

Agenda Item	10
Report No	HC/18/23

HIGHLAND COUNCIL

Date: 29 June 2023

Report Title: Budget Update – Revenue and Capital

Report By: Head of Corporate Finance

1. Purpose/Executive Summary

- 1.1 Previous Council reports have highlighted to Members the challenging financial environment in which the Council operates and unsustainability of the Council's financial position. The Council on 2 March noted that further reports would continue to come forward in-year, and the intent is to provide a more comprehensive mid-year report on budget to Members in September by which time the first Quarter budget monitoring reports will have been produced and considered by Committees.
- 1.2 This report updates Members on a number of key aspects of the budget, and activity underway, including the current year's revenue budget and the review of the Council's capital programme.
- 1.3 This report highlights some of the financial risks and challenges being faced, including more contemporary context given the passage of time since the Council agreed its budget in March. The report illustrates workstreams being taken forward to support the development of new and additional budget measures, including ongoing cost control arrangements.

2. Recommendations

- 2.1 Members are asked to:
 - i. Note the update provided in this report regarding the range of budget related actions set out in the report.
 - ii. Note that a mid-year budget report will come to the Council meeting in September.
 - iii. Note the update provided regarding the capital programme review, and timescale for consideration by Members.

3. Implications

- 3.1 **Resource (Budget and Staffing)** – there are no direct implications arising from the recommendations in this report, but the report sets out important context regarding the Council’s financial position and actions being progressed, which will lead to future reports to be considered by Members and consideration of resource implications at that time.
- 3.2 **Legal** – there are no legal implications arising from this report.
- 3.3 **Community (Equality, Poverty and Rural)** – there are no implications arising directly from this report. Budget decisions in future reports will be assessed for any community implications.
- 3.4 **Climate Change / Carbon Clever** – there are no direct implications arising from this report.
- 3.5 **Risk (including Health & Safety risks arising from changes to plant, equipment, process or people)** – this report highlights a number of the financial risks and challenges facing the Council and the work being taken forward to further assess these risks and develop actions, mitigations and recommendations to be considered in future reports.
- 3.6 **Gaelic** – no implications arising from this report.

4. Revenue Budget 2023/24 Recap

- 4.1 Members are reminded in the table below of the headline funding assumptions which were agreed on 2 March as part of the formal agreement of the budget for the current year.

Revised Budget Gap	£54.240m
Funded by:	
Recurring items: Council Tax @ 4%	-£5.375m
Budget savings	-£22.195m
Non-recurring items:	
- Repurposing of Council tax income from second homes and long term empty properties	-£3.400m
- Use of reserves	-£23.270m

- 4.2 A very significant element of the budget is being funded with non-recurring items. The reliance on reserves in particular is not a sustainable strategy going forward. Even with the Council’s reserves having increased in 2022/23, from earlier estimates, as per the separate agenda report in front of Members, it remains the case that as per the March 2 report to Council, there is the risk that reserves are wholly depleted by 2026/27 if they continue to be used to balance the revenue budget.
- 4.3 It is therefore essential that the Council takes steps to minimise the need to utilise reserves in the current financial year, to both protect the level of reserves, but also assist with moving to a more sustainable financial footing going forward. While ongoing cost control, efficiency, income generation and transformation will continue to

be core elements of budget strategy, it is inevitable that fundamental change and significant reductions and cessations of activity will be necessary to achieve a sustainable position going forward given the scale of forecast financial gaps.

- 4.4 In relation to the re-purposing of Council Tax income from second homes, as shown above, the budget report for March 2 Council was prepared prior to the Council having received a response from Scottish Government regarding the request to re-purpose that funding stream. The response received, while providing permission to re-purpose those funds, was only on a time-limited basis with the condition that the funds would be repaid into affordable housing reserves within 3 years. The Council is following this matter up further with Scottish Government, with Council Leader further writing to the Depute First Minister to seek permanent flexibility for the 22/23 and 23/24 income. If that permission is not forthcoming, a consideration for the Council in September will be whether there is still merit in using the flexibility, for it only to be paid back within 3 years, knowing those future years will also be financially challenging. In effect, the 'payback' into affordable housing reserves will represent a budgetary pressure in those years, and it may be prudent to revisit the budget assumptions to avoid that scenario. Further update will be included in the September Council report.

5. Budget 2023/24 Pressures and Risks

- 5.1 In any budget year there are estimates and assumptions made regarding pressures and other budget adjustments. The report on 2 March covered a number of risk areas as they related to 2023/24 and future years.
- 5.2 Work is ongoing to review budget assumptions for the year and take account of new information or developments. This is an ongoing exercise. The extent to which any assumptions made can be reviewed and reduced and not require an allocation of budget funds, assists the in-year budget position and the roll forward into future years. Conversely, there are known risk areas that could result in their being an inadequacy of budget provision in the year. A mid-year assessment of the position will be considered by Council in September, by which time the first quarter's financial monitoring position will also be known to inform decision making.
- 5.3 At the time of writing this report, the following are listed as some of the main strategic pressure and risk areas which are a particular focus. This list is not intended to be exhaustive or representative of all pressure areas, or pressures in particular service areas, as these will be identified and considered as part of the first monitoring reports of the year.
- **Pay awards.** The pay award for SJC staff is not yet settled with the current offer being rejected by Trade Unions and staff being balloted for strike action.
 - **Inflation.** Despite Consumer Price Index (CPI) inflation now starting to drop, there remains an ongoing impact with many contracts being uprated at an earlier time and based on an earlier and higher CPI rate. Often many supplies and services see some form of time lag between headline inflation reducing and any observable impact on the charges paid by the Council, reflective of supply chain and lead time factors.
 - **Utility costs.** Significant pressure funding of £7.9m was provided for in the 2023/24 revenue budget. The pricing model for the Council's energy supply is varied, with a number of elements based on national contracts and pricing, and others such as Biomass supplies based on local contractual arrangements. Further national pricing updates have been received and are being reviewed to

understand implications. There remains the risk, with prices still fluctuating, that the budget provision is not adequate to meet estimated needs.

- **Interest Rates.** Bank base rates have continued to rise with the resultant increase in the costs of borrowing available to the Council. The Council's current strategy is to avoid locking into long-term debt while rates are high and increasing, but even short-term borrowing is at a cost comparatively higher than has been seen in recent years. There is also re-financing risk whereby the cost of new debt is at a higher interest rate than debt maturing and being repaid. Work to re-model loan charge forecasts is underway to assist with revenue budget forecasting and the capital programme review. The Corporate Resources Committee continues to receive regular update reports on Treasury Management activity and plans are being taken forward for further Member training in this area.
- **Savings delivery.** The budget for the year was agreed with £22.195m of new savings to be delivered. Officers are reviewing progress of delivery of these savings, with a particular focus on action planning, risks and where necessary mitigations. Quarter 1 will be the first formal reporting of savings delivery, to the August/September Committee cycle and assessment of the savings delivery position will form a key part of the budget report to Council on 14 September. Delivery of existing saving targets is essential, as any lack of delivery will add to the current year pressures and represent an added challenge going into 2024/25.
- **Budget pressures and service delivery.** There are inevitably Service pressures which are highlighted in any year, whether they be underlying and recurrent issues, or new pressures. The Council's existing budget monitoring processes are in place to ensure ongoing robust monitoring and allow mitigating actions to be considered.
- **Partnerships.** Past reports to Council have highlighted the significant financial challenges being faced by Council partners, including NHS Highland and High Life Highland in particular. The Council's budget for 2023/24 was set with the risks and challenges facing these organisations highlighted, alongside the financial provision the Council had made with regard to funding these organisations, and the actions being taken forward. As for the Council's own Service areas, partner organisations are faced with their own financial sustainability challenges. Ongoing engagement with these key partners continues, including ongoing monitoring of their financial position, with reporting to respective Strategic Committees.

5.4 These risk areas could translate to budget pressures, hence the importance of ongoing review, early reporting and highlighting of risk, and ensuring there are plans to have mitigating actions in place.

6. Further Mitigation Actions and Opportunities

6.1 The Council's objective for the year needs to be not only to ensure it stays within the budget agreed on 2 March but, given the level of reserves agreed to support that budget, to also progress further actions to deliver an underspend against that budget and minimise the use of reserves at year end. As well as those short-term objectives, action taken this year can also support achievement of further savings in future years, in recognition of the lead time some change can take to implement.

6.2 There are a number of areas of focus already underway, and a number of separate reports on the agenda of this Council meeting highlight some of the transformative and income generating opportunities being explored. Some of the particular actions are summarised below.

- Procurement and Contracting – there is a focus on further opportunities for savings from procurement and contracting beyond existing saving targets. This

includes ensuring there is a pipeline of future saving opportunities and ideas. The Council continues to work closely with officers from the Shared Service Procurement Team and the separate agenda report for this meeting on EV Charging is one example of opportunities being taken forward. The Shared Service Team are also developing new datasets and analytical tools which should provide further opportunity for commodity/item level analysis of spending through contracts and to identify further saving proposals.

- Partnerships and High Life Highland Contract review – the Council has previously agreed a review of the Service Delivery Contract between the Council and High Life Highland and its importance given the financial challenges being faced by both organisations. Further reports on progress, and ultimately recommendations will come back to members.
- Investment and income generation – the investment in renewables report on the agenda for this Council meeting is another example of work being taken forward with a focus on income generation, with further feasibility and business case work to support identification of new income and investment opportunities. Income generation can be a key opportunity to realise savings which have no, minimal or even a positive impact on service delivery.
- Change and transformation – Members continue to be sighted on and directly involved in activity through the work of the Council's Redesign Board as supported by the Council's Transformation Team. The current work programme of the Transformation Team includes; Major Redesign Projects (Asset Management, Roads Redesign, My Council, In-House Bus Operation), Lean Programme (targeted reviews for greatest positive impact in terms of financial and customer benefits), Investment Programme (business case led initiatives aimed at increasing income, and delivering wider benefits, including economic, environmental, and social).

7. Cost and Spending Control

7.1 The Council has deployed a number of strategies and cost control measures over the past year and these have been important contributors to the improved in-year financial performance for 2022/23. These arrangements, as listed below, continue to operate in the current financial year.

- Recruitment controls – the Chief Executive, Depute Chief Executive, Section 95 Officer and Head of HR meet on a weekly basis to review and act as an approval gateway for all posts coming forward for recruitment. This ensures that essential posts to deliver statutory and priority services are prioritised and progressed for recruitment whilst also checking that posts only proceed if they are consistent with the savings measures approved in March 2022.
- Review of spending and tendering – an Officer Procurement Approval Group is in place which considers and acts as a gateway for procurement activity. The gateway acts as more than just a yes/no approval to proceed to tender; it also gives scrutiny and challenge to the reason for the activity to be procured, the level of activity and also what alternatives have or could have been explored.
- Capital Programme Board – an Officer Board chaired by the Depute Chief Executive provides oversight of capital programme delivery and governance.

8. Capital Review

8.1 The report to Council on 2 March agreed a single year re-profiled capital programme for 2023/24, recognising that the existing approved capital programme was not

affordable and further review was required. At that time councils across Scotland were also awaiting a decision regarding the LEIP Phase 3 school bids, and there was recognition of the key impact that decisions on LEIP would have on the capital review.

- 8.2 At the time of writing this report, there has been no announcement regarding LEIP Phase 3. Statements to the Scottish Parliament have indicated that an announcement will be made by the end of June 2023. Officer work has continued regarding the capital review and the output of this work will form a report to Council in September to agree a new multi-year capital programme.
- 8.3 Members are aware from past reports of the unaffordability of the current capital programme and the focus of officer work to date has been on identifying options and implications for existing capital projects, which include consideration of implications of deferring project spend, ceasing project spend, or alternative solutions and scope of work for projects. This will produce a range of options and implications to be considered by Members and allow decisions to be made on a capital programme level that is affordable and sustainable and delivers essential investment. It is important to recognise that while this review work has a focus on options to review/reduce the capital programme, there remains cost pressures on capital tenders, as well as new or unfunded capital pressures that will also need considered as part of the review.
- 8.4 Due to the complexity of the capital programme and review it is intended to arrange Member workshop sessions post summer recess to allow for this topic to be given full discussion. The proposed dates are Wednesday 16 and Tuesday 29 August 2023. These discussions will help to inform the report for Members' consideration in September 2023.
- 8.5 Given the current capital programme budget position agreed in March is for a single year, 2023/24, there is a need to conclude the capital review to give clarity and certainty as regards delivery of a 2024/25 capital programme. This is critical for officers and contractors who take forward delivery, as much as for communities and stakeholders who will be looking for clarity on individual projects. It may be the case that the Council needs take decisions regarding a capital programme for 2024/25, and perhaps beyond, in the absence of a decision from Scottish Government regarding the LEIP Phase 3 programme to avoid a situation where project delivery for 2024/25 is impacted through a lack of clarity on programme and budget levels.

9. Earmarked Reserves

- 9.1 As indicated in the earlier report on this agenda, the Council continues to hold a significant level of earmarked reserves to support a number projects and workstreams including investment, change and transformation. In setting its budget for 2023/24, the Council on 2 March agreed to 're-purpose' a number of earmarked funds following review, and these were returned to non-earmarked reserves. It is proposed that further review takes place during the current year, to consider the level of earmarked reserves held, their purpose and the expected outcomes and benefits to be delivered. Any further sums identified for re-purposing would be reported to a future Council meeting. Re-purposing could provide opportunities for funds to be re-directed to other outcomes which may be considered more appropriate use of funds, or they could be returned to non-earmarked reserves and giving some discretion on decisions at a future time.

10. Conclusions

- 10.1 In conclusion there are a significant number of current and planned activities related to the revenue budget and capital programme. As was stated in the report to the 2 March Council, the intent is to take a mid-year budget update position to Council in September, the timing of which gives opportunity for updates on these various workstreams to be provided and also by which point in the year the first budget monitoring positions for the year will be known. In relation to capital, arrangements are already in hand for Member workshop sessions regarding the capital review post recess, and it is hoped by the Autumn the Council is in a position of an announcement from Scottish Government regarding the LEIP Phase 3 programme.

Designation: Head of Corporate Finance

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Background Papers: