Agenda Item	11
Report No	HC/41/22

THE HIGHLAND COUNCIL

Committee: **Highland Council**

Date: **8th December 2022**

Report Title: **Financial Crisis- Workforce Planning and Preparation**

Report By: **Head of Finance**

1. Purpose/Executive Summary

1.1 The Highland Council is currently facing a financial crisis more challenging than anything that has ever come before. The challenge facing the Council, and indeed every local authority in Scotland, will require a wholesale change in the services and service levels the Council provides. Services in their current format cannot be sustained – some will need to be removed and the scope of others significantly reduced.

1.2 The scale of this challenge is very clearly recognised by the Scottish Government as evidenced by the Deputy First Minister's statement to the Scottish Parliament on 2 November: Emergency budget review: (www.gov.scot) The tone of the entire statement is one of the very difficult choices the Scottish Government needs to make in order to balance its budget in the current year and manage the multitude of demands upon it. The statement reiterates the Deputy First Minister's message that was quoted in the October Council report:

> *'I have said before that, in all of my experience, now and during my previous tenure as Finance Secretary, there has never been a time of greater pressure on the public finances.'*

1.3 The Council continues to project a £40.9m budget gap for financial year 2023/24, larger than any experienced before. Furthermore, concerns are increasing that this figure may underplay the true level of challenge ahead. Inflationary pressures across both pay and non-pay cost categories are acute and the impact of the Chancellor's Autumn Statement on the Council's funding settlement for 2023/24 will not be known until officers have had the opportunity to analyse the Scottish Government's budget statement which will be published on 15 December.

1.4 This paper provides Members with further detail on the budget outlook for 2023/24 as well as introducing Members to the mitigating actions that have been put into place to help reduce the £8.9m budget overspend forecast for the current financial year (2022/23) as reported to the Corporate Resources Committee last week.

1.5 Two key methods of financial control have been put into place, namely the introduction of stringent recruitment controls, with vacancies filled on an exceptions basis only; and a mandate that all spend must be of a nature essential to ensuring the Council operates safely and meets the minimum statutory requirement for service provision. The introduction of these financial controls will help both address the current year overspend as well as support the changes required to deliver a balanced budget in 2023/24. The Council will also explore how it might apply the recently announced ‘policy flexibilities’ to ensure resources are prioritised appropriately.

1.6 Finally the paper covers the recent engagement that has taken place with Council staff and budget holders. A key aspect of the engagement with budget holders has been to initiate the identification of at least £15m of staffing savings to support the delivery of a balanced budget for 2023/24. The delivery of such a level of savings will link into the Council’s People Strategy by managing staff vacancies to minimise external appointments. This will be done through supporting staff development; job redesign; the agility and flexibility of our workforce to meet changing business needs; and the continued commitment from the Council of ‘no redundancies where possible’.

2. Recommendations

2.1 Members are asked to:

i) Note the controls being undertaken to address the in-year budget pressures;
ii) Note the work being done to identify a sustainable reduction in staffing levels to help address the anticipated budget gap in 2023/24; and
iii) Note that engagement with staff and unions is ongoing and will inform proposals that will be brought forward as part of the budget setting process in March 2023.

3. Implications

3.1 Resource implications:
The Council holds general reserves for two main purposes; for transformational investment and for the management of risk. The forecast overspend in the current financial year (2022/23) as described in section 5 would be met from the Council’s non-earmarked general fund reserve. After meeting that overspend and supporting the £3.2m of cost of living support agreed at Council is September, that reserve is anticipated to reduce from its April 2022 level of £19.2m (3% of the annual revenue budget) to £7.1m (just over 1% of the annual revenue budget). Any change in the forecast 2022/23 outturn position would impact on the level of this reserve at year end.

The Council also holds a number of earmarked reserves - i.e. funds held for a specific purpose. Whilst these funds are not for the most part available for general use it is important that Members are aware of these funds as they form part of the Council's overall financial position. As reported to Resources Committee on 1 December, those funds are projected to stand at £48.7m at the end of the current financial year.

In a situation where the Council's non-earmarked reserve is exhausted, or significantly depleted, it would become necessary to review and potentially remove earmarked funds where possible to do so. This would mean reducing the level of funding for certain investment priorities.

Whilst reserves could offer some flexibility to meet the budget gap on a one-off basis in 2023/24 such an approach would be high risk. Any reduction in reserves for that purpose would further reduce the capacity for transformative and revenue/profit generating investment as well as offering limited scope for managing any risk that may arise in-year. As outlined in the section below the Council faces a heightened level of risk given the current economic climate. Finally any use of reserves to balance the 2023/24 budget would only be a one-off approach, effectively delaying the pain by adding an equivalent amount to the budget gap for 2024/25.

3.2 Risk Implications:

When considering risk it is important that Members think about the two different types of financial impact that may occur if risks crystallise. Some risks relate to one-off events that have an immediate financial impact that require to be addressed. Once that risk is addressed there may be no further financial impact.

Other risks may have longer term financial impacts - i.e. they may have a recurring impact on the budget. Items of this nature can be mitigated through reserves in the year they occur, but recurring and lasting impacts will need to be factored into future years' budget processes as a budget pressure.

The holding of reserves to mitigate any risks therefore can only really offset the initial impact of a risk crystallising with long-term impacts needing to be managed through making equivalent savings elsewhere in the budget. Once reserves are depleted they too may need to be recovered, depending on residual risk levels.

From a financial perspective the single biggest risk that the Council faces is that of long-term financial sustainability. The holding of reserves can have only a minimal impact on this risk - reserves can mitigate a budget gap on a one-off basis only but cannot keep bridging a budget gap on a recurring basis. As such it is important that when reserves are used, they are used for investment to support sustainable, balanced budgets.

The key factor driving financial risk is inflation, with the potential for significant cost increases in the short term. Those increases may be seen across any area of the Council's spend. Whilst allowances for inflation relating to both pay and non-pay costs were made in the 2022/23 budget, impacts are coming through that are in excess of those anticipated. Specific risks that are highlighted as part of the quarter 2 revenue monitoring report that are most likely to impact on the 2022/23 outturn position include the conclusion of the

2022/23 pay awards, utility costs consumption and inflation, and further inflationary increases on other non-staffing costs.

The setting of a budget for 2023/24 requires a number of assumptions to be made regarding a variety of factors. Whilst the Council will have a considerable degree of certainty about its funding settlement from government and certain cost increases by the time the budget is set in March there will be other factors which are much less certain. Chief amongst these factors is the likely level for the staff pay award for 2023/24 where, in the current year, the awards made to staff have significantly exceeded the budget provision made. The ongoing impact of inflation into 2023/24 is also very hard to estimate. Any underestimate made in budget assumptions for these items will have the effect of introducing a budget pressure during 2023/24. Given the level of budget gap forecast for 2023/24 the ability to manage any such pressure in-year may be increasingly challenging, especially if reserves are further depleted.

3.3 There are no specific legal, community, climate change/carbon clever or Gaelic implications arising as a direct result of this report. The introduction of financial controls as referenced in this report are, however, likely to impact on planned service levels for the current year. Whilst the controls are intended to ensure the Council operates safely and meets statutory requirements it is anticipated that impacts on service provision will be noticed across a variety of areas of operation.

4. Context- National

4.1 Members have previously been informed of the extreme financial challenges facing the public sector at the present time with particular reference made to the Deputy First Minister's comments of 7 September as part of an emergency budget review:

> '*This is not just a cost of living crisis as some characterise it. The costs of doing business, the cost of third sector support and the cost of public services are all rising as well.*
>
> *Indeed, in all of my experience, now and during my previous tenure as Finance Secretary, there has never been a time of greater pressure on the public finances.'*

4.2 A further iteration of the Scottish Government's emergency budget review was published on 2 November with consistent messaging about the current challenge '*The financial situation facing the Scottish Government is, by far, the most challenging since devolution'.*

Emergency Budget Review: 2022 to 2023 - gov.scot (www.gov.scot)

4.3 Both iterations of the emergency budget review reflected the Scottish Government reprioritising its own budget for the current financial year which included the shifting of resource between government departments. The annexes to the November review (link provided above) show where those reallocations have happened, with an overall net positive impact on the funding available to local authorities reflecting the additional funding provided by the Scottish Government as part-funding for an increased pay award for staff.

4.4 On 17 November the Chancellor of the Exchequer announced his Autumn Statement covering the UK Government's tax and spending decisions. Much of the content of the statement does not apply directly to Scotland, however the statement identified that '*the Scottish Government will receive around an additional £1.5 billion over 2023-24 and 2024-25'*. No specific conclusions in relation to the Highland Council's budget can be drawn from the Autumn Statement.

4.5 The Scottish Government is intending to announce its budget for 2023/24 on the 15 December 2022. It is anticipated that this budget will only provide information for financial year 2023/24 with limited, if any, indication on future years' settlements for local authorities. That Scottish Government budget should give the Council a good indication of the likely funding settlement for Highland for 2023/24, albeit it will take some time to work through and fully understand the detail of the budget. The budget is subject to a parliamentary approval process and as such changes to the budget are possible during that process.

5. Context- current year (2022/23) financial position

5.1 As reported to the Corporate Resources committee on 1 December as part of the 2022/23 Q2 revenue budget monitoring, the Council is forecasting an overspend for the current year of £8.9m. This forecast overspend is caused by the following principal factors:

- The excess unbudgeted cost of the current pay offer made to staff (£4m)
- Net forecast overspend against service budgets, much of which relates to inflationary impacts (£4.2m)
- Unbudgeted utility cost pressures (£1.1m)
- Delayed delivery in asset management saving (£0.6m)
- Offsetting factors- Council tax income and unallocated budgets (-£1.0m)

5.2 The background papers section of this report provide a link to the report to the Corporate Resources Committee which provides a more detailed explanation of all the factors that underpin this forecast position.

5.3 Inflation is seen as being the underlying factor to the majority of the forecast overspend, driving the Council's direct costs upwards and leading to a pay offer significantly in excess of the original budget provision made.

5.4 Pay negotiations with the SJC unions have concluded with a differentiated award agreed; those at the bottom of the salary scales will receive an uplift of around 10%, reducing to an uplift of just under 3% for those at the top of the salary scale. The overall cost of this award is roughly estimated at around 6.1% of the total pay bill with funding provided as follows:

- Council budget pay provision (March 2021 budget)- 2%
- Additional SG funding (August/September 2021)- 2.6%
- Unbudgeted pressure on Council budget (as per 5.1 above)- 1.5%

Pay negotiations for other staff groups including teaching staff, nursing staff and chief officers, remain ongoing. Whilst an allowance for these staff groups has been factored into the forecast position the actual award agreed may be at a higher cost than that forecast.

5.5 The risk section of the Corporate Resources Committee report covers a variety of factors that could impact on the financial position reported for 2022/23 (as well as future years) and reduce or increase the currently forecast variance. Any overspend that transpires at year end will require to be funded from the Council's reserves. More general information on risk and reserves is provided in section 3 of this report.

5.6 Officers are actively managing the in-year position and, where possible, endeavouring to ensure that all service budgets are at least balanced by the end of the financial year. Section 6 of this report contains details of additional management action being taken to minimize any in-year overspend.

6. In year mitigations/financial controls

6.1 All budget holders have been informed that any spend committed in the remainder of the year should only relate to 'essential spend'. Essential spend has been defined as 'spend that ensures that the Council operates safely and meets the minimum statutory requirement for service provision'. This requirement extends to all areas of the Council's activity, regardless of funding source.

6.2 In relation to staffing expenditure, a recruitment freeze has now been put into effect. Exceptions to the freeze will be considered on an individual basis but no roles are considered to be exempt from scrutiny prior to recruitment. Where any post is released for recruitment it will firstly be considered as to whether it can be filled internally to avoid new staff (at additional cost) being brought into the organisation. This approach to vacancy management ties into the People Strategy which is covered in greater detail in section 10 of this report and will be a key part of ensuring the Council's overall staffing headcount reduces to affordable and sustainable levels. The process that has been put in place will ensure no undue delay in filling posts that are considered to have met the essential criteria.

6.3 **Appendix 1** to this report provides a letter from the Deputy First Minister in response to a request from COSLA for the consideration of policy flexibilities to support the additional costs of the 2022/23 pay deal. The key paragraph from that letter is reproduced below:

> '*It is for individual councils, as democratically elected bodies, to consider the needs of their communities with a focus on the most vulnerable, their legal obligations and the totality of resource funding available to them, and to then take the decisions necessary, openly and transparently, to operate as effectively as possible within this context. In doing so, I would request that councils remain mindful of our shared priorities in the National Performance Framework. Where funding is provided as specific revenue grant (and therefore legally ring-fenced), councils should engage with the relevant Scottish Government directorate.'*

6.4 The interpretation of this letter across local authorities is that it gives councils greater flexibility in the use of funding received from the Scottish Government for the delivery of specific policy priorities. This flexibility applies to funding received both as part of the general revenue grant as well as funding received as specific ring-fenced grants. Officers are now assessing which funding streams may be covered by this letter with a view to determining whether that flexibility may be used to redirect the funding to deliver a balanced budget in year. Whilst the letter is not explicit in this regard it is also considered that this flexibility will extend to 2023/24 as many of the pressures underpinning the 2022/23 budget are recurring issues for which a permanent funding solution is required.

7. Budget outlook 2023/24

7.1 The factors underpinning the forecast 2022/23 outturn position are expected to perpetuate into 2023/24 and if inflation remains high it will contribute to a sizeable budget gap. The budget gap for 2023/24 will be doubly affected by such factors, firstly providing sustainable funding for the 2022/23 cost pressures on a recurring basis, and secondly by needing to mitigate the 2023/24 impact of such factors.

7.2 As reported to the September meeting of Council there are three main factors that contribute to any budget gap which are:

- Increasing pay costs
- Non-pay cost increases including inflationary impacts
- Changes in core grant funding from government

More detail is provided on those items in the sections below with a summary provided in the following table. It is important to note that given the highly uncertain environment a high degree of caution needs to be exercised around these figures. The figures will be reviewed prior to setting the Council's budget in March of next year however certain of the factors, principally pay, will need to be based on assumption rather than fact. As such the 2023/24 budget setting will need to ensure that sufficient contingency is built into the budget, whether through reserves or other means, to allow for potential increases in cost levels to those assumed.

Summary of potential budget gap 2023/24	
Element	**£m**
Pay- unfunded element of 22/23 award	5.0
Pay- 23/24 pay award (assumed at 3.5%) and increments	15.9
Non-pay cost increases	20.0
Change in core revenue funding	0.0
Total budget gap 23/24	**40.9**

7.3 The potential budget gap of £40.9m for 2023/24 reflects the mismatch between anticipated costs and income if the Council is to deliver the same services in the same manner as 22/23 and with a 'flat cash' Scottish Government grant. In short it would cost £40.9m more to deliver services than the income the Council expects to receive.

7.4 As councils have a legal requirement to deliver a balanced budget the budget gap would need to be alleviated by:

- Reducing expenditure (i.e. making budget savings)
- Increasing income from controllable sources (i.e. fees and Council Tax)
- Using reserves

It is essential to note that any use of reserves to balance the budget is a temporary measure only and will mean a sustainable solution will need to be found the following year.

7.5 The pay elements in the table at 7.2 are highly uncertain at the current time. The costs relating to 2022/23 reflect the current pay offer which for certain groups are not yet agreed. Should any union reject the offer and a higher offer is made that requires Council funding (as opposed to additional funding from government) the gap would widen. The assumption made for the 23/24 pay award replicates the anticipated cost to the Council of the 22/23 award (i.e. 3.5% of the pay bill). It is unclear if any additional government funding will come for the 23/24 pay award- if it does not and inflation remains high there may be significant upwards pressure on this sum. An allowance has also been made in this figure for incremental pay progression as staff move upwards through the pay points. A recessionary environment may see less staff turnover, leading to a net overall upwards movement across spinal pay points for the current staffing compliment.

7.6 The non-pay cost increases figure of £20m reflects a high-level estimate of what these pressures might be in 2023/24. For reference, the equivalent figure in the 2022/23 budget was £18.4m where arguably the impact of inflation was only just beginning to emerge. Officers are continuing work to fully assess the level of budget pressures for 2023/24 and there is some concern that a global pressures figure of £20m may prove insufficient as new items emerge and certain pressures increase. All of the items listed below are expected to be sizeable budget pressures for 2023/24:

- Increased cost of bus contracts
- Utility cost increases
- Rising interest rates leading to increased loans charges
- Indexation clauses on existing contracts (e.g. PPP/PFI)
- General cost increases (e.g. food, vehicle fuel)
- Impact of business rates revaluation
- Increased rates of taxation (e.g. landfill tax, business rates)
- Capital project cost increases leading to increased cost of financing through loans charges (subject to outcome of capital programme review)
- Revenue consequences of capital investment (running and operating costs associated with new buildings/facilities)
- Recurring Covid budget pressures from 2022/23 (these pressures were funded from reserves on a one off basis in 2022/23)
- Any recurring and unmitigated 2022/23 budget pressures (contributing to current forecast overspend)

7.7 The forecast position in respect of revenue grant funding from the Scottish Government is for a ‘flat cash’ position. This means that the Council is expecting to get the same amount of general revenue grant funding in cash terms in 2023/24 as it is receiving in 2022/23. In a high inflationary environment that flat cash level of funding will equate to less spending power year-on-year as all costs increase. The flat cash position echoes the Scottish Government's Resource Spending review published in May of this year: https://www.gov.scot/publications/scottish-resource-spending-review.

7.8 As with the assumptions around pay and non-pay cost inflation there is significant uncertainty around this assumption about funding. Much has changed since the Resource Spending review was published in May and the Scottish Government is currently reassessing its spending priorities in light of the UK Government's autumn statement. As referenced earlier in this report the publication of the Scottish Government's budget on 15 December will give a clearer indication of the level of funding likely to be received in 2023/24.

It should also be noted that a flat cash settlement for the local government sector as a whole may see some councils receive a cash uplift and others a cash reduction within that overall funding envelope. Further it is unclear whether the councils will be asked to deliver any additional or enhanced services (with associated cost) from within their overall funding envelope.

7.9 At this stage no changes in the level of Council Tax income receivable have been factored into the budget gap calculations. The overall impact of Council Tax on the budget gap will depend on:

- Council Tax rates for 2023/24
- Any change in the Council Tax base (i.e. the number of properties)
- Any change in collection rates/bad debt provision

For reference a 1% increase in the rate of Council Tax will equate to roughly £1.3m of additional income to the Council.

8. Budget outlook- medium term

8.1 The CIPFA Financial Management code is clear that medium to long-term financial management must be a key consideration of all those responsible for a local authority's finances. Given the heightened level of uncertainty around both the 2022/23 and 2023/24 financial outlook it is considered that setting out scenarios for the anticipated budget gap over the next five years would provide so wide a range as to any potential budget gap that it would not effectively support long term operational planning.

8.2 To give Members some idea of the potential budget gaps the Council might face in future years it is worth noting that historically annual budget gaps have been:

- An annual gap of £40m in 'exceptional' years (2015/16 and 2023/24)
- An average gap of £15m - £20m in 'normal' years.

As outlined in previous sections of this report the significant uncertainty, particularly around the magnitude of the impact of inflation and how long the current heightened inflation will last mean that the current context is quite different from those seen historically when inflation was relatively low. Exceptional years in future may see annual budget gaps higher than those ever previously experienced.

8.3 In terms of the key variables that affect the budget gap an illustration of the impact of potential changes is provided below:

- A 1% annual change in the pay assumption will have an average +/- £3.8m annual impact or a +/-£19m impact over a five year period
- A 1% change in the government funding assumption will have a +/- £5.2m annual impact or a +/-£26.0m impact over a five year period

As per the 2021/22 annual accounts the Council had over £390m of non-staffing costs (excluding financing costs). Many costs in this area may be directly impacted by inflation.

8.4 Based on the figures above, over a 'normal' 5-year period the Council might expect to have to deliver £75m to £100m of budget savings or additional income generation in order to balance its budget. Current circumstances suggest the gap for the next 5 years is likely to be significantly higher, so large that a fundamental reassessment of the role of the Council in providing public services, and its capacity to do so, is required.

8.5 Despite this uncertainty and the magnitude of the short term (2022/23 and 2023/24) challenge it is essential that the Council does not lose sight of the transformational changes needed to secure the Council's medium-term financial sustainability.

9. Budget strategies

9.1 A number of budget strategies were approved by Council in September to help mitigate both the forecast overspend in the current financial year and support the development and delivery of budget savings into 2023/24. Those strategies are listed below and work is continuing to deliver all aspects.

- People Strategy- reduce, reshape, reprioritise
- Increasing income
- Service prioritisation and redesign
- Asset Management
- Contract Management
- Capital programme review
- Reserves review

9.2 At the Council meeting in October a partnering strategy was introduced, providing a framework of the following seven principles to underpin all partner working:

- Partnership – we value our partnerships and recognise how important they are for the delivery of public services in Highland;
- Equity – whilst motivation, impacts and mitigation may vary between us, we will be consistent and equitable in our approach to addressing our shared budget challenges;
- Sharing Best Practice – we strive to learn and grow together so that we deliver high quality services;
- Outcomes – resource allocation will be informed by an understanding of need and impact;
- Value for Money – decisions will be informed by benchmarking and performance measurement;

- Informed Decision Making – an inclusive approach with will be taken to engagement, to enable everyone to be heard and information transparent; and
- Respectful Relationships – will be promoted and expected and be an embedded element of all engagement and communication.

9.3 As referenced in section 6 of this report the situation in the current year remains so acute, with little sign of respite, that a more directive approach regarding financial controls has been implemented. These spending controls are intended to immediately begin reducing the level of spend incurred by the Council which will help support the delivery of the strategies outlined above.

9.4 The delivery of the strategies and financial controls outlined above will provide the Council with the best opportunity to meet the current budget challenge. It is however inevitable that certain elements of the strategies will require to contribute a greater proportion to the closure of the budget gap than others. Above all the recognition that the Council will have to reduce or remove funding from areas of service that are deemed as lower priority will need underpin any decisions taken.

10. People Strategy

10.1 The Council introduced its People Strategy as part of the September Financial Crisis report with the sub-headings of reduce, reshape, and reprioritise. The more detailed People Strategy was approved at the October meeting of Council. Immediate priorities for the strategy were identified as the need to update our staffing structure to meet the needs of changing communities and meet the projected budget pressures. This is to be done by managing staff vacancies to reduce external appointments through supporting staff development, job redesign, agility and flexibility of our workforce to meet changing business needs and the continued commitment from the Council of 'no redundancies where possible'.

10.2 The Scottish Government's Resource Spending Review outlined '*A pathway to return the overall size of the public sector workforce broadly to pre-pandemic levels, while supporting expansion in key areas of service delivery, helping to hold total pay bill costs, as opposed to pay levels, at 2022/23 levels'.*

10.3 Recent public statements from the Scottish Government suggest that even further workforce contraction is required and the Council will inevitably need to echo that approach in order to balance its budgets. As part of the budget holder engagement referenced in section 11 of this report all services have been given a target to reduce their staffing budget by a combined £15m for 2023/24. Given the staffing element of the budget gap is £20.9m an overall staffing saving of £15m would still see a net increase in overall staffing costs. As such it is likely that the Council will need to deliver further staffing savings in order to ensure its financial sustainability.

10.4 The Council will, where possible, continue to have a no redundancy policy, and focus on natural turnover aligned with redeployment within the organisation to reduce the head count. It is important that jobs are protected and key skills retained while reducing, reshaping and reprioritising the work we do. Current and future vacancies will be reviewed as they arise to ensure the Council has the right skills and staffing resource levels to deliver services that meet the changing needs of our communities. Fixed term contracts will not be used as a tool for flexibility. The flexibility of staff will come from the design of job roles and inherent behaviours required from our workforce who in turn will benefit from secure employment, fair work and pay with prospects to develop.

11. Staff engagement

11.1 A series of virtual engagement sessions, open to all members of staff, were held over the course of late October and early November. These sessions, led by the Chief Executive, focussed on the scale of the budget challenge facing the Council (referring to the September and October Council reports), the Council's People Strategy, and the development of the Council Programme. Over 700 staff attended these sessions and were encouraged to provide their feedback.

11.2 Subsequent to the all-staff engagement sessions taking place, four half-day in-person budget holder workshops were held over the course of two days in mid-November. **Appendix 2** provides the slides as presented at those sessions. The core messages as presented to budget holders are the same as those covered by this report.

11.3 As referenced in section 10.3 budget holders were tasked with identifying how they would contribute to the delivery of £15m of staffing savings apportioned across all Services. An indicative allocation of the savings by Service is provided in the table below

Service	**Adjusted Staffing Budget £000**	**Share of £15m saving target £000**
Communities & Place	24,994	1,089
Depute Chief Executive	6,646	289
Education & Learning	199,138	8,674
Health, Wellbeing & Social Care	35,268	1,536
Infrastructure & Environment and Economy	24,937	1,086
Performance & Governance	4,679	204
Property & Housing	35,671	1,554
Resources & Finance	13,030	568
	344,363	**15,000**

11.4 At the close of the sessions budget holders were asked to consider their responses to a number of key questions, as shown below, many of which pick up on the key themes covered by this report:

1. How will you manage if your staffing budget reduces by 5%?
2. What if your overall budget reduces by 10%?
3. Given what you have heard are there any areas of your service provision that you think should be reduced (up to 100%)?

4. What specific government funding streams come into your area? How would you manage if those funding streams were removed?
5. What are you going to do to reduce your in-year spend?
6. Where should the Council be lobbying government for a change in nationally set policy to enable us to make cost savings or generate increased income (e.g. relaxing policies around service standards or provisions, or giving local discretion over fees currently set nationally)?

Work is ongoing to consolidate the returns from budget holders which will allow the Council to progress with the delivery of the budget strategies outlined in section 9 of this report.

11.5 Union Engagement

It is essential to undertake engagement with union representatives as part of the process of identifying the staffing options to meet the £15m target; to understand and develop the implications, impacts and mitigations of this early work and prior to coming forward with any specific proposals for Member approval. This will include the role of the Council's HR policies, processes and personnel in supporting the process; and the importance of initial and ongoing training and development in assisting staff to move across the organisation and to reinforce the Council's commitment to supporting staff to remain in employment.

Designation: Head of Finance

Date: 25th November 2022

Authors: Edward Foster, Head of Finance

Background Papers:
https://www.highland.gov.uk/download/meetings/id/80636/8_financial_crisis_%E2%80%93_valuing_partners_through_collective_budget_strategies_redesign_and_co-production

https://www.highland.gov.uk/download/meetings/id/80507/item_11_financial_crisis_%E2%80%93_our_council_and_our_communities

https://www.highland.gov.uk/download/meetings/id/80863/4a_corporate_revenue_monitoring_to_30_september_2022

https://www.highland.gov.uk/download/meetings/id/80864/4b_corporate_capital_monitoring_to_30_september_2022

https://www.highland.gov.uk/download/meetings/id/80639/11_people_strategy

APPENDIX 1

An Leas-phrìomh Mhinistear agus Ath-shlànachadh Cobhid
Deputy First Minister and Cabinet Secretary for Covid Recovery
John Swinney MSP

T: 0300 244 4000
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Scottish Government
Riaghaltas na h-Alba
gov.scot

Councillor Hagmann
Resources Spokesperson
COSLA

By email: megan@cosla.gov.uk
Copy to: Sally Louden (sally@cosla.gov.uk) and
Sarah Watters (sarah@cosla.gov.uk)

1 November 2022

Dear Katie

I am writing further to my commitment to consider the scope for policy flexibilities which can support the challenging resource position facing councils as a result of the 2022-23 pay deal.

We all recognise the challenging financial context and significant inflationary pressures caused by the UK Government's fiscal approach and wider external factors that will continue to affect us all in the year to come. With the recently agreed local government pay deal, the Scottish Government recognises that councils will be required to make difficult decisions locally in order to balance their budgets, continue to deliver statutory services, and provide the support that our communities require.

It is for individual councils, as democratically elected bodies, to consider the needs of their communities with a focus on the most vulnerable, their legal obligations and the totality of resource funding available to them, and to then take the decisions necessary, openly and transparently, to operate as effectively as possible within this context. In doing so, I would request that councils remain mindful of our shared priorities in the National Performance Framework. Where funding is provided as specific revenue grant (and therefore legally ring-fenced), councils should engage with the relevant Scottish Government directorate.

I would also note that the decision by the UK Government to scrap the National Insurance rise will result in a reduced financial burden on employers, including in the public sector. At the time of the passage of the 2022-23 Budget Bill, councils highlighted a circa £70 million pressure created by employer National Insurance Contributions (eNICs), the Scottish Government added a further £120 million during Stage 2 of the Bill in recognition of this and other pressures facing councils.

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Therefore, this change in policy by the UK Government will create a benefit to councils, we estimate that for the remainder of 2022-23 this could provide headroom in the region of £20 million. I am sure that many councils will already be considering how they can redeploy this headroom, ahead of considering other savings which may impact on services.

As we progress our discussions on a New Deal for Local Government, I am keen that we explore opportunities for public service reform, revenue raising options and efficient use of all available public resources to support delivery of the services on which our communities rely. It will also be important to reach early agreement on an outcomes-based approach that enables all of us to continue to be accountable to citizens, businesses and communities for the funding decisions we make at national and local level.

I look forward to shortly commencing the pre-budget engagement with you which I will be undertaking this year on behalf of the Cabinet Secretary for Finance and the Economy.

Yours sincerely

JOHN SWINNEY

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APPENDIX 2

The Highland Council
Comhairle na Gàidhealtachd

Financial Crisis: Budget holder engagement

November 2022

Financial Outlook

Quote from John Swinney (Deputy First Minister)

‘This is not just a cost of living crisis as some characterise it. The costs of doing business, the cost of third sector support and the cost of public services are all rising as well.

Indeed, in all of my experience, now and during my previous tenure as Finance Secretary, there has never been a time of greater pressure on the public finances.’

Current year forecasts

Overall overspend of £9m forecast at Q2. Further £3.2m cost of living support measures agreed at September Council.

Year end non earmarked reserves forecast to reduce from £19.3m to £7.1m (just over 1% of our revenue budget)

Substantial in-year risks remain- outstanding pay awards, utilities, general cost inflation

2023/24 Budget Gap

- Pay- £20.9m
- Non-pay inflation- £20m
- SG Funding settlement- £0m

Overall gap £40.9m*

*Best current estimate- high uncertainty at this point

Non-pay inflation

High level estimate of £20m (22/23 figure £18m). Concern that this figure may be insufficient…..

- Utilities
- Bus contracts
- Fuel
- Food
- Care homes
- Inflation-linked contracts (e.g. PPP)
- Rising interest rates/cost of borrowing
- Ongoing Covid impact (funded through reserves in 22/23)
- Recurrence of 22/23 in-year pressures
- Increased taxation (rates, landfill tax)

SG Funding

Flat cash position assumed per SG Resource Spending Review in May 2022. A lot has changed since then!

All parts of the public sector in financial crisis. Government may choose to disinvest from core local government services to prioritise welfare or other parts of the public sector.

UKG budget 17^{th} November, SG budget 15^{th} December.

Core funding reduction now seems a very real possibility- each 1% cut in funding = £5.1m

What does this mean?

In short, the financial challenge facing us now is of a scale and immediacy that we have not encountered before.

Meeting this challenge will require a wholesale change in the services and service levels that the Council provides.

The Council cannot afford to sustain services in their current format- some services will need to be removed in their entirety and the scope of others significantly reduced. No service can be exempt from this consideration and government is relaxing rules around ring-fenced funding.

We need to take action now to reduce spend to mitigate in-year overspend and reduce next year’s budget gap.

Strategies- how does the Council intend to meet this challenge?

Elements of approach agreed at September and October Council meetings:

https://www.highland.gov.uk/download/meetings/id/80507/item_11_financial_crisis_%E2%80%93_our_council_and_our_communities

https://www.highland.gov.uk/download/meetings/id/80636/8_financial_crisis_%E2%80%93_valuing_partners_through_collective_budget_strategies_redesign_and_co-production

Strategies

A number of strategies will be employed to try to mitigate 22/23 forecast overspend and 23/24 budget gap:

- People strategy- reduce, reshape, reprioritise
- Increasing income (incl. new income streams)
- Service prioritisation and redesign (demand management)
- Asset Management
- Contracts management
- Capital programme review
- Reserves review (one-off benefit only)

Strategies- Partnership working

We value our partnerships and recognise how important they are for the delivery of public services in Highland;

- Equity –we will be consistent and equitable in our approach to addressing our shared budget challenges;
- Sharing Best Practice – we strive to learn and grow together so that we deliver high quality services;
- Outcomes – resource allocation will be informed by an understanding of need and impact;
- Value for Money – decisions will be informed by benchmarking and performance measurement;
- Informed Decision Making – an inclusive approach will be taken to engagement, to enable everyone to be heard and information transparent;
- Respectful Relationships – will be promoted and expected and be an embedded element of all engagement and communication

Funding flexibility

Recent messaging from SG (1/11/22):

‘We all recognise the challenging financial context and significant inflationary pressures caused by the UK Government’s fiscal approach and wider external factors that will continue to affect us all in the year to come. With the recently agreed local government pay deal, the Scottish Government recognises that councils will be required to make difficult decisions locally in order to balance their budgets, continue to deliver statutory services, and provide the support that our communities require.

It is for individual councils, as democratically elected bodies, to consider the needs of their communities with a focus on the most vulnerable, their legal obligations and the totality of resource funding available to them, and to then take the decisions necessary, openly and transparently, to operate as effectively as possible within this context. In doing so, I would request that councils remain mindful of our shared priorities in the National Performance Framework. Where funding is provided as specific revenue grant (and therefore legally ring-fenced), councils should engage with the relevant Scottish Government directorate’

Spending controls

To manage our in-year overspend we need to stop spending money now!

Regardless of how that spend is funded we need to stop money flowing out of the organisation. This applies to spend funded through:

- General grant funding
- The Council's earmarked reserves
- Specific grant funding received from the Scottish Government

From now on you should only be making 'essential' spend- i.e. spend that ensures that Council operates safely and meets the minimum statutory requirement for service provision

Spending controls

What does this mean in practical terms?

Unless it relates to essential spend nobody should be:

- purchasing any items on a purchase card;
- ordering goods or services;
- agreeing to incurring any additional staff costs e.g. agency, overtime or recruitment;
- or entering into new contractual agreements

If a budget holder is unclear as to what constitutes essential spend they should discuss this with their line manager/head of service

Further controls & monitoring

Should the trend of spend not reduce in the remainder of the calendar year further controls will be considered including:

- A review of budget holders including the temporary removal of budget holder responsibilities from certain staff
- A suspension of purchase cards for any staff not associated with the provision of essential services
- Introduction of approval limits hierarchy for all services

Adherence to these controls will be monitored by ECOs/HoS by review of a weekly report on all spend by service

Reduce, Reshape & Reprioritise

Total Headcount/FTE over last 5 years *Oct 22

Year	Average Headcount	Average FTE
2022-23*	10568	8230.6
2021-22	10432	8097.3
2020-21	9971	7775.7
2019-20	9999	7744.2
2018-19	10248	7954.6
2017-18	10126	8006.4

Allocation of £15m Service Staffing Financial Savings 23/24

	Annual Budget	Staffing	Ring fenced staffing costs	Revised Staffing	**Savings**
Communities & Place	36,546	33,982	8,988	24,994	**1,089**
Depute Chief Executive	11,584	6,646		6,646	**289**
Education & Learning	228,058	209,596	10,458	199,138	**8,674**
Health, Wellbeing & Social Care	179,854	39,228	3,960	35,268	**1,536**
Infrastructure & Environment and Economy	35,143	41,345	16,408	24,937	**1,086**
Performance & Governance	5,316	6,261	1,582	4,679	**204**
Property & Housing	70,163	42,035	6,364	35,671	**1,554**
Resources & Finance	13,650	13,296	266	13,030	**568**
Welfare Services	8,388	0		0	**-**
	588,702	392,389	48,026	344,363	**15,000**

People Strategy – Apply to Current Budget Position

- Fair & Good work principles
- Managing staff vacancies remove 500 headcount 23/24 budget (applying WFP identify skills gap and how to fill)

  -supporting staff development,

  -job redesign,

  -agility and flexibility of our workforce to meet changing business needs

  -continued commitment no redundancies where possible

  -permission to stop/reduce what we do
- Reskilling and upskilling of our workforce
- Positive Employee Relations & workplace culture

Vacancy Freeze

- Recruitment Freeze – ‘exceptions not exemptions’
- Decisions of Managers when assessing vacancy to be submitted: safety, non filling and impact on service delivery, funding and loss of income generation

X Not recruiting – manage vacancy within team/Service

X Not recruiting – agree what to stop doing

√ Provide justification – move member of staff into vacancy and save subsequent post

√ Provide justification – internal recruitment (including HLH)

√ Provide justification – external advert

Task

What do we need you to do in your role as a budget holder?

1. How will you manage if your staffing budget reduces by 5%? (Template to include £ value for this reduction)
2. What if your overall budget reduces by 10%? (Link to budget strategies)
3. Given what you have heard are there any areas of your service provision that you think should be reduced (up to 100%)?
4. What specific government funding streams come into your area? How would you manage if those funding streams were removed?
5. What are you going to do to reduce your in-year spend?

Next steps and feedback

- Budget savings discussed at these sessions collated
- Vacancies already submitted to Vacancy Board to be reviewed by ECOs
- Follow up sessions with budget holders in 4 weeks
- Suggestions for more savings – where to submit….