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| **HIGH LIFE HIGHLAND**  **REPORT TO FINANCE AND AUDIT COMMITTEE**  **7 December 2023** | AGENDA ITEM  REPORT No HLH /23 |

**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 two 2023/24 and other relevant matters.  It is recommended that Directors note:   1. the results for the period to September 2023 detailed in **Appendix A** reports a net deficit of £1.75m; 2. the draft year-end outturn of a net deficit of £0.5m with mitigations through use of reserves and residual THC (The Highland Council) financial support totalling £400k; 3. the projected negative year-end reserves position of minus £100k; 4. the implementation of Pay Modelling; 5. the award of contracts noted at paragraph 7.1; 6. agree to delegate authority to the Chief Executive in consultation with the Chair and Vice Chair to approve the tender detailed in paragraph 7.2; 7. no breaches of internal controls have been reported in the last quarter: and 8. no data breaches have been reported in the past quarter. |

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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. |
| **2.** | **Background** |
| 2.1 | The Finance and Audit Committee receives regular reports detailing the financial performance of the charity and its trading company. |
| **3.** | **Financial Performance for Quarter 2 2023/24** |
| 3.1  3.2  3.3 | The results for the period to September 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 6 months to the end of September is a deficit of £1.75m with a projected year end deficit of just over £0.5m. The forecasted year-end deficit has increased by £250k since the reporting of the Q1 results at the last Committee meeting in August following an increased average pay offer of 8%. The full detail of the pay offer has yet to be confirmed and has been rejected by the union Unison pending further clarification.  Income is forecast to be circa £250k under budget for the year with Leisure Facilities accounting for £212k of the deficit. At the halfway point in the year, income from the *high****life*** membership scheme is at 99% of target and projected to achieve 98% of budget at year end. Achieving this requires monthly *high****life*** revenue to increase over 6% each month from £573k in September 2023 to £609k in March 2024. Should *high****life*** income remain constant for the remainder of the year, the projected deficit will increase by circa £115k. |
| 3.4  3.5 | With £195k in uncommitted and unrestricted reserves and an additional £196k in financial support available from THC, HLH is currently facing a negative reserves position of circa £100k at the year end. Whilst the Scottish Government has stated its intent to provide additional funding for the pay award, the value of this is as yet unclear.  HLH will continue to work on achieving further savings and mitigations throughout the remainder of the year. |
| 4.  4.1 | **Pay Modelling**  At the 14 March 2023 Board meeting, Directors approved the creation of a £300k designated reserve to fund two years backpay following the introduction of a CoSLA-negotiated revised pay scale providing pay progression for employees currently earning the Living Wage. |
| 4.2 | Following consultation with THC’s Payroll Section, the implementation of the new pay scale with backpay to 1 April 2023 is planned for early 2024. The detail of further backpay will the subject of negotiation with the unions. |
| **5.** | **Internal Controls** |
| 5.1 | There have been no breaches of internal controls in the last quarter. |
| **6.**  6.1 | **Data Breaches**  There have been no data breaches reportable to the Information Commissioner in the last quarter. |
| **7.** | **Tenders Approved/Contracts Awarded** |
| 7.1 | Following consideration by the Chair and Vice Chair, Aqua Leisure Ltd were awarded the contract for Swimming Pool Water Treatment chemicals for the period October 2023 to October 2027. The following contract has also been awarded:   |  |  |  | | --- | --- | --- | | Art Hire Framing | Inverness Castle – Framing of the Tapestry of the Highlands and Islands | Nov 23-Mar 24 | |
| 7.2 | **Future Contract Approval** |
| 7.2.1 | A tender for the Provision of Retail Sales Good closes on 6 December 2023 which requires to be awarded by 20 December 2023.  Per the Scheme of Delegation, this level of procurement requires Board approval.  As this is required between Board meetings, it is recommended that approval is delegated to the Chief Executive in consultation with the Chair and Vice Chair. |
| **8.** | **Implications** |
| 8.1 | Risk Implications – there are no new risk implications associated with the recommendations of this report. |
| 8.2 | Equality Implications – there are no new equality implications associated with the recommendations of this report. |
| 8.3 | Legal Implications – there are no new legal implications associated with the recommendations of this report. |
| 8.4 | Resource Implications – there are no new resource implications associated with the recommendations of this report. |
| **Recommendation**  It is recommended that Directors note:   1. the results for the period to September 2023 detailed in **Appendix A** reports a net deficit of £1.75m; 2. the draft year-end outturn of a net deficit of £0.5m with mitigations through use of reserves and residual THC (The Highland Council) financial support totalling £400k; 3. the projected negative year-end reserves position of minus £100k; 4. the implementation of Pay Modelling; 5. the award of contracts noted at paragraph 7.1; 6. agree to delegate authority to the Chief Executive in consultation with the Chair and Vice Chair to approve the tender detailed in paragraph 7.2; 7. no breaches of internal controls have been reported in the last quarter: and 8. no data breaches have been reported in the past quarter. | |

Designation: Chief Executive

Date 15 November 2023

Author: Neil Johnston, Head of Finance

**Consolidated 2023/24: April to September APPENDIX A**

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|  | **Budget** | **Actual (YTD)** | **Forecast (****Year end )** | **Variance (Year End)** |
| Income | 34,253,243 | 15,576,548 | 33,996,075 | (257,168) |
| Staff Costs | (28,543,897) | (14,294,508) | (28,976,796) | (432,899) |
| Other Costs | (5,709,346) | (3,027,739) | (5,524,161) | 185,185 |
| **Surplus/(Deficit)** | **0** | **(1,745,699)** | **(504,882)** | **(504,882)** |

**Variance by Service APPENDIX B**

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| --- | --- | --- | --- | --- |
|  | **Budget** | **Actuals YTD** | **Forecast (****Year end )** | **Variance (Year End)** |
| Adult | (691,777) | (313,555) | (666,183) | 25,594 |
| Archives | (750,110) | (334,807) | (728,388) | 21,722 |
| Facilities | (4,043,784) | (2,287,761) | (4,539,233) | (495,449) |
| Libraries | (3,622,335) | (1,719,392) | (3,535,278) | 87,057 |
| Management | (3,156,082) | (1,509,107) | (3,104,773) | 51,309 |
| Museums & Galleries | (1,005,684) | (434,929) | (1,019,192) | (13,508) |
| Music Tuition | (1,664,832) | (1,743,732) | (1,686,904) | (22,072) |
| Rangers | (465,589) | (230,568) | (509,912) | (44,323) |
| Service Fee | 14,887,087 | 8,036,671 | 14,887,089 | 2 |
| THC Financial Support | 3,000,000 | 0 | 3,000,000 | 0 |
| Sports | (637,596) | (329,249) | (700,509) | (62,913) |
| Youthwork | (1,849,298) | (879,270) | (1,901,599) | (52,301) |
| **Surplus/(Deficit)** | **0** | **(1,745,699)** | **(504,882)** | **(504,882)** |

**Variance by Category APPENDIX C**



**Commentary by Service APPENDIX D**

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|  | **Variance (Year End)** | **Notes** |
| Adult | 25,594 | Savings in Other Costs including Thematic Projects and Travel, above budget pay award mitigated through vacancy management. |
| Archives | 21,722 | Income target for room hire unachievable following reduction in lets and lower than anticipated conservation income. Above budget pay award mitigated through vacancy management including maternity leave. |
| Facilities | (495,449) | high***life*** income projected to be £100k under budget, catering income forecast reduced following closure of Café Aqua and Canal Park. Overspend on Staffing Costs due to above budget pay award mitigated by vacancy management. |
| Libraries | 87,057 | Positive projected variance to budget due to significant savings in Staff Costs through vacancy management. |
| Management | 51,309 | Above budget pay award mitigated through vacancies in Business Support, Marketing, ICT and Human Resources, partially offset by £35k increase in insurance premium. |
| Museums & Galleries | (13,508) | Income on target, additional staff costs due to above budget pay award mitigated by savings through vacancy management and Other Costs. |
| Music Tuition | (22,072) | Projected overspend in Staff Costs due to above budget pay award mitigated by vacancy management savings and savings in equipment purchase and repairs. |
| Rangers | (44,323) | Negative income variance due to lower than anticipated bunkhouse revenue. Pressure from above budget pay award partly mitigated through savings in Other Costs. |
| SLA/ Support | 2 | On budget |
| Sports | (62,913) | Projected overspend due to above budget pay award. |
| Youthwork | (52,301) | Above budget pay award mitigated through vacancy management. Projected overspend in Other Costs due to planned cost of living support for children. |
| **Surplus/(Deficit)** | **(504,882)** |  |