



BUDGET STRATEGY 2025/26

Joint Report by Chief Executive and Chief Financial Officer

PURPOSE

- 1.1 The purpose of this Report is to update the Comhairle of the anticipated financial position in respect of the 2025/26 Budget and to seek approval of the next phases of budget consultation and preparation.

EXECUTIVE SUMMARY

- 2.1 The Budget Seminars of 14 September and 14 November 2024 noted the projected financial gap for financial year 2025/26 of up to £7m and advised of options for agreeing a balanced budget in February 2025. These options included increases in fees and charges and in Council Tax, modest use of balances and reserves, but also indicated the clear need to reduce expenditure through either transformation of service delivery or planned reduction of services. The Seminar Presentations made it very clear that achieving financial balance would require very difficult decisions.
- 2.2 It was agreed at the September Seminar that a programme of public engagement and consultation would take place in late 2024, recognising that the Scottish Government (SG) Budget would not be announced until 4 December 2024, with detailed figures for the Local Government Settlement, and the Comhairle not being known until later in December, and it was intended that public engagement take place before all the details of the Settlement are known. In order that consultation be meaningful, it was necessary that the Comhairle identify which areas of service might be considered to be at a higher risk of reduction in revenue budgets.
- 2.3 The discussion at the Seminar noted that the UK Budget of 30 October 2024 had given additional funding to Scottish Government while at the same time introducing further uncertainty on account of the increase in employers' National Insurance contributions. Given the imminence of the SG Budget announcement and the ongoing work led by the Convention of Scottish Local Authorities (COSLA) directly with Scottish Ministers, the Seminar noted that public engagement and consultation would be more relevant if held in January 2025, once the detailed Settlement for each Council was known. Members should note that work by Corporate Management Team (CMT) on the financial options which may be required in the event of a poor Settlement continues, for example, in drawing together options for use of Crown Estate funding. It remains the view of the authors of this report that reductions in the revenue budgets will be required whether or not there are improvements in the Scottish Budget.

RECOMMENDATIONS

- 3.1 **It is recommended that the Comhairle:**
 - (a) **notes the projected financial position, and measures to be taken in order to set a balanced budget by 31 March 2025, as set out in paragraphs 9.1 to 9.6 of the report; and**
 - (b) **notes that, following publication of the Scottish Budget and the Local Government Settlement in December 2024, the Chief Executive and Chief Financial Officer will submit a report to a meeting of Budget and Strategy Board to be held in December 2024 or early January 2025 to**

determine the content of options for public engagement and consultation on Budget Strategy taking account of the views of Elected Members expressed at the Budget and Strategy Seminar on 14 November 2024; and

- (c) **delegates authority to the Budget and Strategy Board to undertake the actions set out in paragraph (b) above.**

Contact Officer: Malcolm Burr, Chief Executive
Norman MacDonald, Chief Financial Officer

Appendix:

Background Papers: Reports to all meetings of Budget and Strategy Board and Policy and Resources Committee held in 2024

IMPLICATIONS

- 4.1 The following implications are applicable in terms of the Report.

Resource Implications	Implications/None
Financial	This report is entirely concerned with financial matters
Legal	There are no legal implications at this stage
Staffing	There are no immediate employee implications at this stage, but the comments made in the report as to potential reduction in employee costs, for example through voluntary severance, should be noted
Assets and Property	There are no immediate implications
Strategic Implications	Implications/None
Risk	The continued reduction in revenue budgets, and the consequent need to use the Comhairle's reserves, albeit in a judiciously managed way, represents a considerable risk to the services which the Comhairle provides and to delivery of its corporate and other strategies. Risk assessment indicates that the Comhairle will once again have to prepare to reduce its revenue budgets further, in the absence of external funding.
Equalities	There are no immediate implications. Any budget proposals are subject to full Impact Assessment.
Corporate Strategy	The approach recommended in this report is consistent with delivery of the Comhairle's Corporate Strategy within existing and anticipated resources
Environmental Impact	There are no immediate implications
Consultation	This report refers to a programme of public engagement and consultation on the Comhairle's Budget Strategy for 2025/26 and later years.

BACKGROUND

- 5.1 The Comhairle's budget assumptions include a flat cash settlement from Scottish Government. There remains considerable uncertainty following reports earlier in 2024 suggesting significant reductions in funding streams across the public sector, and the additional funding to be made available to SG following the UK Budget in October 2024. As noted above, while additional real-terms funding may be likely, there is increased uncertainty on account of the significant rise in employers' National Insurance contributions. The current projections of a £7m deficit is therefore retained.

- 5.2 Inflation statistics published in mid-October 2024 showed the Consumer Price Index (CPI) at 1.7%, below the Government target for the first time since April 2021. Recent rises in energy prices demonstrate the volatility of the inflation rate, at the time of writing thought to be nearer 2.3%. Detailed work on updating the inflation assumptions, particularly in relation to energy and fuel cost, is continuing but it is hoped that this general reduction will be reflected in a reduction in the deficit
- 5.3 The level of employee pay has the most significant impact on the Budget and recent years have seen increases above budgetary provision, jointly funded by Councils and the Scottish Government. The latest award will increase the Comhairle's wage bill by over £600k, with around half of this funded by the Government. The initial projections for 2025/26 included an assumption of 3%, which it was hoped could be reduced in line with inflation, but the continuation of elevated pay awards means that there are risks associated with this approach and it may be prudent to delay any reductions until 2026/27. It should be noted that there is currently no Scottish Government public sector pay policy, which adds to the complexities around pay projections.

2025/26 BUDGET

- 6.1 The forecast budget shortfall for 2025/26 currently stands at around £7million. This figure is likely to change in response to inflationary and other external changes, as detailed above. Comhairle reserves are inevitably diminishing and will not be sufficient to cover the deficit, requiring, in the absence of external funding, savings and service reductions across the Comhairle.
- 6.2 Although detailed work on the budget is still to be completed, the table below provides the projected figures.

	£'000	£'000
Forecast Deficit at Budget Setting February 2024 (before Council Tax Assumption)		6,650
Net Effect of 2024/25 Pay Award	615	
Additional Cost (excl. IJB)	-316	
Government Grant		299
IT Revenue Costs (post cyber-attack)		300
Revised Deficit		7,249

- 6.3 Following agreement of a balanced Budget for 2024/25, during which Services were asked to identify options for reductions in expenditure, on a basis which involved reference to the Corporate and other Strategies, but also included, for guidance, the anticipated effect of budget reductions of the order of 5%, that percentage equating roughly to the deficit (of £6million) for financial year 2024/25. While a number of these savings and reductions were necessarily approved and implemented, many were not, and these service options generally remain available to the Comhairle for consideration.
- 6.4 The Comhairle also agreed to undertake an assessment of some specific services, listed below, by a team led by the Chief Internal Auditor, to identify options for change of a service delivery model, or any other changes which would produce a more efficiently delivered service and thus reduce costs.
- Bus na Comhairle
 - Garage Services
 - Education and Corporate IT
 - Libraries and Information Services

- Municipal Services

The Chief Internal Auditor's work in these areas is largely completed, and a Report will be provided to the next meeting of the Budget and Strategy Board in order that any savings, whether in financial year 2025/26 or later, can be factored into budget considerations. It should be noted that any savings identified are likely to be linked to other changes to service provision and thus more realisable in future years.

6.5 The Comhairle's Budget Strategy sets out four main areas to be considered to balance the budget gap, these being:

- Council Tax
- Other fees and charges
- Service savings
- Use of Reserves
- Use of external funding opportunities, such as Crown Estate funding

6.6 Longer-term strategic options include

- development of a Single Authority Model for the delivery of public services in the Western Isles;
- Review of Special Islands Needs Allowance or other means of supporting Islands Councils
- Review of Fiscal Framework, currently late but still under development between Scottish Government and the Convention of Scottish Local Authorities (COSLA), including a different approach to ring fenced or "directed" funding. It should be noted that changes could be made to directed funding in advance of an agreed Fiscal Framework, and it is hoped that Councils will be given significantly more freedom to apply funding from the Local Government Settlement than has been the case in recent years.

RESERVES

7.1 At this stage, due to the ongoing impacts of the cyber-attack on the main Finance IT Systems, the Accounts for 2023/24 have not been finalised. However, it is expected that the level of uncommitted reserves will be around £2m, in addition to the minimum balance of £3.5m held to mitigate against risks, such as increased pay awards, the IJB's financial performance and the ability to realise planned savings.

7.2 The dependence on reserves to balance the budget places an additional strain on subsequent years due to the underlying deficit being carried forward. This position is unsustainable as the level of reserves has been severely depleted in recent years due to the impact of unbudgeted inflationary pressures, influenced by Brexit, Covid and the war in Ukraine. The 2024/25 Budget Strategy achieved its aim of reducing the use of reserves to a maximum of £2m and reducing the underlying deficit. This is an ongoing challenge due to funding pressures and the inevitable difficulties in identifying yet more savings to all Service Budgets. With only £2m of reserves now available, the Strategy will be to further reduce dependency on these. A review of earmarked reserves is being undertaken to identify any funds that can be released to support the budget process.

BUDGET STRATEGY AND COMHAIRLE PRIORITIES

- 8.1 It is recognised that it is a very challenging exercise to align funding and corporate priorities during a period of extreme financial constraint, and the Comhairle is to be commended for the balance it has struck – and has been in a position to strike – with such alignment in previous years. Inevitably the majority of available funding is targeted at core and statutory services, for example, the provision of school education, social care and other essential “front line” services, and sometimes a clear link to the Comhairle’s Corporate Strategy is not always obvious. But it must be emphasised that Councils are in the first instance creatures of statute and, in addition to their community leadership roles, are the providers of statutory services. In addition, savings in all Services – statutory or otherwise – have had to be identified, and no service area has been fully protected from budget reductions.
- 8.2 The Comhairle has always ensured that Members have all the necessary information about budget proposals before decisions are made, including the impact on service users and any equality issues, these being identified through Members’ and Officers’ own knowledge as well as more formal Impact Assessments. Funding constraints at present have the effect that it is inevitable that service reductions will have an impact on service users, and the task of the Comhairle in the current financial climate is simply to ensure that mitigations are put in place wherever possible. Identification, and linking of budget strategy, with the Comhairle’s Corporate Strategies and priorities form an important part of that decision-making process.

IDENTIFYING SAVINGS: NEXT STEPS

- 9.1 As noted above, the financial gap for 2025/26 is projected to be around £7m and, even with the use of available reserves, savings will be required to set a balanced budget. For planning purposes, these savings are unlikely to be less than £4m.
- 9.2 Services were asked to identify opportunities for savings, including through:
- re-evaluating budgets to take account of current underspends;
 - benchmarking of service delivery against other local authorities, statutory requirements and professional assessment;
 - Service Review exercises
- 9.3 Support Services, which are not confined to financial, legal, democratic, HR and more obvious internal services, achieved higher than expected savings targets in previous years and are accordingly not recommended for further reductions, as to do so would require amendment of the Comhairle’s policy on the use of compulsory redundancies as a means of balancing our budgets. Were significant service reductions to be imposed, however, that policy would have to be revisited.
- 9.4 The Appendix to this Report provides a complete list of services provided by the Comhairle and their controllable budgets (i.e. excluding depreciation and support costs). The financial data are based on the exercise completed as part of the current year budget and is intended to provide Members with a reminder of previous discussions, as the majority of the narrative is still relevant. The potential savings identified by services were considered at the Budget Seminar held on 14 November and realised, as anticipated, an insufficient sum to meet the projected deficit.
- 9.5 The Chief Financial Officer indicated at the Seminar that further work would be required on the detail of the submissions from some Services and, inevitably, Members expressed reservations as to the nature of some of the proposed savings. Members also expressed support for work to assess the maximum impact of Crown Estate funding in supporting budget lines which may not be able to be supported in the event of a poor Settlement, and the Chief Executive and Chief Financial Officer will take this work forward with CMT, also taking into account all other comments made at the Seminar. It is recognised that Crown Estate funding is expected to have both a strategic and community element.

9.6 The Scottish Budget will be made public on 4 December and the Comhairle should have information as to its own Settlement by mid-December. It is intended to arrange a meeting of Budget and Strategy Board, preferably before the Christmas break but, if necessary, in Week 2 of January 2025 in order to:

- assess the terms of the Settlement and the deficit still to be met; and
- agree the format and content of the public consultation meetings to be arranged in January 2025.

9.6 In order that public consultation is meaningful and engaged, it will be necessary that Members indicate:

- which services should be considered to be potentially subject to above inflation levels of budgetary reduction;
- which, if any, services should be discontinued;
- the potential level of increase in fees and charges, noting that the advice from officials is that such increases have to be above the level of inflation;
- the potential increase in Council Tax, noting that the advice from officials is that such increases have to be above the level of inflation.
- consider, where possible, if other funding sources, such as Crown Estate could be used to support “at risk” services.

CONCLUSION

10.1 The financial pressures on the Comhairle have never been greater, with uncertainties around pay, inflation, external costs and the Scottish Government Settlement remain as high as in previous years. The Chief Executive, together with Directors of Finance, has recently made the point to the Scottish Parliament that the current practice of managing through financial constraints by a combination of factors, including the use of reserves cannot continue indefinitely, and this is a message which is recognised and accepted across the political space and by external bodies such as Audit Scotland. Recognition has not, however, led to decisive action to enable the kind of changes which councils require, and the freedom to spend what resources they have in ways which reflect local priorities and, increasingly, the delivery of statutory services.

10.2 Until that position changes and potentially transformative measures such as Single Authority Models, are developed for areas such as the Western Isles, the Comhairle has no option but to, in addition to its other strategies, identify potential savings which are likely to be required to address the underlying deficit and agree a balanced budget in February 2025. The Comhairle is once again fortunate that prudent financial management has identified around £2m of reserves to assist with this process, but this needs to be contextualised by an overall estimated deficit of around £7million. It is therefore essential that options for public consultation are identified through the Budget and Strategy Board, which reflects the geographic and political balance of the Comhairle, to allow Officers to prepare budgets based on Members’ choices and on the results of the public consultation exercises which the Comhairle will be undertaking in January 2025.