

**INTRODUCTORY REPORT AND RECOMMENDATIONS FOR BUDGET PAPERS**

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**1. EXECUTIVE SUMMARY**

- 1.1 This report introduces the full package of papers included in the budget packs in relation to the revenue and capital budgets. The following papers and their purpose are included in the budget packs in relation to the revenue and capital budgets.

**REVENUE PACK**

**Budget Consultation – Findings Report**

- 1.2 This report summarises the feedback provided by local communities to the Council's budget planning consultation.
- 1.3 More than 1,700 people responded to the consultation providing views on what matters most about the role and services of the Council, on making savings and on the Council and communities working together.

**Service Plans 2017-20**

- 1.4 This report is to present the draft Service Plans for 2017-20. The Strategic Management Team agreed at their meeting on 19 September 2016 to proceed with three year service plans, including one year budget information.

**Revenue Budget Overview**

- 1.5 This report summarises the overall revenue budget position covering funding, expenditure and savings. It also sets out the assumptions and proposals around non-pay inflation and the cost and demand pressures for inclusion in the revenue budget.
- 1.6 The funding for 2017-18, net of ring-fenced grants is £189.774m. Included within the funding is a distribution in respect of the Council Tax Reduction Scheme (CTRS) programme and administration. For 2017-18 it was agreed that 10% of the funding would be held back and distributed to authorities in December 2017 in order to ensure that the distribution reflects the changes to the Council Tax band multiplier. The reduction between 2016-17 and 2017-18 amounts to £0.623m and it is assumed that this amount will be distributed later this year. The total funding, including this 10% hold-back would therefore be £190.397m. The change in funding, excluding ring fenced grants, between 2016-17 and 2017-18 is a reduction of £6.305m or 3.2%.
- 1.7 The Council Tax income for 2016-17 was agreed as £41.314m and this is the starting position for 2017-18. The proposed changes to the Council tax income are noted below:

- An estimate of Council Tax growth at 0.5% resulting in estimated additional income of £0.207m.
- End the Council Tax discount on second homes from April 2017 which will raise an additional £0.380m.
- End to the Council Tax freeze and replace with a 3% increase which will raise an additional £1.239m.
- Change to the Council Tax bands E, F G and H as directed by the Scottish Government which raises an additional £2.306m.
- Reflect saving option CSS02h agreed as part of the budget in February 2016 applying landlord penalties where applicable and increasing Council Tax income by £0.030m.

1.8 The budget for 2016-17 has been rolled forward into 2017-18 and the main changes to the 2017-18 budget are summarised below:

- Base budget adjustments resulting in a reduction to the base of £1.819. The main adjustments are in relation to a reduction in loans charges, removal of one-off cost pressure for Broadband Pathfinder project agreed last year, adding back unitary charge budget used in 2016-17 as a one-off saving, increase to the Health and Social Care Partnership in relation to the Scottish Living Wage and financial settlement adjustments.
- Employee cost increases amounting to £2.187m relating to pay inflation, pay increments, the estimated cost of auto enrolling all existing employees into the superannuation scheme from 1 October 2017 and a downward adjustment to the employee base.
- Allowance for unavoidable/inescapable non-pay inflation of £0.643m.
- Cost and demand pressures amounting to £2.064m which includes £1.527m pressures relating to Integration Services with the remaining £0.537 for Council services.
- Additional Income of £0.313m from applying a standard 3% increase to most fees and charges and additional income from introducing a new charge for Adult Education courses.
- Service Choices savings agreed at Council last February and adjusted to reflect the delay/shortfall on the Catering and Cleaning saving and the Leisure Trust saving. Net savings amount to £2.522m.
- Management Operational savings agreed at Council last February amounting to £0.101m.
- Efficiency Savings as reported to Council on 24 November 2016 amounting to £1.377m deliverable in 2017-18.

1.9 Local authorities have been advised that they are able to adjust their allocations to Integration Authorities in 2017-18 by up to their share of £80m below the level of budget agreed with their Integration Authority for 2016-17 (as adjusted where agreed for any one-off items of expenditure which should not feature in the baseline). Argyll and Bute's share of the £80m has been confirmed as £1.450m. The adjustment to the allocation implies that any cost increases (inflation and pressures) for Integration Services will require to be met from their overall allocation of funding within the Health and Social Care Partnership and these total £2.137m for 2017-18.

1.10 Members agreed to all the changes noted within this report, this would produce a

balanced budget for 2017-18 with a surplus of £2.580m.

- 1.11 The indicative budget for 2018-19 and 2019-20 outlines that the budget gap in 2018-19 is £3.519m rising to £9.300m in 2019-20. This gap is in essence the savings target for the following two years. The approach to meeting the savings target will be inclusive of efficiencies, transformational change and also service reductions and detailed proposals will be developed, using the financial strategy principles, and will be brought back to Members at a future budget setting meeting.

### **Fees and Charges**

- 1.12 This report sets out proposals for increases in fees and charges and the resulting impact on income included in the revenue budget.
- 1.13 The general increase to fees and charges is proposed at 3% for 2017-18. This was the increase applied each year between 2013-14 and 2015-16, with a 6% increase applied in 2016-17. There are some exceptions to the general increase and these are outlined within the report. The increase would equate to additional income of £0.309m.
- 1.14 To increase income generation, the Council's Transformation Working Group has worked with the Community and Culture services to develop a leisure based non vocational adult education course. The forecasted net income to be generated in 2017-18 is circa £0.004m. This is in addition to the proposed inflationary increase of £0.309m.

### **Revenue Budget Monitoring Report as at 31 December 2016**

- 1.15 This report provides a summary of the current revenue budget monitoring position to ensure net expenditure is contained within budget. It provides corporate and departmental information with comparisons on a forecast outturn and a year to date basis.
- 1.16 The forecast outturn as at the end of December is an underspend of £1.632m. The majority of the underspend is either one-off or as a result of careful financial management. Where relevant any impact on next year has been accounted for within the 2017-18 budget estimates. The underspend mainly relates to:
- forecast saving in loans interest payments of £0.900m due to effective management of the Council's cash and borrowing position,
  - vacancy savings in excess of target amounting to £0.533m due to careful management of posts in advance of future saving requirements,
  - additional anticipated income from berthing, car and passenger dues since the introduction of RET, £0.200m,
  - saving of £0.500m in utilities due to a reduction in energy costs and also the corporate approach adopted to monitor and manage utilities,
  - procurement and fuel cost savings of £100k,
  - offset by a shortfall in planning fees of £0.160m, an anticipated overspend within winter maintenance and a shortfall in savings due to the delay in implementing service choices savings options.

- 1.17 The Strategic Management Team have agreed to develop 11 digital transformation options and Members are asked to approve in principle that £0.172m of the Customer Services estimated underspend is earmarked and carried forward to be used to develop detailed business cases and to support the work of the Transformation Board. This would reduce the forecast underspend to £1.460m.

### **Financial Risks Analysis 2017-18**

- 1.18 This report set out the risks identified as part of preparing the revenue budget and makes an assessment of the potential financial impact of these. The financial risks are monitored routinely throughout the year and actions put in place to mitigate risks.
- 1.19 A number of Council wide risks, both revenue and capital have been identified along with risks for each department and service of the Council. For each departmental risk the financial impact has been quantified and the likelihood assessed based on the standard risk matrix.
- 1.20 Whilst a total of 42 departmental risks totalling £4.159m have been identified, only 3 of the risks are categorised as likely and no risks have been categorised as almost certain.

### **Reserves and Balances**

- 1.21 This report summarise the reserves and balances, sets out an analysis of risk around the adequacy of reserves and balances and proposes a level of contingency to be held in the General Fund Reserve.
- 1.22 The Council has a total of £57.115m usable reserves as at the end of 31 March 2016. Of this balance, £0.671m relates to Repairs and Renewals Fund, £4.027m relates to Capital Funds and the remainder is held in the General Fund, with £43.272m of the balance earmarked for specific purposes.
- 1.23 The unallocated General Fund balance as at the end of 31 March 2016 amounts to £4.402m. £0.010m has already been committed towards the Amberg-Sulzbach Twinning and £0.110 towards the increased Scottish Living Wage costs incurred by the Health and Social Care Partnership in 2016-17. There is £0.056m of earmarked reserves no longer required and a balance £0.006m of budgeted surplus in 2016-17. This gives a revised unallocated General Fund balance of £4.344 prior to the budget being approved. Added to this amount would be the surplus of £2.580m created if the proposed budget is approved as well as a reduction in the contingency required of £0.077m to re-base on the 2017-18 budget position. This would leave an unallocated balance remaining of £7.001m.
- 1.24 The forecast underspend for 2016-17 is currently estimated at £1.460 (after adjusting for carry forward for digital transformation/Transformation Board of £0.172m) which could increase the balance as at 31 March 2017 to £8.461m, however, this is an estimated position and is subject to change.
- 1.25 The General Fund contingency level remains at 2% of net expenditure. This monetary level has been adjusted to take account of the revised net revenue expenditure proposed for 2017-18, thereby releasing £0.077m back into the

unallocated General Fund balance. The revised contingency at 2% of net expenditure amounts to £4.666m.

## **CAPITAL PACK**

### **Capital Plan Summary**

- 1.26 This report summarises the base capital budget previously approved, profiling and phasing changes, cost increases, overall capital commitment and capital funding to bring out the net level of capital funding available. Separate appendices set out proposed additions to the capital plan, the phasing and cost changes and the resulting proposed capital plan.
- 1.27 There is an increase in the capital funding available of £2.738m as a result of:
- An increase in the General Capital Grant advised for 2017-18 of £2.490m and an increase to the 2016-17 reallocated to future years of £0.004m.
  - An increase to the assumption on the likely level of capital grant for 2018-19 and 2019-20 of £1m for each year, raising the estimate from £12m to £13m each year.
  - Additional Specific Grant in respect of Cycling, Walking and Safer Streets of £0.119m.
  - A reduction in the likely level of capital receipts by £1.875m.
- 1.28 When the capital plan was updated at the Council meeting on 18 August 2016, there was an under commitment at that time of £1.812m and it was agreed to earmark this as a contingency against implementation and development of the capital programme.
- 1.29 The revised under commitment, taking into consideration the change in capital funding is £4.550m. There are three proposals to be funded from this balance, leaving an uncommitted balance of £3.231m.
- Legionella related Property Works – estimated to cost around £1.000m.
  - Stage 2 submission of Rothesay THI project - £0.200m.
  - Cycling, Walking and Safer Streets £0.119m (matched to specific grant).

### **Corporate Asset Management Strategy**

- 1.30 This report outlines the overall approach to managing the asset base of the Council.

### **Corporate Asset Management Plan**

- 1.31 This report identifies key issues for this planning cycle in managing the asset base, the proposed actions and any red risk assets not addressed through the proposed Capital Plan.

### **Service Asset Management Plans**

- 1.32 There are Service Asset Management plans for each department including the Argyll and Bute Health and Social Care Partnership. Each plan summarises the asset base, arrangement for managing assets and key issues for individual departments.

## 2. RECOMMENDATIONS

2.1 It is recommended that the Council:

- a) Note and give consideration to the findings from the Council's budget planning consultation.
- b) Approve all service plans, subject to updating the budget figures in line with the budget agreed for 2017-18.
- c) Approve the revenue budget for 2017-18 as set out in the revenue budget overview report. This would result in a surplus of £2.580m that would be transferred into the General Fund balance.
- d) Agree that officers undertake work to develop a medium to longer term financial strategy incorporating the principles as noted in the revenue budget overview report (paragraph 3.12).
- e) Approve the 2017-18 allocation to the Health and Social Care Partnership of £54.223m.
- f) Approve the proposals for the fees and charges inflationary increase and resulting increase in income and to approve the two new charges as outlined within the fees and charges report.
- g) Note the revenue budget monitoring position as at 31 December 2016 and approve in principle that £0.172m of the Customer Services estimated underspend is earmarked and carried forward to be used to develop detailed business cases in respect of 11 digital transformation options and to support the work of the Transformation Board.
- h) Note the financial risks analysis.
- i) Approve the contingency level for the General Fund balance at a level of 2% of net expenditure, equivalent to £4.666m and note the report on reserves and balances.
- j) Approve the revenue estimates for 2017-18 and that consequently the local tax requirement estimated at £45.476m is funded from Council Tax.
- k) Approve the following rates and charges for the year, 2017-18:
  - Council Tax to be paid in respect of a chargeable dwelling in Band "D" of £1,213 representing a 3% increase.
  - Council Tax to be paid in respect of a chargeable dwelling in each of the other valuation bands in accordance with Section 74(1) of the Local Government Finance Act 1992 as amended.
  - Business Rates as determined by Scottish Ministers.
- l) Note the previous approval by Policy and Resources Committee on 27 October 2016 and Council on 24 November 2016 to remove the 10% discount

on second homes with the additional income retained by the Council.

- m) Approve the phasing and cost changes and the proposed additions as set out in appendices 2 and 3 of the capital plan summary report.
- n) Approve the capital plan as set out in appendix 4 of the capital plan summary report.
- o) Approve the following additions to the capital plan:
  - Legionella related Property Works – estimated to cost around £1.000m.
  - Stage 2 submission of Rothesay THI project - £0.200m.
  - Cycling, Walking and Safer Streets £0.119m (matched to specific grant).
- p) Approve the Corporate Asset Management Strategy.
- q) Approve the Corporate Asset Management Plan.
- r) Approve the Service Asset Management Plans and ICT Group Asset Management Plan.

### **3. IMPLICATIONS**

- 3.1 Policy – There are policy implications associated with the Service Choices savings options agreed in February 2016 which impact 2017-18 and beyond. The revenue overview report set out the principles that will underpin the council's medium to longer term financial strategy. The capital pack sets out the approach to capital planning.
- 3.2 Financial – The report outlines the revenue budget position over 2017-18 to 2019-20 and the funding and commitments for the capital plan 2017-20.
- 3.3 Legal – Any legal implications have and will be considered when developing the savings options required for the revenue budget. The funding for new capital expenditure may not address all the statutory and regulatory requirements in relation to health and safety.
- 3.4 HR – Any HR implications have and will be considered when developing savings options required for the revenue budget. There are risks that the capital funding available will have an impact on the sustainability of the property design team and the design team within Roads and Amenity Services.
- 3.5 Equalities – Equality Impact Assessments have been carried out where appropriate for savings options already agreed. Equality Impact Assessments will be a key consideration in developing future savings proposals.
- 3.6 Risk – There is a separate report assessing financial risks and there is also an overall assessment of risk included within the separate report on Reserves and Balances. In respect of the capital programme, there are risks arounds the level of capital receipts, future grant funding and funding for the new/refurbished schools programme which could result in red risk assets not being addressed.

- 3.7 Customer Service – There may be some customer service implications arising from the Service Choices savings agreed in February 2016. Future customer service implications will be considered when developing savings options.

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**6 February 2017**

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