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| **HIGH LIFE HIGHLAND** **REPORT TO BOARD OF DIRECTORS****14 March 2023** | AGENDA ITEM 7REPORT No HLH/ 1 /23 |

**FINANCE REPORT - Report by Chief Executive**

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| **Recommendation**The purpose of this report is to update Directors on the financial performance of High Life Highland f for the period ending 31January 2023 and other relevant matters.It is recommended that Directors note:1. the results for the period to January 2023 detailed in **Appendix A** reports a net surplus against budget of £280k;
2. the draft year-end outturn of a net deficit of £1.14m;
3. the uplift in The Highland Council Service Fee of £330k;
4. the financial support from The Highland Council and the projected level of unrestricted reserves;
5. no breaches of internal controls have been reported in the past quarter;
6. no data breaches have been reported in the past quarter;
7. that following the annual review of the Financial Regulations and Contract Standing orders there are no issues to report; and

 approve 1. the creation of a £300k earmarked reserve for backpay relating to the proposed revision of pay scales.
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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. 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.
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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 charity and its subsidiaries. |
| **3.** | **Financial Performance to 31 January 2023** |
| 3.13.23.3 | The results for the period to January 2023 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 9 business categories in **Appendix B** and by cost category (income, staff costs and other costs) at **Appendix C**. Commentary on the performance of each Service is provided in **Appendix D**.  The net position for the 10 months to the end of January 2023 is a surplus against budget of £280k with a projected year end deficit of £1.14m. The outturn for the year has improved substantially following a £330k uplift in the Service Fee, HLH’s proportion of additional funding provided by The Scottish Government to Highland Council for the higher than budgeted pay award. In addition, the outturn for staff costs previously included provision of £300k for the implementation of a revised pay scale, including two years back pay, which was anticipated to take effect within the current financial year. The proposed revision of pay scales is designed to preserve pay progression following the significant rise in the Scottish Local Government Living Wage (SLGLW) over recent years and will likely be implemented in the new financial year with provision required to fund the two years of back pay.  |
| 4.4.14.24.3  4.4 | **HLH Reserves and The Highland Council Financial Support** Excluding designated reserves of £140k for capital works at Inverness Leisure, HLH’s projected reserves at year end are detailed in the table below:

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|  | **(£m)** |
| Unrestricted Reserves at 31 March 2022 | 2.34  |
| Planned Used of Reserves (22/23) | (1.67) |
| Projected Deficit (22/23) | (1.14) |
| The Highland Council Financial Support  | 1.40  |
| **Projected Unrestricted Reserves at 31 March 2023** | **0.93**  |

With £1.4m in financial support from The Highland Council, unrestricted reserves at the year-end are projected to be circa £900k, £600k of which will be required to fund the budget gap in 2023/24 as detailed in the Budget Approval report and presentation.As detailed in paragraph 3.3, the award of two years backpay to eligible staff following the implementation of the revised pay scale will cost approximately £300k. As this cost will likely be borne in 2023/24 it is recommended that an earmarked reserve of £300k is created for this purpose.With the creation of an earmarked reserve for back pay and utilisation of £600k reserves in the 2023/24 revenue budget, HLH is projected to have zero unrestricted reserves at 31 March 2024. However, if the in-year position continues to improve there could be a small reserve at the end of the FY.  |
| **5.**  | **Internal Controls** |
| 5.1 | There have been no breaches of internal control in this quarter.   |
| **6.**6.1**7.** | **Data Breaches**There have been no data breaches reported in the last quarter.**Review of Financial Regulations and Standing Orders** |
| 7.1 | A review of the Financial Regulations and Standing Orders remains on-going throughout the year and there are no issues to report. |
| **8.**8.1 | **Annual Review of Insurance**HLH insurance cover is included as part of The Highland Council insurance cover. THC regularly reviews the insurance and forwards a detailed schedule annually to HLH. The insurance will renew on 1 April 2023 for 2023/24 and new additions will be advised throughout the year as and when required. |
| **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 January 2023 detailed in **Appendix A** reports a net surplus of £280k;
2. the draft year-end outturn of a net deficit of £1.14m;
3. the uplift in The Highland Council Service Fee of £330k;
4. the financial support from The Highland Council and the projected level of unrestricted reserves;
5. no breaches of internal controls have been reported in the past quarter;
6. no data breaches have been reported in the past quarter;
7. that following the annual review of the Financial Regulations and Contract Standing orders there are no issues to report; and

 approve 1. the creation of a £300k earmarked reserve for backpay relating to the proposed revision of pay scales.
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Designation: Chief Executive

Date 27 February 2023

Author: Neil Johnston, Head of Finance

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

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|  |  **Budget**  |  **YTD** |  **Forecast (Year end )** |  **Variance (Year End)** |
| Income | 32,490,096  | 27,253,024  | 31,312,160  | (1,177,936) |
| Staff Costs | (27,020,113) | (22,469,861) | (26,994,695) | 25,418  |
| Other Costs | (5,469,983) | (4,503,180) | (5,460,992) | 8,991  |
| **Surplus/(Deficit)** | **0**  | **279,983**  | **(1,143,527)** | **(1,143,527)** |

 **Variance by Sector APPENDIX B**

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| --- | --- | --- | --- | --- |
|  |  **Budget**  |  **YTD** |  **Forecast (Year end )** |  **Variance (Year End)** |
| Adult | (692,196) | (543,573) | (643,993) | 48,203  |
| Archives | (633,050) | (559,634) | (673,876) | (40,826) |
| Arts | (232,319) | (204,372) | (247,684) | (15,365) |
| Facilities | (3,362,615) | (3,976,380) | (4,747,194) | (1,384,579) |
| Libraries | (3,379,064) | (2,715,913) | (3,237,063) | 142,001  |
| Management | (2,993,537) | (2,573,918) | (3,104,396) | (110,859) |
| Museums | (656,518) | (606,573) | (743,965) | (87,447) |
| Music Tuition | (1,469,792) | (2,242,422) | (1,535,303) | (65,511) |
| Outdoor | (476,690) | (393,613) | (490,360) | (13,670) |
| SLA | 16,232,188  | 15,743,340  | 16,562,189  | 330,001  |
| Sports | (618,007) | (285,195) | (617,889) | 118  |
| Youthwork | (1,718,400) | (1,361,764) | (1,663,993) | 54,407  |
| **Surplus/(Deficit)** | **0**  | **279,983**  | **(1,143,527)** | **(1,143,527)** |

**Variance by Category APPENDIX C**



**Commentary by Service APPENDIX D**

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| **Sector**  | **Variance (£)** | **Note** |
| Adult | 48,203 | Positive variance due to savings in Staff Costs achieved through vacancy management. |
| Archives | (40,826) | Negative variance to budget due to income being lower than budgeted. This includes revenue from conservation work due to specialist staff on maternity leave.  |
| Arts | (15,365) | Negative variance due to projected loss of income plus staff costs over budget due to pay award. |
| Facilities | (1,384,579) | Negative variance largely due to loss of income plus overspend in Staff Costs due to pay award.  |
| Libraries | 142,001 | Positive variance to budget through savings in Staff Costs through vacancy management partly offset by loss of income (fines, sponsorship, audio-visual lending charges)  |
| Management | (110,859) | 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 consultant’s fees. Negative variance in income due to income from late payment penalties on invoices being lower than anticipated.  |
| Museums | (87,447) | Negative variance to budget largely due to loss of income, forecasted to achieve 87% of budget. Overspend in staff costs due to pay award offset by savings in Other Costs due to lower sales. |
| Music Tuition | (65,511) | Negative variance to budget due to income from Highland Young Musicians being lower than anticipated plus forecasted pay award of 7.5%.  |
| Outdoor | (13,670) | Negative projected variance due to loss of income and increased Staff Costs due to pay award, partially offset by savings in other operating costs. |
| Youthwork | 54,407  | Positive variance to budget due to savings in Staff Costs through vacancy management and utilisation of restricted reserves.  |