

**The Highland Council
Budget Information Group**

Minutes of Meeting of the Budget
Information Group held in the
Hospitality Room, Council
Headquarters, Inverness on Thursday,
28 May 2009 at 1.45pm.

Present

Dr D Alston
Mrs M Davidson
Mr B Fernie
Mr J Laing
Mr H Fraser
Mr I Ross

Mrs J Urquhart
Mr P Cairns
Mr J Gray
Mr R Rowantree
Mr R Balfour

In Attendance:

Mr A Geddes, Depute Chief Executive
Mr B Williams, Head of Corporate Finance
Mr B Porter, Finance Manager
Miss J MacLennan, Democratic Services Manager

Dr D Alston in the Chair

1. Apologies for Absence

Apologies for absence were intimated on behalf of Mr A S Park, Dr M E M Foxley, Mr J Finnie and Mrs C Wilson.

2. Financial Outlook

A Presentation was undertaken at the meeting by the Depute Chief Executive which set out the financial implications for the public sector from the recent UK budget announcement and outlined the Council's financial outlook over the medium term.

It was confirmed that, against the background of the current economic downturn, tighter financial settlements were expected which would have a significant impact on public sector spending in future.

The most optimistic scenario showed a very modest growth in the Scottish budget year on year. However, in real terms, a decrease was expected with capital investment expected to bear the largest impact from the Budget in 2009. An announcement in relation to the actual budget was not expected until the Autumn and it was unclear as to what time period this would cover or what the impact would be on Local Government.

In terms of the Highland outlook, annual savings of between £12-15m had been required in recent years but more challenging cuts and savings targets were envisaged in the future.

Following general discussion, the position was **NOTED**.

3. Micro Reviews

There had been tabled at the meeting Report No. BIG/2/09 by the Chief Executive which set out a proposed process for 'micro reviews' of service delivery centre budgets with the objective of improving efficiency and delivering budget savings.

During a summary of the report, it was confirmed that there were real and significant concerns over the Council's financial position and the likely budget pressures which were likely to be faced from 2010/11 onwards. There had also been concern expressed by Members over the costs of running Service Delivery Centres across the Council area which involved a number of Council Services and a proposal had been put forward that these costs should be reviewed and a review process initiated at local Ward level. It was anticipated that reviews would be undertaken in the context of the existing Council policy framework and any suggestions for change which conflicted with this would be considered by the relevant Strategic Committee. The principle aim of any review would be to reduce costs whilst maintaining service delivery wherever possible and in effect every Member of the Council would be seen as an 'efficiency champion'.

In terms of the format for reviews, it was anticipated that Stage 1 would involve Director/Head of Service, Finance Manager, Ward Manager, Centre/Facility Manager and a Personnel Representative if required. Stage 2 would involve all of the Officers within Stage 1 together with all Ward Members (Strategic Chairs and Vice Chairs would also be invited to participate although attendance would be optional). Finally, Stage 3 would involve consideration by the Budget Information Group and then Strategic Committees.

It was considered that the reviews could be undertaken across all Services but further discussion would be required with Strategic Chairs to determine priority service delivery centres for review and one approach would be to tackle this by service delivery centre type. A maximum of three reviews would be undertaken initially as pilots for the process and it was proposed that, to ensure early progress, the Chief Executive and Depute Chief Executive should agree suitable pilots following consultation with the Convener, Leader of the Council's Administration, Budget Leader, other Group Leaders and the relevant Strategic Chairs.

Following discussion, Members **AGREED:-**

- (i) the process for taking forward micro reviews and that up to 3 service delivery centres should be identified to be undertaken as pilots;
- (ii) that a report should be taken back to the Budget Information Group on the conclusion of the pilot reviews; and
- (iii) that the Chief Executive and Depute Chief Executive should agree suitable pilots following consultation with the Convener, Leader of the Council's Administration, Budget Leader, other Group Leaders and the relevant Strategic Chairs.

4. Capital Programme Review

There had been circulated Report No. BIG/3/09 dated 21 May 2009 by the Depute Chief Executive which set out a process for reviewing the current Capital Programme, developing a new 10 year Capital Programme and utilising option appraisal methodology to support the review process.

During a summary of the report, it was confirmed that the Council had previously agreed the current Capital Programme up to and including 2011/12 and also that arrangements should be taken forward in terms of developing a 10 year Capital Strategy. In addition, emphasis had been placed upon the development of Asset Management Planning and also the external drivers from the Scottish Government and Audit Scotland in this regard.

A process had therefore been set out in the report which would allow the Council to review the current Programme, develop a new 10 year Programme up to and including 2018/19 and use an option appraisal methodology to support the decision making process.

In terms of affordability, it was considered that the financial prospects for the public sector over the medium to long term would be very challenging and in particular it was expected that capital investment would see significant real terms reduction from current levels. It was therefore suggested that a prudent approach to expected Programme levels should be taken for the new 10 year Capital Programme as any capital expenditure over and above levels supported by the Scottish Government would fall upon the revenue budget as a cost pressure at a time when the revenue settlement was also expected to be very challenging.

It was confirmed that the Council's current Capital Programme for 2009/10 for General Fund Services totalled £66.5m gross expenditure although, of the total Programme value, only £38.7m was directly supported by the Scottish Government. The remainder was met locally from Prudential Borrowing or other internal/external funding sources.

For the purposes of taking the Capital Review forward, it was proposed that affordability levels should be set in the context of current support for capital and that the Council should look to develop spend to save investment projects that could be funded on the basis of payback and recurring savings in the medium term. In this regard, Services would be asked to consider spend to save opportunities as a core aspect of identifying future projects.

In relation to Option Appraisal, it was confirmed that this was a process whereby each Capital project would be scored on a range of weighted criteria and then all projects would be ranked. The ranked list would then be used to inform the decision making process. It was stressed that Option Appraisal could be used to ensure that Capital decisions were based on objective assessments of all projects, taking account of factors such as condition, service impact, financial consequences, etc but it was not intended to make the decision and the role of Members would be critical in reviewing the ranked list and agreeing the Capital Programme. Beyond the benefits which could be gained, there was a clear expectation from the Scottish Government and Audit Scotland that Councils should have in place sound asset management planning arrangements which included a prioritisation process to support decision making.

In terms of the Option Appraisal process to be selected, the model proposed within the report had been based on that used by West Lothian Council but modified to reflect the circumstances of Highland Council and based upon 3 broad groups of criteria covering Non-Financial Benefits, Corporate Priorities and Financial Assessment.

In relation to the Review Process, it was confirmed that objectivity was the key to undertaking Option Appraisal and other Councils had established cross-Service Officer Groups to review outline business cases and undertake the Option Appraisal scoring exercise. It was therefore proposed that the Council should utilise the Capital Planning Officer Group to take forward the scoring exercise. The role of Members would be to review the ranked list and to use this to inform their own political view on a final list of projects.

In conclusion, it was confirmed that, subject to agreement of the approach outlined in the report, Services would be advised of the actions they needed to progress to take forward the review. The development of outline business cases, and the option appraisals, for each project would be considerably more time intensive than in the past for capital planning and there would need to be sufficient time made available for the process.

To ensure that Members were fully involved throughout the process, it was proposed that the review should be broken down into phases with reports back at regular intervals.

Following discussion, Members **AGREED** the Capital Programme review process and the use of option appraisal as outlined within the report.

It was also **AGREED** that the Capital Planning Officer Group should take forward the scoring exercise as part of the process.

5. Current Grant Distribution System

A Presentation was undertaken at the meeting by the Depute Chief Executive which provided an overview of the current grant distribution methodology.

It was confirmed that the grant distribution process was based on notional amounts of expenditure on individual Council services and in total an assessment of what each Council would be spending if it were providing an average level of services at an average cost (revenue, net, non-HRA). For Highland Council in 2009/10, the figure had been £487.8m out of a Scottish total of £10.6bn. The aim was to provide each Council with an equitable amount of funding to enable them to levy the same Band D Council Tax.

Information was also provided on the Gearing Effect on Local Taxation, the Purpose of the Grant Distribution System and the Essential Features of the Client Group Approach.

Following general discussion, the position was **NOTED**.

The meeting ended at 3.25pm.