|  |  |
| --- | --- |
| **HIGH LIFE HIGHLAND**  **REPORT TO BOARD OF DIRECTORS**  **14 December 2022** | AGENDA ITEM 8  REPORT No HLH/ /22 |

**FINANCE REPORT - Report by Chief Executive**

|  |
| --- |
| **Summary**  The purpose of this report is to update Directors on the financial performance of High Life Highland for quarter two 2022/23 and other relevant matters.  It is recommended that Directors note:   1. the results for the period to September 2022 detailed in [**Appendix A**](https://www.hlhinfo.com/userfiles/file/Board/Meetings/Board_Meetings/2022/14_December_2022/F-Item-8-Appendix-A.docx) reports a net deficit of £1.3m; 2. the draft year-end outturn of a net deficit of £2m; 3. the financial support from The Highland Council and the projected level of unrestricted reserves; 4. the breaches of internal controls; 5. the internal audit report on HLH’s Income Systems at [**Appendix F**](https://www.hlhinfo.com/userfiles/file/Board/Meetings/Board_Meetings/2022/14_December_2022/F-Item-8F-Final-IA-Report-Income-HLH01-008.docx); 6. one data breach has been reported in the past quarter; and 7. the award of contract as detailed in paragraph 8. |

|  |  |
| --- | --- |
| **1.**  1.1 | **Business Plan Contribution**  This report supports the highlighted Business Outcomes from the High Life Highland (HLH) Business Plan:   1. Seek to continuously improve standards of health and safety. 2. Commit to the Scottish Government’s zero carbon targets and maintain the highest standards in environmental compliance. 3. Use research and market analysis to develop and improve services to meet customer needs. 4. Increase employee satisfaction, engagement and development to improve staff recruitment and retention. 5. **Improve the financial sustainability of the company.** 6. Value and strengthen the relationship with THC. 7. Develop and deliver the HLH Corporate Programme and seek to attract capital investment. 8. Use research and market analysis to develop and deliver proactive marketing and promotion of HLH and its services. 9. Initiate and implement an ICT digital transformation strategy across the charity. 10. Develop and strengthen relationships with customers, key stakeholders and partners. 11. Deliver targeted programmes which support and enhance the physical and mental health and wellbeing of the population and which contribute to the prevention agenda. |
| **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 charity and its subsidiaries. |
| 2.2 | The financial content of this report has previously been scrutinised by the 14November 2022 Finance and Audit Committee meeting. |
| **3.** | **Financial Performance for Quarter 2 2022/23** |
| 3.1  3.2  3.3 | The results for the period to September 2022 have been prepared. HLH’s consolidated financial performance for the period is summarised in [**Appendix A**](https://www.hlhinfo.com/userfiles/file/Board/Meetings/Board_Meetings/2022/14_December_2022/F-Item-8-Appendix-A.docx). The results for the period are further split by the 9 business categories in [**Appendix B**](https://www.hlhinfo.com/userfiles/file/Board/Meetings/Board_Meetings/2022/14_December_2022/F-Item-8-Appendix-B.docx) and by cost category (income, staff costs and other costs) at [**Appendix C**](https://www.hlhinfo.com/userfiles/file/Board/Meetings/Board_Meetings/2022/14_December_2022/F-Item-8-Appendix-C.docx). Commentary on the performance of each Service is provided in [**Appendix D**](https://www.hlhinfo.com/userfiles/file/Board/Meetings/Board_Meetings/2022/14_December_2022/F-Item-8-Appendix-D.docx).    The net position for the 6 months to the end of September is a deficit of £1.3m with a projected year end deficit of just over £2m. The forecasted year-end deficit has increased by £1.1m following agreement of the CoSLA negotiated pay award with staff receiving an average 7.4% increase compared to the anticipated 3% provisioned for in the annual budget. Although the Highland Council agreed with Trade Unions that there should be parity of pay between Council and High Life Highland employees, no provision has been made for this in the settlement agreement between the parties.  Income is forecast to be to be £1.5m under budget due to revenue recovering at a slower rate than anticipated in the current economic climate. Leisure Facilities income accounts for £1.2m of the negative variance of which £0.79m relates to the *high****life*** membership scheme. The year-end outturn for *high****life*** income is based on average growth of 1% per month for the remainder of the year, should subscription numbers remain at the September level, the income budget deficit would increase by circa. £110k. Other Costs are reported to be £90k under budget. |
| 3.4 | In addition to previously reported mitigations totalling £385k, further measures continue to be implemented, including strict recruitment controls with all vacancies scrutinised weekly by the Status Review Group led by the Chief Executive. |
| 4.  4.1  4.2 | **HLH Reserves and The Highland Council Financial Support**  In addition to the pledge of £1m in financial support made by THC in March of this year, a further £400k was approved at the Highland Council meeting on 27 October 2022 ([**Appendix E**](https://www.hlhinfo.com/userfiles/file/Board/Meetings/Board_Meetings/2022/14_December_2022/F-Item-8E-Finance-Report-Letter-of-Comfort.pdf)) with acknowledgement from the HLH Chair ([**Appendix G**](https://www.hlhinfo.com/userfiles/file/Board/Meetings/Board_Meetings/2022/14_December_2022/F-Item-8G-Supplementary-HLH-Chair-response-to-LOC.pdf)).  Excluding designated reserves of £140k for capital works at Inverness Leisure, HLH is projected to be in a zero reserves position at the year-end, £875k below the charity target of 3%:   |  |  | | --- | --- | |  | **(£m)** | | Unrestricted Reserves at 31 March 2022 | 2.34 | | Planned Used of Reserves (22/23) | (1.67) | | Projected Deficit (22/23) | (2.03) | | The Highland Council Financial Support | 1.40 | | **Projected Unrestricted Reserves at 31 March 2023** | **0.04** | |  |  | |
| **5.** | **Internal Controls** |
| 5.1 | There have been several breaches of internal controls identified through the Highland Council internal audit of income systems. The findings of the audit and consequent actions are included at [**Appendix** **F**](https://www.hlhinfo.com/userfiles/file/Board/Meetings/Board_Meetings/2022/14_December_2022/F-Item-8F-Final-IA-Report-Income-HLH01-008.docx). |
| **6.** | **Internal Audit Report** |
| 6.1 | The internal audit on HLH’s income systems was completed in November 2022 with an audit opinion of **Reasonable Assurance.** The report concluded that, whilst the system was broadly reliable, areas of weakness were identified requiring corrective action. |
| 6.2 | The audit plan actions including the updating of guidance and training are currently underway and on target to meet the agreed deadlines. |
| **7.**  7.1 | **Data Breaches**  There was one data breach in the last quarter where, following the theft of a bicycle from their place of work, a member of staff posted the CCTV footage on social media in an attempt to identify the culprit. |
| 7.2 | An internal investigation is underway and the Information Commissioner’s Office has been notified. |
| **8.** | **Tenders Approved/Contracts Awarded** |
| 8.1 | |  |  |  | | --- | --- | --- | | Paymentsense Ltd | Chip and Pin Terminals | Nov 22-Oct 27 | |
| **9.** | **Implications** |
| 9.1 | Risk Implications – there are no new risk implications associated with the recommendations of this report. |
| 9.2 | Equality Implications – there are no new equality implications associated with the recommendations of this report. |
| 9.3 | Legal Implications – there are no new legal implications associated with the recommendations of this report. |
| 9.4 | Resource Implications – there are no new resource implications associated with the recommendations of this report. |
| **Recommendation**  It is recommended that the Directors note:   1. the results for the period to September 2022 detailed in [**Appendix A**](https://www.hlhinfo.com/userfiles/file/Board/Meetings/Board_Meetings/2022/14_December_2022/F-Item-8-Appendix-A.docx) reports a net deficit of £1.3m; 2. the draft year-end outturn of a net deficit of £2m; 3. the financial support from The Highland Council and the projected level of unrestricted reserves; 4. the breaches of internal controls; 5. the internal audit report on HLH’s Income Systems at [**Appendix F**](https://www.hlhinfo.com/userfiles/file/Board/Meetings/Board_Meetings/2022/14_December_2022/F-Item-8F-Final-IA-Report-Income-HLH01-008.docx); and 6. one data breach has been reported in the past quarter; and 7. the award of contract as detailed in paragraph 8. | |

Designation: Chief Executive

Date 16 November 2022

Author: Neil Johnston, Head of Finance

**Consolidated 2022/23: April to September APPENDIX A**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Budget** | **Actual (YTD)** | **Forecast (Year end )** | **Variance (Year End)** |
| Income | 32,433,745 | 14,683,770 | 30,889,481 | (1,544,264) |
| Staff Costs | (26,989,199) | (12,906,530) | (27,568,548) | (579,349) |
| Other Costs | (5,444,546) | (3,087,017) | (5,355,034) | 89,512 |
| **Surplus/(Deficit)** | **0** | **(1,309,777)** | **(2,034,101)** | **(2,034,101)** |

**Variance by Sector APPENDIX B**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Budget** | **Actuals YTD** | **Forecast (Year end )** | **Variance (Year End)** |
| Adult | (678,596) | (310,855) | (666,382) | 12,214 |
| Archives | (633,050) | (286,074) | (626,100) | 6,950 |
| Arts | (232,319) | (119,586) | (259,635) | (27,316) |
| Facilities | (3,394,422) | (2,285,694) | (5,029,437) | (1,635,015) |
| Libraries | (3,379,064) | (1,588,287) | (3,435,190) | (56,126) |
| Management | (2,993,537) | (1,533,034) | (3,108,061) | (114,524) |
| Museums | (656,518) | (276,669) | (775,835) | (119,317) |
| Music Tuition | (1,469,792) | (1,547,725) | (1,467,006) | 2,786 |
| Outdoor | (444,883) | (205,304) | (502,084) | (57,201) |
| SLA | 16,232,188 | 7,871,670 | 16,232,189 | 1 |
| Sports | (618,007) | (247,657) | (637,957) | (19,950) |
| Youthwork | (1,732,000) | (780,562) | (1,758,603) | (26,603) |
| **Surplus/(Deficit)** | **0** | **(1,309,777)** | **(2,034,101)** | **(2,034,101)** |

**Variance by Category APPENDIX C**



**Commentary by Service APPENDIX D**

|  |  |  |
| --- | --- | --- |
| **Sector** | **Variance (£)** | **Note** |
| Adult | 12,214 | Positive variance due to savings in Other Costs including thematic projects and Travel. Additional cost of pay award mitigated by savings through vacancy management. |
| Archives | 6,950 | Positive variance due to savings in Other Costs including conservation materials and travel. Additional cost of pay award mitigated by savings through vacancy management. |
| Arts | (27,316) | Negative variance due to projected loss of income plus staff costs over budget due to pay award. |
| Facilities | (1,635,015) | Negative variance largely due to loss of income (£1.2m) plus overspend in staffing costs (£443k) due to pay award. |
| Libraries | (56,126) | Additional cost of pay award mitigated by savings in staff costs through vacancy management. Negative variance due to loss of income (fines, sponsorship, audio-visual lending charges) |
| Management | (114,524) | Additional cost of pay award partially mitigated by savings through vacancy management in Business Support. Overspend in Other Costs includes increase to insurance premium, additional occupational therapy expenses and consultants fees. |
| Museums | (119,317) | Negative variance to budget largely due to loss of income, forecasted to achieve 84% of budget. Overspend in staff costs due to pay award offset by savings in Other Costs due to lower sales. |
| Outdoor | (57,201) | Negative projected variance due to loss of income partially offset by savings in other operating costs. |
| Sports | (19,950) | Overspend in staff costs due to pay award partially offset by additional grant income. |
| Youthwork | (26,603) | Overspend in staff costs due to pay award partially offset by savings in travel and thematic projects. |