

The Highland Council

19 December 2013

Agenda Item	11
Report No	HC/52/13

Revenue Budget and Council Tax 2014/15

Report by Director of Finance

Summary

This report sets out budget proposals to address the residual £3.6m budget gap for 2014/15, therefore allowing the Council to agree the revenue budget and council tax for that year. An update on the Council's longer-term financial planning arrangements is also set out within the report.

1. Background

- 1.1 On 7 February 2013, the Council agreed the revenue budget for 2013/14, a savings package for two years totalling c£24m, including savings proposals totalling £12.148m to largely address the estimated budget gap for 2014/15. A 2014/15 budget gap of £3.3m remained at that time.
- 1.2 As reported to the Council on 27 June 2013, a number of adjustments to the 2014/15 budget estimates had been made, resulting in the residual budget gap still to be addressed being revised to £3.6m.
- 1.3 Senior Management Team have reviewed the budget estimates for 2014/15, and identified a number of further budget proposals and adjustments, which would allow the Council to address the residual budget gap for 2014/15 without the need to seek further service reductions.
- 1.4 This report sets out the remaining proposals relating to 2014/15, allowing the Council to agree the budget and council tax for that year. This would represent an earlier setting of the budget than the typical February budget meeting, achievable due to the forward planning and proposals already agreed in February 2013.
- 1.5 As a result of considering this budget report in December, rather than the typical February report, there will be no need for the Special Council meeting in February 2014. On that basis, Members are asked to agree that the Housing Revenue Account Estimates for 2014/15, including rents for houses, garages and other charges, should be formally agreed by the Finance, Housing and Resources Committee in January (with no further reference to the full Council) and the Scheme of Delegation amended accordingly.

1.6 While due to the decisions already taken, this report addresses only a relatively small residual gap for 2014/15, it is clear the financial outlook for 2015/16 and beyond remains very challenging. A budget gap of £80m overall, or £20m p.a., is forecast for the longer-term financial planning period set out in section 7. This will undoubtedly be a challenging target for the Council to address, and this report sets out a timetable and process for how this work will be taken forward.

2. 2014/15 Budget Estimates Recap

2.1 As reported to the Council on 27 June 2013, the residual budget gap for 2014/15 was £3.6m, taking account of decisions already made in February 2013.

2.2 Some further adjustments to underlying budget estimates have also been updated since the February and June 2013 budget reports. These changes are largely neutral overall, and have been reflected within the revised budget set out in this report.

2.3 The only substantive change since June 2013 has been to reflect the grant funding and costs associated with requirements of the new Children and Young People Bill, and provision of 600 hours early learning and childcare, as reported to the Adult and Children's Services Committee on 13 November 2013.

2.4 The current roll forward budget, and estimated residual budget gap are as follows :

	£m
Base Budget 2013/14	559.375
Inflation, Pay Awards, and other base budget adjustments	9.430
Budget Pressures	7.156
Preventative Spend	3.000
Less: Budget Savings Agreed *	-12.148
Current Budget Position	566.813
Less: Grant Settlement Funding	-451.444
Less: Council Tax Income	-111.808
Residual Budget Gap	3.561

** £12.157m savings per Booklet C of budget report to 7 February 2013 Council meeting but £9k adjustment required due to knock-on effect of Council decision to change implementation date of ECS savings ref 31-34*

2.5 Further details of the budget pressures and savings already agreed, are set out within the report to the 7 February 2013 Council meeting. This includes proposals for an additional £3m for Preventative Spend.

<http://www.highland.gov.uk/yourcouncil/committees/thehighlandcouncil/2013-02-07-hc-min.htm>

3. Closing the Remaining Gap

- 3.1 Through a review of existing budget assumptions, and over-achievement of existing budget targets allowing upward revision of some income and savings targets, the following adjustments are proposed to address the residual budget gap.

Budget Proposal	£m	Explanation
Removal of remaining budget contingency	0.181	£2m of contingency budget was agreed February 2013. £1.819m of this has been set aside to provide for the 'flat cash' budget settlement with NHH. The remaining £0.181m would be removed.
Removal of provision for teachers' pension increase	0.695	This estimate had been included in expectation of an increase in cost. No indication of national changes has come forward, therefore can be removed.
Revised Council Tax collection	0.280	Amended bad debts assumption, reflecting review of year-end collections achieved.
Remove b/forward unallocated budget	0.768	Over provision in previous years, not required for any specific purpose
Review assumptions about provision in energy costs	0.500	Levels of provision in recent years have not been required in full. This would leave £0.780m rolled into the 2014/15 budget to meet energy price rises, equivalent to c8%.
Reduce budget pressure provision for Street Lighting DUoS charges	0.250	Transmission charges for street lighting increased significantly in 2012/13 and full provision was made in 2013/14 budget. A reduced charge subsequently has been negotiated nationally and this budget can be reduced.
Procurement Savings	0.500	During year to date over £400k of savings have been achieved, which is ahead of the savings target. £500k represents a modest assumption about 2014/15 savings.
Non-Domestic Rates budget savings	0.222	Savings from successful appeals against NDR valuations on ECS properties £0.152m and NDR budget pressures provision from 2013/14 no longer required £0.070m
Council tax base growth	0.165	Further increase to council tax base to reflect additional property growth.
TOTAL BUDGET ADJUSTMENTS	3.561	

- 3.2 These proposals would address the residual gap in full, and allow a balanced budget to be agreed for the year.

4. Risks and Assumptions

4.1 While the proposal set out above would allow the Council to agree a balanced budget for 2014/15, there are a number of risks and assumptions to be highlighted.

- a) **Delivering Agreed Savings** – the budget agreed on 7 February 2013 included £12.148m of savings proposals for 2014/15. Review of implementation and achievability of savings has been undertaken, and Services have highlighted some savings as amber or red, with some challenges in relation to the saving. As such there are some risks around achievability of savings, as there would be in any budget year. Senior Management Team have however committed to the need to deliver the agreed savings or identify alternatives where necessary.
- b) **Current year 2013/14 budget pressures** – there remain a number of pressure areas in relation to the current year's budget which are resulting in overspends being reflected in budget monitoring reports. Services are taking steps to manage these pressures, and the balancing of next years' budget is predicated upon this.
- c) **Adult Health and Social Care** – discussions are underway with NHS Highland regarding current financial pressures, savings, on-going funding requirements and implications for service delivery in accordance with the Partnership Agreement. Any decisions that may impact on previously agreed outcomes will be brought back to the next Council meeting in March 2014 for decision, which would include a full assessment of the service and financial implications. In accordance with the Budget Protocol, the Council's budget includes an initial assumption of no cash uplift to NHS Highland in line with the Local Government Grant Settlement.
- d) **Welfare reform** - no additional budget pressures have been identified at this stage in respect of Welfare Reform. Whilst considerable uncertainty remains, the Council will receive a share of up to £20m of additional Scottish Government funding to help offset the impact of Welfare Reform. Pending clarification of a number of further funding additions relating to Welfare reform, the grant settlement assumed at this time only reflects sums confirmed or where reasonable estimates can be made. Any subsequent funding changes or additions will be reported when known.
- e) **Local Government Grant Settlement** – at the time of writing this report, the final grant settlement for 2014/15 had not been received. This was due to be announced on 11 December. As is usual practice, the settlement is not confirmed until the Scottish Parliament agrees the LGF Order, typically in February 2014. The budget set out within this report is therefore based on the indicative settlement notified in December 2012, adjusted for expected grant changes since that time. It is not expected that the final settlement will result in any detrimental impact to the proposed budget, and a verbal update will be provided to the Council meeting.
- f) **Pay, inflation and pressures** – the budget incorporates the 1% pay award provision assumed in February 2013. As members will be aware, a two-year pay deal is being imposed for SJNC pay groups, and agreement

on the teachers' pay deal remains outstanding. The budget again assumes a cash-freeze on expenditure (non-pay) budgets. Budgets will only therefore increase to match inflation where specific provision for contractual or other unavoidable inflation has already been set-aside through budget pressures. Overall, £6.975m remains for budget pressures, based on the proposals reported to the February 2013 Council, and the £0.181m proposed adjustment at paragraph 3.1. Any further emerging pressures will have to be accommodated within existing budgets, potentially requiring additional savings to address these.

- g) **Reserves and Balances** – the latest projection shows that allowing for the projected out-turn in 2013/14, the Council's General Fund non-earmarked balances would stand at £18.8m, slightly above the 3% target level (£16.9m). However, there remain a number of other potential impacts on balances which could result in balances falling below the 3% target. These potential issues include; current year budget out-turn and service overspends, requirement to meet any future redundancy or retiral costs associated with achieving savings, future ICT re-provision costs.

- 4.2 Should any change in circumstance arise following the Council's decision, whether as a result of any change to underlying budget assumptions or other matters, this will be reported back to a future Council meeting. Any material change to the budget would be considered by the 13 March 2014 Council, to ensure matters were considered prior to the start of the new financial year.

5. Budget and Council Tax 2014/15

- 5.1 Based on the proposals set out above, the revenue budget for 2014/15 would be summarised as follows. Further details are set out on **annex 1**.

	£m
Base Budget 2013/14	559.375
Inflation, Pay Awards, and other base budget adjustments	6.995
Budget Pressures	6.975
Preventative Spend	3.000
Less: Budget Savings Agreed *	-12.148
Less : Additional Procurement Savings (see para. 3.1)	-0.500
Proposed Revenue Budget	563.697

Grant Settlement Funding	451.444
Council Tax Income	112.253
Total Funding	563.697

** £12.157m savings per Booklet C of budget report to 7 February 2013 Council meeting but £9k adjustment required due to knock-on effect of Council decision to change implementation date of ECS savings ref 31-34*

- 5.2 The council tax income shown above, is based upon an assumed continuation of council tax freeze. This would result in a tax at Band D of £1,163 for the 8th

year in succession. The tax charge for all bands would be as shown below.

Band	Tax	Band	Tax
Band A	£775.33	Band E	£1,421.44
Band B	£904.56	Band F	£1,679.89
Band C	£1,033.78	Band G	£1,938.33
Band D	£1,163.00	Band H	£2,326.00

- 5.3 The Council on 7 February 2013 agreed to introduce Council Tax charges of 100% relating to long term empty properties effective from 1 April 2013. As reported to that meeting, long-term empty domestic properties had previously qualified for a 10% reduction in their council tax charge. A change in legislation meant the Council had the option to increase the charge from 90% up to 200% of the Council Tax due.
- 5.4 No additional income has been assumed for the purpose of setting the 2014/15 budget, however, it is proposed that in setting the 2015/16 budget in December 2014, the Council will be asked to consider a proposal to move towards the full 200% charge on a phased basis.

6. Consultation and Communication

- 6.1 Extensive budget consultation was undertaken in the lead up to the budget decisions made in February 2013. As no new budget savings or proposals with wider implications are set out within this report, no further budget consultation has been necessary.
- 6.2 As is normal practice, Trade Unions have been briefed on this report prior to its issue. No new or amended impact on staffing results from this report.

7. Longer-term Financial Planning

- 7.1 The Council in February 2013 noted proposals to take forward longer-term financial planning. In June 2013 it received an update report setting out a forecast c£80m gap over the period 2015/16 – 2018/19, and agreed the budget strategy for that period with a focus on strategic reviews, service redesign and transformational change. **Annex 2** sets out details of the basis of the £80m forecast gap.
- 7.2 Since that time, the Senior Management Team have held a number of budget strategy meetings to further consider how the strategy can be taken forward, and the types of review which can lead to the service change and savings over that period. The review areas identified to date are summarised below.
- School Amalgamations
 - Length of School Day
 - Devolved School Management
 - Waste Disposal

- Street Lighting
- Customer Services
- ICT
- Corporate Improvement Programme
- Procurement
- Charging
- Shared Services
- Outsourcing
- Stop/Reduce Services
- Capital Programme
- Prevention

7.3 The above list is not complete and the Senior Management Team anticipates further proposals will be brought forward. However many of these areas are challenging and it is important to allow sufficient time to allow proper research, analysis and consultation to ensure that the implications are fully assessed, and that Equality Impact Assessments are undertaken.

7.4 To achieve the level of service change and saving required will take time and resources. It is expected that delivering savings for the longer-term may take up to a 12 month period, leading to a final decision on budget savings and the longer-term financial plan in December 2014. There will be a number of key milestones in this timetable, as summarised below.

November – December 2013	Initial Service identification of areas for review and assessment to achieve savings (see para 7.2 for initial list)
December 2013	Update report to Highland Council (this report)
March 2014	Highland Council meeting for consideration of any opportunities for early savings in the process, and to consider any further adjustments to the 2014/15 budget.
April 2014 – November 2014	Completion of Service reviews & assessments, options for service delivery models, costed implications. Assessment of proposals and stakeholder consultation
December 2014	Finalisation of saving proposals and budget recommendation.
December 2014	Highland Council meet to agree budget

7.5 Where there are opportunities to take forward savings resulting from the review process at an early opportunity, these will be progressed with reports taken to Council or the appropriate Policy Committee for discussion and early decision. It is anticipated there may be opportunities which can be brought back to the March 2014 Council.

7.6 Senior Management Team is also undertaking a thorough review and challenge of all budget assumptions. It is anticipated that the outcome of this review will be a reduction in the overall funding gap identified in paragraph 7.1 through additional income, better management of financial pressures, and additional efficiency savings.

8. Implications

8.1 Resource implications – as set out within the report. A further £3.561m of proposals to balance the budget would be implemented, and revenue budget and council tax agreed for the year. No additional staffing implications are anticipated from those reported to Council in February 2013.

8.2 Legal Implications - no specific legal implications are identified in relation to the proposals within this report.

8.3 Climate Change/Carbon Clever Implications – no implications are expected arising from the proposals set out within this report. Where necessary, screening of individual proposals for implications will be required and will be taken forward as part of the process of implementing saving proposals.

8.4 Equality Implications – no implications are expected to arise from the further proposals within this report.

8.5 Risk implications – see section 4.

Recommendation

Members are asked to consider this report and:

- (a) Agree the further proposals set out at paragraph 3.1 to balance the budget for 2014/15;
- (b) Agree the Revenue Budget for 2014/15 totalling £563.697m and as summarised on annex 1;
- (c) Agree a Council Tax freeze for 2014/15, with the Band D tax for the year being £1,163;
- (d) Note future proposals relating to council tax on long term empty properties to be considered as part of the 2015/16 budget decision in December 2014;
- (e) Agree that the Housing Revenue Account Estimates for 2014/15, including rents for houses, garages and other charges, should be formally agreed by the Finance, Housing and Resources Committee in January (with no further reference to the full Council) and the Scheme of Delegation amended accordingly.

Designation: Director of Finance

Date: 10 December 2013

Author: Brian Porter, Finance Manager

Background Papers: Highland Council, 7 February 2013, General Fund Revenue Budget 2013/14 – 2014/15 Report
<http://www.highland.gov.uk/NR/rdonlyres/E039A9B8-0352-4E82-98AB-B7F76BB62A66/0/Item3HC4412.pdf>

2014/15 Proposed Budget

	£m
Education, Culture & Sport	235.342
Health & Social Care	137.606
Planning & Development	7.092
TEC Services	56.070
Chief Executive's Office	23.113
Finance Service (including Business Support)	10.991
Housing Benefits, Council Tax Reduction Scheme & Social Welfare Fund Grants	14.472
Housing & Property Services including Building Maintenance	9.113
Service Total	493.799
Valuation Joint Board Requisition	2.380
Loan Charges	58.010
Interest on Revenue Balances	-0.180
Non Domestic Rate Reliefs	0.606
Affordable Housing Contribution from Council Tax	2.600
Agreed Pressures and Savings Held Centrally Pending Allocation to Services	3.482
Preventative Spend Held Centrally Pending Allocation to Services	3.000
Total Proposed Budget	563.697
Revenue Grant Funding	-451.444
Council Tax	-112.253
Total Funding	-563.697

Note : 2014/15 proposed Service budgets based on current Council structure.

Roll Forward Budget 2015/16 – 2018/19

	2015/16		2016/17		2017/18		2018/19	
Base Budget for Year		563.7		565.7		566.5		567.3
<i>Roll Forward Adjustments</i>								
Remove previous year one-off funding from balances		0.0		0.0		0.0		0.0
Add : <i>Inflation, Increments & Pensions</i>								
Pay Awards								
Teachers - 1%	1.2		1.2		1.3		1.3	
Other Staff - 1%	1.5		1.5		1.5		1.6	
Inflation								
Other Costs - Cash freeze	0.0		0.0		0.0		0.0	
Income *	0.0		0.0		0.0		0.0	
Increments								
Teachers	0.8		0.8		0.8		0.8	
Other Staff	0.9		0.9		0.9		0.9	
Pension Contribution								
Teachers - 0.75%	0.7		0.7		0.7		0.7	
Rate Increases								
Other Staff - 0.75%	0.8	5.9	0.8	5.9	0.8	6.0	0.8	6.1
Add : <i>Funding Increases Added to Base Budget</i>								
Children & Young People Bill		1.2		0.0		0.0		0.0
Add : Provision for Budget Pressures / Growth		12.0		12.0		12.0		12.0
Add : Valuation Joint Board Requisition		0.0		0.0		0.0		0.0
Add : Estimated Increase in Loans Charges		2.5		2.5		2.5		2.5
Estimated Roll Forward Budget		585.3		586.1		587.0		587.9
Revenue Grant		452.6		452.6		452.6		452.6
Council Tax								
Excluding Second Homes	110.5		111.3		112.1		113.0	
Second Homes (landbanking)	2.6	113.1	2.6	113.9	2.6	114.7	2.6	115.6
Total Resources		565.7		566.5		567.3		568.2
Budget Gap before Savings		19.6		19.6		19.7		19.7

* No increase in income assumed at this time. A review of charges for Council services will be carried out as part of the longer term financial planning strategy (para 7.2)