

Agenda Item	14
Report No	HC/2/21

Committee: Highland Council

Date: 25th March 2021

Report Title: Revenue budget 2021/22 to 2023/24 - update

Report By: Executive Chief Officer – Resources and Finance

1. Purpose/Executive Summary

- 1.1 At the budget setting meeting of the 4th March 2021 Members approved an ambitious Health and Prosperity Strategy for the Highlands as part of the 2021/22 to 2023/24 revenue budget. The strategy sets out a new approach which seeks to balance the current financial context with the drivers for economic growth and recovery from the pandemic. At its heart is investment in the Highland economy and securing medium term financial sustainability for the Council.
- 1.2 The Health and Prosperity Strategy contains three strands covering:
 - Investment in people, infrastructure, places and business across the Highland region;
 - Recovery, Improvement and Transformation;
 - Key savings themes for delivering a balanced budget.
- 1.3 The first of those strands contains an ambitious, phased investment plan encompassing a £6m Economic Prosperity Fund, a £1.5m Visitor Management Strategy, £2.1m place-based investment and £0.2m additional local ward discretionary funding. The second strand sees £2.25m of investment in a Recovery, Improvement and Transformation Fund to help the Council address its residual medium-term budget gap estimated at £20.3m.
- 1.4 As part of the approved budget Members also agreed to sustain non-earmarked reserves at a minimum of £24.7m to mitigate identified risks and help underpin the transition towards medium term financial sustainability. A plan for ongoing ‘budget review’ was also presented to Members to allow the potential for further phases of investment should reserves be in excess of the target level.
- 1.5 This report provides Members with a brief update on the overall funding position, chiefly in respect of the current financial year 2020/21, along with a summary of the Scottish Government’s budget agreed in Parliament on the 8th and 9th March.

2. Recommendations

- 2.1 Members are asked to note the contents of this report and consider how plans for Phase 2 investment may be developed for presentation at the June meeting of Council.

3. Implications

- 3.1 Resource implications are as noted in this report.
- 3.2 Risk Implications - The agreed Revenue Budget included the identification of areas of risk and uncertainty. Some of the updates provided in this report address some of the uncertainties identified.

The medium to long term outlook for the Council's finances continues to look challenging with a budget gap in excess of £20m still showing for years 2022/23 and 2023/24. The Council needs to ensure a focus on transformational activity to ensure its longer-term sustainability.

- 3.3 There are no specific Legal Community (Equality, Poverty, Rural and Island), Climate Change / Carbon Clever or Gaelic implications arising directly as a result of this report.

4. Update on financial position- 2020/21

- 4.1 Section 6 of the budget report to Council on 5 March provided Members with the context of the current year's revenue budget. This year in particular has seen a rapidly changing environment in relation to Government funding. The Council now has increased clarity on a number of recently announced funding items and a summary of the impact of those on the potential 2020/21 outturn position is included below.
- 4.2 A small degree of risk in relation to some of these items does still remain as formal confirmation from the Scottish Government of the funding streams will only be received with the publication of an updated finance circular which is expected later this month. It is however believed that the funding distribution models have been agreed between COSLA and the Scottish Government.
- 4.3 As part of the Council's quarter 3 revenue budget monitoring reported to the Corporate Resources Committee on the 25th February an overall year end surplus of £3.1m was forecast for financial year 2020/21. The impact of this surplus would increase non-earmarked general fund balances to £26.3m at financial year end.
- 4.4 Since that position was reported the following three additional revenue funding streams have been announced with the Council's expected or confirmed share outlined:
- A further £110m for the income recompense scheme (Highland £3.8m)
 - £275m one off Covid funding 2020/21 (Highland £11.8m)
 - A further £40m for education logistics (Highland £2.2m)
- 4.5 All other things being equal the combined effect of the above items would increase the Council's 20/21 underspend by £17.8m, potentially putting year end non-earmarked general fund balances at £44.1m. The actual year end position will most likely be different from this dependant on actual expenditure and income in the final quarter of the year.

- 4.6 As part of the approved budget Members agreed £9.8m of investment as part of the Health and Prosperity Strategy. This investment is to be funded from the Council's reserves which would reduce to £34.3m if the year end position is as suggested at 4.5.
- 4.7 A residual reserve of £34.3m would be in excess of the approved target level of £24.7m leaving substantial funds available for further investment should Members so wish. As instructed by the CIPFA Financial Management Code it is essential that Members consider the potential spend of any of this excess reserve against the Council's forecast medium term budget gap of £20.3m.
- 4.8 The table below provides a summary of sections 4.3 to 4.7 in tabular format:

	£m
Forecast 20/21 year end reserves position (as per Q3 resources committee)	26.3
Plus: potential increase in reserves due to additional funding	17.8
Potential 2020/21 year end non-earmarked reserves position	44.1
Less: Approved 2021/22 investment- Health and Prosperity strategy- Phase 1	-9.8
Less: Approved balance of reserves to mitigate identified risks	-24.7
Potential excess reserves available for Phase 2 or 3 investment	9.6

5. Agreed Scottish Government budget- 2021/22

- 5.1 The Scottish Government agreed their budget over the course of the week beginning the 8th March with deals to support the budget struck with the Scottish Green Party at Stage 2 and the Scottish Liberal Democrats at Stage 3. The Finance Order and accompanying report were laid on the 10th March and will be debated on the 18th March, after which an updated Finance Circular will be sent to all councils, confirming allocations for 2021-22, as well as redeterminations for significant Covid related 2020-21 funding.
- 5.2 As part of the Stage 2 deal £167m of additional revenue funding was added to the Government's proposed budget as follows:
- £100m (announced on 16 Feb) to provide a Pandemic Support Payment to support people, in particular families, on low incomes;
 - £17m to extend the concessionary travel scheme to under-22 year olds;
 - £49.75m in 21-22 to support the phased the roll-out of free school meals for all primary pupils.

Full details of the agreement can be seen in **Appendix 1** to this report.

- 5.3 It is not anticipated that any of the items detailed above will have a net impact on the Council's 2021/22 budget as any additional funding that may come into the Council will likely need to be offset by equivalent expenditure on the items identified.
- 5.4 Another aspect of the deal agreed at Stage 2 that may impact on the Council's overall budget is the updated public sector pay policy. Whilst local government is not obliged to adhere to the policy it does raise expectations of a similar award being made in the local government sector. The revised public sector pay policy provides an increased cash underpin of £800 for those earning up to £25,000, and 2% for those earning over £25,000 up to £40,000.

- 5.5 As part of the Council's budget workings a total provision equivalent to 2% of salary costs was made in respect of potential pay awards. It has not yet been possible to calculate what the financial impact of implementing the revised pay policy would be, but it is expected to be in excess of the provision made. If the overall effect of implementing the policy equates to 2.5% of the Council's pay budget that would require around £1.7m of additional funding to be found in 2021/22. An overall effect equating to 3% of pay budget would require £3.4m of funding to be found.
- 5.6 Stage 3 saw the following inclusions in the budget:
- £120m for mental health services (announced on 16 February) - as yet, it is unclear how much, if any, of this will relate to Local Government
 - £60m for Education support (learning loss/catch up) (announced on 16 February)
 - £20m additional funding for in-class support for children, provided as a top up to Pupil Equity Fund (PEF)
 - Baselineing of the £90m that was made available in 21-22 for councils that are freezing council tax (i.e. making that funding part of the local government finance settlement in all future years)
- 5.7 As with the items included at Stage 2, it is not anticipated that any of the items added at Stage 3 will have a net impact on the Council's 2021/22 budget as any additional funding that may come in to the Council will likely need to be offset by equivalent expenditure on the items identified.
- 5.8 In summary the amendments agreed in Stages 2 and 3 of the budget:
- Will see no increase to Local Government's core settlement beyond that announced on 28 January (and included in the Council's budget paper of the 4th March);
 - Will see the £90m for the council tax freeze baselined into the settlement;
 - Will add specific ring-fenced pots of funding into the settlement for concessionary travel, free school meals, pandemic support payments and education recovery.

Designation: Executive Chief Officer - Resources and Finance

Date: 12th March 2021

Author: Edward Foster, Head of Corporate Finance

Background Papers:

[https://www.highland.gov.uk/download/meetings/id/77862/item_4_revenue_budget_202122 to 202324](https://www.highland.gov.uk/download/meetings/id/77862/item_4_revenue_budget_202122_to_202324)

Rùnaire a' Chaibneit airson Ionmhas
Ceit Fhoirbheis BPA
Cabinet Secretary for Finance
Kate Forbes MSP



Scottish Government
Riaghaltas na h-Alba
gov.scot

T: 0300 244 4000
E: scottish.ministers@gov.scot

Patrick Harvie MSP
Mark Ruskell MSP
Scottish Greens Party
By email: Patrick.Harvie.msp@parliament.scot &
Mark.Ruskell.msp@parliament.scot

8 March 2021

Dear Patrick, Mark,

Thank you for the constructive approach you have again taken to the budget discussions this year.

In our meetings I believe we have identified key areas where we can make progress and deliver a budget that works for people across Scotland.

The 2021-22 budget is rightly focused around responding to and recovering from the Covid-19 crisis. In order to support this we have provided record funding to the NHS of over £16 billion, supported local authorities by guaranteeing £11.6 billion and provided £3.2 billion towards delivery of a clean, efficient and connected transport network.

As you are aware, the Scottish Government is committed to tackling child poverty and the climate change emergency. My announcement of 16 February underlined this by confirming further investment of £100 million for anti-poverty measures in local authorities, £45 million for tackling fuel poverty and supporting energy efficiency and £50 million to support town centres and the creation of 20 minute neighbourhoods.

It is with our shared priorities and successful previous collaboration in mind that I turn to the current Budget Bill. As a result of our discussions, and in return for confirmation of your support at Stages 2 and 3 of the Budget Bill process and also in respect of the Local Government Finance Order and Non-Domestic Rates legislation for the coming year, I propose to make the following additions to the Scottish Budget for 2021-22.

Following our discussion we have agreed that the £100m I announced in February will be used to provide a Pandemic Support Payment to support people, in particular families, on low incomes. The Pandemic Support Payment will be made to two distinct groups.

Tha Ministearan na h-Alba, an luchd-comhairleachaidh sònraichte agus an Rùnaire Maireannach fo chumhachan Achd Coiteachaidh (Alba) 2016. Faicibh www.lobbying.scot

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

Taigh Naomh Anndrais, Rathad Regent, Dùn Èideann EH1 3DG
St Andrew's House, Regent Road, Edinburgh EH1 3DG
www.gov.scot



Accredited
Until 2020



Firstly to make payments of £130 to the approximately 500,000 households in receipt of Council Tax Reduction. Secondly, we will make two payments of £100 each to the families of children in receipt of free school meals. We anticipate that this will benefit up to 170,000 families. Families who are in receipt of both Council Tax Reduction and Free School Meals will be eligible to receive both payments, worth a total of £330.

Firstly, the Scottish Government has been progressing the commitment agreed with the Scottish Greens in respect of the 2020-21 Budget Bill to provide concessionary travel for under-19s. Progress of this policy has been delayed as a result of the pandemic, but our aim is to launch this scheme in the coming months as long as this is compatible with Covid restrictions. Both parties are committed to making investments which will help Scotland realise its climate change ambitions and also tackle inequalities. Having listened to your request to further extend concessionary travel for young people in Scotland, the Scottish Government will now commit to make this support available to under-22s (including 21 year olds). Changes to the concessionary travel scheme require public consultation, equalities and other impact assessment, legislation, financial investment and engagement with delivery partners, including bus operators and local authorities. The impact of Covid-19 over the next twelve months also remains uncertain. The Scottish Government therefore commits to make as much progress as possible during 2021-22 to deliver this further change to the concessionary travel scheme, and has allocated an additional £17 million in the Budget Bill for this purpose.

Secondly, I can confirm that the Scottish Government will provide funding to support a phased approach to free school meals as previously discussed. I have considered this with the Deputy First Minister (and reflected engagement with COSLA and caterers), and as a result I propose to make £49.75 million of funding available in 2021-22 to support the phased roll-out of free school meals. The first phase is planned for July 2021 and will enable the provision of free school meal holiday support to all children and young people who are currently eligible for free school meals on the basis of low income. We will then roll-out free school meal provision across primary children from August 2021 with the goal of providing universal free school meal provision to primary children by August 2022. To ensure quality and support the local economy, we will also expand the Food for Life scheme.

Thirdly, in recognition of the concerns you have raised about the lowest paid and in light of the consequential outcomes of the UK Budget on 3 March, I can confirm that the Scottish Government will revise the 2021-22 Public Sector Pay Policy to provide an increased cash underpin of £800 for those earning up to £25,000, and 2% for those earning over £25,000 up to £40,000. For those earning above £40,000 the policy will remain unchanged. As I emphasised when publishing the pay policy in January, I share your view about the remarkable contribution that public sector employees have made during the pandemic and have prioritised this when considering how to proceed following confirmation of the impact of the UK Budget last week.

In relation to capital spending, I reviewed the capital programme and have identified £40m that can be made additionally available for projects that support green recovery and our net-zero ambitions. We have agreed this will be allocated as follows: £15 million for active travel, £10 million for energy efficiency and £10m additional funding for biodiversity which will go towards a new scheme offering grants for a wider range of projects that deliver nature restoration, safeguard our wildlife and tackle the causes of biodiversity loss including especially climate change. Eligibility for grants will be widened to encourage more projects to come forward.

Tha Ministearan na h-Alba, an luchd-comhairleachaidh sònraichte agus an Rùnaire
Maireannach fo chumhachan Achd Coiteachaidh (Alba) 2016. Faicibh www.lobbying.scot

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

We will allocate an additional £5 million of Capital funding to the Rural Economy and Tourism portfolio to support emissions reduction in the agriculture sector, supporting broader agri-environment measures flowing from the farmer led groups. This would supplement the current Agricultural Transformation Programme.

On the ask about the focus of the town centre fund, this fits well with our own ambitions. Our town centre plan looks for improved active travel infrastructure and we have been clear with local authorities, who are our delivery partners in this, about the need for it to support the delivery of 20 minute neighbourhoods.

In addition to the above, it is worth noting that as part of the 2021-22 Budget, the Scottish Government committed to supporting the Respiratory Care Action Plan, due to publish later this month.

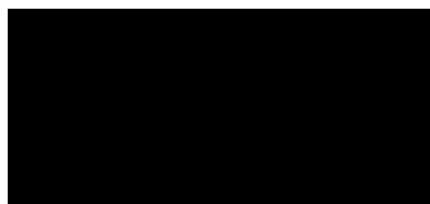
In the 2020-21 budget agreement I made a commitment of a further £5m to Transport Scotland to support a range of work in relation to the Longannet, Milngavie and East Kilbride lines. I am pleased to confirm this funding was deployed as agreed. We continue to work on a business case for the Milngavie route, which once complete will be available for public inspection. We are continuing further pre-planning discussions related to Longannet, and can also commit to a re-evaluation of business cases if the Talgo bid is unsuccessful.

I have made clear through the budget process and negotiations with all parties that, given the Covid-19 commitments and limited funding arising from the recent UK Budget, there is limited scope to fund significant additional commitments. However, I also recognise that it is in the national interest to secure this Budget Bill and that your spending proposals would benefit public services and our response to the global climate emergency.

The UK Budget provided an additional £1.175 billion of resource funding to the Scottish Government. As you are aware we had already assumed £500m in the draft budget, furthermore we estimate £460m is required to meet the ongoing costs under the Strategic Framework Business Fund until June. There is a further £75m of funding that will support the extension of Self-Isolation payments as called for by the Scottish Greens, health services, additional transport requirements and other Covid-19 related costs. As you'll be aware, the UK Budget had a negligible impact on our capital and financial transactions position.

The funding for this deal will come from the unallocated balance of funding from the UK budget for resource and, as noted above, reprioritisation for capital.

I hope you agree that this offer of an additional £167m of resource and £40m of capital investment together with the revised pay policy delivers a good deal for Scotland, supporting the lowest paid, further expanding free bus travel, and investing in green infrastructure.



KATE FORBES

Tha Ministearan na h-Alba, an luchd-comhairleachaidh sònraichte agus an Rùnaire Maireannach fo chumhachan Achd Coiteachaidh (Alba) 2016. Faicibh WWW.lobbying.scot

Scottish Ministers, special advisers and the Permanent Secretary are covered by the terms of the Lobbying (Scotland) Act 2016. See WWW.lobbying.scot