

## The Highland Council

13 March 2014

Agenda Item	13
Report No	HC/64/13

### Revenue Budget: 2014/15 Budget Update and Long Term Financial Planning 2015/16 – 2018/19

#### Report by Director of Finance

##### Summary

This report provides an update in relation to the revenue budget for 2014/15, and also provides an updated outlook and progress to date in relation to the Council's longer-term financial planning for years 2015/16 to 2018/19.

#### 1. Background

- 1.1 On 19 December 2013 the Council agreed the revenue budget and council tax for 2014/15. That report committed to providing a further update to this March meeting, in relation to the 2014/15 revenue budget, and longer-term plans for the subsequent four financial years.

#### 2. 2014/15 Revenue Budget

- 2.1 Since agreement of the revenue budget on 19 December, the grant settlement for 2014/15 has been formalised through the Scottish Parliament approving the Local Government Finance Order 2014. The grant settlement now issued contains some minor changes to the settlement from the assumptions made in agreeing the budget for the year. These changes do not have any implications for the balancing of the budget overall, largely confirming funding that had already been expected.

- 2.2 However, a number of pressures have been identified during 2013/14 that will carry forward into 2014/15. These principally relate to:-

- Additional Support Needs and Out of Authority Placements
- Refuse Disposal
- School and Public Transport

A separate proposal on today's Agenda seeks approval for resources, from balances, to support additional preventative work around Children's Services that will help to address pressures on Additional Support Needs and Out of Authority Placements.

- 2.3 In addition, Services will continue to manage pressures within available

resources, realigning budgets as necessary. Action taken will be reported to the appropriate Committee. There are no further matters relating to the 2014/15 revenue budget to highlight to members at this time.

### 3. 2015/16 to 2018/19 Budget Outlook

- 3.1 The budget timetable set out in the 19 December report, highlighted review of budget assumptions leading to the current c£80m budget gap as being a matter to be brought back to this Council meeting.
- 3.2 Finance Officers and Senior Management Team have reviewed and challenged budget assumptions, to ensure they are robust, but also to identify where there was any scope to mitigate the level of budget gap and savings required.
- 3.3 **Annex 1** sets out the updated budget forecast for the period. **In summary, the forecast gap over the 4 financial years has been reduced from £78.6m to £62.7m.**
- 3.4 Senior Management Team has reviewed the assumption of £36m (£9m pa) built into the budget assumption for budget pressures. The revised estimates take account of unavoidable contract inflation on contracts such as PFI/PPP Schools, ICT and Transport and are estimated at £12m (£3m pa). Other assumptions include funding to address base budgets in respect of Transport, Waste and Income; Corporate Improvement savings; and recurring pressures around Additional Support Needs and Looked After Children. In total it is proposed that the general provision for pressures can be reduced by £12m from £36m to £24m. Decisions on agreement of specific pressures will be made as part of future budget setting decisions.
- 3.5 The updated figures take account of the proposed adjustments to the Budget Quantum with NHS Highland for Adult Care Services. That separate report also results in forward commitments against future year's preventative spend budgets.
- 3.6 The annex provides further details of the assumptions made, but in summary the key changes from the earlier estimate are as follows.

Item	4 Year Impact £m	Comments
Budget Pressures	-12.0	Reduction in the level of general pressure provision from £36m over 4 years, to £24m.
NHS Highland Adult Care Budget	+2.7	Specific provision for funding to meet the budget package for the period 2014/15 – 2016/17. See separate agenda report for details.
Pension Increases	-2.8	Removal of provision for teacher pension increases on employers. Unclear if/when may arise, and historically Scottish

		Government funding may be made available linked to any increase in cost.
Income Inflation	-2.5	The original forecast made no central assumption, on the basis any proposals to increase income, incl fees and charges, would come forward as saving proposals. The revised forecast now includes a central assumption of a <b>2%</b> increase in fees and charges per annum. This would represent the <u>minimum</u> increase in fees & charges at the Council's discretion and would be in line with the Council's charging policy principles. Any further increases would come forward as saving proposals.
Pay Increments	-1.0	The budget provision for staff incremental pay progression has been reviewed to take account of staff turnover to mitigate costs. Overall costs taper out over 4 years with future costs to be met from turnover savings.
Council Tax Income	-0.3	The collection level for council tax income has been further increased to 98%, taking account of recent year out-turns and prior year collection levels.
<b>Total Reduction in Budget Gap</b>	<b>-15.9</b>	Overall reduction in forecast gap (from £78.6m to £62.7m)

3.7 The budget assumptions will be kept under regular review, and where necessary revised and reported to members.

3.8 In terms of key risks and issues, members are reminded that the roll forward budget assumes a 1% per annum staff pay award in each of the 4 years, and the continuation of a general expenditure freeze over that period, with no inflation provided for expenditure budgets, other than where specific pressures for contractual inflationary costs come forward and are agreed. These assumptions will represent challenging targets to deliver, and along with uncertainty around future grant settlements, justify the need to retain an adequate level of provision for budget pressures over the period. If pay, inflationary or other pressures were to exceed the sums assumed, then further action would be required to address the budget position, with the potential for additional saving targets required. Work will continue to review the budget assumptions as the budget process continues.

#### 4. Review Areas and Early Transformation Opportunities

4.1 The 19 December report set out the key areas for review, and transformation initiatives, which Senior Management Team had identified to identify savings.

4.2 Since that time further work has taken place to consider some of the specific proposals underlying those saving themes, and to undertake a high level appraisal process to identify those proposals which may have greatest merit and require further investigation and discussion. **Annex 2** sets out the current expanded list of areas for further review.

These are set out under the following themes:-

- Process Improvement and Modernisation
- Bringing Things Together
- Income Generation
- Working with Community Groups
- Working with Public and/or Private Partners
- Waste Disposal
- Procurement

4.3 Senior Management Team have also had discussions to identify any opportunities that could be realised at an early date, to contribute to addressing the budget gap and allow early progress with implementation. The following savings have been identified at this early stage, and in most cases separate reports have (or will) be brought to the relevant Committee for decision at the appropriate time.

Description	Year on year effect £m			
	2015/16	2016/17	2017/18	2018/19
ICT Contract extension saving (one-off) (November 2013 FHR Committee)	1.20	-1.20		
SWAN Pathfinder contract saving	-	-	-	0.40
Unified Communications contract saving (February 2014 FHR Committee)	0.30	0.15	-	-
Customer Services Review in excess of previously agreed savings target (February 2014 FHR Committee)	0.06	-	-	-
Dingwall office review (February 2014 FHR Committee)	0.13	-	-	-
Fort William Office Review (November 2013 FHR Committee)	-	-	0.40	-
<b>TOTALS</b>	<b>1.69</b>	<b>-1.05</b>	<b>0.40</b>	<b>0.40</b>
4 YEAR TOTAL	1.44			

4.4 **Once these savings are realised, the budget gap set out above reduces**

**by £1.44m from £62.7m to £61.26m.**

- 4.5 In relation to the budget planning timetable, the following sets out the next steps, as reported to the December 2013 Council.

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. Papers will be submitted to the appropriate Committee during this process.
November 2014	Finalisation of saving proposals and budget recommendation.
December 2014	Highland Council meet to agree budget

## **5. Implications**

- 5.1 Resource implications – as detailed within the report.
- 5.2 Risk implications – the budget position, and budget assumptions, will be kept under regular review and any risks identified and reported as part of any future recommendations.
- 5.3 Legal; Equalities; Climate Change/Carbon Clever implications – there are no specific implications to highlight at this time. Any implications will be reviewed and reported as part of future budget decisions.

### Recommendation

Members are asked to consider this report and

- (a) Note the update in relation to the 2014/15 revenue budget.
- (b) Note the revised assumptions relating to the budget plan for 2015/16 – 2018/19.
- (c) Note the review areas being progressed by Senior Management Team, and the early transformation savings identified.
- (d) Note the budget timetable for the remainder of the 2014 calendar year.

Designation: Director of Finance  
Date: 4 March 2014  
Author: Brian Porter, Finance Manager

## Annex 1

<b>Roll Forward Budget 2015/16 - 2018/19</b>				
	<b>2015/16 £m</b>	<b>2016/17 £m</b>	<b>2017/18 £m</b>	<b>2018/19 £m</b>
Base Budget	563.7	565.8	566.8	567.7
Roll Forward Adjustments/ Full Year Effect	1.0	0.1	0.1	0.0
Pay Awards	2.7	2.8	2.8	2.8
Other Costs Inflation	0.0	0.0	0.0	0.0
Income Inflation	-0.6	-0.6	-0.6	-0.6
Increments	1.6	1.6	1.4	1.2
Pension Increases (non-teaching)	0.8	0.8	0.8	0.8
Loan Charges	2.5	2.5	2.5	2.5
Provision for Budget Pressures	8.7	5.1	5.1	5.1
NHS Highland Adult Care	2.3	0.4	-	-
Preventative Spend	3.0	3.0	3.0	3.0
<b>Roll Forward Budget</b>	<b>585.8</b>	<b>581.5</b>	<b>581.8</b>	<b>582.5</b>
<i>Funding :</i>				
Revenue Grant	452.5	452.6	452.7	452.7
Council Tax	113.4	114.2	115.0	115.9
<b>Total Funding</b>	<b>565.8</b>	<b>566.8</b>	<b>567.7</b>	<b>568.6</b>
<b>Budget Gap (£62.7m total)</b>	<b>20.0</b>	<b>14.7</b>	<b>14.1</b>	<b>13.9</b>

## **Annex 2 – Review Areas to Explore Saving Opportunities**

### **Process Undertaken to Explore Saving Opportunities**

Senior Management Team began the process of future financial planning with two sessions to consider ideas; this also included fielding ideas which had come from sessions that Directors had held with their Service colleagues.

The Corporate Improvement Team was then engaged to research what a range of other UK Councils were proposing to address their revenue budget requirements. Online published information was examined for the Councils of Fife, Cumbria, Hampshire, Suffolk, Devon, Cornwall. Additionally Corporate improvement Team held an ideas generation session. From this activity an extensive list of initial ideas was created.

Using their programme development experience Corporate Improvement Team narrowed this initial list down. These were themed and grouped for Senior Management Team's review, **and are summarised below**.

It is proposed that the project ideas on this list are the core ideas that a programme of savings and CIP projects will be developed from. Further review will be necessary to consider the implications (service and financial) and feasibility of these proposals, before any are presented as proposals for consideration by members. Not all on the current list will necessarily progress forward.

**Please see attached list**

### Process Improvement and Modernisation (PIM)

Ref.	Project
PIM 1	Redesign how we administer requests for and payments of all forms of benefits and Entitlements
PIM 2	Absence/Attendance Management - Adopt a more robust and consistent approach
PIM 3	Self-directed support - personalisation
PIM 4	Use brokerage agency to consider care package costs
PIM 5	Centralise stores and use suppliers
PIM 6	Finance bond from tenants
PIM 7	Improvement to Bereavement Services
PIM 8	Consider scope rationalisation of refuelling arrangements
PIM 9	Licensing administration
PIM 10	Remove duplication from the client/contractor split - Does the process involved in works orders have scope for improvement?
PIM 11	Apply in-house resources - Less reliance on external consultants (e.g. for roads and lighting function)
PIM 12	Number of Clerks at Committee - Scope to alter? Current examination of evolving to paperless committees an enabler
PIM 13	Looked-after children - Purchased placements. Accelerate the recruitment of new foster carers for children
PIM 14	Increase use of web-based resource for interaction with schools
PIM 15	Consider revising hours of operation to allow service areas to be more customer service focused (for example evenings and weekends)
PIM 16	Home-to-school transport - A dedicated resource to develop services may allow vehicle use to be doubled
PIM 17	Additional Planning & Development services – alternative means of managing the discharge of conditions process
PIM 18	Multi-skilling - Process change, employee development (skill and behavioural, perception), certification considerations
PIM 19	Repairs - one stop shop - online
PIM 20	Channel shift activity - Focus on improved services, completion of transactions and increased customer satisfaction
PIM 21	Citizen Accounts - Create linkages to broad set of Council Services
PIM 22	Mobile technology - Roll-out use of handhelds, usually where the Council is taking the Service to the customer.
PIM 23	Smartphone technology - eg use for rent communications - less letters
PIM 24	Mixed economy approach for delivery of works programme
PIM 25	Roads service delivery - Examine depot locations (e.g. in right place to optimise winter gritting routes)
PIM 26	Council Tax and Benefits team - Reflect welfare reform, use of technology and process improvements
PIM 27	Number of Council vehicles - Examine processes for vehicle deployment efficiency
PIM 28	Capital investment in structural work on some roads - one year investment to create more cost-effective approach to maintenance



**Bringing Things Together (BTT)**

Ref.	Project
BTT 1	Campus arrangement – Delivery of advanced Highers
BTT 2	School estate review – staffing and integration of nurseries into primary schools where possible
BTT 3	School Subject Staffing - Share teachers across schools
BTT 4	Joint management of Community Development/Health Improvement
BTT 5	Community Services integration - internal and external
BTT 6	Service delivery integration -Potential for functions to be integrated
BTT 7	Income and Opportunities Team -create team to generate income from various sources

**Income Generation (IG)**

Ref.	Project
IG 1	Arms Length Organisations to seek income generation and reduced Councils contribution
IG 2	Catering - Income generation through catering
IG 3	Franchising opportunities in Council buildings - For example, cafes
IG 4	Charge for local advice packs for Planning
IG 5	Hire out school accommodation/facilities
IG 6	Establish a development company - To maximise income from land/property assets
IG 7	Increase income from sorting scrap metal at recycling centres
IG 8	Market Rents
IG 9	Increased income from Countryside Ranger and Outdoors Centres
IG 10	Support for Council renewable projects

### Working with Community Groups (WCG)

Ref.	Project
<b>WCG</b> 1	Community capacity building
<b>WCG</b> 2	Reshaping neighbourhood services - Role of communities and community organisations in delivering services in the future
<b>WCG</b> 3	Capital investment to save revenue - Invest in/upgrade local facilities and give them over to communities to run
<b>WCG</b> 4	Community transport - Consider 3-5 year deals to improve service planning and stability of provision
<b>WCG</b> 5	Develop new role for Community Wardens - How might their role be developed and what might the return be?
<b>WCG</b> 6	Social impact bonds to fund preventative work in Children's Services
<b>WCG</b> 7	Promote use of social investment tax relief

### Working with Public &/or Private Partners (WPP)

Ref.	Project
<b>WPP</b> 1	Create trading company/active divestment strategy
<b>WPP</b> 2	Contracting out - where do the opportunities lie?
<b>WPP</b> 3	Develop more community transport solutions
<b>WPP</b> 4	Share support services
<b>WPP</b> 5	Mutual joint venture opportunities with other Councils
<b>WPP</b> 6	HR Services - Alternative delivery models possible for HR services such as sharing learning and development, recruitment hub, health and safety
<b>WPP</b> 7	Share Audit Services
<b>WPP</b> 8	Shared Business Support
<b>WPP</b> 9	Consider options for consumer advice linked to Welfare Reform

**Waste Disposal (WD)**

<b>Ref.</b>	<b>Project</b>
<b>WD</b> 1	Waste disposal - Reduce landfill tax payments
<b>WD</b> 2	Waste disposal - Incineration waste to energy units
<b>WD</b> 3	Anaerobic Digestion plant - Develop and operate plant to produce renewable power and heat from food and garden waste
<b>WD</b> 4	Leachate treatment process improvement
<b>WD</b> 5	Less need for use of mobile plant at landfill site
<b>WD</b> 6	Income from waste - Relevant opportunities for Highland
<b>WD</b> 7	Waste wood sales – Supply this material as a biomass for the generation of renewable power and heat

**Procurement (Proc)**

<b>Ref.</b>	<b>Project</b>
<b>PROC</b> 1	Approach to procurement - Examine extent of contract use and cost of buying off-contract
<b>PROC</b> 2	Joint energy procurement with public sector partners
<b>PROC</b> 3	Procurement Product Rationalisation
<b>PROC</b> 4	Procurement Practice Efficiencies - combining contracts
<b>PROC</b> 5	Review taxi contract
<b>PROC</b> 6	Local bus services
<b>PROC</b> 7	Street-lighting - Re-procurement of street lighting energy supply contract and more energy efficient operation