
DELIVERING ON THE SINGLE OUTCOME AGREEMENT

1 EXECUTIVE SUMMARY

- 1.1 This report sets out key challenges facing the Council, summarises the Single Outcome Agreement (SOA) commitment and sets out the longer term budgetary outlook. Argyll and Bute faces a very challenging future. These challenges are multiple ranging from population, demographics, economic performance, employment base, investment needs and public sector funding reductions.
- 1.2 The Council and the Community Planning Partnership (CPP) have already recognised the economic and population challenges facing the area. The SOA sets out an overall objective and longer term outcomes to address the challenges facing Argyll and Bute. The outcomes will require commitment, action and investment.
- 1.3 Fiscal Affairs Scotland's analysis of longer term budget projections for Scotland indicate we are around half way through the programme of spending reductions and there will be further significant cuts in public spending. From 2015-16 to 2018-19 it is suggested that the average annual real terms cut in spending will be between 2.7% and 3.5%.
- 1.4 There are 4 options for addressing the challenges based around progressively moving from annual incremental budgeting to a longer term structured approach to balancing the budget to considering the investment needed to support economic growth and strategic infrastructure and finally supporting the above with an approach to investing for income.
- 1.5 Members note the background information, options and different approaches to addressing the key challenges, SOA commitment and budget outlook.
- 1.6 Members request officers to bring reports back to the December meeting of the Policy and Resources Committee that provide further information on the different approaches and set out an options appraisal in relation to the options.
- 1.7 Members are asked to note that officers are preparing plans to ensure members of the public and staff are able to express their views so these can be considered as the Council develops its approach to delivering on the SOA. Initially this is likely to involve providing information to raise awareness of the challenges and issues and seeking some high level feedback.

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2 INTRODUCTION

- 2.1 This report sets out key challenges facing the Council, summarises the SOA commitment and sets out the longer term budgetary outlook. It then outlines 4 options for addressing these various challenges based around progressively moving from annual incremental budgeting to a longer term structured approach to balancing the budget to considering the investment needed to support economic growth and strategic infrastructure and finally moves to supporting the above with an approach to investing for income.
- 2.2 The report is making members aware of the 4 options and related approaches. No decisions are required on a preferred option at this stage. Members are being asked to agree that further work is undertaken on each option and approach with more detailed reports being brought to the December meeting of Policy and Resources Committee along with an options appraisal.

3 RECOMMENDATIONS

- 3.1 Members note the background information in relation to key challenges, SOA commitment and budget outlook.
- 3.2 Members note the options and different approaches to addressing the key challenges, SOA commitment and budget outlook.
- 3.3 Members request officers to bring reports back to the December meeting of the Policy and Resources Committee that provide further information on the different approaches and set out an options appraisal in relation to the options.
- 3.4 Members are asked to note that officers are preparing plans to ensure members of the public and staff are able to express their views so these can be considered as the Council develops its approach to delivering on the SOA. Initially this is likely to involve providing information to raise awareness of the challenges and issues and seeking some high level feedback.

4 DETAIL**Key Challenges**

- 4.1 Argyll and Bute was one of only 4 council areas in Scotland to suffer a reduction in population between the 2001 census and the 2011 census. Latest longer term population projections suggest a further reduction in population over the period to 2035. The proportion of older people in Argyll and Bute is already above the national average and the proportion of older people to people of normal working age is projected to increase significantly. The maritime change programme may see a significant transfer of naval staff and support staff to Faslane but the detail, timing, service implications and economic impact of this is not sufficiently clear.
- 4.2 There are a number of challenges relating to the economy and employment. Whilst there has been an improvement in Gross Value Added (GVA) over recent years GVA still lags behind the Scottish average in a number of key industrial sectors. Argyll and Bute has a relatively higher proportion of its population employed in the sectors of tourism, agriculture, forestry, fishing, public administration, education and health. Unemployment is generally below the Scottish average although the position varies from area to area and the dependence on seasonal or lower paid industries means average earnings in Argyll and Bute are lower than the Scottish average.
- 4.3 The Strategic Risk Register (SRR) sets out economic and population decline as the greatest risk facing Argyll and Bute. This picks up on the very significant issues identified in preparation of the SOA and through release of census data and population projections. In stark terms the economy in Argyll and Bute is underperforming and this combined with a reduced and reducing population represents a huge challenge to future prosperity, sustainability and viability.
- 4.4 The last few years have seen significant reductions in public sector spending as the UK Government seeks to bring public spending in line with income from taxes and control the level of public sector debt in relation to Gross Domestic Product (GDP). Forecasts suggest we are only around half way through the planned reductions in public spending and we will experience the same level of reductions in the period to 2018-19 as we have experienced since 2009-10.
- 4.5 Projections from 2015-16 to 2018-19 indicate an average annual fall in the Scottish Block based on the Barnett formula of 1.6% which equates to an average annual real terms reduction of 3.5%. Allowing for income from non domestic rates and council tax this real terms reduction falls to an average annual reduction of 2.7%. Beyond 2018-19 the Office for Budget Responsibility expects spending growth to return to more "normal" levels. Fiscal Affairs Scotland state the general picture of future austerity is likely to apply regardless of the political circumstances facing Scotland and regardless of the Smith Commission findings, at least until 2018-19.
- 4.6 In summary Argyll and Bute faces a very challenging future. These

challenges are multiple ranging from population, demographics, economic performance, employment base, investment needs and public sector funding reductions.

The Single Outcome Agreement

- 4.7 The Council and the CPP have already recognised the economic and population challenges facing the area. The SOA sets out an overall objective based on addressing or overcoming these challenges. The overall objective is supported by 6 longer term outcomes.
- 4.8 The overall objective of the SOA is:
- Argyll and Bute's economic success is built on a growing population.
- 4.9 The 6 long term outcomes are:
- The economy is diverse and thriving.
 - We have infrastructure that supports growth.
 - Education, skills and training maximises opportunities for all.
 - Children and young people have the best possible start.
 - People live active, healthier and independent lives.
 - People live in safer and stronger communities
- 4.10 The overall objective and longer term outcomes were developed to address the challenges set out above. They will not simply happen of their own accord but will require commitment, action and investment. The SOA is 10 year plan so the benefits will not arise for a number of years but steps need to be taken to support and deliver on the SOA now if we want to reap these benefits in the future.
- 4.11 The Council can support delivery of the SOA in a number of ways:
- How it delivers its services.
 - The priority given to particular services.
 - Capital expenditure and investment.
 - How it uses the significant powers available to it.
 - How it leads and supports partners across the CPP to support and deliver on the SOA.
 - Making a compelling case for support and investment in Argyll and Bute.

Budget Outlook

- 4.12 The Council agreed a 2 year budget strategy in November 2013 and February 2014. This will see budget savings of 1% for each of 2014-15 and 2015-16. At the end of this period the free balance on the General Fund Reserve is estimated to be in the order of £10m. This provides a significant resource to the Council. It is clear from the earlier comments in this report that significant budget challenges face the Council in the

period to 2018-19. With a budget strategy already agreed for 2015-16 the Council needs to focus on the period from 2016-17 and it has a 12 month planning window for that.

- 4.13 The publication by Fiscal Affairs Scotland of an analysis of the longer term budget projections for Scotland is clear that there will be further significant cuts in public spending in Scotland. From 2015-16 to 2018-19 it is suggested that the cash cut in resources will be 1.6% (3.5% in real terms and 2.7% after allowing for council tax and NDR). After 2018-19 it is projected that funding changes will be more in line with the normal growth eg matching inflation and cost increases. Any changes in Scottish funding will impact down to individual councils but will be affected by any protection of NHS or Council budgets, the relative population changes in individual councils and the impact of the floor mechanism.
- 4.14 The updated budget expenditure for 2015-16 is £243.7m.
- 4.15 With pay costs of around £140m then a 1% pay award would cost £1.4m per annum and a 2% pay award would cost £2.8m per annum. Over 5 year period a 1% pay award would add £7.0m to the Council's expenditure whilst a 2% pay award would add £14.0m.
- 4.16 Forecasting inflation over the medium term is challenging. The Bank of England target for inflation is 2% however the September consumer price index (CPI) was 1.2%. CPI is based on a basket of goods and services and whilst the actual level of price increases in an organisation will depend on the makeup of its cost base it is a useful general measure of inflation. Year to year the Council can consider the extent to which it allows for inflation on anything other than an unavoidable/inescapable basis but it is prudent to consider the medium/longer term impact of inflation. With non pay costs of around £100m then recurring inflation of 1% would cost £1.0m per annum and inflation of 2.5% would cost £2.5m per annum. Over a 5 year period inflation of 1% would add £5.0m to the Council's expenditure whilst inflation of 2.5% would add £12.5m.
- 4.17 Income from fees and charges that can be varied at the discretion of the Council is around £12m per annum. The Council may wish to increase these by more or less than the rate of inflation. The Council may wish to consider the service impact and impact on outcomes as well as the financial impact. Increases in fees and charges of 1% would increase income by £0.120m per annum and increases of 3% per annum would add £0.360m. Over 5 year period increases of 1% would reduce expenditure by £0.6m whilst increases of 3% would reduce expenditure by £1.8m.
- 4.18 The Council has experienced a variety of cost and demand pressures over the years. These have arisen from a range of sources. Cost and demand pressures can arise from new legislation, changes in Council

policy, an unavoidable increase in demand or cost of a service eg demographic changes or increased maintenance costs etc. The Council will want to review any necessity for cost and demand pressures each year. Looking to the longer term if no allowance is made for cost and demand pressures then obviously this would not add any additional costs to projected expenditure but should these arise they would need to be dealt with year to year. If £1m per annum was allowed for cost and demand pressures this would add £5m to the Council's expenditure over a 5 year period.

- 4.19 Funding is likely to reduce based on the overall public sector budget outlook – reductions are projected to be in the order of 1.6% per annum for period to 2018-19. It is likely this will be exacerbated in Argyll and Bute by the reducing population. Reductions of 2.7% for 2016-17 to 2018-19 followed by flat cash would see an overall reduction in funding of £20.0m over 5 years. Reductions of 1% for 2016-17 to 2018-19 followed by increases of 1% would see an overall reduction of £2.5m over 5 years.
- 4.20 Looking at the budget issues set out above gives a wide range of potential outcomes for the projected budget funding gap. The number of issues to be assessed over a 5 year period does lead to a significant range in the potential funding gap. In overall terms this could result in a cumulative funding gap of £10.2m to £50.9m – an average annual funding gap of between £2.04m to £10.18m.
- 4.21 The wide range of potential funding gaps helps to set out the extent to which relatively small movements in assumptions over a 5 year period can result in a significant change to the overall financial position of the Council. In trying to narrow down this range to a more likely scenario for planning purposes it is worth considering the latest forecast by Fiscal Affairs Scotland which suggests for the period 2015-16 to 2018-19 an average annual real terms reduction of 3.5% on the Scottish Barnett Block budget. After allowing for income from non domestic rates and council tax this real terms reduction falls to an average annual reduction of 2.7%. In cumulative terms then over 4 years this would equate to between a 14.0% and 10.2% reduction in expenditure. This would suggest a budget gap for the longer term of between £27m and £35m.

Options and Approaches

- 4.22 Four options have been identified for the Council to consider as a way forward for addressing the challenges and budget outlook set out above. The options build progressively from an annual incremental approach to budgeting through a structured longer term approach to identifying budget reductions through service choices to also considering proposals for investing for growth and development of a strategic infrastructure plan to finally adopting an approach that would also see the Council investing for income. The options are listed below

with a short explanation of each of the options and approaches in the paragraphs that follow. Members are not being asked to take a decision on each option or any of the approaches at this stage. The report is to make members aware of the options and approaches being considered and to seek member approval to investigate and report back to the December Policy and Resources Committee on each option and approach. An options appraisal would be completed as part of this investigation and reported back to members. There are 4 basic options or approaches to planning for the future and these are:

- Do minimum / do nothing type option based on minimum change, no strategic planning and annual review of corporate plans, service plan and budgets (annual planning budget cycle).
- Adopt a more structured approach to managing the budget challenge and service choices but without detail of investment for economic growth income and strategic infrastructure plan (longer term approach to budget cycle with prioritisation / choices).
- Adopt a more structured approach to managing the budget and service choices with a planned approach to investing for economic growth and a strategic infrastructure plan (longer term approach to budget cycle with prioritisation and investment plans for economic growth and strategic infrastructure).
- Adopt a more structured approach to managing the budget and service choices with a planned approach to investing for economic growth, a strategic infrastructure plan and investing for income (as above plus investing for income).

4.23 Option A would be similar to an incremental budgeting approach. There would be no longer term plan about how the Council was going to deliver on the SOA as corporate and service plans would be reviewed annually and there would be no strategic reallocations or reductions in budget as budgets would be adjusted up or down each year and savings identified annually.

4.24 Option B would see a more structured approach to managing the budget challenge. A longer term strategy would be developed to manage the financial position. Adopting a structured approach based on service choices would allow the Council to consider priorities. This would not specifically consider how the Council invests for economic growth, the infrastructure required to support that or how it uses its own resources and powers to invest for income.

4.25 Option C would see a more structured approach to managing the budget challenge. A longer term strategy would be developed to manage the financial position. Adopting a structured approach based on service choices would allow the Council to consider priorities. Developing an approach to investing for economic growth and a strategic infrastructure plan would set out how the Council planned to

support the SOA as well as balancing its budget over the longer term.

- 4.26 Option D would see a more structured approach to managing the budget challenge. A longer term strategy would be developed to manage the financial position. Adopting a structured approach based on service choices would allow the Council to consider priorities. Developing an approach to investing for economic growth and a strategic infrastructure plan would set out how the Council planned to support the SOA as well as balancing its budget over the longer term. In addition to all of these this option would also see the Council using the free balance in the General Fund to invest for income and where possible use this to establish an investment fund that could borrow to take forward projects that would generate an income stream and support the economy.

Service Choices

- 4.27 Service choices would be an approach that adopted a longer term structured approach to identifying members priorities in terms of services and the changes to budget as a result of that. It would be carried out in the context of the overall budget outlook set out above. Members would be involved at the stages where decisions are required which would be around initial selection of budget reductions; feedback of implications and confirmation of agreed option; sign off of the business plan (service, asset, HR and financial plans) for the revised service and implementation. This approach would also need a communications and engagement strategy.

Investing For Economic Growth

- 4.28 There is enormous economic potential in Argyll and Bute. This is recognised in the SOA. The challenge is how to turn that potential into a reality. There are 4 stages to this.
- Setting the agenda - This would set out background information on population and economy.
 - Securing commitment - Having established a clear case for economic development through the setting the agenda stage then securing commitment will focus on building a broad base of support for our case. This will include engaging with a wide range of stakeholders.
 - Policy and strategy into action - This element will focus on taking the case for which we have built a strong basis of support and developing of series of strategies, plans and measures and mapping out what we need to do to turn the economic potential into reality.
 - Resourcing - This will require significant resourcing – not just budget but application of effort and human resource. There are key aspects of this element in relation to marketing, promotion

and deal making; investing for income; provision of facilities, infrastructure, housing and how all of this relates to the ongoing day to day business of CPP partners. There is a need for involvement of all partners in the CPP. This stage also has strong linkages to investing for income, strategic infrastructure plan and service choices.

Strategic Infrastructure Plan

4.29 A Strategic Infrastructure Plan would be a long term document covering a 10 year period consistent with the SOA. It would set out how the Council ensured the right conditions and facilities are in place to support economic growth. Developing and resourcing the proposed Strategic Infrastructure Plan will allow Argyll and Bute to focus on the key economic goals to achieve a sustainable economy and identify the vital infrastructure that requires to be delivered to achieve these goals. It would address the following aspects:

- What key economic goals should Argyll and Bute be striving towards?
- What infrastructure projects are required as a priority to meet these economic goals?
- Where are these projects required in Argyll and Bute?
- When does the priority infrastructure need to be delivered?
- What will it cost and how can it be funded?
- Who will provide/maintain the priority infrastructure projects?

Investing For Income

4.30 Traditionally the Council has responded to these challenges by looking at a range of measures to reduce costs. This approach would consider options to increase income. The key issue in increasing income is to look at new income streams rather than looking to charge more for the same. This would include considering how to use the free balance on the General Fund and also how the impact of this could be maximised through prudential borrowing. This would also contribute to the SOA outcomes with the potential for this investment to create additional jobs and help stimulate the economy. It would also be used to lever in matched funding. The Council needs to give careful consideration to this approach as there are very clear risks and mitigation measures would need to be developed to manage these risks.

Next Steps

4.31 The Council is not in a position to come to a decision on which of the options and which of the approaches set out above to take forward. Before the Council takes a decision to move forward it will need further information on a number of matters.

- 4.32 The background information on the challenges and SOA will not change and whilst the budget outlook has been summarised in this report a more detailed set of budget forecasts will be prepared for December Policy and Resources Committee.
- 4.33 The variations between the options A to D relate to adoption of service choices, investing for economic growth, developing a strategic infrastructure plan and investing for income. This report seeks to make members aware of the options and each of the approaches and seek permission to investigate these in more detail and bring a report back to the December Policy and Resources Committee that sets out an options appraisal to assist members in determining the way forward.
- 4.34 All of the options have the potential for significant change. The key challenges, SOA commitments and budgetary outlook are all significant. Communications and engagement will be an important element of developing the approach to planning for delivery of the SOA. All 4 options will require a structured and considered approach to communications, consultation and engagement to ensure the people and communities of Argyll and Bute Council are well informed and have the opportunity to contribute to the way forward. Members are asked to note that officers are preparing plans to ensure members of the public and staff are able to express their views so these can be considered as the Council develops its approach to delivering on the SOA. Initially this is likely to involve providing information to raise awareness of the challenges and issues and seeking some high level feedback. A communications and engagement strategy will be developed for the December Policy and Resources Committee.

5 CONCLUSION

- 5.1 This report sets out 4 options and related approaches to support each options that would address to varying levels the key challenges, SOA commitments and longer term budgetary outlook facing the Council. It is proposed to complete an options appraisal on the 4 options and bring reports with more detail on the differing approaches to the December Policy and Resources Committee to allow members to give consideration to the way forward.

6. IMPLICATIONS

- 6.1 Policy – Whichever option is chosen there will be a range of policy issues that members need to consider in due course.
- 6.2 Financial – A high level longer term budgetary outlook is included in the report and this will continue to be refined.
- 6.3 Legal – Once an agreed option and set of approaches has been chosen the Council will need to bear in mind legal issues as it takes them forward.

- 6.4 HR – None directly in this report but whichever option is eventually selected there will without doubt be HR implications.
- 6.5 Equalities – None directly in this report but whichever option is eventually selected consideration will need to be given to any potential equalities implications.
- 6.6 Risk – All of the options and approaches (even do minimum/do nothing) will involve risks but also opportunities and the options appraisal will consider these in more detail.
- 6.7 Customer Service - None directly in this report but whichever option is eventually selected there will without doubt be customer service implications.

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20 November 2014