

<b>Agenda Item</b>	<b>15</b>
<b>Report No</b>	<b>HC/42/18</b>

## **HIGHLAND COUNCIL**

**Committee:** Highland Council

**Date:** 25<sup>th</sup> October 2018

**Report Title:** Towards a Sustainable Financial Future – Revenue Budget Update 2018-2022

**Report By:** Depute Chief Executive & Director of Corporate Resources

### **1. Purpose/Executive Summary**

- 1.1 Like other local authorities, and the wider public sector, Highland Council faces significant financial pressures over the next few years. The actions taken just now, leading to decisions in February 2019, will need to set out options for securing long term financial sustainability for the Council. This includes allocating resources to deliver the Council's strategic priorities, restoring reserves to an appropriate level of at least 2% of revenue budget, and addressing current budget pressures. The Council also needs to align its Workforce Plan to its Financial Strategy.
- 1.2 Despite the financial challenges the Council will still have in excess of £0.5bn to spend on service delivery, and the Budget process, moving towards an outcome based approach, is intended to ensure that resources are targeted to deliver the most effective services in line with Council priorities.
- 1.3 This report outlines work to date, sets out proposals for engagement and consultation, and provides an update on the overall financial position, current risks and uncertainties.
- 1.4 The budget gap (agreed for planning purposes in September at £66.7m) 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, charges and taxes. All of these actions will be needed to balance the budget over the period 2019/20 to 2021/22, and some very difficult decisions will require to be taken by members.

### **2. Recommendations**

- 2.1 Members are asked to consider:
- (i) Work to date in addressing the budget gap
  - (ii) Proposals for engagement and consultation
  - (iii) Current risks and uncertainties

### 3. Forecast budget gap 2019/20 – 2021/22

- 3.1 Previous reports 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. For planning purposes the Council agreed to a "working assumption" of £66.7m over the three year period.
- 3.2 There is no information to date that would require a change in this forecast at this stage of the planning process. However members should be aware of a significant risk around pay. Current pay negotiations have failed to reach any agreement and there is now a significant risk that any agreement may breach the Council's planning assumption of 3%.
- 3.3 Whilst pay is subject to national agreement, it is a significant cost to the Council and any future agreement has to be viewed in terms of affordability. The current planning assumption is a major contributor to the forecast budget gap but budget planning should not be confused with affordability. Every 1% addition to pay costs approximately £3.3m (Teachers £1.1m; All other staff £2.2m).
- 3.4 A key element of the Budget strategy is to consider options for additional income, either from existing services, new commercial opportunities, or new tax powers. The table below builds on work arising from Redesign which shows opportunities to generate additional revenue.
- 3.5 Whilst the Council has yet to take a view of Council Tax, for financial planning purposes an annual increase of 3% has been included. This assumes that the Scottish Government will continue to cap any increase at a maximum of 3%.

3.6

	2019/20 £m	2020/21 £m	2021/22 £m	Total £m
Budget Gap per HC 6/9/18 (1% grant reduction; 3% pay increase)	23.754	21.329	21.566	66.649
Less Council Tax increase (3%)	(3.584)	(3.633)	(3.769)	(10.985)
Less: Income Generation / Commercialism	(0.185)	(0.613)	(1.053)	(1.851)
<b>Revised Budget Gap</b>	<b>19.985</b>	<b>17.084</b>	<b>16.744</b>	<b>53.813</b>

- 3.7 The UK Government will announce its Autumn Statement on 29<sup>th</sup> October which is about a month earlier than the last two years. The Scottish Government has also confirmed that its own budget announcement will be 12<sup>th</sup> December, with individual Councils' grant announcements being made the following week (week commencing 17<sup>th</sup> December). Every indication is that this will again be a one year settlement.

### 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 29<sup>th</sup> 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 The position for Quarter 2 will be reported to Committee in November. Early indications are that the forecast deficit may have reduced slightly. Work is ongoing to clarify and agree the latest position with Services, and if possible, a verbal update will be provided at the meeting.
- 4.4 The current pay offer from COSLA to the Trade Unions of 3% to all pay groups on salaries up to £80,000, is higher than the Council's budget provision, and will therefore create a budget pressure of £0.4m - 0.5m in the current year.

## **5. Proposals for Engagement**

- 5.1 The Administration has been working with all services to produce and review comprehensive information on current spending profiles, with a particular focus on directing resources to those areas which will give the best outcomes and value for money.
- 5.2 A key element of the work has been to examine opportunities for efficiencies, income generation, and any commercial opportunities. This acknowledges that it will not be easy to find savings in addition to those made in previous budget cycles. The Budget Team has held challenge sessions with Heads of Service in order to scrutinise the profiles in more detail. Some key messages emerging from these include:
  - Potential opportunities to streamline service functions
  - Greater collaboration between colleagues in different service areas will help drive efficiency
  - New approaches and ways of doing things
  - Digital solutions to enable driving efficiencies
  - Scrutiny of budget spend
- 5.3 The Service profiles will be made available to all members, trade unions, and the public later in the week. The profiles should enable officers to be challenged appropriately to ensure services improve both cost and value, with income opportunities exploited. This will help to inform engagement over the next month.
- 5.4 *Engagement with Members*  
Initial engagement sessions with Administration members and Opposition groups are being held and will be completed by the end of October. It is intended that there will be further engagement sessions throughout the budget process acknowledging the importance of seeking views and ideas from across the Chamber. This will be crucial in delivering a sustainable financial future for the Council.

### 5.5 *Engagement with Trade Unions and Staff*

Initial engagement with Trade Unions is scheduled for the end of October. This will build on the regular and ongoing engagement with Trade Unions. Engagement with unions will continue throughout the budget process.

Area based sessions are being arranged throughout November to allow engagement with staff. This will focus on an opportunity to meet with the new Chief Executive, seek views and ideas on potential budget efficiencies and new ways of doing things and also engage staff on workforce development and taking forward Localism.

### 5.6 Public Engagement

Initial engagement will commence on the 1 November and conclude on the 30 November. This purpose of this first phase of engagement is to inform the development of budget proposals and seek ideas and views from Members of the public. It focuses on generating ideas around prioritisation, efficiency and income generation. As with previous budget engagement processes, this will utilise a range of methods and approaches including:

- A survey of public views and ideas
- Budget Challenge – an opportunity to consider where the Council budget should be spent
- Facebook conversations on specific topics

5.7 On the basis of information gained from engagement with Members, Trade Unions, Staff and the public, the Administration will be forming specific budget proposals which will be presented to Council at the budget setting meeting.

5.8 The second phase of engagement will begin in early January and focus on seeking views on the specific budget proposals developed. The aim is to understand potential impacts and how proposals may affect particular groups, individuals and communities.

## 6. **Implications**

6.1 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.

6.2 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.

6.3 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.

6.4 Community (Equality, Poverty and Rural) – Community impacts will be considered as part of the process for developing budget proposals. Understanding the impacts of proposals, will be the focus for the second phase engagement. All budget proposals will be screened for equality, socio-economic (poverty) and rural impacts. Where appropriate, full equality impact assessments will be undertaken.

6.5 There are no Gaelic or Climate Change / Carbon Clever implications arising as a direct result of this report.

Designation: Depute Chief Executive & Director of Corporate Resources

Date: 15<sup>th</sup> October 2018

Author: Derek Yule

Background Papers: