

# The Highland Council

Agenda Item	11
Report No	HC/30/23

**Committee:** Highland Council

**Date:** 14 September 2023

**Report Title:** Mid-Year Budget Update

**Report By:** Head of Corporate Finance

## 1. Purpose/Executive Summary

- 1.1 In recognition of the significant financial challenges being faced by the Council, and across Local Government, the Council has regularly received update reports in relation to the budget position, and in March of this year a commitment was given to a mid-year budget update report to the Council.
- 1.2 This report provides Members with a mid-year budget update relating to financial year 2023/24 as well as updated assessment of the outlook for subsequent financial years.
- 1.3 The report provides elected Members with an update in relation to in-year budget savings delivery for 2023/24, risks and pressures in the year, and other key developments relating to the Council's financial position.
- 1.4 The report also provides an updated assessment of the Council's outlook for the forthcoming financial year, 2024/25, and successive years, and proposed actions in relation to the budget process, including communication and engagement planning.
- 1.5 It is clear from modelling work on the financial outlook for 2024/25 and beyond that the likely level of budget gap to be faced in those years is higher than had been assumed at March 2023. The impact of high inflation and interest rates is expected to have an ongoing and larger impact in the short-term on Council budgets and costs of delivery. It is reasonable to forecast that the level of budget gap in 2024/25 could be in the region of £60m-70m before any mitigating actions are factored in.
- 1.6 If that is the case, the level of gap and the requisite level of savings, reductions and mitigations to close that gap would be unprecedented. A multi-year medium-term financial planning approach will be essential to ensure a clear plan and pathway towards achieving a financially sustainable position. This will be taken forward as a key action and further reports to Council over the coming months. Significant cost reductions and changes in how and what levels of service are delivered will be necessary.

## **2. Recommendations**

### **2.1 Members are asked to:**

- i. Note the update provided within this report regarding the current 2023/24 revenue budget, risks and uncertainties, and progress with savings delivery;
- ii. Note the updated outlook relating to 2024/25 and subsequent years, and the reasonable planning assumption of an increased budget gap for those years;
- iii. Note the update provided in relation to opportunities and officer work regarding future areas of potential saving and income generation;
- iv. Agree to arrange a Member briefing session to allow Members the opportunity to be fully briefed by Officers and the Council's Treasury Advisors on the options for PPP flexibility and an independent review of the Council's financial modelling;
- v. Note that further update on budget, and budget planning for 2024/25 and beyond will come to subsequent Council meetings; and
- vi. Note the initial options and planning for budget engagement.

## **3. Implications**

- 3.1 Resource – this report provides an overview of resources implications relating to the Council's revenue budget for 2023/24, and an updated outlook and assessment for 2024/25 and subsequent years.
- 3.2 Legal – there are no specific implications to highlight in this report.
- 3.3 Community (Equality, Poverty, Rural and Island) – the Council's budget has extensive impact on communities across the Highlands. However, there are no direct implications arising from this particular report.
- 3.4 Climate Change / Carbon Clever - The Council's budget decisions can have a major impact on climate change and the delivery of net zero. However, there are no direct implications arising from this particular report.
- 3.5 Risk – as highlighted within this report, there remains an ongoing risk in relation to the Council's overall financial position, related to the reliance on non-recurring funding sources such as reserves to balance the 2023/24 revenue budget, and risks in relation to costs of service delivery linked to inflation and interest rates. In relation to future years, these same risks have an ongoing impact and as detailed in this report, the updated outlook which estimates a higher level of likely budget gap in 2024/25 and subsequent years. This report provides context to these risks, and also forms a key part of the Council's forward planning for its budget.
- 3.6 Health and Safety (risks arising from changes to plant, equipment, process, or people) – no direct implications arising from this report.
- 3.7 Gaelic – no implications to highlight.

#### 4. Revenue Budget Recap 2023/24

- 4.1 The table below sets out a reminder of the basis on which the Council revenue budget for 2023/24 was set, and funding assumptions, as at March 2023. This has been updated to reflect some subsequent amendments to funding assumptions in year, with commentary to explain movements. Regular reports to the Corporate Resources Committee provide appendices which reconcile movements in funding in-year.

Description	As Agreed March 2023 £m	Current at date of Report £m	Movement +/- £m
Scottish Government Grant Funding ex Ring-Fenced Grants (see note 1)	536.524	550.443	13.919
Council Tax Income	143.563	143.563	-
Use of Reserves (see note 2)	23.270	19.448	-3.822
Budgeted Contribution to Earmarked Reserves	-0.659	-0.659	-
<b>Net Revenue Budget for the year</b>	<b>702.698</b>	<b>712.795</b>	<b>10.097</b>

Other Core Funding Assumptions:

Budget Savings agreed	22.195	22.195	-
Re-purposing of Council tax for 2 <sup>nd</sup> Homes income	3.400	3.400	-

*Note 1: Various additions/changes to Scottish Government grant funding since the budget was agreed March 2023. Including funding towards staff pay awards.*

*Note 2: as reported to Council in June 2023, a re-profile of loans fund principal was undertaken to ensure the Council could utilise Scottish Government capital grant intended for pay award funding. This has re-profiled loans fund principal charges over 3 financial years, with an acceleration in 2022/23 which reduced reserves from what they would otherwise have been, offset by the re-profile in 2023/24 and 2024/25. The effect of this is neutral over 3 years, with the use of reserves assumption adjusted to reflect the effect in 2023/24.*

- 4.2 The budget agreed for the year utilises a significant value of non-recurring funding items, including use of reserves, which are not a sustainable mechanism for funding the revenue budget on an ongoing basis. As Members will note from section 11 of this report, the budget gap forecast for 2024/25 includes the impact of these non-recurring funding streams, with a higher gap in that year as a result.
- 4.3 Members will recall that the Council had sought and received a granting of flexibility in the use of income from Council Tax on 2<sup>nd</sup> homes. Scottish Government granted flexibility to the Council to utilise income in 2022/23 and 2023/24 to support the revenue budget, rather than for affordable housing purposes. That flexibility was however conditional on repayment of income into the Landbanking Fund within 3 years of the flexibility being exercised. The report to June Council highlighted the risk of this conditional flexibility, with a consideration as to whether there was merit in using the 2023/24 flexibility in the knowledge it would need to be paid back (at that point the 2022/23 flexibility had already been implemented).

- 4.4 The Council Leader wrote again to the Depute First Minister in June, and that letter, plus the response received, are enclosed as **appendices 1a and 1b** respectively. Scottish Government has maintained their position that the income would need repaid into the Landbanking Fund within 3 years.
- 4.5 In the knowledge that repayment into Landbanking Fund is a requirement, it may be more prudent to plan for and action that scenario in the current year, while there is sufficient capacity in General Fund reserves to do so, rather than wait until a later period within the 3 years and the risk that reserves are not as capable of meeting this call upon them. On a practical level the implication for Council reserves would be a need to repay a sum of £3.296m being the 2022/23 flexibility used, and an estimated £3.400m being the assumed flexibility when the budget for 2023/24 was agreed. In total this would be a sum of £6.696m to come out of General Fund reserves and paid into the Landbanking Fund.
- 4.6 There would be no need to action any change until financial year end from a budgetary and accounting perspective. Given there is ongoing dialogue between Cosla and Scottish Government regarding future financial settlements and fiscal flexibilities in the context of the Verity House Agreement (VHA), at this stage it is the view of Officers that any formal decision on this matter is put on hold, for now, and considered as part of budget setting in March 2024. So as to not remove any flexibility should there be a change to future opportunities that may arise from the VHA. Meantime for planning purposes, Officers will prudently assume the need to repay up to £6.696m into Landbanking Fund from General Fund reserves. The timing of that repayment being a matter still to be determined and considered by Council in March 2024.
- 4.7 Scottish Government revenue to capital funding. Members will recall from past reports and as referenced at paragraph 4.1, Scottish Government has sought flexibility from Local Government in 'switching' expected revenue funding to capital, and using existing accounting rules which allow that capital funding to still ultimately be used to the benefit of the revenue budget. Comprehensive explanation of the mechanism used was included in report number HC/18/23 to June Council. This was the mechanism in 2022/23 to utilise £5.5m of Scottish Government pay award funding provided via capital grant, and the same mechanism will be used in 2023/24 for capital grant pay award funding in the current year. There has been dialogue between Officers and Cosla/Scottish Government around a request for the Council to accommodate an additional 'funding switch' in 2023/24, with a one-off increase in capital grant and matching decrease to revenue grant of circa £3m. This can be accommodated within the existing accounting mechanisms in place, and with a neutral financial effect for the Council, and Officers are formalising details and once finalised the funding change will be reflected in future monitoring reports.

## **5. Budget 2023/24 Risks and Uncertainties**

- 5.1 As is the case in any budget year, there were a number of risks and uncertainties which were considered as part of the budget setting for the year and also in considering the Council's reserves position, and adequacy of reserves.
- 5.2 In relation to 2023/24, the following sets out some of the more significant risk and uncertainty issues considered previously, with an updated assessment of the current position and the risk.
- 5.3 Pay awards – there are two particular risks to highlight relating to pay awards for 2023/24. The first being the outstanding pay award for the Scottish Joint Council (SJC)

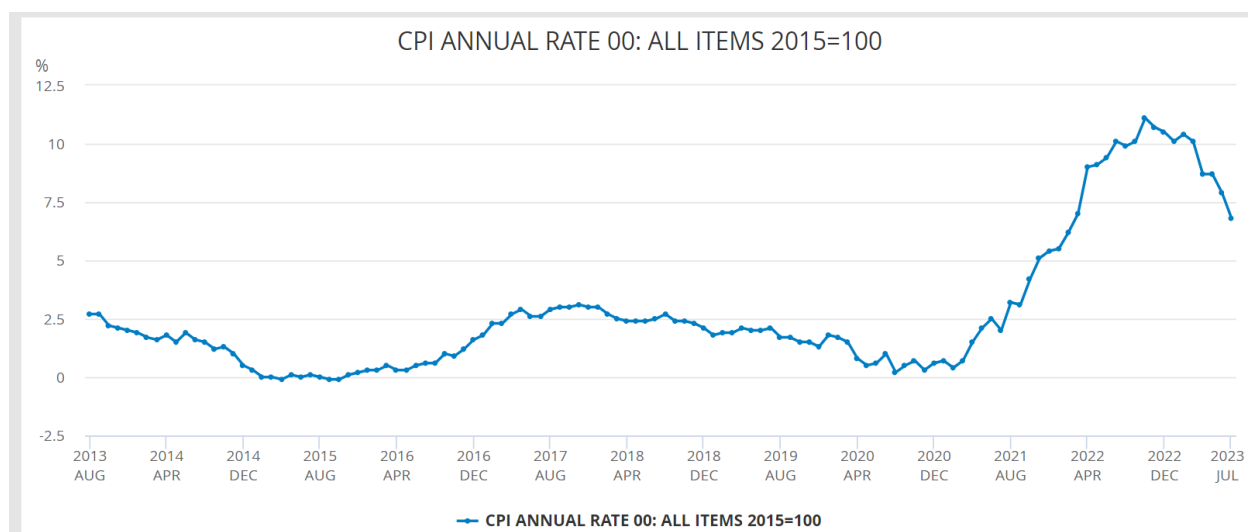
staff group, where there is no agreement on the pay settlement and Trade Unions are planning industrial action. The second risk relates to the full year effect into 2024/25 of a number of pay settlements whereby there has been staged increases, only part of which falls as a cost in 2023/24.

SJC Pay Award – the current paybill of this staff group totals £206m, and the pay offer made to staff was predicated on a combined funding package from Local Government and Scottish Government. Until settled, there is the risk and uncertainty which remains regarding the cost and funding implications of this pay settlement.

Full-year effect of phased pay settlements – an increasing number of pay settlements have phased aspects to the uplift, for example 1 April 2023 increases followed by 1 January 2024 increases, with the result that only a part-year cost has to be funded in the current year, but with the risk and impact of the full year effect of those settlements into future years. As a result current year pay settlements and pay offers have additional and as yet unfunded cost implications into future years. There are expectations in relation to Scottish Government recognition of those full year costs and their funding contribution towards those into 2024/25 grant settlements, but risks until such time as the grant settlement for 2024/25 is known.

5.4 Energy and utility pressures – in setting the budget for the year, the Council provided additional funding for a range of inflationary and other pressures, and as at Quarter 1 there is a sum of £8.9m which is being held centrally at this time in relation to energy and utility cost pressures. Following Quarter 1, further analysis will be undertaken to assess the budgetary position and needs across Service budgets. Until that work has concluded, there is a risk and uncertainty as to whether the budget provision will be adequate for the current year.

5.5 Inflation – while inflation has gradually eased in recent months, it remains above the Bank of England's target. The Bank's latest assumption from August 2023 is that it will be the end of 2023 before inflation falls to around 5%, before then continuing to fall until it reaches the Bank's 2% target by 2025. The inflationary impact on the Council's cost of services will therefore persist for some time. The graph below sourced from the Official for National Statistics (ONS) reflects the historic movement in CPI inflation through to the current 6.8% (July 2023).



5.6 Interest Rates – interest rates have continued to increase since the Council agreed its budget in March 2023. At that time base rates were 4.25%, and these have risen to

the current level of 5.25% at August 2023. Current market estimates are that due to the inflation remaining some way above the 2% target rate (see paragraph above) there may be expected to be a further Bank of England increase to 5.5% at the Bank's next monetary policy meeting. Current market forecasts, based on the Bank's own reports, are that interest rates may persist at a peak for around the next 12-18 months before then easing, and in time returning to a 2%-2.5% level. The level of interest rates has a direct impact on the Council through borrowing costs and treasury management activity, including the level of interest received from sums on deposit. Indirectly, interest rates have a wider impact on the costs of service delivery as they impact on the costs of supply chain activity and staff pay expectations. The risks and implications arising from interest rates, and the implications for the capital programme, are considered more fully as part of the capital programme review process, and Members have had two recent briefings in relation to the Capital Review and Treasury Management. A training session on treasury management for Members has also been added into Member diaries for 26<sup>th</sup> September.

## 6. Revenue Budget Savings 2023/24

- 6.1 As set out in section 4, the budget for the current financial year was based on agreed savings of £22.183m. As is normal practice, each Strategic Committee receives quarterly reports on progress with delivery of savings as part of regular revenue budget and performance monitoring.
- 6.2 The table below, as recently reported to the Corporate Resources Committee, provides a Quarter 1 assessment on the progress of savings delivery. **Appendix 2** provides a complete analysis of all budget savings, and RAG status.

Service	Total Approved Savings 2023/24 £m	Blue	Green	Amber	Red
		£m	£m	£m	£m
Communities & Place	1.455	0.470	0.955	0.030	0.000
Depute Chief Executive	0.307	0.307	0.000	0.000	0.000
Education & Learning	9.559	0.685	8.249	0.625	0.000
Health & Social Care	3.138	0.000	0.190	2.948	0.000
Infrastructure, Environment & Economy	2.377	0.330	1.430	0.617	0.000
Performance & Governance	0.363	0.060	0.233	0.070	0.000
Property & Housing	3.430	0.000	2.640	0.790	0.000
Resources & Finance (including Welfare)	1.304	0.946	0.145	0.213	0.000
<b>Service Savings Total</b>	<b>21.933</b>	<b>2.798</b>	<b>13.842</b>	<b>5.293</b>	<b>0.000</b>
Add : Corporate Savings	0.250	0.000	0.000	0.250	0.000
<b>Total</b>	<b>22.183</b>	<b>2.798</b>	<b>13.842</b>	<b>5.543</b>	<b>0.000</b>

*Key: Blue-Complete, Green-On Target, Amber-some risk/delay, Red-risk of non-delivery*

- 6.3 In any year, it is essential to ensure that savings targets are met, and on a recurring and sustainable basis. In the current year, that is all the more vital given the reliance on reserves to balance the budget and the need to minimise and risk of a greater impact on reserves if saving targets are not achieved.
- 6.4 The Council's Executive Leadership Team has undertaken work to begin to identify and scope potential future saving and income generation opportunities, to inform budget planning for the current and future years. **Appendix 3** provides a high level overview of the work to date. Depending on how this progresses, proposals will be brought forward in greater detail at a future date for Member consideration.

## 7. Financial Flexibilities and Opportunities

7.1 Given ongoing financial pressures and challenges, the Council must ensure it is exploring and considering all potential financial flexibilities and opportunities which could assist with the budget position in the current and subsequent years. The Council has also had a good track record of positive engagement and lobbying on issues where Scottish Government or other external support or decision is required to facilitate certain flexibilities. The following section outlines some of the current flexibilities that may be relevant in the current or future financial years.

### 7.2 Council Tax consultations

There are current Scottish Government consultations relating to Council tax which may have a bearing on future financial outlooks. The Council's response to the consultations below are being considered elsewhere on the Council agenda and help to provide broader context.

- Council Tax on second homes – the current charge levied is 100%. The consultation relates to a 'premium' to be applied, and the Council's consultation response supports a charge of up to 200%. The policy intent, if implemented, could be expected to reduce the number of second homes and the level of potential income may therefore vary. At 200% and no reduction in number of properties, the additional income in Highland could be £5.9m p.a. If the number of properties coming under the charge decreased, which would be the policy intent behind any change, for example at two-thirds of the current number of properties, additional income would be £3.9m p.a.
- Council Tax on long-term empty properties – the current charge levied is 200%. The consultation relates to scope to change or increase that levy. The Council's consultation response supports holding at 200%. In that scenario there would be no additional income beyond current budget assumptions. The intention of maintaining the charge at 200% is to enable owners to undertake repairs and upgrades to their properties so that they can be marketed for sale or made available for let as sole or main residences. This approach should help to address the housing pressures in Highland which is the policy intent of the proposals contained within the consultation.
- Council Tax Banding Multiplier – The joint consultation by the Scottish Government and CoSLA invites views on proposals to apply increases to the Council Tax multipliers for Bands E-H inclusive by 7.5%, 12.5%, 17.5% and 22.5% respectively. Based on current Council Tax rates and collection assumptions, such increases to multipliers for Bands E-H inclusive would have the potential of providing additional annual recurring revenue of £6.8m. The Council's consultation submission is to be agreed at Item 20 on the Council agenda. The draft response seeks:
  - a reasonable and affordable balance of charging across Council Tax valuation bandings.
  - unspecified smaller increases to the multiplier than proposed in the consultation
  - that increases in receipts arising from any eventual increases in Council Tax multipliers provides additional annual recurring revenue which does not

replace or substitute other revenue streams, including the General Revenue Grant.

### 7.3 PPP service concession financial flexibilities

Members will recall from the March 2023 budget report that alongside the Loans Fund Principal 'holiday' which the Council agreed to take and was implemented in 2022/23, there was one further Scottish Government financial flexibility available on which the Council has not yet taken a formal view. The flexibility relates to PPP and similar contracts and, as per the March report, the key elements of the flexibility can be summarised as below.

*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.*

*Which 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 to fund them.*

For context, the Council has three contracts covered by PPP accounting mechanisms which could fall into the flexibility referred to.

Contract	Asset Financing Cost which could be in scope	Contract end date
Schools PPP1 (25 year contract term)	£20.3m	August 2027
Schools PPP2 (30 year contract term)	£156.6m	March 2037
Wick Campus DBFM (25 year contract term)	£53.2m	September 2041

The Finance Circular relating to the flexibility contains clauses relating to contracts with less than 5 years to run, which for Highland would apply to Schools PPP1. Further analysis is underway to consider if Schools PPP1 would need to be excluded if the Council was minded to explore this flexibility.

By way of illustration, current modelling suggests a one-off retrospective credit of circa up to £30m could be created by this flexibility (if all 3 contracts in scope), and the potential for annual credits/'savings' to varying levels over the period 2023/24 – 2035/36. In 2036/37 and beyond, there would be costs/pressures through to 2076 when the accounting costs and financing costs would exceed any credits, and beyond 2041 when costs would extend beyond the point at which contracts and contract payments would have ended.

2023/24 is the final year in which the Council could elect to utilise the flexibility per the terms of the Scottish Government Finance Circular.



While the flexibility does result in the accounting cost of assets financed under PPP and similar schemes being spread over a longer-term than the contract period, it would bring that accounting period into line with the Council's policies for schools and other assets financed through its own capital: i.e. while the accounting adjustments would spread the cost over a longer time period, and spread those costs to periods which would not otherwise have borne those costs, it can also be stated that the approach more accurately spreads the financial cost over the useful life of the assets, and brings into line with the Council's existing treatment for capital financed schools.

Council Officers are modelling scenarios relating to different ways in which the flexibility could operate, both prospectively and retrospectively, as well as considering the scope given the Council may not be able to incorporate schools PPP1 within any flexibility given the contract has less than 5 years to run. Consideration of interest costs and longer-term implications are also being modelled. Engagement with the Council's external Treasury Advisor has also taken place and is ongoing, given they have worked with a number of other Scottish Local Authorities who have utilised the flexibility.

Any decision on this flexibility would require a formal decision by the Council, and with a full assessment of all implications arising, both short and long-term, including an assessment as to whether the proposal was prudent, sustainable and affordable over the life of the assets. There would also need to be a clearly stated rationale and justification for any decision to utilise the flexibility, and aligned with that, a clear plan and strategy as to how short to medium term credits would be used and how longer-term costs could be managed.

The Council's Treasury Advisors will provide an assessment of the flexibility using their professional knowledge and work undertaken with other Local Authorities. This will also provide an independent review of the Council's own financial modelling. It is proposed that a Member briefing session is arranged for later this calendar year to allow members the opportunity to be fully briefed in advance of any decision. Any decision on whether to utilise, or not, the flexibility would be taken later this financial year, and no later than March 2024.

#### 7.4 Transient Visitor Levy

The Bill on the Levy is currently progressing through Scottish Parliament and the Council has been supportive of the Levy and actively lobbied in relation to it. The Council has an internal officer working group to consider implications and now has officer representation on the Visit Scotland Chaired Expert Group which has been tasked with developing Guidance. Subject to its passage through Parliament, as currently drafted the Bill requires a minimum 18 month period from a Council decision to implement the Levy, through to its commencement. The earliest possible commencement date would therefore be during 2026/27. There would be considerable work to be done at both national level in terms of the development of guidance, and in turn the development of Council plans which would allow for assessment of the potential income to be generated and strategies and plans for its use. The intent within the Bill is for income generated to be utilised for visitor related services, and the extent to which Levy income can be utilised for existing rather than new or additional services would need consideration as part of the Council's planning.

#### 7.5 Investing in the Future

There are a range of investment opportunities, utilising a combination of capital and reserves funding that will deliver financial and non-financial benefits, particularly in

relation to the renewables sector. An approach to this was approved by Council in June this year, with more detailed proposals to come forward at a later date. Whilst these may not have a material impact on the 2024/25 budget, there is scope for substantial benefit thereafter. Until these are more certain, projected income streams cannot be factored into budget setting, but they can form part of the Council's medium term financial planning.

## 8. Local Government Finance and the Verity House Agreement

8.1 The Verity House Agreement contains a number of commitments, and related and ongoing work, which are directly related to future Local Government Finance settlements and the process through which they are arrived at. At this stage it is too early to state what implications this new agreement may have, but the following highlights some relevant aspects relating to the Council's budget outlook.

- Engagement – the agreement gives clear commitment to *“Improved engagement on budgetary matters”*
- *“Powers and funding - for Local Government will be reviewed regularly to ensure adequacy and alignment with effective delivery of outcomes”*
- Fiscal Framework – a commitment to conclude a Fiscal Framework and active work is underway between Cosla and Scottish Government in relation to different funding formula/funding principles that could sit as the basis of that Framework.
- Joint Review of Specific Grants – A clear commitment in the agreement that *“From this point onwards, the default position will be no ring-fencing or direction of funding, unless there is a clear joint understanding for a rationale for such arrangements”*. And also to conclude a joint review in 2023 to establish which grants could be baselined into revenue and capital grant settlements for 2024/25.

A report on public sector reform, including the Local Governance Review and the Verity House Agreement came forward to Council in May with further work being taken through the Redesign Board.

## 9. Reserves

9.1 In setting the revenue budget for 2023/24, the Council had reviewed its reserves position and had agreed to re-purpose (transfer) some £18m of earmarked reserves into general non-earmarked reserves. As Members will be aware, the out-turn position for 2022/23 was an improvement on that forecast for the General Fund, and as a result the overall level of reserve at 2022/23 financial year end was higher than forecast. **Appendix 4**, an extract from the Council's Annual Accounts for 2022/23, gives an overview of all useable reserves and their purpose. In relation to the General Fund, the year-end position was a Non-Earmarked Reserve of £70.5m and Earmarked Reserves of £61.3m.

9.2 The overall level of reserves is significant and well beyond the minimum level that may be necessary for contingency purposes (the Council has previously recognised that 3% is an appropriate and prudent minimum level of General non-earmarked reserves which equates to a sum of circa £20m). However, the Council had already committed to utilise a significant element of its reserves (£23.3m) to fund the current 2023/24 revenue budget. And with the Quarter 1 revenue monitoring showing an overspend of

£3m, and other risks and uncertainties, there is the risk of a significant reduction in reserves in this current year.

9.3 The level of forecast gap into future years is of a level that will necessitate a multi-year approach to achieving financial sustainability, and it is expected that reserves will form an important part of the Council’s medium term financial planning. While it is entirely appropriate to utilise reserves within the revenue budget, reserves are finite and do not replace the need for sustainable and recurring funding solutions. Reserves can therefore be used to manage the budget process, give more time for the delivery of necessary cost reductions and transformative change to achieve financial sustainability. But this needs to be done on a clear and planned basis, and with a clear Reserves Strategy to ensure the Council maintains an appropriate and prudent level of reserves going forward.

9.4 The table below shows the current projection on General Fund non-earmarked balances through to the current financial year-end. If reserve use were to continue on a similar level as in 2023/24, it is clear that there is the potential for reserves to be wholly depleted within circa 2 years, i.e. by end of 2025/26.

Year	In-year	Estimated Closing Balance – General Fund non-earmarked Reserves
2022/23 incl effect of Loans Fund Principal Repayment ‘holiday’	+£51.256m	£70.513m
2023/24 incl agreed use of reserves and Q1 forecast overspend	-£22.348m	£48.165m

9.5 Further review of the Council’s earmarked reserves will be undertaken, to ensure sums held are still necessary, appropriate, and aligned with the Council’s financial planning and priorities for the coming years.

## 10. Partnerships including NHS Highland and High Life Highland

### 10.1 NHS Highland and Adult Social Care

Previous reports to Council have described the challenges which are presented in relation to the delivery of adult social care services by NHS Highland. Those challenges are exacerbated by issues in relation to service delivery which have arisen principally as a result of workforce issues, which apply to both NHH Highland’s workforce as well as wider workforce challenges being faced by commissioned providers. Current indications from NHH are that the in-year financial forecast has improved from earlier predictions. The month 4 forecast from NHS Highland is forecasting a near break-even position, with an overspend of £224k against the annual budget. This does need seen in the context of underlying budget pressures and the need to secure sustainable savings going forward; the likelihood of continued pressure on cost and demand for services into future year; and the risk in terms of unmet need which exists in communities due to staffing challenges.

The Adult Social Care budget for 2023/24 is still reliant upon significant levels of reserves held by the Council for NHS Highland (a budgeted drawdown of £9.8m in 2023/24). These earmarked sums are likely to be wholly drawn-down by this financial

year end, which results in a significant risk regarding ongoing and sustainable funding for Adult Social Care in 2024/25 and beyond.

## 10.2 High Life Highland (HLH)

Joint work is currently ongoing between officers from both organisations to review the service delivery contract and to ensure:

- Affordability – the services delivered need to be affordable to the Council.
- Sustainability – HLH needs to be on a sustainable footing to operate effectively.
- Joint working – there needs to be joint working between the Council and HLH, including around service development and capital to keep buildings up to date, relevant etc. so that they are places that remain relevant to communities.

HLH is on track to deliver £1.843m through income, efficiencies and savings as detailed in the Highland Council budget paper on 2 March 2023. There is potential for additional pressures contingent upon the COSLA agreed pay award. However, HLH will work to mitigate any potential emergent in-year deficit. The Council has made provision of £3m financial support for the current year, therefore no variance is reported within the Education and Learning budget for 2023/24.

The context in terms of how the current HLH deficit position has been reached has been a focus of the review to date, with HLH officers preparing a narrative detailing the background, governance, contractual arrangements and performance of the charity since creation by the Council in 2011 until the end of FY 22/23. The overall financial context has included post-pandemic pressures of £21m, mitigated by HLH through income, efficiencies and reductions down to a residual £2m. It is also recognised that joint work will be required to deliver income, efficiencies and savings in order to address the ongoing legacy pressures.

Whilst all aspects of the review need to be progressed, the primary current focus is to develop recommendations relating to funding arrangements, coupled with savings and cost reduction plans, to feed into the 2024/25 budget setting process and beyond.

## 11. Revenue Budget Outlook 2024/25 and Beyond

- 11.1 The report to Council in March 2023 provided an illustration and outlook for future years. The table below is an excerpt from that report. Given the reliance within the 2023/24 revenue budget on non-recurring funding, including use of reserves of £23.3m, in all the scenarios as outlined in this section, Members will note a much higher budget gap in 2024/25, due to the need to address non-recurring funding assumed in 2023/24.

Extract from March Council report HC/01/23

	2023/24	2024/25	2025/26	2026/27	2027/28	Five year total
	£m	£m	£m	£m	£m	£m
<i>Cost increases:</i>						
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
<i>Funding changes:</i>						
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
<b>BUDGET GAP BEFORE MITIGATION</b>	<b>49.2</b>	<b>20.5</b>	<b>19.8</b>	<b>19.1</b>	<b>18.3</b>	<b>126.9</b>

- 11.2 Since that time, and as noted earlier in this report, there are a number of changes in the wider economic environment which have put increased risk and uncertainty on those earlier March assumptions, in particular the risks and uncertainties as set out in section 5.
- 11.3 Officer work has revisited current budget planning assumptions as part of ongoing process of review. Any estimates are by their nature uncertain, and all the more so in these current times of significant uncertainty in the wider economic environment. There is inevitably reduced confidence and certainty in the assumptions made the further out in time estimates relate to. For this reason, rather than a single central assumption and forecast, officers have illustrated a medium and worse-case scenario against the assumptions as at March 2023. The underlying assumptions and the resultant budget forecasts are illustrated below.

#### As at March 2023

	2024/25	2025/26	2026/27	2027/28
Pay awards	2.5%	2.5%	2.5%	2.5%
Non-pay Inflation provision	Nil	Nil	Nil	Nil
Budget Pressures	£10m	£9m	£8m	£7m
Loan Charges	£1.5m	£1.5m	£1.5m	£1.5m
Scottish Government grant	0% (flat cash)	0% (flat cash)	0% (flat cash)	0% (flat cash)
Council Tax	Tbc	Tbc	Tbc	Tbc

Forecast Budget Gap – Mar'23*	£46.7m	£19.0m	£18.6m	£18.1m
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\*baseline gap as per table 11.1 adjusted for reversal of one-off items.

#### Revised Scenario – Mid Case

	2024/25	2025/26	2026/27	2027/28
Pay awards	4%	2.5%	2%	2%
Non-pay Inflation provision	Nil	Nil	Nil	Nil
Budget Pressures	£15m	£12m	£10m	£7m
Loan Charges	£1.5m	£1.5m	£1.5m	£1.5m
Scottish Government grant	0% (flat cash)	0% (flat cash)	0% (flat cash)	0% (flat cash)
Council Tax	Tbc	Tbc	Tbc	Tbc

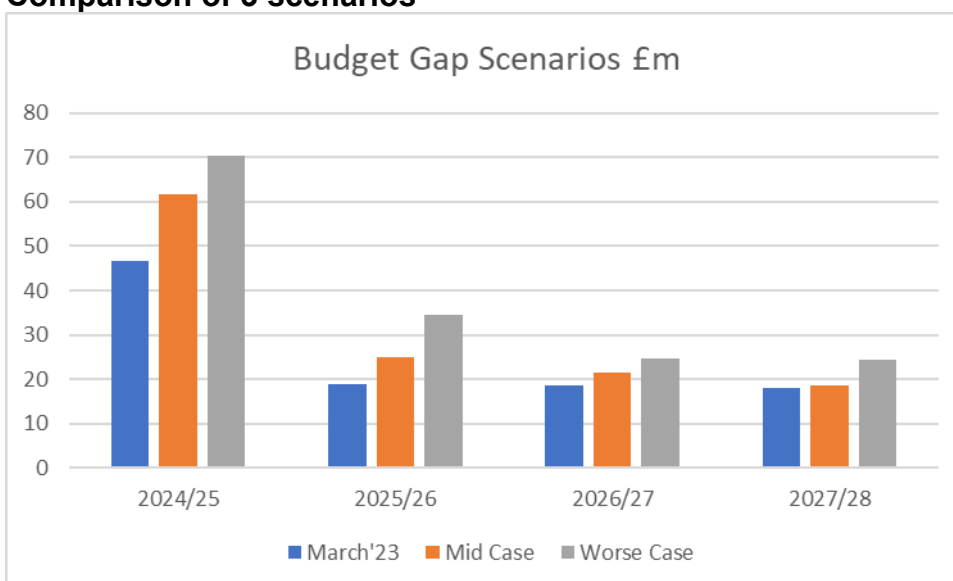
Forecast Budget Gap – Mid	£61.7m	£25.0m	£21.6m	£18.7m
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### Revised Scenario – Worse Case

	2024/25	2025/26	2026/27	2027/28
Pay awards	5%	4%	2.5%	2.5%
Non-pay Inflation provision	Nil	Nil	Nil	Nil
Budget Pressures	£20m	£15m	£10m	£10m
Loan Charges	£1.5m	£1.5m	£1.5m	£1.5m
Scottish Government grant	0% (flat cash)	0% (flat cash)	0% (flat cash)	0% (flat cash)
Council Tax	Tbc	Tbc	Tbc	Tbc

Forecast Budget Gap – Worse	£70.3m	£34.4m	£24.8m	£24.4m
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### Comparison of 3 scenarios



- 11.4 Of particular note is of the 2 further scenarios modelled, in the short term at least (2024/25 – 2025/26) there appears little realistic prospect of a set of circumstances which would represent an improved or better case scenario than that as at March 2023. Hence no 'better case' scenario has been modelled. Insofar as there remains a very real risk that UK Government and Scottish Government budgets and settlements could see a grant position of a reduction in grant in cash terms, there is the possibility of a 'worst-case' than shown above.
- 11.5 This level of budget gap needs seen in the context of the level of annual budget savings the Council has achieved in recent years, as summarised below, and indicates that to close the budget gap on a recurring and sustainable basis will require a much more significant programme of cost reduction, budget savings and income generation than in recent years. While that will represent a significant challenge to the Council, the financial flexibilities and opportunities as outlined in section 7 of this report and appendix 3, give scope to mitigate the financial outlook. The Council is also in a positive position regarding reserves at this time, despite the financial outlook, and a clear reserves strategy to support the Council in addressing the budget gap will be necessary and taken forward as part of the Council's budget planning. Reserves, if used in a planned and targeted way, can be a key tool to support and invest in change and transformation, and give some flexibility to the Council in managing reductions in its cost base over a multi-year basis.

- 11.6 For context, the table below gives some context regarding the annual level of budget savings agreed by the Council in prior year budgets.

Budget Year	Savings Agreed £m
13/14	11.612
14/15	12.648
15/16	16.275
16/17	35.313
17/18	14.141
18/19	11.698
19/20	24.499
20/21	15.840
21/22	10.515
22/23	17.041
23/24	22.195

- 11.7 Further work will be taken forward to refine and develop the budget scenarios and underlying assumptions. At this time however, and with a particular focus on 2024/25, the Council's planning assumption should be for a realistic prospect of a budget gap greater than that indicated at March 2023, and a budget gap in the region of £60m a reasonable planning assumption. The Council's budget planning and strategy will further develop budget assumptions and with reports back to Council in relation to the updated financial outlook, and budget strategy.

## **12. Revenue Implications of Capital Investment**

- 12.1 The Loan Charge budget is required to meet the capital financing costs of the capital programme. Loan charges consist of interest and expenses charges, along with a principal repayment which is linked to the expected useful life of the capital assets being financed.
- 12.2 The capital review process and recommendations relating to that will determine the level of expected loan charge revenue cost in the short and longer-term. A separate report to members addresses the specifics of the capital programme and that review.
- 12.3 Capital decisions cannot be made in isolation, and any implications for loan charges have to be considered in the context of the revenue budget outlook, and recognising that capital investment decisions have long term costs and implications to be managed.
- 12.4 The level of capital programme, the level of interest rates, and the legacy level of debt to finance past capital investment, all combine to produce the capital affordability challenges which have been reported to members and the subject of a number of briefing sessions in recent months.
- 12.5 There is therefore an important inter-action between the Council's overall financial outlook and medium term forecasting, and the capital programme review. The outlook will inform financial context and affordability considerations, and in turn the capital

programme as agreed within that context, will determine revenue budget loan charge costs for the coming years.

### **13. Budget process and engagement**

- 13.1 This report is a key step in the Council's budget planning for 2024/25 and the medium term. The scale of the challenge and financial outlook for those years means a significant organisational focus on achieving financial sustainability will be necessary. While the Council will continue its focus on income generation, new opportunities and transformative activity, there is a very clear need to make significant and difficult decisions relating to cost reduction and a fundamental shift in the services and priorities the Council can provide for on a sustainable basis going forward. Reports to subsequent Council meetings will set out further specific actions and timetables for budget planning for 2024/25 and beyond.
- 13.2 The Council's budget strategy and plans for the coming year(s) needs to be underpinned by a clear approach to budget engagement. Some initial planning for options, and the form that might take, is set out in this part of the report.
- 13.3 Planning for engagement on developing the 2023/24 budget is currently underway. At this point, a two phased approach is proposed:
- Phase 1 is proposed to seek views from our communities on areas for service change and income generation. This would include a mix of broad public engagement alongside targeted feedback sessions with partners and key third sector and community representatives to consider inter-agency working opportunities. A range of methods are proposed to gather views including online/face to face focus groups, surveys and online forums. Existing forums with partners and key groups will be utilised wherever possible.
  - Phase 2 is proposed to focus on seeking views on specific proposals coming forward. At this point, it is anticipated this is likely to be targeted at subject matter/community experts, directly related to the specific proposals. Broader public engagement would be deployed depending upon the nature of the proposals.
- 12.4 In addition to the methods of engagement outlined above, it is proposed explore utilising a Budget Simulator tool during phase 1. Previous experience suggests this mechanism for gathering views is positively received by the public and this also supports understanding amongst the public of the need for choices and the scale of these.

Designation: Head of Corporate Finance

Date: 1 September 2023

Authors:

Brian Porter, Head of Corporate Finance; Kate Lackie, Depute Chief Executive; Sheila McKandie, Head of Revenues and Business Support; Alison Clark, Head of Community Support and Engagement; Anne MacPherson, Head of Resources; Fiona Malcolm, Head of Integration Adult Social Care.





Shona Robison MSP  
Deputy First Minister and Cabinet Secretary for Finance  
The Scottish Government

21 June 2023

Dear Shona

### **Fiscal Flexibilities - Ring-fencing of Funds for Affordable Housing**

The Council uses council tax income from second homes and long-term empty to supplement funding to the Council's unique housing land bank fund. I wrote to your predecessor on 25 January 2023 seeking his agreement to use those funds in to help reduce the gap in our revenue budget. I explained at the time that this type of flexibility had been approved in the past and its application had been extremely beneficial in managing the Council's wider revenue pressures.

John Swinney replied on 2 March 2023 confirming that he was willing to grant this flexibility on the condition that there would be no impact on the delivery of the Council's planned affordable housing programme and that these funds would be repaid in full to the housing land bank fund within three years of exercising this flexibility.

I can confirm that we exercised this flexibility in 2022/23 and our budget for 2023/24 was set on the presumption the flexibility would be used in that year also. However, the unexpectedly short timescale imposed on the repayment of this sum means that the benefits to the Council's longer term financial stability and sustainability are limited, and the pressures that the flexibility was intended to mitigate have only been deferred to the next financial year.

In view of this I am seeking your agreement to waive the requirement to repay the income from second homes and long-term empty properties to the Highland housing land bank fund.

As is the case across the public sector, the Council is anticipating a very challenging fiscal environment for the foreseeable future, and we are looking at all options to reduce the effects this will have on our critical front-line services. Exercising this flexibility on the use of funds generated and collected within Highland would assist us in managing our resources in a way that is sustainable in the long term with associated benefits for our Highland communities.

I look forward to hearing from you.

Yours sincerely

Councillor Raymond Bremner  
**Leader of The Highland Council**

An Comhairliche Raymond Bremner  
**Ceannard Chomhairle na Gàidhealtachd**

**Councillor Raymond Bremner**  
Leader of The Highland Council  
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Deputy First Minister and Cabinet Secretary for Finance  
Shona Robison MSP



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Councillor Raymond Bremner  
Leader of The Highland Council  
The Highland Council  
Glenurquhart Road, Inverness,  
IV3 5NX

12 July 2023

Dear Raymond,

Thank you for your letter of 21 June. As you note, the former Deputy First Minister provided approval for income generated within the 2022-23 and 2023-24 financial years from reducing the council tax discount on second homes and long-term empty properties to be treated as general revenue income. This request was granted in recognition of the financial challenges of recent years as a short-term measure to alleviate the immediate pressure on the council's resources. However, in keeping with Scottish Government policy and in order to protect affordable housing provision this flexibility was permitted on the same terms as it had been on previous occasions, requiring repayment of the funds within three financial years.

Whilst I appreciate that the financial benefits of this flexibility may be less than hoped, affordable housing provision is a key policy commitment shared by Scottish Government and Local Government and it would not be appropriate to overturn the conditions of the fiscal flexibility at this time. I would however be willing to review this requirement as part of the development of the fiscal framework.

Yours sincerely,

**SHONA ROBISON**

Scottish Ministers, special advisers and the Permanent Secretary are covered by the terms of the Lobbying (Scotland) Act 2016. See [www.lobbying.scot](http://www.lobbying.scot)

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BUDGET SAVINGS

APPENDIX 2

Category	Ref	Service	Type	Saving Description	Agreed Saving £m	BRAG status
Reducing Waste/ Avoidable Spend	1.1	E&L	Non-Staffing	Reduction in Chromebook breakages	0.150	A
Reducing Waste/ Avoidable Spend	1.2	R&F	Non-Staffing	Review of postages	0.057	A
Reducing Waste/ Avoidable Spend	1.3a	C&P	Staffing	Waste - Team redesign reducing reliance on overtime and agency	0.200	G
Reducing Waste/ Avoidable Spend	1.3b	HW&SC	Staffing	Family Teams - Reduce agency use (currently being used for vacant permanent posts). Replace with permanent post;and/or delete post; and/or <del>reassign grades where appropriate</del>	0.300	A
Reducing Waste/ Avoidable Spend	1.3c	P&H	Staffing	Overtime/Agency	0.050	G
Reducing Waste/ Avoidable Spend	1.3d	P&H	Staffing	Casual and temp contracts	0.150	G
Reducing Waste/ Avoidable Spend	1.4a	E&L	Staffing	Secondary DSM - Adjustment to budget for supply staffing in secondary schools.	0.200	G
Reducing Waste/ Avoidable Spend	1.4b	E&L	Staffing	Primary DSM - Adjustment to budget for supply staffing in primary schools.	0.100	G
Reducing Waste/ Avoidable Spend	1.5	P&H	Non-Staffing	Cease council tax payments on Janny's houses	0.040	A
Reducing Waste/ Avoidable Spend	1.6	P&H	Non-Staffing	Reduction of food waste in schools	0.100	A
Budget Not Required for Original Purpose	2.1a	C&P	Staffing	Vacancy Management - including opportunity-led by natural turnover, flexible retirements etc. and Attendance Management (especially LTAs)	0.250	G
Budget Not Required for Original Purpose	2.1b	E&L	Staffing	Robust absence management	0.095	G
Budget Not Required for Original Purpose	2.1c	I&E&E	Staffing	Deletion of Business Manager Post	0.030	G
Budget Not Required for Original Purpose	2.1d	I&E&E	Staffing	Redesign and Efficiency (Note : Originally £159k but £139k transferred to Savings Ref 6.2 in late adjustment)	0.020	G
Budget Not Required for Original Purpose	2.1e	P&H	Staffing	Reduce 2 FTE equivalent posts in service	0.100	G
Budget Not Required for Original Purpose	2.1f	P&H	Non-Staffing	General review of budget lines	0.200	A
Budget Not Required for Original Purpose	2.1g	R&F	Staffing	Finance - Removal of vacant accountant post	0.055	B
Budget Not Required for Original Purpose	2.1h	R&F	Staffing	Finance - Removal of vacant accounting technician post supporting members expenses	0.019	B
Budget Not Required for Original Purpose	2.1i	R&F	Staffing	People - H&S - Removal of vacant 0.5 Fire Safety Officer	0.019	B
Budget Not Required for Original Purpose	2.1j	R&F	Staffing	People - Service Support - Removal of HC07 post	0.040	B
Budget Not Required for Original Purpose	2.1k	R&F	Non-Staffing	Revenues & Business Support - Review of R&BS budget non-staffing lines	0.110	B

## BUDGET SAVINGS

## APPENDIX 2

Category	Ref	Service	Type	Saving Description	Agreed Saving £m	BRAG status
Budget Not Required for Original Purpose	2.2a	E&L	Staffing	Core budget saving - external funding source identified (SEF)	0.565	G
Budget Not Required for Original Purpose	2.2b	I&E&E	Non-Staffing	Coastal Communities Fund	0.300	B
Budget Not Required for Original Purpose	2.2c	I&E&E	Non-Staffing	Active Travel/Safer Routes to School	0.080	G
Budget Not Required for Original Purpose	2.3	E&L	Non-Staffing	Mothballing of schools	0.500	B
Budget Not Required for Original Purpose	2.4	E&L	Non-Staffing	Standardising the approach to paying for materials for practical class subjects	0.321	G
Budget Not Required for Original Purpose	2.5	E&L	Non-Staffing	Reduction in DSM carry forwards.	1.000	G
Budget Not Required for Original Purpose	2.6a	E&L	Staffing	Secondary DSM - Reduction - Additional 2.00 fte for 5 largest Secondaries	0.600	G
Budget Not Required for Original Purpose	2.6b	E&L	Staffing	Secondary DSM - Reduction in secondary additionality	0.100	G
Budget Not Required for Original Purpose	2.6c	E&L	Staffing	Secondary DSM - ASG Raising Attainment DHT's	0.200	G
Budget Not Required for Original Purpose	2.7	P&H	Non-Staffing	Further delivery of Asset Rationalisation	0.410	A
Budget Not Required for Original Purpose	2.8	E&L	Staffing	Primary Management Time Review	1.000	G
Service Redesign and Efficiency	3.1	R&F	Non-Staffing	Improved Council Tax Collections	0.375	B
Service Redesign and Efficiency	3.2	HW&SC	Non-Staffing	Health and Social Care Redesign	2.400	A
Service Redesign and Efficiency	3.3	E&L	Non-Staffing	Early Learning Care (ELC): Phase 3 of ELC Redesign.	1.500	G
Service Redesign and Efficiency	3.4	I&E&E	Non-Staffing	Street Lighting	0.150	G
Service Redesign and Efficiency	3.5	DCE	Staffing	Review of ICT Services structure	0.182	B
Service Redesign and Efficiency	3.6	DCE	Staffing	Review of Transformation and Digital Services	0.125	B
Service Redesign and Efficiency	3.7a	P&G	Staffing	Reallocate admin duties and reduce staffing	0.030	A
Service Redesign and Efficiency	3.7b	R&F	Staffing	Business Support - Digitisation - Purchasing & Payment	0.052	A
Service Redesign and Efficiency	3.7c	R&F	Staffing	Business Support - Digitisation - Legal Support	0.013	B
Service Redesign and Efficiency	3.7d	R&F	Staffing	Digitisation - Recruitment, timesheets	0.104	A

**BUDGET SAVINGS**

**APPENDIX 2**

Category	Ref	Service	Type	Saving Description	Agreed Saving £m	BRAG status
Service Redesign and Efficiency	3.8	P&G	Staffing	Corporate Performance/Information Governance	0.060	<b>B</b>
Service Redesign and Efficiency	3.9	R&F	Staffing	Revs and Bens Review of management / supervision	0.145	<b>G</b>
Service Redesign and Efficiency	3.10	I&E&E	Staffing	Roads Redesign	0.100	<b>A</b>
Service Redesign and Efficiency	3.11	I&E&E	Staffing	Harbours	0.030	<b>G</b>
Service Redesign and Efficiency	3.12	I&E&E	Staffing	Commercial Property	0.030	<b>G</b>
Service Redesign and Efficiency	3.13	C&P	Staffing	Community Support & Engagement	0.100	<b>G</b>
Service Redesign and Efficiency	3.14	C&P	Staffing	Waste: Digitisation of Garden Waste	0.030	<b>A</b>
Service Redesign and Efficiency	3.15	E&L	Staffing	Review Mental Health and Wellbeing	0.500	<b>G</b>
Service Redesign and Efficiency	3.16	E&L	Staffing	Redesign Area Teams & Core Structure	0.543	<b>G</b>
Service Redesign and Efficiency	3.17	E&L	Staffing	Establish a Highland Wide 3-18 Formula for schools	0.475	<b>A</b>
Service Redesign and Efficiency	3.18	HW&SC	Staffing	Family First Strategy	0.248	<b>A</b>
Service Redesign and Efficiency	3.19	HW&SC	Staffing	Health and Social Care	0.190	<b>G</b>
Service Redesign and Efficiency	3.20	P&H	Staffing	Redesign of FM service	0.250	<b>G</b>
Service Redesign and Efficiency	3.21	C&P	Staffing	Waste: Review of Public Holiday Collections	0.050	<b>B</b>
Service Redesign and Efficiency	3.22	C&P	Staffing	Environmental Health: Review of resource management and structure	0.045	<b>G</b>
Service Redesign and Efficiency	3.23	R&F	Staffing	Review of Welfare Support Team structure	0.035	<b>B</b>
Service Redesign and Efficiency	3.24a	P&H	Non-Staffing	Changes to the Council's approach to homelessness - Housing Support budget	0.070	<b>G</b>
Service Redesign and Efficiency	3.24b	P&H	Non-Staffing	Changes to the Council's approach to homelessness - Homelessness budget	0.070	<b>G</b>
Contract Management and Procurement	4.1	I&E&E	Non-Staffing	Private Sector Housing Grants	0.050	<b>G</b>
Contract Management and Procurement	4.2	Welfare	Non-Staffing	Information and Advice Services:	0.080	<b>B</b>
Contract Management and Procurement	4.3	I&E&E	Staffing	School and Public Transport:	0.030	<b>B</b>

## BUDGET SAVINGS

## APPENDIX 2

Category	Ref	Service	Type	Saving Description	Agreed Saving £m	BRAG status
Contract Management and Procurement	4.4	I&E&E	Non-Staffing	Fuel: Marine Gas Oil contract	0.120	A
Contract Management and Procurement	4.5	Corporate	Non-Staffing	Shared Procurement Service	0.250	A
Removal of Discretionary Spending	5.1	E&L	Non-Staffing	Review of the Early Years grants budget	0.090	B
Removal of Discretionary Spending	5.2	E&L	Non-Staffing	Remove legacy funding	0.095	B
Removal or Reduction in Service	6.1	I&E&E	Staffing	Employability	0.060	A
Removal or Reduction in Service	6.2a	I&E&E	Staffing	Long Distance Routes	0.070	A
Removal or Reduction in Service	6.2b	I&E&E	Staffing	Vacancy Management	0.147	A
Removal or Reduction in Service	6.3	I&E&E	Staffing	Building Standards	0.050	G
Removal or Reduction in Service	6.4	I&E&E	Staffing	Access	0.050	G
Removal or Reduction in Service	6.5	I&E&E	Staffing	Street Lighting	0.040	G
Removal or Reduction in Service	6.6	P&H	Staffing	Cleansing Services	0.450	G
Removal or Reduction in Service	6.7a	P&G	Staffing	Trading Standards - Reduce work identifying online scams and addressing unfair delivery charges	0.040	A
Removal or Reduction in Service	6.7b	P&G	Staffing	Legal - Reduce conveyancing team	0.030	G
Removal or Reduction in Service	6.7c	P&G	Staffing	Reduce committees - and so reduce committee Services posts	0.013	G
Removal or Reduction in Service	6.8	E&L	Staffing	Virtual Academy	0.600	G

## BUDGET SAVINGS

## APPENDIX 2

Category	Ref	Service	Type	Saving Description	Agreed Saving £m	BRAG status
Removal or Reduction in Service	6.9a	P&H	Non-Staffing	Review and reduce property maintenance budget - recurring savings	0.500	G
Removal or Reduction in Service	6.9b	P&H	Non-Staffing	Review and reduce property maintenance budget - 2023/24 one-off savings	1.000	G
Increasing Income - Discretionary Services	7.1	C&P	Non-Staffing	Public conveniences – honesty boxes	0.020	G
Increasing Income - Discretionary Services	7.2a	I&E&E	Non-Staffing	Car Parking - Increase Parking Charges	0.100	G
Increasing Income - Discretionary Services	7.2b	I&E&E	Non-Staffing	Car Parking - Increase number of Invitation to Pay Car Parks	0.100	G
Increasing Income - Discretionary Services	7.3	C&P	Non-Staffing	Garden waste	0.040	G
Increasing Income - Discretionary Services	7.4	I&E&E	Non-Staffing	Planning and Building Standards	0.300	G
Increasing Income - Discretionary Services	7.5	C&P	Non-Staffing	Registration charges	0.025	B
Increasing Income - Contribution to Cost Recovery	7.6	E&L	Non-Staffing	Full Cost Recovery on external funding streams	0.775	G
Increasing Income - Contribution to Cost Recovery	7.7	I&E&E	Non-Staffing	Charging for Events	0.020	A
Increasing Income - Contribution to Cost Recovery	7.8	C&P	Non-Staffing	Review of Site Charging Policy at Storr	0.047	B
Increasing Income - Contribution to Cost Recovery	7.9	C&P	Non-Staffing	Increase charge for Bulky Uplifts	0.005	B
Increasing Income - Contribution to Cost Recovery	7.10	Welfare	Non-Staffing	Review of Housing Benefit	0.200	B
Increasing Income - Commercial	7.11a	C&P	Non-Staffing	Business Waste Collection - Targeted work already being done	0.300	B
Increasing Income - Commercial	7.11b	C&P	Non-Staffing	Business Waste Collection - Business growth - securing more customers	0.200	G
Increasing Income - Commercial	7.12	C&P	Non-Staffing	Business Waste Collections (Commercial)	0.100	G
Increasing Income - Commercial	7.13	E&L	Non-Staffing	Flexible Childcare and Out of School Care	0.150	G
Increasing Income - Commercial	7.14	I&E&E	Non-Staffing	Commercial Portfolio	0.300	G
Increasing Income - Commercial	7.15	I&E&E	Non-Staffing	Harbour Dues and Fees	0.100	G
Increasing Income - Commercial	7.16	I&E&E	Non-Staffing	Income Review across a range of cost centres across the IEE Service	0.100	A
Increasing Income - Commercial	7.17	C&P	Non-Staffing	Lair Purchases	0.023	B



**BUDGET SAVINGS**

**APPENDIX 2**

Category	Ref	Service	Type	Saving Description	Agreed Saving £m	BRAG status
Increasing Income - Commercial	7.18	P&H	Non-Staffing	Regularise lease/rental charges	0.040	<b>A</b>
Increasing Income - New Income Streams	7.19	C&P	Non-Staffing	Provision of Sites Local Operator Services to the AURN (Air Quality)	0.020	<b>B</b>
Increasing Income - New Income Streams	7.20	P&G	Non-Staffing	Renewable Energy	0.180	<b>G</b>
Increasing Income - New Income Streams	7.21	P&G	Non-Staffing	Drone Filming	0.010	<b>G</b>
					<b>22.183</b>	

**Appendix 3**

<b>Project or Initiative</b>	<b>Lead Service</b>	<b>Primary Associate Services</b>	<b>Approach</b>	<b>Objectives</b>
Fees and Charges	DCE	R&F	Transformation Team	Full review and update of all fees and charges levied by the Council according to Full Cost Recovery and Commercialisation principles. To be completed in time for 2024/5 budget calculations.
Tourism Services	IEE	C&P	In-house - Service to lead	Identification of tourism projects (such as at Storr) which generate income.
Income from Council assets	P&H	Finance & E&L	in-house - Service to lead to include engagement with partners	Potential to maximise the income earning potential of council's assets  Analysis of Lets income from 22/23 underway to ensure fairness and consistency of application; plus a review of the earning potential for the Council's premium buildings across the area (one-off events; collocation; letting office space both short and long term etc)
Parking	IEE		in-house - Service to lead	Further roll-out of parking charges across Council's car park estate. Identification of more Invitation to Pay Schemes. Provision of Car Parking Charging & Enforcement service for other organisations.
Transient Visitor Levy	IEE	Scottish Government	in-house - Service to lead	Implementation of the TVL as an early adopter – awaiting passage of legislation through Scottish Parliament.
Workplace Parking Levy	IEE		in-house - Service to lead	Still exists as a potential opportunity for income generation – needs to be revisited and benchmarking carried out – will not be suitable for everywhere in Highland given dependency on cars in particular areas.
Low Emission Zones	IEE		in-house - Service to lead	Carry out benchmarking with Edinburgh, Glasgow and Dundee on issues associated with the implementation of LEZ's

**Appendix 3**

<p>Bus Lanes – charging/fines</p>	<p>IEE</p>	<p>Bus Operators; Support from Edinburgh City through existing Parking Services collaboration agreement.</p>	<p>in-house - Service to lead</p>	<p>Introduction of Bus Priority Lanes funded by Bus Partnership Fund (eg Millburn Road; Raigmore; Barn Church road).</p> <p>Traffic Regulation Orders being reviewed currently to consolidate all existing sites. 8 No. with potential for 2 Further on Academy Street. Live Monitoring of two sites to form business case to Transport Scotland to decriminalise and generate penalties by THC. Currently reported to Police Scotland for any actions. Decriminalisation process dependent on Parliamentary timetable 6 to 12 months from submission.</p> <p>Raigmore Bus Gate due to be complete Sept 2023. Millburn Road at Gateway Review stage with Transport Scotland, but paused pending Council decision on Academy Street. Other BPF-funded bus lane proposals are at Gateway Review stage.</p>
<p>Local Government Taxation – Council Tax 2<sup>nd</sup> homes charges</p>	<p>R&amp;F</p>		<p>in-house - Service to lead</p>	<p>Scot Govt consultation taking place and is subject to separate report to The Highland Council meeting on 14 September 23. Current charge is 100%. If charge was increased to 200%, the additional income could be as high as £5.9m per annum.</p>
<p>Local Government Taxation – Council Tax Long term empty charges</p>	<p>R&amp;F</p>		<p>in-house - Service to lead</p>	<p>Scot Govt consultation taking place and is subject to separate report to The Highland Council meeting on 14 September 23. Current charge is 200%. If charge was increased to 300%, the additional income could be as high as £0.500m per annum.</p>
<p>Sundry Debt Management</p>	<p>R&amp;F</p>		<p>in-house - Service to lead</p>	<p>Review of charging regime, surcharges and payment methods</p>
<p>Packaging Extended Producer Responsibility</p>	<p>C&amp;P</p>	<p>Scottish Government</p>	<p>in-house - Service to lead</p>	<p>A SG policy designed to transfer the financial responsibility of household packaging waste collection from taxpayers to producers. The UK Government has deferred obligations under Extended Producer Responsibility for packaging from October 2024 to October 2025.</p>

**Appendix 3**

Bus Services	IEE		Redesign	<p>Following successful establishment of In-house Bus Operation team to deliver school and passenger transport, now intended to progress opportunities for delivery of leisure/tourism services, overseen by Project Board.</p> <p>Also scope to identify further school contracts to be taken in-house to deliver cost avoidance.</p>
Harbours	IEE		Service + external expertise	Harbours Management Board has approved the appointment of a specialist consultant to create a masterplan prospectus/design material to promote KLB Harbour to potential companies
Income from Energy	DCE	H&P and Shared Procurement Service	Redesign + external expertise	As reported to Council and Redesign Board; involvement of Shared Procurement Service; investment options by year end.
Waste – EFW	C&P		Service + external expertise	Options Appraisal undertaken and report due to be presented to Communities and Place Committee in November 23.
In-house/ outsourcing of services and opportunities/ Professional Consultancy	IEE & P&H		in-house - Service to lead	Opportunities to charge out in house professional resource - engineering, design, contract management and project management, legal expertise.
Uses for Torvean Quarry	IEE		Service and external partnering	Potential for battery storage and then opening up the site for development

**Appendix 3**

Identification of council unused land	IEE	Legal/ conveyancing	in-house - Service to lead	Seek opportunities to develop/lease/sell
Development of a Community Lottery Scheme	DCE		Transformation	Review how this has operated in other council areas and assess whether this could be of benefit to Highland
Roads Redesign	IEE	C&P	Redesign	More efficient delivery of the services – greater outsourcing (bundled contracts where appropriate)
Procurement and Contracts Management	R&F		Shared Procurement Service	Options being developed with all Services and opportunities for joint procurement approaches also being developed
Postage Costs	R&F	DCE	in-house - Service to lead	Reduce postage costs by maximising opportunities for digitisation
Employability	IEE	E&L	In-house and with partners	Employability Review underway to develop a more streamlined Highland public sector approach

**Council Reserves per 2022/23 Annual Accounts**

Council Reserves

The Council holds funds in a number of usable reserves:

**General Fund Non-Earmarked Reserve**

**£70.5m**

(2021/22 £19.3m)  
Funds held as a general contingency.

**General Fund Earmarked Reserve**

**£61.3m**

(2021/22 £99.5m)  
Funds held for specific purposes, including unspent Government COVID-19 funding, agreed investment, more details at note 8.

**Insurance Fund**

**£3.9m**

(2021/22 £3.1m)

**Capital Fund**

**£18.5m**

(2021/22 £13.8m)  
To buy land for affordable housing provision (£17.1m, 21/22 £12.4m). Capital receipts available to finance future capital investment (£1.4m, 21/22 £1.4m)

**HRA Reserve**

**£3.9m**

(2021/22 £7.9m)  
For spending on the Council's housing stock.

**Capital Grants Unapplied**

**£14.4m**

(2021/22 £10.0m)  
Funds to support and accelerate the delivery of housing in the Highland area.

**Renewal and Repair Fund**

**£2.2m**

(2021/22 £2.2m)  
For specific types of repair and maintenance work.

**Total Usable Reserves**

**£174.7m**

(2021/22 £155.8m)