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| HIGH LIFE HIGHLAND REPORT TO BOARD OF DIRECTORS22 March 2018 | AGENDA ITEM 10REPORT No HLH4/18 |

## **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 2018.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 2018 report a surplus of £88,854;
3. the projected final out-turn for the year is a surplus to budget of £129K;
4. there was one non substantial breach in internal controls during calendar year 2017/18;
5. the update on the Internal Audit– HR Recruitment;
6. the recent change to the European OJEU threshold level; and
7. the award of contracts as detailed in **paragraph 6.3**.
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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 2018** |
| 3.13.23.33.4 | The out-turn figure for the period to January 2018 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**. The net position is £88,854 positive variance to budget with a commentary on the major variances (over £5K) provided at**Appendix C and D**.The projected final outturn for the year is a surplus to budget of £129K. |
| **4.** | **Annual Review of the Effectiveness of Internal Control** |
| 4.14.1.14.1.24.1.3 |

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| The Finance and Audit Committee review all breaches of the Financial Regulations. There was one non substantial breach of control reported in quarter 1 in calendar year 2017. Financial Regulation in respect of Payment of Invoices / Receipt of Goods and Services and Payment of Creditor Invoices, states:*“Budget holders should not approve payments to themselves as individuals i.e. expense claims”.*There was a payment made to an employee reimbursing for working expenses incurred, where:* the cheque request had been correctly authorised by the employee’s line manager, however the transaction processed in integra was then authorised by the employee whose expenses were being reimbursed who was also the budget holder. In this case authority to approve the payment in integra should have been delegated to another officer. There is no question of impropriety.
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| Corrective action was taken as follows:i. a reminder E-mail has been circulated to all HLH staff ; andii. the issue was discussed with the relevant Principal Manager for follow up discussion with the individual. |

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| **5.**5.1 | **Internal Audit** Directors approved a 3 year Audit Plan at their June 2017 meeting as follows:**Year 1** - HR : Recruitment ; this took place December 2017**Year 2** - Health &Safety/Property (RPO and Database)/Facilities operational Procedures.**Year 3** - Performance Statistics Centralised Administration and User Numbers |
| 5.2 | **Appendix E** shows the 2017 Internal Audit Report on HR Recruitment with an Audit opinion of “Reasonable Assurance”. The report reflects strong procedures which are in place and gives positive recommendations for improvements. All actions identified are currently underway.  |
| **6.** | **Procurement – changes in levels** |
| 6.1 | Directors are asked to note the increase to the European OJEU threshold level from >£164,176 to >£181,302 effective from 1 January 2018. |
| 6.26.3 | At the HLH Board meeting held on 15 June 2017 it was agreed, as part of the Scheme of Delegation, that the approval of any award of a contract/tender which exceeds the European OJEU level be reserved for Board approval. The HLH Scheme of Delegation has been updated to reflect the change in the threshold figure.Tenders approved/contracts awarded (below OJEU level) :

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| Ernst & Young | Vat Advice | Jan 18-Dec 22 | c£65K |
| UHI | You Time Project Evaluation | Jan 18-Sep 18 | £7200 fixed budget |

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| **7.**7.1 | **Annual Review of Insurance**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 will renew on 1 April 2018 for 2018/19 and new additions will be advised throughout the year as and when required. |
| **8.** | **Implications** |
| 8.18.28.3 | Resource Implications – there are no new resource implications associated with the recommendations of this report. Legal Implications – there are no new legal implications associated with the recommendations of this report.Risk Implications – the year end position remains a best estimate subject to Audit.  |
| **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 2018 report a surplus of £88,854;
3. the projected final out-turn for the year is a surplus to budget of £129K;
4. one non substantial breach in internal controls during calendar year 2017/18;
5. the update on the Internal Audi – HR Recruitment;
6. the recent change to the European OJEU threshold level; and
7. the award of contracts as detailed in **paragraph 6.3**.
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Designation: Chief Executive

Date: 8 March 2018

**Consolidated** **2017/18: April 2017 – January 2018** **APPENDIX A**

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 **APPENDIX B**

 **Variance by Sector**



**Variance by Category APPENDIX C**



**Appendix D**

**Variances over £5,000**

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| **Sector** | **Variance** | **Note** |
| Adult | £105,580 | Additional income earned from ESOL classes and tutor support £35K, Staff Vacancies & Recruitment Management £23K, [posts now filled]. Early realisation of planned structural savings - underspend on Grant Literacy Fund £45K. |
| Archives | £106,386 | £144K of the variance is for staffing, there have been a number of vacancies across the service during the year. These are now filled apart from one remaining vacancy. The income variance is £36K, £29K of which is offset against a positive variance on Staff/ Other Costs in the Conservation project.  |
| Arts | (£11,912) | There is additional up front expenditure for projects reported in Other Costs, the year-end projects a c. £5K deficit with additional grants due in before year end. |
| Facilities | (£161,963) | The YTD and projected outturn for facilities is reporting a negative variance (£161K). The Facilities budget for 2017/18 includes aggressive income target (growth) and a significant level of structural savings (£300K). Implementation of a number of the structural savings has been delayed for operational reasons and this has impacted on reported outturn. A number of new centres have been taken over/opened this year, NCL / Strathpeffer Pavilion / Poolewe Swimming Pool and the new Canal Park facility which have incurred one off set up costs. The main variances include:* Canal Park – Deficit of £50K
* North Coast Leisure ( Bettyhill) – Deficit £44K , received 50% of management fee for 17/18 and one off costs
* Additional Health & Safety Cost - £20K ( one off)
* Priority Signage - £30K
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| Management | (£37,136) | Other Costs are over budget as a result of accruals for ICT £25K once off and £15K for additional marketing costs relating to website improvements |
| Museums | £21,623 | The net variance is accounted for mainly by HFM £39K , IMAG £4K and a deficit of (£14K) on the HFM recognition project which is covered in reserves, with grant of £14K received in 16/17 |
| Sports | £46,590 | Additional Income generated from classes during the year. |
| Youthwork | £18,595 | The variance to budget of £18K is as a result of increased grants albeit there are additional costs there is a net positive impact. |

**APPENDIX E**



**Internal Audit Draft Report**

High Life Highland

HR Processes

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| **Distribution:** |  | **Report Ref:** | HLH01/004 |
| HR Manager, High Life Highland |  | **Draft Date:** | 14/02/18 |
| Finance Manager, High Life Highland |  | **Final Date:** |  |
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**1. Introduction**

1.1 This report details the findings of the Internal Audit review of High Life Highland (HLH) recruitment processes. The audit was carried out as part of the 2017/18 audit plan. The HLH staffing establishment at 30/09/17, as reported to the HLH Board on 13/12/17, was 616.75 FTE posts.

1.2 The audit reviewed the recruitment process for a sample of 30 vacancies from April to September 2017 to verify that the decision to recruit had been suitably authorised, recruitment had been carried out in line with HLH policies, and that where applicable the relevant Protecting Vulnerable Groups (PVG) checking has been undertaken. 15 of the vacancies reviewed required a PVG check to be carried out. The scope of the audit was agreed with the Finance Manager and HR Manager.

1.3 The recruitment process is initiated by the relevant manager, and the process involves the manager and the Business Support – Recruitment team (BSR team).

**2. Main Findings**

2.1 *PVG checking*

This objective was partially achieved, as there are policies and procedures in place in respect of PVG checking. However, a PVG application form issued on 10/07/17 following the appointment to a Relief Leisure Supervisor post (vacancy HLH/1705/16) has not been returned to the BSR team. There is no further detail on the vacancy or PVG spreadsheet to clarify if he took up the post.

This was raised with the HR Manager, who found that the PVG check has been requested twice (first in 2015 and then in 2017) but does not appear to have been completed. The BSR team are to follow up with the Manager and ensure that this PVG check is completed as soon as possible, as the member of staff is still employed.

2.2 *Recruitment process carried out in line with HLH policies*

This objective was substantially achieved, as vacancies were approved in line with policies prior to recruitment taking place. However, the undernoted issues were identified.

Details of the outcome of the appointment process were not always recorded on the vacancies spreadsheet maintained by the BSR team (e.g. name of appointee, no appointment made etc.). In some instances this results from failure not notify them by the lead officer (e.g. vacancy HLH/1706/16 where interviews were not conducted and no appointment was made and HLH/1709/20 where interviews were held on 20/10/17 but no further information has been provided to –the BSR team). Similarly, the PVG application form issued to the successful applicant on 05/07/17 following her appointment to a Leisure Assistant post at the Spectrum Centre (vacancy HLH/1705/10) was not returned to the BSR team. During the audit, the BSR team contacted the Facility Manager who stated that the PVG forms had not been returned and confirmed that the applicant had not taken up the relief post. There is no documentation to show that the BSR team were notified of this at the time.

References were not always held on employee files for existing HLH employees who were successfully appointed to another post. In the majority of these cases the existing post was a relief post, so the previous references may be held in the folder for the relief post, which is held in the Dingwall office. The recruitment policy does not state that references are not required for existing HLH employees, so it would be expected that a reference would be sought from the applicant’s

current HLH Line Manager. This was clarified with the HR Manager who stated that common sense is often used when recruitment has taken place (particularly in cases where an applicant already works in the facility where the vacancy is). A review of recruitment procedures is currently underway, and the requirement for references for internal applicants will be clarified as part of this review.

20 vacancies did not have the scoring sheets completed by Managers as part of the interview process retained within the employee’s HR folder. The BSR team procedures state that scoring sheets should be included in the HR folder for staff appointed to contracted posts. The HR Manager stated that scoring sheets were often not received back from Managers.

**3. Audit Opinion**

3.1 The opinion is based upon, and limited to, the work performed in respect of the subject under review. Internal Audit cannot provide total assurance that control weaknesses or irregularities do not exist. It is the opinion that **Reasonable Assurance** can be given in that whilst the system is broadly reliable, areas of weakness have been identified which put some of the system objectives at risk, and/ or there is evidence that the level of non-compliance with some of the controls may put some of the system objectives at risk.

The audit found one instance where a PVG check was not completed for a Relief Leisure Supervisor, which provides a major area of concern. While the remaining 14 vacancies subject to PVG checking reviewed as part of the audit were completed, it is unclear at this stage whether this is an isolated example. The remaining issues identified are relatively minor procedural issues, and are likely to be addressed by the ongoing review of recruitment procedures.

An action plan is provided at section 4 detailing the recommendations for improvement together with the management response. This contains a total of **4** recommendations comprising of the following:

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| **Description** | **Priority** | **No.** |
| Major issues that managers need to address as a matter of urgency. | High | 1 |
| Important issues that managers should address and will benefit the Organisation if implemented. | Medium | 0 |
| Minor issues that are not critical but managers should address. | Low | 3 |

**4. Action Plan**

| **Priority** | **Finding** | **Recommendation** | **Management Response** | **Implementation** |
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| **Responsible Officer** | **Target Date** |
| High | A PVG check has not been carried out on a Relief Leisure Supervisor. | 1. The PVG check for this employee should be completed urgently.
2. Checks should be carried out by the BSR team to identify if any other staff have not been PVG checked.
3. Regular checks should be carried out by the BSR team to identify PVG forms that have not been returned, and reminders issued where required.
 | 1. BSR has already contacted Line Manager and reissued PVG form as a matter of urgency. HR Manager has also contacted Manager and reminded him of his responsibilities in ensuring staff are covered by PVG check.
2. BSR staff to carry out full review of PVG database and identify outstanding forms. Notify managers directly and HR Manager of any issues.
3. HR Manager to issue reminder to all Managers that it is their responsibility to ensure staff have been PVG checked
4. BSR staff to identify system for carrying out regular checks of PVG database.
 | HR ManagerHR ManagerHR ManagerHR Manager | 14/2/1816/2/1816/2/1816/2/18 |
| Low | Details of the outcome of the appointment process were not always recorded on the vacancies spreadsheet maintained by the BSR team. | 1. Managers should be reminded that the BSR team are notified of the outcome of recruitment, including instances where no appointment was made.
2. The BSR team should regularly follow up any missing information.
 | HR Manager to issue updated recruitment procedures to all Mangers reminding them of key issues as highlighted in audit | HR Manager | 28/2/18 |
| Low | References were not always held on employee files for existing HLH employees who were successfully appointed to another post. | The requirement for references for internal candidates should be clarified as part of the ongoing review of recruitment procedures. | BS Officers finalise review of recruitment procedures and HR manager issue.  | HR Manager | 28/2/18 |
| Low | Scoring sheets used as part of the recruitment process were not always retained within the relevant HR employee folder as they are often not returned to the BSR team by Managers. | 1. Managers should be reminded that scoring sheets should be passed to the BSR team.
2. The BSR team should regularly follow up any missing information.
 | HR Manager to issue updated recruitment procedures to all Mangers reminding them of key issues as highlighted in audit | HR Manager | 28/2/18 |