

THE HIGHLAND COUNCIL

29 June 2006

Revenue Budget Update

Agenda Item	
Report No.	

Report by the Director of Finance

Summary

The purpose of this report is to update members on progress with the 2007/08 revenue budget, and highlight the estimated financial outlook for the year.

1. Introduction

1.1 Since the 2006/07 revenue budget was agreed earlier this year, work has been taking place in relation to the 2007/08 revenue budget. The purpose of this report is to update members on progress and set out the broad financial outlook facing the Council.

2. Background

2.1 Members will recall from the report to Council on 2 February 2006, that the revenue budget for 2006/07 resulted in the Council having to seek considerable budget savings at a level similar to those experienced in the early years of Highland Council. **In total £15m of net savings measures were required to balance the budget, equating to around 3% of the net budget.**

2.2 At that time it was highlighted to members that the financial outlook for 2007/08 was every bit as challenging, and it was estimated that further savings of at least the 2006/07 level would be required for 2007/08. **Over the course of the current 3 year settlement period this would suggest that in total savings equating to almost 10% of the net budget will be required.**

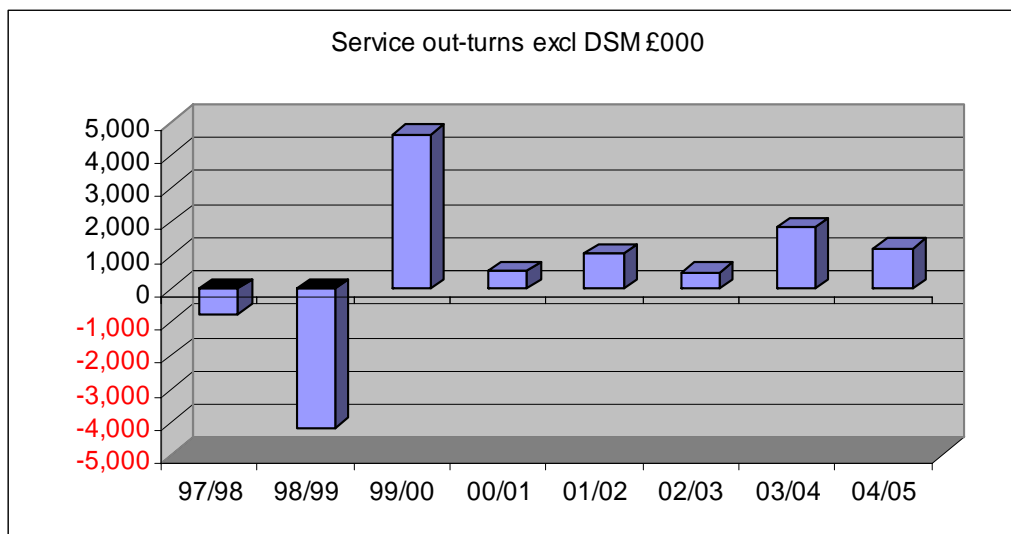
2.3 Recognising the financial challenge facing the Council over the current and next financial year, work has continued from February onwards to ensure that Services were putting in place arrangements to implement 2006/07 saving proposals and identify further savings for 2007/08.

2.4 The timetable for the 2007/08 budget has been brought forward by several months to ensure that saving proposals can be identified and agreed at an early date, and sufficient time is available to implement savings in advance of the year starting. The broad timetable is as follows.

<i>March – Sept</i>	<i>October/Nov</i>	<i>Nov 2006 – March 2007</i>
<i>Investigation of savings</i>	<i>Agree savings</i>	<i>Implement savings</i>

3. 2006/07 Savings

- 3.1 A key aspect of budget discussions to date has been arrangements to ensure that progress is being made in delivering 2006/07 savings. Given the size of the savings package agreed, and the need to ensure these are delivered in 2006/07 and thereafter on a sustainable basis, it was essential that a monitoring regime was in place.
- 3.2 Each Service Director has been instructed to ensure that at service level, arrangements are in place for regular monitoring of savings progress. Meetings involving the Chief Executive, Convenor and Vice Convenor have also taken place in February and March with each Service Director and Chairman to discuss progress.
- 3.3 Budget Working Group met on 21 June and received presentations from each Service Director and Chairman on progress with 2006/07 and 2007/08 budgets. A budget timetable was considered and further discussions at BWG will take place over the coming months. Details of the discussion at BWG are contained within the minute circulated with the agenda.
- 3.4 The emphasis on scrutiny of 2006/07 proposals is essential to avoid the risk that savings are not delivered. While the Council's balances have grown over recent years, this has been despite Service budgets collectively overspending on a consistent basis as shown in the graph below. It has only been as a result of underspending on loan charge and other budgets, and improved council tax income that the Council has maintained its balances.



- 3.5 Members will be aware of the estimated costs that face the Council from equal pay and job evaluation, and that it is possible these costs could largely exhaust the Council's general balances. If this were the case then the Council would be faced with the stark choice of making cuts in service or raising council tax as a means of reinstating balances.
- 3.6 Scrutiny of service budgets and progress in delivering savings will therefore be essential over the remainder of the current financial year.

4. 2007/08 Outlook

- 4.1 In relation to the 2007/08 revenue budget, initial service targets were first prepared in March 2005 at the time work commenced on the 2006/07 budget.
- 4.2 Targets have subsequently been updated and comparing estimated resources to the roll forward budget, a gap of £9.2m has been estimated. This sum has been allocated across all Services as a savings target as a means of closing the gap.
- 4.3 This savings target does not take account of any budget pressures that Services are likely to face during 2007/08. Based on presentations to BWG on 21 June, and the level of pressures faced in recent years, **it is estimated that in total savings in excess of £20m could be required in 2007/08** as shown in the table below. This sum makes no provision for any costs arising from the job evaluation or equal pay settlements.

	£million	
	Agreed 2006/07	Estimate 2007/08
Savings gap to be closed per cash-limited targets	9.0	9.2
Add:-		
Budget Pressures	9.7	13.3
Total Savings to be found to balance budget	18.7	22.5

- 4.4 Major pressure areas for 2007/08 include; pension increases, costs of supporting the increased capital programme, energy costs, school transport, waste management and homelessness. In addition there may be significant corporate implications for the Council if housing stock transfer proceeds.
- 4.5 Based upon the presentations to BWG on 21 June, specific and quantified savings totalling around £8m have been identified to date by Services, with outline proposals being progressed to address the remaining savings target.
- 4.6 BWG will continue to meet over the coming months to finalise the budget proposals with the aim of having service budget proposals agreed by November 2006.
- 4.7 It is clear from Service presentations that it is going to be an extremely challenging task for Services to deliver this level of savings in 2007/08. **It is inevitable that the bulk of the savings will have an impact on staffing budgets, and many Directors report that with savings at this level, there will be implications for service delivery.**
- 4.8 While Services are endeavouring to identify genuine efficiency savings to ensure frontline service levels are maintained, it will not be possible to deliver over £20m of efficiencies without a thorough review of the services delivered, and how these are delivered by the Council. Clearly such a task cannot be achieved over the short-term.
- 4.9 The opportunity for structural change from 2007 onwards presents the Council with a catalyst to reshape service structures and budgets to better fit the tight financial environment it now faces.
- 4.10 The considerable effort and investment the Council has made in a range of efficient government initiatives in recent years will also present opportunities for savings when

considered as part of the service restructuring process. The Council has the following main strands to its efficient government approach.

- Procurement; contractual and process savings
- ICT improvements and efficiencies e.g. CRM, payroll and personnel, Oracle
- Business process improvements and efficiencies e.g. BIT and WBABIT
- Staff and management restructuring
- Share services/joint working

5. Conclusions

- 5.1 Although the budget for 2006/07 has been set for some months, ensuring that the Council can deliver within this budget is a critical task. Arrangements have been put in place for member and officer scrutiny to ensure that the savings agreed are delivered.
- 5.2 In relation to 2007/08, it is likely that further savings in excess of £20m will be required to balance the budget. As a result, the level of savings the Council will be required to deliver across the current 3 year settlement will be in the order of 10% of the budget, a very considerable sum.
- 5.3 It is clear from the work that Services have progressed to date, that this level of savings cannot be delivered without implications for service delivery. While the Council has in place arrangements to deliver genuine efficiency savings to maintain frontline services, these alone will not be sufficient to balance the budget.
- 5.4 Based upon the financial outlook and the challenges Services face in managing their budget, the Council's current service delivery arrangements are not financially sustainable. There will be a need for the Council to review its service delivery arrangements to develop more efficient ways of working, and to ensure its plans better reflect the financial environment it operates in. Opportunities for structural change from 2007 will be key to this change.

Recommendations:-

Members are asked to consider this report, noting the financial outlook and progress in relation to 2006/07 savings implementation and the 2007/08 revenue budget.

Signature

Designation: - Director of Finance

Date:- 21 June 2006

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