

The Highland Council

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| Agenda Item | 6. |
| Report No | RES/19/24 |

Committee: Corporate Resources

Date: 11 September 2024

Report Title: Corporate Revenue Budget Update - Financial Year 2024/25

Report By: Head of Corporate Finance

1. Purpose/Executive Summary

- 1.1 This report provides Members with a corporate update regarding the current financial year's revenue budget position. This report includes a particular focus on progress with delivery of revenue budget savings and income generation for the year.
- 1.2 This report provides a forecast position regarding budget savings agreed for the current financial year, any emerging costs and pressures identified to date, and an assessment of budgetary impact for the year. A summary position showing budget for the year and net expenditure to date is also shown. The report also provides Members of this Committee with specific update regarding the Income Generation portfolio and associated savings as agreed by Council in December 2023, including ongoing work to support and deliver income generation beyond the current financial year.
- 1.3 The form and content of this report differs from that which would typically be considered by Members at Quarter 1, given there is ongoing system development work in the Council's new corporate financial system, and to support benefits and improvements to future reports. A separate report on this agenda provides update on the Programme relating to replacement of the Council's corporate systems. Pending ongoing system development work, at budget holder level the normal approval and control processes are in place regarding transactions and budget holders have been provided with access to and training materials relating to ledger enquiries. Communications have also been provided to budget holders regarding the development of new budget holder dashboards.
- 1.4 This report is based upon the processes and systems in place to monitor progress regarding the delivery plan and budget savings, financial information from the Council's new Corporate Financial System, and other relevant information including the current position regarding pay award offers for Scottish Joint Committee (SJC) pay group.
- 1.5 With regard to the out-turn for the prior 2023/24 financial year, this was considered by Council in June 2024, and individual Service near final out-turn reports have been considered by this cycle of Strategic Committees.

2. Recommendations

2.1 Members are asked to:

- i. **Note** the budget update as set out in this report;
- ii. **Note** the forecast provide regarding budget savings;
- iii. **Note** the update provided regarding the Income Generation portfolio.

3. Implications

3.1 **Resource:** At this stage in the financial year, and based on the information as set out in this update report, there is no specific variance from budget highlighted. There are risks relating to cost pressures and savings delivery as referenced in the report, and the potential that these risks translate to financial impact if not mitigated. As this is the first reporting of savings delivery for the financial year, future reports will reflect further progress made and actions taken, and the impact of direct and indirect mitigating actions. Future reports will also be derived from regular quarterly Service level budget monitoring reports from Quarter 2 onwards.

3.2 **Legal:** No particular implications to highlight.

3.3 **Risk:** this report references particular risks related to the Council's budget position, including in-year pressure and risk areas, and progress with savings, and seeks to mitigate those risks through the process of monitoring and in particular reflecting the output of the Council's delivery plan, portfolio and budget saving monitoring. When the Council agreed its revenue budget in February 2024, section 19 of that report gave commentary with particular reference to savings, stating that "*The level of savings contained within the budget proposed are significant in scale and also reach into new, innovative or higher risk areas of activity. The scale of proposed saving from transformation and change to operating model, income generation, asset rationalisation and renewables income are examples of where the proposed budget savings do carry a risk and uncertainty beyond what may have been the case in recent years budgets.*" There are some savings, including those which represent more innovative or higher risk savings, which are forecasting some slippage or risk to level of saving. Ongoing monitoring of savings delivery, and consideration of mitigating actions, will be essential to avoid any shortfall in saving having a budgetary impact.

3.4 **Health and Safety (risks arising from changes to plant, equipment, process, or people):** No particular implications to highlight.

3.5 **Gaelic:** No particular implications to highlight.

4. Impacts

4.1 In Highland, all policies, strategies or service changes are subject to an integrated screening for impact for Equalities, Poverty and Human Rights, Children's Rights and Wellbeing, Climate Change, Islands and Mainland Rural Communities, and Data Protection. Where identified as required, a full impact assessment will be undertaken.

4.2 Considering impacts is a core part of the decision-making process and needs to inform the decision-making process. When taking any decision, Members must give due regard to the findings of any assessment.

4.3 This is a monitoring and update report and therefore an impact assessment is not required.

5. Budget Update and Financial Outlook

5.1 **Annex 1** sets out a corporate summary of the revenue budget for the financial year and the actual expenditure to date per the corporate financial system as at Quarter 1. The Service analysis reflects the opening service structure at the start of the year, and will be revised as the year progresses as necessary, to reflect any changes arising from the new corporate management team structure and service clusters. The budget reflects the position as agreed by the Council in February of this year, as adjusted for any movement in budget/funding in the period since, which primarily relates to presentational or technical adjustments.

5.2 The net unallocated budget reflected on annex 1, consists of agreed budget provision for pay awards, other cost pressures, and some savings, which are held centrally pending allocation against service budgets. In relating to pay awards in particular, these are typically only allocated to Services once there is clarity regarding an agreed pay settlement position for staff groups.

5.3 In relation to particular risks and uncertainties that may impact the financial position as the year progresses, these are summarised in the following sections.

5.4 In summary, based on this report, there is no quantified variance against budget as at Quarter 1. For Quarter 2 reports and onwards the regular Service level budget monitoring forecasts will be produced for individual Strategic Committees and the Corporate level position reported to this Committee. For reasons as described earlier in this report, and interim reporting approach is being used for this Committee report.

5.5 There is the risk that due to the potential impact of pay awards, this may result in unbudgeted cost pressures and would require actions and cost control to mitigate the cost impact. This is dependent on pay offers and pay settlements, and the position will only be clear as the year progresses.

5.6 In relation to budget saving delivery, based on current forecasts, it is estimated that savings achievement will total £28.830m by year end compared with targets of £31.379m representing 92% of the target for the year. The forecast shortfall is £2.549m. As noted in this report, actions being taken forward are focused on increasing that forecast delivery level and/or considering mitigating actions.

6. Budget Pressures and Financial Risks

6.1 Pay costs represent more than half of the Council's annual budgeted expenditure, and there remains a risk and uncertainty regarding pay awards for 2024/25. An offer has been made to the SJC pay group with feedback due in the coming weeks regarding the Trade Union's position on that offer. Scottish Government has committed to the provision of additional funding to support that offer, and this will take the form of a reduction in capital support to Council's in 2024/25 (with that funding re-directed to support the pay settlement) and additional Scottish Government revenue funding in 2024/25. Further assessment of funding implications will be required, and based on information to date, there is expected to be a direct cost pressure for the Council with the pay offer based on Councils meeting the first 3.2% of the offer. The unfunded cost pressure is expected to be up to £0.5m. There remains risk and

uncertainty regarding whether this particular offer is accepted by Unions, and in turn what expectations and pressures may arise in relation to other pay groups.

- 6.2 Inflation and Interest rates have both reduced since the budget for the year was set. At this stage it is too early to ascertain what implication this may have, or if any financial benefit may arise. Many of the cost pressures the Council provided for in the budget were based upon inflationary positions or indices which pre-date the subsequent decline in inflation levels. The Council made no provision for general inflation across its expenditure budgets, other than specific cost pressures approved in February 2024. The Council also agreed a number of budget savings which were based upon cost control or procurement related savings, and to some extent the lowering of inflation will contribute to delivery of those savings, rather than further savings over and above.
- 6.3 With regard to interest rates, the Council's borrowing forecasts were linked to an assumed reduction in base rates this Calendar year, based on economic forecasts at that time. Short-term the base rate reduction will also have a limited impact on borrowing costs given the majority of borrowing costs are associated with historic debt, and any new borrowing or re-financing (at lower rates) has a more marginal impact. For these reasons, at this stage in the year, there is not expected to be any significant 2024/25 budgetary benefit from the reduction in base rates to date.
- 6.4 Any other areas of financial risk will be identified and assessed as part of ongoing budget monitoring and reports to subsequent Committees.

7. Budget Savings

- 7.1 Delivery of budget savings is a key element of the Council's medium term financial plan, and an area of financial risk given the level of savings agreed and the degree of innovation, risk and uncertainty that was associated with some savings.
- 7.2 To support delivery of budget savings, and to mitigate risks, the Council's agreed delivery plan, and the governance arrangements for monitoring of portfolio and projects within that plan, is the mechanism through which tracking of savings delivery takes place, and has been used as the basis of this report.
- 7.3 On an ongoing basis, reporting to members will be via Strategic Committees, as part of normal quarterly performance and budgetary monitoring reports. For this initial report to members, a consolidated position is presented covering 2024/25 budget savings. This consists of those savings monitored via the Delivery Plan, plus those other budget savings agreed by the Council.
- 7.4 **Annex 2** provides an overall position, showing the target and forecast savings (at month 4) for delivery plan portfolio savings, and other savings agreed for the year. A Red/Amber/Green (RAG) assessment is also shown, this being based on:

GREEN – forecast meets or exceeds annual target.

AMBER – forecast is within 90.1%-100% of annual target.

RED – forecast is 90% or less of annual target.

For any amber or red savings, a narrative providing commentary is included within the annex.

7.5 Delivery plan governance is via individual Officer Portfolio Boards, with over-arching reporting and governance via Senior Officer review and reporting to Committees. Where savings are forecast not to meet target, assessment is being undertaken to understand (i) what actions can be taken to address the position and bring the saving back on target, and (ii) what other mitigating action can be taken to avoid budgetary impact.

8. Income Generation Portfolio

8.1 At the meeting of Council on 14 December 2023, Members agreed that 2024/25 Q1 monitoring for the Income Generation Portfolio would be reported to this meeting of the Corporate Resources Committee.

The Income Generation Portfolio has 3 workstreams: Tourism, Fees & Charges and Fiscal Flexibilities. Year 1 financial savings targets for the Income Generation Portfolio represents over a third of the overall Delivery Plan targets.

8.2 The overview of Portfolio income and the latest forecasted outturn are shown in the table below. Against a target of £8.692m, the forecasted outturn is £8.660m which is 99.6% of the target.

| Workstream | Annual Target | % of Portfolio | Out-turn Month 4 |
|-------------------------------------|--------------------|----------------|-------------------|
| Unique Highland Visitor Experiences | £ 300,000 | 3.5 | £ 300,000 |
| Campervans/Motorhomes | £ 500,000 | 5.8 | £ 40,000 |
| Visitor/Cruise Ship Passenger Levy | £ - | 0.0 | £ - |
| Fees and Charges | £ 2,592,000 | 29.8 | £2,900,000 |
| 2nd Homes/LTE Properties | £ 5,300,000 | 61.0 | £5,420,000 |
| TOTAL | £ 8,692,000 | 100.0 | £8,660,000 |

8.3 Project management and support for this Portfolio currently comprises 2 FTEs Project Managers and one FTE Business Management Analyst, budgeted at £378k for Years 1 and 2 combined within an overall agreed staffing budget of £440k. Recruitment to these posts was completed in March 24. As activities move into the next phases and planning for Year 2 commences, additional resources may be required and will be delivered within the overall budget.

8.4 **The Tourism workstream** has two projects: Unique Highland Visitor Experiences and Campervans/Motorhomes.

8.4.1 The significant activity in advance of and during Q1 was preparing for the go-live for both The Storr Centre, and for the launch of the voluntary Highland Campervan and Motorhome Scheme on 1st July 2024.

8.4.2 The Storr Centre opened as planned on 1 July 2024 and included significant activity during Q1 such as the completion of the unit and implementation of the operational IT requirements to ensure retail operations were ready for go-live, as well as setting up the retail space and undertaking staff training. A detailed progress report has also been reported to the Skye & Raasay Committee on 26 August 2024.

- 8.4.3 The Campervan & Motorhome Scheme. Earlier this year, the public, partners, and the Highland Council's staff were invited to take part in a survey and share suggestions ahead of the Council's budget for 2024/25. Emerging themes from the public engagement highlighted that people understood the need to raise income generation, with the most common suggestion to do so through campervans and motorhomes. A proposal to introduce a voluntary Campervans and Motorhomes scheme was approved by Members of The Highland Council at its Budget meeting on Thursday 29 February 2024.
- 8.4.4 The Scheme has attracted a mixed response. In addition to positive feedback about the scheme, there has been some concerns raised by some campsite and caravan parks, and a small number of representative bodies. All feedback is helpful and provides rich business intelligence for the Council
- 8.4.5 As part of the introduction of the scheme a marketing campaign has been developed to promote and encourage positive behaviours and responsible tourism. The approach is designed to be thought provoking, encouraging visitors to consider their impact upon the environment and local communities. A series of leaflets and posters have also been produced to raise awareness of the scheme and to further encourage responsible tourism
- 8.4.6 Throughout Q2 and Q3 the focus will be on implementing infrastructure improvements which aim to address some the issues associated with increasing levels of tourism. In response to the feedback received from residents, local businesses and tourists, and as part of our ongoing review of the scheme, improvements will include a focus on providing/improving wastewater and chemical disposal sites and investment into improving waste and recycling facilities at some car parks.
- 8.5 **For Fees and Charges**, ledger set-up was completed to ensure 2024/25 budgets reflect the revised income targets to generate the £2.592m target. This reflects the Council's decision in February 2024 to apply 4.6% to person-centred services and CPI+3% to others. Work is ongoing across Clusters to better understand budget profiling of income over the financial year and to monitor delivery of these income targets. At the end of Q1, this project is ahead of target.
- 8.5.1 Work will commence later this year for the Annual Review of Fees and Charges, in preparation for the budget setting process.
- 8.6 Fiscal Flexibilities has 2 projects - Council tax (2nd homes and Long-Term Empty properties (LTE)) and Visitor Levy/Cruise Ships.
- 8.6.1 **Council Tax (2nd homes and Long-Term Empties (LTE))**
At the end of Q1, the number of 2nd homes/LTE originally registered for 2024/25 had reduced by 212 properties thus delivering the policy intent of increasing the supply of mainstream housing.
- 8.6.2 This workstream has an income target for 2024/25 of £5.3m. At the end of Q1, performance was slightly ahead of target, with key enablers to deliver this saving such as completing annual billing, establishing weekly monitoring and initiating recovery of arrears all completed.

8.6.3 At the time of reporting, further analysis of the 212 reductions in 2nd homes and LTEs indicates 19 of those billed have moved to NDR; 13% have been awarded Council Tax exemptions, e.g. agricultural. Most properties, 63.4% were returned to occupation as main residences and staff accommodation, thus delivering the policy intent.

8.7 **Visitor Levy/Cruise Ship Passenger Levy**

This workstream has no income target for 2024/25, however significant progress is being made by a cross-Cluster group of Officers within Resources & Finance and Infrastructure, Economy and Environment. The Visitor Levy (Scotland) Act is anticipated to come into force by October 2024. Officers continue to participate in the national Expert Group to contribute to the development of Statutory Guidance. Officers are also pivotal in developing a national digital portal to enable accommodation providers to submit levies and for implementing Councils to manage collections.

8.7.1 Once a local authority formally decides to implement a Visitor Levy, a statutory 18-month lead in time is required. Accordingly, the earliest potential date a Visitor Levy may commence in Scotland is anticipated to be summer 2026.

8.7.2 Recruitment to a Visitor Levy Portfolio Manager is underway with interviews planned for week commencing 26 August 2024.

Designation: Head of Corporate Finance

Date: 26 August 2024

Authors: Brian Porter, Head of Corporate Finance
Sheila Armstrong, Head of Revenues and Customer Services
Lucy Lallah, Business Management Analyst.

Background Papers: [Corporate Near Final Out-turn report to Council June 2024](#)

Appendices:

Annex 1 – Budget Expenditure Summary for Quarter 1, 2024/25

Annex 2 – Savings status summary as at Month 4, 2024/25

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| Revenue Budget Update - General Fund Summary |
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| Expenditure 1 April to 30 June 2024 |
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| | Annual Budget £000 | Actual Year to Date £000 |
|--|--------------------------|--------------------------------|
| Communities & Place | 41,323 | 13,919 |
| ICT and Digital Transformation | 11,342 | 6,399 |
| Education & Learning | 268,543 | 57,037 |
| Health, Wellbeing & Social Care | 188,679 | 26,302 |
| Infrastructure & Environment and Economy | 39,569 | 8,969 |
| Performance & Governance | 6,311 | 2,834 |
| Property & Housing | 80,146 | 22,670 |
| Resources & Finance | 13,736 | 6,482 |
| Welfare Services | 7,833 | 4,043 |
| Service Total | 657,482 | 148,655 |
| Valuation Joint Board | 3,296 | 1,100 |
| Green Freeport | 458 | 458 |
| Non Domestic Rates reliefs | 1,725 | 1,818 |
| Loan Charges | 67,696 | 0 |
| Net Unallocated Budget | 19,700 | 0 |
| Total General Fund Budget | 750,357 | 152,031 |

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|---|----------|----------------|
| Housing Revenue Account HRA net budget | 0 | (4,305) |
|---|----------|----------------|

Annex 2 – Savings Forecast Month 4, 2024/25 (all figures £m)

This annex reflects those savings which form part of the Council's agreed Delivery Plan, as well as other savings agreed for the year and monitored outwith the Delivery Plan.

| Portfolio/Project | Forecast Annual Savings as at Month 4 | Annual Saving Target 2024/25 | Forecast (over)/ under target |
|---|---------------------------------------|------------------------------|-------------------------------|
| Terra tracker | 0 | 0.205 | 0.205 |
| Future operating model | 1.100 | 1.155 | 0.055 |
| Data & digital solutions | 0.752 | 1.589 | 0.837 |
| Hybrid working | 0.627 | 0.627 | - |
| Procurement savings | 2.603 | 2.603 | - |
| Food in schools | 0.262 | 0.262 | - |
| 1% efficiency target | 1.245 | 1.245 | - |
| Corporate Solutions Portfolio Total | 6.589 | 7.686 | 1.097 |
| Unique Highland visitor experiences | 0.300 | 0.300 | - |
| Campervans/motorhomes | 0.040 | 0.500 | 0.460 |
| Fees and charges | 2.900 | 2.592 | (0.308) |
| Council tax - 2 nd homes and long-term empty | 5.420 | 5.300 | (0.120) |
| Income Generation Portfolio Total | 8.660 | 8.692 | 0.032 |
| Energy efficient council | 0.100 | 0.100 | - |
| Net zero programme | 0.250 | - | (0.250) |
| Solar PV council estate | 0.200 | 1.100 | 0.900 |
| Battery storage | 0 | 0.030 | 0.030 |
| Net Zero, Energy Investment/Innovation Portfolio Total | 0.550 | 1.230 | 0.680 |
| Single public estate | 0 | 0.100 | 0.100 |
| Reconfiguring our asset base portfolio total | 0 | 0.100 | 0.100 |
| Service redesign | 0.500 | 0.500 | - |
| DSM/digital school | 1.500 | 1.500 | - |
| Workforce for the future portfolio total | 2.000 | 2.000 | - |
| Family first | 0 | 0.600 | 0.600 |
| Adult social care | 7.000 | 7.000 | - |
| Efficiencies from Social Work procurement | 0.300 | 0.300 | - |
| Person centred solutions portfolio total | 7.300 | 7.900 | 0.600 |
| DELIVERY PLAN PORTFOLIOS TOTAL | 25.099 | 27.608 | 2.509 |

| Cluster/Theme (themes as per February Council budget report) | Forecast Annual Savings as at Month 4 | Annual Saving Target 2024/25 | Forecast over/under target |
|---|---------------------------------------|------------------------------|----------------------------|
| Operating Models | 0.981 | 0.981 | - |
| Asset Base | 0.335 | 0.335 | - |
| Efficiency | 0.429 | 0.429 | - |
| Income Generation | 1.986 | 2.026 | 0.040 |
| Other Savings Total | 3.731 | 3.771 | 0.040 |

| | | | |
|-----------------------|---------------|---------------|--------------|
| TOTAL SAVINGS* | 28.830 | 31.379 | 2.549 |
|-----------------------|---------------|---------------|--------------|

*being £26.079m savings agreed per annex 5 of HC 29/2/24 budget report plus £5.300m fiscal flexibility agreed for council tax on 2nd homes/long term empty properties being monitoring as part of deliver plan = £31.379m

Commentary – Amber/Red savings.

Terra Tracker – positive progress on title search/analysis work, but time lag until financial benefits of identified assets realised.

Future Operating Model – Some slight slippage against target related to area/operational management structures.

Data & Digital solutions – work is ongoing to finalise business cases for digital innovation projects. Although the projects are likely to deliver at least the full £2.118m saving over three years, the complexity of the business change required for some of the projects does mean that the latest projected year 1 saving target will not be met.

Campervans/Motorhomes – new scheme launched July 2024, mixed response to date.

Solar PV Council estate – slippage in site review and maintenance, and review of remote monitoring arrangements, resulting in slippage against saving target.

Single public estate – demonstrator project slippage.

Family First – saving delivery being reviewed alongside impact of existing saving targets, redesign and underlying staff vacancy levels.

Income Generation theme – slight slippage in projected income realisation in year.