Internal Control** |
| 8.18.28.3 |

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| The Finance and Audit Committee review all breaches of the Financial Regulations. There were no substantial breaches of controls reported in the calendar year 2016. All matters arising from our 2016 Internal Audit on Payroll have been addressed with corrective action issued and completed. The Internal Audit plan for the next three years is currently been reviewed, it has been agreed to present a proposal to the next Finance and Audit Committee meeting for consideration. |

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| **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 10 months to January 2017 report a surplus of £64,256;
3. the projected final out-turn for the year is a surplus to budget of c. £130K;
4. the award of contract to Angus Ross Ltd
5. the update on VAT;
6. no breaches in internal controls during 2016/17: and

 approve1. the Ernst and Young Phase 2 VAT review;
2. the extension to Ernst & Young Contract for Audit Services to December 2017; and
3. the High Life Highland 2017/18 budget.
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Designation: Chief Executive

Date: 8 March 2017

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

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|  | **Annual Budget** | **Budget YTD** | **Actual YTD** | **Variance YTD** |
| Income | 25,749,084  | 20,259,709  | 20,753,005  | 493,297  |
| Other Costs | (7,183,526) | (5,009,243) | (5,303,281) | (294,038) |
| Staff Costs | (18,565,558) | (15,629,022) | (15,764,025) | (135,002) |
| **Surplus / ( Deficit)** | **0**  | **(378,556)** | **(314,300)** | **64,256**  |

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

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| **Sector** | **Sum of Annual Budget** | **Sum of Budget (YTD)** | **Sum of Actual (YTD)** | **Sum of Variance (YTD)** | **% Variance to Year to date Budget** |
| Adult | (628,447) | (465,442) | (436,990) | 28,452  | 6.11% |
| Archives | (658,215) | (533,322) | (498,576) | 34,746  | 6.52% |
| Arts | (251,314) | (209,420) | (215,674) | (6,254) | -2.99% |
| Facilities | (2,191,148) | (1,924,138) | (1,923,430) | 708  | 0.04% |
| Libraries | (3,626,701) | (2,818,364) | (2,785,442) | 32,922  | 1.17% |
| Management | (2,532,416) | (1,782,113) | (1,786,534) | (4,421) | -0.25% |
| Museums | (848,724) | (657,231) | (640,444) | 16,788  | 2.55% |
| Outdoor | (116,028) | (96,686) | (134,677) | (37,991) | -39.29% |
| SLA | 12,824,762  | 9,606,450  | 9,606,450  | 0  | 0.00% |
| Sports | (547,587) | (311,516) | (311,514) | 2  | 0.00% |
| Youth work | (1,424,182) | (1,186,774) | (1,187,469) | (695) | -0.06% |
| **Surplus / ( Deficit)** | **0**  | **(378,556)** | **(314,300)** | **64,256**  | **16.97%** |

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

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| **Sector** | **Variance YTD - Income** | **% Variance on YTD Budget Income** | **Variance YTD - Other Costs** | **% Variance on YTD Budget Other Costs** | **Variance YTD - Staff Costs** | **% Variance on YTD Budget Staff Costs** | **YTD Variance** | **% Variance on YTD Budget** |
| Adult | (15,021) | -24% | 36,722  | -46% | 6,751  | -2% | 28,452  | -6% |
| Archives | 34,716  | 30% | (13,310) | 30% | 13,341  | -2% | 34,746  | -7% |
| Arts | 13,623  | 33% | (4,199) | 7% | (15,678) | 8% | (6,254) | 3% |
| Facilities | 103,345  | 1% | (56,211) | 3% | (46,427) | 1% | 708  | 0% |
| Libraries | (21,144) | -19% | 13,483  | -3% | 40,582  | -2% | 32,922  | -1% |
| Management | 12,541  | 48% | (32,763) | 5% | 15,802  | -1% | (4,421) | 0% |
| Museums | 51,963  | 14% | (43,196) | 11% | 8,021  | -1% | 16,788  | -3% |
| Outdoor | (36,889) | -53% | 2,093  | -4% | (3,195) | 3% | (37,991) | 39% |
| Sports | 116,467  | 12% | (55,737) | 60% | (60,727) | 5% | 2  | 0% |
| Youth work | 233,697  | 452% | (140,919) | 175% | (93,473) | 8% | (695) | 0% |
| **Surplus / ( Deficit)** | **493,297**  |  | **(294,038)** |  | **(135,002)** |  | **64,256**  |  |
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**APPENDIX C**

**Variances over £5,000**

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| **Sector** | **Variance** | **Notes** |
| **Adult** | **£28,452** | The positive variance is mainly due to an underspend in the Adult Literacy grant fund and staff vacancies offset against a negative income variance which is due to Grant Income roll forward budget which will not be achieved. The grant income target is treated as a budget pressure and is being dealt with structurally in the 2017/18 budget. |
| **Archives** | **£34,746** | The majority of this positive variance is due to an Archivist vacancy at the Highland Archive Centre for the first 10 months of the year, generating a saving of £38K. This has been partly offset by the cost of salary increments and additional expenditure on equipment.  |
| **Arts** | **(£6,254)** |  There is a slight overspend year to date – Likely to reverse by year end |
| **Museums** | **£16,788** | The positive variance is mainly due to over performance of income targets at HFM and donations at IMAG. |
| **Libraries** | **£32,922** | The majority of this positive variance is due to the early realisation of staff structural budget savings for 2017/18 offset by a negative variance in income. |
| **Outdoor** | **(£37,991)** | There is a structural budget shortfall of £30K which has been dealt with in the 2017/18 budget. |

**APPENDIX D**

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| **DRAFT Budget 2017.18** |
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|  | **Annual Budget 2016.17** | **Annual Budget 2017.18** | **Variance on PY** |
|  |  |  |  |
| Adult | (628,447) | (639,392) | (10,945) |
| Archives | (658,215) | (614,362) | 43,853 |
| Arts | (251,314) | (255,075) | (3,761) |
| Facilities | (2,216,115) | (1,906,728) | 309,388 |
| Libraries | (3,626,701) | (3,593,785) | 32,916 |
| Management | (2,538,848) | (2,625,556) | (86,708) |
| Museums | (848,724) | (809,818) | 38,906 |
| Outdoor | (116,028) | (148,322) | (32,294) |
| SLA | 12,856,162 | 12,712,135 | (144,027) |
| Sports | (547,587) | (571,971) | (24,384) |
| Youth work | (1,424,182) | (1,489,233) | (65,051) |
| Surplus (Deficit) | 0 | 57,893 | 57,892 |

 **APPENDIX E**

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|  | Final Savings |  |  |
| **Management Fee**  | £260,000.00 |  |  |
| **Payroll Pressures** |  |  |  |
| 1% Pay Award | £192,841.00 |  |  |
| 0.5% Apprentice levy | £76,508.00 |  |  |
| 0.5% Pension - 19.5% | £81,100.00 |  |  |
| Living Wage | £30,286.00 |  |  |
| **Service Budget Pressure** |  |  |  |
| Outdoor | £30,000.00 |  |  |
| Adult - Income Budget | £42,000.00 |  |  |
| **Other pressures**  |  |  |  |
| Vat Irrecoverable | £200,000.00 |  |  |
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| **Total Budget** | **£912,735.00** |  |  |
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| Budget Savings (By Service) |  |
| Facilities | Price Increase | £250,000 |  |
| Facilities | Growth Targets  | £300,000 |  |
| Libraries | Library Staffing | £85,000 |  |
| Mgmt. | Central Management | £135,000 |  |
| Mgmt. Finance | Vat Planning | £150,000 |  |
| Mgmt. - Marketing | Media Monitoring | £10,000 |  |
| Adult | Adult Learning - Rent | £10,000 |  |
| Adult | Adult Learning Funding | £10,000 |  |
| Adult | Reduction Community Language assistant | £20,000 |  |
|  |  | £970,000 |  |