

Agenda Item	3
Report No	HC/2/19

## HIGHLAND COUNCIL

**Committee:** Highland Council

**Date:** 14<sup>th</sup> February

**Report Title:** Revenue budget 2019/20 to 2021/22

**Report By:** Chief Executive and Depute Chief Executive / Director of Corporate Resources

### 1. Purpose/Executive Summary

- 1.1 By law the Council is required to set a balanced budget prior to the start of every financial year and agree its Council Tax rates for the coming year. Given the Council's desire to have a multi-year budget in place, this report provides the summary of the anticipated budget gap over the period 2019/20 to 2021/22 and introduces the Administration's change programme, 'A Sustainable Highland', to Council for approval.
- 1.2 For the three year period the Council faces an estimated budget gap of £60.297m due to anticipated cost increases, predominately around salary costs, and inflation.
- 1.3 'A Sustainable Highland' reflects a change programme, informed by extensive staff and public engagement, focussed around four key themes of:
  1. Making the Council More Efficient;
  2. Commercialism and Income Generation;
  3. Redesign and Improvement;
  4. A Flexible and Well Managed Workforce.
- 1.4 The savings to be delivered through 'A Sustainable Highland', in tandem with changes to Council Tax, as proposed in this report, will address the forecast budget gap; increase the Council's reserves to a more sustainable level over the next three year period; and provide funding to effect the significant changes required to deliver the change programme.
- 1.5 The report highlights a significant forecast budget overspend of £5.5m in 2018/19, and risks around current winter weather. Actions and solutions to this challenge are ongoing and will be reported to Corporate Resources Committee on 27 February. These solutions are necessary to ensure the financial sustainability of the Council.

## **2. Recommendations**

### 2.1 Members are asked to:

- i. Approve the Council's change programme, 'A Sustainable Highland', to deliver £37.456m of savings over the next three years;
- ii. Approve the additional and recurring £1.500m investment in roads maintenance as outlined in section 5.5 of the report;
- iii. Approve the changes to Council Tax as outlined in section 7 of this report;
- iv. Agree to set aside £2.500m into a change fund with a view to ensuring that 'A Sustainable Highland' is fully resourced and delivered as outlined in section 14.5 of this report; and
- v. Agree the medium term target for the non-earmarked general fund reserve of 3% of annual revenue budget as outlined in section 14.3 of this report.

### 3. Scottish Government Revenue Grant

- 3.1 The Scottish Government announced its draft budget for 2019/20 on the 12<sup>th</sup> December 2018. The budget requires to be agreed by Parliament to be enacted and the budget bill process has three stages. The dates for stages 1, 2 and 3 are the 31<sup>st</sup> January, 6<sup>th</sup> February and 21<sup>st</sup> February 2019 respectively.
- 3.2 Given the Government is a minority administration the budget bill requires the support, or at least the abstention, of another political party to be approved. As in previous years, confirmation of the support of the Green party was received at stage 1 of the parliamentary process on 31<sup>st</sup> January, in return for a number of amendments being made to the draft budget. The budget cannot however be viewed as final until it is formally approved by Parliament on the 21<sup>st</sup> February.
- 3.3 The detail of the budget contains a number of key changes to the local government settlement. Whilst the overall cash level of funding will increase from 2018/19 the Council will be expected to incur additional expenditure to deliver government priority policies. Chief among those are increased early years provision and health and social care as outlined in section 5.4 of this report.
- 3.4 Within the overall resource available the money available to provide existing services has reduced by just under £5m from 2018/19. This reduction in funding for existing services, together with pay and other cost pressures detailed in sections 5.2 and 5.3, contributes to the overall budget gap faced by the Council.
- 3.5 Total grant funding for the Council did however increase by £4.228m from the earlier Grant announcement in December. The Administration has indicated its intention to use this improved Settlement to set aside funding for investment in Roads Infrastructure and to create a Change Fund. More details are outlined in paragraphs 5.5 and 5.6.
- 3.6 The Scottish Government has only announced a one year budget covering 2019/20. As the Council is intending to set a three year budget it is having to do so with an estimated level of grant funding for the second and third years. For planning purposes an annual reduction in funding of 1% has been anticipated. Should the actual settlements in those years differ from this assumption there will be a consequential impact on the budget gap.
- 3.7 As part of the agreed budget the Scottish Government has made a commitment to bring forward a three year funding settlement for local government from 2020/21 onwards. A number of commitments to potential changes to local government taxation raising powers have also been made by Government including:
- To consult in 2019 on the principles of a local determined tourist tax, prior to introducing legislation to permit local authorities to introduce a transient visitor levy;
  - To support an amendment to the Transport (Scotland) Bill that would enable local authorities to introduce a workplace parking levy;
  - To devolve Non-Domestic Rates Empty Property relief to local authorities in time

for the next revaluation.

- 3.8 The revised budget proposals also contain two significant items of note:
- Local Authorities will have the flexibility to increase Council Tax in 2019/20 by up to 4.79% should they so choose. In the past two years this increase has been capped at 3%.
  - Local Authorities may reduce their spending allocation to adult social care by 2.2% compared with 2018/19, excluding the additional funding being provided as part of the settlement.

The Council's proposals with regard to these areas are covered in sections 7 and 13 respectively.

#### 4. The budget gap

- 4.1 The Council has identified a budget gap of £60.297m (10.65% of the 2018/19 budget) for the period 2019/20 to 2021/22. This gap reflects the difference between the estimated costs of continuing current service levels plus the additional costs of any new expenditure commitments and the income the Council will have available to it over the period. A summary of the gap is provided in the table below.

	2019/20 £m	2020/21 £m	2021/22 £m	3 Year Total £m
Roll forward budget including already agreed savings	566.289	577.115	573.584	
Budget pressures - pay increases	12.237	10.442	10.654	
Budget pressures - service and corporate	6.431	1.928	2.439	
Funding changes passed on to services				
Early Years	11.300			
Health & Social Care	5.158			
Other	-0.010			
Budget addition to rebuild balances	0.000	2.000	0.000	
Investment in Roads Infrastructure	1.500			
Creation of 'Change Fund'	2.500	-2.500	0.000	
	<u>605.405</u>	<u>588.985</u>	<u>586.677</u>	
Council tax	120.748	121.386	121.996	
Grant funding	456.766	452.198	447.676	
Use of balances	0.000	0.000	0.000	
	<u>577.514</u>	<u>573.584</u>	<u>569.672</u>	
<b>Budget gap</b>	<b>27.891</b>	<b>15.401</b>	<b>17.005</b>	<b>60.297</b>

- 4.2 Sections 3 and 5 of this report provide an explanation of the figures in the above table. The figure included for Council tax provides for an expected growth in the overall Council Tax base and reflects the forecast number, band and type of occupancy of these new

properties. Changes to Council Tax rates as a way of closing the budget gap are included in section 7 of this report.

## 5. Funding requirement for 2019/20 to 2021/22

- 5.1 An incremental budget approach has been used for the three year period. The starting point for that approach, a budget figure of £566.289m, is the net revenue budget in the current financial year (2018/19), adjusted to take account of any already agreed savings.
- 5.2 Added to that figure is the anticipated cost to the Council of pay awards for Council employees. Members will be aware of the ongoing discussions around the current pay settlement for 2018/19 and offers have been made to all bargaining groups for a three year period. The figures used here are reflective of the current offers made by COSLA. Should those offers not be accepted by all groups the figures here will need to be revisited. For 2021/22 an assumed 3% increase for all staff has been included.
- 5.3 The Council has made an allowance for budget pressures of £10.798m over the period. This figure reflects additional funding needing to be added to service budgets to meet current cost pressures, or anticipated cost increases on service budgets. The table below provides a breakdown of that figure by type of budget pressure and service.

Service	Undeliverable 2018/19 Budget Savings £m	Existing Cost Pressures £m	Contractual Cost Increases £m	Legislative Change £m	New Expenditure Commitments £m	Total £m
Care & Learning	0.000	2.790	0.000	0.000	1.106	3.896
Chief Executive's Office (incl. Members)	0.000	0.000	0.000	0.000	0.000	0.000
Community Services	0.700	0.208	1.794	0.261	0.000	2.963
Corporate Resources	0.000	0.000	0.908	0.000	0.000	0.908
Development & Infrastructure	0.250	0.229	0.498	0.900	0.000	1.877
Corporate Pressures	0.000	0.000	0.000	1.154	0.000	1.154
<b>Total</b>	<b>0.950</b>	<b>3.227</b>	<b>3.200</b>	<b>2.315</b>	<b>1.106</b>	<b>10.798</b>

- 5.4 The Council will receive additional funding as a result of specific items contained with the Scottish Government's 2019/20 revenue grant settlement. This funding is to deliver two key national policy objectives namely £11.300m to further the roll out of additional early years provision and an additional £5.158m for investment in Health and Social Care
- 5.5 The Administration wish to make additional investment in roads maintenance, recognising this as a particular priority area, and as such are proposing adding a recurring £1.5m to the roads budget.
- 5.6 Finally the Council has recognised a need to increase its reserves for both specific and general purposes. Proposals in this regard are covered in more depth in section 14 of

the report but reflect the establishment of a change fund of £2.500m in 2019/20 and an annual increase in general reserves of £2m from 2020/21 onwards.

## 6. Meeting the budget gap

- 6.1 As detailed in the table at 4.1, the required expenditure over the period 2019/20 to 2021/22, compared with the resources available from Government and Council Tax (assuming no increase), gives a budget gap of £60.297m, equivalent to a 10.65% reduction in resources.
- 6.2 In order to meet the budget gap the Council needs to generate additional income or reduce expenditure. Section 9 of this report outlines the change programme the Council will be implementing over the next 3 year period in order to address the budget challenge. Section 7 includes details of proposed changes to Council Tax.
- 6.3 The table below provides a summary of how the budget gap will be closed over the three year period. Further work is required to identify ways to meet the residual gap in 2020/21 and 2021/22.

	2019/20 £m	2020/21 £m	2021/22 £m
<b>Budget gap</b>	<b>27.891</b>	<b>15.401</b>	<b>17.005</b>
<i>Ways to meet the budget gap:</i>			
3% annual council tax increase	-3.602	-3.753	-3.905
2nd homes Council Tax – review funding options for Landbank fund	-2.850	0.000	0.000
Savings - service proposals & corporate change programme	-21.439	-7.628	-8.389
Savings or additional income to be identified	0.000	-4.020	-4.711
<b>Residual gap</b>	<b>0.000</b>	<b>0.000</b>	<b>0.000</b>

## 7. Council Tax

- 7.1 Council Tax is charged on all domestic properties and each property is banded in one of 8 bands (A to H) based on the assessed value of the property. The actual level of Council Tax charged is based on a proportion of the rate, the 'multiplier', for a band D property.
- 7.2 As part of the revenue grant settlement from the Scottish Government the Council will have the flexibility to increase Council Tax by up to a maximum of 4.79%. Previously this increase has been capped at 3%.
- 7.3 Recognising the demands it would place on local taxpayers the Administration does not intend to use this additional power to raise Council tax by the maximum permitted amount. The Administration considers it appropriate to increase Council tax by 3% to reduce the budget gap. Such an increase is anticipated to deliver additional income of £3.602m in 2019/20. Details of the increased rates can be seen in **Appendix 1**.
- 7.4 Increasing the Council Tax by the maximum permitted 4.79% would generate an

estimated £2.150m more income than the proposed 3% increase.

- 7.5 At this stage Council is only being asked to approve a 3% Council tax increase for 2019/20. An assumed increase of 3% in 2020/21 and 2021/22 has been factored in to reduce the budget gap in those years but any changes to Council Tax rates for those years will require approval by Council at a later date.
- 7.6 The Council Tax Reduction Scheme (CTRS) will continue to offer support to individuals and families on low incomes. The income increase shown above is net of the impact of any increases in the cost of CTRS as a result of the 3% rise.
- 7.7 The Council will review funding options for investment to the Landbank Fund through a combination of capital and revenue finance to ensure that the total level of investment is maintained at its current level in compliance with current regulations. However, we will continue to allocate the equivalent of the full sum generated from Council Tax charged on second homes towards affordable housing, as required by government guidance.

## 8. Your Voice, Your Council, Your Future

- 8.1 November 2018 saw the launch of a new approach to involving and engaging the public and staff in our budget setting process and in identifying and shaping Council priorities. With over 50 engagement sessions, an online survey, Budget Challenge tool and Facebook chat sessions, the Council heard from staff and communities about what was important to them, what they believed the Council should be prioritising and ideas for improving or doing things differently. Whilst using some traditional methods, this engagement also sought to reach out to the wider Highland community through a greater use of social media, an online video with key messages, Facebook chats, and through engagement sessions in public places such as shopping centres and social gatherings.
- 8.2 The feedback from the engagement programme helped to inform a 2 day member seminar in January 2019 looking at internal and external governance arrangements; community engagement and participation; new approaches to delivering service change and transformation; and developing a flexible and capable workforce. It has also been integral to shaping the budget themes of efficiency, income generation, redesign, workforce and the approach to meeting the budget gap. A short summary of the key feedback is below with a full outline of the feedback and what the Council intends to do contained within A Sustainable Highland document at **Appendix 2**.
- 8.2.1 *Efficiency:*  
Staff and communities were clear there were opportunities for greater efficiency in how the Council operates and ways in which we could reduce waste. There were messages from staff about the opportunities for greater productivity through improved IT reliability and connectivity and also through shared systems across services and departments. It was reported there were opportunities to streamline functions across the organisation and also combine staff teams with similar roles for greater efficiency. It was felt there were opportunities to deliver more services in house and also to reduce the use of agency staffing whilst more online forms and processing would reduce duplication and

streamlining internal processes would increase productivity. It was suggested we need to manage Council resources more effectively through targeting spend on priority areas and improve management of our buildings and facilities. It was suggested we need to be more locally responsive and adapt our processes and service delivery to suit the local delivery area which in turn will result in more efficient processes.

#### 8.2.2 *Income Generation:*

A strong message from the public is there should be a focus on adopting a more commercially minded culture and seek opportunities for income generation. This approach should be prioritised over any reduction in services. There was strong support for a tourism levy, for increasing Council tax but also to increase or introduce charges for key areas such as car parking, toilets and public events. There were suggestions to seek new areas through which to generate income such as afterschool activities and childcare and through developing and supporting tourism based infrastructure e.g. campervan facilities and parking. It was suggested there were opportunities for the Council to be more commercial with regards waste and the use of recycling centres and also through opportunities for Council teams to offer consultancy.

#### 8.2.3 *Redesign and Improvement*

There was feedback from both staff and communities for a new approach to property and assets. This included rationalising the property we no longer need, refocusing the use of some properties e.g. for council housing and working with partners to co-locate and manage assets. It was also suggested there was a need for a different approach to delivering the maintenance of Council housing and property; more internal opportunities and to cross-skill the workforce. There was support for a new approach to travel and communication; reducing the need to travel and making better use of technology to enable communication across the area. Feedback also suggested that as an organisation the Council needs to be more locally responsive, recognising that there are different priorities across communities and that communities wish to be more involved in priority setting. There was a good culture of improvement amongst a number of staff groups and staff expressed a will to be more involved in improvement and redesign activity both within their own area and across the organisation.

#### 8.2.4 *Workforce*

The feedback from staff through the engagement process has been critical to identifying areas for improvement and priority. A key message was the importance of making better use of the staff we have and having a more flexible staff group. This included developing the skills of staff to do a range of jobs within their community, undertaking more work internally rather than externally procuring and retraining staff into key service roles locally. It was suggested that staff should be supported to work in a number of roles across departments and across partner organisations in order to create sustainable local jobs. There was a strong local element to this for rural communities and that this would be both more efficient for the Council but also support local employment and opportunities. Communities and staff highlighted the challenge within many communities of staff shortages and recruitment difficulties. Retraining staff for key roles was identified as a solution but there needs to be a plan for attracting people to jobs in remote communities and addressing some of the housing challenges.



## 9. 'A Sustainable Highland' - the Council change programme

9.1 The Council's Change Strategy for 2019-2022 is set out in the accompanying paper 'A Sustainable Highland' at **Appendix 2**. That document sets out the vision for change and how it will be achieved. Whilst many of the budget proposals will be delivered as part of the Council's normal service improvements within individual services, there is a need for a new change programme to ensure appropriate governance, resourcing, scrutiny and delivery of the more ambitious and cross-service changes being proposed. This Programme will cover a wide range of projects, and will include recommendations arising from the work undertaken by the Redesign Board and Commercial Board.

9.2 During the early part of 2019 Members have attended cross-party workshops focussed on the change activity required to deliver budget savings and had the opportunity to explore those proposals in greater depth with Council officials. This was followed by a budget briefing for all Members on the change activity proposed. Detailed budget papers were subsequently made available to Members along with one to one meetings with the Chief Executive to discuss the proposals. Whilst delivery of the required change will be difficult, the Council will establish a Programme Management Office to ensure that there is:

- **Better collaboration and coordination across the Council;**
- **Better visibility of initiatives across the Council;**
- **Greater returns from the projects implemented;**
- **More efficient and faster delivery of projects;**
- **Better risk mitigation and structured risk resolution;**
- **A clear and consistent mechanism for assessing potential projects arising from member, staff and public feedback.**

9.3 The Council will put in place a focussed change team that will be agile and flexible enough to provide support to services in delivering the budget proposals, utilising secondments or external advice as appropriate. Each specific project set out under the Change Programme will have in place appropriate Project Board Governance and will regularly be reported to an Executive Leadership Team Programme Board and a Member led Scrutiny team.

## 10. Governance

10.1 A rigorous approach to oversight and governance of the change strategy will be essential. New arrangements are consequently being put in place to ensure that there is regular and detailed scrutiny of the budget at member and senior officer level so that the effectiveness and impact of all of the changes are understood and corrective action is taken if and when required.

10.2 The newly established Governance Review Steering Group has been tasked with bringing recommendations to the Council in relation to improved arrangements for strategic and local committees, including enhanced oversight and influence at local

committee level and meaningful engagement with our communities throughout the year. The Steering Group includes representatives from across the Chamber and will build on the insights gathered from the members' seminar in January.

- 10.3 A new Resource Management Board, chaired by the Chief Executive, which will oversee budget, staffing and capital investment/asset management on a weekly basis and will report quarterly to the Corporate Resources Committee. This will sit alongside the Redesign Programme Management Office and Board, referred to in paragraph 9.3 above, to ensure delivery of 'A Sustainable Highland'.
- 10.4 All of this will be underpinned by performance measures and targets to be delivered through the Council's Corporate Plan which will come to the Council in March 2019. In advance of this, members will have the opportunity to influence the content of the Plan at a half day members' seminar to be held towards the end of February.

## **11. Staffing**

- 11.1 Delivering 'A Sustainable Highland' will inevitably have an impact on certain roles in certain locations. Redesigning, restructuring and changing how the Council does things should enable the Council to reduce the size of the workforce while protecting staff across the organisation. It will not be a simple task and will require support from Members, Unions, Managers and staff across the organisation.
- 11.2 The Council is committed to do all that it can to avoid redundancies and has an excellent track record of managing service change and savings without the need for redundancies. The Council workforce is currently around 10,270 people with an average rate of over 10% staff turnover per annum meaning that over 1,000 people are recruited each year. Strict vacancy controls are already in place for recruitment, with some 435 vacant posts currently held back. This provides the opportunity to re-profile the workforce while protecting jobs.
- 11.3 Workforce planning will help the Council to develop staff and recruit strategically for a sustainable future. A set of Strategic Objectives have been used to develop a Workforce Planning Strategy for the Council. The Objectives acknowledge the need for transformation and reflect the ambitious nature of the Council's approach to develop its workforce to meet the demands of the future. Recruitment controls, workforce planning, flexibility and internal recruitment opportunities are aimed at shaping the workforce needed to deliver the desired outcomes for the Council's key services.
- 11.4 The Council will work in partnership with Trade Unions to optimise the use of vacancies and turnover to achieve positive outcomes for staff by the identification of deployment opportunities. Transition and retraining will be used to avoid job losses wherever possible.

## **12. Impact Assessment of Proposals**

- 12.1 Assessing for impact is an integral part of the budget process. It is a pro-active step to

ensure that wherever possible, preventative measures are taken to avoid discrimination or unfairness and to positively impact on people with protected characteristics and in poverty. The Council has key duties under the Equality Act 2010 and the Fairer Scotland Duty 2018:

- to give due regard to the elimination of discrimination, the advancement of equality of opportunity and the fostering of good relations on the grounds of age, disability, gender reassignment, pregnancy and maternity, race, religion and belief, sex, and sexual orientation
- how to reduce inequalities of outcome caused by socio-economic disadvantage.

The Council is also committed to considering potential rural impacts as part of any decision making process.

- 12.2 Giving due regard to equality and socio-economic equality means that the Council needs to understand and take account of the impact on particular groups. This involves considering evidence and engagement with staff, communities and service users. In Highland, each savings proposal has been screened to consider equality, rural or socio-economic implications. Impact assessment for equality considers whether any of the proposed savings could result in less favourable treatment of any equality groups - age, disability, gender reassignment, pregnancy and maternity, race, religion and belief, sex, and sexual orientation and also whether there is the potential for positive impact through efficiencies or changes to delivery arrangements. Assessment for socio-economic impact considers the impact of the proposed savings on individuals, their opportunity to access services/employment or upon particular vulnerable communities.
- 12.3 A summary of impacts, including where mitigation has been identified, is contained within the accompanying savings summary sheets at **Appendix 3**. For equality impact, where the screening assessment has highlighted that a full Equality Impact Assessment should be undertaken, this is noted and the assessment published on the Council's website.
- 12.4 It is recognised that a number of the proposals will have a greater impact upon certain staffing groups which are predominantly male or female. Where this is the case, this has been highlighted in the impact summary. The Council is committed to implementing the proposals through a process of vacancy management and deployment opportunities and therefore any potential impact as a result of the proposals is minimal.

### 13. Working in Partnership

#### ***NHS Highland***

- 13.1 Under the Lead Agency Model NHS Highland is commissioned to deliver Adult Social Care Services on behalf of Highland Council. The terms of the Partnership Agreement between the Council and NHS Highland states that the organisations will review the Quantum of funding provided for these services in accordance with the local government grant settlement.
- 13.2 This year, the terms of the local government financial settlement, as outlined in section

3.8, state that the Council may reduce the funding by up to 2.2% (based on 2018/19 funding levels) but then must increase it by the Council's share of the additional funds made available by Government.

- 13.3 Of the amounts where distributions across local authorities have been confirmed the Council will pass on £4.721m to NHS Highland (of a national £108m) for Health and Social Care. The Council will also pass on £0.437m of funding (of a national £10m) for the Carer's Act Extension. The distribution of a national £30m for Free Personal Care for Under 65s has not yet been confirmed but the Council intends to fully pass this on to NHS Highland.
- 13.4 The Council is having an ongoing dialogue with NHS Highland to inform and implement any savings to be made in order to balance the budget for adult social care. Despite the option to reduce the current level of funding the Council is not minded to make any reductions to the total funding passed to NHS Highland, but will look to ensure that £2.07m (the equivalent of a 2.2% reduction) of the overall funding is redirected for spending on the Council's priority areas. The full details of how this arrangement will work will require to be established with NHS Highland.
- 13.5 Both partners face a continuing challenge in respect of the provision of Adult Social Care due to continuing budget pressures from an increasing number and complexity of care demands, increases in demand for services due to demographic change, and cost pressures associated with pay awards and other inflationary pressures. Even with this additional funding NHS Highland will require to identify and implement savings measures in order to deliver a balanced budget in 2019/20.

### ***High Life Highland***

- 13.6 The Council will continue to work in partnership with High Life Highland to deliver a wide range of cultural and leisure services. This will involve evolving the existing positive relationships to ensure that there is common understanding about key strategic priorities. Opportunities for innovation and further improvement of service priorities will also be key.

### ***Third Sector***

- 13.7 The Council recognises the important role the third sector and volunteers play within our communities; in service delivery, in supporting communities and developing communities. We are committed to improving our partnerships with the third sector and developing shared outcomes on which we can work together to achieve successful and sustainable communities.

## **14. Reserves and balances**

- 14.1 The Council's unearmarked fund is a key element of its balances, representing the main source of funding for delivering transformational change and providing the capacity to

absorb any unbudgeted cost pressures that may arise. Guidance provided by Audit Scotland suggests that the optimal level of this fund should be between 2 and 4% of a Council's annual revenue budget.

- 14.2 At the start of the current financial year the level of that reserve was a little over £8.5m, roughly 1.6% of the annual revenue budget. At present the Quarter 3 forecast suggests a year end overspend of £5.5m. This will be reported to Corporate Resources Committee on 27 February. The current period of adverse winter weather adds to the real risk that, despite action being taken, that there will be a further drawdown of reserves at the year end.
- 14.3 With clear direction from the Director of Corporate Resources, the Council remains keen to rebuild that balance to within the target range set by Audit Scotland. An allowance has been factored in to the budget gap calculations from 2020 onwards to rebuild this reserve by a recurring £2m annually. Council is asked to approve a longer term target of rebuilding this reserve to 3% of its annual revenue budget.
- 14.4 The Council has a demonstrable need to increase its reserves and the longer term target of 3% is justified by the need to have a contingency large enough to cover the following factors:
- A general contingency to meet unforeseen costs, such as those that might be associated with a harsh winter or other service demand pressures;
  - Having sufficient capacity to invest in change, whether that be investing in additional staff or assets to effect that change;
  - A capacity to address known risks- most especially around the delivery of budget savings.
- 14.5 The Council also requires to ensure that 'A Sustainable Highland' is adequately resourced. It is therefore proposed that £2.500m is set aside in a Change Fund in 2019/20 specifically to provide sufficient funding for resourcing this ambitious change programme.

## **15. Change Fund**

- 15.1 Potential priorities for the Change Fund will be support for education transformation; social work redesign and placements for young people; transport review; waste review; route optimisation; tourism transformation; internal business processes; staff wellbeing and absence management. Members will be asked to consider the use of this fund in a report to the March Council.
- 15.2 The creation of a Change Fund reflects feedback from staff that change needs to be adequately resourced. This may involve reallocating existing staff resources, bringing in external support, or reassessing existing work priorities.
- 15.3 The Fund will also provide a safeguard in terms of managing financial and operational risk and ensure the achievement of this significant programme of redesign.

## 16. Next steps

- 16.1 A Sustainable Highland is one part of a suite of documents setting out the direction for the organisation:
- Local Voices, Highland Choices – the Council Programme, introduced in December 2018, this sets out the strategic direction and priorities of the organisation. It has been informed by engagement with communities throughout November. Final approval will be sought for this at the Council meeting in March.
  - The Council’s Corporate Plan – the Corporate Plan sets out how the Council will deliver the Programme and the strategic priorities of the organisation. Development of the Corporate Plan will be supported through a half day Member seminar towards the end of February and be considered by the Council in March.
  - A Sustainable Highland – the Council’s change strategy for 2019-2022, this supports and underpins the Council Programme and Corporate plan in setting out the key areas for change in order to deliver the Programme and Corporate Plan.
- 16.2 As noted in section 10, a Governance Review Steering Group has been tasked with bringing recommendations to the Council in relation to improved arrangements for strategic and local committees, including enhanced oversight and influence at local committee level and meaningful engagement with our communities throughout the year. This will support the delivery of the Council’s Programme, Corporate Plan and Sustainable Highland Change Programme and ensure appropriate oversight and governance in the delivery of these. It is anticipated this Steering Group will report to the Council in May.
- 16.3 Whilst this report reflects the setting of a three year budget, ongoing work will be required to identify any changes to the assumptions underpinning this budget analysis as well as any implications arising from the delivery of ‘A Sustainable Highland’. Additionally a residual savings target for financial years 2020/21 and 2021/22 requires the identification of additional savings. Update reports covering all of these issues will be reported regularly to future meetings of the Highland Council.

## 17. Implications

- 17.1 Resource implications are as set out in this report.
- 17.2 Legal Implications - The Council has a legal obligation to set a Council Tax and must set a balanced budget as part of that requirement. The proposals within this report meet these requirements.
- 17.3 Community Impacts – Screening for equality, rural and poverty impacts have been undertaken as part of the development of the budget proposals. This is to help understand the potential impacts of the proposals:
- on groups protected under the Equality Act 2010 and under the Public Sector Equality Duty;
  - any specific impacts upon rural communities; and

- socio-economic impacts, including impacts upon individuals, upon their opportunity to access services/employment or upon particular vulnerable communities.

A summary of impacts are included within each of the savings summary sheets.

- 17.4 Climate Change/Carbon Clever Implications – Budget proposals can have positive or negative impacts in relation to climate change. A reduction in the number of staff employed in the Council, the amount of staff travel undertaken, or the number of properties the Council maintains would lead to a reduction in associated energy use and thus a reduction in the carbon footprint.
- 17.5 Risk Implications - The Council must set a balanced budget and the recommendations from this report will achieve that for 2019/20 to 2021/22. The development of the proposed Revenue Budget is not an exact science, and involves the identification of areas of risk and uncertainty. To mitigate this, officers are actively involved at a national level to ensure that they are aware, and have assessed, all potential risks.

Nevertheless, it is not possible to eliminate all risk. Some estimates, particularly around pay, are subject to national pay negotiations that are not yet concluded. Uncertainty over the local government grant settlement also could have a significant impact on the assumptions made. Other risks are due to factors outwith the Council's control, such as severe adverse weather events, interest rate increases or cost price inflation. This emphasises the importance to maintain reserves at a level sufficient to cope with any emergency situation.

Agreement of this budget requires Services to manage budgets and the delivery of a significant number of savings. The Council has a good track record of achieving balanced budgets, but the ongoing scale of savings makes this a significant challenge. Those savings where the actions required to deliver them are still to be fully determined carry particular risk. Close monitoring of those savings and wider service budgets will continue throughout the year in line with the new governance arrangements as outlined in section 10 of this report.

- 17.6 Gaelic implications: There are no direct implications on our approach to the promotion of Gaelic through the Change Strategy.

Designation: Chief Executive and Director of Corporate Resources / Depute Chief Executive

Date: 7<sup>th</sup> February 2019

Appendix 1 – Summary of Proposed Council Tax Increase

Appendix 2 – A Sustainable Highland – Change Strategy 2019-22

Appendix 3 – Detailed Savings Summary Sheets 2019-22

**Council Tax – Proposed 3% Increase**

<b>Band</b>	<b>Multiplier Factor</b>	<b>2018/19 £</b>	<b>2019/20 after Proposed 3% Increase £</b>
A	6/9	822.55	847.22
B	7/9	959.64	988.42
C	8/9	1,096.73	1,129.63
D	9/9	1,233.82	1,270.83
E	473/360	1,621.10	1,669.73
F	39/24	2,004.96	2,065.10
G	47/24	2,416.23	2,488.71
H	49/20	3,022.86	3,113.53