

Agenda Item	10
Report No	HC/27/18

HIGHLAND COUNCIL

Committee:	Highland Council
Date:	6 th September 2018
Report Title:	Multi-year Revenue Budget Planning 2019/20 to 2021/22- update report
Report By:	Director of Corporate Resources / Deputy Chief Executive

1. Purpose/Executive Summary

- 1.1 At the previous Council meeting in June the Council received a report looking at the financial position of the Council over the next three years. Council noted the position and agreed to prepare a three-year budget, covering the period from 2019/20 to 2021/22.
- 1.2 The two main variables that influence the size of the budget gap facing the Council are the funding settlement received from the Scottish Government and the annual pay uplift awarded to staff. No clear information has been received on either of these variables since the previous report to Council.
- 1.3 The previous report to Council provided a range for the budget gap between £34.1m and £124.9m. For planning purposes the Council will assume a 3 year budget gap of £66.7m, as outlined in section 3, with the aim to agree a plan which has the ability to accelerate or defer proposals as the situation requires.
- 1.4 This report also considers the income the Council receives from Council Tax and looks at the extent to which increases in Council Tax might mitigate the budget gap.
- 1.5 The budget gap will need to be closed by spending less, by stopping or reducing services and by delivering them more efficiently; and by increasing the level of income the Council generates from Council Tax or other fees and charges. All of these actions will be needed to balance the budget over the period 2019/20 to 2021/22.

2. Recommendations

- 2.1 Members are asked to:
 - i. Note the working assumption for the budget gap of £66.7m over the next three years.

- ii. Consider the extent to which any increase in Council Tax might meet this gap
- iii. Note the progress to date in addressing the budget gap

3. Forecast budget gap

- 3.1 The previous report to Council illustrated a range of potential future scenarios for the Council's budget. These scenarios were based on two key variables, namely the level of revenue grant funding received from the Scottish Government and the annual staff pay award. For the nine scenarios modelled the budget gap ranged from £34.1m to £124.9m.
- 3.2 Such a wide range was provided because the Council has no certainty on either of these two key variables. On the grant funding front the Scottish Government has, in recent years, only committed to a one year settlement and little forward guidance has been made available. On the pay front, annual pay settlements have historically been reached, but in the case of the current financial year, 2018/19, the pay award is still to be agreed and future settlements may be higher than in recent years.
- 3.3 Having such a wide potential range for the budget gap makes planning work incredibly difficult and so it has been decided that the budget work will focus on a scenario of a 1% annual reduction in government grant funding and an annual 3% pay award. Setting the variables at this level gives a budget gap of £66.7m over the 3 year period.
- 3.4 Those variables have been chosen as they reflect officers' current best estimates of the future position. The assumptions will be kept under review throughout the process and the proposals developed to meet the budget gap will require to be flexible to reflect potential changes in the position.

4. 2018/19 budget and revenue monitoring position

- 4.1 The 2018/19 quarter 1 corporate revenue monitoring position was reported to the Corporate Resources committee on the 29th August. Based on current expenditure trends that report forecast a year end overspend of £5.112m.
- 4.2 Work is underway to bring the overall budget back into balance with clear messages being sent to staff about cutting back on recruitment, the use of agency workers, travel and overtime. The directors of services currently forecast to overspend have committed to bringing their budgets back into balance by year end and are amending spending plans accordingly.
- 4.3 Any overspend that might transpire at year-end would require to be funded from the Council's non-earmarked general fund reserve. At the start of the year that reserve sat at £8.562m, which is below the minimum level suggested by Audit Scotland.
- 4.4 The budget gap figures allow for the level of that reserve to be increased by £1m annually however that figure may need to be increased (thereby increasing the budget gap) should the forecast overspend occur. Having the general fund reserve at such a low level also poses the risk that limited funds are available for the Council to invest in any transformational projects that are identified to meet the budget gap.

5. Best Value Audit and the budget process

- 5.1 A review of the reports of those Councils that have recently received a Best Value

Audit has identified a number of points of best practice for the Council to consider throughout the budget process.

- 5.2 In terms of the budgeting approach there is a need to have a clear focus on outcomes, priorities, and performance, and designing services that are able to deliver these in the future. Good quality information needs to be communicated effectively to allow this to happen.
- 5.3 This approach requires a medium term budget strategy, which incorporates scenario planning, builds in future challenges facing the organisation, and has clear links to key strategies such as workforce plans, asset management strategies, and transformation programmes.
- 5.4 Once identified and approved the delivery of savings is key. Councils must identify and appropriately resource ambitious programmes of transformation. Given the low level of balances held by this Council as identified in section 4 of this report this may prove challenging.
- 5.5 Cross party working is essential, and expected, to deliver the scale of ambitious transformation programmes that are required. A lack of political consensus can undermine the budget process. Members need to take a lead in setting the priorities for the Council and ensuring savings proposals are in-line with those priorities.
- 5.6 Delivery of transformation programmes requires political consensus, and strong and committed political and officer leadership.
- 5.7 The public should be involved in how the Council sets its priorities, and consulted on savings that have been proposed. They should have a voice in the decision making process.
- 5.8 It is clear from Best Value Audit reports, that the levels of Council reserves and borrowing will be scrutinised, as well any plans based on these. Strategies associated with Council reserves and levels of borrowing should be included as part of the budget process.

6. Council Tax

- 6.1 Council tax reflects approximately 21.5% of the Council's overall external funding with anticipated receipts of £119.6m forecast for 2018/19. Government revenue grant funding provides around 78% of the Council's external income, more than 3.5 times as much as Council Tax.
- 6.2 As a result of the terms of the revenue grant funding settlement from the Scottish Government the Council has limited scope to use Council tax to meet the budget gap. In the period up to and including 2016/17 a condition of the government revenue grant settlement was that the Council would not increase Council Tax. Had it done so it would have received a reduced funding package from the Government.
- 6.3 Since 2017/18 the revenue grant funding settlement has permitted Councils to increase Council Tax by up to 3% a year. Highland has chosen to apply a 3% increase in each year. Changes made by Government to the way the tax is calculated for properties in bands E to H has also resulted in increased revenue to the Council. By way of comparison the Council received net Council tax income of £105.6m in 2016/17 compared to the forecast £119.6m in the current year.

- 6.4 Approximately £2.6m of the Council Tax received comes from second homes. Government guidelines state that this income is required to be earmarked for use on affordable housing and cannot be used to fund general services.
- 6.5 Council is asked to decide whether it wishes to lobby government for complete local discretion over Council tax, both in terms of any increases it may wish to make and the income received from second homes.

7. 2019/20 to 2021/22 budget approach

- 7.1 As detailed in the June paper to Council planning for the medium term will allow time for key strategic decisions to be taken, scrutinised and implemented. Many of the likely solutions to meeting the outlined budget challenge will require significant organisational change, impacting on our service users, staff and partners. Taking a budget approach that covers the next three years will enable us to better manage, programme and resource that required change whilst giving us the flexibility to deal with any unforeseen eventualities.
- 7.2 The hardest part of any budget process comes in the identification of ways to meet the budget gap and, as in previous years, those can be split into broad thematic areas. All of these areas will need to be pursued.
- The Council will seek to become more efficient, whether by redesign or other means, delivering services in as cost effective a way possible;
 - The Council will have to make tough choices, identifying its priority areas and stopping or reducing services in areas that are of lower importance;
 - The Council will need to become more commercial, identifying new income generating opportunities to make surpluses to support core services, or taking a considered approach to how it charges for services already provided.
- 7.3 Work is well advanced on developing the 'service profiles' which will be the basis for the budget process. The Corporate Resources Service is working with Heads of Service and their managers from across the Council to identify ways of becoming more efficient and commercial. Whilst individual services have their own particular areas of opportunity a number of key themes are emerging across the Council:
- Investment in ICT and digital solutions will help drive efficiency and conversely a failure to invest will obstruct efficiency initiatives;
 - Staff terms and conditions can sometimes be a barrier to effecting change;
 - People (Staff and Members) across the Council need to buy in to corporate initiatives, such as property rationalisation, to enable them to succeed;
 - Greater collaboration between colleagues in different service areas will help drive efficiency;
 - A number of commercial opportunities are there to be exploited, but staff may lack the capacity or require training and support to exploit them;
 - Some of our corporate policies and processes should be reviewed as they may be acting as barriers to change;
 - Delivering localism will require us to change the way we work and may well require additional resource to support it;
 - Some areas have more limited scope for efficiency and commercial gains and further reductions in their budgets would be more likely to have a direct impact on service levels.
 - Any decisions on service changes should be supported by an appraisal of both cost and benefits. Projects which generate a positive return should be

appropriately supported.

7.4 Once complete the service profiles will be made public to be used as a building block for engagement with all members and the wider public. The profiles should enable officers to be appropriately challenged to ensure services improve both cost and value with income generation opportunities exploited.

7.5 All elected members will also receive a survey seeking their views on their priority areas and the areas in which they may be prepared to see savings made through service reduction, removals or other means. This tool could also be used for wider public engagement.

7.6 A timetable of the key dates in the budget process can be seen below.

ACTIVITY	COMPLETE BY
Head of Service engagement with Corporate Resources Service	ongoing
Finalisation and publication of service profiles	mid-September
Develop and publish Online Community engagement tool	end September
Member survey on priority areas issued	mid-September
Member completion of survey	mid-October
Member and Community engagement - based on discussions with HoS and consider options for addressing forecast budget position	ongoing from end September
Full Council progress update	25-Oct-18
HoS development of a range of budget options for members to consider, based on efficiency and income generation	end October
HoS development of a range of budget options for members to consider, based on levels and quality of service, informed by results of member priority survey	end November
Full Council progress update and opportunity for early Budget decisions to be taken	13-Dec-18
Workforce Strategy updated to reflect priorities of the Council	end December
Analysis of Grant Settlement and final confirmation of Budget funding position for 2019/20	mid- January 2019
Final adjustment to budget proposals in light of grant settlement	end January 2019
Set 3 Year Revenue Budget 2019-2022	end February 2019

7.7 It should be clearly stated here that in order to deliver the level of savings required decisions will need to be taken that will see reductions to, removal of, or other changes in delivery to a valued range of services. Those decisions on individual service areas must not be viewed in isolation but as part of a package of measures designed to best address the budget challenge faced by the Council.

8. Implications

8.1 Resource- This report outlines the financial resource pressures facing the Council over

the coming years. That pressure will inevitably be felt by the Council's staff- the impact of which will be linked to the Council's workforce strategy. Delivering a multi-year budget will require significant input from managers and staff from across the organisation, supported by staff from all parts of the Corporate Resources service.

- 8.2 Legal- The Council has a legal requirement to set a balanced budget. The work as outlined in the report will enable the necessary decisions to be taken later this financial year.
- 8.3 Risk- The Council is under significant financial pressure and a failure to agree and deliver a robust multi-year budget could place an unmanageable strain on the Council's resources. The Council has low, and reducing, reserves which might be insufficient to meet any budget deficit or fund transformational change. The Council will receive a Best Value Audit in 2019 and requires to evidence a multi-year financial strategy as part of this process.
- 8.4 There are no Gaelic, Community (Equality, Poverty and Rural) or Climate Change / Carbon Clever implications arising as a direct result of this report.

Designation: Director of Corporate Resources / Deputy Chief Executive

Date: 27th August 2018

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Background Papers:

https://www.highland.gov.uk/download/meetings/id/73893/item_13_multi-year_revenue_budget_planning_2019-20_to_2021-22

https://www.highland.gov.uk/download/meetings/id/74064/item_5_-_corporate_revenue_monitoring_report_to_30_june_2018