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| **HIGH LIFE HIGHLAND**  **REPORT TO BOARD OF DIRECTORS**  **11 December 2019** | AGENDA ITEM  REPORT No HLH /19 |

**FINANCE REPORT - Report by Chief Executive**

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| **Summary**  The purpose of this report is to update Directors on the financial performance of High Life Highland for Quarter 2 2019/20 and other relevant matters.  It is recommended that Directors note:   1. the results for the period April to September 2019 detailed in **Appendix A** reports a negative variance to budget of £66K with the HLH year-end outturn forecast to be a negative variance to budget of circa £120K; 2. the update on the planned management actions to mitigate the forecasted negative variance to budget; 3. there has been no breach of internal controls reported in the past quarter; 4. the update on the theft from Raigmore Community Centre; 5. there has been one data breach reported in the last quarter; 6. the update on implementation of the 2018/19 financial audit recommendations; and 7. the award of contracts as detailed in **paragraph 8.1**. |

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| **1.**  1.1 | **Business Plan Contribution**  This report supports the highlighted Business Outcomes from the High Life Highland (HLH) Business Plan:   1. Sustain a high standard of health and safety, and environmental performance 2. **Implement the Service Delivery Contract with THC** 3. Improving customer engagement and satisfaction 4. Improving staff engagement and satisfaction 5. Enhance the positive charity image 6. **Be a trusted and effective partner** 7. **Achieve sustainable growth across the organisation** 8. Develop health and wellbeing across Highland communities 9. Develop and promote the High Life brand |
| **2.** | **Background** |
| 2.1  2.2 | 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 charity and its subsidiaries.  The financial content of this report has previously been scrutinised by the 18 November 2019 Finance and Audit Committee meeting. |
| **3.**  3.1  3.2  3.3 | **Financial Performance for Quarter 2 2019/20**  Financial Performance for Quarter 2 2019/20. The results for the period to September 2019 have been prepared. HLH’s consolidated financial performance for the period is summarised in **Appendix A**. The results for the period are further split by the nine business categories in **Appendix B** and by cost category (income, staff costs and other costs) at **Appendix C**.  The net position is a negative variance to budget of £66,002 with a commentary on the major variances (over £5K) provided in **Appendix D**. The year-end forecast is negative variance to budget of circa £120K.  Senior Management is working to reduce the projected deficit and has implemented management actions including vacancy management and reducing discretionary spend. |
| **4**.  4.1  4.2 | **Internal Controls**  There has been no breach of internal controls reported in quarter two 2019/20.  As previously reported, £300 belonging to a community group was stolen from the safe at Raigmore Community Centre in May of this year. |
| 4.3 | Following the theft, improved internal controls were put in place resulting in no further incidences. However, while the matter was the subject of a police investigation, there has been no response from Police Scotland and it now seems unlikely that the matter will be resolved or the culprit(s) identified. |
| **5.** | **Data Breaches** |
| 5.1  5.2  5.3  5.4  **6.**  6.1  **7.** | There has been one data breach reported in the last quarter.  A member of staff was sending an email to a number of parents whose children were booked to attend an event taking place during the school holidays. They had a list of email addresses in a spreadsheet which they used to populate the “bcc” field in the email in order to send the email. Unfortunately, they accidentally attached the spreadsheet to the email and sent it to each of the parents. This enabled each parent to see the email addresses despite the fact that the staff member had used the “bcc” field. There was no other information in the spreadsheet other than the list of email addresses.  Immediately after issuing the email, the member of staff noticed the error they made and attempted to recall the message and sent a further message without the spreadsheet attached. It is very unlikely anyone receiving would suffer significant consequences as a result of the breach and there have been no complaints as a result of this. A report has been sent to the ICO, no response has been received at the time of writing, and there may not be any further communication if the ICO determine the breach as minor.  An email was issued to staff reminding them of the process and compliance requirements.  **Financial Audit Recommendations 2018/19**  An update on the management response to the 2018/19 financial audit recommendations requested at the 5 August 2019 meeting is detailed in **Appendix E.**  **Tenders Approved/Contracts Awarded**   |  |  |  | | --- | --- | --- | | QLM Ltd | Health and Safety Consultancy Services | Oct 19-Oct 23 | |
| **8.** | **Implications** |
| 8.1 | Resource Implications – there are no new resource implications associated with the recommendations of this report. |
| 8.2 | Legal Implications – there are no new legal implications associated with the recommendations of this report. |
| 8.3 | Equality Implications – there are no new equality implications associated with the recommendations of this report. |
| 8.4 | Risk Implications – there are no new risk implications associated with the recommendations of this report. |
| **Recommendation**  It is recommended that Directors note:   1. the results for the period April to September 2019 detailed in **Appendix A** reports a negative variance to budget of £66K with the HLH year-end outturn forecast to be a negative variance to budget of circa £120K; 2. the update on the planned management actions to mitigate the forecasted negative variance to budget; 3. there has been no breach of internal controls reported in the past quarter; 4. the update on the theft from Raigmore Community Centre; 5. there has been one data breach reported in the last quarter; 6. the update on implementation of the 2018/19 financial audit recommendations; and 7. the award of contracts as detailed in **paragraph 8.1**. | |

Designation: Chief Executive

Date: 20 November 2019

**Consolidated 2019/20: April to September**  **APPENDIX A**

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|  | **Annual Budget** | **Budget (YTD)** | **Actual (YTD)** | **Variance (YTD)** |
| Income | 32,566,097 | 11,305,347 | 11,231,822 | (73,525) |
| Other Costs | (8,001,442) | (3,219,073) | (3,236,279) | (17,206) |
| Staff Costs | (24,564,655) | (12,528,920) | (12,504,191) | 24,729 |
| **Grand Total** | **0** | **(4,442,646)** | **(4,508,648)** | **(66,002)** |

**Variance by Sector APPENDIX B**

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| --- | --- | --- | --- | --- |
|  | **Annual Budget** | **Budget (YTD)** | **Actual (YTD)** | **Variance (YTD)** |
| Adult | (655,339) | (331,415) | (323,678) | 7,737 |
| Archives | (592,837) | (281,216) | (277,623) | 3,593 |
| Arts | (289,762) | (148,446) | (152,148) | (3,702) |
| Facilities | (1,625,561) | (1,126,499) | (1,196,843) | (70,344) |
| Libraries | (3,508,236) | (1,777,148) | (1,767,557) | 9,591 |
| Management | (2,716,640) | (1,474,755) | (1,472,133) | 2,622 |
| Museums | (629,150) | (240,110) | (232,541) | 7,569 |
| Music Tuition | (1,361,930) | (1,090,764) | (1,113,519) | (22,755) |
| Outdoor | (532,234) | (213,856) | (211,503) | 2,353 |
| SLA | 14,046,813 | 3,383,571 | 3,383,571 | 0 |
| Sports | (594,862) | (280,348) | (278,985) | 1,363 |
| Youthwork | (1,540,262) | (861,660) | (865,689) | (4,029) |
| **Grand Total** | **0** | **(4,442,646)** | **(4,508,648)** | **(66,002)** |

**Variance by Category APPENDIX C**

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|  |  | **Income** | | |  | **Staff Costs** | | |  | **Other Costs** | | |
| **Row Labels** |  | **Budget (YTD)** | **Variance (YTD)** | **%** |  | **Budget (YTD)** | **Variance (YTD)** | **%** |  | **Budget (YTD)** | **Variance (YTD)** | **%** |
| Adult |  | 10,291 | 11,189 | 109% |  | (305,533) | (1,752) | 1% |  | (36,173) | (1,700) | 5% |
| Archives |  | 188,160 | (4,504) | -2% |  | (438,741) | 13,173 | -3% |  | (30,635) | (5,076) | 17% |
| Arts |  | 19,022 | 430 | 2% |  | (122,696) | (1,785) | 1% |  | (44,772) | (2,347) | 5% |
| Facilities |  | 5,775,175 | (112,423) | -2% |  | (5,613,993) | 20,769 | 0% |  | (1,287,681) | 21,310 | -2% |
| Libraries |  | 52,440 | (1,791) | -3% |  | (1,420,236) | 30,681 | -2% |  | (409,352) | (19,299) | 5% |
| Management |  | 58,972 | 5,917 | 10% |  | (946,593) | (12,923) | 1% |  | (587,134) | 9,628 | -2% |
| Museums |  | 615,986 | 10,950 | 2% |  | (557,949) | (4,742) | 1% |  | (298,147) | 1,361 | 0% |
| Music Tuition |  | 397,844 | (26,854) | -7% |  | (1,215,815) | 3,576 | 0% |  | (272,793) | 523 | 0% |
| Outdoor |  | 103,526 | 17,424 | 17% |  | (267,764) | (2,161) | 1% |  | (49,618) | (12,910) | 26% |
| SLA |  | 3,406,571 | 0 | 0% |  |  |  | 0% |  | (23,000) | 0 | 0% |
| Sports |  | 609,004 | 17,015 | 3% |  | (805,823) | (21,681) | 3% |  | (83,529) | 6,029 | -7% |
| Youthwork |  | 68,356 | 9,122 | 13% |  | (833,777) | 1,574 | 0% |  | (96,239) | (14,725) | 15% |
| **Total** |  | **11,305,347** | **(73,525)** | **-1%** |  | **(12,528,920)** | **24,729** | **0%** |  | **(3,219,073)** | **(17,206)** | **1%** |

**Variances over £5,000 APPENDIX D**

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| **Sector** | **Variance** | **Note** |
| Adult | 7,737 | Positive variance to budget due to income from English for Speakers of Other Languages (ESOL) classes. |
| Facilities | (70,344) | Lower than anticipated growth in Highlife income in addition to a decrease in Pay As You Go leisure income has resulted in a negative variance to budget which is partly offset by savings in Staff and Other Costs. |
| Libraries | 9,591 | Savings in staff costs through vacancy management at Culloden and the Library Support Unit have offset additional ICT-related Other Costs. |
| Museums | 7,569 | Income from Donations and Snack Bar Sales at Highland Folk Museum have been higher than budgeted resulting in a positive variance to budget. |
| Music Tuition | (22,755) | Good progress is being made towards achieving the additional £100K income target agreed as part of the 2019/20 budget savings with pupil numbers continuing to increase compared with last year. In addition, there is grant income and income from the Pupil Equity Fund due to be collected before the financial year end. Should pupil numbers continue to increase it is anticipated that this budget will come in on target. |

**2018/19 Audit Management Action Recommendations Appendix E**

| **Issue** | **Recommendation** | **Management Response** |
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| There were a number of instances where restricted grant income had been incorrectly treated as unrestricted income. | • We recommend that the terms and conditions of grant funding are reviewed on a case by case basis when the grant is first received, to ensure the correct allocations between restricted and unrestricted funding. | Grant funding is now reviewed on a monthly basis. In addition, separate cost-centres for restricted income have been set up to ensure accurate recording in the ledger. |
| There were a high number of errors noted during our stock count attendance at Glen Nevis Centre. Furthermore, there were difficulties encountered in tracing counted quantities through to final stock sheets due to rough stock sheets not being retained after the count. | * Stock should be counted in a methodical manner from floor to sheet e.g. from left to right, and then top to bottom, to remove the chance of duplication or omission. * Rough stock sheets should be retained after the count, until the audit is complete. | A mid-year stock take was undertaken at the Ben Nevis Visitor Centre under the supervision of the Principal Accountant. Detailed instructions have been issued to the management of the Centre. |
| During stock valuation testing, there were a number of valuation errors noted in the stock reports received from individual centres, including:   * Formulae errors in the addition of stock listings (various centres) * Stock incorrectly recorded at retail price rather than cost price (Thurso) * Stock omitted from total (IMAG café) * Outdated cost prices used (Highland Folk Museum) | * We recommend the finance team review stock reports received from the centres for errors in formulae or valuation and perform spot checks on cost prices used. | During the mid-year stock-take all spreadsheet formulae were reviewed for errors and spot checks undertaken on invoices to ensure the correct cost price was recorded. |
| We identified a small number of VAT errors during our income testing. Income received for bookings made through third parties had not been treated as standard rated. | • We recommend that this treatment of VAT is communicated across all the High Life Highland sites to ensure that the correct VAT treatment is applied to income received. | A review of online income has been completed and the correct VAT treatment applied. |
| We note that there are a number of fixed assets owned by the charity which are used by the trading subsidiary, and there is no formal agreement in place for the use of the assets. | * For the sake of governance, we recommend that the current arrangement is documented. Furthermore, the board should consider whether future fixed asset purchases for the trading subsidiary should be shown within its own balance sheet. | An agreement between the charity and trading company will be put in place prior to end of the financial year. |