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| Agenda Item | 16       |
| Report No   | HC/41/19 |

## THE HIGHLAND COUNCIL

**Committee:** Highland Council

**Date:** 5<sup>th</sup> September 2019

**Report Title:** Revenue Budget Strategy 2020/21 to 2022/23

**Report By:** Executive Chief Officer- Finance and Resources

### 1. Purpose/Executive Summary

- 1.1 As part of prudent financial management this report looks ahead for the next 3 years considering the likely future funding and cost pressures the Council will face over the period. Given the high level of uncertainty around specific funding and cost issues a variety of different scenarios have been modelled to try to encompass all potential eventualities.
- 1.2 The scenarios modelled give rise to various 'budget gap' figures- an assessment of the gap between the cost of continuing to provide all Council services in their current shape and size, and the funding forecast to be available.
- 1.3 Any budget gap would need to be closed by spending less: by delivering services more efficiently or stopping and reducing them; and by increasing the level of income the Council generates from Council Tax and other fees and charges. All of these actions will be needed to balance the budget over the period 2020/21 to 2022/23.
- 1.4 Even in the most optimistic scenario modelled a budget gap (after already agreed savings) of £50.2m is forecast over the three year period from 2020/21 to 2022/23. In the most pessimistic scenario a gap of £77.3m is forecast over the same period.
- 1.5 The report also provides a summary of the work being done over the coming months to identify opportunities for meeting that budget gap with a view to agreeing a three year budget by February 2020.

### 2. Recommendations

- 2.1 Members are asked to:
  - i. Consider the financial modelling assumptions
  - ii. Note the scale of the financial challenge facing the Council over the next three

- years with a potential funding gap of between £50.2m and £77.3m
- iii. Agree the importance of setting a balanced three year revenue budget

### **3. Implications**

- 3.1 Resource- This report outlines the financial resource pressures facing the Council over the coming years. Delivering a multi-year budget will require significant input from managers and staff from across the organisation, supported by staff from all parts of the Corporate Resources service.
- 3.2 Legal- The Council has a legal requirement to set a balanced budget. The work as outlined in the report will enable the necessary decisions to be taken later this financial year.
- 3.3 Risk- The scenario modelling contained in this report carries a significant degree of associated risk. A large number of assumptions have been made about future conditions that may prevail, with different alternatives presented for those with the most significant impact. If reality differs markedly from any of the scenarios outlined the Council could find itself considerably better or worse off. Given current national and international global economic uncertainties the scenarios identified here may not cover the actual situation that comes to pass.
- 3.4 There are no Gaelic, Community (Equality, Poverty, Rural and Island) or Climate Change / Carbon Clever implications arising as a direct result of this report.

## **4. Wider Context**

- 4.1 Members will undoubtedly be aware of the significant financial pressure that public sector finances have been placed under in recent years. In Scotland, local government has probably been the hardest hit of the wider public sector in terms of real terms reductions in funding.
- 4.2 There are many reports publicly available that illustrate the magnitude of those reductions, a recently produced report by SPICe 'Local Government Finance: Facts and Figures 2013-14 to 2019-20' highlights that between 2013/14 and 2018/19 there was a 7.5% fall in the local government revenue settlement in real terms. Over that same period the Scottish Government revenue budget decreased by 2.8% in real terms.
- 4.3 The same SPICe report identifies that over the period 2013/14 to 2019/20 Highland Council has seen an above average reduction in funding per head of population of £176, the fifth highest of all mainland authorities.
- 4.4 Audit Scotland have also produced a key contextual report 'Local Government in Scotland, Challenges & Performance 2019'. That report makes recommendations for the key areas of activity needed to ensure continuous improvement; in particular highlighting that in the current climate in order to improve outcomes for communities 'councils need to be open to transformational change and implement new ways of working'. The key aspects of the report are drawn out in Appendix 1 where a link to the report is also provided.
- 4.5 The Audit Scotland report also recognises a need for assurance that there is 'adequate leadership and management capacity in place' along with development opportunities for councillors and senior managers 'to respond to the challenging and changing local and national demands'.
- 4.6 Further evidence of the strain on the Council's budget can be seen in the financial performance for financial year 2018/19 where a deficit of £2.3m was recorded. The impact of this deficit was mostly mitigated by a release of previously earmarked balances but Council general fund non-earmarked reserves did reduce by £0.7m. The general fund non-earmarked reserve now stands at the exceptionally low level of £7.9m.

## **5. Budget Process Principles and Best Value**

- 5.1 Whilst no explicit guidance exists on what a good budget process looks like a number of key elements are widely recognised through Best Value audit reports as being an essential part of the process.
- 5.2 In terms of the budgeting approach there is a need to have a clear focus on outcomes, priorities, and performance, and designing services that are able to deliver these in the future. Good quality information needs to be communicated effectively to allow this to happen. In this regard the Council is in discussions with CIPFA on a supported self-assessment model for Financial Management which will look across the Council's financial and governance procedures and policies along with budget holder training. This will lead to the Council's setting an ambition to be a 5 star CIPFA accredited organisation for financial Management and setting an improvement plan to achieve this.

- 5.3 Such an approach requires a medium term budget strategy, which incorporates scenario planning, builds in future challenges facing the organisation, and has clear links to key strategies such as workforce plans, asset management strategies, and transformation programmes.
- 5.4 Once identified and approved the delivery of savings is key. Councils must identify and appropriately resource ambitious programmes of transformation. The Council's commitment of money to the Change Fund for the current year, and intention to do so for future years, recognises the importance of properly resourcing transformation.
- 5.5 Cross party working is essential to deliver the scale of ambitious transformation programmes that are required. A lack of political consensus can undermine the budget process. Members need to take a lead in setting the priorities for the Council and ensuring savings proposals are in-line with those priorities.
- 5.6 Delivery of transformation programmes requires political consensus, and strong and committed political and officer leadership.
- 5.7 The public should be involved in how the Council sets its priorities, and consulted on savings that have been proposed. They should have a voice in the decision making process.
- 5.8 Strategies associated with Council reserves and levels of borrowing should be included as part of the budget process. As part of the 2019/20 budget process the Council committed to a medium-term target of increasing the non-earmarked general fund reserve to 3% of the annual revenue budget.

## **6. 2019/20 Revenue budget monitoring**

- 6.1 The 2019/20 quarter 1 corporate revenue monitoring position was reported to the Corporate Resources committee on the 28th August. Based on current expenditure trends that report forecast a year end overspend of £2.672m. A link to that report is provided in the background papers section of this report.
- 6.2 Work is underway to bring the overall budget back into balance with controls being put in place covering both staffing and non-staffing expenditure. Other measures to bring the budget back into balance include reducing or delaying spend against certain budget heads, reviewing the implementation plans for new initiatives, reviewing the loans charges budget in light of regulation changes and ensuring a focus on the full delivery of approved budget savings.
- 6.3 Although substantial efforts are taking place to prevent it, any overspend that might transpire at year-end would require to be funded from the Council's non-earmarked general fund reserve. At the start of the year that reserve sat at £7.925m, which is below the minimum level (2%) suggested by Audit Scotland.

## **7. 2019/20 to 2021/22 budget**

- 7.1 Council approved a three year budget covering the period 2019/20 to 2021/22 on the 14<sup>th</sup> February this year. Key elements of that budget included over £37m of savings to be delivered through the change programme 'A Sustainable Highland', an additional

and recurring £1.5m investment in roads maintenance, a 3% increase in Council Tax for 2019/20 and the one-off creation of a £2.5m change fund.

- 7.2 As part of the £37m budget savings figure, savings of £16m have already been approved for 2020/21 and 2021/22. These savings are factored into the budget gap figures included in the scenario planning in section 8 of this report.
- 7.3 The three year budget set did not fully balance and required an additional £8.7m of savings to be found. As part of the 2020/21 to 2022/23 budget process the assumptions made as part of the previous budget setting process will need to be reviewed and refreshed which will have a further impact on the revised budget gap.
- 7.4 'A Sustainable Highland' focused on four priority themes which will continue to be priority areas for the 2020/21 to 2022/23 budget namely:
- Making the Council more Efficient;
  - Commercialisation and Income Generation;
  - Redesign and Improvement;
  - A Flexible and Well Managed Workforce

## **8. 2020/21 to 2022/23- scenario planning**

- 8.1 As in previous years the Council has done a modelling exercise on its budget to estimate future spend and income scenarios. Spending scenarios are based on a continuation of services in their current form. None of these scenarios is intended to give a definitive view on the exact funding gap that will face the Council in the coming years, rather it will give a range within which we are likely to find ourselves. The work detailed in section 10 of this report will allow us to further refine these scenarios and an updated budget gap position will be brought to the October Council meeting.

### **Income**

- 8.2 The Council has income from three primary sources, Government funding, Council tax and income from fees and charges. The Council has no control over the first of these, limited control over the second, and greater control over the third. From a budget planning perspective changes to government funding are included in the estimated budget gap figures. Potential extra income received from changes to fees, charges or Council tax are not built into the model as they are seen as ways of closing any potential budget gap.
- 8.3 The Scottish Government recently updated its medium term financial strategy that reiterates the Government's priority areas of Health, Police, Early Learning and Childcare, Attainment, Higher Education and Social Security which combined account for over 50% (and rising) of the overall Scottish budget.
- 8.4 This strategy does not provide sufficient depth to give any clear steer on what future local government financial settlements will include but independent analysis done for Scottish local authority Directors of Finance suggests: 'Overall, while last year prospects for the LG resource budget were for a flat, in cash terms, settlement over the period to 2022-23, this now looks as if it would be an optimistic outcome.
- 8.5 It should be noted that within the overall funding settlement for local government there will be variability between the actual level of funding change experienced by individual authorities. For that reason the Council's own modelling has identified three scenarios for future funding from government, namely an annual 1%, 2% and 3% reduction. By way of reference a 1% funding reduction equates to around £4.7m.

## Expenditure

- 8.6 Salary costs accounted for just over £295m of Council spend in 2018/19, which is over half of overall net expenditure. Three year pay settlements have been agreed for staff covering 2018/19 to 2020/21 which allows some certainty in the planning process. Based on those settlements an annual pay award increase of 3% has been assumed for both 2021/22 and 2022/23. No increase in pension contribution rates from the next valuation cycle has been assumed.
- 8.7 A general provision of £7.0m annually has been allowed for non-staffing cost pressures. This figure is intended to cover contractual cost increases, inflationary cost increases, the additional revenue costs that may result from capital investment, the cost impact of demographic change and cost increases that may occur for any other reason. In addition an assumption has been made to create a recurring change fund rather than a one-off fund as was created for 2019/20 in order that transformation can be supported over the longer term.

## Capital and Loans Charges

- 8.8 No change to the existing loans charges budget has been assumed. A loans fund review will be undertaken in the remainder of the year which may free up some capacity in this budget. A decision will need to be taken whether any such capacity is taken as a saving in the revenue budget or used to enhance the capital investment programme.

## Reserves

- 8.9 As approved as part of the budget in 2019/20 an assumed recurring £2m rebuilding of balances has been factored into the budget workings.

## Scenario outcomes

- 8.10 A summary of the outcomes from the scenario modelling can be seen in the table below. These figures differ from those previously intimated to Members as they now reflect an assumed £7m figure for budget pressures and the creation of an annual recurring £2.5m change fund.

### Budget Gap before Already Agreed Savings

|                    | 2020/21<br>£m | 2021/22<br>£m | 2022/23<br>£m | 3 Year<br>Total<br>£m |
|--------------------|---------------|---------------|---------------|-----------------------|
| 1% Grant Reduction | 23.0          | 21.4          | 21.8          | 66.3                  |
| 2% Grant Reduction | 27.7          | 26.0          | 26.2          | 79.9                  |
| 3% Grant Reduction | 32.4          | 30.5          | 30.4          | 93.3                  |

### Already Agreed Savings

|                    | 2020/21<br>£m | 2021/22<br>£m | 2022/23<br>£m | 3 Year<br>Total<br>£m |
|--------------------|---------------|---------------|---------------|-----------------------|
| Agreed HC 14/02/19 | -7.6          | -8.4          |               | -16.0                 |

### Budget Gap after Already Agreed Savings

|                    | 2020/21<br>£m | 2021/22<br>£m | 2022/23<br>£m | 3 Year<br>Total<br>£m |
|--------------------|---------------|---------------|---------------|-----------------------|
| 1% Grant Reduction | 15.4          | 13.1          | 21.8          | 50.2                  |
| 2% Grant Reduction | 20.1          | 17.6          | 26.2          | 63.9                  |
| 3% Grant Reduction | 24.8          | 22.1          | 30.4          | 77.3                  |

8.11 There are many variables that will influence the budget gap over the coming years and it is not possible to model each of them individually. The scenarios outlined will be regularly updated based on the best information available at the time but remain vulnerable to unexpected and significant changes in local and national economic data. Brexit, the level of inflation, government policy and borrowing rates are just some of the factors where an unexpected outcome could have a significant impact, either positive or negative, on the model.

## 9. Council Tax and other local taxation powers

9.1 Whilst Council Tax has been the Council's predominant source of raising income locally, potential changes agreed as part of the 2019/20 local government finance settlement are intended to give Council's more revenue raising ability.

9.2 The commitments to potential changes to local tax raising powers made by the Scottish Government include:

- To consult in 2019 on the principles of a locally 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

9.3 At present none of these changes are sufficiently advanced for the Council to have a clear picture on the extent to which these items may impact on our budget gap. The Council has recently launched its consultation on the introduction of a Transient Visitor Levy and this will run until the autumn. Members are asked to consider their level of appetite for further local income generation by these means and this will inform the remainder of the budget process.

9.4 The Council decided to increase Council Tax for 2019/20 by 3%, generating an extra £3.6m of income. The Council was able to increase the tax by up to 4.79% and had it elected to increase by this maximum permissible amount it would have generated an estimated further £2.15m of income.

9.5 At this stage it is not clear if there will be a cap on the maximum level of increase or, if there is a cap, what that limit would be. Members will, as part of the budget process, be asked to consider what they consider an appropriate level of increase to be. As a broad rule of thumb every extra 1% increase in Council Tax is estimated to generate £1.2m of additional income

9.6 Should Members choose in February 2020 to increase Council tax by 3% that would close the forecast 2020/21 budget gap by an estimated £3.6m. A 5% increase, should an increase of that magnitude be allowed by Scottish Government, would close the budget gap by £6m.

9.7 The Council Tax Reduction Scheme (CTRS) will continue to offer support to individuals and families on low incomes. Any increases in income shown as part of this paper is net of the impact of any increases in the cost of CTRS as a result of a Council Tax rise.

## 10. 2020/21 to 2022/23- budget approach

10.1 It is clear that any budgetary planning work done should look ahead more than one year to help manage the uncertainties ahead. The approval of a three year budget covering the period from 2020/21 to 2022/23 will form a key part of the Council's strategic planning process, tying in to the Council's programme and workforce plan.

10.2 Planning for the medium term will allow time for key strategic decisions to be taken, scrutinised and implemented. Many of the likely solutions to meeting the outlined budget challenge will require significant organisational change, impacting on our service users, staff and partners. Taking a budget approach that covers the next three years will enable us to properly manage, programme and resource that required change whilst giving us the flexibility to deal with any unforeseen eventualities.

10.3 The hardest part of any budget process comes in the identification of ways to meet the budget gap. A continued use of last year's thematic areas will see a focus on efficiency, commercialisation, redesign and improvement and a flexible workforce. No one area will provide sufficient savings so an approach that encompasses all areas will be required.

10.4 An outline of the officer timeline to the formulation of savings proposals and review of budget assumptions is provided below.

| Action  | Date                       |
|---|----------------------------|
| Review of Budget Pressures  | 27 <sup>th</sup> August    |
| Confirmation of deliverability of savings approved 20/21 & 21/22                                      | 27 <sup>th</sup> August    |
| Review deliverability of savings approved for 19/20 but not yet achieved                              | 27 <sup>th</sup> August    |
| Cross Cutting savings – proposals Initial Discussion  | 26 <sup>th</sup> August    |
| New Savings 20/21, 21/22 and 22/23  | 3 <sup>rd</sup> September  |
| Cross Cutting Savings   | 2 <sup>nd</sup> September  |
| Refine / Verify New Savings   | 10 <sup>th</sup> September |
| <b>Final</b> Review / Challenge / verification of budget- Achievable and Deliverable within timescale | 11-13 September            |
| Draft Revenue budget pack to be prepared for Change Board   | 17 <sup>th</sup> September |
| Final Revenue Budget Pack presented to ELT  | 23 <sup>rd</sup> September |
| Cross Party Budget Monitoring Meeting   | 25 <sup>th</sup> September |

## 11. Budget engagement

11.1 Budget engagement will start in mid-September and will combine public and staff engagement across the Highlands using a variety of methods. It will begin with a focus on the more remote, rural and island areas of the Council.

11.2 The activity will include direct engagement with staff through various formal and informal meetings; digital engagement such as Facebook chats, online surveys and videos; public engagement events across Highland- with visits to various events and groups; and youth forum and schools engagement. Work will be undertaken to ensure hard to reach groups are engaged in the process and the new Executive Chief Officers will be responsible for local engagement in their respective areas.



- 11.3 The following key areas will be covered through the engagement process to raise awareness of both the local and national context:
- The Council Vision- Ambitious, Sustainable, Connected
  - Your Voice - Your Council - Your Future
  - The challenges facing the Council with anticipated further budget reductions (as outlined in this report).
  - Transformation- The Council has a wide-ranging change programme in place to make the Council more efficient and sustainable into the future.
  - 'You said - We did'- Building on the 4 budget themes, what the Council has done in response to the feedback received during previous consultation and engagement.
- 11.4 Through the engagement process ideas of income generation or savings may emerge and the Council is open to accepting all ideas and viewpoints. Specific items that will be included through the engagement process will include service-specific proposals, campervans, car parking, tourist levy, income generation and Community help/co-production.
- 11.5 It is intended that the engagement process will ensure that the budget approved by Council is reflective of local priorities and encompasses all positive opportunities for transformation identified through the process.

Designation: Executive Chief Officer- Finance and Resources

Date: 27<sup>th</sup> August 2019

Author: Edward Foster, Head of Corporate Finance

Background Papers:

<https://sp-bpr-en-prod-cdnep.azureedge.net/published/2019/7/2/Local-government-finance--facts-and-figures-2013-14-to-2019-20/SB%2019-45.pdf>

[https://www.highland.gov.uk/download/meetings/id/75483/item\\_18\\_annual\\_accounts\\_for\\_the\\_year\\_to\\_31\\_march\\_2019](https://www.highland.gov.uk/download/meetings/id/75483/item_18_annual_accounts_for_the_year_to_31_march_2019)

[https://www.highland.gov.uk/download/meetings/id/74855/item\\_3\\_revenue\\_budget\\_2019\\_20\\_to\\_202122](https://www.highland.gov.uk/download/meetings/id/74855/item_3_revenue_budget_2019_20_to_202122)

[https://www.highland.gov.uk/download/meetings/id/74857/item\\_3\\_a\\_sustainable\\_highland](https://www.highland.gov.uk/download/meetings/id/74857/item_3_a_sustainable_highland)

[https://www.highland.gov.uk/download/meetings/id/75698/item\\_6\\_corporate\\_revenue\\_monitoring\\_report\\_to\\_30\\_june\\_2019](https://www.highland.gov.uk/download/meetings/id/75698/item_6_corporate_revenue_monitoring_report_to_30_june_2019)

## Appendix

### **1. Audit Scotland – Local Government in Scotland, Challenges & Performance 2019**

1.  
1.1

#### **Introduction**

Audit Scotland provides an annual overview of the current and future challenges facing councils, how these are being responded to and the impact on councils' performance across Scotland. While the report or 2018/19 does not provide any significant new insights it does provide a helpful summary and analysis of the issues. The report extends to 48 pages and is provided as Appendix 1 via hyperlink: [https://www.audit-scotland.gov.uk/uploads/docs/report/2019/nr\\_190321\\_local\\_government\\_performance.pdf](https://www.audit-scotland.gov.uk/uploads/docs/report/2019/nr_190321_local_government_performance.pdf) and referenced is made to its content throughout this report. A supplement is also available by way of a scrutiny checklist for Members in relation to the findings of the Audit Scotland report and this is provided as Appendix 2 via hyperlink: [https://www.audit-scotland.gov.uk/uploads/docs/report/2019/nr\\_190321\\_local\\_government\\_performance\\_supp1.pdf](https://www.audit-scotland.gov.uk/uploads/docs/report/2019/nr_190321_local_government_performance_supp1.pdf)

1.2

There are important connections to be made between this national report and recent reports to The Highland Council and Strategic Committees which have already highlighted many of the issues raised. These include the Annual External Audit Report and Accounts to Audit & Scrutiny Committee in September 2018 and to the Resources Committee; Towards a Sustainable Financial Future – Revenue Budget Update 2018-2022 to Council in October 2018 and reports on the Council's Annual Performance, Public Opinion and Statutory Performance Indicators in September 2019, October 2018 and March 2019 respectively. All of these reports plus the Corporate Risk Register refer to the impact of the Council's current operating environment and the challenges faced.

### **2. The current and future challenges**

2.1

Audit Scotland describes local government in Scotland as being characterised by an increasingly complex policy agenda whilst dealing with a high degree of uncertainty. The working environment for councils is one of reducing budgets and increasing demand for services which sits alongside delivery of an increasingly complex range of national policies. Withdrawal from the European Union has also created a high level of uncertainty making planning difficult. The 2012 and 2016 Scotland Acts introduced new financial and social security powers resulting in Scotland's budget being influenced by Scottish ministers' tax decisions and how well the Scottish economy performs compared to the rest of the UK. There is therefore an increased likelihood that the Scottish budget will be more variable than through the block grant from the UK Government with an indication of up to a 6% variance by 2022/23. This has the potential to have an impact on services not financially protected by Scottish Government policies (Appendix 1, p.10).

2.2

The Local Governance Review started in 2018 by the Scottish Government and COSLA is looking at how powers and responsibilities are shared across national and local government with an aim of giving communities more say in how services are run in their area. Consultation continues during 2019 and the

impact is as yet unclear for both councils and for partnership working. The overall policy and legislative changes affecting local government are summarised in Exhibit 1 (Appendix 1, p.11). This shows increasing pressure on local government to improve outcomes, implement community empowerment legislation and tackle regional economic growth while navigating an as yet not fully understood national context around EU withdrawal, changes in financial powers and the local governance review. In Audit Scotland view (Appendix 1, p.11) this complex picture means that:

- Councillors and senior officers need to have a wide and current understanding of policy issues and how these relate to local priorities in order to plan and make complex decisions locally;
- Councils need to scenario plan in relation to funding and service demand seeking different ways to deliver services efficiently and effectively
- Effective partnerships with the other public, private and third-sector organisations are needed.

2.3 Improving Outcomes with community planning partners is linked to achieving the aims of the [National Performance Framework](#) (NPF) but with a view that it is not yet clear what role councils are expected to play, what this means for councils' resources or how progress would be monitored and reported. Councils are recognised as already having a key role in contributing to the NPF (Appendix 1, p.12) this includes:

- Delivering 1140 hours of free childcare to all three-year olds and eligible two-year olds;
- Improving educational outcomes, especially for those most deprived pupils,
- Contributing to the target to build 50,000 affordable homes nationally including 35,000 for social rent
- Implementing the Fairer Scotland Duty

2.4 Regional economic development is a focus in the report and again the need for more collaborative and partnership work is highlighted. City Region Deals and Growth Deals aimed at driving economic growth are identified as areas of significant partnership. There is also an expectation that councils and partners signed up to these deals will form Regional Economic Partnerships to work together on regional issues (Appendix 1, p.13).

2.5 The expectation of the Community Empowerment Act giving citizen's a great role and influence over how councils deliver services is seen as needing a change in how councils operate. From this perspective the current challenge is in balancing an increase in community involvement with a responsibility and an accountability for the sustainability of services delivered to citizens. Finding this balance is at the heart of the Highland Council's vision to be an Ambitious, Sustainable and Connected Highland.

2.6 Audit Scotland view accountability as increasingly complex largely as a result of more collaborate ways of working including the use of arms-length external organisations (ALEOs) and areas such as health and social care integration. There remains an important role for councillors in tracking performance and scrutinising and in ensuring communities have a role in decision-making. It is however councils that retain the accountability to communities and therefore councillors and officers require an appropriate understanding of their roles and

relevant skills including governance and leadership when engaged with boards and other complex partnerships (Appendix1, p.14)

- 2.7 One of the most significant elements of this year's report by Audit Scotland is the funding analysis which identifies reductions in real terms to councils' funding between 2013/14 and 2019/20 of six per cent. This is also in the context of a complex operating environment in relation to local and national policy and initiatives as outlined above and despite several years of reducing funding and increasing demands for services. While the total overall Scottish Government revenue funding increased 1.1 per cent in real terms between 2018/19 and 2019/20, the medium term forecast is for councils funding to continue to reduce (Appendix 1, p.14, Exhibit 2, p.15).
- 2.8 National policy initiatives also make up an increasing amount of council budgets and this now stands at 12.1 per cent (Appendix, page 17, Exhibit 3). If these obligations are excluded from revenue budgets then Audit Scotland calculate there has been a five per cent real terms decrease in revenue funding (Appendix 1, p.16). There is also recognition that social care and education account for 69 per cent of council budgets and given the national priority and statutory nature of these services making savings is more challenging. The Highland Council has therefore focused on efficiency and redesign with a significant Change Programme in order to deliver the Council's budget strategy.
- 2.9 There is also recognition that there have been disproportionate decreases in budget between 2013/14 and 2017/18 for other council services (planning & development 28%, cultural related services 14% and roads and transport 7%). This imbalance is likely to continue with current priorities covering health, police, early learning and childcare, secondary education attainment, higher education and social care. It is also accepted that councils cannot be expected to deliver continuous improvement across all services in the current financial climate. (Appendix 1, p.17).
- 2.10 There are significant differences in the local circumstances of councils with key drivers identified as population change, rurality, deprivation, percentage of children in poverty and the percentage of non-working age population. For Highland while an increasing population is indicated, the Council is aware, from the analysis in the Corporate Plan, this varies widely across Highland geography with areas of population growth in the inner Moray Firth and decline in some remote rural areas. Overall the Highland analysis by Audit Scotland shows rurality as the most significant driver in relation to demand followed by non-working age population, children in poverty and deprivation. The range of changes in core revenue funding in Scotland between 2013/14 and 2018/19 is shown to be a reduction of between 4.4 per cent and 15.4 per cent for Highland it is 9.8 per cent towards the top end of reductions (Appendix 1, p.19, Exhibit 4).

### **3. How Councils are responding**

- 3.1 Audit Scotland summarises councils' on-going responses to the challenges identified into five main categories:
- Transformational change (leadership, planning & good governance)
  - Medium-term financial planning

- Income generation
- Partnership working
- Community Empowerment Act
- Workforce planning

3.2 Transformational change is viewed as increasingly important and is seen as requiring strategic leadership, planning and good governance arrangements. Audit Scotland's view is that efficiencies are unlikely to address the growing gap between demand and resources and that more fundamental change is required. Transformation activity is taking a range of forms and can deliver incremental change but should contribute to strategic and outcome priorities and form part of strategic planning. This requires engagement with service users and staff from the outset and successful projects are seen as needing dedicated time for engagement and delivery. In Highland this is being achieved through the Change Programme and Change Fund. A range of linked issues are identified in the report and recognising their interdependent is needed by both councillors and senior managers:

- Implementing digital approaches
- Financial planning and funding approaches
- Working in partnership
- Community empowerment activity
- Workforce planning and development.

3.3 In order to make good decisions around opportunities and options for change Audit Scotland believe councils need to make effective use of good-quality information and data. This includes benchmarking data to identify and understand the variances across councils in performance and utilise this where opportunities to improve are identified (Appendix 1 p.22). The Highland the Council has just approved a Change Fund project to investigate new approaches to visualisation and use of its data to support performance management and transformation activity.

3.4 Good governance and effective management are seen as essential to the successful delivery of transformation activity. The Highland Council is well placed in this respect with a Resign Board and Change Programme Board with regular reporting of progress to Council and an overall Governance Review underway.

#### **4. Performance and Impact on council services**

4.1 While noting that over half of councils clearly link their budget to their strategic priorities there is also recognition that that more needs to be done on how spending is linked to outcomes and performance (Appendix 1, p.34). The Highland Council has strengthened its overall approach through the 2019/20 budget setting exercise but has also recognised that more work is required in developing the Council's performance culture to focus on outcomes and continuous improvement using data more effectively.

4.2 In Audit Scotland's view a good council is self-aware and understands its own performance and uses that to make improvements. The Highland Council's Strategic Improvement Priorities and establishing a performance framework for

monitoring their delivery has moved the Council forward in improving the use of data. However further work is needed to review and embed self-assessment across the Council and link this to better use of data as a tool for continuous improvement and to evidence the outcomes the Council is achieving.

- 4.3 An analysis of relevant national performance has been provide in the Audit Scotland report (Appendix 1, p35-45 this includes the National Performance Framework (NPF) and LGBF. Overall this analysis shows that most national indicators have improved or been maintained but performance varies between councils. There are also recognised limitations in the availability of the data and that better data would allow councils to understand the differences in demand and performance and report how well they are delivering against their outcomes and enable more informed decisions (Appendix 1, p.35). From an external perspective there is a need for councils to understand and set out the impact budget reductions have on service delivery and performance and use this business intelligence to inform future decisions.
- 4.4 Audit Scotland having adopted the Local Government Benchmarking Framework (LGBF) as Statutory Performance Indicators and have replicated some data analysis in the report. Should Members wish to review more detailed comparative analysis this can be accessed through the Council's performance pages at [www.highland.gov.uk/performance](http://www.highland.gov.uk/performance) . Analysis of these indicators across Scotland since 2010/11 showed that most had been maintained or improved, however, in the past year there has been evidence of increased spend or a decline in performance signposting the impact of long-term reductions in funding along with increased demand for services.
- 4.5 As signposted at paragraph 5.2 above improving education outcomes is a priority while analysis shows at a national level that education performance has improved since 2011, it has also slowed in 2017/18 and the attainment gap between the most and least deprived pupils has widened in the last year. The Highland Council has recognised that improvement is needed and in a separate report to this Council on the Corporate Plan, stretch targets has been set to improve attainment along with a Change Programme for education transformation.
- 4.6 Audit Scotland report that less than half of councils have a residents or citizen's survey they also note evidence of falling public satisfaction (Appendix 1, p.45). The Highland Council is fortunate to have a citizen's panel and annual survey of public opinion on services with more than 10 years of trend data, the Council has reported falling satisfaction of the past 3 years as identified in the report.

## **5. Members scrutiny tool**

- 5.1 Alongside the report Audit Scotland have provide a self-assessment scrutiny tool to support Members consider the key message in the report and reflect on their local context. The self-assessment tool is provided as Appendix 2 via hyperlink at paragraph 4.1 above. This provides Members with a set up useful questions to consider around issues such as the factors the affecting demand for council services, governance and accountability, transformational change, financial planning, community empowerment and performance.

## **6. Audit Scotland Report – Summary of Key Messages**

6.1 It is recognised that councils have found ways to manage funding gaps and make progress with medium-term financial planning in increasingly complex times. However in order to continue to improve outcomes for communities there are a number of recommendations for councils in order to make effective progress. Members will find these have resonance with papers to Council recently on the budget, performance, the Corporate Plan, the Strategic Improvement Priorities, the Change Programme and Change Fund. The Audit Scotland recommendations are:

- Assurance of adequate leadership and management capacity including development arrangements which support Members and senior managers respond to current challenges;
- Undertake long-term financial planning to set out how they will deliver on national policy commitment alongside sustaining local services with reducing budgets and increasing demands;
- Continue to seek and implement innovative ways of working and collaborate with communities, partners and the third sector to drive transformational change;
- Improve data to help inform the difficult decisions councils have to make and to support benchmarking, learning, sharing of experience and effective practice with others contributing to improving service quality, efficiency and outcomes for communities;
- Ensure clear workforce planning for current and future need and identify potential gaps requiring training and other action to address these supported by workforce data;
- Be able to demonstrate how spending decisions and priorities have impacted on service delivery and the outcomes of residents, as well as delivering the national performance framework.

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Author: Evelyn Johnston, Corporate Audit & Performance Manager

Background Papers: Audit Scotland – Local Government in Scotland, Challenges and Performance