Agenda Item	3
Report No	HC/01/23

THE HIGHLAND COUNCIL

Committee: **Highland Council**

Date: **2 March 2023**

Report Title: **Revenue and capital budgets 2023/24 and medium-term financial outlook**

Report By: **Head of Finance - Section 95 Officer**

1. Purpose/Executive Summary

1.1 The Council is required by law to set a balanced budget and agree Council Tax rates for the coming financial year. This report provides details of the Council's expected budget gap for the period 2023/24 and proposals for closing the gap.

1.2 The budget reflects the requirement of the CIPFA Financial Management Code where senior officers have involved Members to deliver a balanced budget for 2023/24 whilst also considering the long-term financial sustainability of the Council.

1.3 This budget is being set in a highly challenging financial environment with inflationary factors creating a budget gap for 2023/24 of £49.2m. **Appendix 1** to this report presents 'Our Future Highland- Budget Strategy 2023/24'. The strategy sets out a balanced approach to addressing the challenges faced, ensuring investment in priority activities is maintained, identifying areas where savings will be taken, and completing a comprehensive review of reserves to see how these can be used on a short-term basis to smooth the delivery of balanced budgets.

1.4 Due to the cost of living crisis and concerns around affordability for ratepayers the Council is proposing a below inflation increase to Council Tax rates for financial year 2023/24 of 4%.

1.5 The medium to long-term financial outlook for the Council still remains especially challenging with an estimated residual budget gap of £77.7m over the period 2024/25 to 2027/28.

1.6 In its current structure and model of service delivery the Council is not considered to be financially sustainable over the medium to long term and will not be able to offer the same breadth and level of service provision as currently. Meeting a budget gap of this size will require substantial transformative activity. The use of a substantial portion of the Council's reserves is likely to be required to bridge annual budget gaps as a path to long term sustainability is delivered.

2. Recommendations

2.1 Members are asked to:

i) Agree the £18.2m of investment as described in 'Our Future Highland-Budget Strategy' at **Appendix 1**;
ii) Agree the reprofiled capital programme provided at **Appendix 6;**
iii) Agree the funding of budget pressures for 2023/24 as described in sections 10 and 11 and **Appendix 5**;
iv) Agree that effective from 1 April 2023, the rates paid by the Council for funded ELC are as follows; £6.66 per hour for eligible 2 year olds, £5.75 per hour for 3-5 year olds and £3.00 per meal, as described in section 12;
v) Agree the funding approach to partnership budgets with NHS Highland and Highlife Highland as described in section 9;
vi) Agree the Council Tax rates for 2023/24 as illustrated in **Appendix 7**;
vii) Agree the planned approach to reallocate into general fund non-earmarked balances the income generated from Council Tax on second homes and long-term empty properties in 2022/23 and 2023/24 as described in section 15;
viii) Agree the new budget savings proposals for 2023/24 as summarised in **Appendix 1** of the Budget Strategy;
ix) Agree to implement a loans fund principal repayment holiday in 2022/23 as described in section 17.6 and **Appendix 8**;
x) Agree the repurposing of earmarked balances into non-earmarked balances as described in section 17.7 and **Appendix 9;**
xi) Agree the use of £23.270m of non-earmarked reserves to balance the revenue budget for 2023/24 as described in section 17**;**
xii) Agree the continuation of spending controls as described in section 23**;** and
xiii) Note the severe challenge facing the Council in securing its medium to long term financial sustainability as shown in **Appendix 10**, including the outlook for reserves as described in sections 18 and 22, and that further reports on the subject will be brought to Council during 2023/24.

3. Implications

3.1 Resource implications are as noted in this report with the impact of the proposed approach on the Council's reserves fully covered throughout. Whilst the approach taken will see a significant short-term increase in non-earmarked general fund reserves these are anticipated to deplete significantly over the course of 2023/24 and subsequent years.

3.2 Risk Implications - The Council must set a balanced budget and the recommendations from this report will achieve that for financial year 2023/24. The development of the proposed revenue budget involves the identification of areas of risk and uncertainty. To mitigate this, officers are actively involved at a national level to ensure that they are aware of, and have assessed, all identifiable potential risks.

Nevertheless, it is not possible to eliminate all risk. The Council is still awaiting formal confirmation from the Scottish Government that the income from council tax on second homes can be used as a non-recurring addition to the revenue budget to assist with closing the gap in 2023/24. This approach has been accepted by the Scottish Government in previous years, so it is hoped that the risk is small.

Some estimates, particularly around budget pressures, are subject to wider economic variables. Other risks are due to factors outwith the Council's control, such as inflation-related risks, staff pay awards, severe adverse weather events or interest rate increases. This emphasises the importance of maintaining reserves at a level sufficient to cope with any emergent situation.

The medium to long-term outlook for the Council's finances continues to look very challenging with significant concerns around the Council's medium to long term financial sustainability. Without a major change to service provision or funding the Council may exhaust all of its revenue reserves over the medium term.

3.3 Legal- Councils are legally required to set a balanced budget for each financial year. Council Tax rates for the new financial year must be decided by the 11th March of the previous financial year. By agreeing the budget today, the Council will meet both of those legal requirements.

3.4 Community Impacts – Assessing for impact is an integral part of the budget process. This is to help understand the potential impacts of the proposals:

- on groups protected under the Equality Act 2010 and under the Public Sector Equality Duty;
- any specific impacts upon rural and island communities; and
- socio-economic impacts, including impacts upon individuals, upon their opportunity to access services/employment or upon particular vulnerable communities.

A summary of impacts, including where mitigation has been identified, is included within the budget strategy document at **Appendix 1**. Proposals have been screened to consider whether there are any equality, socio-economic, rural or island impacts. This assessment has also considered staffing impact. For each proposal, this outlines whether impacts have been assessed as being low, medium or high, whether there is no anticipated impact or whether the impact is positive.

3.5 Climate Change/Carbon Clever Implications- Planned investment in a number of specific areas should see the Council contributing positively to minimizing its carbon footprint. Positive carbon impacts should also arise from a number of savings, most notably those relating to asset rationalisation and reducing waste. Where savings proposals have a carbon as well as a financial impact this is referenced in the savings description.

3.6 Gaelic implications: There are no direct implications on the approach to the promotion of Gaelic through this budget report. The Budget Strategy document is consistent with the Council's policy on the use of Gaelic.

4. Budget setting context- Macroeconomic considerations

4.1 Whilst this budget focuses specifically on the Highland Council's planned spend and income for 2023/24 it is essential to consider that planned spend in the context of everything that is happening in the world around us. Those wider macroeconomic factors will also help inform the medium-term outlook and views on long-term financial sustainability. External factors such as Brexit, global supply shortages and disruption, continued Covid impacts and political decisions taken at a UK or Scottish level will continue to influence the economy in a significant way with knock-on impacts for the

Council. The section below does not aim to identify the causal factors individually, but rather look at the effects that could impact significantly on the Council.

4.2 Regardless of cause, inflation has become a hugely significant factor throughout 2022/23. Whilst a certain degree of provision was made for inflationary uplifts in the 2022/23 budget the actual inflationary cost uplifts experienced far outweighed those anticipated. The level of budget pressures requiring to be addressed in 2023/24 is much higher than it has been in recent years, a combination of dealing with the 2022/23 inflation budget pressure shortfall and then dealing with anticipated continuing inflationary impacts into 2023/24. Whilst there is some prospect that inflation rates will begin to reduce over the course of 2023/24 a prolonged environment with high levels of inflation may lead to budget overspends during the year as well as widen budget gaps for future years.

4.3 Interest rates have been highly volatile and have risen significantly over the course of financial year 2022/23. Whilst in recent months the volatility appears to have calmed, interest rates are at a level far higher than they were a year ago. By way of illustration, PWLB 50 year borrowing rates were around 1.75% in January 2022, equivalent rates in January 2023 were around 4.25%. The Council has significant levels of debt incurred from financing previous capital investment and whilst much of that debt is at fixed rates, new loans will require to be taken out to refinance any maturing loans or to meet the cost of new capital investment. This heightened level of interest rates will therefore cause direct pressure on the Council's loans charges budget whilst also increasing costs from Council suppliers as their cost of capital also increases.

4.4 The rising cost of living is being felt by every person living in the Highlands and the Council itself is experiencing significant cost increases in things such as utilities, fuel and food. As an employer the Council is seeing increased demands for wage settlements from its employees and the pressures the rising cost of living places on families and households is leading to increased demand for certain Council services. Whilst the medium to long-term outlook in regard to the cost of living is highly unclear the short-term effects are a key factor behind the Council's substantial budget gap for 2023/24.

4.5 Changing demographics will continue to affect the Council, both the age profile of the Highland population but also how that population is dispersed across the vast geographic area of the Highlands. An increasing older population with increasing demands for Health and Social Care is recognised through additional funding provided by the Scottish Government. The increasing urbanisation of the Highland population is seeing greater demand for services in our built-up areas with reducing demand in many rural areas. This shift can be seen in the 2023/24 budget from costs associated with new schools yet the invisible cost is that local services in outlying areas may be increasingly inefficient as they deal with smaller client numbers.

4.6 Linked to those changing demographics is an increasing challenge for the Council and its partners to be able to recruit the numbers of staff required to continue service provision, particularly in rural areas. In some areas the provision of certain services may no longer be viable. For statutory services a complete review of the nature of service provision will be required. In some cases the cost of providing agency staff to support statutory functions is causing significant cost pressures- such situations are not tenable over the medium term.

4.7 Section 8 of this report provides detail about the funding settlement for the Council from the Scottish Government for 2023/24. Given the Council's reliance on government funding (around 80% of our external income comes from Government with only 20% from Council Tax) the success of the economy and subsequent policy choices made by Government will continue to be a major factor in determining the future structure of the Council and the level of services we deliver.

4.8 The Scottish Government is becoming increasingly directive in how the Council deploys its funds with current or planned government policy effectively ring-fencing the majority of the Council's education and health and social care budgets. In practical terms this means that the Council may find it difficult to reduce, and in all likelihood may need to increase spend in those areas, placing the burden of bridging the largest budget gap in recent history on a disproportionately small number of service areas.

4.9 The medium and long-term outlook for the Council as outlined in section 7 will be very much influenced by all the factors outlined above. Given the uncertainty over many of these items, along with the scale of the short-term financial challenge facing the Council, medium and long-term financial planning is increasingly difficult. What is clear however is that in its current shape and model of service delivery the Council will not be financially sustainable over the medium term.

5. Budget setting context- CIPFA Financial Management Code

5.1 The CIPFA Financial Management Code is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability.

5.2 It is for all the senior management team to work with elected Members in ensuring compliance with the FM Code and so demonstrate the standard of financial management to be expected of a local authority. The Code has underlying principles of leadership, accountability, transparency, adherence to professional standards, assurance and long-term sustainability.

5.3 The FM Code has seven sections covering the following key areas (with sections 3 and 4 being of greatest relevance to this paper):

1. Responsibilities of the chief financial officer and leadership team
2. Governance and financial management style
3. Long to medium-term financial management
4. The annual budget
5. Stakeholder engagement and business plans
6. Monitoring financial performance
7. External financial reporting

5.4 With regard to long to medium-term financial management the Code requires that the authority has carried out a credible and transparent financial resilience assessment and understands its prospects for financial sustainability in the longer term and has reported this clearly to Members. The authority is also required to comply with the CIPFA Prudential Code for Capital Finance in Local Authorities as well as have a rolling multi-year medium-term financial plan consistent with sustainable service plans.

5.5 In respect of the annual budget, the Code requires authorities to comply with its statutory obligations in respect of the budget setting process. The budget report is also to include a statement by the Chief Finance Officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.

6. Budget setting context- current year (2022/23) financial position

6.1 As the Council sets its budget on an incremental basis (i.e. using the 2022/23 budget as a base for building the 2023/24 budget) it is important to understand the current year budget in order to plan for the coming year.

6.2 The overall 2022/23 revenue budget position was reported to the Corporate Resources Committee on 22nd February 2023 (a link to that paper is provided in the background papers section of this report) with the overall budget showing a forecast £3.268m overspend for the year. This position would result in the Council's non-earmarked general fund reserve sitting at £11.913m at 2022/23 financial year-end- equivalent to around 1.75% of the Council's annual revenue budget.

6.3 The budget for 2022/23 has been heavily influenced by inflationary factors with significant underlying cost issues in relation to pay, utilities, school transport contracts and many other goods and materials. During 2022/23 a number of one-off items are partially offsetting these cost pressures however all of the structural pressures will persist into 2023/24 and will require a permanent funding solution to be found. These items have been factored into the Council's 2023/24 budget gap as budget pressures.

6.4 The 2022/23 budget is also underpinned by the use of earmarked and non-earmarked reserves. As mentioned above non earmarked reserves are expected to end the year at £11.913m, a reduction over the course of the year of £7.344m. Earmarked reserves are also significantly underpinning spend during 2022/23, and whilst most of the associated spend is planned investment or one off spend, the core 2022/23 revenue budget has been balanced by the use of £5.662m of earmarked reserves.

6.5 As part of the 2023/24 budget work any significant budget variances in 2022/23 were reviewed to understand whether they offered the opportunity for the delivery of savings in 2023/24 or required additional budget funding. Many of the items on the budget savings and budget pressure lists arise as a result of that review.

7. The budget gap- Medium term financial outlook

7.1 As outlined in section 5, 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. In that regard this paper looks to set out the anticipated budget gap over the next five years to ensure that sufficient focus is put on the longer-term changes needed to secure the Council's financial sustainability.

7.2 A number of key assumptions have to be made in estimating that gap and given the uncertain wider economic context described in section 4 those assumptions will need to be regularly revisited as part of the Council's budget review process and medium term financial planning.

7.3 Specific assumptions have been made for financial year 2023/24 and these are outlined in more detail in sections 8 to 13 below. More general assumptions across the subsequent four years (2024/25 to 2027/28) are as follows:

- Pay- an annual 2.5% uplift (rationale- dissipation of wider inflationary factors means pay demands normalise);
- Budget pressures- £10m in 2024/25, tapering down to £7m in 2027/28 (rationale- normalisation of inflationary factors);

- Change in core Government funding- a flat cash annual settlement (rationale- based on recent funding approaches by the Scottish Government with any funding increases directed to specific policy areas);
- Loans charges- annual increase of £1.5m (rationale- to reflect increasing interest rates and demand for capital investment);
- Loans fund principal repayment holiday in 2022/23- assumption that the Council takes the principal repayment holiday in 2022/23, paying this back over the next 20 years (more details in section 17.6); and
- Council tax base- The annual increase in the Council tax base (i.e. the number of properties paying Council tax) continues at the current rate.

7.4 As the table below and **Appendix 10** show, the Council is forecasting a structural budget gap of £126.9m over the coming five-year period. By far the largest element of this gap, £49.2m (or 39%) falls in the first year of the five, 2023/24. This gap represents a mismatch between the cost of continuing Council services in their current form and the income the Council anticipates having available to it.

	2023/24 £m	**2024/25 £m**	**2025/26 £m**	**2026/27 £m**	**2027/28 £m**	**Five year total £m**
Cost increases:						
Pay increases	19.0	10.2	10.5	10.8	11.1	61.6
Budget pressures	32.9	10.0	9.0	8.0	7.0	66.9
Loans charges change	0.5	1.5	1.5	1.5	1.5	6.5
Funding changes:						
Increase in Government funding- core	-1.4	0.0	0.0	0.0	0.0	-1.4
Change in Council Tax base and CTR	-1.8	-1.2	-1.2	-1.2	-1.2	-6.5
BUDGET GAP BEFORE MITIGATION	**49.2**	**20.5**	**19.8**	**19.1**	**18.3**	**126.9**

7.5 Whilst the figures included in the table above use what is considered a prudent set of assumptions there is obviously the potential for significant variance either between years or across the five-year period. An illustration of the impact of potential changes is provided below:

- A 1% annual change in the pay assumption will have an average +/- £3.9m annual impact or a +/-£19.5m impact over the five year period; and
- A 1% change in the government funding assumption will have a +/- £5.6m annual impact or a +/-£22.4m impact over the period 2024/25 to 2027/28

7.6 The budget gap can be closed by increasing the income generated from Council Tax, increasing income generated by other means (e.g. fees and charges), by reducing expenditure on the provision of services through efficiencies or changes to the levels of service provision, or by using reserves (the use of reserves is a one-off method to close the gap). Details of the proposals for closing the budget gap for 2023/24 are provided in sections 14 to 17 of this report.

8. Scottish Government Funding settlement

8.1 On 15 December 2022 the Scottish Government announced its draft budget for financial year 2023/24. Some considerable analysis of the settlement was required to unpick the exact detail and a number of adjustments have been made during the settlement process. The key aspects of the revenue funding settlement for Highland are outlined below:

- A core funding increase of £1.4m;
- Ring-fenced additional funding for social care of £4.3m;
- Funding of £0.7m to support the roll out of free school meals to all primary 6 and 7 children;
- £2.0m of funding provided to support the local administration of empty property relief on non-domestic rates;
- Funding to increase school clothing grants by 10%, to £154 per eligible primary pupil and £165 per eligible secondary pupil for academic year 2023/24; and
- No restrictions placed on local authorities around increases to Council Tax rates.

The capital funding settlement comprises a flat cash core settlement, and additional specific funding of £5.0m for investment to facilitate the expansion of free school meals to children in primary 6 and 7.

The funding letter from the Cabinet Secretary for Finance regarding the settlement can be seen at **Appendix 2**.

8.2 On 7 February a letter was sent by the Cabinet Secretary for Education and Skills headed ‘Protecting teacher numbers, pupil support staff and learning hours’. This letter can be seen at **Appendix 3** and effectively revises the terms of the local government finance settlement and expresses the Scottish Government’s expectations that:

- Teacher numbers and the number of pupil support assistants are at least maintained at their current levels in the year ahead;
- Places remain available for probationer teachers who need them through the Teacher Induction Scheme; and
- There is no reduction in the number of pupil learning hours delivered by teachers in the school week

The letter states that ‘*In the event of these requirements not being met, then the Scottish Government reserves the right to recover or withhold relevant monies allocated to individual authorities for these purposes. In assessing whether these conditions have been met, we will consider any mitigating circumstances individual councils may wish to put forward, and Ministerial judgement will be applied’.*

It is currently unclear if, how, or how much funding could be withheld if the requirements are not met however Annex B to the letter identifies £8.643m of funding from the Scottish Government to Highland Council in this context.

8.3 In its role as representative of Scottish local authorities COSLA has publicly responded to both the initial settlement and the subsequent correspondence of 7 February. Links to COSLA’s press releases relating to the local government funding settlement are provided below:
COSLA HIGHLIGHTS MASSIVE CONTRADICTION IN RELATION TO EDUCATION AND COUNCIL FUNDING | COSLA
Council Leaders Write To First Minister - 20th January 2023 | COSLA
FINANCIAL CLARITY AND CONSISTENCY ARE CRUCIAL FOR COMMUNITIES | COSLA

COUNCIL SERVICES AT SEVERE RISK AS SCOTTISH GOVERNMENT FAILS TO RESPOND TO SOS CALL - 15th Dec 2022 | COSLA

8.4 The Institute for Financial Studies (IFS) has released a series of reports analysing the Scottish Government's budget for 2023/24. On 3 February, it published a report entitled 'Council and School Funding', looking specifically at the local government element of the Scottish Government budget. This highly informative analysis which looks at not only the 2023/24 budget but also provides a retrospective view on funding arrangements for local government is provided at **Appendix 4**. The report and further analysis can also be found via the link below.
Scottish Budget 2023–24 | Institute for Fiscal Studies (ifs.org.uk)

8.5 In terms of the additional specific funding provided for social care, free school meals and the other items referenced in section 8.1, no recognition of these items is made in the Council's budget gap calculations. As this funding has to be spent as additionality to current spending levels the net impact of this funding on the budget gap is zero- the increased funding will be offset by additional expenditure. It is intended that all the additional funds will be passported directly to the relevant Council service area- more detail on the social care funding is provided in section 9 of this report.

8.6 In terms of the assumptions for the 5-year budget gap, in section 7 a flat cash assumption has been used for years 2024/25 to 2027/28. There is great uncertainty over the funding outlook for local government and single year only settlements which makes it very difficult to have any sense of future changes in funding. The IFS report as referenced in section 8.4 does however suggest that the funding outlook for 2024/25 may be worse than that for 2023/24, highlighting the potential for it to be considerably worse:
'*The cuts to councils' funding in 2024–25 would be substantially larger – potentially 4% – if the Scottish Government were to increase funding for health services and 'net zero' by the same percentage as in the Budget for 2023–24, and reduce grant funding for councils in line with the rest of the Budget*'.

8.7 On 21 February as part of the stage 3 budget announcement a further £100m of funding was allocated to local authorities for 2023/24 '*as a contribution to support councils to make a meaningful 2023-24 pay offer for non-teaching local government staff, recognising the critical role that those staff play in delivering front line services*'. In addition to this funding a further £123m is also being allocated for local authorities to support an enhanced pay offer for 2022/23 and 2023/24 made to the teaching unions. Whilst full details of this additional funding need to be clarified it is not expected that it will have any impact on the forecast gap, with the funding being used to support a pay offer in excess of that for which the Council has made budget provision.

9. Partnership working- NHS Highland and High Life Highland

9.1 As outlined in section 8 of this report the Scottish Government has made additional funding available in 2023/24 for investment in social care. That additional funding is effectively ring-fenced, as is the current budget invested in adult social care. The settlement letter of 15 December states: '*The funding allocated to Integration Authorities should be additional and not substitutional to each Council's 2022-23 recurring budgets for services delegated to IJBs and therefore, Local Authority social care budgets for allocation to Integration Authorities must be at least £95 million greater than 2022-23 recurring budgets'.*

9.2 NHS Highland has identified significant pressures on the adult services budget for 2023/24 with around £14.2m of additional recurring cost pressures and £4.8m of one-off cost pressures forecast. In order to deliver a balanced budget for 2023/24 a blended approach is required including the use of additional funding, the use of reserves (specific funding held in the Council's earmarked balances), and the delivery of budget savings. The table below provides a summary of the overall position for 2023/24. It should be noted that due to the one-off nature of certain items there is an underlying 'structural' budget gap of £5.0m that will perpetuate into 2024/25, prior to any specific cost pressures for that year. As is the case for the rest of the Council there is an urgent need to begin to identify and implement the measures that will be required to eliminate that structural budget gap.

Commissioned Adult Services- 2023/24 Budget Outlook	
	£m
2022/23 roll forward budget	**161.6**
Recurring cost pressures:	
Pay inflation	4.0
Non-pay inflation	4.7
National Care Home Contract inflation	2.0
Transitions	0.7
Revised models of care	2.8
Non-recurring cost pressures:	
Care Home support*	3.9
Analogue to Digital switch*	0.9
2023/24 baseline budget	**180.6**
Funded by:	
Recurring funding:	
Roll forward HC contribution to ASC	-135.1
Roll forward NHSH contribution to ASC	-27.3
Additional SG funding	-4.3
Use of reserves (one-off)*	-9.8
Delivery of budget savings	-4.1
Residual budget gap	**0.0**
Structural gap (excluding items marked *)	**5.0**

9.3 Detail of the delivery of adult and children's services will continue to be monitored through the Joint Monitoring Committee (JMC) and it is this forum that will monitor the delivery of the required savings. Under the integration scheme there is a financial risk to the Council if the required level of savings is not delivered, and indeed if any other factors cause an overspend on commissioned adult services. Such a circumstance may require the Council to provide additional funding support which would need to come from the Council's general reserves.

9.4 HighLife Highland (HLH) continues to face substantial challenges with its ongoing post-pandemic recovery work being severely impacted by wider inflationary pressures. In relation to HLH's income position in particular, while comprehensive marketing is generating month by month improvement, member numbers still sit below pre-pandemic levels (circa 82% relative to pre-pandemic levels). HLH has made significant steps in recovering its income position, and mitigating the financial challenges being faced, through use of reserves and cost control and efficiencies in 2022/23, however it is forecasting a gap of £4.990m for 2023/24. This arises due to the following factors:

	£m
Structural budget gap brought forward from 2022/23	3.310
2023/24 SJC staff pay award estimate	1.110
Pay modelling pressure	0.300
Operating cost inflation 2023/24	0.270
Forecast gap 2023/24	**4.990**

9.5 Joint officer work has taken place from Autumn 2022 onwards, to review the forecast gap, develop mitigations and strategies, and allow for recommendations to be considered for 2023/24. There has also been engagement between HLH Board Members and Senior Members to review that joint officer work.
The emphasis of the joint work has been to:

- Take a collaborative approach to addressing financial sustainability;
- Recognise the unique position of HLH as a wholly owned ALEO, and key provider of Council services;
- Identify sustainable and deliverable plans to mitigate the financial gap for 2023/24;
- Develop work to support longer-term savings and reductions, recognising the need for recurring and sustainable savings for 2023/24 and beyond;
- Consider relevant governance and decision making, per the terms of the contract;
- Utilise reserves and other temporary mitigations, recognising the scale of the gap and that it was not possible to agree and implement a full package of savings effective 1 April 2023; and
- Note the pressing need to take forward formal review of the current Service Delivery Contract during 2023 to inform planning for 2024/25.

9.6 The joint work has arrived at the following package of measures to ensure the HLH Board can set a balanced budget for 2023/24. The HLH Board will consider its budget on 14 March. Significant elements of the package summarised above sit with HLH Board to make decisions on, per the terms of the contract and its status as an ALEO. In relation to Service reductions, these also sit with the HLH Board, having engaged with the Council and through joint consideration of implications. The decision making that sits purely with the Council relates to the use of Highland Council reserves, as set out in the recommendations in this Council report.

	£m
Forecast gap 2023/24	**4.990**
HLH saving proposals – HLH Board governance: - Income generation £0.941m - Efficiencies and re-alignment of service £0.404m - Temporary mitigation incl vacancy management £0.498m	-1.843
HLH saving proposals – Service Delivery Contract changes	-0.153
HLH in-year improvement 22/23 and use of existing HC committed financial support	-0.590
HC in-year 23/24 financial support from reserves	-2.404
Residual gap 2023/24	**0.000**

9.7 It is clear from the work undertaken that, despite positive progress, there remains an underlying financial gap that requires to be addressed on a recurring basis to ensure HLH is financially sustainable. A number of elements of the plans as set out above represent short-term and one-off mitigations for 2023/24. The joint work undertaken to date, including work to assess what options may exist in terms of a locality approach to service review and reductions, will be further progressed, alongside the Service Delivery Contract review, to allow both HLH and the Council make informed choices on the decisions necessary to ensure financial sustainability going forward.

10. Pay and pensions cost adjustments

10.1 When the Scottish Government announced its budget on 15 December it did not include its public sector pay policy, citing the uncertain inflation outlook and the need to still conclude some pay deals for financial year 2022/23. Whilst the public sector pay policy does not cover local government staff it is still a useful indicator as to the level of provision required to be made for pay awards.

10.2 Estimating a figure for pay awards always requires a balance to be struck between what is considered as affordable from an employer perspective compared with trade unions demands. Due to the wider inflationary environment, trade union demands are particularly high. On the teaching side the pay deal for 2022/23 is still not concluded with COSLA's latest offer of a 6% award for 2022/23 and a further 5.5% award for 2023/24 being rejected. The SJC trade unions have published their demands for 2023/24 the main elements of which are a 12% or £4,000 award (whichever is higher) alongside a minimum rate of pay of £15 per hour.

10.3 For the purposes of setting the Council's 2023/24 budget an overall pressure in respect of pay equal to 3.5% of the overall salaries budget has been included. This sum replicates the Council's contribution to the SJC pay award for 2022/23 and whilst not matching trade union aspirations it considered to be at, and arguably beyond, the limit of affordability for the Council.

10.4 For 2022/23 the Council had only made a budgetary provision of just over 2% to meet the cost of staff pay awards and so the agreed award for SJC staff and latest offer to teaching staff has created an in-year (2022/23) budget pressure. Whilst this in-year pressure has been partially offset by a reversal in the increase to the employer's rate for National Insurance contributions it requires to be factored into the 2023/24 budget gap workings as a structural budget deficit needing to be remedied. As such a budget pressure of £2.8m has been included in the 2023/24 budget gap to reflect this item.

10.5 There is a significant risk that the cost of the pay awards ultimately agreed for 2022/23 and 2023/24 exceed the allowance noted above. As a general rule of thumb every 1% of additional pay equates to around £3.9m.

10.6 In 2022/23 and specific occasions in prior years the Scottish Government has made additional funding available to meet the excess cost of staff pay awards however it is not incumbent on Government to do so. Section 8.7 of this reports outlines that the Scottish Government intend to provide additional funding of this nature in 2023/24. As pay awards are a risk the Council ultimately bears it is important to ensure that the Council holds sufficient funds in its reserves should further funds be required. As is demonstrated in section 10.4, any excess pay award will create a structural budget deficit requiring a sustainable solution to be found in future years.

10.7 For 2023/24 the Council has also included a budget pressure in relation to incremental progression along the salary scale for all eligible staff. This approach will help maintain the integrity of staffing budgets and prevent the creation of any additional negative 'budget holding codes'.

11. Budget pressures and investment

11.1 The £32.862m figure in the table at 7.4 described as 'budget pressures' contains a variety of items for which additional funding is required to be added to the budget. This budget pressures figure is at an extremely heightened level, predominately driven by inflationary factors with just under £20m of pressures directly attributable to inflation. With its large geographic area and extensive property asset base the Highland Council is particularly susceptible to high inflation on fuel and utilities costs. Inflationary pressures are further compounded by a range of Council contracts having clauses for inflationary uplifts. The list below provides a summary of all items by type, with the full details seen in **Appendix 5.**

- Inflationary factors- £19.696m
- Existing cost pressures- £4.988m
- ALEO support costs- £2.404m
- New expenditure commitments- £1.898m
- Legislative change- £1.370m
- Investment- £1.306m
- Covid- residual income impact £1.2m

11.2 The nature of the budget pressures summarised above is that they generally reflect structural issues in the budget that need to be resolved on a long-term basis by the permanent adjustment of budgets. Whilst it is anticipated that inflation may ease over the coming year, it would require an expectation of deflation (i.e. costs reducing rather than plateauing) to factor some of these pressures in on a temporary basis.

11.3 As the figures above clearly illustrate, inflationary factors of £19.696m are the most significant element in the Council’s elevated level of non-staffing budget pressures. To illustrate this increase, the comparative contract inflation pressure for the 2022/23 budget was £8.2m (which itself was around 3 times higher than the figure for 2021/22). The largest elements of this category relate to utility cost increases, school and public transport contract cost increases, and the annual contractual indexation of the PPP contracts.

11.4 Further budget pressures relate to the increase in partner funding for Highlife Highland as referred to in section 9 of this report; addressing structural income budget deficits that have arisen as a result of Covid (and were dealt with as one off items by the use of reserves in 2022/23); dealing with existing cost pressures/structural budget issues- notably additional funding to support the Additional Support Needs budget; responding to changes in legislation- including the impact of the Non-domestic rates revaluation; and new expenditure commitments as a result of changes in service provision.

11.5 As referenced in **Appendix 1** the Council is making a significant investment across Children’s Services to deliver improved outcomes, including £1m of Families First investment funded from the Council’s earmarked reserves. A further £1.3m of recurring investment (reflected as a budget pressure) to uprate allowances and provide enhanced support and training to increase the number of Highland-based carers and provide greater support to existing carers will recognise the vital role undertaken by Council foster carers, kinship carers and adoptive parents. These improved outcomes for children should also deliver financial benefits to the Council through increased growth in kinship care (the most cost-effective form of care) and reductions in independent foster care and independent residential care (the most expensive).

11.6 The indicative figures for budget pressures for the years beyond 2023/24 included in the table at 7.4 are only high-level estimates at this stage. The reduced level and tapering of the figures over the period is intended to reflect the current heightened inflationary environment giving way to more normal levels of pressure over the course of the coming year. The figure of £7m in 2027/28 is based on a more typical historic level of budget pressure requirements. As part of the Council’s medium term financial planning these items will be fleshed out and amended as required.

12. Education matters

DSM scheme review

12.1 The report on ‘financial crisis’ to the Council meeting on 22 September 2022 highlighted in relation to the Devolved School Management (DSM) scheme that *“In light of the financial crisis and the context set out within this report, it is not appropriate for the Council to be asked to make what would be recurring and longer-term financial commitments, in the form of a revised DSM scheme at this time.”* The Council therefore noted that work on the review of the schools DSM scheme would need to continue.

12.2 This report and recommendations to agree a revenue budget for 2023/24 will provide clarity on the funding envelope within the Education Service for school DSM budgets in 2023/24, and in turn allow the review of the DSM scheme to conclude and recommendations be considered.

12.3 Consideration of the DSM review will be a matter for the Education Committee and work to conclude the review, including incorporation of implications arising from this budget, revision of scheme documentation, and stakeholder engagement and communication, will now conclude. Recommendations will be considered at the Education Committee later in 2023.

12.4 Pending conclusion of that review the Education Service will revise DSM budgets for schools in 2023/24 in line with the funding envelope provided by the Council's 2023/24 budget.

Early Leaning and Childcare and partner sustainable rates

12.5 On 27 October 2022 the Council noted *"that further engagement with the ELC Sector will continue, and that further recommendations relating to the ELC funding rate for the 2023/24 financial year will be considered as part of the Council's budget for next year."* Following that report to Council, Officers have continued engagement with ELC PVI (Private, Voluntary and Independent) partner representatives on the topics of ELC Re-design and Partner rates.

12.6 The Education Committee on 15 February considered an update report on ELC re-design, and this has informed budget proposals as set out within this paper. In relation to partner rates, the recommendations within this report are informed by the engagement with the PVI sector over the past year, detailed officer work, review of best practice and approaches taken in other Local Authorities, and participation in national discussions including Scottish Government, Cosla and the Improvement Service.

12.7 Members will recall that the recommendations agreed by the Council in October 2022 were for temporary in-year uplifts in funding to 31 March only, and a decision for rates to apply from 1 April 2023 was for this Council report. There remains a significant difference between some Partner expectations for a 2023/24 rate, and what the Council considers is reasonable, supported by data and evidence, and affordable. In light of this, the recommendations within this report are based upon continuing the currently uplifted rates for 2022/23 and baselining them to apply from 1 April for the new financial year and on a recurring basis. This provides certainty and stability in relation to the funding provided to ELC partners.

12.8 The rates to apply would be as outlined in the report to Council in October 2022 and provide for the following funding to apply from 1 April 2023.

- 2 year old rate: £6.66 per hour of funded ELC
- 3-5 year old rate: £5.75 per hour of funded ELC
- Meals rate: £3.00 per meal

12.9 No recommendations relating to further future years are set out in this report, with it expected there may be some refinement to Scottish Government guidance arising from a current national Scottish Government/Cosla led review to gather lessons learned from the rate-setting process. This will be considered as part of future budget planning work.

13 Capital

13.1 Over the course of the last year Members have received regular reports through both the Corporate Resources Committee and full Council outlining some of the challenges facing the Council in respect of its capital investment programme. Construction industry inflation and product and materials shortages have led to significant cost increases across the majority of project categories, it is becoming increasingly difficult to attract contractors for a competitive tendering process and increases in interest rates mean the revenue budget impact of financing capital investment has increased.

13.2 Compounding the cost pressures outlined above the demand for capital investment in the Council's asset base does not diminish. The requirement to safely maintain and enhance key assets, essential to the delivery of frontline services, remains an increasing challenge to the Council as a number of assets reach the end of their useful economic life.

13.3 The Council's capital programme is funded through a mix of borrowing (paid for through the Council's loans charges budget), a general capital grant from government, specific project funding, and capital receipts form the disposal of assets. Borrowing has in recent years formed the largest element of this funding mix, accounting for around two thirds of the financing of the entire programme. The core capital grant has remained relatively constant at around £24m- and funding of this level is expected to continue into 2023/24.

13.4 On a long terms basis a sustainable annual level of capital investment is estimated to be in the order of £55 to £60m. This sum is derived using a combination of the general capital grant and the long term sustainable level of annual borrowing estimated to be affordable within the parameters of the current loans charges budget. If the Council wishes to maintain a capital programme significantly above this level in the short term the price for that increased level of investment will be a requirement to significantly increase the loans charges budget, or at some point in the near future reducing annual capital investment to a level well below the baseline £55m to £60m. Given the demand for capital investment to support service delivery the latter prospect does not appear feasible.

13.5 The Council's current capital programme and capital strategy was approved by Council in December 2021 with some adjustments to the programme agreed at subsequent meetings of the Council. Given the factors outlined above and the revenue budget context as outlined in this paper it is evident that the approved capital programme is no longer affordable.

13.6 Work has been ongoing over the course of recent months to review the capital programme in an effort to identify a programme that is affordable and delivers the necessary investment in the Council's assets. As with the revenue budget challenge facing the Council the capital investment conundrum is also becoming an increasingly difficult problem to solve with a sustainable and affordable investment programme not currently identified.

13.7 Work on the capital programme will continue into the new financial year, closely aligned to work on the Council's medium term financial strategy and clearly linked with the Council's programme 'Our Future Highland', approved in December 2022. It is inevitable that a large degree of compromise will be required as part of these considerations, with certain projects no longer being deemed affordable, certain services being reduced or reshaped, and the likelihood of increased risk of asset failure with ensuing service delivery failure.

13.8 Pending the completion of a fully revised and long term capital programme it is important that the capital investment budget for 2023/24 is refreshed to ensure that all spend is deemed essential. If a revised programme for 2023/24 is not agreed then officers could in theory spend to the current approved programme which is not deemed affordable.

13.9 **Appendix 6** presents to Members a rephased programme for Member approval that will allow projects to continue through the design phase but, where feasible, defers decisions on entering into contracts for the construction or delivery phase until a fuller assessment of the project priority and affordability is completed.

13.10 The proposed reprofiled programme does not at this stage formally remove any commitments to previously approved projects, however it may lead to revised timescales for their delivery. Upon further review, decisions may be taken not to progress certain projects if they are no longer deemed as priorities or considered affordable.

13.11 The planned programme reflects the absolute level of investment anticipated to be required in financial year 2023/24 and where appropriate reflects the estimated level of slippage from the 2022/23 programme as forecast in the quarter 3 capital monitoring for the year.

13.12 The net level of capital investment proposed for 2023/24 is £117.7m and though this does not appear to be a significant reduction from the investment previously programmed, the compound effect of inflation combined with slippage from 2022/23 means that the scope of works delivered by the end of 2023/24 will be significantly less than those included in the plan agreed in December 2021. **Appendix 6** illustrates where those scope reductions and project deferrals have taken place.

14. Closing the budget gap

14.1 The Council has a number of means of closing the budget gap which can be grouped into three main categories- increasing income, reducing expenditure or using reserves. Income can be increased from changes to Council Tax or fee and charge income relating to services provided by the Council. Expenditure can be reduced by making changes to services, either by delivering efficiencies in spend or by changing service levels. Transformation activity may encompass both income and expenditure adjustments and reflects more substantial change. Finally the Council can use reserves to close the budget gap. The use of reserves to close the budget gap is not a sustainable solution, i.e. it will close the gap for one year only but the gap will recur the following year requiring additional income or expenditure savings to be found.

14.2 The table below outlines the proposed mix of items to fully close the budget gap identified for financial year 2023/24. Given the challenge in closing the gap for 2023/24 no proposals relating to closing the budget gap for subsequent years are being sought for approval at this stage. Work to develop the Council's medium-term financial strategy including proposals for bridging future years' budget gaps and closing the element of the 2023/24 gap met by use of reserves will come forward as part of a mid term budget to Council .

	2023/24 £m
BUDGET GAP BEFORE MITIGATION (from table at 7.4)	**49.233**
Impact of loans fund principal holiday (section 17.6)	5.007
REVISED BUDGET GAP	**54.240**
Recurring items:	
Council Tax rate increase- 4%	-5.375
New budget savings proposals	-22.195
Non-recurring items:	
Repurposing of Council tax income from second homes and long term empty properties	-3.400
Use of reserves	-23.270
RESIDUAL GAP	**0.0**

14.3 The following sections of this report provide additional detail on each of the elements required to close the budget gap. Members are asked to agree on Council Tax levels for 2023/24; agree the repurposing of the income generated from Council Tax from second homes and long term empty properties; approve the package of new savings proposals; and agree the use of reserves.

15. Council Tax

15.1 Council Tax income reflects the single largest source of income over which the Council has full local control. It is a legal requirement that Members agree the rates for Council Tax for the coming year before 11 March of each year.

15.2 For 2023/24 the Scottish Government has placed no constraints on the level of increase that councils may choose to apply and as such councils can set Council Tax rates at levels that best suit their local circumstances.

15.3 As described elsewhere in this report Highland Council is facing a significant budget gap and the ability to increase the amount of income generated from Council Tax is an important method of closing that gap.

15.4 The Council's Administration is mindful of the wider economic factors impacting on household and family budgets; many of the same factors that contribute to the sizeable budget gap facing the Council. As such, whilst an increase in Council Tax rates is deemed necessary it is intended that the increase is tempered to a rate significantly below the current rate of inflation.

15.5 The Council Administration's proposal is that Council Tax rates are increased by 4% from the 2022/23 levels. **Appendix 7** provides details of the current 2022/23 rates and proposed rates for 2023/24. An increase of this level is expected to generate £5.375m of additional income which will be used to help bridge the Council's budget gap.

15.6 It is a requirement of Scottish Government policy that the first 50% of the income generated from Council Tax on second homes and long term empty properties is set aside for investment in affordable housing. Highland Council pays this income, estimated at £3.4m, into its Landbank Fund, which is then used for affordable housing investment.

15.7 Given the financial challenge facing the Council and in light of correspondence from the Depute First Minister in November 2022 inviting local authorities to explore 'policy flexibilities', the Leader of the Council wrote to the Depute First Minister asking for dispensation to repurpose the income from second home and long term empty property Council Tax in both financial years 2022/23 and 2023/24. If the dispensation is granted it is intended that this income will be paid into the Council's general fund reserve rather than paid into the Landbanking Fund. The income in 2023/24 will then be used to close the revenue budget gap for that year.

15.8 It is not anticipated that this approach will impact on the Council's delivery of affordable housing in either of financial years 2022/23 or 2023/24. This solution to closing the budget gap will be a temporary solution only and will therefore require an alternative solution to closing his element of the budget gap to be found in future years.

16. New budget savings proposals

16.1 In order to reduce the residual budget gap for 2023/24 a suite of new savings proposals have been developed and these are also included in **Appendix 1** 'Our Future Highland- Budget Strategy 2023/24'. Members are asked to approve these savings for implementation.

16.2 The savings brought forward reflect activity in a variety of different thematic areas, reflecting reductions in expenditure alongside proposals to increase service income. The table below provides a breakdown of the total saving amount by theme.

Theme	**New proposals £m**
Reducing waste and avoidable spend	1.347
Budget not required for original purpose	6.024
Service redesign and efficiency	7.904
Contract management and procurement	0.530
Removal of discretionary spending	0.185
Removal or Reduction in Service	3.050
Increasing Income	3.155
Total	**22.195**

16.3 Given the amended local government funding settlement terms as described in section 8.2 of this report there is a risk that the delivery of certain savings proposals may result in a reduction in the total general revenue grant receivable in 2023/24. Given the overall funding challenge facing the Council it is deemed essential that all areas of activity look to contribute to revenue budget savings. The delivery of proposed Education and Learning savings is anticipated to have no detrimental impact on educational outcomes and is therefore put forward as an alternative to potentially more damaging reductions in wider Council services that provide vital support to children and families.

17. Reserves

17.1 The magnitude of the financial challenge facing the Council for 2023/24 has made it incredibly difficult to identify sufficient recurring savings proposals to close the budget gap on a permanent basis. Despite putting forward a substantial level of revenue budget savings and a planned 4% increase in Council Tax there remains a residual budget gap of £23.270m. It is proposed that this gap is filled by the use of reserves.

17.2 The use of reserves to balance a budget gap is not a financially sustainable solution- it bridges the budget gap for one year only and a recurring solution or further use of reserves is required in future years. The use of reserves does however buy time to allow alternative and recurring solutions to be identified. As outlined in section 18, using reserves to balance the 2023/24 budget will significantly widen the savings requirement for 2024/25- which will mean that some very difficult decisions will need to be made about the levels and sustainability of all Council services and future increases in Council Tax.

17.3 At this time of immense financial challenge it is essential to have the maximum possible level of non-earmarked general fund revenue reserve. This reserve will allow the Council to manage both short and medium term financial risks. The immediate and short term risks relate to unforeseen or unbudgeted issues arising during financial year 2023/24. More detail on those items is included in section 21 of this report. The medium term risk around balancing budgets in subsequent years is outlined in section 18 of this report.

17.4 Whilst an elevated level of revenue reserves may at first glance suggest the Council is in a strong financial position, the future outlook for the trajectory of those reserves shows that the Council can only have confidence that it is financially sustainable over financial year 2023/24 and 2024/25. The Council faces severe difficulties to ensure it is financially sustainable over the medium term with a feasible scenario that even with delivering substantial packages of budget savings in future years the Council could exhaust all its revenue reserves by 2026/27.

17.5 In order to boost its non-earmarked general fund revenue reserve the Council does have a number of options open to it. These options are outlined below and the progression of certain options is covered in the recommendations of this report. As referenced above it is felt essential that the level of this reserve is maximised given the challenge that lies ahead.

17.6 Loans Fund Principal repayment holiday
During 2020-21 the Scottish Government worked jointly with the Convention of Scottish Local Authorities (COSLA) to identify a package of financial flexibilities for councils to address the funding pressures they faced due to the pandemic. One of the financial flexibilities agreed was to allow a local authority to reduce the statutory repayment of debt in either the 2020-21 or 2021-22 financial year.

In light of the ongoing impact of COVID-19, in October 2021 COSLA requested a further one year extension to this flexibility for the 2022-23 financial year which was agreed by the Scottish Government as outlined in the finance circular linked below.

Local government finance circular 5/2022 - statutory repayment of debt – short term financial flexibility: guidance - gov.scot (www.gov.scot)

This flexibility allows councils to defer the statutory repayment of debt in 2022/23 (this decision cannot be taken in future years)- in short it means a council can defer the 'principal' element of its 2022/23 loans charges, paying back the amount deferred over the period of the residual asset life or twenty years (whichever is lower).

For Highland taking advantage of this flexibility would mean £29.3m of loans fund principal repayments would not be charged to the revenue budget in 2022/23-effectively creating a significant underspend against the 2022/23 loans charge budget and leading to a heightened level of general reserves at financial year end.

Appendix 8 outlines the profile for the repayment of that £29.3m over the next twenty years which is calculated based on the same methodology as the calculation of the Council's annual loans charge using the annuity method. The reason for the front loading of the repayments in the early part of the twenty year period is the requirement for repayments to be made over the residual asset life, which for many assets funded through the loans fund is less than 20 years.

It is recommended that the Council takes advantage of this flexibility and the budget gap workings in section 7.4 and **Appendix 10** reflect the future annual repayments that are required as a result.

17.7 Earmarked balances review

As Members will be aware the Council has a number of general fund 'earmarked reserves' i.e. funds that have been set aside for a specific purpose. There are a number of different reasons why the various elements have been earmarked, some reflect local investment priorities, some reflect specific external funding streams and some reflect particular legal requirements.

In order to maximise the Council's non-earmarked revenue reserves a review of the earmarked balances has been undertaken with the aim of reducing or removing earmarking if the funds are no longer required, if the specific item is no longer a priority, or if a different funding source can be found.

Details of the earmarked funds are provided at **Appendix 9,** showing their current level, their anticipated level at 2022/23 year end following draw down to offset 2022/23 expenditure, and amounts that are deemed to be required to be spent in future years.

As outlined in that appendix it is recommended that £18.513m of funds are 'un-earmarked' and returned to the non-earmarked reserve. A note explaining the reason for repurposing the reserves is also provided.

For those items that are being repurposed as the associated spend is capital in nature and will now be capitalised, an estimate of the increased borrowing costs resulting from this decision has been factored into the loans charges element of the budget gap.

Appendix 9 also shows the anticipated drawdown profile of the residual earmarked reserves, illustrating the forecast spend of earmarked funds and the reduction in balances to more normal levels over the next two years.

17.8 Service concessions

On the 20th September 2022 the Scottish Government published 'Local government finance circular 10/2022 - finance leases and service concession arrangements: statutory guidance'. A link to the circular is provided below:
Local government finance circular 10/2022 - finance leases and service concession arrangements: statutory guidance - gov.scot (www.gov.scot)

One significant element of this circular is that it gives local authorities the ability to adjust the accounting treatment relating to service concessions (PPP contracts or equivalent) in either financial year 2022/23 or 2023/24. The main aspect of this adjustment allows local authorities to write off the capital cost element of the assets over their lifetimes (up to 60 years) as opposed to the length of the contract (normally 25 to 30 years). The change can be applied either retrospectively or prospectively.

At this stage it is not proposed that this flexibility is adopted. However Members may wish to consider adopting it during their budget review work during the course of financial year 2023/24. In short the adopting this approach would result in:

- A credit to the revenue budget to reflect 'overpayments' made up to the present day.
- An annual 'saving' up until the end of the contract period to reflect the difference between the actual annual contract cost and the 'accounting' annual cost
- Significant additional revenue costs in the post-contract period- where previously there would be no costs
- Additional annual interest costs as the release of credits and savings as described above will require to be supported by borrowing.

In order to apply this flexibility, the decision must be taken to full Council for approval setting out the reason for the change. The submission to full Council must make explicit that this change is prudent, sustainable and affordable over the life of the asset. If this proposal is brought to Members for approval a workshop will be held prior to the formal decision-making in order that Members fully understand the long-term ramifications of the selected approach.

18. Closing the medium term financial gap

18.1 Whilst section 14 of this report covers the approach to closing the budget gap for financial year 2023/24 the CIPFA Financial Management Code is clear that Members and Officers must be considering the medium to long term financial sustainability of the Council as part of their budget deliberations.

18.2 In the current context, making assumptions about the key future variables of staff pay awards, non-staffing cost inflation and future government funding settlements is incredibly difficult however **Appendix 10** provides a 5 year outlook, considering a potential scenario for those variables as well as making assumptions on how the budget gap will be closed through budget savings, income generation and use of reserves.

18.3 Based on the assumptions as described in **Appendix 10** a 5-year structural budget gap of £126.9m is forecast for the period 2023/24 to 2027/28. This structural gap is front-loaded into 2023/24 as described in sections 7 to 13 of this report.

18.4 Given the difficulties in delivering sufficient savings or additional income to close the gap in 2023/24 the use of reserves will be required to close the residual gap. This use of reserves in year one then widens the budget gap for subsequent years- to a level such that reserves (albeit at a reducing level) will be needed to balance the budget in years 2, 3 and 4. Over that four year period, reserves of £65.4m would be used to support the delivery of a balanced budget. This use of reserves is in addition to the expectation of £20m of new annual revenue budget savings being delivered in each of years 2, 3 and 4- which in itself will be incredibly challenging- alongside an assumption of a year-on-year 4% increase in Council Tax.

18.5 As part of their medium term financial strategy deliberations over the coming months Members will need to consider a variety of factors including whether current levels of service provision are sustainable; whether above inflation Council Tax increases will be considered once the cost of living crisis eases; how the Council can transform into a future state that is affordable; the level of willingness to use reserves to smooth the delivery of budget savings (as opposed to front-loading savings); and the level of capital investment that is affordable over the medium to long term.

19. Investment

19.1 The Council recognises the importance of investment as a means of delivering a return to support future financial sustainability, whether by generating income/profit or reducing expenditure. The guiding principles for sustainable expenditure set out in the Council's budget strategy for the last three years still hold true:

- Investment in change must deliver improvement;
- Performance improvement and financial sustainability are inextricably linked;
- Sustainable change takes time, and a strategic approach must be taken to plan over the short, medium and long-term;
- Most resource should be focused on where improvement is the greatest priority;
- The whole organisation needs to be supported to deliver high-performing services;
- Investment in staff welfare and development is central to success;
- Organisations require the right systems to underpin and support their operation;
- Investment must reflect the priorities established through the Council's Programme;
- Prevention is key to managing scarce resource and future demand; and
- The status quo is not an option.

19.2 As part of the budget strategy for 2023/24, as provided at **Appendix 1**, the Council has identified new and continuing investment priorities intended to help support future financial sustainability. That investment is funded from variety of sources: the core revenue budget; the capital programme; external funding steams; reserves; and through borrowing as spend to save projects and demonstrates a commitment to improvement and delivering the best possible outcomes for the people and communities of the Highlands.

19.3 The key elements of investment include:

- A commitment to maintaining roads capital investment at £20m for 2023/24, as well as an additional investment £ £1.266m to establish a dedicated Rapid Road Repair Team to support the area based maintenance activities, particularly around pothole repairs.
- Up to £7.8m of investment in treating and reducing waste
- £2.3m of investment in vulnerable young people and families to promote the healthy development of children

- £0.5m of investment in ‘My Council’ utilising digital approaches to support improved outcomes for our citizens, our staff, and the Council.

20 Workforce planning

20.1 Stop, reduce and redesign are all key strategies in managing Service delivery aligned to an affordable workforce. Managing staffing levels to meet changing service delivery models and to address the projected budget pressures is critical. It is essential that the Council achieves a sustainable workforce now and for the future. Immediate measures have been taken to manage staff vacancies by means of tighter recruitment controls introduced last Autumn.

20.2 Other strands of the People Strategy will underpin the approach to supporting staff development, job redesign, agility and flexibility of staff to meet the Council’s Corporate Plan commitments while continuing with a no redundancy commitment where possible. Any Service activity which is due to be reduced or redesigned will be managed through mobilising and deployment of affected staff and working in close collaboration with trade union colleagues.

21. Risk

21.1 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 requires to be addressed. Once that risk is addressed there may be no further financial impact.

21.2 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.

21.3 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.

21.4 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 limited 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 the optimal use for reserves is in investment to support sustainable, balanced budgets.

21.5 For 2023/24 a review of the Council’s corporate risk register has taken place, the key risks with a potential financial impact include the following items (the corporate risk register does include further risks not included in the list below):

- Financial sustainability;
- Security and Resilience (Cyber security);
- Climate change;
- Demographic change;
- Safe and Effective Property;
- Roads Condition;
- Residual Waste Project;
- Refugee Resettlement Programmes;
- Care Home Viability; and

- Capital Programme Affordability and Deliverability

21.6 Many of the potential financial risks from the items detailed above may be considered as longer-term risks to the Council's financial sustainability but some may represent risks that crystallise in the near term. Those with the more immediate short-term impact need to be better provided for in the Council's reserves. As can be seen from the previous section of this report the Council has set aside funds to provide for investment in many of the long-term risk areas which will help remove or reduce the risk.

21.7 A number of other risks, specific to the budget setting process and the financial situation more generally, also need to be considered. Chief amongst these risks is the high level of assumptions about the future that need to be made in order to set the budget. Should any of the assumptions be wrong, they may impact positively or negatively on the overall budget gap. There remains great uncertainty over the staff pay award for 2022/23 (for teaching staff) and 2023/24 (for all staff) An award significantly in excess of that for which budget provision has been made could have a substantial impact on the Council's reserves, with every 1% increase in pay amounting to a cost of around £3.9m.

21.8 Other financial risks relate to the potential for redundancy costs if any staff affected by the budget proposals cannot be redeployed, a refusal by the Scottish Government to allow the repurposing of the income generated from second home and long-term empty property council tax, and further steps by the Scottish Government to direct council spend and the imposition of penalties for non-compliance.

21.9 Section 4 of this report sets out wider macroeconomic uncertainties which will continue to impact on the Council's budget. Most relevant is the risk of inflation with the potential for significant cost increases in the very short term. Whilst allowances for inflation have been made in certain parts of the budget, we may see impacts coming through that have not been anticipated or are at a higher level than forecast.

21.10 This report provides a balanced budget, but it is predicated on the delivery of over £22m of savings. The delivery of all approved savings will be essential to balance the budget, and the monitoring of savings delivery will continue to be reported to the relevant strategic committees in line with the current process. Non-delivery of any saving will require mitigating action by the budget holder to ensure an alternative solution is found to avoid any budget overspends.

21.11 The Council carries significant risks in respect of its partners, most particularly Highlife Highland and NHS Highland. It is not anticipated that any reserves will be held in respect of either organisation by the end of financial year 2023/24. Should there be an overspend in either area of activity that cannot be otherwise mitigated there is a risk that the financial risk will fall back to the Council to provide additional funding.

22. Reserves Strategy

22.1 As outlined in sections 17 and 18 of this report the Council is seeking to maximise its general fund revenue reserves in the short term to ensure that sufficient funds are held to manage any in-year risk that may arise as well as providing support to bridging future years' budget gaps if sustainable budget savings cannot be identified. As such the general fund non-earmarked reserve is expected to increase substantially in the short term to a level significantly above the Council's approved target level for this reserve of 3% of the annual revenue budget (or roughly £20m).

22.2 As demonstrated in **Appendix 10** the general fund non-earmarked reserve is anticipated to fully deplete over the coming 5 years if required to be used annually to bridge residual budget gaps. It is important to note that these figures do not include the use of reserves to mitigate any risks that arise - the use of reserves to mitigate risks will see reserves depleted more quickly.

22.3 Section 21 of this report covers risk, and reserves of the anticipated level during financial year 2023/24 would allow significant capacity for meeting the most significant short-term risks identified.

22.4 As outlined in section 17.1 the Council also holds a number of earmarked reserves- i.e. funds held for a specific purpose. Whilst these funds will not for the most part be 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. **Appendix 9** provides details of the Council's earmarked funds including the forecast level of the reserves at 2022/23 year end, anticipated future drawdowns, and reserve proposed for repurposing.

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

22.6 The table below summarises the anticipated movements in the Council's reserves over the next 5 years based on the projections in **Appendices 9 and 10**:

	Forecast balance at end of financial year:					
	2022/23	2023/24	2024/25	2025/26	2026/27	2027/28
	£m	£m	£m	£m	£m	£m
Non-earmarked balances	63.102	39.832	18.734	4.487	-2.342	-1.015
Earmarked balances*	43.089	11.576	0.000	-	-	-
TOTAL	**106.191**	**51.408**	**18.734**	**4.487**	**-2.342**	**-1.015**
* earmarked balances reflect existing balances only and do not reflect any future top-ups						

23. Budget review and spending controls

23.1 As suggested by the CIPFA Financial Management Code, work on the budget should be an ongoing year-round activity, focussed on the medium-term financial outlook. Aligned to this, the planned budget for 2023/24 will need regular review and refinement to ensure any changes in the wider context can be responded to. Of particular importance the early identification, approval and implementation of further budget savings or income generation proposals will reduce the need for the use of reserves during 2023/24 and close the residual budget gap for 2024/25.

23.2 Normal budget monitoring, focussing on spend and income against the 2023/24 budget, will continue through the Corporate Resources Committee throughout the financial year. Individual Service positions will continue to be reported through the relevant strategic committee.

23.3 As has happened in previous years it is intended that medium-term financial plan reports are regularly brought to full Council, updating any assumptions on future years' budget gaps and describing activity undertaken to help meet those gaps.

23.4 In light of the forecast budget overspend for 2022/23 anticipated as part of the quarter 2 monitoring a variety of spending controls were put in place in order to help slow down the trajectory of spend and reduce the forecast overspend. The improvement in the forecast 2022/23 outturn position between quarters 2 and 3 can be partially attributed to these controls being in place. It is proposed that these controls, covering both staffing and non-staffing expenditure will continue indefinitely in order to ensure that spend is minimised wherever possible. The key elements of these controls were reported to the Highland Council on 8 December 2022 with an underlying premise that all expenditure must be considered 'essential spend' i.e. spend that ensures that the Council operates safely and meets the minimum statutory requirement for service provision

24. Statement by the Chief Financial Officer

24.1 A requirement of the CIPFA Financial Management Code is that the budget report includes a statement by the Chief Finance Officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves. That statement by the Council's Section 95 Officer, the Head of Finance, is provided below.

24.2 **Statement on 2023/24 budget and sufficiency of reserves**.
This paper recognises the significant number of estimates and assumptions that are required in order to set the budget for 2023/24. The estimates and assumptions are based on the best information available and the judgement of relevant professional staff. With any estimate comes risk, and this paper also outlines the financial risk should reality differ from the estimates made.

As outlined in this paper the Council's strategy is to maximise its general fund non-earmarked reserve in the short term in recognition of the financial challenges that lie ahead. Whilst that high level of reserve may on the surface appear to present the Council in a positive financial position, the medium-term outlook means those reserves are expected to significantly deplete over the coming 2-5 years.

The general fund non-earmarked reserve is expected to be sufficient to mitigate any financial risks that may crystallise during financial year 2023/24 as well as providing support to bridge the forecast 2024/25 budget gap. Any unbudgeted costs that arise during 2023/24, or any factors worse than forecast for the 2024/25 budget gap will reduce those reserves at a quicker trajectory than projected.

Whilst the budget proposed for 2023/24 is balanced, the substantial use of reserves to get to that position reflects a necessary but far from ideal scenario. The use of reserves to balance the budget reduces funding available for investment and merely defers making the changes need to ensure financial sustainability. Members are strongly advised that any further use of reserves should be for investment that generates a return (either reducing costs or generating income) rather than to reduce any of the recurring savings contained in the budget proposals.

24.3 **Statement on medium to long-term financial sustainability**
It is the view of the Chief Financial Officer that the Council, in its current form and model of service delivery, is not financially sustainable over the medium term.

Many challenges lie ahead, from changing demographics and increasing demands for services, balancing the need for capital investment in our assets within affordability parameters, challenges posed by ring-fencing of budgets, to uncertainties over the ongoing impact of inflation on employee and contractual costs. The Highland Council is not alone in facing this level of unprecedented challenge, similar issues are facing councils across Scotland.

Nevertheless, if the Council is to bridge its budget gap over the medium term significant service savings will be required. These cannot be delivered by transformation, efficiencies and new ways of working alone- the Council may have to reduce or completely withdraw from certain areas of activity, regardless of their local importance. The Council will need to work extensively with its partners, citizens and communities to help mitigate the impact of these reductions.

The Council must seek to maximise the income it generates from commercial means, albeit it is only the net income after costs which will impact on the budget gap. Council tax will remain by far the largest source of income under local control and so the Council may have to fundamentally change its approach to council tax, recognising that if services cannot or will not be reduced the only way to bridge the gap will be to substantially increase Council tax rates.

Against this backdrop it is essential that the Council continues to invest, with that investment clearly supported by robust business cases. That investment must deliver financial outcomes for the Council. Underpinning all of this medium term financial planning work will be the need to ensure that financial plans are aligned to and reflect the Council's strategic plan and Programme - to ensure that the Council's resources are directed to delivering on its priorities.

25. Chief Financial Officer/Section 95 officer future arrangements

25.1 On 9 June 2022 the Council agreed that section 95 officer responsibilities for the Council would sit with the Head of Finance role. The current post-holder will be moving on from the Council on 3 March and thereafter the role will be filled on an interim basis by Brian Porter, currently Head of Resources with the Education and Learning service.

25.2 Recruitment to the role of Executive Chief Officer- Resources and Finance is currently underway and on the successful appointment to that role a review of section 95 officer responsibilities will take place.

Designation: Head of Finance / Section 95 Officer

Date: 21 February 2023

Authors: Edward Foster, Head of Finance; Brian Porter, Head of Resources

Background Papers:

Corporate risk register
https://www.highland.gov.uk/download/meetings/id/80858/item_9_-_review_of_corporate_risks

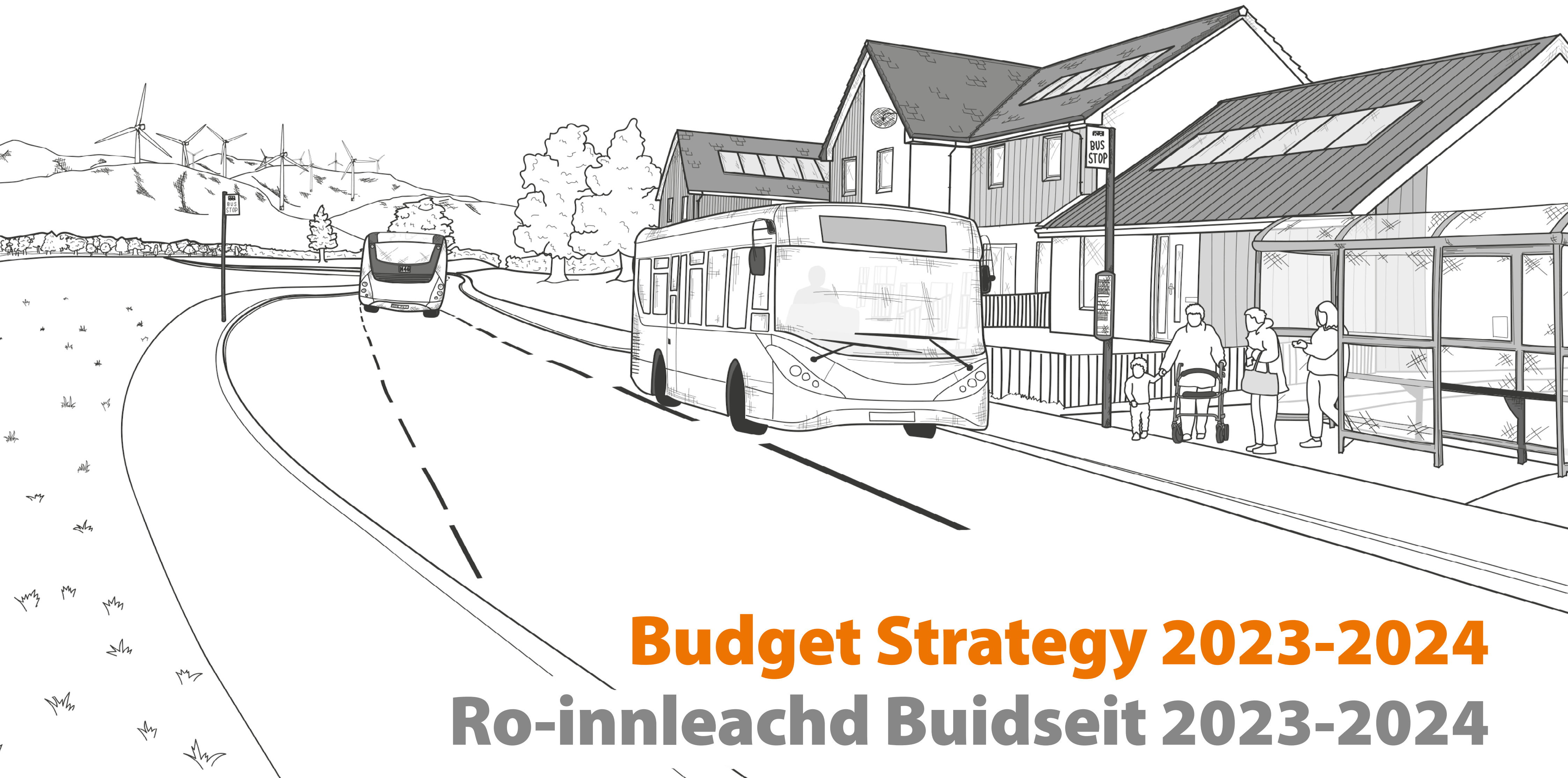
Q3 revenue and capital monitoring
https://www.highland.gov.uk/download/meetings/id/81217/5a_corporate_revenue_monitoring_to_31_december_2022
https://www.highland.gov.uk/download/meetings/id/81218/5b_corporate_capital_monitoring_to_31_december_2022

2022/23 budget
https://www.highland.gov.uk/download/meetings/id/79782/item_3_revenue_budget_202223_to_202425_buidseat_teachd-a-steach_agus_c%C3%ACs_comhairle

December 2021 approved capital programme and updates
https://www.highland.gov.uk/download/meetings/id/80637/9_capital_programme_update
https://www.highland.gov.uk/download/meetings/id/79295/9_medium_term_financial_plan_-_capital_strategy_and_capital_programme_to_203637

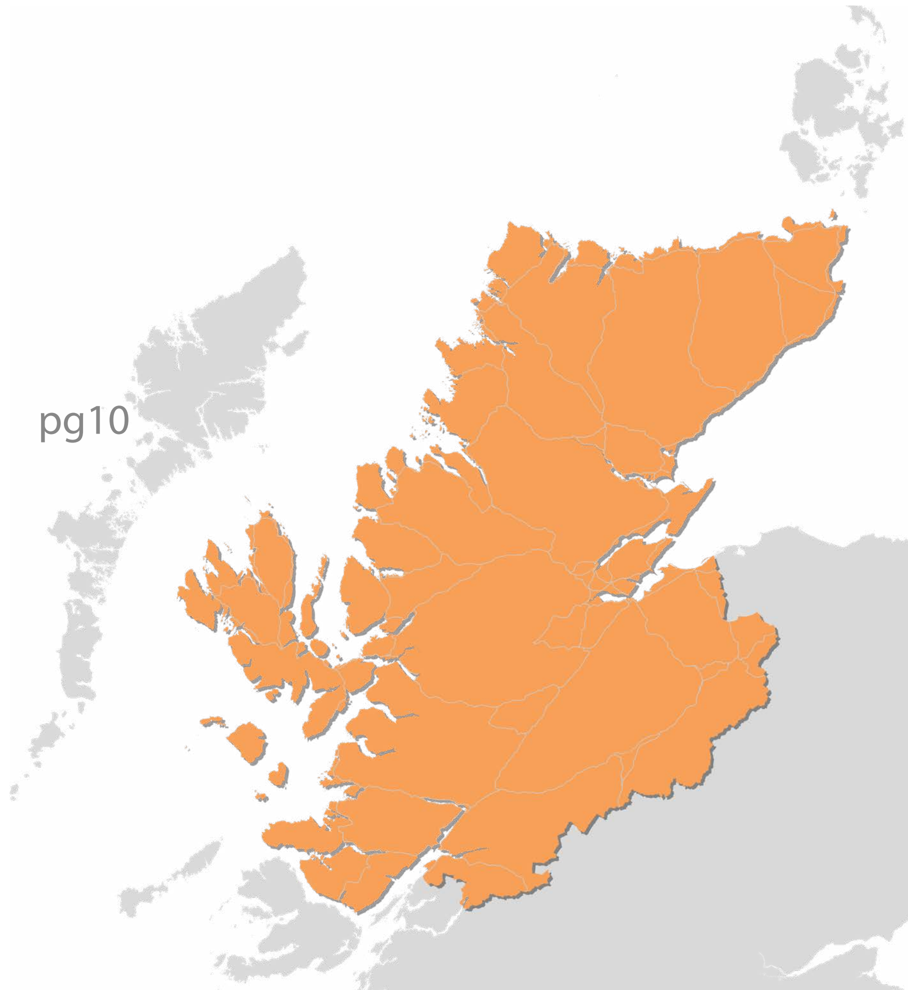
The Highland Council
Comhairle na Gàidhealtachd

Our Future Highland
Ar Gàidhealtachd Ri Teachd



Budget Strategy 2023-2024
Ro-innleachd Buidseit 2023-2024

Contents
Clàr-innse



1 Introduction
Ro-ràdh

The Highlands has demonstrated remarkable resilience, flexibility and commitment during the global pandemic and this has also been reflected in the way in which Council staff have delivered vital, valued services throughout this period. Increased one-off COVID-19 monies have helped in recent years to support the continued delivery of Council activities and investment to help with the programme for recovery. Just at the point we should be coming out of crisis, building on recovery and returning to a steady state, the Highland Council is facing its greatest financial challenge of recent times.

The cost of the pandemic and recovery has impacted on UK and Scottish public finances generally, leading to at best, effectively a flat cash settlement for the Highland Council for 2023/24, coupled with a significant reduction in spending flexibility. At the same time, searing inflation and increasing costs of borrowing have contributed to a severe cost of living crisis leading to increased demand for public services and a real terms reduction in Council spending power.

All of these factors have resulted in a gap in the Council's revenue budget of just under £50million for the financial year 2023/24 which will need to be addressed through a range of approaches - from increasing income, to reducing expenditure, and delivering one-off temporary relief through the judicious use of a proportion of Council reserves.

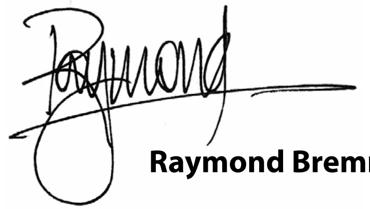
The use of reserves to help balance the budget is only a short-term measure as the organisation looks towards achieving medium term financial sustainability. There therefore needs to be a continued focus on the identification of recurring savings and income streams in the coming weeks and months with further budget measures to be brought forward for the Council's determination at the mid-year point. This will be considered alongside the full review of the capital programme review to ensure that the affordability implications are properly understood and managed.

It has to be recognised that the scale of the challenge means that some decisions will be difficult. It is not possible to remove this amount of resource from the Council's budget without having an impact on the delivery of some of our services. In this way, the Council is no different to any household trying to manage its finances in the current cost of living crisis – we have to adjust our spending and dip into savings, because budgets no longer go as far as they once did.

Despite the significant challenge of having to address a gap of such scale, the Council Administration is committed to continuing to invest in core functions and critical services wherever this is still possible.

By undertaking a review of Council reserves, adjusting capital allocations and ensuring there remains scope to manage future years' challenges, £18.2million has been identified for an investment programme to deliver £14.1million to increase the roads maintenance and repair budget, and £4.1million for a pro-active approach to reducing waste, supporting vulnerable people and managing service demand by investing in preventative measures and service change and transformation.

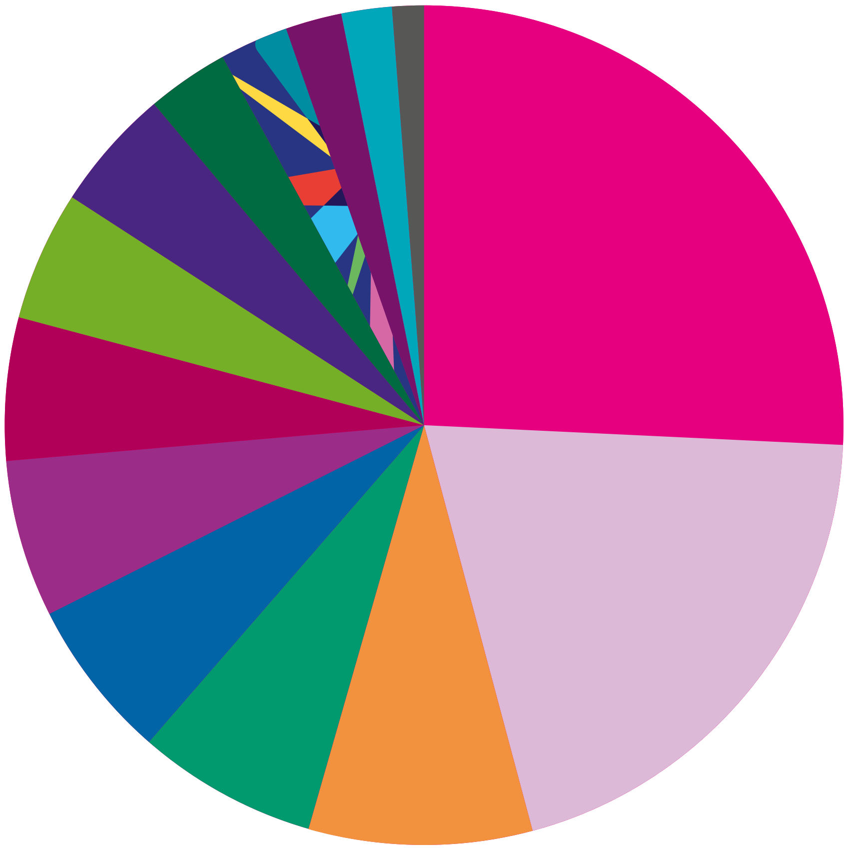
A key focus for the Administration during this financial crisis has been not just to protect valued local services to the greatest extent possible, but to be ambitious in establishing the foundations for a brighter and more sustainable future for Highland communities. The following strategy explains how the Council will address current financial pressures whilst also delivering investment to ensure the Council can deliver on the priorities set out in the approved Council Programme with a positive vision for the future.



Raymond Bremner, Council Leader

Bill Lobban, Convener

Figure 1: How the Council Revenue Budget is spent



- Schools (nursery, primary and secondary) ______ £174.89m
- Adult Social Care ______ £136.54m
- Loans charges ______ £58.29m
- Property ______ £47.19m
- Roads and Transport ______ £42.16m
- Children's Services ______ £41.10m
- Additional Support Needs ______ £37.36m
- Waste, Environmental and Community Services £33.69m
- Corporate and Support Functions ______ £32.12m
- Catering, Cleaning and Facilities Management _ £21.54m
- High Life Highland ______ £17.90m
- Welfare ______ £14.77m
- Other frontline service ______ £13.23m
- Cost contingency budgets (incl. pay increases) __ £8.27m

2022/23 budget breakdown by service and activity area - drawn from Q3 corporate and service monitoring statements.

2 Investment Strategy
Ro-innleachd Tasgaidh

The Council's five-year Programme "Our Future Highland" is focused on being ambitious for the future and maximising the opportunities and the resources available to improve the quality of life for people in the Highlands. This first phase of investment is focused on providing additional money into roads; reducing and managing waste; supporting vulnerable young people; and enhancing public accessibility to the Council. These initiatives are summarised below, with more detail contained in outline business cases for investment contained in Appendix 4.

i Roads Investment £14.1million

We know from the engagement with the public during the development of the Council Programme that investment in roads is a high priority across Highland and this ambition is shared by the Council Administration. Consequently, the Council's investment strategy will commit an additional £14.1m for roads. £12.8m of capital funding to undertake improvements to the road network. This will enable a number of additional schemes to be progressed beyond those already agreed and will bring the total roads capital budget up to £20m for the coming year. It is intended that the £7.2m allocation (which already forms part of the capital programme) continues to be distributed using the area allocation funding formula, with a top up of £5.1m to make this up to a total of £12.3m. The remaining £7.7m will be directed strategically to those areas most in need of improvement, evidenced by the Roads Condition survey outcomes, and in consultation with Council Members.

A further investment of £1.266m is to be made to provide a strategic Rapid Road Repair team, which will be fully resourced, mobile and able to target specific problem areas particularly potholes/ patching. Potholes can form over a short time and usually continue to deteriorate the road surface around them unless repaired. This team will allow delivery of targeted road repairs to be spread across the whole of the Council area as demand requires in particular localities. The team will be established as a pilot project for a one year period, with an initial capital cost to buy plant/ equipment and ongoing annual revenue cost (personnel/ materials/ plant charges).
The Roads (Scotland) Act 1984 places a statutory duty on Roads Authorities to manage and maintain their road network. Operating a dedicated team to not only repair defects, but monitor them from a single point, will allow the Council to target specific problem areas and therefore prevent deterioration of the network. This is a cost avoidance measure as delaying repairs normally results in a larger and therefore more costly repair to be undertaken. It would also reduce the number of temporary, repeated repairs required, as the team would be undertaking permanent ones, first time. The dedicated repair team will have a programme of permanent repairs, which will be prioritised and targeted to alleviate pressure on the network and the Area teams.

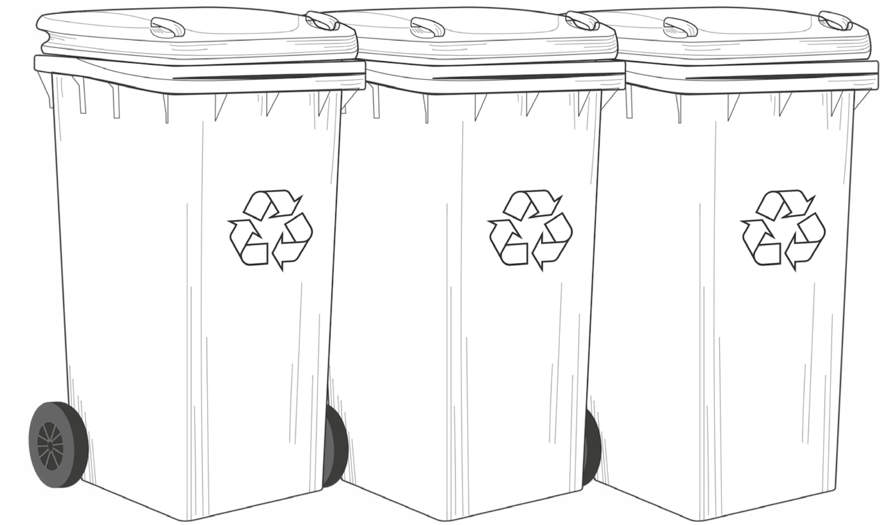
ii Investment in treating and reducing waste £1.275million + £6.5million

Our Future Highland makes a commitment to reducing residual waste and to increase re-use, repair, recycling, and upcycling. To take this forward the Council has bid into the Scottish Government's Recycling Improvement Fund for £6.5m to undertake a number of service changes including additional food waste collection vehicles, wheeled bins and kerbside recycling, and waste transfer station modifications.

In addition to this, these will be a further investment of £1m to deliver 3 industrial bulky waste shredding facilities which will enable waste to be processed through an Energy from Waste plant rather than to landfill. This will be an invest to save measure which will provide an early return on the investment.

A further £0.275m will support the implementation of these major service changes including an information campaign across communities and schools to raise awareness of ways in which we can all reduce all types of waste; recycle and reuse more; and take better care of our resources.

This will assist with a number of measures in the Administration's budget proposals and in the Council Programme that will be delivered as a consequence of addressing behaviours to tackle avoidable waste and service failure – reducing the use of paper; rationalising the property estate; protecting Council devices from damage; and lowering energy usage – are all ways to reduce costs without significant impact on core services and which help towards the Council's net zero targets.



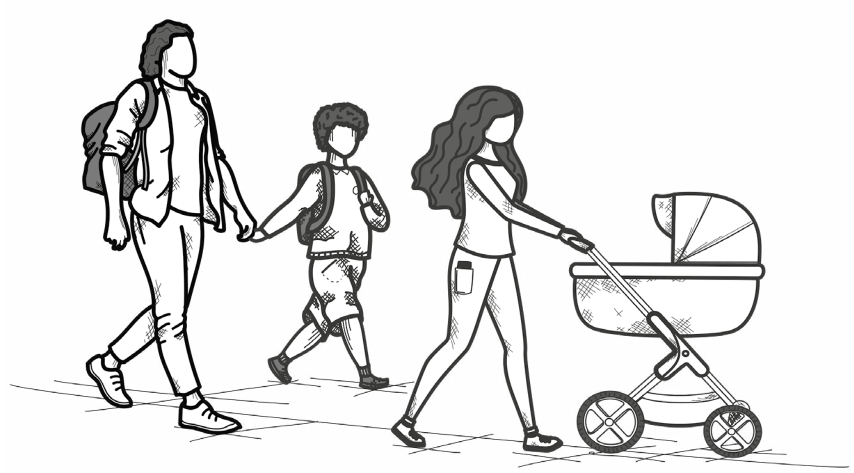
iii Investing in vulnerable young people and families £2.306million

The Council recognises the vital role undertaken by foster carers, kinship carers and adoptive parents and will invest £1.306m in increasing allowances and enhancing support and training to increase the number of Highland-based carers and provide greater support to existing carers. This is in addition to the increased fees agreed a number of years ago.

Addressing the financial support to carers will make a real tangible difference in the lives of many children in Highland. It will enable 'ordinary' people to continue to do extraordinary things by loving, nurturing and caring for other peoples' children, within a healthy system of family care in kinship, fostering and adoption, matched to the needs of the individual child.

The Investment Strategy will protect the £1m investment in the Families First approach to develop approaches that aim to safely maintain as many children and young people at home within their families and their local Highland communities. Families First is rooted in the aspirations of The Promise and the principles of GIRFEC (Getting It Right For Every Child) and is a whole system, long term, strategy that focuses on early intervention, recognising that the family and community is the most important environment to promote the healthy development of children.

By devoting additional resources to these key areas of vulnerability it will be possible to reduce the immediate financial burden to the Council of using expensive private agencies whilst also developing life skills and resilience to prevent escalation to expensive interventions in later life. Consequently, not only are we doing the right thing, we are investing in prevention to deliver a reduction in costs over the short to medium term.



iv My Council investment £0.5million

The Council's Redesign Board has agreed that a key area of investment needs to be in how the Council interacts with the Highland public, customers, clients and partners. This investment will look at ways to further utilise digital approaches to support improved outcomes for our citizens, our staff, and the Council. It will invest £0.5m to put the citizen at the centre of customer engagement and improve our process and approach for all contact methods with the aim of providing a seamless customer experience. This aims to provide the public with options to engage with the Council where, when and how they want, retaining access for those who do not want to use digital and making it easier for those that do.

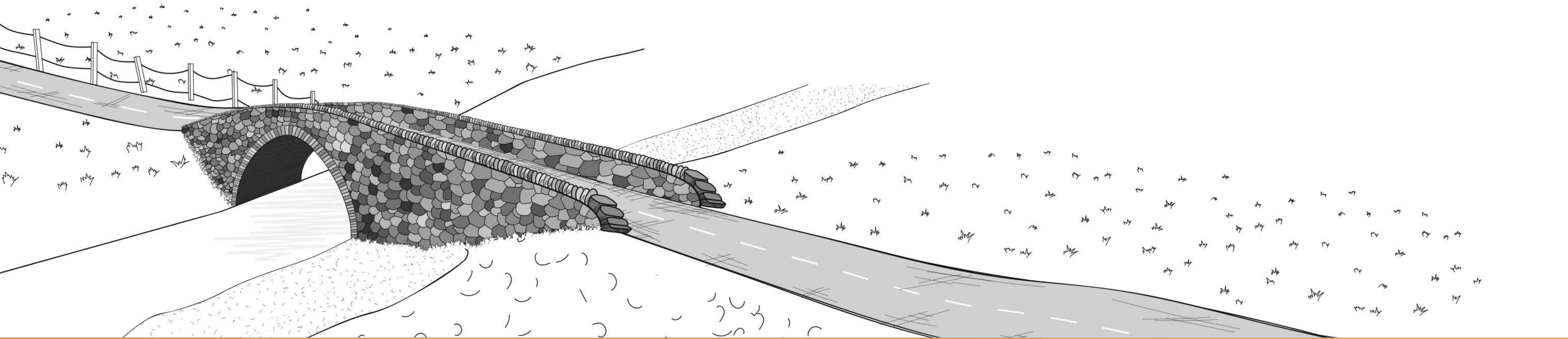
Whilst not driven by financial payback, this project will deliver systemic improvements which will deliver efficiencies and drive down costs. Therefore there will be a financial as well as a service delivery benefit derived from this approach.

3 Capital Programme
Prògram Calpa

The Council has acknowledged that there is a need to review the overall funding envelope for capital investment given the inflationary cost increases being seen in projects across the programme and the increases in interest rates which impact on the cost of financing loan debt. The Council agreed in December 2022 that a complete review of the Programme would be needed, but that this would need to wait for the outcome of Scottish Government decisions in relation to the Learning Estate Investment Programme (LEIP). Consequently, it is currently only be possible to agree a one year capital programme for 2023/24, with the wider review coming forward for Member decision before the summer 2023.

It is important to note that no projects have been dropped from the current programme agreed in 2021; rather, a review has been undertaken to determine what work is essential to be carried out over the course of 2023/24, including projects already contractually committed; projects that are essential from a health and safety perspective; projects that are self-financing through income generation; and projects where new investment is being targeted. Many other projects will continue to be progressed through the design stages, and funding has been allocated to allow this to happen.

The full review of the programme will be informed by external funding decisions and opportunities, and an assessment against affordability, deliverability and impact; with decisions on the final approved programme to be made by Members.

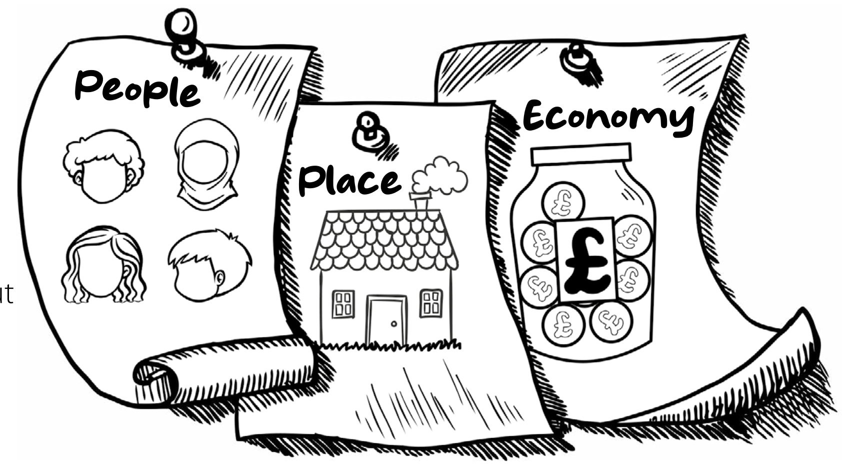


4 Closing the Gap - Explaining the approach
A' dùnadh na beàirn - A' mìneachadh na dòigh-obrach

Reduce, Remove and Redesign

At its meeting in September 2022, the Council agreed that given the scale of the challenges facing the organisation, the following strategies would be put in place to help mitigate both the forecast overspend in the 2021/22 financial year and support the development and delivery of budget savings into 2023/24:

- **People Strategy - reduce, reshape, reprioritise** - The Council will, where possible, continue to have a no redundancy policy and will focus on natural turnover within the organisation to reduce the head count.
- **Increasing Income** - This element looks at the potential for new areas of income generation including the provision of new or additional services, optimising existing income streams and new opportunities for charging including whether any services currently provided free of charge can or should have charges introduced.
- **Service Prioritisation and redesign** - This element focuses on the effective redesign of Council services to allow alignment with the Council's priorities.
- **Asset Management** - The Council has clearly stated its ambitions for the need to reduce the Council's asset base. Working through the Redesign Board, the Council will support fast-paced delivery with staff currently working in affected properties co-producing alternative working solutions that work for them and the wider organisation. Linked to asset rationalisation is the need to reduce the Council's energy usage and wider projects such as depot rationalisation and working with public sector partners to support co-location.
- **Contract Management** - Contractors and partners are being asked to work collaboratively with the Council to look at how services can be improved within existing or reduced contract values and whether cost reductions can be made. This may mean changes in ways of working, reducing any areas of duplication, generating income, or reducing and reshaping service provision. This will be a focus throughout the year, taking opportunities as contracts come up for renewal.



- **Reserves Review** - Given the scale of the financial challenge, the Council agreed to undertake a review of all earmarked reserves to determine whether any could be reprioritised.

Partners, Contracts and Commissioning

At the Council meeting in October 2022 the Council considered how it and key public, private and third sector partners would work together in partnership to understand the shared impact of the current financial crisis and the action that can be taken to maximise our combined resources to deliver core services across Highland, through collective budget strategies, redesign and co-production. This partnership work would be underpinned by several key principles:

- **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 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.

Both NHS Highland and High Life Highland (HLH) continue to face substantial challenges with significant pressures on the cost of service delivery for both partners, increased demand in the case of NHS Partnership commissioned services and fall in income for HLH. For NHS Highland at least, there has been additional funding of £4.3m provided by the Scottish Government. But this is insufficient to balance the budget on a sustainable basis. For both organisations, therefore, a blended approach is required including the use of reserves and the delivery of budget savings in order to deliver a balanced budget for 2023/24, and looking ahead to future years. Joint officer work will continue to enable informed choices on the decisions necessary to ensure financial sustainability going forward.

Increasing income

Increasing opportunities for bringing income into the Council is a really important way in which vital services can be protected because it offsets the amount needed in budget reductions and service cuts to meet the Council's budget gap.

Council Tax provides approximately 20% of the Council's overall income and is the second largest after the Scottish Government's block grant. Whilst this is an extremely important income generating lever for the Council, the proposed increase for the 2023/24 financial year has been kept as low as possible at 4%. This is significantly below the rate of inflation to recognise the effects of the cost of living crisis and the cumulative impact of rising costs across household bills. Support will continue to be available from Council staff and partner providers for those requiring support including benefit take-up. The Council will also continue to process Council Tax Reduction applications promptly and to a high level of accuracy.

The Council's 2023/24 budget has a range of other income generating proposals which have been collated under 4 headings: Discretionary Services; Contribution to Cost Recovery; Commercial Charging and New Income Streams. The proposed increase in charges across existing income streams are based on a number of factors including increased costs of service delivery, customer affordability and the cost of living crisis, price movement over previous years, price elasticity, benchmarking with other local authorities and collection levels. These have been kept relatively low in recognition of the cost of living crisis affecting Highland residents. This will be reviewed again, as part of the mid term budget proposals, and in the light of any improvement in the general fiscal environment.

Workforce and People Strategy

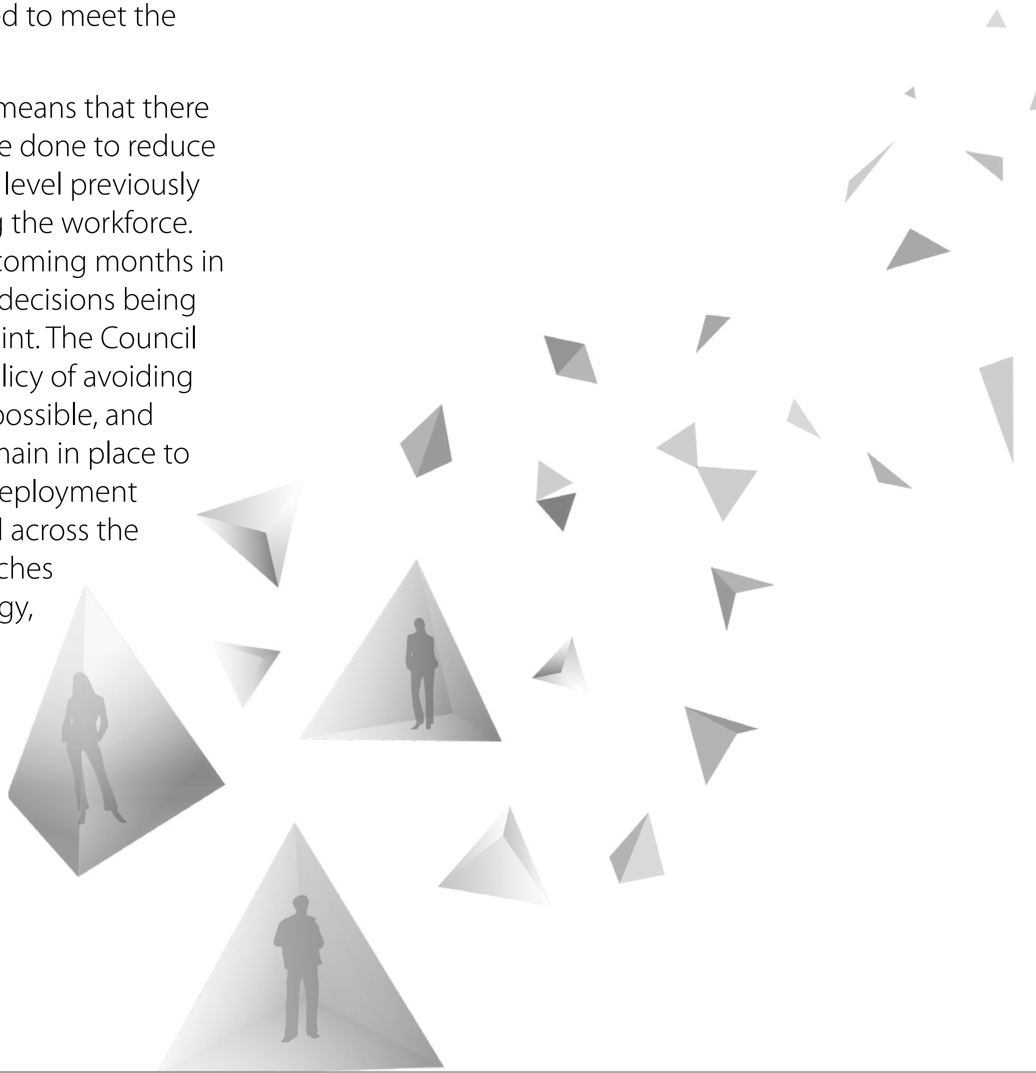
At the Council meeting in October 2022 the Council approved the refreshed People Strategy which outlined the direction and framework for the organisation over a five-year period relating to our workforce. The key components of this strategy are as follows:

- Staff engagement
- Health, safety, and wellbeing
- Reward and conditions (including job design)
- Talent management
- People development
- People data and processes
- Workforce planning
- Equality, diversity and inclusion.

It has been recognised that meeting the budget gap on a sustainable basis could require the removal of up to 500 posts from the Council's establishment which, equates to around £15m. This was calculated on a notional average cost per post of £30,000. Where posts are removed of a higher grade, the number of posts needed to meet the £15m is reduced.

The scale of the challenge means that there is still more that needs to be done to reduce the number of posts to the level previously identified, whilst protecting the workforce. This will be a focus for the coming months in advance of further budget decisions being required at the mid year point. The Council remains committed to a policy of avoiding redundancies where at all possible, and so vacancy controls will remain in place to provide opportunities for deployment across the organisation and across the Highland area. The approaches set out in the People Strategy, outlined above, will play a central part in delivering a sustainable workforce despite the financial challenges being faced by the Council.

Furthermore, identifying additional non-staffing savings or increased income will reduce the target number and value of posts needed to bridge the budget gap and so this will likewise remain a priority for the coming weeks and months in the run up to the mid year budget Council.



5 Reserves Review
Ath-sgrùdadh Chùl-stòran

The sheer scale of the financial challenge facing the Council for the financial year 2023/24 means that it has not been possible to identify sufficient recurring savings to close the budget gap on a permanent basis in the relatively short time between the Scottish Government's announcement of the local government settlement and the need to approve the Council's budget.

Despite identifying a substantial level of revenue budget savings and a proposed 4% increase in Council Tax, there remains a sizeable budget gap not just in the year ahead, but for future years. It is proposed that the Council utilises reserves in order to deliver a balanced budget in year 1 and also provide for this being at least an element of the budget setting requirements for years 2 and 3. Because reserves only provide one-off relief, this approach will need to be augmented by a continued focus on identifying substantial recurring budget savings. The proposal to hold a mid-year budget setting meeting of the Council is consequently a central part of establishing a sustainable short to medium term financial plan.

It is therefore essential that the Council is able to have the maximum possible level of earmarked and non-earmarked reserves available to mitigate against risk and bridge the budget gap in the short term. A number of approaches have been taken to maximise available funds including a review of the earmarked balances and the utilisation of financial flexibilities, the most substantial of which is to implement a loans fund payment holiday. This activity has released a significant amount of additional one-off funding into the Council's non-earmarked general fund revenue reserve.

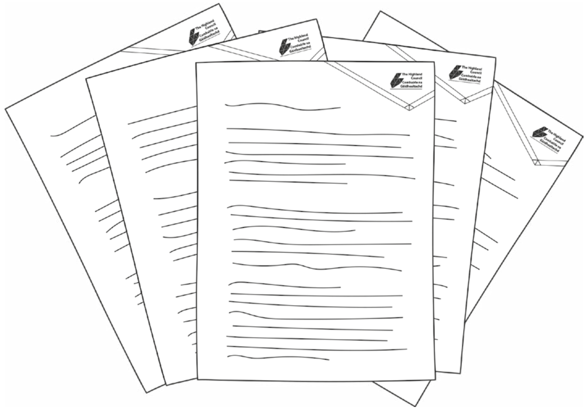
Conclusion

The Council's budget strategy is consequently made up of a number of factors - savings; income; one off adjustments including reserves; and strategic investments in key priorities - which, taken together, result in a balanced budget for 2023/24 and lay the early foundations for approaching the budget for 2024/25 and 2025/26. The following Appendices explains the savings and income proposals in more detail.

6 Closing the Gap - Proposals
A' dùnadh na beàirn - Molaidhean

Savings

- Reducing waste and avoidable spend
- Budget no longer required for original purpose
- Service Redesign and Efficiency
- Contract Management
- Removal of discretionary/non statutory spending
- Service re-prioritisation – stop and reduce.



Income

- Discretionary Services
- Contribution to Cost Recovery
- Commercial Charges
- New Income Streams.

Appendix 1 Savings and income summary
Eàrr-ràdh 1 Geàrr-chunntas air sàbhalaidhean is teachd-a-steach

Appendix 2 Savings and income explained
Eàrr-ràdh 2 Sàbhalaidhean is teachd-a-steach air am mìneachadh

Appendix 3 Consolidated impact assessment
Eàrr-ràdh 3 Measadh buaidh bonntaichte

Appendix 4 Outline business cases
Eàrr-ràdh 4 Dreachd adhbharan gnothachais

Appendix 1

Savings and income Summary

1. Reducing waste/avoidable spend		
1.1	Reduction in Chromebook breakages	**£0.150**
1.2	Review of postages	**£0.057**
1.3	Review and reduction in overtime, agency and temporary contracts.	**£0.700**
1.4	Adjustment to budget for supply staffing in primary and secondary schools.	**£0.300**
1.5	Cease council tax payments on Janny's houses	**£0.040**
1.6	Reduction of food waste in schools	**£0.100**
	TOTAL	**£1.347**
2. Budget not required for original purpose		
2.1	Using established approved corporate approaches to identifying sustainable budget reductions	**£0.943**
2.2	Core budget revenue costs replaced by external funding	**£0.950**
2.3	Mothballing of schools	**£0.500**
2.4	Standardising the approach to paying for materials for practical class subjects	**£0.321**
2.5	Reduction in DSM carry forwards.	**£1.000**
2.6	Removal of additional funding	**£0.900**
2.7	Further delivery of Asset Rationalisation	**£0.410**
2.8	Primary Management Time Review	**£1.000**
	TOTAL	**£6.024**
3. Service Redesign and Efficiency		
3.1	Improved Council Tax Collections	**£0.375**
3.2	Health and Social Care Redesign	**£2.400**
3.3	Early Learning Care (ELC): Phase 3 of ELC Redesign.	**£1.500**
3.4	Street Lighting	**£0.150**
3.5	Review of ICT Services structure	**£0.182**
3.6	Review of Transformation and Digital Services	**£0.125**
3.7	Business Support Reduction in posts	**£0.199**
3.8	Corporate Performance/Information Governance	**£0.060**

3.9	Revs and Bens Review of management / supervision	**£0.145**
3.10	Roads Redesign	**£0.100**
3.11	Harbours	**£0.030**
3.12	Commercial Property	**£0.030**
3.13	Community Support & Engagement	**£0.100**
3.14	Waste: Digitisation of Garden Waste	**£0.030**
3.15	Review Mental Health and Wellbeing	**£0.500**
3.16	Redesign Area Teams & Core Structure	**£0.540**
3.17	Establish a Highland Wide 3-18 Formula for schools,	**£0.480**
3.18	Family First Strategy	**£0.248**
3.19	Health and Social Care	**£0.190**
3.20	Redesign of FM service	**£0.250**
3.21	Waste: Review of Public Holiday Collections	**£0.050**
3.22	Environmental Health: Review of resource management and structure	**£0.045**
3.23	Review of Welfare Support Team structure	**£0.035**
3.24	Changes to the Council's approach to homelessness	**£0.140**
	TOTAL	**£7.904**
4. Contract Management and Procurement		
4.1	Private Sector Housing Grants	**£0.050**
4.2	Information and Advice Services:	**£0.080**
4.3	School and Public Transport:	**£0.030**
4.4	Fuel: Marine Gas Oil contract	**£0.120**
4.5	Shared Procurement Service	**£0.250**
	TOTAL	**£0.530**
5.	**Removal of Discretionary Spending**	
5.1	Review of the Early Years grants budget	**£0.090**
5.2	Remove legacy funding	**£0.095**
	TOTAL	**£0.185**
6. Removal or Reduction in Service		
6.1	Employability	**£0.060**
6.2	Long Distance Routes	**£0.217**

6.3	Building Standards	**£0.050**
6.4	Access	**£0.050**
6.5	Street Lighting	**£0.040**
6.6	Cleansing Services	**£0.450**
6.7	Legal and Governance	**£0.083**
6.8	Virtual Academy	**£0.600**
6.10	Review and reduce property maintenance budget.	**£1.500**
	TOTAL	**£3.050**
	TOTAL of all savings	**£19.040**
7. Increasing income		
Discretionary Services		
7.1	Public conveniences – honesty boxes	£0.020
7.2	Car Parking	£0.200
7.3	Garden waste	£0.040
7.4	Planning and Building Standards	£0.300
7.5	Registration charges	£0.025
	TOTAL	**£0.585**
Contribution to cost Recovery		
7.6	Full Cost Recovery on external funding streams	£0.775
7.7	Charging for Events	£0.020
7.8	Review of Site Charging Policy at Storr	£0.047
7.9	Increase charge for Bulky Uplifts	£0.005
7.10	Review of Housing Benefit	£0.200
	TOTAL	**£1.047**
Commercial		
7.11	Business Waste Collection (Commercial)	£0.500
7.12	Business Waste Collections (Commercial)	£0.100
7.13	Flexible Childcare and Out of School Care	£0.150
7.14	Commercial Portfolio	£0.300
7.15	Harbour Dues and Fees	£0.100

7.16	Income Review across a range of cost centres across the IEE Service	£0.100
7.17	Lair Purchases	£0.023
7.18	Regularise lease/rental charges	£0.040
	TOTAL	**£1.313**
New Income Streams		
7.19	Provision of Sites Local Operator Services to the AURN (Air Quality)	£0.020
7.20	Renewable Energy	£0.180
7.21	Drone Filming	£0.010
	TOTAL	**£0.210**
	TOTAL from all Income Streams	**£3.155**

TOTAL of all savings	**£19.040**
TOTAL savings and income	**£22.195**

Appendix 2

Savings and Income Explained

Savings by Theme

1. Reducing waste and avoidable spend
2. Budget not required for original purpose
3. Service Redesign and Efficiency
4. Contract Management
5. Removal of Discretionary/Non Statutory Spending
6. Service Re-prioritisation – stop or reduce
7. Increasing income
    - Discretionary Services
    - Contribution to cost Recovery
    - Commercial Charges
    - New Income Streams

1. Reducing waste/avoidable spend		
1.1	Reduction in Chromebook breakages: By reducing the volume of damaged Chromebooks there will be a reduction in ICT Services staff effort and in the purchase of spare parts and replacement devices. The activity to change pupil behaviours will be led by schools working with young people and parents with support from ICT Services and the Education & Learning Digital Team. To ensure action is taken, repair costs will be charged to schools based on the volume of broken devices and this will be reflected in a corresponding income target in the ICT budget. As progress is made in improving behaviours, action will be taken in ICT Services to manage down the staff resource dedicated to repairs, thereby making ongoing revenue savings while the costs to schools will also reduce. The current annual cost of Chromebook repairs and replacements is c. £600,000. The expectation is that the estimated £150,000 saving could increase over time as schools lead in driving a shift in pupil attitude. This will also tie in with a corporate communication campaign about reducing waste, improving recycling and taking better care of scarce resources that is subject to an investment proposal, as set out in the 2023/24 budget strategy.	**£0.150**
1.2	Review of postages: the reduction is being made in response to changed processes and procedures adopted during Covid and reflecting the benefits derived from the identification of digital solutions. There are environmental benefits associated with the reduction of paper-based mail as well as increasing accessibility to information for many customers.	**£0.057**
1.3	Review and reduction in overtime, agency and temporary contracts. Building on the success of adopting the approaches approved in last year's budget, further savings are anticipated through the reduction in this area of discretionary spend, with the additional benefit that a reduction in temporary contracts will provide more secure permanent employment for core staff.	**£0.700**
1.4	Adjustment to budget for supply staffing in primary and secondary schools. The allocation for supply costs per school is linked to actual teacher numbers. There will be no reduction in the	**£0.300**

	proportion allocated per school which will ensure that supply remains available and there will be no reduction in cover provided to offset teacher absence.	
1.5	Repurpose/re use/sell remaining Janny's houses to cease paying council tax at 200% as a long-term empty property. There are only 16 remaining of original 80 plus which have not already either been transferred to the HRA, sold, or disposed of via Community Asset Transfer and so these 16 will be the focus of this next phase of work. Not only is there a financial saving to be made from no longer paying the higher rate of Council Tax but it means that these properties will be made available for use rather than remaining empty.	**£0.040**
1.6	Reduction of food waste in schools – following an analysis of waste being taken to landfill, it has been identified that there is potential to reduce the food waste being collected from schools which will deliver a saving, both in terms of the cost of waste disposal and also by reducing the cost of food production. This initiative will also have important climate change/environmental benefits as well as a financial payback.	**£0.100**
	TOTAL	**£1.347**
	Staffing Impact	**0**

2. Budget not required for original purpose		
2.1	Using established approved corporate approaches to identifying sustainable budget reductions: • Line by Line review of expenditure patterns and underspends to identify unspent budget lines identified that are no longer required. • Cross Service review and removal of vacancies. Many of these posts have already been held for a period of time during 2022/23 expenditure controls which has enabled services to make adjustments to deliver the vacancies on a permanent basis without adverse service impact. • Cross Service Vacancy and Absence Management - utilising the Council's existing policies on absence management and support from HR Attendance Management officers to reduce the costs associated with managing staff absence.	**£0.943**
2.2	Core budget revenue costs replaced by external funding and previously ring fenced funds - investing directly to support the provision of services and also applying Full Cost Recovery principles i.e. an element of the overall Coastal Communities Fund; Education Strategic Equity Funding (SEF); Safer Routes to School; Active Travel. Active Travel/Safer Routes to School – there will be no impact on delivery and development of active travel or safer routes to school. Coastal Communities - Local funding will remain to support local projects. No current projects or programmes will be affected by this change The Strategic Equity Funding saving relates to legacy project posts that are programmed to run until the end of current financial year (2022/23). When these fixed term positions come to an end the seconded staff will return to their substantive posts as planned and the funding becomes available as a saving. In addition, SG SEF funding will be used for posts in place of core budgets,	**£0.950**

	resulting in an ongoing saving being made. Work will remain focused on closing the poverty related attainment gap and therefore there is no anticipated impact on service users.	
2.3	Mothballing of schools due to level of forecasted falling school rolls. Importantly, proposals to mothball schools are driven by considerations of educational benefit alone, not cost reduction. The saving simply recognises that there is a budget saving that arises as a consequence. Mothballing will and can only be progressed within parental discussion and agreement and all decisions are taken through Committee for Member approval. It is not formal closure which is subject to Statutory Consultation legislation and processes.	**£0.500**
2.4	Standardising the approach to paying for materials for practical class subjects in schools. Funding will continue to be provided from DSM as is already the case in many schools which means that the commitment to reduce parental contributions for practical class subjects is protected and maintained.	**£0.321**
2.5	Reduction in DSM carry forwards – this saving is based upon an annual analysis of draw downs, ensuring schools still retain appropriately sized balances at their local discretion in terms of spending decisions and also providing a safety net through the availability of central resources to call on as required. The proposal retains the current provision schools have to carry forward up to a 5% underspend.	**£1.000**
2.6	Removal of additional funding to reflect and adjust to post Covid needs and requirements and returning to pre-pandemic service delivery levels where appropriate to do so. The savings will be delivered primarily through temporarily seconded staff returning to their existing substantive posts at the end of their secondments. The posts affected are not classroom based. There is no impact on core staffing complement and no risk to existing staff. A proportion of additional funding will be	**£0.900**

	retained where it is still required, thereby ensuring the resource is focused where needed but not spent if no longer required.	
2.7	Further delivery of Asset Rationalisation – a continuation of the Council's approved approach, via the Redesign Board, to reducing the built estate. Financial benefits are accompanied by a substantial climate and environmental benefit by reducing the Council's carbon footprint.	**£0.410**
2.8	Schools: Primary Management Time Review. Revision to primary management time staffing formula to remove recent funding additionality, while retaining a PMT allocation to schools. No posts will be impacted and there is no impact anticipated on service or service users.	**£1.000**
	TOTAL	**£6.024**
	Staffing Impact (FTE)	**96**

3. Service Redesign and Efficiency		
3.1	Improved Council Tax Collections: During 22/23 and as part of the continuous commitment to improve collection levels, increased collection levels are being delivered. This proposal continues and builds on that improvement including increasing the number of Direct Debit Payers and overall debt management. Individuals who are struggling to pay Council Tax will continue to be supported through the Council's welfare team and other partner providers and through the Council tax reduction scheme.	**£0.375**
3.2	Health and Social Care Redesign: This saving will be delivered through approaches relating to the continued redesign of services within Health & Social Care, particularly children's social work and child's health. The "Whole Family Approach" project reports to Community Planning Partnership Board. A pilot site of Lochaber has been agreed, alongside £2.8m funding secured from Scottish Government. The focus is on targeting early intervention and prevention through more effective and flexible working by all partners. In this way, there is much less resource required for later interventions, which are more expensive and less effective in the long term. Fostering and Adoption: The saving will be made by increasing fostering and kinship allowances, leading to a reduction in higher cost independent fostering placements. This will not only result in a reduction in spend, but also deliver improved outcomes, thereby contributing to the prevention agenda helping to drive costs down across the children's services budget. This is a spend to save approach linked to the Council's investment priorities, as set out in the Budget Strategy 2023/24.	**£2.400**
3.3	Early Learning Care (ELC): Phase 3 of ELC Redesign. The saving has been calculated on the basis of a decline in the use of ELC across the Highland area, linked to demographic projections, and through working collaboratively with ELC Partners to ensure that services are in the right place and of the right scale, removing duplication and over-provision, to ensure all statutory requirements are met and services remain sustainable and provide best value.	**£1.500**

	The saving is unrelated to the rate paid to Private Voluntary and Independent (PVI) providers of childcare.	
3.4	Street Lighting: the reduction is based upon the previous year's underspend from 2021/22 and so the saving is already effectively being delivered. This may increase due to continued roll out of LED lighting which is more energy efficient and, if so, this will be reflected in the mid-year budget or in the savings put forward for 2024/25.	**£0.150**
3.5	Review of ICT Services structure: a combination of holding vacant posts, and difficulties in recruiting to other posts, has enabled a redesign to be undertaken to establish a new structure aimed at increasing the profile and capability of the team and provide an enhanced service to drive corporate improvement and change. This will also create capacity to deliver the Digital Strategy and support the My Council Redesign project. The service redesign has also developed a structure that provides for entry level and progression through the grades, delivering more effective workforce planning and resilience.	**£0.182**
3.6	Review of Transformation and Digital Services: this saving will be made through the use of vacant posts to restructure and bring teams together by removing some posts and regrading others. The overall number of the permanent posts in the Team will reduce, coupled with a greater focus on projects that deliver a return on investment, particularly in relation to income maximisation. There will still be scope to increase capacity in the team with fixed terms posts financed on a project basis such as the My Council project which is linked to the Council's investment priorities, as set out in the Budget Strategy 2023/24, and governed through the Redesign Board.	**£0.125**
3.7	Business Support: Reduction in posts through improvement, task re-allocation, and digitisation of processes to remove duplication and increase productivity. The Shared Business Support Service has sufficient staff turnover to accommodate a reduction in posts resulting from improved efficiency/productivity achieved as a consequence of the streamlining and digitisation of processes.	**£0.199**
3.8	Corporate Performance/Information Governance: The opportunity to redesign this part of the service has been prompted by a vacancy. It supports the permanent reduction of the vacant management post by bringing together two teams under a single manager to maximise the	**£0.060**

	synergies and drive improvement by joining the associated remits of corporate performance, business intelligence and information management.	
3.9	Revs and Bens: Review of management / supervision and spans of control to improve efficiency to deliver the same level of service at less cost.	**£0.145**
3.10	Roads Redesign: Reduction in management overheads, back office support and changes to operational areas leading to greater efficiency. This has been informed by the Roads redesign project which is a substantial project governed through the Redesign Board. The project is still underway and further efficiencies and improvements in productivity are expected to follow in due course.	**£0.100**
3.11	Harbours: Changes to staffing arrangements, utilising vacancies where possible, to effect more efficient management arrangements (e.g. merging harbour master responsibilities) whilst ensuring operational coverage and health and safety responsibilities are maintained.	**£0.030**
3.12	Commercial Property: Recruitment of graduate surveyors rather than fully qualified surveyors, as part of longer term succession planning.	**£0.030**
3.13	Community Support & Engagement: Review and Restructure of Community Support and Ward Management	**£0.100**
3.14	Waste: Digitisation of Garden Waste process will mean the service can be delivered with less administrative resource required. This will be delivered through vacancy management.	**£0.030**
3.15	Review Mental Health and Wellbeing: The Education and Learning Directorate have launched two pathfinder pilots to build capacity and resilience internally and in communities. Utilising the resource to upskill members of the community in the signposting of mental health and wellbeing first aid, the pathfinder pilots have been successful in building community capacity. There is now an opportunity to review the resources that are available across all Council services, Community Planning Partners and other stakeholders to remove duplication and maximise opportunities for collaboration, whilst continuing to build capacity and continuing to support community work through closer school links and the use of Scottish Government counselling money.	**£0.500**

3.16	Education and Learning: Redesign Area Teams & Core Structure – Cross Service. There is no anticipated impact on service and no impact on permanent staff.	**£0.540**
3.17	Schools: Establish a Highland Wide 3-18 Formula for schools, to replace legacy funding arrangements that have evolved as the number of 3-18 settings have grown. This will deliver consistency and equity across 3-18 campus' across Highland with no anticipated impact on the service, service users or geographical communities.	**£0.480**
3.18	Family First Strategy - To stop children entering care and remain in the family home where possible; promote kinship and foster care to enable children to remain in the Highlands; increase community resources whilst diverting money from residential placements (internal and out with Highlands). This is both a saving and a cost avoidance approach that has been endorsed by the Health, Social Care and Wellbeing Committee and is linked to the Council's investment priorities, as set out in the Budget Strategy 2023/24.	**£0.248**
3.19	Health and Social Care: utilisation of vacancies to review and redesign the team, redesigning and re-evaluating posts to improve the structure.	**£0.190**
3.20	Redesign of FM service to move onto peripatetic roles that can be deployed to where work is required. Building on school FM model. There is a 13% average turnover across all Property Services functions, so it is expected to be deliverable through turnover or redeployment.	**£0.250**
3.21	Waste: Review of Public Holiday Collections – the staffing cost is greater when waste collections take place on public holidays due to the need to pay an overtime rate. This saving will move collection days away from public holidays, whilst maintaining the collection in the same week so there will be no missed weeks as a result of this measure being introduced. There are 5 public holidays per year where collections would normally be undertaken which therefore minimises any impact on staff whilst the cumulative impact in terms of the cost to the Council equates to £50k.	**£0.050**

3.22	Environmental Health: Review of resource management and structure	**£0.045**
3.23	Welfare: Review of Welfare Support Team structure	**£0.035**
3.24	Changes to the Council's approach to homelessness, based on current national policy and guidance, has resulted in a shift away from accommodation-based services to independent living allowing a reduction to be made in the Housing Support Budget. Also reducing the number of private sector temporary accommodation and replacing with temporary furnished tenancies within HRA housing stock. This is an improvement approach which is aimed at reducing long term homeless numbers as people are supported into accommodation and helped to maintain permanent tenancies. The proposal relates to a shift in strategy towards the delivery of a person-centred approach. This is a statutory function and people who are homeless or at risk of homelessness will not be impacted by any change. Nobody will be refused a service and individuals will continue to be provided with advice and assistance based on an assessment of their needs.	**£0.140**
	TOTAL	**£7.904**
	Staffing Impact (FTE)	**62.75**

4. Contract Management and Procurement		
4.1	Private Sector Housing Grants: Making changes to the delivery of care and repair agencies and environmental health services will deliver efficiencies in services for home adaptions through improvements in contract management. This will lead to a reduction in revenue costs and no negative impact on delivery of services.	**£0.050**
4.2	Information and Advice Services: This proposal relates to the re-procurement of the Advice and Information contract from April 2023.	**£0.080**
4.3	School and Public Transport: Following the procurement of new software system to automate school and public transport contract monitoring it has been possible to delete a vacant post without any adverse impact on service delivery.	**£0.030**
4.4	Fuel: Marine Gas Oil contract has been re-procured at less cost than the previous contract.	**£0.120**
4.5	Shared Procurement Service: ad hoc opportunities to deliver procurement savings by working with services across the Council as contracts come up for renewal. This work is already underway with a modest saving set at this point and an expectation that the target will be increased as part of the mid-year budget.	**£0.250**
	TOTAL	**£0.530**
	Staffing Impact	**1**

5. Removal of Discretionary Spending		
5.1	Review of the Early Years grants budget for non-statutory services with the view to full removal by the beginning of 2024/25. This is a legacy budget which does not provide funding equitably for all EY organisations across Highland and the organisations do not provide commissioned services provided through an SLA with the Council via this grant funding. Organisations currently in receipt of grant funding from this budget are: SNAP £65k, Toybox Gairloch £10k, Pultneytown Peoples Project £25k, CSS £60k, Fas Mor £10k, Allsorts £10k. To mitigate the financial impact of the removal of these grants, a 6 month notice period will be given from 01/04/23 – effectively providing a 50% reduction in year one. From the next financial year the full year saving total will be £0.180m. Officers will work with the organisations involved to identify alternative sources of funding to offset the reduction in the Early Years budget. There are a range of Council funds that can be applied to - the most likely, but not only, source being the Council's Coastal Communities strategic fund, where Members will be able to consider and approve applications on a bid by bid basis.	**£0.090**
5.2	Remove legacy funding provided to a number of arts, culture, sports, music and community organisations. Where Service Level Agreements are in place, notice per the terms of those agreements will be given. From the next financial year the full year saving total will be £0.107m. The organisations and savings are as follows: Aros (skye) £7k, Highland Print Studio £7k, Lochaber Music School £9k, Village Hall grants scheme (£50k pan Highland) and Sports Council funding (£34k pan-Highland). The grant schemes for the final two funding streams have been under subscribed in recent years. As with 5.1 above, to mitigate the financial impact of the removal of these grants, organisations will be supported by the Council to identify and apply for alternative funding options.	**£0.095**
	TOTAL	**£0.185**
	Staffing Impact (FTE)	**0**

6. Removal or Reduction in Service		
6.1	Employability: Reduction of staffing levels through full review of current employability activity across all Council services and partners reflecting the national review of employability services. There are many organisations delivering employability – Skills Development Scotland, HIE, the DWP, further and higher education institutions and a range of voluntary organisations. This leads to duplication and a complex landscape for individuals to navigate their way through, impacting on the effectiveness of the resources available to deliver this function. A review aimed at enhanced collaboration and resource maximisation will deliver better outcomes and value for money. In addition, new funding streams are now available to progress critical areas of employability work, focusing on supporting vulnerable people into work which means that, overall, the team is expected to grow the number of staff and level of support available for these target groups. There is therefore no anticipated adverse impact on key client groups - women, lone parents, low income, and young people.	**£0.060**
6.2	Long Distance Routes: This will involve a review of our current activity in maintaining long distance routes, and reducing the level of pro-active maintenance carried out. It is intended that reducing the team resources required can be managed through deployment to other activities within the service, utilising current and future vacancies. Any significant reactive maintenance will be managed from within the wider Roads and Infrastructure activities.	**£0.217**
6.3	Building Standards: Deletion of vacancy, reflecting restructuring and more efficient working practices.	**£0.050**
6.4	Access: Review of team resources required for dealing with access issues, with the review identifying opportunities to deploy to other funded posts within the overall establishment of the service, including providing more direct support to the planning service. Resources will remain to respond to access issues but the level of service will reduce and timeliness of response.	**£0.050**
6.5	Street Lighting: Reduction in establishment following service restructure and changes to service levels around response times.	**£0.040**

6.6	Cleansing Services: Reduction in cleansing services across all sites from 5 to 3 days per week. Hygiene critical areas such as toilets and clean ups after spills will be maintained 5 days per week. This will tie in with the Budget Strategy's focus on reducing environmental impact by taking greater personal responsibility for reducing waste linked to the Council's investment priorities relating to awareness raising campaigns in schools and communities.	**£0.450**
6.7	Legal and Governance: Review of vacant posts and workload across the Service to redesign and reduce costs. The majority of this will be achieved through vacancy management but an element of the saving will require a reduction in workload through a review of committees. Over 200 formal meetings take place every year that are supported by Democratic Services staff. Whilst improvements in technology can deliver some limited efficiencies, reducing the number of meetings requiring support will have a larger and more direct impact. This is particularly the case for the 11 area committees, which regularly need to re-schedule meetings due to issues relating to their size and the minimum quorum required by law– a weakness highlighted in a recent internal audit report.	**£0.083**
6.8	Virtual Academy. Review staffing and funding arrangements for the Virtual Academy, to focus central funding on 'interrupted learner' provision, and work with schools to implement sustainable arrangements for other curricular provision from the Virtual Academy.	**£0.600**
6.9	Review and reduce property maintenance budget. Move to statutory compliance and emergency repair related service for non-HRA estate. Saving will be assisted by asset rationalisation, especially where there is a focus on aging property in poor condition – with an added benefit that these also perform badly in terms of energy efficiency so this will support the journey to net zero.	**£1.500**
	TOTAL	**£3.050**
	Staffing Impact (FTE)	**47.2**
	TOTAL of all savings	**£19.040**
	TOTAL staff impact (FTE)	**206.95**

7. Increasing income		
Discretionary Services		
7.1	Public conveniences: Increase in donations income targets from the use of honesty boxes, comfort schemes and CAT/lease of existing public conveniences.	£0.020
7.2	Car Parking Increase fees for public parking – minimum charge increase from £1 to £2, and consequential site-specific increases, as well as increases in residents and business contract parking rates (average 5%). Increase Invitation to Pay arrangements for a further 21 car parks identified across the Highland area, all of which will subject to the local share agreed by Council in December 2021.	£0.200
7.3	Garden waste: Increase current customer base and take-up of the service underpinned by a marketing campaign focusing on climate change and the environmental benefits of reducing residual waste. This will be further supported by application and subscription improvements to help generate additional customers. The current price of £47.75 remains unchanged.	£0.040
7.4	Planning and Building Standards: review the charging policy across all costs centres where local discretion is allowed (e.g. Major Applications Pre-application Advice Service). A large element of the saving is due to an increase in fees agreed nationally which will automatically increase the income achieved.	£0.300
7.5	Registration charges: Apply increase to Registration charges that are set by the Highland Council.	£0.025
	TOTAL	**£0.585**

Contribution to cost Recovery		
7.6	Full Cost Recovery on external funding streams, bringing schools PEF (Pupil Equity Fund) funding into line with the full cost recovery pinciple agreed by the Council in 2022/23 Results show that improvement in closing the poverty related attainment gap is not automatically aligned with where additional funding has been provided. Rather, success has come from adopting successful, targeted improvement strategies alongside accessing appropriate levels of financial and non-financial support. Schools related PEF plans will identify where resources are required to ensure acceptable levels of funding are maintained to improve outcomes and be responsive and flexible in relation to variations in local requirements, enabling schools to work across their ASG in order to maximise opportunities to take collaborative approaches to delivering improved outcomes. The focus of the funding remains targeted to achieving the outcomes it was intended to deliver, alongside a wider approach to supporting and empowering schools to develop success strategies that are tailored to their local circumstances and maximise their own strengths and capabilities.	£0.775
7.7	Charging for Events: review of current arrangements primarily involving road closures and support by the Council to ensure all costs are recovered. This is unrelated to any work relating to Common Good.	£0.020
7.8	Review of Site Charging Policy at Storr to contribute to public convenience operations (note: this has already been approved by Skye and Raasay area committee.)	£0.047
7.9	Increase charge for Bulky Uplifts at the below inflation rate of 3%	£0.005
7.10	Review of Housing Benefit: During 22/23 and as part of the continuous commitment to improve collection levels, this proposal relates to improved overpaid housing benefit collections following a critical process review	£0.200
	TOTAL	**£1.047**

Commercial		
7.11	Business Waste Collection (Commercial): This proposal relates to increasing our customer base by seeking to deliver waste collection services to more businesses.	£0.500
7.12	Business Waste Collections : Proposal to increase business waste collection charges by 3%.	£0.100
7.13	Flexible Childcare and Out of School Care: Increase charging for flexible childcare and out of school care, taking account of recent benchmarking with other local providers, and the rise in inflation. The Increase by setting a market average hourly rate will be from £4.70 to £5.05 (+7%).	£0.150
7.14	Commercial Portfolio: Projected commercial portfolio rental increase through a combination of rental income from Fort William Ben Nevis industrial estate portfolio purchase and anticipated 2% increase from existing commercial portfolio.	£0.300
7.15	Harbour Dues and Fees: The proposal is to undertake a full review and benchmarking of current fees and charges, with further development opportunities also being assessed.	£0.100
7.16	Income Review across a range of cost centres across the IEE Service, including all application types not covered elsewhere (e.g. road opening permits, Road Construction Consents, new address registration, Corran Ferry fares).	£0.100
7.17	Lair Purchases – Apply an increased charge of 5% in Lair purchases. The rate is still below the national average and below inflation.	£0.023
7.18	Regularise lease/rental charges for the occupation of council premises across the estate to bring all property into line. Where buildings currently operate without a lease and the operating costs are currently paid for by the Council – for example, Caol Community Centre – explore options that provide continuity of provision though the identification of a local third sector provider to take over the lease whilst ensuring the operation is cost neutral for the Council.	£0.040
	TOTAL	**£1.313**

New Income Streams		
7.19	Provision of Sites Local Operator Services to the AURN (Air Quality): Environmental Health team successful in bid for servicing national air quality monitoring stations in Highland. Contract is for 2 years with possible extensions through to 2029.	£0.020
7.20	Renewable Energy: To deliver financial and carbon savings through the use of a range of renewable energy investments that deliver an income and, where the initiative relates directly to a Council asset, reduced energy costs, and carbon emissions. Examples include wind, solar and battery storage. Significant additional income anticipated in years 2&3	£0.180
7.21	Drone Filming: To increase drone filming capabilities to enable surveys and site visits to be undertaken at less cost.	£0.010
	TOTAL	**£0.210**
	TOTAL from all Income Streams	**£3.155**

TOTAL of all savings	**£19.040**
TOTAL savings and income	**£22.195**
TOTAL staffing impact (FTE)	**206.95**

Appendix 3 Consolidated Impact Assessment

The following set out a summary of the impact assessment screenings which have been undertaken on the budget proposals. Screening has been undertaken for equality, socio-economic, rural and island impacts. Where a full impact assessment as been required, this has been detailed. The impact assessment also includes considerations for staffing impact

No impact	No anticipated impacts have been identified on individuals, geographical communities or staffing.
Low impact	Where any impacts are minimal and have been considered as low.
Low/medium impact	Where impacts have been identified and there is mitigation in place.
Medium impact	Impacts have been identified on service users and/or staff. Mitigation has been identified
Medium/High impact	Particular impacts identified on key groups, communities or staffing groups. Mitigation has been identified.
Impact not known	Proposal is a review or service redesign and the impact is therefore not known at this stage.
Positive Impact	Where the proposal will result in positive impact for service users or communities.

Of the 75 proposals:

- 28 have been assessed as having no impact
- 29 as low impact – 13 low service impact and 16 related to staffing impact and not service
- 8 low/medium impact – all related to service impacts
- 3 medium impact – 2 related to service impact and 1 related to staffing impact
- 1 medium/high impact – related to a service impact
- 3 positive impact
- 3 impact not known

1. Reducing waste and avoidable spend

Ref.	Budget option	Assessment of Impact	Mitigation	Impact	Category
IA 1.1	Reduction in Chromebook breakages	No impact of service users.	N/A	No impact	Reducing waste/avoidable spend
IA 1.2	Review of postages	This proposal relates to reducing postage budgets given the greater move to online access and take-up. No direct impact on individuals or geographical communities.	NA	No impact	Reducing waste/avoidable spend
IA 1.3	Review and reduction in overtime, agency and temp contracts	No impact on permanent staff or service	NA	No impact	Reducing waste/avoidable spend
IA 1.4	Adjustment to budget for Supply staffing in primary and secondary	No negative impact anticipated on service or service users.	NA	No impact	Reducing waste/avoidable spend
IA 1.5	Review of Council-owned Janitors Houses	Proposal relates to reuse of former janitor's houses. No impact on individuals or services.	NA	No impact	Reducing waste/avoidable spend
IA 1.6	Reduction in food waste in schools	This proposal relates to the procurement of food and how it is served and managed. The reduction is less than 1% of the budget. There is no anticipated direct impact on staff employed and no negative impact on food services.	NA	Low impact	Reducing waste/avoidable spend

2. Budget not required for original purpose

Ref.	Budget option	Assessment of Impact	Mitigation	Impact	Category
IA 2.1	Corporate approaches	Line by line review - no anticipated impact on individuals or geographical communities. Cross service review and removal of vacancies - no anticipated impact on service or permanent staff. Vacancy and absence management - no anticipated impact on service or permanent staff	NA	Low impact	Budget not required for original purpose
IA 2.2	External Funding replacing Core Budget Costs	Active Travel/safer Routes to School - no impact on delivery and development of active travel or safer routes to school. Coastal Communities - Low indirect impact. Strategic funding to be repurposed therefore less funding will be available to support projects across the Highland area some of which may directly or indirectly benefit key equality groups or individuals facing socio-economic disadvantage. Education Strategic Equity Funding - combination of change in funding arrangements and staff deployment. Focus remains on addressing poverty related attainment gap therefore no anticipated impact on service users.	Coast Communities - Local funding will remain to support local projects. No current projects or programmes are affected by this change	Low impact	Budget not required for original purpose

IA 2.3	Falling School Rolls	Proposal related to the costs saved from mothballing schools. Schools can only be mothballed with parental agreement therefore full engagement to ensure impacts are fully understood and considered.	NA	Low impact	Budget not required for original purpose
IA 2.4	Curriculum 100 days	Proposal relates to a commitment to reduce parental contributions. Positive impact on pupils and families.	NA	Positive impact	Budget not required for original purpose
IA 2.5	DSM	No direct impact on individuals or service. Schools will have less funding available but will still have reserves in place.	NA	Low impact	Budget not required for original purpose
IA 2.6	Removal of additional funding	No impact on core staffing complement and therefore no service impact anticipated. No risk to existing staffing. Number of posts not classroom based and known short term funding	NA	Low impact	Budget not required for original purpose
IA 2.7	Further delivery of asset rationalisation	Proposal related to the closing or selling of buildings and not the stopping of services. No direct impact on customers.	Staff to be consulted on any change to location to understand and mitigate any impact on them	Low impact	Budget not required for original purpose
IA 2.8	Schools: primary management time	No posts are impacted and no impact anticipated on service or service users.	NA	Low impact	Budget not required for original purpose

3. Service Redesign and Efficiency

Ref.	Budget option	Assessment of Impact	Mitigation	Impact	Category
IA 3.1	Improved Council Tax collections	The proposal relates to improved collection rates of Council tax.	Individuals who are struggling to pay Council Tax will continue to be supported through the Council's welfare team and other partner providers particularly CAB and through the Council tax reduction scheme	Low impact	Service Redesign and Efficiency
IA 3.2	Heath and Social Care Redesign	Whole Family Approach - Impact assessment will be built into the development of the redesign approach to ensure there is no adverse impact from the new way of working. Redesign is intended to improve outcomes so impact anticipated to be positive. Fostering and Adoption - Positive impact on securing more foster carers and kinship carers and increasing financial benefits for carers.	Mitigation, if required, will be considered as part of the redesign process	Redesign impact not known at this point but anticipated impact is positive. Fostering and Adoption - positive impact	Service Redesign and Efficiency
IA 3.3	Early Learning Care Redesign	Impact Assessments will be required to be undertaken as part of the Redesign process and corresponding mitigation considered as part of that process if required. However, all statutory requirements will be met so impact, if any, is anticipated to be minimal	Mitigation, if required, to be considered during redesign process	Redesign impact not known at this point.	Service Redesign and Efficiency

IA 3.4	Service Redesign - Street Lighting	No impact on service or wider community	NA	No impact	Service Redesign and Efficiency
IA 3.5	Review of ICT Services Structure	No impact on service users or permanent staff	NA	Low impact	Service Redesign and Efficiency
IA 3.6	Review of Transformation and Digital Services Transformation Team	No impact on service users or permanent staff	NA	Low impact	Service Redesign and Efficiency
IA 3.7	Business Support	Digitisation of processes to remove duplication. No impact on service users. No impact on permanent staffing.	NA	Low impact	Service Redesign and Efficiency
IA 3.8	Corporate Performance/Information Management	Redesign of service structure. No impact on service users or permanent staffing	NA	No impact	Service Redesign and Efficiency
IA 3.9	Revenues and Business Support	No impact upon service users. Improved efficiency and ways of working. No anticipated impact on permanent staff.	NA	Low impact	Service Redesign and Efficiency
IA 3.10	Roads Redesign	Reduction in management and greater efficiency. No anticipated change to service therefore to impact service users or communities.	NA	No impact	Service Redesign and Efficiency
IA 3.11	Harbours	No impact on service users, service maintained	NA	No impact	Service Redesign and Efficiency
IA 3.12	Commercial Property: Surveyors	No impact on service. Positive impact on youth development opportunities	NA	Positive impact	Service Redesign and Efficiency

IA 3.13	Community Support and Engagement	No impact on service users and no anticipated impact on permanent staff	NA	No impact	Service Redesign and Efficiency
IA 3.14	Waste - digitisation of garden waste process	No impact on service	NA	No impact	Service Redesign and Efficiency
IA 3.15	Review Mental Health and Wellbeing Resources	No anticipated impact on service delivery. Projects were set up as short term community based initiatives. Community capacity building has supported the principles of delivery	Continue to support community work through closer school links and the use of SG counselling money	Low impact	Service Redesign and Efficiency
IA 3.16	Education and Learning - Redesign Area Teams and Core Structure	No anticipated impact on service and no impact on permanent staff	NA	Low impact	Service Redesign and Efficiency
IA 3.17	Schools: Establish a Highland Wide 3-18 Formula for schools	No anticipated impact on the service, service users or geographical communities.	Impacts considered as part of establishing formula going forward	Not known, to be considered as part of establishing formula	Service Redesign and Efficiency
IA 3.18	Family First Strategy	Related to redesign of Health and Social Care. Positive impact on sustaining children within family/kinship/community settings rather than residential care. Enabling a change to redesign of the Family Team. Limited impact on staffing	NA	Positive impact	Service Redesign and Efficiency
IA 3.19	Health and Social Care Redesign	No anticipated impact on permanent post holders	Using vacancies to redesign team	Low impact	Service Redesign and Efficiency

IA 3.20	FM Service Redesign	Impacts relate to staffing reduction	Anticipated to be managed through turnover or redeployment	Low impact	Service Redesign and Efficiency
IA 3.21	Waste - review of public holiday collections	This will reduce the opportunity for overtime for staff on public holidays. There is a potential socio-economic impact as this low paid staff group can rely on overtime payments.	There are only 5 public holidays per year where collections would normally be undertaken which therefore minimises any impact on staff	Low impact	Service Redesign and Efficiency
IA 3.22	Environmental Health - review of resource management	No anticipated service impact or on geographical communities.	NA	No impact	Service Redesign and Efficiency
IA 3.23	Welfare: Review of Welfare Support Team Structure	Any reduction to the welfare team can have a direct impact upon the client group of the team - individuals experiencing low income, disabled individuals, individuals with caring responsibilities. This proposal has a low/medium impact given current operational arrangements	NA	Low/Medium impact	Service Redesign and Efficiency

IA 3.24	Changes to the approach to homelessness	The proposal relates to a shift in approach to the delivery of a person centred approach. This is a statutory function and therefore people who are homeless or at risk of homelessness will not be impacted by any change in approach. Nobody will be refused a service and individuals will continue to be provided with advice and assistance based on an assessment of their needs. No adverse impact is anticipated. People using housing support services will not be directly impacted - a different way of providing services.	NA	Low impact	Service Redesign and Efficiency

4. Contract Management

Ref.	Budget option	Assessment of Impact	Mitigation	Impact	Category
IA 4.1	Private Sector Housing Grants	No impact on individuals receiving the grants/services. Related to efficiencies in contract management	NA	No impact	Contract management
IA 4.2	Information and Advice Services	This proposal relates to the reprocurement of the Advice and Information contract. The proposed reduction may have a negative socio-economic impact upon individuals seeking support for services who are more likely to be low income, disabled, vulnerable adults.	Any potential impact is proposed to be mitigated by redesign and opportunities for other funding sources to support services	Low/medium impact	Contract Management
IA 4.3	School and Public Transport	No impact on service or service users.	NA	No impact	Contract Management
IA 4.4	Fuel reprocurement	No impact service users or geographical communities	NA	No impact	Contract management
IA 4.5	Contract management	Proposal relates to contract renewals. No anticipated impact but impact on particular groups and communities will be considered as part of the review process.	Impacts considered as part of the renewal process.	Low impact	Contract management

5. Removal of Discretionary/Non Statutory Spending

Ref.	Budget option	Assessment of Impact	Mitigation	Impact	Category
IA 5.1	Review of SLA and Grants Budget for Early Years	Proposal relates to reviewing the current SLA and grants budget. Full impact assessment undertaken. Although these are additional and not core services, there is potential impact on current service users. The impact varies depending upon the provider and is largely mitigated if alternative funding is secured. SNAP - if alternative funding not found, could lead to a reduction holiday/respite care places for children with ASL including complex needs. Toybox and Allsorts - rural impact and socio-economic impact on low income working families. Pultneytown People's Project - socio-economic impact on low income working families and no alternative provision for eligible 2s. FCSS - likely reduction in holiday/respite care places for children with ASL. Fas Mor - child care provider therefore potential socio-economic impact on low income families, also specific impact on a rural island community. Overall, any reduction in care provision across the providers is more likely to impact upon women who are more often the career and the workforce which are predominantly women.	There will be a period of support given to the providers impacted to identify alternative funding /ways of working to enable them to continue to operate and become more efficient and sustainable. There will be no change to existing arrangements for 6 months to enable alternative funding/ways of working to be implemented. If alternative funding is secured then there is no impact and no requirement for further mitigation.	Medium/High impact	Removal of Discretionary Spend

IA 5.2	Removal of legacy funding to arts, culture, sports, music and village halls.	Impact assessments have been undertaken. Impacts differ dependent upon the organisation but all likely low impact. Village halls - majority in rural communities therefore potential impact but likely low level as grants are low sums. Sports - socio-economic impact in low income families as grants no longer available. Music - fee paying facility with exemptions for those on low income therefore impact lower. Arts - schools no longer able to refer pupils with additional support needs who may benefit from alternative supports.	Support will be provided to the organisations affected to mitigate the financial impact of the removal of grants. Removal of funds unlikely to impact upon service delivery or operation of the facilities.	Low/Medium impact	Removal of Discretionary Spend

6. Service Re-prioritisation – stop or reduce

Ref.	Budget option	Assessment of Impact	Mitigation	Impact	Category
IA 6.1	Employability - Review of employability	There is no anticipated adverse impact on key client groups - women, lone parents, low income, young people - as overall the team is expected to grow the number of staff and level of support available	New funding streams available to progress critical areas of employability work	Low impact	Removal or reduction in Service
IA 6.2	Long Distance Routes - reduction in service being delivered	This reduction in service will specifically impact on long distance path network which is predominantly located in rural areas.	Work will continue to be undertaken but at a slower pace and reduced level of performance	Low/medium impact	Removal or reduction in Service
IA 6.3	Building Standards	No anticipated service impact or on geographical communities.	NA	No impact	Removal or reduction in Service
IA 6.4	Access - review of team resources	This will result in an impact in rural areas of Highland where access work is focused.	Resource will remain to respond to access issues but the level of service will reduce and timeliness of response	Low/medium impact	Removal or reduction in Service
IA 6.5	Street Lighting	No anticipated service impact or on geographical communities.	NA	No impact	Removal or reduction in Service

IA 6.6	Cleansing services - reduction in establishment	Minimal impact on service users. Impact on predominantly low income, female staffing group. Potential greater impact on rural/island areas where lower staffing levels.	Staffing impact mitigated through staff turnover and maximising redeployment opportunities both in and outwith the organisation. Mitigation on impact in rural areas through focusing reductions in higher turnover areas	Medium impact	Removal or reduction in Service
IA 6.7	Legal and Governance	Redesign of service structure and support. No impact on service users.	NA	Low impact	Removal or reduction in Service
IA 6.8	Virtual Academy	No anticipated impact on service users. No change to support for interrupted learners. Changes focused on delivery of curricular subjects in a different way	No change of support for interrupted learners	Low impact	Removal or reduction in Service
IA 6.9	Review and reduce Property Maintenance Budget	Potential indirect impact if buildings are not maintained and therefore certain buildings or parts of building may need to close service users could be impacted.	Statutory compliance and emergency repair related service	Low impact	Removal or reduction in Service

7. Increasing income

Discretionary Services

Ref.	Budget option	Assessment of Impact	Mitigation	Impact	Category
IA 7.1	Public conveniences	Honesty boxes enable individuals to donate where they can afford therefore no anticipated impact on individuals or geographical communities	NA	No impact	Increasing income - discretionary services
IA 7.2	Car Parking - Increase Fees Public Parking and Invitation to Pay	Public Fees Parking - Increase is on short stays therefore not impacting on regular parking for work related purposes. Low socio-economic impact. Invitation to Pay - no impact as voluntary charges.	Increase on short stay journeys only	Low impact	Increasing income - discretionary services
IA 7.3	Garden Waste	Proposal relates to increasing customer base therefore no impact on individuals.	NA	No impact	Increasing income - discretionary services
IA 7.4	Planning and Building Standards	Implementation of planning charges set nationally. Discretionary fee increase is for discretionary charges for individuals. Low impact	NA	Low impact	Increasing income - discretionary services
IA 7.5	Registration charges	Minimal impact as charges are for discretionary and optional services. No adverse impact on low income families	NA	Low impact	Increasing income - discretionary services

Contribution to Cost Recovery

Ref.	Budget option	Assessment of Impact	Mitigation	Impact	Category
IA 7.6	Full cost recovery on external funding streams	This will impact upon funding available for schools for PEF. Given the focus of PEF is on vulnerable pupils, this may result in a direct impact on certain equality groups - women (staffing), women (lone parents), disability ASN - socio-economic impact as PEF is supporting deprived communities, potential disproportionate impact on rural and island given small budgets. However, majority of funding remains targeted at key groups. Full Impact Assessment completed.	Options for applying full cost recovery will be considered with schools in order to mitigate impact. Potential mitigation is that Full Cost Recovery is not applied where funding is below a certain level (minimising rural impact) and schools to take a ASG/collaborative approach to use of funding. Majority of funding remains targeted at key groups.	Medium impact	Increasing income - contribution to cost recovery
IA 7.7	Charging for Events	No anticipated impact on individuals or geographical communities.	NA	No impact	Increasing income - contribution to cost recovery
IA 7.8	Public conveniences - Storr	Internal income to pay for toilet maintenance and deliver a retail outlet. No anticipated impact on individuals or geographical communities	NA	No impact	Increasing income - contribution to cost recovery

IA 7.9	Waste income from householders	Increase of 3% on fees for bulky uplifts. This is a minimal, below inflation, increase for opt in service with alternative options through recycling centres available	NA	Low impact	Increasing income - contribution to cost recovery
IA 7.10	Review of Housing Benefit	This proposal relates to a review of the process of collection of overpaid housing benefit. There is no impact on individuals or geographical communities.	NA	No impact	Increasing income - contribution to cost recovery

Commercial Charges

Ref.	Budget option	Assessment of Impact	Mitigation	Impact	Category
IA 7.11	Business Waste Collection - commercial	Proposal is to increase customer base. No identified impact	NA	No impact	Increasing income - commercial
IA 7.12	Business Waste Collections - commercial	Proposal is to increase charges by 3%. Impact is on businesses therefore no equality, socio-economic, rural or island impact	NA	No impact	Increasing income - commercial
IA 7.13	Flexible childcare and out of school care	Increase is to average market rate and in line with other providers across Highland. Some potential impact on low income families and limited rural/island impact related to limited choice of alternative providers in rural areas.	Increase is below inflation and only increased to average market rate.	Low/medium impact	Increasing income - commercial
IA 7.14	Commercial portfolio	Rental increase on commercial properties. No equality, socio-economic, rural or island impacts	NA	No impact	Increasing income - commercial
IA 7.15	Harbour Dues and Fees	All harbours are in rural areas therefore any increase likely to have a rural impact but this is anticipated to be low.	Any increase in charges will be in line with other harbours across the area	Low impact	Increasing income - commercial

IA 7.16	Income Review	Potential socio-economic impact related to the increase of parking charges/residential parking permits/contract parking. This will impact upon householders, individuals working within towns and the city. Separately, this includes a specific socio-economic impact and rural impact related to an increase of charges on the Corran Ferry. Specifically this related to an increase of 5% of discount books targeted at local residents.	Car parking - increases are below the rate of inflation to minimise impact. Increases on residents and senior citizen's residents permits have been limited to £3 and £2 annually. There is no impact upon blue badge holders. Corran Ferry - blue badge holders will continue to be travel free of charge. There is a 5% increase on discount books, which remains below the rate of inflation.	Medium impact	Increasing income - commercial
IA 7.17	Lair purchases	The increase in fee may disproportionately impact on low income families in terms of burial and cremation costs.	Mitigation - the increase proposed is lower than the cost of inflation and the cost per lair remains below the national average. Support is available through the Council's welfare team and grants are available to families on low income to mitigate the costs of funerals.	Low/medium impact	Increasing income - commercial

IA 7.18	Regularise lease/rental charges	This proposal relates to recovering the costs of operating the building from those occupying Caol Community Centre. The building is used for youth work activities, lunch club, art teaching for schools and wider community activities therefore there would be a negative impact should these be unable to continue to operate and no alternative facility within the community.	The preferred option is that the operation of the centre is taken on by a local third sector provider to ensure continuity of provision. There is a mixture of commercial and community activities operating from the centre which it is anticipated could cover the operating costs.	Low/medium impact	Increasing income - commercial

New Income Streams

Ref.	Budget option	Assessment of Impact	Mitigation	Impact	Category
IA 7.19	Provision of Local Site Operator Services to the AURN (air quality)	Provision of services to business therefore no anticipated impact on individuals or geographical communities	NA	No impact	Increasing income - new income streams
IA 7.20	Renewable energy	Proposal focuses on generating income from renewables on Council buildings. There is no anticipated negative impact on individuals or geographical communities.	NA	No impact	Increasing income - new income streams
IA 7.21	Drone filming	No anticipated impact on individuals or geographical communities	NA	No impact	Increasing income - new income streams

BUSINESS CASE & OUTLINE DELIVERY PLAN

Funding	Description: Rapid Road Repair Team
	Budget: 23/24 Revenue £1,266,110 & 23/24 Capital: £277,500
Service	Roads and Infrastructure (I, E & E)
Responsible Officer	Malcolm MacLeod
Date	06/02/23

The purpose of the Business Case & Outline Delivery Plan for the specified funding is to state **WHY** the planned work is important, **WHAT** will be delivered (outcomes/benefits), **HOW** this will be delivered (including resources), and by **WHEN** this will be achieved.

In completing this document, please refer and link to existing documentation already in place in relation to the funding and planned spend (e.g. Policy, Strategy, Legislation or other key documentation such as evidence of a Project Mandate or a Project Brief).

1 PURPOSE OF THE SPEND

What is the purpose of the spend, and what is the expected financial impact from the spend in terms of savings and/or income?

This proposal presents the opportunity to provide a centrally managed strategic Rapid Road Repair team, which will be fully resourced, mobile and able to target specific problem areas (potholes/ patching). It will allow delivery of road repairs to be spread across the whole of the Council area as demand arises. The team will be established as a “pilot” project, with an initial Capital cost to buy plant/ equipment and revenue cost to cover personnel, material and plant charges). It is hoped that success demonstrated in terms of savings, performance, impact and a demonstration of value for money will lead to a longer term funding basis for the team, and indeed the expansion of the project.

The Roads (Scotland) Act 1984 places a statutory duty on Roads Authorities to manage and maintain their road network. Potholes can form over a short time and usually continue to deteriorate the road surface around them unless repaired. Operating a dedicated team to not only repair defects, but monitor them from a central point, will allow the Council to target specific problem areas and therefore prevent deterioration of the network. This is a cost avoidance measure as delaying repairs normally results in a larger and therefore more costly repair to be undertaken. It would also reduce the number of temporary, repeated repairs required, as the team would be undertaking permanent ones first time. The dedicated repair team would have a programme of permanent repairs, which were prioritised and targeted to alleviate pressure on the network and Area teams.

Currently, pothole/ patching repairs are dealt with as part of the Roads Area maintenance workload. This is in addition to a wide range of other cyclical maintenance tasks, including verge maintenance, drainage, the winter service and emergency responses.

The Roads Area teams also undertake a significant amount of the roads capital works (resurfacing and surface dressing) during the summer period, which impacts on their reactive ability. The proposed Rapid Road Repair Team, managed from a single point, will be additional to the resources already provided at Area level. It would not replace the Area resource but be a dedicated one to the repair of potholes (incl patching) in the carriageway or footway out with the winter months. During winter, the operatives would be used to supplement the existing resources for gritting, etc.

In 2019, the Society of Chief Officers of Transportation in Scotland (SCOTS) commissioned the calculation of the backlog and steady state figures, based on the Scottish Road Maintenance Condition (SRMCS) results. Although not calculated annually, the figures give an indication of the amount of funding required to maintain each Local Authority's network, which, in current monetary terms, will be higher. For Highland, the figures are shown below.

2019 Highland Backlog figure: £194,827,000 (To remove all defects from the carriageway)

As can be seen, the large estimate shows the scale of the issue with condition of the road network. As Highland has the largest Local Authority network in Scotland and can suffer from severe winter conditions, it requires a significant investment to maintain it's network. The investment in the team will be a the start of a long-term, cumulative one, as they are sent to various locations to reduce the number of potholes on roads. It should be noted that the efficiency of the team depends on having the plant, equipment, materials and operatives available.

The costs of the team are based on estimates and are indicated in section 6, below. Additional operatives, plant and materials are required, which will free up resources in the Areas to concentrate on delivering core activities such as resurfacing, winter and drainage maintenance. The proposal has the option of purchasing a piece of plant which would enable "on-site" recycling of materials which is not currently available to us. The team will include fully trained operatives for the Pothole Pro, which will be utilised from whichever Roads Area the team is operating in at that time.

Although not quantifiable at this time, there will be a time/ resource improvement (cost avoidance) in the following:

- **Reduction in officer time spent dealing with CRMs and complaints** (this will also apply to Members who receive correspondence).
- **Reduction in repeated repairs to the same locations**, i.e. a reduction in temporary repairs which is also a reduction in operations resources.
- **Expected reduction in the number of compensation claims applied for** – this also relates to a reduction in officer time spent managing the process. It should be noted, however, that potholes form constantly and the road network will never be free from them. There has been an increase in claims in recent years, partly due to social media campaigns encouraging drivers to apply.

2 SCOPE OF THE PLAN: OUTCOMES & BENEFITS

Scope is defined as the totality of the **Outcomes** and **Benefits** and the work required to produce them.

In line with Purpose, the following **Outcomes** and **Benefits** will be achieved – benefits to include financial ‘cashable’ (Income/Savings/Cost Avoidance), and non-cashable such as External/Internal Customer Satisfaction, Performance Improvements, delivery of Local/National Outcomes

OUTCOME & BENEFIT	SAVING / INCOME £k	DATE THIS WILL BE ACHIEVED	MEASURED BY
Cost Avoidance: 10% Reduction in compensation claims and resulting payouts per year (Vehicle Damage). **External Customer Satisfaction:** Reduction in complaints relating to vehicle damage.	**£23,895 – This figure is based on 10% of average no of annual claims (177 x £135)**	**2024/25**	**Claims for potholes (average payout = £135) are generally paid for from the Roads budget so any cost avoidance allows the budget to be used for what it was intended (road maintenance). Year on year, this avoided cost will accumulate.**
Cost Avoidance: Minimised use of new material and disposal costs through in-situ recycling.	**N/A**	**2024/25**	**Amount of material disposed of (tickets for disposal).** **Moving forward, operatives will quantify the amount of NEW material used and also measure the size of patch (pothole) repaired.**
Performance Improvements: Efficient programming of work.	**N/A**	**2024/25**	**Reduction in overall number of pothole works instructions.**
Non-cashable/ Performance Improvement: Performance management - quicker response to	**N/A**	**2024/25**	**Ability to close works instructions faster.**

defect reports (received from the public and from road inspections).			
Cost Avoidance: Reduction in repeated repairs to the same locations, i.e. a reduction in temporary repairs which is also a reduction in operations resources.	**N/A**	**2024/25**	**10% Reduction in pothole works instructions recorded in a year.**
Non-cashable/ External Customer Satisfaction: Reduction in complaints to the Council and Members.	**N/A**	2024/25	**Various points of contact, however, complaints numbers are recorded so a reduction should be measurable.**
Non-cashable/ Performance Improvement: Reduction in the number of Customer Contacts (via CRM) relating to Potholes.	**N/A**	**2024/25**	**Reduction in CRM defect reports relating to potholes.**

NOTE: For the scope of work planned, a Community Impact Assessment Screening should be conducted to consider the impacts on communities and customers

- There is a legal requirement to consider the Public Sector Equality Duty.
- There are duties to consider socio-economic impact at strategic level (the Fairer Scotland Duty).
- The Council has made commitments to consider rural impacts and there is now a duty to consider Island impacts.

3 APPROACH & GOVERNANCE

APPROACH: The approach should include at a minimum the following, tailored and proportionate to the relative scale and complexity of the Plan. As well as information provided in this Business Case & Outline Delivery Plan, confirm the approach to be applied to deliver the Plan and the in-scope **Outcomes** and **Benefits**.

CONTROL	CONTROL IN PLACE? (Y/N)	PLANNED ACTION
BUSINESS CASE Evidence-based justification (this document)	Y	See section 1.
OUTLINE DELIVERY PLAN	Y	See outline delivery plan detailed at Section 4 below

How and when outcomes and benefits will be delivered (Project Plan)		
BUDGET MANAGEMENT Actual spend, commitments and assumptions, projected spend	Y	Budget monitoring through Council's financial system.
GOVERNANCE Scrutiny, direction and control (where will progress be reported)	Y	Report to Roads Management meeting.
RISK MANAGEMENT Visibility of risk, and proactive management	Y	Some obvious high risks have been set out in section 8 below, but these will be monitored and managed (along with others identified) via Operational Risk Assessments undertaken by the Service.
BENEFITS REALISATION Tracking and measuring, ensuring that Benefits are derived from the planned Outcomes and how success will be measured.	Y	Use Roads Asset Management system to track works instructions completed. Monitor amounts of new material used or existing material disposed of.

GOVERNANCE: Confirm the governance arrangements for the scrutiny, direction and control required to deliver the Plan and the in-scope **Outcomes** and **Benefits**

Officer Governance (e.g. Project Board, Change & Improvement Board)	**Member Governance** (e.g. Redesign Board, Strategic Committee, Council)	**Other** (e.g. Partners)
Roads Management Meetings	E&I Committee	N/A

4 OUTLINE DELIVERY PLAN

What are the timescales for delivering the Plan?

Milestone/Key Stage/Outcome	**Target Date**
Order Plant and Equipment	May 2023
Request ATRs for office-based posts	April 2023
Request ATRs for operational staff	April 2023
Recruit staff	Spring 2023
Train staff where necessary	Spring 2023
Receive Plant and Equipment	TBC

Potentially hire plant and/ or use contractors until permanent resources received (recruitment and ordering of plant will take time so potential to utilise budget in the meantime)	2023/24

5 INTERDEPENDENCIES

An interdependency is the relationship of tasks or projects wherein one project can impact another's progress, or their order of occurrence can substantially influence the planned work.

Specify the related and/or dependent work/projects in respect of this Plan
Specialised Additional Plant - The team requires specialised additional plant which takes time to order and then be built by the manufacturer (this can take up to 18 months) In the interim, hired plant could be utilised. **Recruitment of Operational Staff** - It has been difficult to recruit operational staff in some Areas. The smooth operation of the Rapid Road Repair Team depends on all posts being filled. **Budget** – Ordering of plant and the recruitment process will not begin until budget has been confirmed. Finance will need to set up new codes for this team. No works will begin until all resources are in place. **Pothole Pro availability** – as an additional Pothole Pro is not being procured, the efficiency of the works will depend on the availability of the Pro from each Area being worked in.

6 PROFILE OF SPEND

What is the planned profile of the spend?

Year	Projected Spend (Revenue - £)	Projected Spend (Capital - £)
2022/23	0	
2023/24	1,266,110	£277,500
2024/25	TBC	
2025/26	TBC	
2026/27	TBC	

CONTRACTUALLY COMMITTED SPEND

What is the contractually committed spend, such as for staff, goods and services, where there is a legal and/or contractual undertaking.

Specify Spend Elements (These could be people resource, products, services, or key stages)	**Budget £**	**Sums Contractually Committed £k**	**Balance £k**
No orders placed yet.			

7 RESOURCES

What resources are required? Are resources available - if not how might they be made available?

In line with the Approach, resource will typically include:

- ✓ **Project Resource** - e.g. Business Change, Project Management, Finance, HR, etc.)
- ✓ **Subject Matter Expertise** – specific to the scope of work and the objectives to be delivered
- ✓ **External Resource** – e.g. non-Council specialist roles such as consultancy
- ✓ **ICT, Property & Plant** – are there any anticipated requirements?

Resource Required:	**Yes / No**	**FTE**	**Role(s), e.g. Project Manager**
Project Resource	N/A	N/A	N/A
Subject Matter Expertise			Roads HQ Team – Managed by Principal Engineer
External Resource	No	N/A	N/A
ICT, Property & Plant	Yes		IT equipment for office staff and mobile devices for operatives – See attached spreadsheet for details of costs associated with ICT & Plant.
Engineer (HC8)	Yes	1	Programming and management of the Team and any technical issues with materials for example - IEng with 7 years experience) or Senior Technician (EngTech + 12 years experience
Operational Support Officer (HC6)	Yes	1	This role is to undertake technical duties associated with the Team such as ensuring Works orders are closed off, reporting etc
Roads Foreperson (HC6)	Yes	1	Operational members of the Roads Rapid Repair Team

Roads Operatives (HC4)	Yes	7	Operational members of the Roads Rapid Repair Team

8 RISKS

What are the key risks associated with the Plan together with the likely impact and action to mitigate/manage?

Risk	Impact (High/Medium/Low)	Mitigation & Management Action
Availability of plant/ equipment	High	Speak to suppliers as early as possible. Ensure vehicle specifications are correct in orders. (Use contractors and/ or hired plant until team is fully resourced.)
Availability of new operatives	High	Support required from Senior Management to ensure ATRs are approved quickly. Recruitment to be widely advertised to capture as large an audience as possible. Ensure benefits working for the Council are known (not just pay level). (Use contractors and/ or hired plant until team is fully resourced.)
Costs are estimated	Medium	Actual quotes required for plant/ equipment and hired options (if to be used before team fully operational). Costs may increase due to volatility of the market so quotes to be investigated as soon as budget has been confirmed.
Pothole Pro from each Area to be utilised by new team requires to be available	Medium	The Pothole Pros are a multi-use piece of equipment and may be required by the Area and new Road Repair team simultaneously. Roads Management require to prioritise where necessary and amend works programmes to suit. Otherwise, an increase in costs may occur due to hiring plant required.

BUSINESS CASE & OUTLINE DELIVERY PLAN

Funding	**Description:** Provision of mobile bulky waste shredders and ancillary infrastructure
	Budget: £1,000,000
Service	Waste Management
Responsible Officer	Alan McKinnie, Ian Braker
Date	08/02/2023

The purpose of the Business Case & Outline Delivery Plan for the specified funding is to state **WHY** the planned work is important, **WHAT** will be delivered (outcomes/benefits), **HOW** this will be delivered (including resources), and by **WHEN** this will be achieved.

In completing this document, please refer and link to existing documentation already in place in relation to the funding and planned spend (e.g. Policy, Strategy, Legislation or other key documentation such as evidence of a Project Mandate or a Project Brief).

1 PURPOSE OF THE SPEND

What is the purpose of the spend, and what is the expected financial impact from the spend in terms of savings and/or income?

1. Summary

1.1. This business case justifies the need for the Council to invest in up to three mobile shredders to allow the Council to shred bulky waste and subsequently deliver such waste to Energy from Waste facilities. This will ensure that the Council can:-

1.1.1. meet its obligations to divert all waste that contains persistent organic pollutants from landfill in accordance with any forthcoming SEPA statutory guidance;
1.1.2. meet the commitments that all biodegradable waste should be diverted from landfill by the end of 2025;
1.1.3. undertake this in a cost-effective manner and maximise the benefit of the Viridor EfW contract that was recently procured.

2. Background

2.1. The Council has an obligation under the Environmental Protection Act 1990 (and subsequent amendments) to manage waste that is generated either through its collections, Recycling Centres, harbours and street cleansing activities (e.g. litter bins) within the Highland area.

2.2. Historically the Council has managed non-recyclable waste through a number of options but primarily either through its own, or contractor landfill sites. However, The Waste (Scotland) Regulations 2012 (as subsequently amended) sets out that all biodegradable municipal waste is to cease being sent to landfill by the end of 2025.

2.3. To divert kerbside 'black bag' waste the Council has contracted with Viridor Ltd to accept non-recyclable residual waste through an Energy from Waste (EfW) facility located in Dunbar. This introduces costs benefits through the avoidance of landfill tax but due to its location (and lack of more local accessible facilities) increases the haulage costs for such material. Nevertheless, by maximizing payloads, and by bulking such waste at the Council's network of waste transfer stations, this additional cost can be mitigated.

2.4. EfW facilities cannot accept waste with sizes in excess of about 0.3-0.5m in any one direction (due to operational constraints). As such they cannot accept "bulky waste" such as furniture, carpet, very large toys and similar which are commonly collected through the Council's own bulky waste service or at the Recycling Centres. This bulky waste, approximately 12,000 tonnes per annum, is currently still sent to landfill, but is also classified as biodegradable waste, and hence landfilling of such waste must cease by the end of 2025.

2.5. Additionally, it is expected that some of this bulky waste may be banned from landfill sooner than this timeframe. Many soft furnishings have recently been determined to contain large quantities of Persistent Organic Pollutants (POPs), primarily as chemicals that historically were used as fire retardants. The outcome of this analysis is that the Environment Agency (EA) (England) placed significant additional burdens on English Councils, banning the landfilling of such waste from January 2023, and limiting their disposal to being through destruction via incineration only.

2.6. The Scottish Environment Protection Agency (SEPA) has yet to formally clarify the position for Scottish local authorities. The expectation is that a similar position to the EA will be proposed due to POPs being controlled under international instruments (Stockholm Convention). Further information is expected by spring/summer 2023 but if a similar approach is taken by SEPA then additional costs for treating such waste are inevitable.

2.7. The Council, in such circumstances, will be left with two primary options, either:-

2.7.1. procure a contract with a supplier to undertake the shredding and disposal of such POPs contaminated bulky waste;

2.7.2. or the Council undertakes the shredding with the resultant flock being sent to the preferential rates achieved under the EfW contract with Viridor.

3. Options Appraisal

The following details and compares the above stated options against the current, baseline position, of landfilling bulky waste.

3.1. Option 1, “Baseline” – this assumes that all bulky waste continues to be directed to either Council or contractor operated landfills via an appropriate Council Waste Transfer Station. The primary costs in this option are landfill tax (and disposal costs for contractor site) and additional haulage costs due to the bulky nature of waste resulting in non-optimal payloads.

3.2. Option 2, “Contracted” – this assumes that the Council contracts with one or more suppliers to shred and treat the bulky waste. There are few suppliers known that provide such service in the Highlands resulting in little competition and higher rates. However, haulage costs are expected to be lower because of their location within the Highland region.

3.3. Option 3, “Shredding” – The Council operates a network of mobile shredders based out its network of transfer stations. This would require the purchase of three shredders through a capital fund bid of £1,000,000. The shredded material shall be able to leverage the beneficial treatment gate fee the Council has procured at the Viridor Dunbar EfW facility, however the additional transport distance would result in some additional costs (although mitigated by being able to maximise payloads).

4. Finance Assessment

4.1. Table 1.0 below displays the estimated revenue difference between the three options.

Revenue Element (23/24)	Option 1 - Landfill	Option 2 – Contracted	Option 3 – Shredding
Landfill Tax per tonne	£102.10	£0	£0
Disposal Treatment Cost (per tonne)	£25.00	£155.00	£92.84
Haulage Cost (per tonne)*	£50.00	£40.00	£66.00
Estimated total cost per tonne	£177.10	£195.00	£158.84

Approximate Annual Tonnage	12,000	12,000	12,000
Total Annual Cost	£2,125,200	£2,340,000	£1,906,080
Nett difference compared to baseline	N/A	+£214,800	-£219,120

*Estimated haulage costs for transporting to site and/or treatment/disposal facility

4.2. The estimate capital cost for purchasing the three shredders is £1,000,000

4.3. Compared to utilising landfill the ability to shred and subsequently direct the waste to Viridor's facility at Dunbar is estimated to save the Council approximately £219,000 per annum primarily due to being able to avoid disposal and landfill tax costs.

4.4. Should SEPA require bulky waste to be banned from landfill due to POPs contamination then the Council having its own shredders would result in a further estimated avoided growth cost of approximately £215,000 compared to utilising a contractual arrangement.

5. Summary

5.1. Whether in the short term, due to changes in guidance as to how bulky waste can be managed, or in the medium as a result of the landfill ban, the Council is going to be required to divert waste, not immediately suitable for EfW, away from landfill.

5.2. By investing in its own fleet of shredders the Council will be able to avoid growth costs and should allow the Council to leverage savings from utilising the cost-effective rate achieved from the contract with Viridor.

2 SCOPE OF THE PLAN: OUTCOMES & BENEFITS

Scope is defined as the totality of the **Outcomes** and **Benefits** and the work required to produce them.

In line with Purpose, the following **Outcomes** and **Benefits** will be achieved – benefits to include financial 'cashable' (Income/Savings/Cost Avoidance), and non-cashable such as External/Internal Customer Satisfaction, Performance Improvements, delivery of Local/National Outcomes

OUTCOME & BENEFIT	SAVING / INCOME £k	DATE THIS WILL BE ACHIEVED	MEASURED BY
Compliance with legislation and statutory guidance	N/A	Annually	Tonnes of bulky waste diverted from landfill
Reduction in disposal costs (including landfill tax) (saving)	- £411,000		
Increase in haulage cost (cost)	+ £192,000		
'Cashable benefit' (saving)	- £219,000		

NOTE: For the scope of work planned, a Community Impact Assessment Screening should be conducted to consider the impacts on communities and customers

- There is a legal requirement to consider the Public Sector Equality Duty.
- There are duties to consider socio-economic impact at strategic level (the Fairer Scotland Duty).
- The Council has made commitments to consider rural impacts and there is now a duty to consider Island impacts.

3 APPROACH & GOVERNANCE

APPROACH: The approach should include at a minimum the following, tailored and proportionate to the relative scale and complexity of the Plan. As well as information provided in this Business Case & Outline Delivery Plan, confirm the approach to be applied to deliver the Plan and the in-scope **Outcomes** and **Benefits**.

CONTROL	CONTROL IN PLACE? (Y/N)	PLANNED ACTION
BUSINESS CASE Evidence-based justification (this document)	Y	As detailed in this document
OUTLINE DELIVERY PLAN How and when outcomes and benefits will be delivered (Project Plan)	Y	Timetable to be put in place to procure shredders with defined outcomes and timelines. To be aligned with ongoing waste transfer station developments and SEPA guidance on POPs
BUDGET MANAGEMENT Actual spend, commitments and assumptions, projected spend	Y	Cost of shredders estimated from cost to neighbouring authority and general market research. Projected spend is based on current known and estimated forecast of disposal, treatment and haulage costs.
GOVERNANCE Scrutiny, direction and control (where will progress be reported)	Y	Progress to be reported to Waste Strategy Project Board
RISK MANAGEMENT Visibility of risk, and proactive management	Y	Risks and Issues log to be maintained and managed by the Project Manager
BENEFITS REALISATION Tracking and measuring, ensuring that Benefits are derived from the planned Outcomes and how success will be measured.	Y	Measured through tonnes diverted from landfill towards treatment. Compliance with SEPA requirements at the Council Landfills.

GOVERNANCE: Confirm the governance arrangements for the scrutiny, direction and control required to deliver the Plan and the in-scope **Outcomes** and **Benefits**

Officer Governance (e.g. Project Board, Change & Improvement Board)	**Member Governance** (e.g. Redesign Board, Strategic Committee, Council)	**Other** (e.g. Partners)
Waste Strategy Project Board		

4 OUTLINE DELIVERY PLAN

What are the timescales for delivering the Plan?

Milestone/Key Stage/Outcome	**Target Date**
Approval of capital spend	Spring 2023
Finalise project plan and specification	Summer 2023
Procurement of Shredders	Autumn / Winter 2023
Permit / Working Plan amendments	Autumn / Winter 2023
Supply of shredders	Spring 2024
Commissioning of shredders	Spring 2024
Full Operation of shredding operation	Spring/Summer 2024

5 INTERDEPENDENCIES

An interdependency is the relationship of tasks or projects wherein one project can impact another's progress, or their order of occurrence can substantially influence the planned work.

Specify the related and/or dependent work/projects in respect of this Plan

- PPC or Waste Management Licence / Working Plan / Planning amendments

  The sites where the shredders are to be operated are likely to need some amendments to their licencing documents. Dependent on the nature of the changes needed the Council may be required to submit modification requests to SEPA. Currently these can take in excess of three months to obtain, however this can vary subject to their capacity to consider such applications.

- Waste Transfer Station developments

  Shredding operations may be undertaken at some sites that are proposed to be developed (e.g. Fort William Waste Transfer Station). Commencement of shredding would be linked to the development of these sites.

- Material / goods shortage

  There continue to be supply chain issues and it is unclear how long these will continue into 2023 and/or 2024 which may impact when the shredders are supplied by the successful supplier. This may result in a delay in them being provided to the Council. It is noted that this may delay the spend from 2023 until 2024 as indicated in item 6. “Profile of Spend” below.

  It is also noted that the change in approach to managing POPs is going to affect most Councils in England, Wales and Scotland. Therefore, demand is likely to increase for such shredders potentially reducing supply or introducing additional delays.

6 PROFILE OF SPEND

What is the planned profile of the spend?

Year	Projected Spend £
2022/23	£0
2023/24	£0 / £1,000,000*
2024/25	£0 / £1,000,000*
2025/26	£0
2026/27	

7 CONTRACTUALLY COMMITTED SPEND

What is the contractually committed spend, such as for staff, goods and services, where there is a legal and/or contractual undertaking.

Specify Spend Elements (These could be people resource, products, services, or key stages)	Budget £	Sums Contractually Committed £k	Balance £k
N/A			

8 RESOURCES

What resources are required? Are resources available - if not how might they be made available?

In line with the Approach, resource will typically include:

- ✓ **Project Resource** - e.g. Business Change, Project Management, Finance, HR, etc.)
- ✓ **Subject Matter Expertise** – specific to the scope of work and the objectives to be delivered
- ✓ **External Resource** – e.g. non-Council specialist roles such as consultancy
- ✓ **ICT, Property & Plant** – are there any anticipated requirements?

Resource Required:	Yes / No	FTE	Role(s), e.g. Project Manager

Project Resource	Y	0.05	Project Manager and Senior Management – to monitor progress, budget and outcomes
Subject Matter Expertise	Y	0.25	Principle Waste Management Officers (2) and Waste Operations Managers (2) – procurement, permitting, compliance, commissioning
External Resource	N		
ICT, Property & Plant	Y	0.06	Procurement and Legal Team – to run compliant procurement process

9 RISKS

What are the key risks associated with the Plan together with the likely impact and action to mitigate/manage?

Risk	Impact (High/Medium/Low)	Mitigation & Management Action
Low supply of shredding equipment	Medium	Pre-market engagement to understand demand and to advise market of upcoming procurement.
High demand, high inflation etc increasing costs	Medium	Ensure procurement designed to maximise competition whilst ensuring meets Council's requirements.
Unexpected legislative / treatment requirements from SEPA	High	Early engagement with SEPA and membership of appropriate stakeholder groups.
Lack of internal resource	Medium	Continuously review resourcing requirements to ensure that resource capacity is maintained.

BUSINESS CASE & OUTLINE DELIVERY PLAN

Funding	**Description: Communications package to support service change detailed in the Recycling Improvement Fund application**	
	Budget: £273K	
Service	Communities and Place	
Responsible Officer	Alan Mckinnie, Imogen Percy- Bell	
Date	07/02/23	

The purpose of the Business Case & Outline Delivery Plan for the specified funding is to state **WHY** the planned work is important, **WHAT** will be delivered (outcomes/benefits), **HOW** this will be delivered (including resources), and by **WHEN** this will be achieved.

In completing this document, please refer and link to existing documentation already in place in relation to the funding and planned spend (e.g. Policy, Strategy, Legislation or other key documentation such as evidence of a Project Mandate or a Project Brief).

1 PURPOSE OF THE SPEND

What is the purpose of the spend, and what is the expected financial impact from the spend in terms of savings and/or income?

Background

Waste Services have submitted an application to The Scottish Government's Recycling Improvement Fund (RIF), requesting investment funding to support The Highland Council's best practice proposals to implement significant kerbside waste and recycling service improvements across all of Highland. The funding application is aimed at accelerating our progress towards meeting local and national recycling targets, by increasing the amount of waste diverted from landfill to recycling and to reduce carbon emissions associated with landfilling waste. Should the application be successful, changes are proposed to commence from April 2024.

The Recycling Improvement Fund is a £70 million Scottish Government fund which provides capital funding to support local authorities to improve their recycling infrastructure.

The total amount of funding that has been requested in the application submitted by The Council is approximately £6.5M and a response on whether this has been successful is expected in April 23.

A summary of the funding application is as follows:

- Introduce a ‘twin stream’ recycling service to all areas of Highlands – fibres (paper and card) collected in 240 L bin; containers (metal cans, plastic bottles and pots, tubs trays) collected in 240 L green bin (utilising the existing refuse bin).
- Weekly food waste collections offered to an additional 32K households. This will require funding for the provision of both internal and external food waste caddies, as well as the additional 6 food waste collection vehicles required to service these proposed new food waste routes.
- Refuse bins will be reduced in size to 140 Li bins in areas which receive food waste collections and 180 L in areas without food waste collections. This will require funding for the provision of the 140 L and 180 L bins for all 130,000 properties in Highland
- Modifications to and additional Waste Transfer Station infrastructure will be required to support this package of changes. As part of this application, the Council is seeking the capital required to develop both the Portree and Seater Transfer Stations, to enable the bulking for a twin-streaming operation.

Completed application submissions are assessed by a Panel against the aims and objectives of the RIF and the evaluation criteria as set out in the table below.

Criteria	Weighting
Evidence Led	27.50%
Impact & Transformation	22.50%
Strategic & Collaborative	20%
Feasibility	20%
Additionality	5%
Acceptabililty	5%

Feasibility accounts for 20% of the evaluation criteria and includes being able to demonstrate that the project is deliverable, well planned; and critically, that targeted communication of waste and recycling infrastructure changes (kerbside collections) to the public is carried out. Funding for communications is not included in the grant and therefore, Local Authorities are required to provide the commitment to self-fund the delivery of pro-active communications and engagement to undertake to support the proposed implementation of the service change detailed in the application.

Effective communications plans are vital to ensuring the projected outcomes and ambitions contained within the application can be achieved and sustained. To assure the assessment panel of its positive impact, a detailed and effective communications plan including the corresponding budget of £273K has been detailed in the funding application. These commitments will form part of the contract deliverables and milestones where a grant is awarded.

The principle aims of the communications plan are:

- To help HC implement a Household Recycling Charter compliant waste and recycling service.
- To ensure residents in Highland have a strong awareness and understanding of the new recycling and waste services provided by HC
- To increase participation in recycling service
- To reduce the amount of waste generated
- To ensure the quality of the recyclable material continues to be at acceptable contractual levels
- To work with internal and external partners, through schools and the wider community, to build community participation in not only the new provisions but also the wider messages around reducing waste, looking after scarce resources and protecting the environment.

Messaging and strategic approach

Due to the scale of the service change which will affect all households across the entire Highland region, a phased approach based on operational collection areas will be adopted when implementing the new services. This will be carried out over a 15 month period, and therefore the messaging will need to be carefully planned, using a combination of high level communications along with targeted approaches.

We will use the data from a recent Waste Composition Analysis to help explain why we are making the changes to the services to help reinforce the environmental/economic reasons and benefits. We will utilise multiple communication channels as detailed below to ensure our messaging reaches the widest audience within each roll-out area.

External Campaign will include:

- All households will be contacted to explain the service change approx. 4 - 6 weeks prior to the service change.
- Emails will be sent to business waste customers during the Teaser phase detailing the service change 4-6 weeks prior
- Advertising in the local press, radio advertising (where applicable), livery for new collection vehicles, posters in public buildings
- Detailed guidance on the changes (what, why, when, how, recycling journey) will be provided with the new refuse bin (bin size appropriate), along with a new collection calendar
- Emails with updated business waste guide will be sent to business waste customers detailing the changes
- Updated contamination & presentational information stickers will be used by crews
- HC website content will be updated to explain the service change including FAQs. A specific page will be set up which details the timelines for roll-out in the operational areas with updates on when the changes for villages/towns/settlements are scheduled. We will direct residents to this page in our advertising both printed and digital during the teaser phase.
- Press plan will be developed to support each of the roll-out areas
- Social media (FB &Twitter) plan will be developed that provides regular updates, reminders and guidance for the public.

Internal campaign will include:

- Utilising the HC intranet page to inform staff of the changes and direct them to the web pages for updates
- Working closely with the Customer Services Team to develop briefings, training and comms for their staff ahead of the roll -out. Regular updates and feedback between their team and Waste will be crucial
- Briefing notes for Elected Members and Community Councils will be issued ahead of each roll-out phase.
- Engaging with Senior colleagues in Education and Facilities ahead of the roll-outs to explain the changes that will affect premises and what they will be required to do.
- Waste Collection Crew briefings and training will be delivered ahead of the roll out to ensure they understand why the changes are being implemented and how.

Community Engagement activities to raise awareness of the service change will include – delivering talks and activities to schools & community groups (including housing tenant forms), attending roadshows and events – all of which will be scheduled to be delivered ahead of implementation and during roll-out if time allows. Monitoring the new collection routes as the new service commences will be carried out by the Waste Aware Team to assist collections crews identify contamination & excess. Advice and support will also be given to residents and business owners who are unsure how to use the new service. To ensure we have enough staffing capacity to deliver the communications plan it will be necessary to recruit an additional 2 x Waste Awareness Assistants for 1 year to assist with the above Community Engagement activities to bolster the existing team resource during the intense roll-out period. In addition, to assist with the increase volume of calls to the Service Centre, 1 x Service Centre Assistant will be funded to answer calls during the

Rollout Communications Plan and costings	
130K x Teaser letter, posted in phases - postage 0.36p	£75,000
130K x 16 page booklet	£25,000
130K x calendars double sided card	£8,500
Newspaper Advertising	£21,000
2 X Waste Aware Staff for 1 year on HC6 Grade @ £41,781.92 PA (HC6 + pay award uplift + 31% on costs)	£83,563.83
RCV livery	£15,000
Radio advertising	£10,000
1 x Service Centre Staff for 1 year on HC4 Grade @ £35,065.68 PA (HC4 + award uplift + 31% on costs)	£35,065.68
Total	£273,130

2 SCOPE OF THE PLAN: OUTCOMES & BENEFITS

Scope is defined as the totality of the **Outcomes** and **Benefits** and the work required to produce them.

In line with Purpose, the following **Outcomes** and **Benefits** will be achieved – benefits to include financial ‘cashable’ (Income/Savings/Cost Avoidance), and non-cashable such as External/Internal Customer Satisfaction, Performance Improvements, delivery of Local/National Outcomes

OUTCOME & BENEFIT	SAVING / INCOME £k	DATE THIS WILL BE ACHIEVED	MEASURED BY
Compliance with Household Waste Recycling Charter	N/A	May 2025	All households receiving a Charter Compliant Service across Highland
An annual recurring revenue savings of £135k will be achieved through a reduction residual waste treatment and improved recycling	£135k	Measured annually	Waste Data Flow submissions and budget monitoring
616 tonnes per annum of carbon savings (CO2 equivalent)	N/A	Measured Annually	SEPA submissions
Increase participation of food waste collections in Inverness	N/A	Measured quarterly	Monitoring presentation of caddies
Reduction in level of contamination from kerbside recycling	N/A	Measured quarterly	Contractor sampling reports, crew contamination reports and Materials Recovery Facility Code of Practice

NOTE: For the scope of work planned, a Community Impact Assessment Screening should be conducted to consider the impacts on communities and customers

- There is a legal requirement to consider the Public Sector Equality Duty.
- There are duties to consider socio-economic impact at strategic level (the Fairer Scotland Duty).
- The Council has made commitments to consider rural impacts and there is now a duty to consider Island impacts.

3 APPROACH & GOVERNANCE

APPROACH: The approach should include at a minimum the following, tailored and proportionate to the relative scale and complexity of the Plan. As well as information provided in this Business Case & Outline Delivery Plan, confirm the approach to be applied to deliver the Plan and the in-scope **Outcomes** and **Benefits**.

CONTROL	CONTROL IN PLACE? (Y/N)	PLANNED ACTION
BUSINESS CASE Evidence-based justification (this document)	Y	This document
OUTLINE DELIVERY PLAN How and when outcomes and benefits will be delivered (Project Plan)	Y	Outline project plan has been produced and will continue to be developed to includes the details of each key milestone and phase of the project.
BUDGET MANAGEMENT Actual spend, commitments and assumptions, projected spend	Y	Projected spend for the communications plan has been estimated using current pricing from suppliers and THC pay grades.
GOVERNANCE Scrutiny, direction and control (where will progress be reported)	Y	Progress reported to Waste Project Board
RISK MANAGEMENT Visibility of risk, and proactive management	Y	Risks register to be maintained by Project Manager
BENEFITS REALISATION Tracking and measuring, ensuring that Benefits are derived from the planned Outcomes and how success will be measured.	Y	Annual tonnage of waste diverted from landfill for recycling.

GOVERNANCE: Confirm the governance arrangements for the scrutiny, direction and control required to deliver the Plan and the in-scope **Outcomes** and **Benefits**

Officer Governance (e.g. Project Board, Change & Improvement Board)	**Member Governance** (e.g. Redesign Board, Strategic Committee, Council)	**Other** (e.g. Partners)
Waste Project Board	Strategic Committee	

4 OUTLINE DELIVERY PLAN

What are the timescales for delivering the Plan?

Milestone/Key Stage/Outcome	Target Date
Approval of capital spend	Q1 2023/24
Detailed project plan to be completed	Q1 2023/24
Procurement, Award of mailing contract	Q2 2023/24
Procurement of advertising & collateral	Q3 2023/24
Communications begin 4-6 weeks ahead of the first phase of roll out	Q4 2023/24
Service change commences	Q1 2023/24
Service change complete	Q2 2024/25

5 INTERDEPENDENCIES

An interdependency is the relationship of tasks or projects wherein one project can impact another's progress, or their order of occurrence can substantially influence the planned work.

Specify the related and/or dependent work/projects in respect of this Plan
• An award of funding from the RIF is dependent upon The Council self- funding the communications to support the service change detailed • If the application to the RIF is not accepted, the capital for the communications package will not be required

6 PROFILE OF SPEND

What is the planned profile of the spend?

Year	Projected Spend £
2022/23	0
2023/24	64,500
2024/25	172,500
2025/26	36,000
2026/27	

7 CONTRACTUALLY COMMITTED SPEND

What is the contractually committed spend, such as for staff, goods and services, where there is a legal and/or contractual undertaking.

Specify Spend Elements (These could be people resource, products, services, or key stages)	Budget £	Sums Contractually Committed £k	Balance £k
N/A	0	0	0

8 RESOURCES

What resources are required? Are resources available - if not how might they be made available?

In line with the Approach, resource will typically include:

- ✓ **Project Resource** - e.g. Business Change, Project Management, Finance, HR, etc.)
- ✓ **Subject Matter Expertise** – specific to the scope of work and the objectives to be delivered
- ✓ **External Resource** – e.g. non-Council specialist roles such as consultancy
- ✓ **ICT, Property & Plant** – are there any anticipated requirements?

Resource Required:	Yes / No	FTE	Role(s), e.g. Project Manager

Project Resource	Y	0.5 FTE	Principal Waste Management Officer
Subject Matter Expertise	N	-	-
External Resource	N	-	-
ICT, Property & Plant	N	-	-

9 RISKS

What are the key risks associated with the Plan together with the likely impact and action to mitigate/manage?

Risk	Impact (High/Medium/Low)	Mitigation & Management Action
The Recycling Improvement Fund does not provide an allocation to each Local Authority. Funding is provided based on the quality of the application made. Securing funding is competitive and there is a risk of the Council not being successful with the funding application.	Low	This has been mitigated by working with Zero Waste Scotland to ensure a strong submission has been made.
Timescales for the rollout may slip due to issues with the delivery of the bins and caddies	medium	Communications (advertising and mailings) and engagement activities will be adjusted to align with the new timescales

APPENDIX 4iv

BUSINESS CASE & OUTLINE DELIVERY PLAN

Funding	Description: Highland Allowances for Foster Carers, Kinship Carers and Adoptive Parents
	Budget: £1,305,755
Service	Health, Wellbeing and Social Care
Responsible Officer	Alison Gordon (Resource Manager) & Margaret McIntyre (Head of Service)
Date	13.02.23

The purpose of the Business Case & Outline Delivery Plan for the specified funding is to state **WHY** the planned work is important, **WHAT** will be delivered (outcomes/benefits), **HOW** this will be delivered (including resources), and by **WHEN** this will be achieved.

In completing this document, please refer and link to existing documentation already in place in relation to the funding and planned spend (e.g. Policy, Strategy, Legislation or other key documentation such as evidence of a Project Mandate or a Project Brief).

1 PURPOSE OF THE SPEND

What is the purpose of the spend, and what is the expected financial impact from the spend in terms of savings and/or income?

The purpose of this spend is to increase the payment of allowances for family-based care, specifically for foster care, kinship care and adoption. The current spend (see table 3) for allowances is **£2,290,772**. The proposed increase spend would be **£3,596,527** which is an **increase of £1,305,755.**

The payment of allowances is the financial support specifically to meet the day-to-day costs of meeting the child's basic needs. These are Highland's care experienced children who come from backgrounds of significant adversity, trauma, and disadvantage, including poverty. Highland has statutory responsibilities for these children as corporate parents. The position for the past number of years is that Highland pays the lowest allowances in Scotland for Highland's care experienced children. Moreover, many local authorities will adjust allowances directly linked to cost of living and inflation incrementally over time. There has been no cost of living and inflation increase in allowances for over 10 years in Highland.

This report sits within a broader national context of policy in Scotland, for example, Fairer Scotland Duty, GIRFEC, and, notably, The Promise. The Fostering Network, State of the Nation Foster Care Survey, (2022/23) evidences the significant inequality of allowances across Scotland for care experienced children, young people, and their carers. This report highlights a post code lottery of allowances across Scotland. The cost-of-living crisis and growing poverty and inequality places additional challenges and risks in trying to support, promote and sustain all forms of family-based care in Highland.

Highland Health & Social Care, Children's Services, has an ambitious **Family 1st strategy** to continue to grow, invest and support care within families and local communities to prevent Highland children being moved out of the Highlands at considerable cost. As these costs associated are financially unsustainable to Highland Council, changing the type of care and support available is key.

There are not enough Highland foster carers and at times, kinship care is not financially viable for some families who are already struggling with poverty and the unprecedented cost of living crisis. Keeping Highland children in the Highlands, where they have deeply felt identity, connection and belonging, is the right thing to do. It is also a spend to save investment, as the alternative, when protective measures must be taken, would be out of area provision, which can be significantly more costly.

Our Family 1st strategy is about change by investing in those models and approaches that ultimately will achieve better outcomes. The aim is to shift spend by growing and investing in family-based care (kinship, fostering and adoption) to promote best value and reduce the long-standing budgetary pressures faced by all children's services across the UK – specifically, responding to our statutory duties of care and protection.

Support, including financial support, for foster, kinship and adoptive carers is the bedrock of a strong and healthy family-based care system that meets the needs of Highland's most vulnerable care experienced children.

This business case sets out the detailed financial modelling below which also involved analysis of **all 32** allowance schemes across Scotland's local authorities.

Table 1 – Number of Children by Placement type

Payment Run of w/c 9th & 15th Jan 2023					
Number of Looked After Children Receiving Allowances by Age Allowance Band					
	Foster Care	**Adoption**	**Kinship**	**Residence**	**TOTALS**
0-4	40	0	19	9	68
5-10	38	14	22	37	111
11-15	35	19	27	56	137
16-18	14	13	11	13	51
19+	4	0	0	0	4
TOTALS:	132	46	79	115	371

Table 2 – Financial Modelling with % Increase & benchmarking of closest LA to Highland

	Age Ranges				
Local Authority	**0-4**	**5-10**	**11-15**	**16+**	**Continuin g Care**
Highland (current)*	**77.69**	**96.40**	**120.00**	**155.36**	**155.36**
1 Highland (+ 25%)	97.11	120.50	150.00	194.20	194.20
2 Highland (+50%)	116.53	144.60	180.00	233.04	233.04
3 Highland (+75)	135.95	168.70	210.00	271.88	271.88
4 Highland (+100%)	155.38	192.80	240.00	310.72	310.72
5 Highland Average Mean x **32** (approx.)	135	150	200	225	225
Fife	105.48	119.17	147.90	189.02	
Perth & Kinross	138.50	157.75	196.40	238.87	329.60
Aberdeen City	137.44	156.55	194.89	237.05	237.05
Comhairle Nan Eilean Siar	140.00	160.00	199.00	242.00	242.00
Moray	142.86	162.73	202.58	246.44	246.44
Orkney Islands	142.86	162.73	202.58	246.44	246.44
Shetland Islands	145.00	165.17	205.62	250.14	
Aberdeenshire	150.12	170.65	212.12	258.14	258.14
Argyll & Bute	196.71	196.71	240.40	240.40	240.40

Table 3

Current		Option 1		Option 2		Option 3		Option 4		Option 5	
Current	Current	25% inc	25% inc	50% inc	50% inc	75% inc	75% inc	100% inc	100% inc	Av Mean Rate	
77.69	5,283	97.11	6,603	116.54	7,925	135.96	9,245	155.38	10,566	135.00	9,180
96.40	10,700	120.50	13,376	144.60	16,051	168.70	18,726	192.80	21,401	150.00	16,650
120.00	16,440	150.00	20,550	180.00	24,660	210.00	28,770	240.00	32,880	200.00	27,400
155.36	7,923	194.20	9,904	233.04	11,885	271.88	13,866	310.72	15,847	225.00	11,475
155.36	621	194.20	777	233.04	932	271.88	1,088	310.72	1,243	225.00	900
Total/week	40,968	Total/week	51,210	Total/week	61,453	Total/week	71,694	Total/week	81,936	Total/week	65,605
Weeks	53	Weeks	53	Weeks	53	Weeks	53	Weeks	53	Weeks	53
Additional	119,462	Additional	119,462	Additional	119,462	Additional	119,462	Additional	119,462	Additional	119,462
Per annum	2,290,772	Per annum	2,833,591	Per annum	3,376,446	Per annum	3,919,264	Per annum	4,462,083	Per annum	3,596,527
		Increase	542,819	Increase	1,085,673	Increase	1,628,492	Increase	2,171,310	Increase	1,305,755

The financial modelling indicates that option 1 and 2 would not address the inequality of allowances. Option 5 addresses the equality issue and places Highland in a mid-way position of allowances across Scotland. It is also financially proportionate and affordable compared to options 3 and 4. Option 5 will mean an additional £1,305,755 shall be required to meet the need of all children placed in family-based care.

2 Scope of the Plan: Outcomes & Benefits

Scope is defined as the totality of the **Outcomes** and **Benefits** and the work required to produce them.

In line with Purpose, the following **Outcomes** and **Benefits** will be achieved – benefits to include financial 'cashable' (Income/Savings/Cost Avoidance), and non-cashable such as External/Internal Customer Satisfaction, Performance Improvements, delivery of Local/National Outcomes.

OUTCOME & BENEFIT	SAVING / INCOME £k	DATE THIS WILL BE ACHIEVED	MEASURED BY
Cost Avoidance of Independent Foster Care (IFC)	£49k per child, annually	2023/24	Nos in IFC reduce annually
Cost Avoidance of Independent Residential Care (IRC)	£250+k per child, annually	2023/24	Nos in IRC reduce annually
Increased growth of Kinship Care which is more cost effective than all other forms of care.	Cost of FC vs KC TBC	2023/24	Increase in KC annually
Delivery of Highland's Families 1st	£1m HC investment	2023/26	Reduction in C&YP entering care system and reduction in out of Highland care placements
Key Deliverable of the Promise 21-24 Plan		2020-2030	Sufficiency of stable loving care placements
Better outcomes for children able to remain within their local community		2023/26	Quality assurance framework

NOTE: For the scope of work planned, a Community Impact Assessment Screening should be conducted to consider the impacts on communities and customers

- There is a legal requirement to consider the Public Sector Equality Duty.
- There are duties to consider socio-economic impact at strategic level (the Fairer Scotland Duty).
- The Council has made commitments to consider rural impacts and there is now a duty to consider Island impacts.

3 APPROACH & GOVERNANCE

APPROACH: The approach should include at a minimum the following, tailored and proportionate to the relative scale and complexity of the Plan. As well as information provided in this Business Case & Outline Delivery Plan, confirm the approach to be applied to deliver the Plan and the in-scope **Outcomes** and **Benefits**.

CONTROL	CONTROL IN PLACE? (Y/N)	PLANNED ACTION
BUSINESS CASE Evidence-based justification (this document)	Y	
OUTLINE DELIVERY PLAN How and when outcomes and benefits will be delivered (Project Plan)		
BUDGET MANAGEMENT Actual spend, commitments and assumptions, projected spend		
GOVERNANCE Scrutiny, direction and control (where will progress be reported)		Health, Wellbeing & Social Care Committee
RISK MANAGEMENT Visibility of risk, and proactive management		Increase in allowances is directly in response to manage risks of increasing costs associated with high-cost independent provision.
BENEFITS REALISATION Tracking and measuring, ensuring that Benefits are derived from the planned Outcomes and how success will be measured.		Benefits shall be achieved by reducing Highland's reliance on higher cost independent providers in foster care and residential care. A predicted increase in kinship care would also be an intended outcome.

GOVERNANCE: Confirm the governance arrangements for the scrutiny, direction and control required to deliver the Plan and the in-scope **Outcomes** and **Benefits**

Officer Governance (e.g. Project Board, Change & Improvement Board)	**Member Governance** (e.g. Redesign Board, Strategic Committee, Council)	**Other** (e.g. Partners)
Highland Council	Elected Members	
Health, Wellbeing & Social Care Committee	Elected Members	

4 OUTLINE DELIVERY PLAN

What are the timescales for delivering the Plan?

Milestone/Key Stage/Outcome	**Target Date**
Report to Highland Council	March 2023
Allowance increased if approved at Council	April 2023

5 INTERDEPENDENCIES

An interdependency is the relationship of tasks or projects wherein one project can impact another's progress, or their order of occurrence can substantially influence the planned work.

Specify the related and/or dependent work/projects in respect of this Plan
Highland Health & Social Care, Children's Services, have an ambitious Family 1st strategy to continue to grow, invest and support care within families and local communities to prevent Highland entering the care system and potentially being moved out of the Highlands at a considerable human and economic cost to children and families across the Highlands. This strategy was approved at the HSCW Committee on 9th February 2023, with the £1m funding already approved by Council. This strategy will enable us to improve practice and target keeping children and young people at home (where possible). For those unable to remain within the family home we will actively look at kinship care or foster care. The aim is to reduce the use of high-cost residential placements.

6 PROFILE OF SPEND

What is the planned profile of the spend?

Year	Projected Spend £
2023/24	£1,305,755
2024/25	£1,305,755
2025/26	£1,305,755

7 CONTRACTUALLY COMMITTED SPEND

What is the contractually committed spend, such as for staff, goods and services, where there is a legal and/or contractual undertaking.

Specify Spend Elements (These could be people resource, products, services, or key stages)	Budget £	Sums Contractually Committed £k	Balance £k

8 RESOURCES

What resources are required? Are resources available - if not how might they be made available?

In line with the Approach, resource will typically include:

- ✓ **Project Resource** - e.g. Business Change, Project Management, Finance, HR, etc.)
- ✓ **Subject Matter Expertise** – specific to the scope of work and the objectives to be delivered
- ✓ **External Resource** – e.g. non-Council specialist roles such as consultancy
- ✓ **ICT, Property & Plant** – are there any anticipated requirements?

Resource Required:	Yes / No	FTE	Role(s), e.g. Project Manager
Project Resource	No		
Subject Matter Expertise	No		
External Resource	No		
ICT, Property & Plant	No		

9 RISKS

What are the key risks associated with the Plan together with the likely impact and action to mitigate/manage?

Risk	Impact (High/Medium/Low)	Mitigation & Management Action
Reputational – lowest allowance out of all 32 LAs	High	Proposal to Increase allowances.
Unable to recruit carers	High	As above
Unable to retain carers noting inequality across Scotland and cost of living crisis	High	As above

BUSINESS CASE & OUTLINE DELIVERY PLAN

Funding	Description: My Council Project	
	Budget: £500,000	
Service		
Responsible Officer	Kate Lackie	
Date	08/02/23	

1 PURPOSE OF THE SPEND

The My Council project is an investment to deliver business improvement for our service users & for our staff.

The spend will support and deliver the work of the Redesign My Council Project. An iterative project and data/business-led approach has already been agreed by the Redesign Board, with the focus on improving customer satisfaction with our responses to requests for service and information, and handling issues and complaints. In simple terms, this means undertaking an analysis of the information we hold on customer contact, listening to the teams providing the front-line services, and directly to customers, in order to identify the areas where the biggest improvements can be made. This will ensure a rigorous evidence base, meaning that both the project and the final business case will be informed by data findings. This will enable the project to fully understand what spend is required and where it should be focused.

A bid of £500k is proposed as investment to take this project forward, in accordance with the approach and process as set out in the Project Brief approved by the Redesign Board 28/11/22, which outlined a three-stage approach (Phase 1, 2, 3) and financial investment was highlighted as being as part of that.

The Phase 1 Project work to date (28/11/22 – present) has indicated a disconnect between front and back-office service delivery, which impacts on customer experience and also results in reputational damage. Addressing this will require people, process, and time to develop the project using an iterative approach, and a variety of techniques including LEAN. The project is focused on ensuring significant improvements in customer service delivery & customer experience and is developing a series of baseline measurements to demonstrate improvements.

The My Council is focused on customer contact, end-to-end service delivery and how we organise and develop our staff to provide the best service. This means the My Council project is an opportunity to deliver on the People Strategy, Digital Strategy, and the vision for Business Intelligence.

Key initiatives to drive Key Outcomes (outlined below) include:

- Review of all contact channels
- Develop the website as a core contact channel
- Data driven visual understanding of volumes and types of contacts
- End to end Service Centre process
- Map people, process, and technology required to deliver the service
- Understand the business problems
- Map an end-to-end customer contact process
- Design service improvement for that process

2 Scope of the Plan: Outcomes & Benefits

Scope is defined as the totality of the **Outcomes** and **Benefits** and the work required to produce them.

In line with Purpose, the following **Outcomes** and **Benefits** will be achieved – benefits to include financial 'cashable' (Income/Savings/Cost Avoidance), and non-cashable such as External/Internal Customer Satisfaction, Performance Improvements, delivery of Local/National Outcomes

OUTCOME & BENEFIT	SAVING / INCOME £k	DATE THIS WILL BE ACHIEVED	MEASURED BY
Longer-term outcomes will produce cashable savings as efficiencies are delivered, non-value added activities removed and complaints / service failure reduced, but at this stage the primary driver is to improve end-to-end service delivery for customers.			
Outcome: Reducing cost & Increasing value Better results for our service users: - Irrespective of the contact channel, consistent service provided and the same process. - Transforming the website (front face of the organisation) into a key channel that is maintained as a key corporate asset. - No matter the contact channel, consistent categories / terminology used throughout (e.g. Pay, Request & Report) Redesign: - Consider the Call Centre current model & service delivery methods. Addressing Key Business Problems: - Accurate management information to make decisions.			

- Consistent data to drive insight & business-led decisions. - Resources are put in place to understand and resolve key business problems. Being Data-driven will mean: - producing an overview of collective visual data to represent the Council. Starting with customer contact. Being Data-driven will include: - Performance & governance information - Key Performance Indicators - Business improvement information Being data-driven will enable: - Right information to the right people - Member access - Workforce planning – right people / process / tech at right time <u>Continuous Improvement:</u> - Embedding change & approach within the organisation			
Outcome: Increase Customer Satisfaction - Quick, fast, efficient service delivery - Ensuring a slick process - Holistic customer experience - Reduce complaints			

NOTE: For the scope of work planned, a <u>Community Impact Assessment</u> Screening should be conducted to consider the impacts on communities and customers

- There is a legal requirement to consider the Public Sector Equality Duty.
- There are duties to consider socio-economic impact at strategic level (the Fairer Scotland Duty).
- The Council has made commitments to consider rural impacts and there is now a duty to consider Island impacts.

3 Approach & Governance

APPROACH: The approach should include at a minimum the following, tailored and proportionate to the relative scale and complexity of the Plan. As well as information provided in this Business Case & Outline Delivery Plan, confirm the approach to be applied to deliver the Plan and the in-scope **Outcomes** and **Benefits**.

CONTROL	CONTROL IN PLACE? (Y/N)	PLANNED ACTION
BUSINESS CASE Evidence-based justification (this document)	Y	The Business Case (subject to version control) will be developed in an iterative way.
OUTLINE DELIVERY PLAN How and when outcomes and benefits will be delivered (Project Plan)	Y	The project is phased. The phase plan is under the direction and scrutiny of the Project Board.
BUDGET MANAGEMENT Actual spend, commitments and assumptions, projected spend	Y	The budget management spend, commitments and assumptions will be tracked and managed through Governance protocols, including the Programme Management Office.
GOVERNANCE Scrutiny, direction and control (where will progress be reported)	Y	Project Board Change & Improvement Board Redesign Board
RISK MANAGEMENT Visibility of risk, and proactive management	Y	Risk Register, subject to governance and scrutiny by the Project Board.
BENEFITS REALISATION Tracking and measuring, ensuring that Benefits are derived from the planned Outcomes and how success will be measured.	Y	Benefits are being identified in line with phase outcomes.

GOVERNANCE: Confirm the governance arrangements for the scrutiny, direction and control required to deliver the Plan and the in-scope **Outcomes** and **Benefits**

Officer Governance (e.g. Project Board, Change & Improvement Board)	**Member Governance** (e.g. Redesign Board, Strategic Committee, Council)	**Other** (e.g. Partners)
Project Board	Project Board	
Change & Improvement Board	Redesign Board	

4 OUTLINE DELIVERY PLAN

What are the timescales for delivering the Plan?

Milestone/Key Stage/Outcome	Target Date
Phase 1: Understanding, identifying & defining areas for improvement	31/03/23
Phase 2: Examining individual processes, delivering quick wins & preparation required for digital improvement	30/11/23
Phase 3+: Delivering prioritised Projects and Improvement Interventions	Ongoing
Phase 4: Implementation	Ongoing
N.B. Implementation will take place in earlier phases where there are opportunities for quick wins.	

5 INTERDEPENDENCIES

An interdependency is the relationship of tasks or projects wherein one project can impact another's progress, or their order of occurrence can substantially influence the planned work.

Specify the related and/or dependent work/projects in respect of this Plan
• Asset Management • Roads Redesign • Community Engagement Portal • Existing Digital Improvement Projects • Re-procurement of Telephony System • New Ways of Working

6 PROFILE OF SPEND

What is the planned profile of the spend?

Year	Projected Spend £
2022/23	
2023/24	£500k
2024/25	
2025/26	
2026/27	

7 CONTRACTUALLY COMMITTED SPEND

What is the contractually committed spend, such as for staff, goods and services, where there is a legal and/or contractual undertaking.

Specify Spend Elements (These could be people resource, products, services, or key stages)	**Budget £**	**Sums Contractually Committed £k**	**Balance £k**
Dedicated ICT development resource			
Service business change / development resource			
Implementation of customer contact solution			
Website development & design work resource			
Customer journey design & development work resource			

8 RESOURCES

What resources are required? Are resources available - if not how might they be made available?

In line with the Approach, resource will typically include:

- ✓ **Project Resource** - e.g. Business Change, Project Management, Finance, HR, etc.)
- ✓ **Subject Matter Expertise** – specific to the scope of work and the objectives to be delivered
- ✓ **External Resource** – e.g. non-Council specialist roles such as consultancy
- ✓ **ICT, Property & Plant** – are there any anticipated requirements?

Resource Required:	**Yes / No**	**FTE**	**Role(s), e.g. Project Manager**
Project Resource	Yes	2	Project Manager x 1 (TBC), Data Analyst x 1 (TBC)
Subject Matter Expertise	Yes	1	Digital Business Partner (TBC)
External Resource	Yes		
ICT, Property & Plant	Yes		Website upgrade, applications purchase

9 RISKS

What are the key risks associated with the Plan together with the likely impact and action to mitigate/manage?

Risk	Impact (High/Medium/Low)	Mitigation & Management Action
Significant risk of scope creep, due to the iterative development process, while project planning, scope and objectives are in development.	**High**	Short planning. Research and data are crucial to prioritisation, and Project Board to review plans and targets resulting from phase 1. Business case development, with vision outlined.
Managing expectations of the project deliverables and outcomes.	**High**	Communication Strategy. Plan a tailored communication approach. Short planning. Regular board meetings. Regular highlight reports.
Focus on technology may lead to solutions that do not meet the business requirements		Focus on business problems that look at people, process and then technology. Significant engagement with Digital & ICT to understand the potential capabilities of current business applications, as well as the planned upgrades. Research and identify Customer Experience platforms used in other local authorities and organisations across the UK.
Alienation of current core / frequent customers.	**High**	Customer profiles need to be established. Communication Strategy. Stakeholder Engagement Strategy & Plan. Plan a tailored communication approach. Education approach and requirements. As customers will be used to specific contact methods, an iterative / phased change model may need to be considered for certain contact methods. Any proposed change will need to be evaluated in terms of risk/return.
Resource implications of implementing any new / updated technology	**High**	Training requirements of new / updated technology roll outs will need to be scoped and costed as part of the options appraisal. Detailed options appraisal to understand requirements. Data cleansing and validation required prior to any roll out of new systems/technology. Regular Board meetings.

Feasibility of existing systems in place to efficiently optimize the customer journey e.g. omni (integrated channel) contact methods.	**Medium**	Collaborate and engage with ICT regarding the capabilities of current applications and systems. Taking a business case led approach based on the defined business problems, opportunities and outcomes. Engage with stakeholders regarding the current customer journey and processes. Engage with stakeholders to establish what an optimized customer journey would look like and work with ICT, conduct a feasibility study.
Resource implications of delivering project alongside service delivery	**Medium**	Organisational and service buy-in. Regular Board meetings. Communication Strategy. Plan a tailored communication approach.
Data protection and security issues not recognised as significant early enough and become delaying factors later in the project.	**Medium**	Identify the need for data protection impact assessments of different activities throughout the project and ensure that these are reported to the Board.

An Leas-phrìomh Mhinistear agus Ath-shlànachadh Cobhid
Deputy First Minister and Cabinet Secretary for Covid Recovery
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Councillor Morrison
COSLA President
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Copy to: Councillor Steven Heddle
The Leaders of all Scottish local authorities

15 December 2022

Dear Shona,

Today I formally set out the Scottish Government's proposed Budget for 2023-24 in a statement to the Scottish Parliament. I write now to confirm the details of the local government finance settlement for 2023-24.

As discussed when I met with you, the Resources Spokesperson, and Group Leaders on 1 December, we are facing the most challenging budget circumstances since devolution. This is primarily due to over a decade of austerity eroding financial settlements from Westminster, compounded by the impact of Brexit and the disastrous mini-budget. Scottish and local government are experiencing unprecedented challenges as a result of the UK Government's economic mismanagement, resulting in rising prices and soaring energy bills, with inflation estimated to be running at a 41 year high of 11.1% at the time of the Chancellor's Autumn Statement.

My Cabinet colleagues and I have engaged extensively with COSLA Leaders and spokespersons over the course of the year and there is collective understanding that this economic context is also having a significant impact upon local authorities. Councils, like the Scottish Government and rest of the public sector, are working hard to support people through the cost crisis. In this regard we are hugely grateful to councils for their hard work and we fully appreciate that no part of public life has been immune from taking deeply difficult decisions to live within the current fiscal reality.

I have already taken the unprecedented step of making a statement to Parliament to reprioritise over £1.2 billion of funding as part of my Emergency Budget Statement. Despite the scale of that challenge the Scottish Government actively chose to protect Councils during that exercise and increased the funding available to councils whilst most other portfolios were required to make significant savings.

The Scottish Government's revenue raising powers offer limited flexibility to deal with challenges of this magnitude. I wrote to the Chancellor on 19 October to highlight the impact of inflation on the Scottish Government's budget and to call for additional funding to help us deal with these inflationary pressures and to support public services.

As we face these challenges, and in the absence of meaningful change in direction by the UK Government, we need to work together to ensure that we deliver for people within the financial constraints we have. I very much welcomed the open discussion on 1 December about how we focus our efforts on our shared priorities, and to that end we are offering to jointly develop an approach to working within this budget which delivers our ambitions.

The Local Government Settlement

Before turning to that offer, I will first set out how I have sought to support local government through the budget itself.

The Resource Spending Review guaranteed the combination of General Revenue Grant and Non-Domestic Rates Income at existing levels between 2023-24 and 2025-26 including the baselining of the £120 million that was added in Budget Bill 2022-23. The Budget delivers those commitments in full, despite the fact that the UK Government's Autumn Statement reversed their previous position on employer National Insurance Contributions resulting in negative consequentials. This decision has conferred around £70 million of additional spending power for local government.

The difficult decisions in the Emergency Budget Statement provided one-off additional funding to support enhanced pay deals for local government staff. We recognise the role that increasing pay for local authority employees, especially those on lower incomes, plays in helping more people cope with the cost crisis, but the fact remains that every additional pound we spend on recurring pay deals, must be funded from elsewhere within the Scottish Government budget. I therefore hope that councils will welcome the fact that the budget baselines the additional £260.6 million allocated in 2022-23 to support the local government pay deal and also delivers additional funding to ensure that payment of SSSC fees for the Local Government workforce will continue to be made on a recurring basis.

Despite the challenging budget settlement I have sought to increase funding as much as I can. I have been able to increase General Revenue Grant by a further £72.5 million, taking the total increase to over £550 million. I have also ensured that we have maintained key transfers worth over £1 billion and added a further £102 million of resource to protect key shared priorities particularly around education and social care.

The Resource Spending Review also confirmed the outcome of the 2021 Capital Spending Review and this has been supplemented by £120.6 million mentioned as part of the support to the local government pay deal plus a further £50 million to help with the expansion of the Free School Meals policy.

With regards to that wider settlement, we are providing £145 million to be used by councils to support the school workforce. The Cabinet Secretary for Education and Skills has written separately to COSLA on this matter.

I am also very grateful for the work undertaken through the Early Learning and Childcare Finance Working Group to develop and scrutinise detailed analysis of the delivery costs for the 1140-hour commitment. This is crucial to ensuring we meet our shared commitment to providing transparency and value for money in a significant programme of public sector investment. The Early Learning and Childcare settlement for 2023-24 takes account of significant declines in the eligible population in recent years and makes provision for important policy and delivery priorities based on feedback from COSLA and local government colleagues.

As set out in separate detailed communications, the Health and Social Care Portfolio will transfer net additional funding of £95 million to Local Government to support social care and integration, which recognises the recurring commitments on adult social care pay in commissioned services (£100 million) and inflationary uplift on Free Personal Nursing Care rates (£15 million). This is offset by the non-recurring interim care money ending (£20 million).

The overall transfer to Local Government includes additional funding of £100 million to deliver a £10.90 minimum pay settlement for adult social care workers in commissioned services, in line with Real Living Wage Foundation rate.

The funding allocated to Integration Authorities should be additional and not substitutional to each Council's 2022-23 recurring budgets for services delegated to IJBs and therefore, Local Authority social care budgets for allocation to Integration Authorities must be at least £95 million greater than 2022-23 recurring budgets.

The consolidation of funding into the new £30.5 million homelessness prevention fund not only reflects the importance local and national government jointly place on homelessness prevention and earlier intervention, but also simplifies the homelessness funding landscape. This provides more flexibility for council and greater clarity for citizens who want to understand how national and local government are working jointly to improve outcomes.

In total, including the funding to support the devolution of Empty Property Relief, the budget increases the local government settlement by over £550 million relative to the Resource Spending Review position.

I am conscious of the position you set out to me, and the challenges which councils will still face, like all parts of the public sector, in meeting current and emerging demands from within this budget. Therefore, I am offering to continue to work with you with real urgency in the coming weeks to determine how we might jointly approach these challenges and ensure sustainable public services to support our shared priorities now and in the future.

Delivering for People and Communities by Working Together Flexibly

Through the Covid Recovery Strategy, Scottish Government and Local Government, committed to work together to address the systemic inequalities made worse by Covid, to make progress towards a wellbeing economy, and accelerate inclusive person-centred public services.

We must sustain this focus on the outcomes we care most deeply about, in particular:

i) tackling child poverty,

ii) transforming the economy to deliver net zero, and
iii) sustaining our public services.

No single part of the public service landscape can deliver these outcomes alone. We need to work in partnership to deliver outcomes for people and places across Scottish and local government as our two spheres of government, recognising our joint accountability for change. Local service providers have the critical relationships with people and communities and must be empowered and enabled to organise services around their needs, rather than the funding stream, policy area or body delivering. By doing so, we will collectively reduce complexity and barriers for people, deliver improved outcomes and reduce inequalities among communities in Scotland, and enable the fiscal sustainability of key public services.

Strong local leadership will make this approach work in practice, supported by a national vision and learning from good practice. Community Planning Partnerships are the mechanism in which we need to see a collective and intensive effort to align available resources into prevention and early intervention focused on delivering shared outcomes for people and place. Local authorities have the leading, critical role in CPPs, but CPPs also involve a range of public bodies which must play their part, alongside local third sector and community bodies.

The Scottish Government is committed to building trust and maximising benefits for our citizens and communities. We will act to:

- align budgets to maximise impact on outcomes;
- remove barriers which hinder flexibility in funding, and in the design and delivery of services around people, helping to embed the service changes flowing from this;
- require our partner public bodies and agencies to work collaboratively within CPPs to deliver shared outcomes, take action to address local priorities and align local funding, this will be supported by our Place Director network;
- enable third sector partners to participate and contribute in local plans, including through flexible funding.

Local authorities are key partners in this endeavour. Through COSLA, we will invite local authorities to work with us to:

- prioritise spending to agreed key outcomes for which we are jointly accountable, with clarity as to the way in which we will work together to secure and measure success;
- ensure that joint plans of activity across Community Planning Partnerships can deliver those outcomes in a way which reflects the needs of a local communities, and to robustly account for delivery of these plans;
- share resources across CPPs to deliver these activities in whatever way is most effective;
- continue to share and learn from best practice nationally and locally to embed person centred approaches that work for individuals and communities, and reduce barriers and duplication in our joint systems.

We will seek to agree jointly how to put this commitment into operation practically over the coming months and to develop robust assurance that demonstrates delivery of critical priorities and reform. We need to be data driven and transparent, reflecting the accountability which comes with responsibility. Scottish and Local Government need to agree metrics and mechanisms for monitoring impact and outcomes, so that intervention and resource can be targeted where it is most needed to secure improvement. This will include seeking to reduce unnecessary reporting.

This approach is aimed at building trust and relationships and as well as adopting it through this budget, it will be reflected in the partnership agreement that will underpin the New Deal for Local Government set out in the Resources Spending Review. In order to offer flexibility across funding and work towards removal of ring fencing, the Scottish Government will need clear commitment from local government about delivery of agreed joint outcomes.

The Cabinet Secretary for Social Justice, Housing and Local Government would welcome an initial discussion on this when you meet next week at the Strategic Review Group, in order to pave the way for work at pace among our officials.

Non-Domestic Rates and Other Local Taxation Measures

As Leaders will be aware, the 1 April 2023 marks the date of the next Non-Domestic Rates revaluation, and the first to reflect the reforms introduced by the independent Barclay Review of Non-Domestic Rates. These reforms, including the move to three-yearly revaluations and a one-year tone date, will ensure that property values more closely align with prevailing property market conditions in Scotland.

The Budget freezes the poundage and acknowledges the impact of the revaluation by introducing a number of transitional reliefs to ensure that any properties which see significant increases in their rates liabilities following the revaluation do so in a phased manner. The Barclay Review also recommended a number of reforms to the Non-Domestic Rates appeals process which are critical to ensuring the deliverability of the three-yearly revaluation.

The new two-stage appeals process will commence on 1 April 2023 alongside the transfer of functions of Valuations Appeals Committees to the Scottish Courts and Tribunals Service. The Non-Domestic Rates (Scotland) Act 2020 and subsequent regulations have, amongst other things, provided Assessors and Councils with greater information-gathering powers and have also increased the transparency of the process for ratepayers including, for the first time, the provision of draft values on 30 November 2022. These reforms are intended to reduce the reliance on the formal appeals process to deliver accurate rateable values and the Act also provided a legal basis for the pre-agreement of values.

Many of the reforms of the Barclay Review seek to incentivise behaviour changes to deliver a more effective and efficient system. Reflecting the ability to pre-agree values and the importance of building resilience in the new appeals system to support the transition to more frequent revaluations, Ministers plan to make administrative changes to the funding treatment of appeals associated with public sector bodies, including councils.

The current system essentially sees the public sector challenge other parts of the public sector with private sector advisor fees effectively extracting resources from public services. The conclusion of the process determines funding allocations outside the remit of the annual budget framework with successful public bodies benefiting financially to the detriment of other ratepayers and public services. The volume of public sector appeals also serves to delay access to justice for other appellants.

Ministers do not believe that this offers value for money for the public. Whilst the right to propose and appeal will remain, to incentivise the use of the pre-agreement powers and discourage the continued reliance on the formal appeals process, from 1 April 2023, all bodies, including councils, who receive their funding through the Scottish Government budget process, will see the financial incentive for proposing and appealing removed.

Where a property occupied by a public body is subject to a successful proposal or appeal, the financial benefit from the reduction in rateable value will result in a downward re-determination of revenue allocations at a subsequent fiscal event. On this basis, Ministers will be encouraging all public bodies to begin the process of pre-agreement with their local assessors ahead of 1 April 2023 to ensure that values are accurate prior to the start of the revaluation and that this approach be adopted by default for future revaluations.

The Non-Domestic Rates (Scotland) Act also had the effect of abolishing Empty Property Relief as agreed with the Scottish Green Party a part of the 2019-20 Budget process. Unoccupied properties will therefore be liable for full rates from 1 April 2023 if relief is not available under a local scheme. To effectively devolve responsibility for the relief and provide greater fiscal empowerment for council, as agreed by the Settlement and Distribution Group, the budget provides an additional £105 million of General Revenue Grant, significantly more than the cost of maintaining the national relief in light of the subsequent decision to freeze the poundage.

In addition, following consultation with members of the Institute of Revenues, Rating and Valuation, we will bring forward regulations intended to empower councils to tackle rates avoidance more effectively. In combination, the funding transfer and the proposed new powers will provide significant additional fiscal flexibility to councils to administer support for unoccupied properties in a way that is tailored to local needs.

Furthermore, I can confirm that the Scottish Government will not seek to agree any freeze or cap in locally determined increases to Council Tax, meaning each council will have full flexibility to set the Council Tax rate that is appropriate for their local authority area. I do hope that councils will reflect carefully on the cost pressures facing the public when setting council tax rates.

We are also committed to expanding councils' ability to raise additional revenues and discussions among our respective officials have commenced to identify a structured approach to future potential local taxes. At the same time, councils now have the power to establish local workplace parking levy schemes and our work to introduce a local visitor levy bill in this parliamentary session is on track.

Finally, I am conscious that, while it is not directly applicable to Local Government pay negotiations, many stakeholders have used Public Sector Pay Policy as a reference point in previous years. For this reason, I feel it is important to highlight to you that we have taken the decision not to announce pay uplifts or publish a Public Sector Pay Policy for 2023-24.

There are a number of reasons for this, not least among them the desire to approach pay negotiations differently for 2023-24, the imperative for reform and the need to ensure the sustainability of public sector pay and workforce arrangements. This does not change our view that our job in the midst of a cost crisis is not to press down on pay, particularly the most vulnerable. We will be sharing further guidance in relation to 2023-24 pay at an appropriate point in the new year which is likely to be considered by Trade Union colleagues relevant in Local Government pay negotiations, if you agree I will ask my officials to engage with COSLA officers as this develops to determine if you might wish to formally endorse or adopt it.

I am under no illusions about the challenging fiscal environment we face across all of our public services over the next few years but I have sought to protect the local government settlement as far as possible as far as possible with an overall settlement of over £13.2 billion. The budget goes significantly beyond the commitments made in the Resource Spending Review. It provides substantive additional funding and it does not pass on the negative consequentials for employer national insurance contributions resulting from of the Autumn Statement. Importantly, it provides a number of fiscal and policy flexibilities. Alongside the settlement, I hope my offer to build on the Covid Recovery Strategy will be warmly and urgently received, to enable us to make urgent progress on the New Deal.

I want us to work in partnership, to build on the Covid Recovery Strategy and agree an approach which improves delivery of sustainable public services, designed around the needs and interests of the people and communities of Scotland, at its heart.

I would welcome confirmation that you are supportive of the proposed joint work outlined above and I look forward to working with COSLA and Leaders in the months ahead to deliver on our shared priorities.

JOHN SWINNEY

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Cllr Katie Hagmann
Cllr Tony Buchanan

Copy to: Cllr Shona Morrison
Sally Loudon

7 February 2023

Dear Katie and Tony

Protecting teacher numbers, pupil support staff and learning hours

As you will be aware, the Cabinet Secretary for Education and Skills updated Parliament this afternoon on the actions that the Scottish Government will take to protect teacher and pupil support staff numbers, and the number of learning hours for pupils. This letter confirms that position and, further to the Deputy First Minister's correspondence of 15 December 2022, confirms the revised terms of the local government finance settlement for 2023-24.

We have been clear during recent dialogue that this government's vision for education in Scotland remains to deliver excellence and equity for all. A key element of that is to ensure there is no reduction in the fundamentals of education delivery, including the number of teachers and support staff, and the amount of time children spend learning in schools.

We are agreed that delivering positive outcomes, including raising attainment and closing the attainment gap, is a shared endeavour and one in which we are making positive progress. In particular, we would like to place on record our thanks to colleagues in local government and across the education workforce for their dedication to the delivery of a first-class education for our children and young people.

We have also heard clearly your position on the financial pressures facing local authorities, and understand that they are wrestling with difficult decisions.

However, ministers are equally faced with difficult choices to support vital services, and it is essential that all funding that is allocated supports the outcomes it is provided for. Within this context, we have made our expectations clear that:

- Teacher numbers and the number of pupil support assistants are at least maintained at their current levels in the year ahead, as we continue to work towards our aim to increase teacher numbers by 3,500 and support staff by 500 by the end of this Parliament.
- Places remain available for probationer teachers who need them through the Teacher Induction Scheme.
- There is no reduction in the number of pupil learning hours delivered by teachers in the school week.

Further details are as follows.

<u>Teacher numbers/pupil support assistants/Teacher Induction Scheme</u>

Firstly, turning to teacher numbers, pupil support assistants and the Teacher Induction Scheme. Local authorities already receive £88 million per year to (i) maintain teacher numbers and (ii) provide places on the Teacher Induction Scheme for all probationers who need one (£37 million of the £88m is allocated for this specific purpose).

In addition, we provide a further £145.5 million each year explicitly to fund teacher numbers and pupil support staff.

This funding will be maintained in full, but from April 2023 both components (giving a total allocation in 2023-24 of £233.5 million) will now be conditional upon the successful delivery of the following expectations.

1. Maintain teacher numbers at 2022 census levels, as published in the Summary School Statistics in December 2022 (details provided at Annex A).
2. Maintain pupil support staff numbers at 2022 census levels, which we will publish on 21 March 2023 based on the data collected from local authorities in September 2022.
3. Ensure that places remain available for probationer teachers who need them through the Teacher Induction Scheme

As a result, it is our intention to distribute £151 million as part of the 2023-24 Local Government Order which will remain with local authorities, contingent on them delivering the first two of these expectations. A further £45.5 million will also be distributed following confirmation that those conditions have been met in full. The remaining £37 million will continue to be distributed depending on the number of teachers that receive a place on the Teacher Induction Scheme in August 2023 as has been the case in previous years.

Officials will work with COSLA officers to agree an appropriate monitoring process for those conditions, which is likely to include but not be limited to the data collection for the 2023 school census. In the event of these requirements not being met, then the Scottish Government reserves the right to recover or withhold relevant monies allocated to individual authorities for these purposes. In assessing whether these conditions have been met, we will consider any mitigating circumstances individual councils may wish to put forward, and Ministerial judgement will be applied.

A full breakdown of the teacher numbers we expect to be maintained, both nationally and locally, is attached at Annex A, with the relevant financial allocations set out in Annex B.

Officials will be writing to individual local authorities in the coming days to set out what this means for them specifically.

During our recent discussions you have raised concerns over the decision to remove £32.8 million from the Local Government Settlement for 2023-24. Having reflected upon those concerns we can confirm that £32.8 million will again be transferred from the Education and Skills portfolio to support councils with the continuing cost of previous teacher pay settlements.

Learning hours

Similarly, we are aware that pressure on budgets means that some local authorities are reportedly considering reductions in the number of learning hours for pupils. As with the above, we know they will not have considered that lightly. However, it gives us very serious concern given the significant negative impact it would have on children and young people, and on their families. It would, in our view, be incompatible with our shared mission to provide equity and excellence for all Scotland's pupils.

Therefore, we propose to commence section 21 of the Education (Scotland) Act 2016, which confers powers on the Scottish Ministers to specify by regulations the minimum number of learning hours which must be made available to pupils in a school year. We intend to consult shortly on proposals to make regulations under that power which would ensure that there is no reduction in the number of learning hours made available to pupils.

Decisions over the delivery of the school week are primarily for local authorities and I am aware that many authorities have already used a degree of flexibility in order to adapt provision, for example, to implement an asymmetric week. We would not intend to restrict that flexibility, but to ensure that the current levels of provision, which are so important to pupils and parents, are protected.

It will be important to gather accurate information on current provision in order to inform our consultation and ensure that new regulations would have their intended effect. Officials have prepared short surveys that local authorities are asked to complete via SmartSurvey to provide information on the number of learning hours per week currently taught in schools. The surveys can be accessed here:

Primary schools - https://www.smartsurvey.co.uk/s/4M7LJ6/
Secondary schools - https://www.smartsurvey.co.uk/s/53W3L7/
Special schools - https://www.smartsurvey.co.uk/s/60KAF4/ .

We would be grateful if these are completed by Wednesday, 22 February.

All other terms of the Local Government finance settlement offer for 2023-24, as set out in the Deputy First Minister's letter of 15 December 2022, remain unchanged. This includes our firm commitment to delivering a New Deal for Local Government.

There have been positive discussions between Ministers and the COSLA Leadership in recent weeks and we are keen to build on these and seize the opportunity to agree an outcomes-based partnership and new fiscal framework.

We are content to discuss any of the above further if that would be helpful.

Yours sincerely

SHIRLEY-ANNE SOMERVILLE **JOHN SWINNEY**

ANNEX A

Teacher FTE from the 2022 census (as published in December 2022), including ELC:

Local Authority	Teacher FTE
Aberdeen City	1,836
Aberdeenshire	2,747
Angus	1,156
Argyll and Bute	835
City of Edinburgh	3,725
Clackmannanshire	556
Dumfries and Galloway	1,389
Dundee City	1,395
East Ayrshire	1,243
East Dunbartonshire	1,393
East Lothian	1,031
East Renfrewshire	1,393
Falkirk	1,651
Fife	3,724
Glasgow City	5,779
Highland	2,356
Inverclyde	781
Midlothian	1,081
Moray	977
Na h-Eileanan Siar	320
North Ayrshire	1,434
North Lanarkshire	3,726
Orkney Islands	257
Perth and Kinross	1,419
Renfrewshire	1,780
Scottish Borders	1,067
Shetland Islands	339
South Ayrshire	1,164
South Lanarkshire	3,516
Stirling	974
West Dunbartonshire	950
West Lothian	2,075
All local authorities	*54,071

*This total does not include teachers in grant-aided schools. All FTE shown rounded to nearest whole, All local authorities total calculated from unrounded FTE.

ANNEX B

Provisional financial allocations

	145.5m	Historical allocation*	total
Aberdeen City	5.013	1.732	6.745
Aberdeenshire	7.369	2.591	9.961
Angus	3.046	1.091	4.137
Argyll & Bute	2.156	0.787	2.943
Clackmannanshire	1.365	0.525	1.890
Dumfries & Galloway	3.991	1.310	5.302
Dundee City	4.007	1.316	5.323
East Ayrshire	3.314	1.172	4.487
East Dunbartonshire	3.298	1.314	4.612
East Lothian	2.950	0.972	3.922
East Renfrewshire	3.356	1.314	4.670
Edinburgh, City of	10.558	3.514	14.072
Eilean Siar	0.719	0.302	1.021
Falkirk	4.441	1.557	5.998
Fife	10.295	3.512	13.807
Glasgow City	16.461	5.451	21.912
Highland	6.421	2.223	8.643
Inverclyde	2.094	0.736	2.830
Midlothian	2.720	1.019	3.739
Moray	2.458	0.921	3.379
North Ayrshire	3.785	1.353	5.138
North Lanarkshire	9.992	3.514	13.507
Orkney	0.641	0.243	0.884
Perth & Kinross	3.606	1.338	4.944
Renfrewshire	4.775	1.679	6.453
Scottish Borders	2.936	1.007	3.943
Shetland	0.753	0.319	1.073
South Ayrshire	2.934	1.098	4.032
South Lanarkshire	9.383	3.317	12.700
Stirling	2.589	0.919	3.508
West Dunbartonshire	2.532	0.896	3.428
West Lothian	5.541	1.957	7.498
	145.500	51.000	196.500

*This is the ongoing allocation of £88m to maintain pupil teacher ratios, minus £37m which is allocated separately to support the Teacher Induction Scheme.

Institute for Fiscal Studies

IFS Report R241

Kate Ogden,
David Phillips
Luke Sibieta

Council and school funding

Economic and Social Research Council

4. Council and school funding

Kate Ogden, David Phillips and Luke Sibieta

After health, funding for Scottish councils is the second largest item in the Scottish Government's Budget. In the original 2022–23 budget as passed by the Scottish Parliament, the Scottish Government allocated £10.6 billion to councils as part of the main local government portfolio, with further funding from other portfolios increasing the amount initially provided in the annual local government finance settlement for resource (i.e. non-capital) spending to £12.0 billion.

This funding supports a range of service areas including schools, early-years education and childcare, adults' and children's social care, environmental and regulatory services, local transport, leisure and cultural services, planning and local economic development, and housing advice and regulation. Additional funding is raised by councils themselves through council tax and sales, fees and charges, and via contributions from public sector bodies such as the National Health Service (NHS).

The 2010s saw cuts to councils' funding and spending, but more recently funding has been increasing again. This chapter of the report therefore first looks at how Scottish councils' spending on local services changed during the 2010s, splitting spending into spending on schools and spending on other services to allow for easier comparisons of trends in England (although differences in data and responsibilities mean these comparisons are somewhat rougher for the 'other services' category). It then looks forward to 2023–24 and 2024–25, looking at the outlook for overall council funding including for schools, and how this compares with England.

Key findings

1. Changes in the responsibilities of Scottish councils over time mean that it is not possible to carry out a fully like-for-like comparison of their funding over time. However, it is possible to adjust for some of the main changes in councils' responsibilities, such as the centralisation of police and fire services. After doing this, we estimate that Scottish councils saw a real-terms reduction in funding from grants from the Scottish Government and council tax of around 9%–10% between 2009–10 and 2018–19, equivalent to a fall of around 13% per person.

2. Funding for Scottish councils has increased since 2018–19, and as of 2022–23 is around 2% lower in real terms than in 2009–10, which is equivalent to a fall of around 5% per person. However, part of the recent increases in funding relate to new responsibilities and, most notably, to the expansion of free childcare for children aged 2, 3 and 4. Stripping out ring-fenced funding for this particular ‘new burden’, council funding remains around 5% lower in aggregate and 8% lower per person than in 2009–10.

3. Scottish councils received approximately £1.8 billion in COVID-19 grants during 2020–21 and 2021–22 to address pandemic-related pressures. Net expenditure did increase for a range of services, often reflecting the fact that additional grant funding had to make up for the loss of income from sales, fees and charges (such as parking charges). But councils also increased their general fund reserves by around £1.3 billion over the same two years, which suggests that the additional funding they received exceeded the short-term financial pressures they faced, or that they struggled to spend funds well. Councils may now be drawing down these reserves, given unexpectedly high inflation, with further drawdowns likely in future in light of a challenging funding outlook.

4. Within the overall cuts to councils’ funding, some services have seen spending increase. For example, after initially falling, real-terms spending on early-years childcare and schools is likely to be around 19% above 2009–10 levels by 2021–22. This partly reflects a big boost to teachers’ pay in Scotland in 2019–20, as well as the aforementioned expansion of free early-years childcare.

5. As a result of these spending increases, school spending per pupil aged 3–18 is estimated to have been 17% higher in Scotland in 2021–22 than in 2009–10. This is in stark contrast to England where it is estimated to have been 2.5% lower than in 2009–10. Spending per pupil in 2021–22 is estimated to be 25% higher in Scotland (£8,800) than in England (£7,100), up from 4% higher in 2009–10.

6. Scottish councils’ spending on social work and social care also increased in real terms during the 2010s: by 8% on a net basis between 2009–10 and 2019–20, or 15% on a gross basis, also accounting for client charges and contributions from other organisations such as the NHS. But spending on other council services fell substantially during the 2010s: central administrative services (−55% net and −39% gross), planning and development (−52% net and −23% gross), housing (−38% net and −27% gross), roads and transport (−29% net and −9% gross), and culture (−29% net and −29% gross). This pattern is similar to England although the overall cut to non-schools spending is somewhat lower in Scotland, especially after accounting for its

slower population growth (which means spending has to provide for fewer additional people).

7. Turning to the future, it appears that after several years of real-terms increases, Scottish councils' funding may fall again in real terms. For example, after adjusting for in-year top-ups to councils funding in 2022–23 and stripping out funding for new burdens next year, grant funding for Scottish councils is set to fall by around 1% in real terms. Even 5% council tax increases would not be enough to fully offset this, and would still leave funding around 0.3% lower in real terms in 2023–24 than in 2022–23.

8. The outlook for 2024–25 is uncertain but is likely to be even tougher, given that overall funding for Scottish Government non-benefit spending is set to fall by 1.6% in real terms. If grant funding for Scottish councils were to change in line with this, 5% council tax increases would still see a further real-terms cut to overall funding of 0.5% on top of that seen in 2023–24. The cuts to councils' funding in 2024–25 would be substantially larger – potentially 4% – if the Scottish Government were to increase funding for health services and 'net zero' by the same percentage as in the Budget for 2023–24, and reduce grant funding for councils in line with the rest of the Budget.

9. The contrast with England over the next two years is therefore striking. Big increases in grant funding for councils announced in the November 2022 Autumn Statement mean that funding for English councils and schools (which is a separate budget line in England) is set to increase by 3% in real terms in 2023–24 and 2% in 2024–25, even if council tax rates are frozen in cash terms; with 5% increases in council tax rates, the real-terms increases would be 4.5% and 3.7%, respectively, for these two years. Given current plans and forecasts, the next few years are therefore likely to see something of a reversal of fortunes for Scottish and English councils and schools.

4.1 Recent trends in council funding and spending

Analysis of how Scottish councils' funding has changed over time is not straightforward because of changes to the way in which funding is allocated from central to local government, shifts in responsibilities between central and local government, and entirely new responsibilities. For example, 2013–14 saw the UK-wide council tax benefit replaced with local schemes to assist low-income households to pay council tax,[1] and the shifting of police and fire services to new Scotland-wide bodies funded outside of the local government finance settlement in the same year. Recent years have also seen expansions of childcare, and free personal care for adults under 65, for instance, with funding for these provided as part of the local government finance settlement. Also, a growing proportion of councils' funding takes the form of 'ring-fenced' grants that must be spent on particular types of services, rather than as general funding, which councils have discretion over how to spend.

It is not possible to adjust perfectly for all of these factors – and, in particular, for all of the new responsibilities that councils have. It is therefore not possible to construct a fully consistent series of council funding for the same set of responsibilities over time. Approximate adjustments for the shift in responsibility for funding police and fire services and means-tested support for council tax are possible but the former, in particular, means that comparing periods pre- and post-April 2013 must be treated with a degree of caution.

Bearing this in mind, Figure 4.1 shows estimates of Scottish councils' resource funding for the period between 2009–10 and 2022–23 based on the updated local government finance settlements for these years (published alongside the initial settlements for the following years), and councils' reported council tax revenues.[2] Funding is separated into four streams: general grant funding plus business rates revenues; specific grant funding; pandemic-related grant funding; and council tax revenues, as reported in councils' revenue outturns (up to 2021–22) or budgets (2022–23). All values are in 2022–23 prices using the GDP deflator to adjust for inflation.

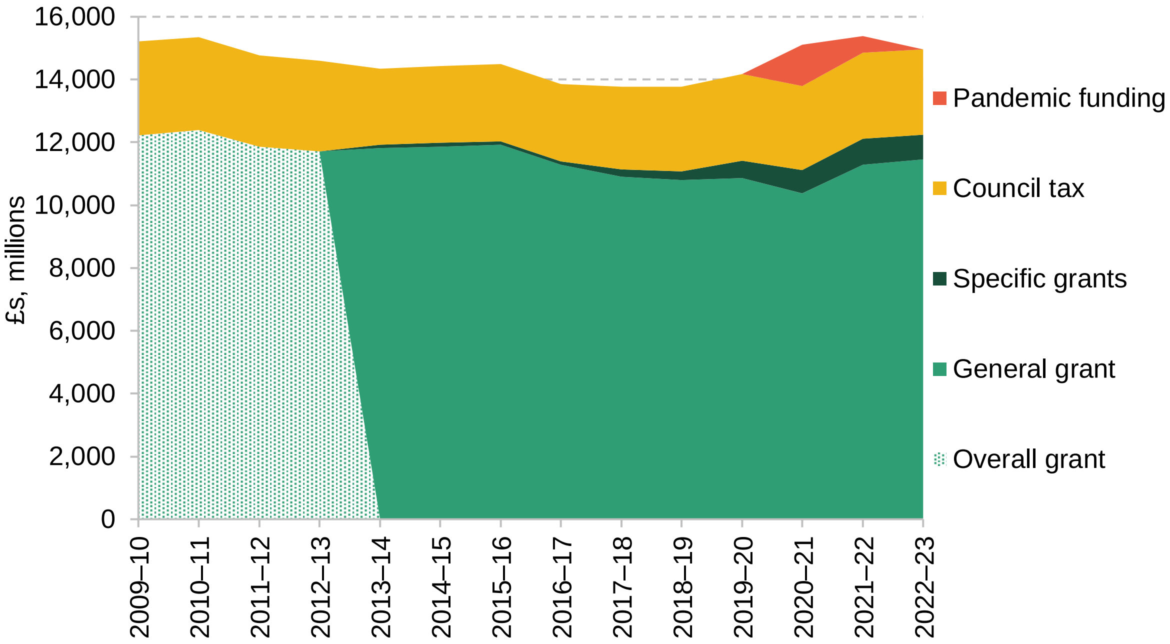
The figure shows that overall council funding from general and specific grants and council tax fell by an estimated £1.4 to £1.5 billion in real terms between 2009–10 and 2018–19, or 9.5%. After accounting for population growth, this is equivalent to a fall of just over 13% per person. Most of the fall took place in two periods: between 2010–11 and 2013–14 (and especially in 2011–12); and then in 2016–17. This trend reflects both a fall in grant funding from the Scottish Government and a real-terms reduction in council tax revenues as a result of the council tax freeze in place during most of this period and the localisation of means-tested support for paying council tax.

[1] Councils in Scotland apply a common set of rules specified by the Scottish Government but are responsible for delivering this support using the general grant funding provided to them.

[2] Estimates for years prior to 2013–14 are adjusted to remove an estimate of police and fire funding, assuming that the share of funding for police and fire was the average of the share subtracted in 2013–14 and 2014–15 (11.5%) when police and fire responsibilities were centralised, and should be treated as less precise. An alternative adjustment based on police and fire spending, and funding allocated for police and fire pensions, prior to 2013–14 produces similar results. See Fraser of Allander Institute (2017) for further discussion.

Since 2018–19, funding for Scottish councils has been increasing, mostly as a result of increases in grant funding from the Scottish Government. This includes around £1.3 billion of funding specifically to address pressures related to the COVID-19 pandemic in 2020–21, with a further £0.5 billion provided in 2021–22 (both figures are reported in 2022–23 prices). The substantial increases in councils' reserves in both of these years suggest that this additional funding exceeded the net additional pressures on their budgets (or, if not, that councils had difficulty spending the funding well). Indeed, councils' general fund reserves increased by around £1.3 billion over these two years, approximately doubling their value. This may be providing some support to councils' budgets this year and over the next couple of years, to address the ongoing longer-term impacts of the pandemic and much elevated inflation.

Figure 4.1. Scottish council resource funding, 2009–10 to 2022–23 (2022–23 prices)



Source: Authors' calculations using Scottish Government (2022a, b) and earlier versions, and Scottish Government (2022c).

Total grant funding this financial year, 2022–23, is estimated to be £1.2 billion higher in real terms than in 2018–19. This increase is split roughly 50/50 between general and specific grant funding. Council tax revenues have been broadly flat in real terms as increases in bills have broadly matched inflation (as measured by the GDP deflator). On this basis, council funding in 2022–23 is estimated to have almost returned to its 2009–10 levels in aggregate (just under 2% lower), although it remains notably lower after adjusting for population growth (just over 5% lower per person).

However, two factors are worth noting. First, as discussed in Chapter 2, the GDP deflator is likely to be underestimating inflation this year in particular, as it excludes the significantly increased costs of imported energy and food. Second, as discussed earlier in this chapter, part of the additional funding that councils have received is associated with new responsibilities. This includes the expansion of free early-years childcare, for which £522 million of ring-fenced funding has been provided in 2022–23. Stripping out this element of funding, real-terms funding is around 4% to 5% lower in aggregate and almost 8% lower per person this year than in 2009–10.[3]

How much of the overall funding provided by the Scottish Government to councils is for such ‘new burdens’ and how much is earmarked for particular services, as opposed to being subject to councils’ discretion, are both highly contentious issues though.

For example, the Convention of Scottish Local Authorities (COSLA) produces what it calls a ‘Budget Reality’ document that adjusts the headline cash change in Scottish Government funding for councils to strip out funding it estimates are required to meet Scottish Government policy commitments. For example, its iteration for 2022–23 (COSLA, 2021) argued that Scottish Government commitments and other policy pressures would cost councils almost £0.9 billion, which at that stage exceeded the additional funding being provided to councils by £0.1 billion. Some of the items represent genuine ‘new burdens’ (such as for bridging payments for low-income families, prior to the expansion of the Scottish Child Payment) but others represent additional funding for existing responsibilities (such as the Pupil Equity Fund, designed to boost attainment of children from deprived backgrounds). It therefore seems likely that the Scottish Government’s figures overstate the increase in funding for existing service responsibilities in recent years, but that COSLA’s figures understate the increase.

Turning to the issue of councils’ spending discretion, in both 2021–22 and 2022–23, £0.8 billion is ring-fenced (including the aforementioned funding for expansion of free childcare). However, the Accounts Commission (2023) calculates that, in 2021–22, an additional £2 billion in real terms was ‘directed funding’: not officially ring-fenced but provided with the expectation that it would be spent on specific services (equivalent figures are not yet available for 2022–23). Together with formally ring-fenced funding, this means ‘earmarked’ funding was equivalent to 23% of funding in 2021–22. Statutory duties and other agreed service standards may further reduce the discretion councils have to allocate funding between services. COSLA (2019), for instance, argues that over 60% of councils’ budgets are subject to Scottish Government earmarking and commitments.

[3] There was an earlier, smaller, expansion of free early-years childcare provision in 2014–15 but it is not possible to similarly strip out the funding for this expansion.

Partly as a result of this, the funding cuts that councils faced during the 2010s did not fall evenly across service areas. In the next two subsections, we therefore look separately at spending on schools and on councils’ non-education services. This also allows for easier comparisons with England, where funding for schools is increasingly separated from other council funding.

Spending on Scotland’s schools

The largest single element of council spending in Scotland is spending on schools. Including spending allocated to schools and pre-school providers, as well as council spending on support services,[4] this amounted to £5.9 billion in today’s prices in 2009–10, accounting for all grant funding and contributions from other public sector bodies. This measure of spending had increased to £6.5 billion in today’s prices by 2020–21, an increase of around 10% in real terms. Figures for the current financial year, 2022–23, are not yet available but we estimate total spending increased further to about £7.0 billion in 2021–22, around 19% higher than in 2009–10.

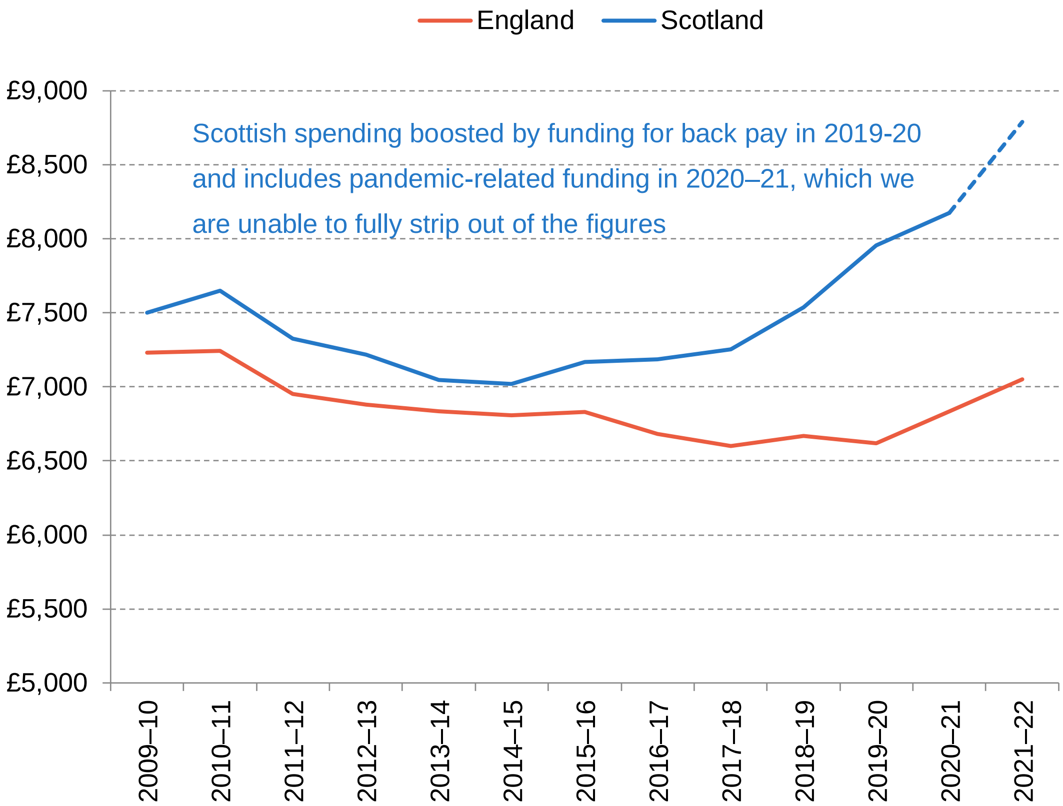
Figure 4.2 compares the level and trends in this measure of school spending *per pupil* across Scotland and England over time between 2009–10 and 2021–22. It includes all day-to-day spending on schools in both nations, including spending by individual schools and councils, as well as funding for school-based post-16 education, and funding for pre-school education.

In 2009–10, spending per pupil in Scotland was about £7,500 in 2022–23 prices, about £270 or 4% higher than the figure of £7,230 per pupil in England in 2009–10. By 2021–22, we estimate that school spending per pupil in Scotland grew to about £8,800 per pupil, approximately £1,700 or 25% higher than in England. This increasing divergence has been shaped by differing policy choices and trends over time.

Starting with England as a benchmark, spending per pupil fell by 9% between 2009–10 and 2019–20. Following extra funding allocated at recent spending reviews, it has since begun to grow again. As a result, we estimate that spending per pupil in England will return to at least 2010 levels by 2024–25 (Drayton et al., 2022).

[4] In Scotland, councils play a considerable role in shaping school spending levels, budgets and expenditure decisions: they are directly responsible for about one-third of school spending, with about two-thirds devolved to individual schools, albeit subject to oversight from their council (Jerrim and Sibieta, 2021). Scottish councils also have considerable freedom to determine how much funding is allocated to individual schools. This contrasts with England, where over 90% of school spending is devolved to individual schools. The ability of councils in England to determine the distribution of funding to schools in their area is also gradually being reduced, and will be removed altogether when a ‘hard’ National Funding Formula is introduced.

Figure 4.2. School spending per pupil in Scotland and England, 2022–23 prices



Note: Planned/provisional spending levels are indicated by the dashed line.

Source: Figures for England are taken from figure 5.1 in Drayton et al. (2022). Total school spending for Scotland is based on net revenue spending on schools plus all education-related specific grants from central government (specific grant figures relate to schools in 2009–10 and 2010–11, but also include the relatively small number of non-schools education-specific grants from 2011–12 onwards). These figures were kindly supplied by the Scottish Government on a consistent basis from the underlying data for the Scottish Local Government Financial Statistics, 2009–10 to 2019–20 (https://www.gov.scot/collections/local-government-finance-statistics/). Figures for revenue education spending and specific grants for 2020–21 were taken from Scottish Local Government Financial Statistics, 2020–21 (https://www.gov.scot/collections/local-government-finance-statistics/). Figure for 2021–22 was taken from 'Local government provisional outturn and budget estimates' (https://www2.gov.scot/Topics/Statistics/Browse/Local-Government-Finance/POBEStats). Specific grants for 2021–22 are based on 'Local government finance circular 5/2021: settlement for 2021–2022', (https://www.gov.scot/publications/local-government-finance-circular-5-2021-settlement-for-2021-2022/) together with a assumed cash-terms freeze in other central government grants. Full-time-equivalent pupil numbers are calculated as the sum of pupils in state-funded schools and early education centres (https://www.gov.scot/collections/school-education-statistics/). HM Treasury GDP deflators, January 2023 (https://www.gov.uk/government/collections/gdp-deflators-at-market-prices-and-money-gdp).

In Scotland, spending per pupil fell by 6% in real terms between 2009–10 and 2014–15. This is mostly in line with cuts seen in England. These cuts then began to be unwound in Scotland, with spending per pupil growing by 7% in real terms between 2014–15 and 2018–19. As such, the second half of the 2010s shows the start of a divergence in spending between Scotland and England, where spending per pupil continued to decline.

In 2019–20, there was a large increase of 6% in real terms or an extra £400 per pupil in Scotland. This increase largely reflects the Scottish Government's decision to increase teacher pay scales by 7% from April 2019 (with a further increase of 3% backdated to April 2018). This led to an unusually high level of spending per pupil in 2019–20. The increases in more recent years also reflect the initial ramping up of funding for the expansion of free childcare for children aged 3 and 4 and for disadvantaged children aged 2, who are now entitled to 30 hours free childcare per week during term time (up from 16 hours previously).

This expansion of free childcare was funded by a ring-fenced grant. The latter half of the 2010s also saw a more general expansion of ring-fenced grants for schools, including the Pupil Equity Fund, which, like the Pupil Premium in England, provides extra funding to schools with greater numbers of disadvantaged pupils. The total amount of specific grants provided for schools and pre-schools grew from just under £50 million in 2014–15 (less than 1% of total school spending) to reach over £500 million in 2019–20 (nearly 10% of total school spending).

This further increased to £800 million in 2020–21 with the ramping up of funding for the childcare expansion and, at least, £80m in ring-fenced pandemic-related grants. We estimate that total specific grant then remained at around £800 million for 2021–22.

This increase in ring-fenced funding contributed to a further increase in spending per pupil in 2020–21 and 2021–22, when it amounted to £8,200 and £8,800, respectively, in today's prices. This means that, by 2021–22, spending per pupil in Scotland was about 17% higher in real terms than in 2009–10. This contrasts with England, where – remarkably – spending per pupil was still lower than 2010 levels in real terms. As a result, school spending per pupil aged 3–18 in Scotland was an estimated £1,700 or 25% higher than in England in 2021–22, a much more significant gap than in 2009–10.

It is difficult to project spending per pupil in Scotland for 2022–23. Councils are likely to have budgeted for at least £6.6 billion in total spending in 2022–23. Given high levels of inflation, this would equate to a real-terms cut to spending per pupil. However, the final level of spending on schools in Scotland is likely to be higher once teachers and employers reach an agreement on salary increases for the current financial year. Once this is agreed, extra funding is likely to be provided to pay for this increase and back pay, either within 2022–23 or the next financial year.

Spending on Scotland's other council services

Spending on the other services that councils provide fell in real terms during the 2010s, with most of the fall in the early part of the decade and then in 2016–17. This is illustrated in Figure 4.3, which shows the trends in non-education service spending between 2009–10 and 2020–21. The green line shows an adjusted version of net expenditure, which is the amount that councils pay for from their general purpose and ring-fenced grant funding, provided as part of the local government finance settlement, and their own council tax revenues.[5] The blue line shows an adjusted version of gross expenditure, which also includes spending funded by other grants and contributions to council services by the government and other public sector bodies (adjusted to strip out transfers to and from Social Care Integration Boards in 2019–20 and 2020–21, and grants from the UK government to pay for housing benefit), as well as income from sales, fees and charges (including rents).[6] The latter shows the extent to which income from clients and from other public sector bodies has offset reductions in councils' core grant funding and council tax revenues.

The figure shows that adjusted net expenditure on non-education services was approximately £1.2 billion lower in real terms in 2019–20 than in 2009–10: a fall of approximately 15%. After adjusting for population growth, this is equivalent to a reduction in spending of 18% per person. The reduction in adjusted gross expenditure during the 2010s was rather smaller: 8% in aggregate or 10% per person. This reflects an increased contribution to the cost of delivering council services by grants and other contributions from public sector bodies (such as the NHS) outside of the local government finance settlement; income from clients via sales, fees and charges has also declined in real terms.

This is a somewhat smaller cut than faced by English councils' non-education services, for which net service spending fell by 17% in real terms on an aggregate basis, and by 23% per person, between 2009–10 and 2019–20, after accounting for shifts in responsibility and funding from the NHS to councils. The smaller overall cut to non-education services may reflect the smaller overall cuts faced by the Scottish Government (Phillips, 2014, 2021), and the fact that spending on the NHS was prioritised somewhat less than in England (Farquharson, Phillips and Zaranko, 2021). Offsetting this is the fact that most of the additional funding this has enabled the

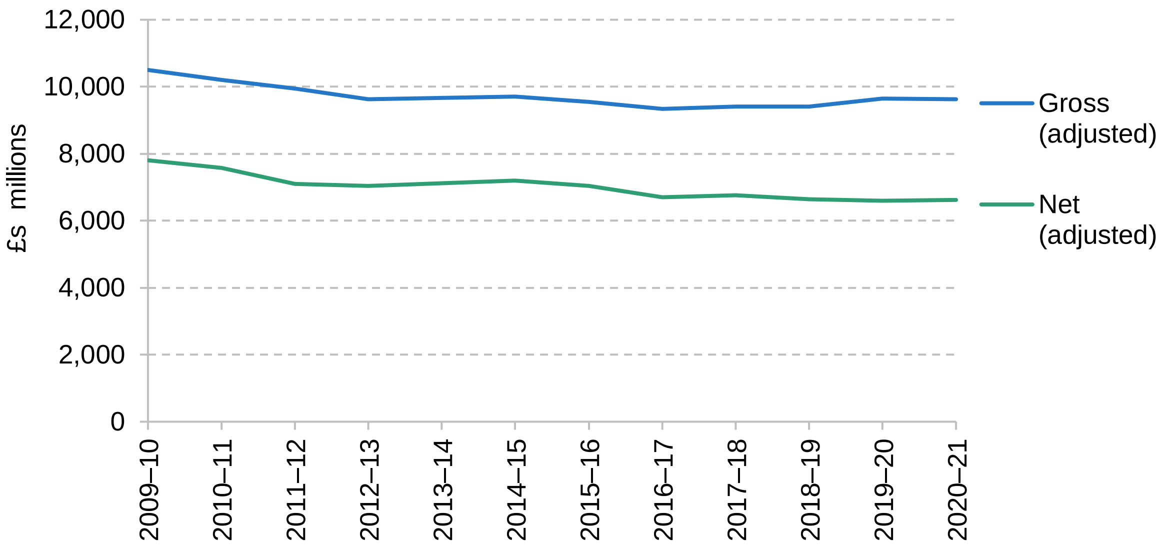
5 Since 2011–12, ring-fenced grants provided via the local government finance settlement have been netted off Scottish councils' spending in official estimates of net service expenditure. We add this grant funding back in to make figures from before and after 2011–12 consistent and to make Scottish figures more comparable to spending figures in England, where they are not netted off when calculating net service expenditure.

6 As part of plans to better integrate health and social care services, starting in 2019–20, Integration Boards have routed large sums of funding via Scottish councils. This has led to a big increase in offsetting transfers to and from the Integration Boards, which substantially increase both gross expenditure and other income. We strip both of these out to make figures from 2019–20 onwards consistent with earlier years. We strip out grants to cover spending in housing benefit as this is a demand-led payment to households that for most working-age claimants is being replaced by universal credit (which is paid directly by the UK government's Department for Work and Pensions), making figures incomparable over time.

Scottish Government to provide to councils during the 2010s was targeted at schools and the initial phase of the expansion of free childcare. Slower population growth in Scotland has also meant that their funding has had to be spread over fewer additional people than is the case in England.

The figure also shows remarkably little change in the real-terms value of councils' gross or net spending in 2020–21, despite the COVID-19 pandemic. As highlighted above, while councils were provided with £1.3 billion additional pandemic-related funding in that year, a significant proportion of this was put into reserves rather than spent in-year. This may reflect, in part, the fact that a significant part of this funding was only paid over to councils in March 2021, just prior to the end of the financial year. Councils in England and Wales also saw a smaller-than-expected increase in their spending in 2020–21, and also paid significant sums into reserves in that year (Ogden and Phillips, 2022).

Figure 4.3. Scottish council resource spending on non-education services, 2009–10 to 2020–21 (2022–23 prices)



Note: Gross and net expenditure are adjusted to account for the removal of the district courts and the police and fire services from local government in 2010–11 and 2013–14, respectively. In the latter case, this includes adjusting central services spending for estimates of how much central services spending related to police and fire activities between 2009–10 and 2012–13. In addition, the 2014–15 Scottish Local Government Finance Statistics publication revised net spending on other services down in each of the preceding four years (2010–11 to 2013–14). We apply these revisions to each of these years and revise down reported figures for 2009–10 by the same amount as the Scottish Government revised down 2010–11 figures (£45 million in cash terms). We also apply the same revision to gross as to net spending. The figures have also been adjusted to remove spending by Glasgow city council on settling a large equal-pay claim in 2019–20 to ensure greater consistency over time. Full details for the revisions we apply, including breakdowns by service area, are available on request.

Source: Authors' calculations using Scottish Government (2022b) and earlier versions.

It is also worth noting that councils' net and gross spending did increase in cash terms in 2020–21, by around 7% and 6%, respectively. The increase in gross spending was smaller than for net spending because while transfers from other public sector bodies (such as the NHS) to help cover the costs of council services increased, this was offset by a decline in income from sales, fees and charges from service users – especially for parking, leisure and cultural facilities, and planning and economic development services. The fact that these cash-terms increases did not translate into real-terms increases reflects the high measured inflation according to the GDP deflator in 2020–21. This reflects an estimated increase in the cost of delivering many public services, where expenditure increased but measured output sometimes fell, such as when schools and other facilities were closed.

Figures on net and gross spending are not available for other council services in 2021–22 and 2022–23. However, provisional outturns data for 2021–22 suggest that net spending on non-education services increased by around 3% in real terms compared with 2020–21.

Trends by service

Trends in spending have varied across the different non-education services that councils provide, as shown in Table 4.1: the top panel shows (adjusted) net expenditure and the bottom panel (adjusted) gross expenditure. In particular, in contrast to councils' overall non-education spending, spending on social care services increased during the 2010s (+4% net and +11% gross), with most of this increase taking place in the second half of the decade. The larger increase in adjusted gross spending mostly reflects an increase in contributions to the cost of social care services by the Scottish NHS.

However, spending on central administrative services (−55% net and −39% gross), planning and development (−52% net and −23% gross), housing (−38% net and −27% gross), roads and transport (−29% net and −9% gross), and culture (−29% net and −29% gross) all fell by significantly more than the average cut to councils' spending (−15% net and −8% gross) between 2009–10 and 2019–20. The generally smaller falls in adjusted gross spending than adjusted net spending reflect an increase in contributions to the cost of some of these services from government grants provided outside of the local government finance settlement and from other public and private sector organisations.

The pattern of changes in spending across services reflects councils prioritising those services with particularly significant growth in demand, and where statutory duties limit the ability to cut back service provision, forcing them instead to make cuts to more discretionary areas of expenditure. This is similar to the pattern in England where, after accounting for shifts in responsibility between councils and the NHS, net spending on social care services increased by 7% in real terms between 2009–10 and 2019–20, but net spending on roads and transport,

Table 4.1 Council resource spending by service area, £s millions, 2022–23 prices

Service area	2009–10	2014–15	2019–20	2020–21
(Adjusted) net spending				
Culture and related	865	777	612	606
Social work and social care	3,782	3,830	3,940	3,796
Roads and transport	615	507	435	489
Environmental	855	804	757	756
Planning and development	429	336	208	259
Central services	789	530	354	418
Housing	469	404	289	299
(Adjusted) gross spending				
Culture and related	1,005	891	717	662
Social work and social care	4,745	4,838	5,247	5,387
Roads and transport	895	794	816	702
Environmental	1,029	954	902	884
Planning and development	668	558	513	526
Central services	1,124	794	688	683
Housing	1,034	870	754	782

Note: See notes to Figure 4.3. In addition, reported housing and social care spending figures have been adjusted downwards by £60 million and upwards by £60 million in cash terms, respectively, in 2009–10 and 2014–15 to reflect classification changes that took effect in 2019–20. The 2019–20 Local Government Finance Statistics Publication revised net spending on these services for years back to 2015–16 and we apply the same changes to earlier years' net and gross spending for these services.

Source: Authors' calculations using Scottish Government (2022b) and earlier versions.

housing services, culture and leisure service, and planning and development fell by around 50% in real terms over the same period.

As already mentioned, figures for 2020–21 are affected not only by additional costs associated with the COVID-19 pandemic but also by changes in income from sales, fees and charges, and contributions from the wider Scottish public sector. Increases in contributions from the NHS, for example, may explain the fall in net spending but increase in gross spending on social care services. Falls in parking income may explain the increase in net spending but the fall in gross spending on transport.

Final outturn data are not yet available for 2021–22 but provisional estimates suggest that changes in net spending differed significantly between services. For example, net spending on social work and social care is estimated to have increased by 8%, which may in part reflect a reduction in transfers from the NHS from their elevated levels in 2020–21. In contrast, net spending on roads and transport is estimated to have fallen by 7%, while net spending on central services is estimated to have fallen by 19%. The former may reflect a rebound in income from parking charges, while the latter may reflect the end of some pandemic-related costs that had been charged to councils' central services budgets in 2020–21.

4.2 Future outlook for council funding

The story so far then is that Scottish councils, and the services they fund, generally saw cuts during the 2010s, albeit ones that were smaller than those in England, especially on a per person basis. This is particularly true for schools, where, after initially falling, funding per pupil aged 3–18 had increased by the end of the decade in Scotland, but had fallen in England. Among the other services they are responsible for, councils in Scotland and England made similar prioritisation decisions, with spending on social care services increasing, and spending on other services decreasing substantially.

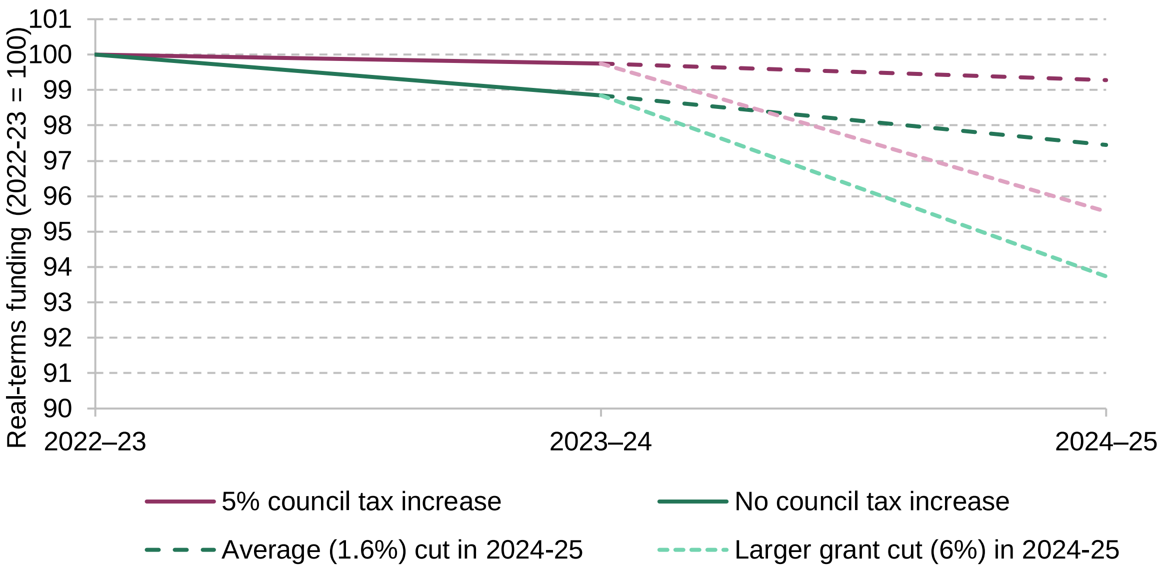
The pandemic years saw councils in Scotland and England receive substantial additional funding, a significant part of which they have paid into reserves. School spending per pupil started to increase again in England, but not as much as in Scotland, further widening the gap in spending per pupil.

Looking ahead, the picture is different: Scottish councils and schools look set to see smaller increases in funding between 2022–23 and 2024–25 than their English counterparts. This reflects the substantial increase in funding for English councils announced in the Autumn Statement in November 2022, but a much tighter settlement for Scottish councils in the Scottish Budget for 2023–24 and a projected fall in the overall amount of funding available for Scottish Government non-benefit spending in 2024–25 (see Chapter 2).

The Scottish Budget for 2023–24 shows grant funding for councils' resource spending increasing by 0.9% in real terms in the coming financial year compared to this. As highlighted in Chapter 2, Scottish Budget figures ignore a number of in-year top-ups to funding in 2022–23, and do not adjust for changes in responsibilities and 'new burdens'. Using estimates by COSLA and our own judgement about what is and what isn't a genuine new burden (as opposed to changes in funding linked to existing responsibilities), we estimate that after accounting for these issues, grant funding for Scottish councils is set to *fall* by around 0.8% in real terms based on known allocations for 2022–23 and current plans for 2023–24.[7]

Councils' overall funding will also depend on what happens to their other income sources, the most significant of which is council tax. The Scottish Budget confirmed that no limits would be placed on how much councils can increase their council tax rates. If they implemented a cash-terms freeze, we estimate that combined revenues from grant funding (adjusted for our estimates of in-year funding changes and new burdens) would fall by around 1.1% in real terms in 2023–24.[8] This is illustrated in the dark green line in Figure 4.4. With a 5% cash-terms increase in council tax rates, the cut to overall funding would be 0.3% in real terms, as shown by the dark purple line.

Figure 4.4. Scenarios for Scottish councils' funding from grants and council tax, 2022–23 prices



Source: Authors' calculations using Scottish Government (2022a, d), Scottish Fiscal Commission (2022) and COSLA (2022).

[7] We adjust the 2022–23 funding baselines to account for in-year top-ups to part-fund higher-than-expected pay settlements (+£140 million) and to account for one-off expenditures such as Bridging Payments for families with children (–£188 million). We adjust 2023–24 funding to account for new burdens related to Whole Family Wellbeing Support (–£32 million), Free School Meal expansion (–£17.5 million), the expansion of Free Personal and Nursing Care (–£15 million) and the cost of covering business rates' empty property relief (–£90 million) (the £105 million provided for this is expected to slightly exceed the cost of matching the existing relief). It is not clear from the documentation published alongside the Spring Budget Revision (Scottish Government, 2022e) whether an additional £33 million provided for 2022–23 to cover the cost of the teachers' 2021–22 delayed pay deal was for one-off back-pay costs (which is what we have assumed), or ongoing costs. If this was to cover ongoing costs, the adjusted real-terms cut to grants to Scottish councils would be 1% not 0.8% as reported in the main text.

[8] This assumes that the Scottish council tax base (i.e. the number of properties subject to tax, weighted by the amount of tax they are liable for) will grow by 0.6% a year.

Unlike in a number of previous years when the Scottish Government announced a top-up to its initial plans for council funding at the time of the Stage 1 debate on the Scottish Budget, no such top-ups were announced for 2023–24 in this year's Stage 1 debate (on 2 February). The Scottish Government may announce changes to its plans for local government funding and funding for other services at the time of the Stage 2 debate (on 7 February), although its room for manoeuvre may be limited as it has previously said it planned to draw down its reserves in full in 2022–23, preventing any carry-forwards.

The picture for 2024–25 is less clear, as the Scottish Government has yet to set its Budget for that year and the plans set out in the Resource Spending Review last May are now somewhat out of date, given changes to the outlook for overall Scottish Government funding seen since then. However, as shown in Chapter 2, official projections by the Scottish Government and the Scottish Fiscal Commission (SFC) imply that overall funding for non-benefits spending will fall by 1.6% in real terms in 2024–25. If we assume that grants to Scottish councils are cut in line with this, and councils themselves increase council tax by 5% in that year, then their overall funding would fall by a further 0.5% in real terms, as illustrated in the dashed dark purple line. But it is unlikely that the Scottish Government would cut all spending by the same percentage in 2024–25. If we instead assume that the Scottish Government increases spending on its health and 'net zero' portfolios by the same amount as in the 2023–24 Budget, then grants funding for councils could fall by 6% in real terms. Under this scenario, even with 5% increases in council tax rates, overall funding for Scottish councils would fall by around 4% in real terms in 2024–25. This is illustrated by the dashed light purple line. And without council tax increases, the cuts in 2024–25 would be even starker, as illustrated by the dashed dark and light green lines.

Even the small cut to overall funding that Scottish councils would face in 2024–25 if their grant funding is cut in line with the overall Budget rather than 'unprotected' services and if they were to increase council tax rates by 5% a year would require difficult choices. Costs associated with social care reform and rising demand for social care services, and a planned moratorium on reducing the number of teachers and school hours, mean that the pressure would likely be particularly keenly felt in the one-third of councils' budgets that is allocated to other services. This is in the context of councils' culture, environmental, housing, planning and economic development, and transport services being cut back the most during the 2010s.

In contrast, large increases in grant funding for English councils were announced in the Autumn Statement for both 2023–24 and 2024–25, targeted at social care services. On their own, these would be sufficient to increase English councils' funding for non-education services by around 3% a year in real terms in both of these years, even if council tax rates were frozen in cash terms. If all English councils were to increase their council tax rates by the maximum amount they can, without having to call and win a referendum (generally 5% per year), the real-terms increases would be closer to 6% per year. English schools also saw a top-up to their funding in the

Autumn Statement but one that was less generous than for councils. Combined funding for English councils and schools is therefore set to increase by 4.5% in real terms in 2023–24 and by 3.7% in 2024–25, if all councils make full use of their powers to raise council tax. Even if they were to freeze council tax rates, funding for schools and councils' non-education services would increase by 3% and 2.2% in these two years, respectively.

Box 4.1 Scotland's National Care Service and council funding

One of the ways the UK government has freed up funding for English councils' existing responsibilities has been to postpone planned reforms to adult social care (including a less stringent financial means test and a lifetime cap on personal care costs). This has provided over £3 billion of funding over the next two years to meet rising costs and improve services within the existing means-test and charging rules. However, this means English care recipients will continue to face stringent means-tests for at least two further years, and potentially longer: the funding environment for English councils currently looks likely to be much tougher from 2025–26 (Ogden, 2022).

The Scottish adult social care system is significantly more generous to recipients than the English system – personal care is provided free to all who are assessed to need it (although these assessments are still stringent). The main reform planned in Scotland is for the establishment of a National Care Service covering adults' and children's social care services, with care boards directly accountable to Ministers taking over responsibility for commissioning services from councils. The Scottish Government (2022f) has estimated that set-up costs will amount to between £63 million and £95 million in 2023–24 and between £84 million and £126 million in 2024–25, although the Scottish Parliament Finance and Public Accounts Committee (2022) has expressed concern that the assumptions underlying these figures are opaque and costs could be higher. Once the system is up and running, the Scottish Government estimates that costs will amount to up to £500 million per year – although over half of this reflects planned improvements to pay and conditions, and enhanced training and professional development. Again, the Finance and Public Accounts Committee has expressed concerns that costs could be higher, not least because, unlike councils, Scottish Government bodies cannot generally reclaim VAT paid on their purchases.

The aim of the planned National Care Service is to improve the quality and consistency of social care services across Scotland. However, centralised, directly funded provision may not necessarily lead to more consistent standards of care across the country if the formulas used to allocate funding do not properly reflect differences in needs across the country (Phillips, 2022). Whereas councils can offset these errors by shifting funding between services or varying their council tax, this option will not be available to the new care boards. More generally, the transfer of social care services from councils to the new care boards will require careful consideration of how to unwind the local discretion councils have had to allocate funding between services and raise more or less via council tax.

These issues are potentially addressable, and if they are, a National Care Service could provide more consistent services across Scotland, and potentially allow for further integration with health services. But if these issues are not well addressed, the centralisation of care services could in fact lead to less consistent provision across Scotland, and unfairness between council taxpayers in different council areas. Careful consideration of whether the set-up and operational costs of the new National Care Service represents good-value-for-money is therefore important. If plans were shelved and funding redeployed to local government, it would be sufficient to boost funding by around 0.6%–1% in 2024–25: the equivalent of what could be raised from council tax increases of 3%–5%.

Some caution is needed in comparing English figures directly to those for Scottish councils due to differences in responsibilities and funding arrangements. However, the differences are stark enough that we can be confident that the funding outlook over the next two years is likely to be much tougher for Scottish councils than for English councils. In particular, it looks likely that even with significant increases in council tax, funding for Scottish councils is at best likely to be little changed in real terms over the next two years, given the 2023–24 Budget and current official projections for Scottish Government funding in 2024–25. If the Scottish Government felt the need to continue to boost funding for the health service and its ‘net zero’ priorities in 2024–25, then councils could be facing substantial cuts that year. In contrast, even without increases in council tax, funding for English councils (including schools) is set to increase in real terms at a reasonable rate over the next two years.

The next two years are therefore set to see a bit of a reversal in fortunes for Scottish and English councils. The reserves that Scottish councils built up during the COVID-19 pandemic may therefore need to be put to use quickly – although once used, they cannot be used again.

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2023/24 Budget Pressures **Appendix 5**

Service	Activity/Budget Area	Description of Pressure	2023/24 £m	Category
C&P	Fleet	Fuel price increases	0.327	Existing Cost Pressures
C&P	Fleet	Parts price increases/increased costs due to ageing fleet	0.835	Existing Cost Pressures
C&P	Waste Transfer and Disposal	Inflationary Increase on Landfill tax per tonne by £3.50, partially offset by increased EfW	0.051	Inflationary fact
C&P	Waste Management	RPI on contracts/residual waste costs	0.352	Inflationary fact
C&P	Waste Management	CMR Contract - Increased costs/reduced market value	1.010	Inflationary fact
C&P	Fleet	Operating Leases new waste vehicles	0.695	New Expenditur Commitments
Corporate	Utilities	Energy & water cost inflationary increases	7.900	Inflationary fact
Corporate	Non-Domestic Rates	Impact of 2023 revaluation on rateable value of council properties	1.270	Legislative Cha
E&L	Highlife Highland	Subsidy required for 23/24	2.404	ALEO support c
E&L	ASN	Addressing structural budget pressure within ASN budget met by one-off means in 2022/23	3.826	Existing Cost Pressures
H&SC	Allowances	Increasing allowances for fostering, adoption and kinship care as part of investment strategy	1.306	Investment
I&E&E	School and public transport	Cost of new bus contracts, including removal of covid one-off funding of £1.8m which is a recurring pressure	8.000	Inflationary fact
I&E&E	Harbours	Reduced Income from Harbour dues	1.000	Covid19 - Resic income Impact
P&H	Catering	Ongoing impact of reduced catering income in non-school settings	0.200	Covid19 - Resic income Impact
P&H	Property Maintenance	Anticipated contractual increases in the following contracts to be reprocured in 2023/24: Grease Traps, Mechanical Ventilation, Moveable	0.275	Inflationary fact
P&H	PPP Schools and Wick Campus	23/24 Contractual Cost inflation- contractual clauses have annual inflation linked to RPI/RPIX	2.031	Inflationary fact
P&H	Staffing Resources	PPP Handback Audits	0.030	New Expenditur Commitments
P&H	New School Provision	New Ness Castle Primary School - CCFM (£298k) and servicing costs (£25k)	0.323	New Expenditur Commitments
P&H	New School Provision	New Early Years facilities property running costs- rates, heat pump servicing, fire alarms	0.850	New Expenditur Commitments
R&F	Audit Fees	Unbudgeted 12.5% increase in 22/23 audit fee and assumed 5% increase in 23/24	0.077	Inflationary fact
VJB	Valuation Board	Anticipated requirement for increased requisition as impact of removed funding for valuation appeals	0.100	Legislative Cha

Total **32.862**

THE HIGHLAND COUNCIL							
REVISED CAPITAL PROGRAMME		Revised Programme			Current Approved Programme		
			Future Years			Future Years	
		2023/24	24/25 - 28/29	Total	2023/24	24/25 - 28/29	Total
		Net	Net	Net	Net	Net	Net
Project Description	**Service**	**£000**	**£000**	**£'000**	**£'000**	**£000**	**£'000**
SCHOOLS - MAJOR PROJECTS	P&H	3,750	111,546	115,296	9,419	105,877	115,296
SCHOOLS - LEIP FUNDED	P&H	35,100	132,035	167,135	60,332	106,803	167,135
SCHOOLS - ESTATE MANAGEMENT	P&H	11,283	37,740	49,023	4,487	44,536	49,023
HEALTH & SOCIAL CARE PROGRAMME	P&H	850	5,926	6,776	396	6,380	6,776
ICT	CR	3,969	13,193	17,162	3,362	13,800	17,162
ROADS	IEE	21,263	48,739	70,002	14,737	54,765	69,502
BRIDGES	IEE	485	23,692	24,177	6,185	17,797	23,982
ACTIVE TRAVEL	IEE	310	4,512	4,822	680	4,142	4,822
COMMUNITY AND LEISURE FACILITIES	P&H	758	7,052	7,810	2,718	5,092	7,810
LIGHTING, CCTV & RADIO MASTS	IEE	1,220	2,235	3,455	470	2,985	3,455
FLOOD PREVENTION - SCHEMES	IEE	1,590	4,471	6,061	920	4,089	5,009
FLOOD PREVENTION - STUDIES	IEE	330	519	849	136	576	712
WASTE MANAGEMENT - LANDFILL RESTORATION	C&P	825	1,187	2,012	1,100	912	2,012
WASTE MANAGEMENT - TRANSFER STATIONS	C&P	2,081		2,081	206	1,373	1,579
WASTE MANAGEMENT - INFRASTRUCTURE & BANKS	C&P	125	255	380	50	330	380
HARBOURS	IEE	650	6,077	6,727	3,825	2,902	6,727
BURIALS & CREMATIONS	C&P	2,226	3,558	5,784	1,128	4,656	5,784
PUBLIC CONVENIENCES	C&P	167	166	333	333		333
PROPERTY ESTATE ASSET MANAGEMENT	P&H	9,500	45,546	55,046	8,498	46,548	55,046
VEHICLES & PLANT	C&P	4,647	12,889	17,536	2,447	14,589	17,036
PLANNING & DEVELOPMENT	IEE	467	777	1,244		1,145	1,145
INVERNESS CASTLE	IEE	4,503	11,834	16,337	5,575	10,762	16,337
HOUSING (NON HRA)	P&H	2,750		2,750			
SELF-FUNDING PROJECTS		9,602	116	9,718	6,308	1,114	7,422
TOTAL		**118,451**	**474,065**	**592,516**	**133,312**	**451,173**	**584,485**

THE HIGHLAND COUNCIL Appendix 6

REVISED CAPITAL PROGRAMME

Project Description	Service	Proposed Programme 2023/24 Net £000	Proposed Programme Future Years 24/25 - 28/29 Net £000	Proposed Programme Total Net £'000	Current Approved Programme 2023/24 Net £'000	Current Approved Programme Future Years 24/25 - 28/29 Net £000	Current Approved Programme Total Net £'000	Comments
SCHOOLS - MAJOR PROJECTS	**P&H**	**3,750**	**111,546**	**115,296**	**9,419**	**105,877**	**115,296**	
Charleston Academy	P&H	500	14,524	**15,024**	3,042	11,982	**15,024**	Develop design to tender stage
Culloden Academy	P&H	2,500	10,059	**12,559**	6,384	6,175	**12,559**	Develop design to tender stage for extension/refurbishment and new synthetic sports pitch; internal improvements to main building to be carried out in 2023/24
Ness Castle Primary Phase 1	P&H	750	-1,813	**-1,063**	-7	-1,056	**-1,063**	New school building handed over; playing fields to complete in 2023/24
Ness Castle Primary Phase 2	P&H		7,776	**7,776**		7,776	**7,776**	
Stratton Primary	P&H		22,000	**22,000**		22,000	**22,000**	
East Inverness New Secondary	P&H		59,000	**59,000**		59,000	**59,000**	
SCHOOLS - LEIP FUNDED	P&H	**34,350**	**132,785**	**167,135**	**60,332**	**106,803**	**167,135**	
Tain 3-18 Campus - LEIP Phase 1 - Awarded	P&H	28,000	36,400	**64,400**	38,682	25,718	**64,400**	Construction work underway
Nairn Academy - LEIP Phase 2 - Awarded	P&H	2,600	37,920	**40,520**	5,620	34,900	**40,520**	Develop design to tender stage; contract award and start of construction work required during 2023/24 to meet completion date required by LEIP Phase 2 conditions
Broadford Primary - LEIP Phase 2 - Awarded	P&H	700	12,365	**13,065**	1,780	11,285	**13,065**	Develop design to tender stage; contract award and start of construction work required for start of 2024/25 to meet completion date required by LEIP Phase 2 conditions
Beauly Primary School - LEIP Phase 3 - Bid	P&H	650	10,350	**11,000**	4,000	7,000	**11,000**	Develop design to tender stage; programme dependent on outcomes of LEIP Phase 3 funding bid and review of capital programme
Dunvegan Primary School - LEIP Phase 3 - Bid	P&H	650	10,600	**11,250**	4,000	7,250	**11,250**	Develop design to tender stage; programme dependent on outcomes of LEIP Phase 3 funding bid and review of capital programme
Park Primary School - LEIP Phase 3 - Bid	P&H	1,000	11,000	**12,000**	4,500	7,500	**12,000**	Develop design to tender stage; programme dependent on outcomes of LEIP Phase 3 funding bid and review of capital programme
St Clement's School - LEIP Phase 3 - Bid	P&H	750	12,150	**12,900**	1,750	11,150	**12,900**	Develop design to tender stage; programme dependent on outcomes of LEIP Phase 3 funding bid and review of capital programme
Tornagrain Primary School - LEIP Phase 3 - Bid	P&H		2,000	**2,000**		2,000	**2,000**	Commence design and pre-statutory consultation work; programme dependent on outcomes of LEIP Phase 3 funding bid and review of capital programme
SCHOOLS - ESTATE MANAGEMENT	**P&H**	**11,283**	**37,740**	**49,023**	**4,487**	**44,536**	**49,023**	
School Estate Improvement Programme / ELC	P&H	11,000	25,125	**36,125**	3,822	32,303	**36,125**	Committed projects and essential works required in 2023/24
Remote Schools - Housing Accommodation	P&H	200	450	**650**	500	150	**650**	New housing in Rum - develop design to tender stage
E&L Residential Properties	P&H	83	165	**248**	165	83	**248**	Essential works required as part of ongoing annual programme
Plockton Residence			12,000	**12,000**		12,000	**12,000**	
HEALTH & SOCIAL CARE PROGRAMME	**P&H**	**850**	**5,926**	**6,776**	**396**	**6,380**	**6,776**	
Adult Services (NHS)	P&H	750	5,230	**5,980**	330	5,650	**5,980**	Essential works required as part of ongoing annual programme
Children's Services/Out of Authority	P&H	100	696	**796**	66	730	**796**	Essential works required as part of ongoing annual programme
ICT	**CR**	**3,969**	**13,193**	**17,162**	**3,362**	**13,800**	**17,162**	
ICT Transformation/Core/Chromebooks	CR	3,844	13,068	**16,912**	3,237	13,675	**16,912**	Includes slippage that will carry forward from 2022/23.
Care First Mgt Information Systems Replacement	CR	125	125	**250**	125	125	**250**	
ROADS	**IEE**	**21,263**	**48,739**	**70,002**	**14,737**	**54,765**	**69,502**	
Roads - Structural & Surface Dressing	IEE	20,000	38,139	**58,139**	9,403	48,736	**58,139**	To ensure a continued commitment to Roads investment, with area committees identifying local priorities.
Strategic Timber Transport Scheme (STTS)	IEE	500	634	**1,134**	165	969	**1,134**	This will attract match funding of c£2m.
Inshes Roundabout	IEE	150	5,053	**5,203**	4,008	1,195	**5,203**	Project deferred, Planning application still to be considered, and timing will relate to progress with Transport Scotland developing the East Link (part of City Region Deal).
B851/B862 South Loch Ness Road Improvements	IEE	500		**500**				This is to attract match funding tied into legal commitments with wind farm developers.
A890 Stromeferry Rockface Stabilisation	IEE	80	679	**759**	165	594	**759**	
Safer Routes to School	IEE	33	231	**264**	66	198	**264**	
The Inverness West Link	IEE		-1,339	**-1,339**	-271	-1,068	**-1,339**	
Development Infrastructure, Dingwall	IEE		740	**740**		740	**740**	
Coast Protection (Roads)	IEE		272	**272**	36	236	**272**	
20mph Zones - legacy	IEE		330	**330**	165	165	**330**	
NC500 Levelling Up Fund Bid - match funding LUF	IEE		4,000	**4,000**	1,000	3,000	**4,000**	Levelling Up Fund bid unsuccessful. Still to determine whether the bid will be resubmitted for Round 3.
BRIDGES	**IEE**	**485**	**23,692**	**24,177**	**6,185**	**17,797**	**23,982**	
B863 Invercoe Bridge, Lochaber	IEE	90	3,808	**3,898**	52	3,846	**3,898**	
B9090 White Bridge	IEE	20	233	**253**	5	248	**253**	
A884 Acharn & Achnagavin Bridge	IEE	30	2,042	**2,072**	2,001	71	**2,072**	Project deferred to later years based on engineering assessment.
Ruthven (Spey) Bridge	IEE	195		**195**				
Naver Bridge	IEE	75	6,140	**6,215**	3,399	2,816	**6,215**	Project deferred to later years based on engineering assessment.
Dulsie Bridge	IEE	5	459	**464**	436	28	**464**	
B8007 Glenmore Bridge	IEE	40	737	**777**		777	**777**	
A831 Comar Refurbishment	IEE	30	802	**832**	11	821	**832**	
Infirmary Bridge	IEE		535	**535**		535	**535**	
Major Bridges - General	IEE		8,936	**8,936**	281	8,655	**8,936**	
ACTIVE TRAVEL	**IEE**	**310**	**4,512**	**4,822**	**680**	**4,142**	**4,822**	
Bus Shelters	IEE	20	109	**129**	20	109	**129**	
Active Travel Transformation (Highland Wide)	IEE	290	4,310	**4,600**	660	3,940	**4,600**	
Aviemore Active Travel Path	IEE		93	**93**		93	**93**	
COMMUNITY AND LEISURE FACILITIES	**P&H**	**758**	**7,052**	**7,810**	**2,718**	**5,092**	**7,810**	
HLH Properties - Life Cycle Investment	P&H	375	1,358	**1,733**	248	1,485	**1,733**	Essential works required as part of ongoing annual programme
Other properties - Life Cycle Investment	P&H	33	363	**396**	66	330	**396**	Essential works required as part of ongoing annual programme
Inverness Leisure Centre & Aquadome - Life Cycle Investm	P&H	350	2,600	**2,950**	1,000	1,950	**2,950**	Some essential works required; develop design for larger project
Eden Court Theatre Redevelopment	P&H		2,231	**2,231**	1,404	827	**2,231**	Slippage with Eden Court developing project scope and feasibility
Community & Leisure - General	P&H		500	**500**		500	**500**	
LIGHTING, CCTV & RADIO MASTS	**IEE**	**1,220**	**2,235**	**3,455**	**470**	**2,985**	**3,455**	
Structural Lighting Works	IEE	1,000	2,206	**3,206**	330	2,876	**3,206**	Includes slippage that will carry forward from 2022/23.
Radio Mast Structural Capital	IEE	140	9	**149**	40	109	**149**	
Public Space CCTV Modernisation	IEE	80	20	**100**	100		**100**	
FLOOD PREVENTION - SCHEMES	**IEE**	**1,590**	**4,471**	**6,061**	**920**	**4,089**	**5,009**	
Smithton / Culloden Flood Alleviation	IEE	190	-9	**181**	-9	190	**181**	Project complete, existing contractual commitments to be completed.
River Enrick FPW / NFMS (Drumnadrochit)	IEE	125		**125**	52	51	**103**	Project complete, existing contractual commitments to be completed.
Caol FPW	IEE	750		**750**		95	**95**	Construction Works progressing well, there will be around 750k of construction costs in 23/24 depending on how much is claimed this financial year. Retention of £170k 24/25.80% funding SG.
Scalesburn, Wick	IEE	75		**75**				
River Nairn & Auldearn Burn FPS	IEE	50	377	**427**	211	216	**427**	
River Gynack FPS / NFMS	IEE	100	393	**493**	376	117	**493**	
Braehead Coast Protection	IEE	300		**300**				This relates to a historic legal maintenance obligation entered into by the Council.
Mill Burn FPS	IEE		570	**570**	251	319	**570**	
Golspie FPS / NFMS	IEE		687	**687**	39	648	**687**	
River Peffery FPS	IEE		1,237	**1,237**		1,237	**1,237**	
River Thurso FPS	IEE		1,216	**1,216**		1,216	**1,216**	
FLOOD PREVENTION - STUDIES	IEE	**330**	**519**	**849**	**136**	**576**	**712**	
Surface Water Management Plans	IEE	50	248	**298**	53	245	**298**	
Flood Risk Management Act	IEE	280		**280**	83	60	**143**	Statutory obligations under the Flood Risk Management Act.
Coastal Flood Prevention Studies	IEE		271	**271**		271	**271**	

WASTE MANAGEMENT - LANDFILL RESTORATION	**C&P**	**825**	**1,187**	**2,012**	**1,100**	**912**	**2,012**	
Landfill Restoration Programme	C&P	825	1,187	**2,012**	1,100	912	**2,012**	
WASTE MANAGEMENT - TRANSFER STATIONS	**C&P**	**2,081**		**2,081**	**206**	**1,373**	**1,579**	
Residual Waste Management Facility - Longman Project	C&P	226		**226**	206		**206**	
Fort William WTS	C&P	1,825		**1,825**		1,343	**1,343**	Supports the Council's commitment to Net Zero and compliance with statutory landfill ban.
Aviemore Granish WTS	C&P	30		**30**		30	**30**	
WASTE MANAGEMENT - INFRASTRUCTURE & BANKS	C&P	**125**	**255**	**380**	**50**	**330**	**380**	
Household Wheeled Bin Replacements - Green bins	C&P	15	195	**210**	30	180	**210**	
Household Waste Recycling Centre office/welfare facilities	C&P	20	60	**80**	20	60	**80**	
Plant, Infrastructure & Banks	C&P	90		**90**		90	**90**	
HARBOURS	**IEE**	**650**	**6,077**	**6,727**	**3,825**	**2,902**	**6,727**	
Harbours Health & Safety and General Structural Works	IEE	250	1,100	**1,350**	225	1,125	**1,350**	
Kinlochbervie Harbour	IEE	200	1,600	**1,800**	1,800		**1,800**	
Lochinver Harbour	IEE	200	1,600	**1,800**	1,800		**1,800**	
Portree Harbour LUF Bid	IEE		1,777	**1,777**		1,777	**1,777**	
BURIALS & CREMATIONS	**C&P**	**2,226**	**3,558**	**5,784**	**1,128**	**4,656**	**5,784**	
Burial Ground Portree	C&P	525		**525**	96	429	**525**	
Burial Ground Kilmorack	C&P	30	120	**150**		150	**150**	
Burial Ground Glen Nevis	C&P	250	265	**515**		515	**515**	
Burial Ground Dores	C&P	50	254	**304**		304	**304**	
Burial Ground Alness	C&P	250	130	**380**		380	**380**	
Burial Ground Dornoch	C&P	176		**176**		176	**176**	
Burial Ground Canisbay	C&P	230		**230**	230		**230**	
Burial Ground Chapelhill	C&P	75		**75**	75		**75**	
Burial Ground, Tomnacross, Kiltarlity	C&P	30		**30**	30		**30**	
Burial Ground Braodford Strath, Skye	C&P	110		**110**	110		**110**	
Burial Ground Dunvegan, Skye	C&P	280		**280**	280		**280**	
Burial Ground, Mount Vernon, Thurso	C&P	50		**50**	50		**50**	
Burial Ground, Reay, Sutherland	C&P	50		**50**	50		**50**	
Burial Ground Tornagrain, Inverness	C&P	20		**20**	20		**20**	
Burial Ground Tore, Black Isle	C&P	25		**25**	25		**25**	
Crematorium	C&P		590	**590**		590	**590**	
War Memorials	C&P	20	1	**21**	20	1	**21**	
Memorial Safety	C&P	35	25	**60**	10	50	**60**	
Burial Grounds - General	C&P	20	2,173	**2,193**	132	2,061	**2,193**	
PUBLIC CONVENIENCES	**C&P**	**167**	**166**	**333**	**333**		**333**	
Public Convenience Visitor Management Upgrades	C&P	167	166	**333**	333		**333**	
PROPERTY ESTATE ASSET MANAGEMENT	**P&H**	**9,500**	**45,546**	**55,046**	**8,498**	**46,548**	**55,046**	
Council Property Estate Works - including:	P&H	9,500	45,546	**55,046**	8,498	46,548	**55,046**	Committed projects and essential works required in 2023/24
- Engineering Compliance & Upgrade Works	P&H							
- Catering & FM Compliance	P&H							
- Property Structures and Fabric	P&H							
- Property Security	P&H							
- Property Surveys	P&H							
- Water Management	P&H							
- Fire Safety	P&H							
- Asbestos Removal / Compliance Works	P&H							
- Energy Management & Improvement Works	P&H							
- Depots - Health & Safety	P&H							
- Office Rationalisation	P&H							
- Other Annual Programme of Works	P&H							
VEHICLES & PLANT	**C&P**	**4,647**	**12,889**	**17,536**	**2,447**	**14,589**	**17,036**	
Vehicle & Plant Purchases	C&P	4,000	12,768	**16,768**	2,300	14,468	**16,768**	Slippage (£2.45m) due to supply delays resulting from COVID pandemic, global disruption to semiconductor industry and delays in build including with chassis and body suppliers resulting in delays to order fulfilment.
Mechanical Street Sweepers	C&P	147	121	**268**	147	121	**268**	
Amenities Plant & Equipment	C&P	500		**500**				Benefits will include: improved service delivery; increased productivity; reduced emissions; support improvements in staff welfare including H&S.
PLANNING & DEVELOPMENT	**IEE**	**467**	**777**	**1,244**		**1,145**	**1,145**	
Town & Countryside Regeneration	IEE	300	185	**485**		485	**485**	
Nairn High Street	IEE	10		**10**				
Wester Ross Visitor Hubs	IEE	11	63	**74**		74	**74**	
Green Infrastructure Merkinch Boardwalk (Match Funding)	IEE	89		**89**				
Storr Visitor Management	IEE	17	10	**27**		27	**27**	
Misc Assets, Bridges & Structures	IEE	40	38	**78**		78	**78**	
Dell of Spey	IEE		56	**56**		56	**56**	
Long Distance Routes	IEE		6	**6**		6	**6**	
Ardersier Path	IEE		26	**26**		26	**26**	
Inverness Rail Station	IEE		310	**310**		310	**310**	
Countryside Site Enhancement	IEE		83	**83**		83	**83**	
INVERNESS CASTLE	IEE	**4,503**	**11,834**	**16,337**	**5,575**	**10,762**	**16,337**	
Inverness Castle	IEE	4,503	11,834	**16,337**	5,575	10,762	**16,337**	
HOUSING (NON HRA)	P&H	**2,750**		**2,750**				
Private Sector Housing Grants	P&H	2,750		**2,750**				Budget for care and repair programme in partnership with NHS and other authorities.
SELF-FUNDING PROJECTS		**9,602**	**116**	**9,718**	**6,308**	**1,114**	**7,422**	
Savings								
LED Programme for Buildings	CR	25		**25**				
Salix Match Funding - Energy Efficiency Projects	CR	625		**625**	625		**625**	
Waste Shredders	C&P	1,000		**1,000**				Proposed as part of the Council's investment proposals to be considered at 2 March 23 Highland Council meeting.
Income stream								
Car Parking - Inverness Lorry Park	IEE	280		**280**				
Car Parking - Rose Street Multistorey	IEE	33	116	**149**	33	116	**149**	
Car Parking - Inverness Torvean Surfacing	IEE	600		**600**				
Car Parking - Glencoe Village	IEE	175		**175**				
Car Parking - Achmelvich Beach	IEE	272		**272**	272		**272**	
Uig Ferry Terminal and Link Span	IEE	6,592		**6,592**	5,378	998	**6,376**	
Inverness UHI Campus Sports Pitch	IEE	-	-	**-**	-	-	**-**	No capital borrowing required.
TOTAL		**117,701**	**474,815**	**592,516**	**133,312**	**451,173**	**584,485**	

2023/24 Council Tax Rates Proposals **Appendix 7**

Band	Multiplier Factor	2022/23 Council Tax £	2023/24 Proposed change £	2023/24 proposed Council Tax £
DBR	5/9	762.39	30.50	792.88
A	6/9	914.87	36.59	951.46
B	7/9	1,067.34	42.69	1,110.04
C	8/9	1,219.82	48.79	1,268.61
D	9/9	1,372.30	54.89	1,427.19
E	473/360	1,803.05	72.12	1,875.17
F	585/360	2,229.99	89.20	2,319.18
G	705/360	2,687.42	107.50	2,794.91
H	882/360	3,362.14	134.49	3,496.62

Loans Fund Principal Repayment holiday- repayment profile **Appendix 8**

Value of 2022/23 repayment **£29,276,406**

Pepayment profile by year:

	£
2023/24	5,007,145
2024/25	3,580,082
2025/26	2,781,731
2026/27	2,322,587
2027/28	2,035,582
2028/29	1,811,310
2029/30	1,563,103
2030/31	1,447,361
2031/32	1,328,550
2032/33	1,191,498
2033/34	1,111,312
2034/35	992,243
2035/36	838,968
2036/37	687,782
2037/38	587,269
2038/39	526,615
2039/40	451,384
2040/41	415,297
2041/42	351,420
2042/43	245,168
Total	**29,276,406**

Earmarked Balances **Appendix 9**

Description	Service	Updated Balance £	Forecast of balance to be drawn down by end of 2022/23	Forecast of balance to be drawn down by end of 2023/24	Forecast of balance to be drawn down by end of 2024/25	Balance suggested for repurposing £	Comment
Covid19 Funding							
Business Grants (B-14)	I&E&E	**3,091,758**				3,091,758	Excess funding originally recived during Covid period nominally for business grants, no longer required for that purpose
Welfare							
Additional Free School Meals Easter (R-19)	Welfare	**88,582**	**88,582**			0	
Spring Hardship £100 payments - Admin (R-44b)	Welfare	**13,000**	**13,000**			0	
Test and Protect Funds - Support for People (R-23,R-24,R-49,R-55,R-69,R-73,R-78)	C&P	**509,608**	**0**			509,608	No plans for spend of this residual balance
Flexible Fund to Support People Impacted by Restrictions (R-31)	C&P	**722,204**	**449,306**			272,898	No plans for spend of this residual balance
LACER							
Environmental Health & Trading Standards (R-81)	C&P	**210,000**	**100,000**	**34,000**		76,000	No plans for spend of this residual balance
Other							
Environmental Health Officers (R-22)	C&P	**67,629**	**67,629**			0	
PESF Boost (R-52)	I&E&E	**191,000**				191,000	No plans for spend of this residual balance
CO2 Monitors	P&H	**140,000**	**140,000**			0	
Covid-19 Funding Sub-total		5,033,781	858,517	34,000	0	4,141,264	
Phase 1 Investment Fund (HC 04/03/21)							
Economic Prosperity Fund (£6m) + £0.125m Levelling-up Funding	I&E&E/E&L	**5,658,281**	**1,429,000**	**1,986,000**	**1,310,281**	933,000	Excess funding (associated costs possibly met through 21/22 core revenue budget). No commitments made against this funding
Visitor Management Strategy (Phase 1) (£1.5m)	C&P/I&E&E	**435,342**	**435,342**			0	
Phase 1 Investment Fund Sub-total		6,093,623	1,864,342	1,986,000	1,310,281	933,000	
Phase 2 Investment Fund (HC 24/06/21)							
Corran Ferry (£1.6m)	I&E&E	**1,557,215**	**1,220,000**	**337,215**		0	
Environment/Climate Change - Renewables (£0.1m)	P&G	**100,000**	**100,000**			0	
Roads - Maintenance (£4m)	I&E&E	**3,065,382**				3,065,382	Expenditure against this fund to be capitalised and revenue reserve repurposed
Burials & Cremations (£0.4m)	C&P	**306,405**				306,405	Expenditure against this fund to be capitalised and revenue reserve repurposed
Supporting Safe & Effective working (ICT) (£0.8m)	P&H	**800,000**	**400,000**	**200,000**		200,000	No plans for spend of this residual balance
Phase 2 Investment Fund Sub-total		5,829,002	1,720,000	537,215	0	3,571,787	
Phase 3 Investment Fund (HC 09/09/21)							
Green Energy Hub (£2.8m)	C&P	**2,799,872**	**214,300**	**565,700**		2,019,872	Funding not required at this point in time.
Visitor Management Strategy (Phase 3) (£1.5m)	C&P/I&E&E	**1,494,400**	**1,300,000**			194,400	Any funds not drawn down by 2022/23 year end will be repurposed
Community Loans Fund (£1m)	I&E&E	**1,000,000**	**500,000**			500,000	Potential reduce commitment to match funding applications
Phase 3 Investment Fund Sub-total		5,294,272	2,014,300	565,700	0	2,714,272	
Phase 4 Investment Fund (HC 03/03/22)							
Roads - Maintenance (£2.5m)	I&E&E	**2,500,000**		**1,500,000**		1,000,000	Expenditure against this fund to be capitalised and revenue reserve repurposed
Roads - Plant & Machinery (£1m)	I&E&E	**811,533**				811,533	Expenditure against this fund to be capitalised and revenue reserve repurposed
Climate Action, Green Energy and Jobs (£2m)	Corporate	**2,000,000**	**500,000**	**762,000**		738,000	No plans for spend of this residual balance
Families First (£1m)	HW&SC	**1,000,000**	**79,462**	**460,269**	**460,269**	0	
Innovation in Education (£1m)	E&L	**760,271**	**239,729**	**270,542**		250,000	No plans for spend of this residual balance
Rural Transport (£0.5m)	I&E&E	**500,000**	**500,000**			0	
Phase 4 Investment Fund Sub-total		7,571,804	1,319,191	2,992,811	460,269	2,799,533	

Other Funds							
NHS Highland - Covid Response Fund & Investment Fund	HW&SC	**16,396,000**	**6,573,000**	**9,823,000**		0	
Elections	P&G	**925,000**	**747,000**			178,000	Fund not required at this time
Grants & Match Funding							
Brexit	P&G	**21,455**				21,455	No plans for spend of this residual balance
Community Justice	HW&SC	**23,697**				23,697	No plans for spend of this residual balance
Learning & Teaching (1+2 Languages)	E&L	**122,616**	**100,000**	**22,616**		0	
Deprived Areas Projects	I&E&E	**67,117**				67,117	No plans for spend of this residual balance
New Concerto Property Database System - Module Development Work	P&H	**209,857**	**0**	**209,857**		0	
RRTP Homelessness	P&H	**652,456**	**2,000**	**285,000**		365,456	No plans for spend of this residual balance
Whole Family Wellbeing	HW&SC	**1,420,000**	**105,000**	**657,500**	**657,500**	0	
National Trauma Training	HW&SC	**50,000**	**0**	**50,000**		0	
Mental Health Officers	HW&SC	**139,000**	**0**	**139,000**		0	
Period Poverty	C&P	**109,000**	**109,000**			0	
FWES Employability	I&E&E	**2,082,256**	**0**	**1,000,000**		1,082,256	No plans for spend of this residual balance
Regional Economic Partnership Fund (Western Isles)	I&E&E	**107,000**	**107,000**			0	
Highlife Highland	E&L	**1,400,000**	**1,400,000**			0	
IT Investment Fund (incl. My Council)	Trans-formation	**1,078,383**	**300,000**	**778,383**		0	
Lease Premium	I&E&E	**265,000**				265,000	No plans for spend of this residual balance
SALIX Recycling Fund	P&H	**685,789**	**342,895**	**342,895**		0	
SALIX Recycling Fund - Management Fees	P&H	**107,738**	**53,869**	**53,869**		0	
Staffing Conditions and Development Fund							
Website & Service Centre Enhancement	C&P	**26,255**	**26,255**			0	
Office Reviews	P&H	**784,574**	**250,000**	**534,574**		0	
Business Change & Improvement (Transformation Fund Reserve)	Corporate	**1,032,000**	**1,032,000**			0	
Consolidation of Living Wage	Corporate	**1,000,000**	**1,000,000**			0	
Legal Underspend	P&G	**60,000**		**60,000**		0	
Flexible Working/NWOW (HC 04/03/21 one-off budget uplift)	P&H	**500,000**		**500,000**		0	
Scottish Crown Estate	I&E&E	**8,300,059**	**1,000,000**	**3,150,030**	**4,150,030**	0	
Skye Airstrip	I&E&E	**187,000**				187,000	No plans for spend of this residual balance
Walks to Water	I&E&E	**75,544**		**75,544**		0	
DSM Balances	E&L	**3,870,324**		**1,935,162**		1,935,162	50% topslice to be applied to DSM budgets at 2022/23 year end. Schools will retain miinum balance of £1,500 or 50% of 2022/23 year end balance (whichever is greater)
Badaguish Outdoor Centre	E&L	**459,692**	**0**		**459,692**	0	
Change Fund							
Change Fund - General	Trans-formation	**2,756,445**	**1,234,560**	**1,014,894**	**366,802**	140,189	No plans for spend of this residual balance
HR/Payroll System		**487,823**		**487,823**		0	
Commercial Investment Fund	Corporate	**74,000**				74,000	No plans for spend of this residual balance
Car Parking Income (Areas)	I&E&E	**104,953**		**104,953**		0	
Welfare Issues							
Count Your Cash Days	P&H	**14,250**	**0**			14,250	No plans for spend of this residual balance
Match funding for ESF Poverty & Social Inclusion	C&P	**233,996**	**233,996**			0	
Fuel Support	Welfare	**200,000**	**200,000**			0	
Administration of Pandemic Entitlements	R&F	**165,000**	**165,000**			0	
Property (Health & Safety Works) (HC 04/03/21 one-off budget uplift)	P&H	**2,400,000**	**2,400,000**			0	
Developers' Contributions	Corporate	**8,593,918**	**250,000**	**4,171,959**	**4,171,959**	0	
Other Funds Sub-total		**57,188,198**	**17,631,575**	**25,397,059**	**9,805,983**	**4,353,582**	
GRAND TOTAL		**87,010,680**	**25,407,925**	**31,512,785**	**11,576,533**	**18,513,438**	

Revenue Budget 2023/24 - 2027/28 **Appendix 10**

Budget Gap Summary

	2022/23 £m	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	5 Year Total £m	Assumptions
STRUCTURAL GAP								
Cost changes								
23/24 impact of 2022/23 pay award and other pay factors		2.822	0.000	0.000	0.000	0.000	2.822	
Pay and pension increases		16.178	10.174	10.490	10.815	11.149	58.806	3.5% award in 23/24, 2.5% in subsequent years. No provision for increments beyond 23/24
Budget pressures		32.862	10.000	9.000	8.000	7.000	66.862	Inflationary factors normalise quickly during 2023/24
Loans charges change (estimated impact of significantly reduced capital programme, interest rate increases and capitalising revenue reserves spend)		0.500	1.500	1.500	1.500	1.500	6.500	Assumed that even a significantly reduced capital programme will require year on year increases in loans charges
Changes in funding and council tax assumptions (excluding tax rate)								
Reduction/(Increase) in Government funding		-1.389	0.000	0.000	0.000	0.000	-1.389	Flat cash settlement for core funding in years 2-5
Change in council tax base and CTR		-1.740	-1.229	-1.229	-1.229	-1.229	-6.656	Current rate of growth continues
BUDGET GAP BEFORE ONE-OFF ELEMENTS		**49.233**	**20.445**	**19.761**	**19.086**	**18.420**	**126.945**	
NON-RECURRING ELEMENTS OF BUDGET GAP								
Reversal of one-off items- use of reserves to balance budget		0.000	23.270	21.098	14.247	6.828	65.444	This reflects the structural gap due to prior year use of reserves
Reversal of one-off items- non-recurring savings proposals		0.000	1.000				1.000	Repairs £1m saving for 23/24 is not sustainable
Reversal of one-off items- use of second homes Council Tax income			3.400				3.400	Government dispensation for use of 2nd homes C Tax given for one year only (doesn't matter whether it is 22/23 or 23/24)
		0.000	27.670	21.098	14.247	6.828	69.844	
Loans charges change (impact of 22/23 loans fund holiday)		5.007	-1.427	-0.798	-0.459	-0.287	2.036	Full holiday taken- cost of repayment reduces year-on-year
BUDGET GAP BEFORE COUNCIL TAX INCREASE & SAVINGS		**54.240**	**46.688**	**40.061**	**32.874**	**24.961**	**196.789**	
CLOSING THE GAP								
Recurring items								
Council tax rate increase (4% p.a.)		-5.375	-5.590	-5.814	-6.046	-6.288	-29.113	Assumed 4% p.a. regardless of wider inflationary factors
New savings proposals		-22.195	-20.000	-20.000	-20.000	-20.000	-102.195	No proposals for 24/25 and beyond at present- £20m reflects top level of savings normally deliverable anually
One-off items								
Use of 2nd homes council tax income (subject to SG approval)		-3.400	0.000	0.000	0.000	0.000	-3.400	Reversed out above to reflect one off nature of this. Assumes SG do not require us to make good contribution in future years
Use of reserves		-23.270	-21.098	-14.247	-6.828	1.327	-64.117	Balancing figure from reserves required to bridge residual gap
RESIDUAL GAP/(SURPLUS)		**0.000**	**0.000**	**0.000**	**0.000**	**0.000**	**-2.036**	
Forecast year-end general reserves (see detail below)	**63.102**	**39.832**	**18.734**	**4.487**	**-2.342**	**-1.015**		

Expected level of reserves at year end:

Non-earmarked

	£m	Assumptions
General non-earmarked	11.913	Based on Q3 forecast
Formerly earmarked- now repurposed	18.513	Assumes £20m of currently earmarked balances will be repurposed (at most £25m to £30m could potentially be repurposed)
Policy flexibility- repurposing of 22/23 council tax income from 2nd homes	3.400	Assumes flexibility is granted for two years
Loans fund principal holiday reserve	29.276	Assumes full holiday taken- impact of repyaments included on row 11
	63.102	