Agenda Item	**9 *(Revised)***
Report No	**HC/26/21**

Committee: **The Highland Council**

Date: **28th October 2021**

Report Title: **Medium Term Financial Plan- Update**

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

1. Purpose/Executive Summary

1.1 This report provides an update on the approach to medium term financial planning for the Council, a key element of good financial management as required by the CIPFA Financial Management Code. The report reiterates the scenarios for the medium-term outlook previously presented to Council with no significant items of change in the intervening period. The central scenario identifies an anticipated average annual requirement to deliver £15m of annual revenue budget savings over the medium term.

1.2 Whilst that £15m figure reflects the anticipated amount of savings required in an average year it is acknowledged that the actual savings amount required in any given year may fluctuate significantly from that position. This report highlights some scenarios which may come to pass specific to financial year 2022/23. Whilst there is still significant uncertainty Members should be aware that the potential budget gap for financial year 2022/23 (after the delivery of already agreed savings) could be in the region of between £9.0m and £35.4m. This position represents a change from that previously reported to Council where a gap of £9.0m was seen as the ‘central’ scenario. It is now felt that a gap of that size would reflect the ‘best case’ scenario, with a gap of £35.4m the ‘worst case’.

1.3 This changed position is linked to events that have been outwith the Council’s control and are linked in the main to the unpredictable and volatile health and economic environment as the ‘hidden harms’ of COVID begin to impact: the continuing directly related health impact, the indirect health harms, societal harms and economic harms. As a result the Council could now face additional pay costs of £10.5m, national insurance contributions of £3.4m, general pressures of £5m and a likely more challenging grant settlement of minus 3% costing £7.5m. All of these recurring pressures are a possibility and must be considered and planned for. Although a significant challenge, as reported in the External Audit Update paper to this Council, positive progress has been made in the Council’s financial position and financial management and this should provide assurance of the capability of the Council to respond to the challenge ahead.

1.4 In March 2021 Members approved £5.3m of savings to be delivered in 2022/23. This paper brings forward for Member approval a further £1.610m of savings for 2022/23.

Additional savings proposals and updates on the budget gap will be brought to subsequent meetings of the Council.

1.5 This report also provides Members with an update on the planned administrative arrangements and eligibility criteria for the Community Loans fund. The decision to invest £1m of the Council's reserves to create a Community Loans Fund was taken at the September meeting of Council.

1.6 The Council's capital programme is inextricably linked to its revenue budget as the costs of financing capital investment are made through the Council's revenue loans charges budget. This report provides an update on strategic capital matters including a summary of potential capital investment requirements, capital affordability, and the development of the Council's capital strategy- a key strategic document to help the Council decide how and where to prioritise its capital investment to deliver the best possible return.

1.7 The report also provides updates on already approved, or potential, capital projects including the North Coast Care Facility, priority schools, and the provision of accommodation for staff working at some of the Council's most remote and island schools.

2. Recommendations

2.1 Members are asked to:

- i) Note the medium-term planning assumptions as outlined in section 5;
- ii) Note the potential range for the 2022/23 budget gap as outlined in section 6.14 and agree a meeting of the Corporate Resources Sub-Committee should consider approaches to be taken should the worse case scenario prevail;
- iii) Approve £1.610m of savings to be delivered in 2022/23 as described in section 7 and **Appendix 1**;
- iv) Note the work that has been carried out on the Council's capital strategy and areas of statutory responsibility at section 8, and agree that further discussion will be taken forward in the Corporate Resources Sub Committee in advance of December Council;
- v) Note the update provided in relation to the North Coast Care facility, previously approved by Council, with separate detailed consideration via the separate agenda item on this subject;
- vi) Agree in principle to progress housing options on Rum and Eigg for key staff;
- vii) Approve that Highland Opportunity Investments Limited (HOIL) operates the Community Loans Fund for the Council with the Council's Corporate Resources Committee reviewing any appeals against decisions made by HOIL in respect of the Fund.

3. Implications

3.1 Resource implications are as set out in this report. Sections 5 and 6 outline the medium- and short-term scenarios the Council is facing in terms of the revenue budget gap and consequent requirement to identify revenue budget savings. For 2022/23 a residual gap in the range of £9.0m to £35.4m is identified, whilst over the period to 2026/27 a gap in the range of £13.9m to £120.4m is identified. The savings proposals referred to in section 7 will begin to close the gap. Extensive work is taking place across and within Directorate teams to identify further savings and efficiencies, to consider how best to accelerate transformation/ redesign savings and to identify new savings workstreams. Senior staff are also engaged in budget savings and transformation work with partners and there will be focused budget engagement work with all staff in November through until February.

As described in section 8, £1.7bn of potential capital investment priorities have been identified. Full funding of these priorities will not be possible given the limited resources available for capital investment and accordingly a prioritisation exercise will be required. Whatever level of capital investment is ultimately decided this will impact on the revenue budget due to the current funding of some elements of capital investment through borrowing. Depending on the size of any newly agreed capital programme the loans charges budget may need to increase or decrease- with the larger the capital programme the greater the likelihood of a required increase in the loans charges budget. If the loans charges budget needs to increase this will widen the revenue budget gap described in the paragraph above.

3.2 Risk- Due to the very high levels of uncertainty that currently prevail this paper covers various different scenarios for the revenue budget to help illustrate how particular risk items may impact. The Council faces specific risks around the level of the staff pay award, future levels of core government funding, the impact of National Insurance contribution rate increases, and changing demographics- particularly in relation to social care. There are also significant staffing risks and possible additional costs owing to staff shortages and specific skills shortages which can impact upon cost and also performance. The communities the Council serves are also greatly impacted by the hidden harms of COVID affecting our most vulnerable families in a range of ways that will impact upon the services that must be provided and the harms that must be addressed.

One particular risk that impacts on both the capital and revenue budgets is inflation. Significant cost increases are being seen across many different expenditure commodities, construction materials in particular. Whilst the revenue budget scenarios make allowance for ‘general pressures’ (including inflation) there is no equivalent scenario modelling on the capital budget. Sustained increases in the costs of construction materials may require ongoing review of the sufficiency of capital budgets, with a potential requirement to either reduce the scope of the programme, or to fund the impact of inflated costs through additional borrowing (with a knock-on impact on the revenue budget).

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. Impact assessments have been completed for the proposed revenue budget savings with any specific impacts identified on the detailed templates.

4. Background

4.1 As has been reported previously to Members the Chartered Institute of Public Finance and Accountancy (CIPFA) have developed a Financial Management (FM) Code which is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The Code therefore sets the standards of financial management for local authorities and each local authority must demonstrate that the requirements of the code are being satisfied. The positive progress of the Council's financial position and financial management are highlighted in the External Audit Update report contained within another report to this Council.

4.2 The Code is structured around six underlying principles all of which contribute to demonstrating long term sustainability- which is the key outcome of the Code:

'While the statutory local authority budget setting process continues to be on an annual basis, a longer-term perspective is essential if local authorities are to demonstrate their financial sustainability. Short-termism runs counter to both sound financial management and sound governance.

The Code exemplifies what it considers to be financial sustainability as follows:

'The FM Code is based on a series of principles supported by specific standards which are considered necessary to provide the strong foundation to:

- *financially manage the short, medium and long-term finances of a local authority*
- *manage financial resilience to meet unforeseen demands on services*
- *manage unexpected shocks in their financial circumstances.'*

4.3 The six principles put forward by the Code are Leadership, Accountability, Transparency, Standards, Assurance and Sustainability. The principles manifest themselves across 7 key areas:

1. The responsibilities of the chief finance officer and leadership team
2. Governance and financial management style
3. Long to medium-term financial management
4. The annual budget
5. Stakeholder engagement and business cases
6. Monitoring financial performance
7. External financial reporting

4.4 This report has a primary focus on items 3 and 4 from the above list and there is also relevance to a number of the other sections. The key standards underpinning these aspects of the code require that the authority has carried out a credible and transparent financial resilience assessment; that it understands its prospects for financial sustainability in the longer term and has reported this clearly to members; that it complies with the CIPFA Prudential Code for Capital Finance in Local Authorities; that it has a rolling multi-year medium-term financial plan consistent with sustainable service plans; that it complies with its statutory obligations in respect of the budget setting process; and that the budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.

4.5 With regard to all of the above elements the Code is clear that the time horizon for longer term planning must exceed that of any planned government funding settlements and should go as far as the duration of any long-term contractual commitments (in particular those relating to capital funding and borrowing). The long to medium-term financial plan should encompass scenario planning around key assumptions, potential changes in demand for services (in particular demographic changes), show clear linkages with the corporate and service plans, build in the financial impacts of any approved capital programme and demonstrate links to the capital strategy. The MTFP should also be dynamic in order that it reflects changing circumstances.

4.6 In March 2021 the Council approved a balanced revenue budget for 2021/22 with agreement on a number of items for the period extending to 2023/24. That medium term financial planning work, which included an estimated residual budget gap of £9.3m over 2022/23 and a further £11m over 2023/24 is extended in section 5 of this report. Section 6 of this report covers matters specific to 2022/23 only, identifying different scenarios which may impact on the residual budget gap previously identified for the period.

5. Medium term financial planning

5.1 Medium-term financial planning work has been provided to previous Council meetings and contributes to meeting the requirements of the CIPFA FM Code on long to medium-term financial planning. A key element of that work is future scenario planning as detailed in the section below. These scenarios are unchanged from those previously reported to Members but are included here as key context for any financial decisions taken.

5.2 A five-year forward view has been taken with a variety of different scenarios made for each of the key assumptions. A brief explanation for each of the key assumptions and range of scenarios modelled is provided below:

Change in core revenue funding settlement from Government- In 2021/22 the Council anticipates receiving over £500m in revenue budget funding from the Scottish Government (around 80% of total external funding). Any changes to this funding will therefore have a significant impact on the Council's financial situation. Given wider economic uncertainties and Government's stated priority areas different scenarios used for this funding stream range from 'flat cash' to a 3% annual reduction.

Council tax increases- In 2021/22 the Council expects to generate net Council Tax income of £131m. Council tax rates are determined locally but any future increases may be constrained by Government policy. A range of annual increases from 3 to 6% have been modelled in the expectation that in scenarios with greater reductions in core government funding a higher rate of Council Tax increase may be allowable.

Staff pay increases- Pay costs reflect the biggest single expense that the Council incurs with salary costs in excess of £300m incurred annually. Annual pay awards of 1,2 and 3% have been included in different scenarios- this is intended to reflect the potential balance that may need to be struck between demand and affordability.

General pressures- In all scenarios modelled a sum of £5m has been included for 'general pressures'. This sum is intended to capture other variables such as changing demand for services, the impact of demographic change, inflationary pressures (especially on contracts), legislative change or locally decided new expenditure commitments. If more detail emerges on any particular item in this category it will be factored into the budget gap calculations in its own right. It should be noted that in recent months there has been an unprecedented increase in costs of secure provision for our most vulnerable young people which will be detailed in a report to the next Health and Social Care Committee. The possible complexities of the outcome of the National Care Service Consultation present a number of possible budget risks and pressures especially as there is no timeline when the initial changes may be implemented and the implications of the financial pressures for financial year 2022/2023 were recently outlined at the JMC as possibly escalating to a pressure of an additional £13m; again further details will be shared at the next Health and Social Care Committee. The financial risks as agreed in the Partnership arrangement have been escalated by the Chief Executives of the Council and NHSH to a meeting between representatives of the Board and senior Elected representatives of the Council which will take place in early November and an update presented to the Health and Social Care Committee.

The current socio-economic and COVID hidden harms environments are so unpredictable and unprecedented that a general pressure of £5m could be insufficient. All directorates are engaging in additional budget and service delivery monitoring as best as possible to keep close to emerging issues and will alert Strategic Committees to issues as well as possible mitigation. The need to accelerate transformation savings will be reported through the Redesign Board and the Recovery, Improvement and Transformation Board.

Loans charges - None of the scenarios included in the current modelling assume any change in the value of the budget currently allocated to loans charges. Any revenue implications of a new capital programme will need to be factored into future iterations of the MTFP.

5.3 For all of the key variables highlighted above there is a huge amount of uncertainty about future direction. In terms of funding the Council has only received a settlement for 2021/22 with no visibility on settlements beyond that. With regard to pay no agreement has been reached on a pay award for 2021/22 and a long-term settlement looks unlikely. When the 2021/22 pay settlement is agreed it may create a budget pressure for 2021/22 that would impact adversely on the previously reported position, as well as creating a recurring revenue budget pressure that would widen the budget gap for 2022/23. The general pressure figure may be dependent on key external factors such as inflation as well as wider macroeconomic considerations.

5.4 Given the uncertainty referenced above the range of different scenarios modelled over the next 5-year term leads to a total budget gap (and therefore savings requirement) anywhere between £13.9m and £120.4m after already agreed savings of £6.6m are deducted. The table below summarises the different variables and their impact on the budget gap.

Scenario- annual change				**Budget gap**					
Pay increase	**General pressures**	**Core funding change**	**Council Tax increase**	**2022/23 £m***	**2023/24 £m****	**2024/25 £m**	**2025/26 £m**	**2026/27 £m**	**5 year total £m**
3%	£5m	-3%	3%	20.1	22.4	26.1	25.9	25.8	120.4
2%	£5m	-3%	3%	16.6	18.8	22.3	22.1	21.9	101.7
3%	£5m	-3%	6%	16.2	18.3	21.8	21.6	21.3	99.2
3%	£5m	-1%	3%	10.0	12.5	16.2	16.3	16.3	71.2
2%	£5m	-1.50%	3%	9.0	11.3	15.0	14.9	14.8	64.9

2%	£5m	-1%	5%	3.8	6.1	9.7	9.5	9.4	38.5
1%	£5m	-1%	3%	2.9	5.2	8.8	8.7	8.5	34.0
2%	£5m	0%	3%	1.4	3.8	7.6	7.6	7.6	28.1
3%	£5m	0%	6%	1.0	3.4	7.1	7.1	7.0	25.5
2%	£5m	0%	5%	-1.3	1.1	4.8	4.7	4.6	13.9

* 2022/23 budget gap figures reflect the position after savings of £5.3m approved in March 2021 are deducted
** 2023/24 budget gap figures reflect the position after savings of £1.3m approved in March 2021 are deducted

5.5 The broad range of outcomes identified from the modelling does make it difficult to come up with a meaningful financial plan. Whilst the scenarios identified are all possible knowing which is probable would better help inform detailed planning. The scenario highlighted in yellow in the table above was the 'central' scenario used in the March 2021 MTFP and at present it is felt that this scenario- which has a requirement for an average £14.3m in annual savings- should help inform the medium term outlook. This scenario, combined with the average annual savings requirement over the last five years of £15.7m, leads to the suggestion that Members recognise that the Council will have an ongoing average annual savings requirement of around £15m. It should also be noted, as history has demonstrated, that any saving requirement in a single year may vary significantly from that long term average.

5.6 Financial Sustainability is one of the Council's Corporate Risks, as reported to Audit and Scrutiny in September 2021 A&S-Corp-Risks. This is currently rated C2 which is high, but below the line. Risks are reviewed on a quarterly basis and the risk rating may need to be moved above the line when the Corporate Risk Register is brought back to Audit and Scrutiny Committee in November.

6. Revenue budget gap 2022/23

6.1 As referenced previously in this report scenario planning is to play a significant role in proper medium- and long-term financial planning. The reason for the appropriateness of scenario planning is due to the theory that there is greater uncertainty as the time horizon extends.

6.2 Scenario planning also must play a key part in any short -term budget planning and is especially required given the significant levels of uncertainty facing the Council at present. Known risks (albeit with uncertain impact) facing the Council include the Covid pandemic and associated recovery, rising care needs and costs Brexit, financial sustainability and climate change. Recently emerging risks at a national level that could have a significant impact on the Council include rising goods and materials costs, inflationary concerns, energy costs increases and recruitment and pay challenges. The Council must also recognise that increasing prevalence of adverse weather is a risk as we continue to face more and more flooding events as well as possible wintry weather events that impact upon service response and delivery.

6.3 Looking ahead solely to financial year 2022/23 the table at 5.4 above gives an indication of the possible gap the Council would face under the various different scenarios. After taking off £5.3m of already approved savings the scenarios range from a residual gap of £20.1m to a residual surplus of £1.3m. The central scenario indicates a residual budget gap of £9.0m. The sections below consider each of the key variables behind those scenarios and provides the latest information available.

6.4 At present no agreement has been reached on the staff pay award for 2021/22 and there is no certainty as to when any final position will be determined. This lack of clarity poses two risks, the first of which is that the pay increase for 2021/22 will be above the budgeted level and therefore have a recurring budget impact in 2022/23 to bridge any shortfall. The second risk is that any award agreed for 2021/22 may set a direction of travel for subsequent years, so a high award for 2021/22 may also mean a high award for 2022/23.

6.5 A further risk factor in relation to the staff pay award is the 1.25% increase in employee's National Insurance contributions effective from the 1st April 2022. This additional cost to employees may further increase demands of a heightened pay award to ensure employee take-home pay continues to rise. At this stage in the recovery from Covid the overall impact of the pandemic on the jobs market and overall supply of labour is unclear. In certain areas the Council may be unable to attract staff if the Council is paying a lower than market rate.

6.6 Overall, it is considered that there is a significant upwards pressure in relation to the pay increase factor underpinning the budget gap for 2022/23. Each additional 1% of cost in this area equates to around £3.5m. It is currently considered that the 2% increase assumed in the central scenario could increase by up to 3%- leading to a potential widening of the gap from the central scenario of around £10.5m.

6.7 A further linked pressure in relation to pay is the 1.25% increase in employer's National Insurance contributions effective from the 1st April 2022. This increase is expected to add £3.4m to the Council's overall total staffing costs. There is a possibility that additional funds could flow from the UK Government to the Scottish Government to effectively offset that cost increase. Whilst more details need to emerge in respect of whether there is any additional funding and if there is whether it will end up with Scottish Local Authorities we should consider that there is a significant risk to the Council's budget gap, with the impact of that risk being anywhere between £0 and £3.4m.

6.8 The general pressures allowance of £5m is intended to cover other variables such as changing demand for services, the impact of demographic change, inflationary pressures (especially on contracts), legislative change or locally decided new expenditure commitments. There are expectations that a number of specific factors may place an upwards pressure on this allowance. In particular rising inflation would impact on a number of contracts (particularly PPP/PFI/NPD) where annual contractual increases are inflation-linked. Other contracts, particularly those requiring imminent renewal, may also see increases where contractors look to pass on their increased cost to the Council. There are emerging pressures in both Children's and Adult's Health and Social Care linked to the need for secure placements in excess of average normal numbers, increasing child concern forms and additional costs predicted in care for the elderly.

6.9 The Council is also aware that NHS Highland is forecasting a significant deficit on its whole budget for 2021/22 as well as reporting a funding deficit specific to adult social care in 2022/23 and 2023/24. Whilst a transformation programme has been established to mitigate the gap some degree of additional financial contribution may be required from the Council to help support the position.

6.10 Overall, the factors outlined in sections 6.8 and 6.9 of this report may place an upwards pressure on the general pressures budget provision. At this stage that pressure is very hard to quantify but additional costs of up to £5m are considered quite feasible.

6.11 The Scottish Government has scheduled its 2022/23 budget announcement for the 9th December. It is expected that the budget will be a one-year budget only, with the possibility of increased forward visibility for future years coming as part of a spending review in the spring.

6.12 The full detail of the budget, in particular the local government funding settlement, is expected to emerge in the week after the budget announcement. That detail will then need to be worked through by officers to fully understand all the ramifications for Highland Council. Up until that point we can only speculate as to what the overall local government funding settlement might be, although some general information may emerge through COSLA. Current indications are that the overall settlement may be more challenging than the 1.5% reduction assumed in the central scenario. Every 0.5% of a reduction equates to around £2.5m less funding coming to the Council and so a 3% reduction, as opposed to the 1.5% reduction assumed in the central scenario would increase the 2022/23 budget gap by around £7.5m.

6.13 At the Council's budget meeting in March 2022 Members will be asked to decide on the level of Council Tax to be charged for financial year 2022/23. The ability to increase Council Tax may be constrained to some extent by the local government funding settlement included in the Scottish Government's budget. The current central scenario assumes a 3% increase in rates, but Members may choose an alternative approach informed by the overall financial position and the residual gap requiring to be closed. The working assumption of a 3% increase is considered reasonable at this stage, higher or lower increases would respectively decrease or increase the budget gap.

6.14 The preceding paragraphs in this section of the report demonstrate the extreme uncertainty facing the Council for financial year 2022/23. It is now considered by officers that the central scenario previously reported to Council for 2022/23, a residual gap of £9.0m, represents a 'best case' scenario for next year. A feasible 'worst case' scenario is for a residual 2022/23 budget gap of £35.4m as explained in the summary table below:

'Best case' scenario residual budget gap for 2022/23	£9.0m
Potentially increased by:	
Additional pay costs (sections 6.4 to 6.6)- up to:	£10.5m
Additional employer's NI contributions (section 6.7) up to:	£3.4m
Increased 'general pressures' (sections 6.8 to 6.10) up to:	£5.0m
Worse than anticipated funding settlement (6.11 and 6.12) up to:	£7.5m
'Worse case' scenario residual budget gap for 2022/23	£35.4m

6.15 Whilst the worst-case scenario may seem extreme, a gap of this nature is not without recent precedent. In financial year 2016/17 there was an identified savings requirement of £39.9m due to a challenging government funding settlement and a variety of wider cost factors. It is to be hoped that the worst-case scenario will not come to pass, however Members are asked to agree that the Corporate Resources Sub Committee should meet to consider what approaches might be required if a similar circumstance prevails, including the need for further savings to be brought forward to the December meeting of the Council.

6.16 Whatever scenario does transpire for 2022/23 Members are reminded, as described in section 5, that there is a long-term expectation of an annual average requirement for £15m of savings to be delivered. As such even if savings at too high a level are identified for 2022/23 they will inevitably be required to balance the budget in subsequent years.

6.17 Whilst it is feasible to use reserves to balance a budget gap in any given year that approach can only be used on a one-off basis and will require excess savings to be identified for the following year (the prior year's structural gap met by reserves, plus the new year's saving requirement). Such an approach does not fit in well with the strategic approach required as part of a robust medium term financial planning process. Reserves are best used to meet unexpected cost pressures or to fund organisational transformation that will deliver cost savings.

7. Revenue budget savings proposals 2022/23

7.1 As referenced previously in this report £5.3m of budget savings have already been agreed for 2022/23. A programme of work to review the deliverability of these savings is underway with any elements not able to be delivered increasing the budget gap.

7.2 This report brings a further £1.610m of savings to be delivered in 2022/23 for Member approval. **Appendix 1** provides a summary list of all the savings items, split into two categories, 'management' and 'policy'. 'Management' savings are those that relate to the efficient running of a service and do not impact on service standards or levels. Detailed templates for these operational items have not been provided as part of this report. 'Policy' savings are those items that require a change in policy and may result in changed levels of service provision or standard. Items that fall into this category also include amendments to fees and charges levied by the Council. Detailed templates for all policy savings are provided in **Appendix 2.**

7.3 The approval of these savings now sets the direction of travel for 2022/23, and allows time, where required, to ensure the full delivery of these savings. The total value of these savings does not come close to fully closing the gap for 2022/23 as described earlier in this report but does begin the budget process earlier than previous years in light of the challenge ahead. It is intended that further savings proposals are brought to the December and March meetings of Council.

7.4 One possible area for revenue budget savings that will be explored relates to the 'fiscal flexibilities' announced by the Scottish Government. The exact detail of how the flexibilities will work is still to be formally agreed and announced by the Scottish Government but the overall premise behind the flexibilities is to change the accounting in relation to PPP/PFI/NPD schemes allowing the cost of the asset to be written off over the asset life, rather than the contract term. It will be important to see the exact detail of the guidance on this matter once it is issued (there is no clear timescale for this at present) before any assessment of the potential short-term benefit can be made, there is currently some debate about whether any retrospective adjustments will be allowed. If retrospective adjustments are allowed the potential short-term benefit would become much greater. It is important to note however that any short-term benefit will come with a long-term cost implication as the Council will be indebted for longer and accrue greater interest charges as a result.

8. Capital Programme and Affordability

8.1 In January 2021 Members received a reprofiled version of the capital programme, first approved in March 2018, covering the period up to 2027/28. An updated version of that programme is presented to Members in **Appendix 3** to this report. This updated version incorporates all decisions made to invest in new projects since the January meeting, principally relating to school investments, as well as reflecting the 2020/21 year end spend position and associated budgetary adjustments.

8.2 The current programme sees planned capital investment net of project specific income in excess of £397m over the period from the current year to 2027/28 with the lion's share of that investment taking place over the period to the end of financial year 2024/25. Net capital spend in each year of the current programme can be seen in the table below:

Year	Planned net capital spend £m
2021/22	116.293
2022/23	84.776
2023/24	76.563
2024/25	85.672
2025/26	25.646
2026/27	1.053
2027/28	7.052
Total	**397.055**

Given the significant long term revenue budget implications of funding this level of capital spend it is essential that Members ensure those costs are appropriately factored in to all medium and long term financial plans.

8.3 The September MTFP report to Council contained the details of the revenue budget implications associated with financing the approved capital programme along with an assumed additional £25m of annual capital investment financed by borrowing from 2025/26 onwards. The anticipated loans charges impact (i.e. the impact on the Council's revenue budget) associated with the programme can be seen at **Appendix 4.** As can be seen on that appendix the Council will need to spend on average £56.0m each year for the next 20 years, and £54.5m on average each year for the next 60 years in order to pay for the identified level of capital investment.

8.4 Members are aware that changed regulation means the Council can review its loans fund accounting treatment. The concept behind this exercise allows a review of the profiling of the Council's annual loans fund charges - i.e. shifting loans fund principal repayments between years. It should be noted that if principal payments are pushed back into later years than currently scheduled the Council would be liable to incur additional interest charges as a result. As described in the sections below the review work completed has shown the Council has minimal scope to significantly increase the capacity for overall capital investment without increasing the annual loans charges budget over the short, medium or long term.

8.5 The annual loans charges and average costs over 20, 40 and 60 years displayed in **Appendix 4** are based on our current loans fund accounting methodology. Two key conclusions can be drawn from that appendix namely:

- A change in the loans fund accounting treatment will be necessary to smooth the annual charges, trying to get as near to a consistent long-term annual loans charge as possible to enable easier budget planning;
- The average annual charge over 20,40 and 60 years (£56.0m, £53.3m and £54.5m respectively) is lower than the current loans charges budget of £57.5m.

The second point above suggests that in tandem with a changed approach to loans fund accounting some additional capital expenditure could be made either in the short term or spread over the long term to bring the average annual loans charge up to the budget level. An alternative premise would be to use the differential as a revenue budget saving.

8.6 As part of a separate exercise currently underway officers are undertaking an assessment of potential areas requiring capital investment over the period to 2030/31. This work is intended to overlay the current programme, identifying new stand-alone projects for consideration, identifying existing approved projects where budget increases are required, as well as identifying a potential level of resource requirement for core ongoing investment in our schools, other properties, roads and bridges, fleet, ICT and other assets (more commonly known as our 'generic' investment budgets). In most cases the generic budgets in the current approved programme only extend up to the end of 2022/23 - agreement to extend these into 2023/24 and beyond will be needed in the near future to allow for this core lifecycle investment to be appropriately planned.

8.7 The initial data gathering stage of this work has identified a potential investment envelope of £1.686bn, averaging £187m annually, which is far in excess of what is considered affordable over the period within the current loans charges budget. Some of the largest elements of that total sum are broken down below, illustrating the depth and breadth of the Council's asset base and areas of statutory responsibility:

- Burial grounds- £8m
- Core property investment- £100m
- Corran ferry replacement and slipway works- £57m
- Depot investment- £54m
- Energy from waste/green energy- £200m
- Fleet replacement/decarbonisation- £62m
- Flood schemes/studies- £13m
- Harbours investment- £8m
- ICT investment- £26m
- Leisure/cultural facilities (new and existing)- £53m
- Play parks- £13m
- Replacement office accommodation- £26m
- Roads and bridges general investment- £351m
- Schools investment (condition, capacity, suitability)- £558m
- School residence replacement- £15m
- Social care property investment- £10m

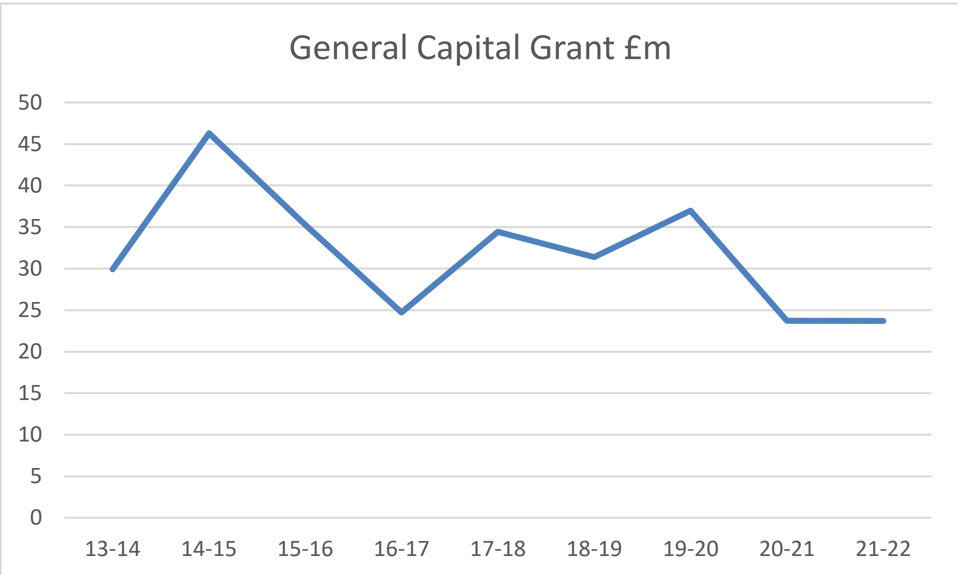
- Stromeferry bypass- £103m

8.8 Based on the modelling work referred to in section 8.3, 8.4 and 8.5 the annual affordable level of capital investment over the medium term within the existing loans charges budget may be considered to comprise:

- The delivery of the current approved capital plan (**Appendix 3)**
- £50m of new capital spend annually from 2025/26 onwards - half funded by loans charges/borrowing, half funded by the assumed level of government general capital grant funding
- Any projects wholly funded by specific external funding streams
- Any projects that are 'revenue budget neutral' (i.e. those that deliver revenue budget savings that can be used to pay for any associated financing costs)
- Around £50m (the exact amount will be subject to the nature of spend) of one-off capital investment (funded by increasing 20/40/60 year average loans fund charge to match existing loans charges budget level as described in paragraph 8.5)

If Members so decide they may choose to make further capital investment funded by making a commitment to increasing loans charges budget (i.e. by making equivalent revenue savings elsewhere). Given the context described in the sections below this approach is expensive and high risk, and therefore not recommended.

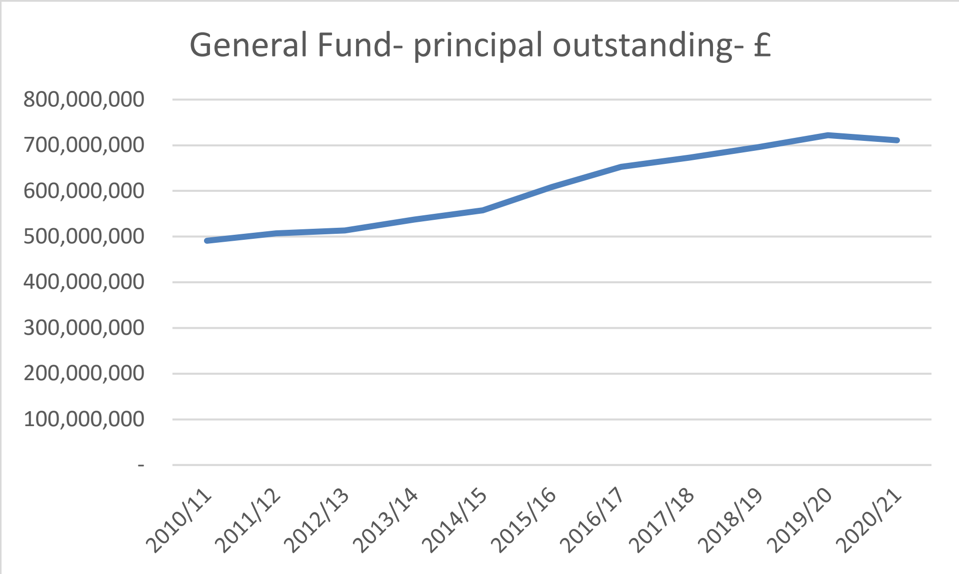
8.9 As outlined above the most significant elements of funding for the Council's capital programme are the borrowing funded through the Council's revenue budget and the general capital grant received from the Scottish Government . In February of this year the Scottish Government published their Capital Spending Review which suggested an indicative flat cash core capital grant settlement for local authorities over the period to 2025/26. For context, the chart below shows the actual level of general capital grant received in recent years.



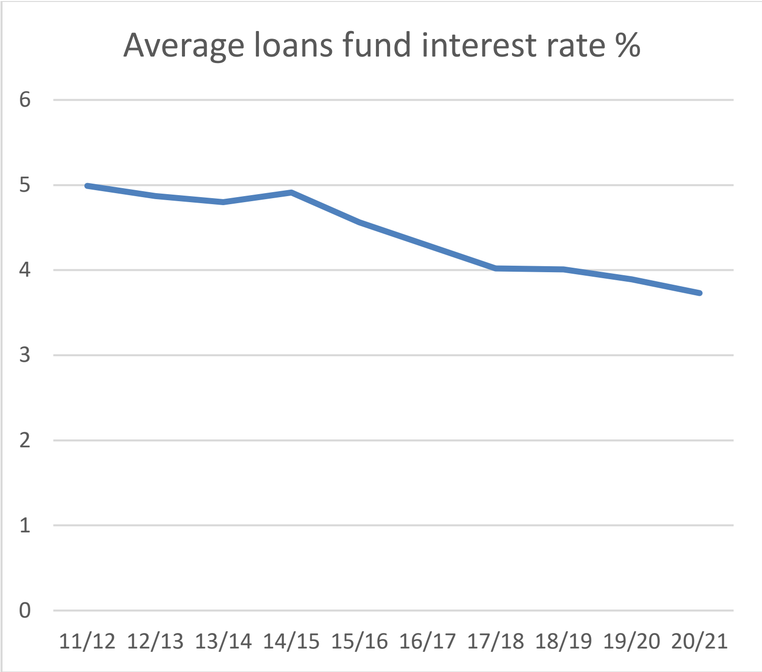
*in relation to the above graph it should be noted that payment of £6.642m of capital grant relating to 2016-17 was deferred into financial year 2019/20.

8.10 It is also important to consider the above mentioned capital investment scenario in the context of the revenue budget. Members are aware that Highland is already the local authority with the highest proportion of its revenue budget that is being used to finance capital investment. Maintaining or increasing that proportion will mean all other areas of the Council's revenue budget will face a higher burden in identifying and delivering savings over the long and medium term. The ability to continue to identify revenue budget savings has become increasingly difficult over recent years.

8.11 The chart below details the level of loans fund principal outstanding at the end of each recent financial year. These figures effectively represent the level of debt the Council has to finance (but does not include the costs of financing the debt) and shows how the level of debt has increased significantly over the last ten year period.



8.12 Much of the overall cost impact of that debt increase has been mitigated by reductions in the cost of borrowing over the period. Given the current uncertainty around the future direction of interest rates it is unclear how sustainable such an approach is. The Council's borrowing strategy of having an element of its borrowing on short term loans does mean there is some risk exposure to rising interest rates. Officers will continue the agreed approach in the Treasury Management Strategy Statement of mixing both short and long-term borrowing however it is unlikely that the rate of reduction in the average loans fund interest rate will continue on the same trajectory as in recent years as shown in the chart below.



9. Capital Strategy

9.1 Section 8 of this report presents a real dilemma for the Council, namely how the potential requirement for investment across the Council's asset base to ensure the ongoing, safe and effective provision of services can be matched with the amount of capital available to be invested.

9.2 Work continues on the development of the Council's capital strategy, a key function of which will be to help the Council address the challenge referred to above, namely the prioritisation of capital spend to the areas of greatest importance. It is evident that not all desired investment can be afforded and as such the capital strategy should help provide the framework to appraise all potential investments with those best fitting the strategic priorities progressing.

9.3 The capital strategy cannot however exist in isolation from the overall strategic context in which the Council operates. It needs to reflect the Council's programme, the Health and Prosperity Strategy (Ambitious Highland), asset management strategy, partnership working approach (Future Highlands), including the Green First approach, and tie in with the long term strategic ambitions of the Council. The capital strategy should also provide the context to help leverage external investment into the Highland Council area, whether from the UK or Scottish Governments as well as the private sector.

9.4 It is intended that the Corporate Resources Sub Committee will consider the key thematic concepts that need to underpin the draft capital strategy prior to it being brought to the December meeting of Council for formal approval, alongside the capital programme to 2030/31 which will align to the strategy. These should be consistent with previously agreed Council strategies and commitments as well as the Council's statutory responsibilities such as:

- A commitment to rationalising the Council's asset base
- Continuing to react and respond to need - such as investment in Roads, Roads Infrastructure and Schools when necessary

- Ensuring remaining assets are safe and fit for purpose with a strong focus on health and safety requirements
- Working with partners to deliver the best outcomes for Highland communities
- Linking holistically with the Council's medium- and long-term planning with regard to affordability and sustainability
- Building resilient and sustainable places
- The Council's Climate Change commitments and requirements underpinning future capital decisions

10. Capital programme updates

10.1 The following section of this report provides brief updates on a number of projects within the current approved capital programme. More detailed reports on capital project progress and costs are provided to the relevant strategic committee meetings with the overall financial position reported to the Corporate Resources Committee.

10.2 **Appendix 5** to this report provides an overview of progress on the North Coast Care facility, that has previously been agreed by Council. Given the commercial confidentiality of certain detailed aspects of the project a separate report, to be discussed in private, is included on the agenda for today's Council meeting.

10.3 Following the approval in September of additional capital funding for school priorities, there are now ten major education projects being developed within the current capital programme which represent a total investment of over £185 million in the Council's school estate:

- Beauly Primary – New Build
- Broadford Primary – New Build
- Charleston Academy – Extension/Refurbishment
- Culloden Academy – Extension/Refurbishment
- Dunvegan Primary – New Build
- Nairn Academy – New Build
- Ness Castle, New Primary School
- Park Primary – New Build
- St Clement's – New Build
- Tain 3-18 Campus - To replace Craighill and Knockbreck Primary Schools, St Duthus School and Tain Royal Academy

There is a page on the Council's website (with links that are in the process of being set up) to provide regular updates and further information on all of these projects, including minutes of Stakeholder Group meetings.
https://www.highland.gov.uk/info/878/schools/845/school_estate_management

The assessment of capital investment needs described in sections 8.6 and 8.7 does include the potential requirement for increases in the budgets for some of these school priority projects to reflect inflationary impacts or changes in project scope. Full details will be included in the programme provided to the December Council meeting.

10.4 As highlighted in the report to Council in September, the BCIS tender prices indices used to take account of market inflation do not reflect either the current state of the construction market in the Highlands, or the full extent of the inflationary increases that are likely over the next few years. As a result, an increased allowance to cover this risk factor was included in the budgets for the five projects approved in

September. The same approach will need to be applied to the remaining projects at pre-construction stage and any budget increases will need to be factored into the December iteration of the capital programme.

10.5 A critical housing issue has arisen on the Isles of Rum and Eigg, where staff accommodation is not available or fit for purpose. This has implications for future education services on the islands and so it is intended that the Council will build additional housing on Rum to accommodate education staff on the island and also explore housing options on Eigg. This is consistent with the requirements of the Islands (Scotland) Act and the National Islands Plan. There is a commitment in principle from the Scottish Government to provide grant funding of up to £100,000 per housing unit and £14,000 per unit from the Council's landbank fund with the balance of funding through prudential borrowing which will resolve the situation on Rum. Rent income from properties would be expected to cover additional borrowing costs meaning there would be no net impact on the Council's revenue budget from the project. A solution for Eigg is being taken forward.

A firm costing and timetable for the projects are being developed as a priority and, the Council is asked to agree the projects in principle with the detail and progress to be taken through the Housing and Property Committee.

11. Community Loans Fund

11.1 The decision to invest £1m of the Council's reserves to create a Community Loans Fund was taken at the September meeting of Council. Given the expertise that the Council has in making small business and other loans through Highland Opportunity Investments Limited (HOIL) it is considered that HOIL would be the best vehicle for the delivery of the Fund.

11.2 The HOIL Board considered the Community Loans Fund at its meeting on Wednesday 6th October. There was general support for the concept of the Fund and the Board welcomed the opportunity for HOIL to contribute. They therefore agreed to deliver the loan scheme on behalf of Council if requested.

11.3 Whilst the exact detail of the operation of the scheme needs to be finalised it is noted that such detail will be based on existing and established HOIL approaches and processes. Any changes to the existing processes to reflect the specifics of the Community Loans fund will be made as the first loan application is processed.

11.4 Given the potential tension that may exist between the community and business perspectives of the fund it is important that there is a mechanism whereby a group can appeal to the Council in respect of any decision made by HOIL. It is suggested that the Corporate Resources Committee would be the appropriate forum for consideration of any such appeal.

11.5 It is intended that a special meeting of the HOIL board will be held on the 9th November to consider a Memorandum of Understanding for the operation of the fund between the Council and HOIL, Loan Terms, Loan assessment and Decision-making process, Funding Transfer and potentially the assessment of the first application to the Fund. The Council's agreement to those items will be signed off by the Executive Chief Officer-Resources and Finance and Head of Corporate Governance.

Designation: Executive Chief Officer- Resources and Finance

Date: 14th October 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/77562/item_17_highland_council_capital_plan_201819_to_202223_%E2%80%93_update_report

Savings Proposals 2022/23 - 2024/25

Appendix 1

Ref	Budget Area	Saving Description	Savings				Staff Impact				
			2022/23 £m	**2023/24 £m**	**2024/25 £m**	**Total £m**	**2022/23 FTE**	**2023/24 FTE**	**2024/25 FTE**	**Total FTE**	**Management (M) or Policy (P)**
C&P/5	Business waste collections	Increase income from Business Waste Collection Service by 3%	0.106			0.106	-1.0			-1.0	P
C&P/8	Amenities - grounds maintenance	Reduction in amenites spaces maintained. Increase in set aside areas for biodiversity and for communities for food growing.	0.100	0.100		0.200	2.0	2.0		4.0	P
I&E&E/2	Roads & Transport	Fares and Other Charges Increase	0.100			0.100				0.0	P
C&P/4	Waste income from householders	Increase Household Bulky Uplift Collection charges by 3%	0.005			0.005				0.0	P
E&L/1	Highlife Highland	1.5% Reduction in Management Fee - per Service Delivery Contract	0.218			0.218				0.0	M
T/2	ICT	Review of SWAN budget and costs	0.187			0.187	0.0			0.0	M
I&E&E/1	Roads & Transport	Street Lighting - due to the reduction in energy consumption	0.140			0.140				0.0	M
C&P/2	Waste disposal	Remove surplus in the budget for household waste recycling centres following already implemented efficiencies and controls.	0.130			0.130				0.0	M
T/3	ICT	Review of specialist software services / toolsets currently delivered by WiPRO that will be delivered in-house post-April 22	0.100			0.100	0.0			0.0	M
P&G/3,4,5,6	Performance and governance- service wide	Restructuring to remove unspent budget- reductions across a range of budgets and subjectives	0.099			0.099	0.0			0.0	M
I&E&E/6	Development & Regeneration	Investment Properties- additional income to be delivered through proactive commercial rent reviews, lease extensions and unlocking any land to create new leases	0.085			0.085				0.0	M
T/1	Transformation	2.4fte currently vacant posts to be deleted with no anticipated impact on service delivery	0.084			0.084	2.4			2.4	M
R&F/8	Finance	Salary sacrifice saving from newly introduced AVC scheme	0.080			0.080				0.0	M
I&E&E/5	Development & Regeneration	Improved efficiencies in the delivery of the Council's Affordable Housing Programme	0.044			0.044				0.0	M
C&P/1	Waste disposal	Reduced residual waste transfer costs.	0.043			0.043				0.0	M
R&F/7	Revenues & Business Support	Reduce number of locations requiring Business Support to be physically present to enable more effective use of resources and avoid travel costs and non value added travel time.	0.023			0.023				0.0	M
C&P/3	Business waste income	Developing new income streams - 1. New Bulky Uplift Service for Businesses 2. Events Waste Service	0.020			0.020				0.0	M
R&F/9&10	Accounting	Review of non-staffing budget- reference material, travel, external advice. Removal of vacant 5 hour post	0.022			0.022				0.0	M
P&G/1	Directorate	Payment of Copyright Licensing fee no longer required due to changing operational practice	0.012			0.012	0.0			0.0	M
P&H/1	Property Support	Targeted savings from the re-negotiation of Service software annual licencing agreements	0.007			0.007	0.0			0.0	M
R&F/4	Revenues & Business Support	Business Support staff travel - requires behavioural change and buy-in from Services	0.005			0.005				0.0	M
Total			**1.610**	**0.100**	**0.000**	**1.710**	**3.4**	**2.0**	**0.0**	**5.4**	

APPENDIX 2

Budget Template

Budget Heading	Waste income from householders - Bulky Uplifts		
Savings Name	Increase Household Bulky Uplift Collection charges by 3%		
Current Budget (£m)	£106K	**Current Staffing (FTE)**	

Ref.	**C&P/4**

Financial Year	**Savings £m**	**Staff Impact FTE**
2022/23	£0.005	
2023/24		
2024/25		
Total		

Detailed Description of Savings Proposal

Increase the price of a bulky uplift from April 2022/23.

This will result in the price increasing for collecting up to 3 items from £24.07 to £25.00 and the price for collecting up to 6 items will rise from £48.14 to £50.00

We will actively promote the bulky uplift service using the Councils social media platforms to support the new income target of £111k.

Actions, Resource Implications and Timescale for Delivery

From the 01 April 2022

Corporate Risk

Does this savings proposal impact on any existing risk(s) within the corporate risk register? If so, which one(s)?

No

Are there any other risks associated with this savings proposal?

What is the Anticipated Impact?

Staffing:

None

The Service:

None

Equality Groups:

None

Rural:

None

Socio-economic:

None – the price increase is marginal.

Budget Template

Budget Heading	Business Waste Collections			Ref.	C&P/5
Savings Name	Increase income from Business Waste Collection Service by 3%				
Current Budget (£m)	£3.53M	**Current Staffing (FTE)**			

Financial Year	Savings £m	Staff Impact FTE
2022/23	£0.106	+1FTE
2023/24		
2024/25		
Total		

Detailed Description of Savings Proposal

To increase the income from Business Waste Collections by 3%.

The Highland Council operates one of the largest business waste collection services of any local authority in Scotland, providing a service to around 6000 customers across the region. Business Waste Collections operate in a highly competitive market, particularly within the Inner Moray Firth area. While the COVID pandemic had a negative impact on the business waste collection service, the diligence of the team enabled good recovery of income in 2020/21, although a shortfall occurred. It is increasingly difficult to forecast future trends within the business waste sector in Highland, but busines improvement described below aims to increase income from 2022/23.

Since 2020, a series of business improvements have been introduced to transform the service to help with customer retention and securing new customers with the aim to increase the income generated from business waste collections. These include the development and introduction of a Customer Management System; prioritising customer care and support to increase customer retention rates as well as improving the customer experience; and rebranding the service to create a modern and professional brand. Waste Services also have an excellent track record in monitoring the debt associated with the Business Waste Collection Service.

Since employing a temporary Waste Management Assistant in March who is responsible for managing new customers and providing customer support, approximately 350 new contracts have been secured totalling £217K. This has been achieved by being responsive to sales enquiries and successfully converting them into sales along with focussing on providing quality customer support.

To achieve a further 3% increase in income in 2022/23 the following steps will be taken:

- Increase the charges for Business Waste Collections by 3% for 2022/23 collection contracts which start in April 2022
- Continue to target Non-Domestic Rated (NDR) properties that are operating without a Business Waste Collection contract to improve compliance with waste regulations – prioritising Caithness, Sutherland and Skye areas where we are the only service provider. This work has real potential to increase the number of new customers requesting a business waste collection.
- Continue to prioritise customer retention by improving the customer experience with staff dedicated to customer support
- Advertising the Business Waste Collection Service to increase sales and raise awareness of the service

Actions, Resource Implications and Timescale for Delivery

Actions

Resource Implications

To continue to build on the success already achieved this year, a new permanent Waste Management Assistant (Business Waste) position is required to engage with new customers as well as managing the support for the existing customer base to improve customer retention rates. The permanent position will provide a quick and professional response to customers which is vital if we are to capitalise on the opportunity to turn enquiries into sales resulting from the targeted intervention of NDR premises and advertising. This in turn will provide a solid foundation from which the transformation of the service can continue be achieved. The new post is graded at

HC6 and its cost is included in the service saving proposed (netted from the new income generation) and can be introduced in advance of April 2022 to achieve the full year and new income target of an additional £106k.

Timescale of Delivery

From April 2022.

Corporate Risk
Does this savings proposal impact on any existing risk(s) within the corporate risk register? If so, which one(s)?
No
Are there any other risks associated with this savings proposal?
Recruitment before April 2022 of the additional post will enable the new and additional income target to be achieved for the full year. Without the additional new permanent staffing resource it will not be possible to deliver the 3% savings as there will not be sufficient staff to respond to new sales enquiries from targeting NDRs and advertising the service. In addition, without a permanent staff member focussing on customer care, we reduce our ability to compete with the private sector, quickly resulting in a loss of new income and reducing the customer retention rates. Without implementing the NDR intervention work we continue to risk absorbing the cost of handling & disposing of waste from businesses not complying with the waste regs and therefore not paying for waste collection or disposal.

What is the Anticipated Impact?
Staffing:
1 additional post
The Service:
Increased services with improved NDR compliance
Equality Groups:
none
Rural:
Positive – improved compliance with waste regulations.
Socio-economic:
None

Budget Template

					Ref.	C&P/8
Budget Heading	Amenities Service – Grounds Maintenance					
Savings Name	Reduce amenities spaces maintained and increase set aside for biodiversity and for community food growing					
Current Budget (£m)	1.416m	**Current Staffing (FTE)**	38.5			

Financial Year	**Savings £m**	**Staff Impact FTE**
2022/23	0.100	2
2023/24	0.100	2
2024/25		
Total	0.200	4

Detailed Description of Savings Proposal

The Council could save £200,000 over 2 years by reducing the amount of amenity space it has to maintain. This could be done by:

1. Setting aside areas for communities to take over for food growing initiative. This work would be led by the food growing co-ordinator through engagement with the Community Coordinator and Amenity Officers.
2. Setting aside areas for biodiversity. Identifying areas suitable for this would be led by Amenity Officers with input from biodiversity colleagues, and community consultation led by the Community Support Coordinators. Interpretation signage can show the flora and fauna benefits of the areas set aside.

This would lead to a reduction in 8 seasonal staff (4 FTE) over 2 years. There will also be a small saving made on grass cutting equipment, vehicles, and fuel.

Actions, Resource Implications and Timescale for Delivery

From April 2022:

Land will need to be identified for both proposals in conjunction with communities.

Communications to promote the initiatives will be essential – the benefits to the communities and nature.

The opportunities for communities to bid for funding will have to be promoted – e.g., bid for funding as part of the HC allocation of the Nature Restoration fund.

Corporate Risk

Does this savings proposal impact on any existing risk(s) within the corporate risk register? If so, which one(s)?

No

Are there any other risks associated with this savings proposal?

There are risks associated with both proposals, particularly relating to the timescales to establishing the changes.

Food Growing. Communities may not have capacity to set up and run food growing initiatives. They will require support to create a group to lead on this, to prepare the land for planting, to purchase the plants, and to purchase the equipment necessary to maintain the site. There may also be training required to use equipment and appropriate risk assessments for the tasks. Ground surveys may be needed to ascertain if the land is suitable for food growing.

Biodiversity. To create proper meadow sites requires planning and maintenance, albeit it at a reduced level. Critical to creating these areas is an increase in tolerance from the public. To avoid areas being perceived to be untidy and not maintained and complaints generated, interpretation signage showing the benefits of "wilding" to the environment can be provided. Engagement and support from communities will be important, as will be communications, putting a focus on the benefits to the wildlife and climate change, rather than how high the grass is growing, or that weeds are seeding.

If these savings are agreed but the land or maintenance costs do not transfer, there will be a pressure on staffing resources as we will have 4 less seasonal staff by year 2 and that would mean the team remaining having to do less or reduce standards.

What is the Anticipated Impact?
Staffing:
There will be no impact on the permanent staffing level but a reduction in 4 seasonal staff over the 2-year period.
The Service:
If the proposals are agreed with communities and implemented there will be benefits for the environment, for addressing climate change and for community involvement and local food growing opportunities. If the proposals are not accepted or implemented but the service budget is still reduced, the impact will be negative and include: reputational damage to the Council and the Service as service standards reduce including in weed control and potential for fly tipping in set aside areas with increased risk of infestation with vermin and additional costs in leasing or hiring plant we do not currently have access to which will be capable of cutting out of season grass and small scrub i.e., flail mower.
Equality Groups:
Food growing initiatives may have a positive impact on the food poverty strategy.
Rural:
There will be less recruitment of seasonal staff across all areas of Highland.
Socio-economic:
There will be less recruitment of seasonal staff across all areas of Highland. Food growing initiatives should have a positive impact on food provision and the food poverty strategy.
Island:
There will be less recruitment of seasonal staff across all areas of Highland

Budget Template

Budget Heading	Roads & Transport			**Ref.**	**I&E&E/2**
Savings Name	Fares & Other Charges Increase Income (including Corran Ferry)				
Current Budget (£m)	1.5m	**Current Staffing (FTE)**	16		

Financial Year	**Savings £m**	**Staff Impact FTE**
2022/23	0.100	0
2023/24	-	
2024/25	-	
Total	0.100	0

Detailed Description of Savings Proposal

Corran Ferry Fares – 2022/23 Proposals*

Proposal	Category	Type	From	To	Percentage Increase	Estimate Revenue Impact
Increase	Car, Goods Vehicle up to 3500kg, Land Rover	Drive-up fare	£9.00	£10.00		£67,500
Increase	Motorhome 6-8m in length	Drive-up fare	£13.00	£16.00		£3,750
Increase	Motorcycle	Drive-up fare	£3.50	£5.00		£1,656
Increase	Motorhome >8m	Drive-up fare	£21.60	£22.00		£750
Increase	Caravan	Drive-up fare	£11.60	£13.00		£658
Increase	Commercials	Drive-up fare			3%	£2,858
Increase	Commercials	Discount Books			3%	£7,179
Increase	Car, Goods Vehicle up to 3500kg, Land Rover	Discount Book fare	£2.56	£2.64	3%	£13,440
Total						£97,791

* A combination of targeted and inflationary increases

As summarised in the table above: -

(a) The proposal is to increase the drive-up car fare from £9.00 to £10.00 (which includes Car, Goods vehicle up to 3500kg GVW, Land Rover, Trailer, Motorcycle and side car).

(b) The following fares will be increased:
- Motorhomes 6-8m in length to £16.00
- Motorcycle to £5.00
- Motorhome over 8m in length to £22.00
- Caravan to £13.00

(c) Drive up fares for all commercial vehicles including buses and coaches will increase by 3% to take account of inflation.

(d) To take account of inflation it is planned for fares for all pre-paid ticket books to increase by 3% for car and commercial discount books.

The Service is also committed to carrying out a review of the current ticket book arrangements; it is planned that the current replacement of the old ticketing machines and software with new ones during the next two years will increase opportunities to streamline the system and ensure that arrangements continue to provide the benefits for residents of Lochaber.

Actions, Investment, Cost and Timescale for Delivery

Increases applied from 01 April 2022

Corporate Risk
Does this savings proposal impact on any existing risk(s) within the corporate risk register? If so, which one(s)?
Are there any other risks associated with this savings proposal?
.

What is the Anticipated Impact?
Staffing:
There is no impact on staff/crew.
The Service:
Administrative only.
Equality Groups:
There is no equality/diversity impact.
Rural:
Ferry fares have been designed to have a greater impact on tourist vehicles and a lesser impact on local usage. Past studies have shown that this type and level of increase will have a negligible effect on ferry use (ref: AECOM 2014 report).
Socio-economic:
Ferry fare increases will impact more on large tourist related and commercial vehicles than on local community transport. Past studies have shown that this type and level of increase will have negligible effect on ferry use (ref: AECOM 2014 report).

THE HIGHLAND COUNCIL **Appendix 3 (Revised)**

UPDATED CAPITAL PROGRAMME- OCTOBER 2021

SERVICE: GENERAL FUND

Project Description	Planned Expenditure 2021/22	Planned Expenditure 2022/23	Planned Expenditure 2023/24	Planned Expenditure 2024/25	Planned Expenditure 2025/26	Planned Expenditure 2026/27	Planned Expenditure 2027/28	Net 2021/22 - 2027/28
	£000	£000	£000	£000	£000	£000	£000	£000
COMMUNITY AND LEISURE FACILITIES								
Community and Leisure Facilities	678	500						1,178
SCHOOLS								
Secondary School Programme								
Alness Academy	2,553	-107						2,446
Charleston Academy	727	3,050	3,042	238	-20	-16	-20	7,001
Culloden Academy - additional budget approved HC 9/9/21 *(see note below)	2,766	2,690	6,384	6,397	266	-244	-244	18,015
Inverness High School	258							258
Lochaber Flood Damage	-710							-710
Primary School Programme								
Merkinch Primary	286	361						647
Milton of Leys Primary		63	-40					23
Smithton Primary		-62	-118	-123	-123	-123	-123	-672
Ness Castle Primary Phase 1	4,041	7,858	-7	-264	-264	-264	-264	10,837
Ness Castle Primary Phase 2							7,176	7,176
Park Fire Reinstatement	514							514
School Estate Management								
Modular Units		1,030	515					1,545
School Estate Improvement Programme / Early Learning and Childcare	32,153	6,500						38,653
Beauly Primary School - approved HC 9/9/21	250	750	4,000	6,500	500			12,000
Dunvegan Primary School - approved HC 9/9/21	250	750	4,000	6,500	500			12,000
Park Primary School - approved HC 9/9/21	250	1,750	4,500	6,000	500			13,000
St Clements School - approved HC 9/9/21	100	250	1,750	4,500	6,000	400		13,000
LEIP - General								
Learning Estate Investment Programme- Tain 3-18	1,470	5,665	23,175	12,875	515			43,700
Learning Estate Investment Programme- Broadford	258	515	1,030	7,210	2,318	258		11,588
Learning Estate Investment Programme- Nairn Academy	515	1,545	4,120	21,630	10,815	515		39,140
HEALTH & SOCIAL CARE PROGRAMME								
Adult Services (NHS)	2,757	2,250						5,007
Adult Services- North Coast Care Facility	400	1,500	2,750	250				4,900
Children's Services/Out of Authority	80	750						830
ICT								
ICT Transformation	1,258	680	4,000	4,000	5,000	1,000	1,000	16,938
ROADS AND BRIDGES								
Structural Road Works								
Road Structural Capital Works	14,787	13,250						28,037
Road Surface Dressing Capital	3,540	2,500						6,040
Bridges, Retaining Walls & Culverts	1,081	950						2,031
Area Minor Capital Works								
Timber Extraction	499	500						999
Major Road Improvements								
The Inverness West Link	694	-271	-271	-255	-271	-271	-271	-916
Inshes Roundabout	51	4	4,008	1,871	-202	-202	-202	5,328
Development Infrastructure, Dingwall	485	337						822
B851/B862 South Loch Ness Road Improvements - road improvement match funding	190	212						402
Stromeferry Rockface	1,015	52						1,067
Major Bridge Works								
B863 Invercoe Bridge, Lochaber	2,515	3,502	52					6,069
A862 Muir of Ord Railway Bridge - legacy	2							2
B9090 White Bridge	84	170	5	5				264
Dulsie Bridge	22	11	436					469
Acharn Bridge		62	1,097					1,159
Achnagavin Bridge		37	904					941
Naver Bridge	362	103	3,399	3,090	112			7,066
Lifeline Bridges								
B8007 Glenmore Bridge - Lifeline Bridges	20	758						778
A831 Comar Refurbishment - Lifeline Bridges	56	765	11					833
ACTIVE TRAVEL								
Car Parking - Portree	-44							-44
Car Parking - Fort Augustus	10							10
Car Parking - Inverness Lorry Park	145							145
Car Parking - Equipment								
Cycling, Walking & Safer Streets	-28							-28
20mph Zones - legacy	19							19
Traffic Management Improvements	-43							-43
Inverness City Active Travel Network - grant funded								
Bus Priority Rapid Development Fund - grant funded								
Spaces for People - grant funded	-8							-8
LIGHTING								
Structural Lighting Works	2,807	1,000						3,807
FLOOD PREVENTION								
Flood Prevention Schemes								
Smithton / Culloden Flood Alleviation	2,723	46	-9	10				2,771
River Enrick FPW / NFMS	727	992	52	31				1,802
Caol FPW	2,936	214						3,150
Major Flood Schemes								
Mill Burn FPS	62	258	251					571
Conon Bridge Flood Defence Improvements	665	26						691
River Gynack FPS / NFMS	54	103	376					533
Golspie - FPS / NFMS	40	72	39					151
River Nairn & Auldearn Burn FPS	143	211	211					565
Risk Management Plans	96	155						251
Flood Improvement Works Knockbain Burn, Dingwall	239							239
Surface Water Management Plans	84	76	20					180
WASTE MANAGEMENT								

Landfill Extensions								
Landfill Restorations								
Landfill Restoration Programme	623	400	1,100	1,000				3,123
Waste Management Strategy								
Residual Waste Management Facility - Longman Project	9,262	2,575	206					12,043
Plant, Infrastructure & Banks -inc Aviemore & Fort William	2,091	1,339						3,430
FERRIES AND HARBOURS								
Uig Ferry Terminal and Link Span	230							230
Harbours General Structural Works	661	250						911
Corran Ferry (as agreed at HC 29-10-20)	300							300
COMMUNITY WORKS								
Burials and Cremations								
Burial Ground Portree	153	361						514
Burial Ground Kilmorack	41	113						154
Burial Ground Glen Nevis	141	386						527
Burial Ground Dores	100	206						306
Burial Ground Kilvean	50							50
Burial Ground Alness	181	309						490
Burial Ground Dornoch	127	206						333
War Memorials	12							12
LEISURE FACILITIES								
Parks and Play Areas - Development								
Inshes Park (Phases 1 to 3)	204							204
STRATEGIC ASSET MANAGEMENT								
Health & Safety - relates to lines below								
Engineering Compliance	1,065	1,077						2,142
Catering & FM Comp[liance	703	365						1,068
Property Structures and Fabric	2,449	2,218						4,667
Property Security	305	406						711
Property Surveys		450						450
Water Management	346	232						578
Fire Safety	-81	1,000						919
Asbestos Removal	100	110						210
Energy Management	1,302	1,491						2,793
Rose Street Car Park Solar PVs - grant funded	13							13
Depots - Health & Safety	586	600						1,186
Office Rationalisation	815	886						1,701
VEHICLES & PLANT								
Vehicle & Plant Purchases	3,106	2,600						5,706
PLANNING & DEVELOPMENT								
Town & Countryside Regeneration - covers lines 184 to 202	234	301						535
Storr Car Park	-297							-297
Nairn High Street	56							56
Dell of Spey		106						106
Visitor Management								
Wester Ross Visitor Hubs	89							89
Storr Visitor Management	93							93
Misc Assets, Bridges & Structures								
Assets, Bridges & Structures	57	111						168
Green Networks, Core Paths & Long Distance Routes								
Green Infrastructure	101							101
Long Distance Routes	16							16
Ardersier Path	26							26
Inverness City Gateways	66							66
Other Grant Funded Schemes								
Vacant & Derelict Land Fund and Regeneration Fund - grant funded								
Town Centre Fund - grant funded								
Carbon Clever	103							103
Inverness Rail Station	52	258						310
City Deal Projects - grant funded								
Electric Vehicle Infrastructure - grant funded								
Smart City - Digital Projects	250							250
Capital Discretionary Fund	512							512
CAPITAL CONTRIBUTIONS								
Inverness Castle	800		5,575	4,207				10,582
SELF FUNDING PROJECTS								
Longman Campus Site	34							34
Local Full Fibre Network - grant funded								
LED Programme for Buildings - SALIX Funded								
Solar PV	-312							-312
Whin Park Hydro	-15							-15
HOUSING (NON HRA)								
Private Sector Housing Grants	2,423	1,920						4,343
Travelling People Sites	236	118						354
CAPITAL PROGRAMME TOTAL	**116,293**	**84,776**	**76,563**	**85,672**	**25,646**	**1,053**	**7,052**	**397,055**

*The budget for Culloden Academy reflects a gross total project budget of £19.2m as approved by the Highland Council on the 9th September. The figure shown in the table above is net of anticipated developer contributions of £1.001m. In addition project costs of £0.184m have been incurred in prior years in relation to this project.

Appendix 4

	October 2021 capital programme plus £25m annually from 25/26 TOTAL LOANS CHARGES £
2021-22	57,891,690
2022-23	60,141,477
2023-24	60,616,155
2024-25	60,182,753
2025-26	59,830,544
2026-27	59,460,997
2027-28	58,792,275
2028-29	58,457,134
2029-30	57,963,618
2030-31	57,803,671
2031-32	57,406,184
2032-33	56,645,527
2033-34	56,335,072
2034-35	55,385,567
2035-36	53,650,955
2036-37	51,320,102
2037-38	50,212,394
2038-39	49,883,597
2039-40	48,988,416
2040-41	49,125,115
2041-42	47,885,986
2042-43	48,343,078
2043-44	48,905,314
2044-45	49,404,149
2045-46	48,467,520
2046-47	48,501,369
2047-48	48,656,669
2048-49	48,844,817
2049-50	49,087,047
2050-51	49,928,969
2051-52	49,306,205
2052-53	49,328,996
2053-54	50,289,372
2054-55	50,920,624
2055-56	52,085,507
2056-57	52,888,998
2057-58	53,758,664
2058-59	54,841,667
2059-60	55,267,536
2060-61	56,210,973
2061-62	57,138,027
2062-63	58,039,564
2063-64	58,468,499
2064-65	59,030,559
2065-66	59,861,848
2066-67	59,590,741
2067-68	58,597,687
2068-69	58,461,275
2069-70	58,234,889
2070-71	57,764,730
2071-72	57,199,048
2072-73	56,563,787
2073-74	56,191,672
2074-75	55,716,915
2075-76	55,512,716
2076-77	54,636,529
2077-78	54,053,804
2078-79	53,762,136
2079-80	52,737,911
2080-81	52,438,788
2081-82	49,817,553
2082-83	48,753,577
2083-84	48,316,501
2084-85	48,236,112
2085-86	46,102,371
2086-87	44,940,507
Total	3,553,184,448

Average annual loans charge 2021-22 to 2040-41
56,004,662

Average annual loans charge 2021-22 to 2060-61
53,325,418

Average annual loans charge 2021-22 to 2080-81
54,450,297

Check Line

Appendix 5

North Coast Care Facility – text for incorporation into Council MTFS report (public report)

Members will recall from past reports to Council, and the Health and Social Care Committee, of work being progressed and commitments made by the Council regarding a new North Coast Care facility to replace existing Adult Social Care homes in Melvich (Melvich Care Home), and in Talmine (Caladh Sona Care Home).

Those prior commitments and reports to members, provided the context for the new Care Facility, and recognised the extensive local community consultation and engagement which resulted in a new replacement facility in Tongue as being the preferred option. The poor condition and suitability of the existing two homes, that Care Inspectorate standards were not being met, that only short-term registration was accepted by the Inspectorate, were fundamental drivers in the case being taken forward for a new facility.

The new joint facility in Tongue provided the opportunity to provide new modern and fit for purpose facilities for adult social care clients, address the building issues described above, and assist with some of the staffing challenges exacerbated by having to manage and staff two separate homes at present, and to provide wider socio-economic benefits to the community.

The origins of the replacement of existing facilities date back many years, with the Council's formal consideration of this matter going as far back as 2014. It is fair to say that the local community have been waiting some considerable time to see tangible progress on delivery of new care facilities, and expectations are high in relation to the work being taken forward between the Council, NHS Highland and Wildland concluding as soon as possible, to allow delivery on the ground to move forward.

On 7 January 2021, the Council made provision within its capital programme for a new North Coast Care facility, with £4.9m of capital provided for. The Council report also detailed the proposal at that stage, from a private landowner (Wildland) to finance and develop a new Care Hub, with this being rented to the Council. This was an alternative to the traditional Council capital design and build approach. The report to members detailed a number of potential benefits from the Wildland proposal, as well as risks and implications to be considered. With it being agreed that work should continue in relation to discussion and negotiation with Wildland, to allow a final recommendation on preferred procurement and delivery of the new facility to be considered.

Detailed discussions between the Council, NHS Highland, and Wildland have now reached a stage where a formal recommendation on progressing delivery of the new facility can be taken.

The detailed assessment of the proposal from Wildland, and the commercial aspects associated with that, are detailed in a separate report to members, to be considered in private, given the commercial information contained therein.

Subject to members consideration of that agenda item, and the commercial and other aspects detailed therein, if agreed, that would allow the Council to confirm its intent to progress the delivery of a new North Coast Care Hub in partnership with Wildland and NHS Highland.

Wildland would finance, build and own the new Hub, and in turn enter into a rental agreement with the Council for the Care Facility part of that Hub. Separately, NHS Highland would enter into a rental agreement with Wildland for a new GP surgery.

Once construction was complete, the role of Wildland would be that of landlord, with the Council as lead tenant then making the care facility available to NHS Highland through existing property agreements covering adult social care. NHS Highland would be the occupants of the new hub (both care facility and GP aspects) and have full managerial and operational responsibility for the facility and all activity therein. In effect no different from other NHSH operated care facilities in terms of staff and operational arrangements.

The financial and commercial aspects of the Wildland proposal are not detailed in this report, given they are commercially confidential, but some of the key benefits and deliverables from the partnership with Wildland would be:-

- Delivering a facility which meets (and in some respects goes beyond) NHS Highland and the Council's requirements in terms of the client brief and accommodation schedules.
- A new Care Hub with co-located new Adult Care Facility and GP surgery, going beyond the scope of the Council and NHS's original intent of a new care home only. The Hub combines the care home with the integrated North Coast care team accommodation and a new GP surgery thereby delivering on the long held Health Hub ambition.
- Wildland delivering, and financed through their own funds, an enhanced scope relative to what the Council and NHS Highland had intended, to include *improved aesthetics, better location and setting, outlook and landscaping, improved quality of building materials and finishes, greater amenity, - a building that goes beyond 'functionality'*.
- Reduced risk to the Council in relation to the cost of, and construction of a new facility.
- Additional community benefits as a result of the enhanced scope, including improved amenity and potentially greater socio-economic benefits from the construction phase and through ongoing opening and operation.
- A positive example of partnership working across the public and private sector.
- A project which delivers a number of positive asset and environmental outcomes linked to a capital strategy of reduce/re-use/recycle, including reducing and rationalising the Council's owned asset base, and replacing aged and under-performing facilities with modern fit for purpose, and environmentally improved facilities.
- A more flexible model, being rental rather than ownership, which in light of the current National Care Home consultation, and the risks and uncertainties that result, make the incurring of long-term debt on a new social care asset potentially less prudent.

The wider implications and risks of the Wildland proposal, are detailed in the separate agenda item, for consideration by members.

By implication, the Wildland proposal would involve the transfer of the relevant element of the budget for revenue loan charge costs of capital (and removal of a capital budget for the project), to instead make provision for a revenue budget to meet the rental to be paid to Wildland.

Subject to member agreement of the recommendations in that separate private agenda item, detailing the commercial proposal from Wildland, the Council would conclude formal legal agreements with Wildland and NHS Highland to progress the new North Coast Care hub.

In the interim, pending conclusion of full legal agreements, a draft memo of understanding is being updated and will be finalised between the parties to reflect the terms on which the project would move forward.

NHS Highland have been fully involved in the discussions and the partnership work to reach this position, and the recommendations in front of members. Formal NHS Highland governance will be taken forward through the appropriate NHS Highland governance procedures in parallel with the Council's approval processes.