

The Highland Council

17 December 2015

Agenda Item	12
Report No	HC/56/15

Revenue Budget 2016/17

Report by Director of Finance

Summary

The purpose of this report is to provide an update on the latest developments regarding the budget forecast position for 2016/17, and to highlight the scale of the budget deficit.

1. Background

- 1.1 Council last received an updated budget forecast at its meeting on 25 June 2015. Since then considerable work has been undertaken by services to provide a range of savings options for members to consider. This information has been made available to all councillors, as well as trade unions and the media. The Council has also commenced a consultation using the Citizen's Panel and has run a number of "Facebook chat" sessions.
- 1.2 Over the past few weeks there have been a couple of significant events that will make a material change to the existing budget forecasts and options for budget savings. The purpose of this paper is therefore to highlight these and assess the financial impact.
- 1.3 Previous budget reports have taken a longer term view of the revenue budget up until 2018/19. Longer term financial planning is key to the future planning of service delivery. However, with the anticipation of a single year grant settlement for 2016/17, and the scale of the financial challenge, the focus of attention has to be on next financial year. Subsequent reports will restore a three year budget forecast, recognising that financial challenges will continue for the foreseeable future.

2. 25 Hour School Week

- 2.1 Without prior discussion, or negotiation with COSLA, the Scottish Government has announced an intention to legislate within the Education Bill that is currently being drafted, to require all authorities to provide a minimum of 25 hours teaching throughout primary schools.
- 2.2 Highland Primary Schools have always operated a 22.5 hour week from P1 – P3. This is a long standing legacy position because of the length of the day for young children who, in a rural authority, may have to travel considerable distances to school.
- 2.3 An additional half an hour in class each day would cost Highland Council circa £2m in teaching hours. This would be a significant additional cost at a time when the overall budget is reducing, and forms a further constraint on how the Council can manage its resources and respond to community needs.

- 2.4 The Council is also aware of the real challenges around teacher recruitment, particularly in rural areas. There is therefore a significant risk that the Council would be unable to fulfil these new statutory obligations, irrespective of the financial challenges. Rural schools, that are already under increasing pressure as a consequence of the budget challenge, will be under even greater pressure as a consequence of this legislation, making them even more likely to be unviable.
- 2.5 Councillors are aware that officers have been considering a 22.5 hour week across all ages in Primary Schools. In large part, this is because it is one of the few tangible actions that the Council can take to support the delivery of sustainable education across many areas of the Highlands in this age of austerity. The Council has yet to decide about this issue, but should the Government legislate to remove this option, it will reduce the Council's capacity to achieve some £4m of efficiencies, meaning a total impact on the education budget of circa £6m.
- 2.6 The current budget for Primary School teachers is around £46m. This new proposed legislation will effectively ring fence 8% of the Council's overall budget, meaning a higher proportion of savings will have to be found from other council services.

3. Local Government Grant Settlement

- 3.1 The Council's previous budget projections assumed a 1.6% cut in Scottish Government grant for 2016/17. This was based on a detailed analysis of UK and Scottish Government policy following the UK Parliamentary election in May. As reported to Council in June, a 1.6% cash cut in grant equates to £7.309m.
- 3.2 Following the UK Spending Review, announced by the Chancellor on 25 November, indications have now been given that the level of grant reduction could be in the region of 4-5%. The scale of the cut is understood to be based on a previous over-estimate of business rates income at a Scottish level, protection (in cash terms of the NHS), and a need to fund Scottish Government policy priorities, in addition to funding changes from the UK Government.
- 3.3 In financial terms, a 4% cut in Scottish Government Grant would equate to an additional £10.963m. A 5% cut equates to £15.531m. Both of these figures would be in addition to the assumed reduction of £7.309m (1.6%).
- 3.4 The Deputy First Minister is due to announce the Scottish Budget proposals to Parliament on the 16th December. At the time of writing it is hoped that Grant figures will be released at the same time. A verbal update will be provided at the meeting. However there are usually a number of queries around the Settlement, and a checking process is not due to commence until the following week. It is therefore unlikely that it will be possible to have certainty around the Grant Settlement until Christmas, or even later.
- 3.5 Current forecasts of the scale of grant reduction are unprecedented and represent a real "game changer" in terms of the current level of service provision. The extent to which a significant proportion of the full budget is ring fenced, either due to contractual obligations or legislative requirements, means

that the impact on other services is considerable and the Council must now consider ceasing some functions altogether.

4. Additional Budget Pressures

- 4.1 As part of the ongoing revenue budget monitoring, as reported to Resources Committee on 25 November, there are a number of existing pressures on budgets as well as new pressures. These need to be accommodated within a revised Base Budget.
- 4.2 Previous years' budgets have assumed an ongoing reduction in waste tonnage going to landfill. In reality this trend has now ceased and in fact there is an increasing level of waste subject to landfill. The cost pressure associated with this is £0.7m.
- 4.3 In December 2014 the Council indicated a wish to renegotiate its existing contracts for schools provided under the Public Private Partnership (PPP model). Negotiations have been ongoing, but the level of saving linked to these contracts is likely to be very small. The Scottish Government has also confirmed that the Council will not be allowed to borrow to buy out these contracts. As a result the saving of £1.7m over two financial years will not be achieved.
- 4.4 The new Wick campus schools and new primary school projects are due for completion during 2016/17. Due to delays in reaching financial close, and escalating costs, the revenue funding available needs to be increased by a net £0.331m in 2016/17 with additional costs in future years.
- 4.5 Education, Children and Adult Services Committee considered a recent report on the model of Facilities Management within schools, recognising that to roll out the current agreed model would incur additional costs. In addition it was agreed that the present situation was not sustainable. A sum of £0.4m therefore needs to be provided to address this situation.
- 4.6 Budget assessments about the level of income expected to be generated from car parks has proved to be optimistic. It should however be recognised that the additional income proposed in last year's budget has been achieved. The problem relates to previous years, and requires a budget realignment of £0.25m
- 4.7 Legislation now requires all employers to auto enrol employees in a pension scheme. Highland Council was amongst the first councils to implement this requirement and a number of employees have taken the opportunity to join the Local Government Pension Scheme (LGPS). However this process has to be repeated every three years, and will therefore be undertaken in April 2016. Given current and anticipated take up of this option, it is anticipated that pension costs will increase by £0.75m as a result.

5. NHS Highland Adult Care Commissioned Services

- 5.1 In March 2014 Highland Council agreed a three year funding package with NHS Highland covering the period 2014/15-2016/17. This agreement involved a degree of compromise and required the achievement of financial savings by NHS Highland as well as additional funding from the Council.

- 5.2 At that time it was stated that this financial settlement was at the extreme margins of affordability for the Council. Critically the financial projections assumed a “flat cash” grant for the Council over this three year period. Given the content of this report, and previous projections of a grant cut, these financial projections are no longer sustainable.
- 5.3 On 14 October the Chief Executive wrote to his counterpart at NHS Highland asking for the NHS to advise the Council of the service implications of a cash reduction of between 1.6% and 6%. The purpose of this request was to enable Members to consider options for budget savings alongside Council Service proposals. It was stressed that this did not predicate any formal decisions.
- 5.4 On 18 November, the Chief Executive of NHS Highland responded saying that they did not feel able to provide the Council with savings options. Their view is that the Council should honour the three year settlement, and that if it wishes to reduce the budget then the Council should specify which services it wishes to decommission.
- 5.5 The view of Council officers is that, since NHS Highland provide the day to day services, that they are best placed to advise Members on options for budget savings.
- 5.6 Discussions with NHS Highland are therefore ongoing and there is an understanding that proposals should come forward from NHSH in time for proper consideration before decisions are made at February Council.

6. Resource Implications

- 6.1 The table below shows the scale of the Budget Funding Gap, taking account of the three issues highlighted in Sections 2 to 4 above.

	£m	£m
Base Budget 2016/17		
- Forecast Gap as at December 2014	14.668	
- Less agreed savings	<u>10.185</u>	
Residual Budget Gap per Council 18.12.14		4.483
- Additional Budget Pressures		
• Pay Awards	1.841	
• Teachers' Pensions	2.172	
• Holiday Pay	0.400	
• Winter Maintenance	0.120	
• National Insurance	5.450	
• Income adjustments	-0.153	
• Recalculation of pressures	<u>0.095</u>	
Total as advised per November "In Brief"		9.925
Further Additional Budget Pressures (per section 4)		
• Waste Management	0.700	
• Schools PPP	1.700	
• Wick Schools	0.331	
• Schools Facility Management	0.400	
• Car Parking	0.250	
• Auto Enrolment	<u>0.750</u>	
		4.131
Grant Cut (planning assumption 1.6%)		7.309
Primary School Legislative Change		<u>2.000</u>
Revised Base Budget Funding Gap		<u>27.848</u>
Funding Gap with 4% Grant Cut		38.811
Funding Gap with 5% Grant Cut		43.379

6.2 The table above indicates that the forecast total funding gap is £27.848m, but this rises to £38.811m or £43.379m should the cut in grant be 4% or 5% respectively.

6.3 It should also be recognised that the above totals exclude £10.185m of savings, agreed last December, that have still to be delivered for 2016/17. If this figure is added to the Funding Gap in the table above, the Council is facing a potential real terms reduction in its budget of £53.564m which is over 9% of its budget in the current financial year.

7. Implications

7.1 There are no specific Legal issues arising from this report.

7.2 Budget forecasts carry a number of assumptions and there is therefore a financial risk to the Council should actual costs prove higher than estimated.

The scale of savings required to achieve a balanced budget mean a significant risk, and inevitable reduction, to the breadth of services currently provided by the Council.

- 7.3 All budget savings proposals will require an equalities impact assessment to be undertaken.
- 7.4 There are no specific Gaelic or Rural implications directly arising from this report. However the scale of budget savings required inevitably means that there will be implications once proposals for savings are developed.
- 7.5 There are no specific Climate Change/Carbon Clever implications arising from this report. However proposals do require to consider savings that can be achieved through more efficient use of energy.

Recommendations

Given that formal decisions will require to be taken by the Council in order to achieve a balanced budget by 25 February 2016, at this stage the Council is asked to acknowledge the impact of:-

1. A 25 hour school week for all primary school children (as per section 2)
2. A significant cut in the Council's grant (as per Section 3)
3. The additional Budget Pressures (as per Section 4)
4. Adult Care Commissioned Services as outlined in Section 5 above.
5. The Resource Implications as per paragraph 6.1

Designation: Director of Finance

Date: 8 December 2015

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Background Papers: None