



FIRST QUARTER REVENUE MONITORING 2025/26

Report by Chief Financial Officer

PURPOSE

- 1.1 The purpose of the Report is to inform Members of the Comhairle's forecast revenue outturn for 2025/26.

EXECUTIVE SUMMARY

- 2.1 A summary of the financial performance to the end of June 2025 is attached at Appendix 1 to the Report which shows a projected net overspend of £1.4m. After adjusting for the £2m relating to Health and Social Care, which will be funded from the Integrated Joint Board reserves, the net position for the Comhairle is a projected underspend of £644k. This underspend wholly relates to Education and Children's Services including Children's Mainland placements.
- 2.2 Although there are budget variances across other service areas, these are currently being managed within overall resources. All departments are currently projected to be within carry forward tolerances at the end of the year and an exception report on budgetary performance is included at Appendix 3.
- 2.3 The Scottish Local Authority pay award for non-teaching staff was agreed on 10 July 2025. The agreement includes a 4% pay award for this financial year, backdated to 1 April 2025, with a further 3.5% pay increase for 2026/27. The Scottish Teachers' pay award for 2025/26 has not yet been agreed. The Comhairle included 3% inflation for all direct employee costs within their initial budget. The additional cost of the pay award for non-teaching staff is estimated to be an additional £664k, this includes Health and Social Care services. The current forecast outturn assumes that the Scottish Government will fully fund the additional costs.
- 2.4 As a result of the cyber-attack that took place in November 2023, the Comhairle continues to incur costs, as services return to normal provision. In the financial year to date, the Comhairle has incurred £25k of additional system implementation costs, which this has been funded from earmarked reserves. There are likely to be further costs to be incurred due to loss of income.
- 2.5 The Unaudited Accounts for 2024/25 showed that the Comhairle held reserves of just under £3.3m earmarked for the forward budget strategy, in addition to its current policy of holding £3.5m in reserves. At the current time it is expected that reserves will remain at £3.3m by the end of the financial year, assuming that the additional cost of the pay award is funded by Government and that there are no other unforeseen budgetary pressures.

RECOMMENDATIONS

- 3.1 It is recommended that the Comhairle:**

a) note the financial performance to date.

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Appendices: 1) First Quarter Revenue Outturn 2025/26
2) Centrally Held Budgets
3) Department Exception Report
4) Comhairle Balances

Background Papers: Budget and Council Tax Setting 2025/26, February 2025

IMPLICATIONS

- 4.1 The following implications are applicable in terms of the Report.

Resource Implications	Implications/None
Financial	The proper administration of the Comhairle's financial affairs is a duty under Section 95 of the Local Government (Scotland) Act 1973.
Legal	A Local Authority must maintain an appropriate balance between the quality of the performance of its functions; the cost to the authority of that performance; and the cost to persons of any service provided by it for them on a wholly or partly rechargeable basis. In maintaining that balance a Local Authority shall have regard to efficiency, effectiveness, economy, and the need to meet equal opportunity requirements.
Staffing	None
Assets and Property	None
Strategic Implications	Implications/None
Risk	There are significant risks associated with the Comhairle Revenue budget.
Equalities	N/A
Corporate Strategy	
Environmental Impact	N/A
Consultation	

BACKGROUND

- 5.1 The Unaudited Accounts for 2024/25 showed that the Comhairle had reserves of £3.3m earmarked for the forward budget strategy, after taking into account the £2m required to meet the costs of the budget deficit in 2025/26.
- 5.2 The initial budget agreed by the Comhairle in February 2025, included the use of £2m of reserves and £1.4m of budget savings.
- 5.3 The Comhairle's 2025/26 budget assumed a 3% pay award. A collective pay agreement has been reached for non-teaching employees within the Scottish Joint Council. The two-year pay deal covers 2025/26 and 2026/27, includes a 4% pay increase for this year, backdated to 1 April 2025 and a further 3.5% increase from 1 April 2026. The pay award for teaching staff is still under negotiation. A formal dispute has been lodged. The additional cost of the non-teaching staff pay award is anticipated to be £664k, of which £236k relates to Health & Social Care services. The forecast outturn assumes, the Scottish Government will provide funding for the pay awards.
- 5.4 A review of centrally held budgets is currently being undertaken to support the forward budget process, the outcome of this will be reported to the next series of meetings.
- 5.5 A detailed review of the loan charges will be undertaken at the end of the second quarter, whilst the level of saving cannot be quantified at this stage it is likely that there will be savings due to a combination of slippage in capital expenditure and additional investment income.

CONCLUSION

- 6.1 The Comhairle Budget for 2025/26 was set utilising £2m of reserves and assuming £1.4m of savings during the year. The continued use of reserves will require to be addressed in the coming year, as reserves diminish.
- 6.2 The Comhairle has an estimated £3.3m of reserves available to support the budget process, but this needs to be considered in the context of an increasing deficit position and the continued uncertainties around the Settlement, future pay awards, interest rates and inflation.

DEPARTMENT EXCEPTION REPORTS EDUCATION, SKILLS AND CHILDREN'S SERVICES DEPARTMENT

At the end of the first quarter, and after the consideration of specific and grant funding (likely to be spent or carried forward into next year), the Education & Children's Services Department is reporting an estimated underspend of £550k for 2025/26. This figure is within the 1% carry forward tolerances. Projections based on the first quarter expenditure indicate a higher underspend, this has been offset with costs to be incurred later in the year. The majority of this underspend is due to a combination of factors. There is a significant reduction in demand for energy due to the mild temperatures and lower energy prices for the beginning of the year along with overall staffing savings and a variety of overspends and underspends highlighted below.

The centrally held Mainland Placement budget is showing a potential underspend of £94k at the end of the first quarter, based on current placements and planned placement progression. A concurrent report will be presented to Education & Children's Services Committee which will provide more detail.

After the pandemic there was a significant shortfall in income across the department, especially in Sports Facilities but this has recovered, and performance is now in excess of the budgeted target. In 2024/25, School Meals income was 10% lower than the budget target, indications this year are that the situation has improved, and income is now closer to the budgeted target. The Waste charges have not been processed in the first quarter; these will be reviewed for the second quarter forecast.

There is a large range of offsetting over and underspends across the department at the end of the first quarter, the main variances are noted and summarised in the service reports below.

Chief Officer Children's Services

This service comprises Children and Families Teams, Child Protection, Extended Learning Resource (ELR), Prevention to Entering Care Team, Fostering and Adoption, Residential Services (including Housing Support Service), Youth Justice, Throughcare/Aftercare, Children's Services Senior Management and external funded projects like WFWF, Bairns Hoose and Unaccompanied Asylum Seeking Children (UASC). The first quarter is showing an underspend in the region of £150k for this service, when external funded projects are filtered out. It is early in the year, and this level of underspend is not predicted to continue to end of the financial year. The previous shortfall on the Residential contract has been dealt with and met from within available budgets. This underspend is mainly due to staff efficiencies in ELR and delays in appointment to some key and high-level posts, secondments of permanent staff to grant funded projects and a reduction in the cost of fostering fees and allowances.

Chief Officer Education, Skills and Children's Services

This service comprises Sports Facilities, Sports Development, Libraries, Central Finance and Admin Teams, Trading Operations, in house Home to School and Additional Support Needs (ASN) Transport operations and Chief Officer direct budgets. Chief Officer direct budgets include the WISP Lifecycle budgets, Castlebay Complex Admin Officer, School Counselling and Directorate staffing and admin. For this service area there is an estimated under-spend of £255k at the end of the first quarter. It is very early to predict the outturn with complete accuracy in services of such a significant size like this one.

The Sport and Health service is made up of two elements - Sports Facilities and Sports Development. At the end of the first quarter Sports Facilities have a projected overspend on staffing of approximately £100k which has been offset by increased income, a reduction in energy costs and non-filling of a Senior post so far this year. Overall, the net projected underspend is around £110k. Sports Development are projecting to break even at year end. Libraries are showing an underspend of £30k at the end of the first quarter, this mainly relates to staffing costs from unfilled or delays in filling posts.

The Resources Section is showing a projected underspend to year end of £130k based on expenditure to date. This is made up of School / ASN transport of £100k and Resources Team of £30k. There is also a an overspend of £130k on the Trading Operations for Education Catering and Corporate Cleaning (T.O.). The Education

Catering T.O. overspend of £130k, is as a result of a major increase in food costs. This will be an ongoing issue to be addressed with further procurement efficiencies and options to reduce overall food costs for the rest of the year. To help with the current cost of food the Department will use an element of the Scottish Government additional funding for Universal Free School Meals expansion in 2025/26, to fund the full cost of Free School Meals for P6/7 pupils in receipt of Scottish Child Payment. The cost of ASN Transport has stabilised after the employment of additional drivers and escorts and the procurement of the new ASN vehicle fleet. The renewal and expansion of the vehicle fleet have provided additional efficiency and more flexible vehicles which reduces reliance on taxi services. Although a potential £100k underspend is visible, there are currently new pressures on ASN transport which, if approved, may significantly alter this position. Some of this underspend may be utilised to help purchase a replacement vehicle after a recent vehicle write-off during an accident. We are awaiting the outcome of an insurance claim. Taking the potential new pressures into account, the underspend projected for this service may be closer to £50k by the end of the financial year. At the end of the first quarter budgets for Central Admin, Staffing and Training are underspent in the region of £65k. This is a mix of staffing (£40k) and training budgets (£25k). This may reduce by year end depending on appointments and the level of training increasing as we near the end of the year. There are no other significant variances apart from specific and grant funding.

Chief Officer Education

This is our largest service comprising Schools, Nurseries, e-Sgoil, Gaelic and Culture, Additional Support Needs, Music Service, Attainment, Psychology and Senior Education Management. There are some larger areas of underspend and overspend in this service at the end of the first quarter producing the projected overall net underspend of £145k after the allocation of specific and grant funding is factored out. It is very early to project to year end with complete accuracy in services of significant size like this. This service includes Teacher Induction Funding which was £30k lower than budgeted leading to a deficit. There are suspected overspends on waste charges, these charges will be allocated in the second quarter, and a review will be undertaken thereafter. There are significant underspends on energy costs in schools due to the reduction in demand for energy due to the mild temperatures and lower energy prices. This is not projected to continue with the recent price cap increase. There are also a variety of staffing underspends and overspends in schools but an overall net £130k staffing underspend projected at the end of the first quarter.

ASN is projecting an overall underspend of £40k. The Department has carried out careful analysis of 2024/25 to identify the problem areas and this was reflected in the 2025/26 ASN Audit. E-Sgoil and the National e-Learning offer continue to receive funding from the Scottish Government and are projected to breakeven.

At the end of the first quarter the Early Years Service is projecting an underspend of £200k. This has mainly been due to reduced spend on relief staff and a difficulty in filling posts through the year but is expected to reduce significantly as the year progresses.

HEALTH AND SOCIAL CARE SERVICE

At the end of the financial year the Comhairle services reporting to the Integration Joint Board (IJB) are forecasting a deficit of £2.054m. Although there are significant underspends within some service areas for the reasons described below, they are not sufficient to fully meet the savings targets required when setting the 2025/26 balanced budget.

Head of Community Resources

- The Home Care Service is anticipating an underspend of £409k. This is mainly due to the level of vacancies within this service including the START Team. This saving will be mostly offset by agency staffing costs, which were assigned to ensure continuity of care.
- Combined Comhairle Residential Care and Adult Care and Support Services are forecast to be overspent by £301k. Staff from the former Blar Buidhe Nursing home have transferred to the Goathill Campus. The HVEC flats are yet to be fully occupied, and a corresponding shortfall is forecast in income from service users.

Head of Social and Partnership Services

- The Criminal Justice section is forecasting a significant underspend due to staffing vacancies and unbudgeted Scottish Government funding targeted at specific service outcomes.

- Assessment and Care Services are forecasting an underspend of £346k due to vacancies within the Community Care Team including new posts created from additional Scottish Government funding.
- Independent Care Homes are forecast too breakeven. Negotiations for 2025-27 have concluded and the bed prices are agreed based on the available budget for the two local care homes.
- Commissioning and Partnership Services is forecasting to be underspent by £400k. This is largely due to unallocated budgeted from Scottish Government monies for improving care in the community. The reallocation of the budget will be required as expenditure emerges during the year.

IJB Chief Officer

- The projected overspend of £3.041m within Management and Administration allocated against the IJB Chief Officer reflects the unachieved savings against the budget target. Known and achieved savings will be allocated against this service at year-end.

ECONOMIC AND COMMUNITY REGENERATION

At the end of the first quarter the budget variance for Economic and Community Regeneration services is £762k in excess of budget, this mainly relates to expected funding not yet received. The majority of this income has been processed in the second quarter.

The income from service users within the Homeless Service is currently lower than budgeted, this will continue to be closely monitored.

At the end of the financial year the services are anticipating to out-turn within budget tolerances.

ASSETS AND INFRASTRUCTURE

At the end of the financial year, the Assets & Infrastructure section are anticipating to out-turn within budget tolerances.

- Burial Grounds are anticipating a shortfall in income against budget as lairs can currently only be sold when required.
- Waste Disposal haulier income is likely to outturn around £120k below budget, as the budget target is unlikely to be achieved.
- The Abattoir is being closely monitored through an Abattoir MOWG. At this stage it is anticipated that there will be an overspend due to income not meeting budgeted targets, however, one-off funding of £50k has been earmarked within Crown Estate Funding to support Abattoir costs.
- Additional funding is expected to be received in 2025/26 under the Extended Producer Responsibility (EPR) for packaging regulations, to cover additional waste disposal costs. The amount to be received in 2025/26 has not yet been confirmed, nor have the amounts expected in future years.
- The Roads section is monitoring their annual spend against budget, although unforeseen works may be required. £220k was carried forward to spend on bridge works. Car parking income of £1.8k was received in the first quarter, against an annual income budget of £94k.
- Project Delivery income is expected to outturn around £100k below budget, although some of this will be offset by savings within employee costs.
- IT are currently in the process of transferring SWAN lines to a new supplier as part of a wider public sector tendering exercise. This will mean sites will have to incur duplicated costs in the month of transferring to the new supplier. Installation costs incurred on the transfer of the lines to the new supplier should be regained over a 3-year period with lower recurring costs.
- The rest of the services anticipate out-turning within budget, although close monitoring of the budget will be required.
- The Winter Maintenance budget of £2,085k for 2025/26 is centrally held, with any under or overspend managed on a corporate basis. The Winter Maintenance contracts run from October to March.

STRATEGIC FINANCE

Strategic Finance is currently forecasting to outturn within budget. There are minor variances across the service mainly due to staffing vacancies, but these are generally being used to offset additional system costs and loss of income as a result of the cyber-attack.

CHIEF EXECUTIVE'S DEPARTMENT

At the end of the first quarter the Chief Executive Department is currently showing a negative variance, this is mainly due to expected funding not yet received. The Department is expecting to outturn within budget at the end of the financial year.