MEDIUM TO LONG TERM FINANCIAL STRATEGY

2018-19 TO 2027-28

SEPTEMBER 2017

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1. INTRODUCTION

1.1 Argyll and Bute is the second largest geographical council area in Scotland with the highest number of inhabited islands. We face challenges in terms of higher than average levels of population decline and demographic ageing.

1.2 The Community Planning Partnership in Argyll and Bute has agreed an ambitious, joint agenda to tackle this, working towards achieving Economic Success through a growing population. Our shared Argyll and Bute Outcome improvement Plan has 6 Outcomes:

- The economy is diverse and thriving
- We have infrastructure that supports sustainable 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.

1.3 The Council's Corporate Plan sets out how the Council will deliver on these by aligning our Business Outcomes directly with these strategic outcomes and by delivery of our Mission which is to Make Argyll and Bute a Place People Choose to Live, Learn, Work and do Business. This aims to deliver a prosperous future for everyone in Argyll and Bute.

1.4 This focus on growth, attracting and retaining population and creating prosperity for everyone is at the centre of our Medium to Long Term Financial Strategy. It drives our approach to Transformation, recognising that as an organisation we are focussing on the long term vision, the delivery of key and essential services all within the context of financial challenge.

1.5 A medium to long term financial strategy is essential to ensure that the challenges the Council faces are addressed in the most effective way. The principal objectives of the financial strategy are:

- Outline Argyll and Bute Council's high level financial position over the years 2018-2028 based on a range of assumptions.
- Highlight the key issues that have been considered in developing the strategy.
- Ensure that available resources are focused on delivery of the Council's key priorities.
- Plan for a sustainable revenue budget and capital investment programme which will support the Council's key priorities.
- Ensure that the Council is fully aware of the financial challenges and uncertainties that it faces and is in a strong position to continue to deliver the best possible quality and range of services within available resources.

- Increase the wider community's understanding of the Council's financial position and the challenges it is facing over the next ten years in balancing its budget.

1.6 The strategy covers the period 2018-19 to 2020-21 in detail and provides very high level estimates for 2021-2028. It is based on a set of assumptions and provide a range of potential scenarios and the financial implications.

1.7 The strategy will be reviewed annually as part of the Council's budget setting process and will reflect changes to any of the underlying assumptions. The medium term estimates will be reviewed more regularly and reported to the Policy and Resources Committee.

1.8 The inclusion of information in the Strategy does not infer approval and all financial estimates and issues will have to be subject to approval through the budget process.

2. CURRENT ECONOMIC CONTEXT

2.1 Introduction

2.1.1 With so many external influences impacting on the economy, forecasting remains very difficult. Progress with Brexit negotiations are ongoing but uncertainty still remains as to what the economic implications are. If there is a downturn in economic activity within the UK this could lead to further public sector expenditure restraint.

2.1.2 The Office for Budget Responsibility (OBR) states that the Government does not appear to be on track to meet its stated fiscal objective to "return the public finances to balance at the earliest possible date in the next Parliament". The deficit falls little in 2020-21 and 2021-22, while the ageing population and cost pressures in health are likely to put upward pressure on the deficit in the next Parliament ①.

2.2 Gross Domestic Product and Inflation Indicators

2.2.1 The Gross Domestic Product (GDP) is one of the primary indicators used to gauge the health of a country's economy. Usually GDP is expressed as a comparison to the previous quarter or year.

2.2.2 Real GDP grew by 0.7% in the final quarter of 2016 and GDP grew by 1.8% over the year as a whole. The OBR expects the level of GDP in 2021 to be broadly the same as it forecast at Autumn Statement 2016, although the profile of growth has changed. The OBR now forecasts GDP growth of 2.0% in 2017, 1.6% in 2018, and then 1.7% in 2019, 1.9% in 2020 and 2.0% in 2021 ①.

2.2.3 In the event of lower GDP growth, resulting in lower revenues, there are 3 options for the UK government:

- impose higher tax levels, although in the case of the biggest tax sources (IT/NIC/VAT) this conflicts with past election pledges
- increase borrowing, although this conflicts with the existing fiscal target;
- reduce spending, most likely on Departmental budgets.

2.2.4 UK inflation, as measured by the Consumer Prices Index (CPI) was 2.9% in the year to August 2017, an increase from 2.6% in July 2017 and the highest level in 4 years ②. A higher inflation puts further pressure on services.

2.3 Outlook for Scottish Budget ③

2.3.1 In Scotland, the spending available to Local Government is dependent on the Scottish Government's budget priorities. These include:

- A commitment to increase health spending by £500m more than inflation by the end of this parliament

- To maintain real terms spending on policing
- To double free childcare provision
- To invest an additional £750m in a school attainment fund.

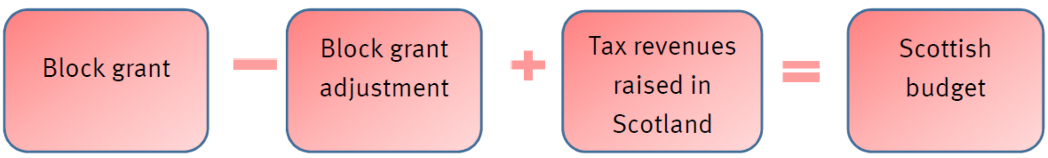
2.3.2 Taking these commitments just on their own mean that over half the Scottish budget can be viewed as “protected”. When certain areas of expenditure are protected, “non-protected” areas will shoulder a greater share of the burden. As an illustration, delivering on just four budgetary priorities - health, policing, childcare and educational attainment – could mean that “non-protected” areas, such as Local Government, face real terms cuts of between 9% and 14% over the parliamentary term (2016-17 to 2020-21).

2.3.3 On top of this can be added other commitments and priorities like free higher education, tuition, college places, free personal and nursing care and funding for school education. The 2017 Programme for Government confirmed that the government will lift the 1% pay cap. A 3% increase in pay – in line with inflation – could cost around £350m to £400m even accounting for the higher tax revenues the government could receive back.

2.3.4 All of this leaves the non-education elements of local government as the largest part of the budget which could be categorised as “non-protected” – re-igniting the debate about the future of local government.

2.4 New Fiscal Powers

2.4.1 The fiscal responsibilities of the Scottish Parliament are expanding rapidly, with new powers over taxation and welfare. Around 40% of devolved expenditure will now be funded by tax revenues collected in Scotland – a figure that will rise to 50% once VAT revenues are assigned. This makes the determinations of the Scottish budget significantly more complex than it has been in the past. In the past, the resources available to the Scottish Government essentially depended on the block grant from Westminster. In future, in addition to the block grant itself, the resources available to the Scottish Government will depend on a complex interaction between the revenues from taxes transferred to the Scottish Government and the revenues from the equivalent taxes in the rest of the UK. The process is set out in the following diagram.



2.4.2 Under the new fiscal framework, Scotland’s budget will be no better and no worse off relative to the historic funding arrangement, provided growth in Scotland’s devolved revenues matches the growth of comparable revenues in the rest of the UK (rUK). If Scotland outperforms the UK on this basis then resources will rise, if Scotland underperforms, resources will fall. These new fiscal powers come at a time when the Scottish economy remains fragile. Growth in Scotland has been much weaker than for the UK economy for most of the last two years. Annual Scottish Growth is currently just 0.4% compared to 1.9% for the UK ③.

2.4.3 In order to set its budget each year, and in order to undertake medium term financial planning, the Scottish Government will need forecasts of the Scottish revenues. The Scottish Fiscal Commission (SFC) has been established to make the Scottish forecasts. Twice each year, the SFC will make a 5-year forecast for each of the Scottish revenues, and for spending on the social security benefits being transferred to Scotland. The SFC will also make a forecast for growth in Scottish onshore GDP.

2.4.4 The SFC was established as a statutory, non-Ministerial Department in April 2017 and is operationally independent of the Scottish Government. It will produce its first official forecasts later this year (2017), alongside the Scottish Budget.

2.4.5 The EY ITEM Club, a non-governmental forecasting group, produces separate forecasts, using Treasury's model, for both the UK and Scottish Economies. The Scottish Summer Forecast (July 2017) was entitled "Scotland's stagnating growth". Their view is that the Scottish economy has stalled with non-oil GDP growth of 0.4% compared to 1.8% for the UK. The forecast for 2017 is for growth of 0.9% for Scotland and 1.8% for the UK ④.

2.5 Summary

2.5.1 In summary, if the commentators are correct, the outlook for the Scottish economy brings a number of challenges. These challenges together with the protection of Scottish Government priorities indicate that cuts to Local Government are set to continue.

① Office of Budget Responsibility March 2017 Economic and Fiscal Outlook Report
② Office of National Statistics
③ Fraser of Allander institute – Scotland's Budget Report 2017
④ EY Scottish ITEM Club - Scotland's stagnating growth - Summer update 2017

3. REVENUE BUDGET

3.1 Medium Term Budget Outlook Reports

3.1.1 Medium Term Budget Outlook reports are updated with the latest assumptions and provided to Members on a regular basis.

3.1.2 During 2016-17, budget outlook reports were presented to the Policy and Resources Committee on 18 August 2016, 27 October 2016, 15 December 2016 and further report/updates at the Members Seminars held on 16 January 2017 and 30 January 2017.

3.1.3 The first report for 2017-18 was presented to the Policy and Resources Committee on 17 August 2017 and plans are in place to provide updates to the Policy and Resources Committee on 19 October 2017 and 8 December 2017. Following the Local Government settlement announcement, a further report will be prepared prior to the budget meeting on 22 February 2018.

3.2 Scenario Planning

3.2.1 The medium term revenue budget outlook report was previously presented using best and worst case scenarios, however, this has now been updated to include three different scenarios, best case, worst case and mid-range.

3.2.2 Scenario planning is an alternative to conventional forecasting that is better suited to an environment with numerous uncertainties. Conventional forecasting encourages organisations to focus on a narrow range of possibilities centred on a single view about the most likely future outcome. Scenario planning, in contrast, does not attempt to use a series of static assumptions to predict the future. Rather, it generates a dynamic series of plausible outcomes that generates a range of possibilities. Relatively small variations in assumptions can lead to fairly significant changes in the outcome. Whilst the outcome will no doubt differ from the scenarios outlined here, they provide a useful illustration of the overall financial envelope.

3.2.3 Beyond three years, prediction does become more difficult, particularly due to the current financial climate we are in. The Council are in a period of one year settlements which doesn't give any degree of certainly into the medium term. The ring fencing of monies limits what we can do and additional policy and legislative implications, not always fully funded, puts financial pressures on Councils.

3.3 Baseline Position

3.3.1 The starting point for forecasting forward, is to use the current year's budget as the baseline. The Council agreed the 2017-18 budget at its meeting on 23 February 2017 and the table below provides a summary of the budget agreed.

	£000
Base budget	236,299
Employee increase	2,187
Non-Pay Inflation	643
Cost and Demand Pressures	2,064
Funding for AITC	50
Refuse Collection one-off allocation	200
Additional Income Fees and Charges inflation	(313)
Service Choices Savings	(2,522)
Management/Operational Savings	(101)
Efficiency Savings	(1,377)
Adjustment to HSCP	(1,450)
Net Expenditure	**235,680**

3.3.2 In terms of using this budget as the base budget going forward, there are a number of one-off items agreed as part of the 2017-18 budget that need to be adjusted for and these are noted as follows:

	£000
Remove:	
Health and Social Care Partnership 2017-18 cost pressures approved on a one-off basis	(2,137)
One-off funding agreed for amenity services etc.	(200)
One-off cost pressure for Catering and Cleaning Management post	(56)
Add Back:	
One-off reduction in loans charges for 2017-18 only	500
One-off reduction to New Schools NDR in 2017-18	267
Reduction to revenue baseline budget	**(1,626)**

3.3.3 There are also other adjustments to the base budget as follows:

- In February 2014, the Council agreed to increase the Education budget by £0.150m time limited to 4 years to allow for a 4 year programme of painting Education establishments. This funding comes to an end in 2017-18 and this amount will be removed from the base budget.
- As reported in previous years, the loans charges profile is being reduced by £1.000m each year, with the final reduction in 2019-20. A further review has been carried out and there is scope for a further £1m in saving.
- The Council agreed to continue to fund the Argyll and the Isles Tourism Co-operative (AITC) for a further three years, £0.050m in 2017-18, reducing to £0.040m in 2018-19 and reducing to £0.030m in 2019-20.

- The pay award for 2017-18 has now been agreed for Chief Officials, Craft Workers and employees whose terms and conditions of service come within the framework of the Scottish Joint Council Local Government Employees. The finalised agreements will cost council services, excluding the Health and Social Care Partnership an additional £0.117m. There will also be additional apprenticeship levy of £0.006m as a result of the increase (0.5% of pay).
- There are two surplus balances sitting against two European Projects: Transnational Project and Atlantic Area Spatial Development Perspective. The European Programmes have stopped and time has lapsed for audit/repayment of any balances and therefore this is a one-off base adjustment that can be reflected within 2018-19.

3.3.4 The table below summarises the base budget for 2018-19.

	2018-19 £000
Base Budget 2017-18	235,680
One-off adjustments	(1,626)
Education painting – end of 4 year funding	(150)
Loans Charges	(2,000)
AITC	(10)
Additional Cost of Pay Award	123
One-off European Projects	(249)
Base Budget	**231,768**

3.4 Medium Term Budget Gap Scenario Assumptions

3.4.1 The assumptions used within the medium term budget gap are noted in the following table:

Assumption	**Best Case**	**Mid-Range**	**Worst Case**
Loans Charges	Remove £1.0m in 2019-20 profile already advised to Council.	As Best Case.	As Best Case.
Argyll and Isles Tourism	Reduce the funding to Argyll and Isles Tourism, by a further £0.010m in 2018-19 and remove funding in 2020-21 (end of three year agreement).	Reduce the funding to Argyll and Isles Tourism, by a further £0.010m in 2018-19 and remove funding in 2020-21 (end of three year agreement).	Reduce the funding to Argyll and Isles Tourism, by a further £0.010m in 2018-19 and retain same level of funding as 2018-19 for future years.
Pay Award	1.5%	2.0%	2.5%

Increments	None - absorbed within current provision.	Increments equal to 50% of the amount required in 2017-18.	Increments equal to amount required in 2017-18.
Auto-enrolment – estimate of % of staff who will remain in scheme once auto-enrolled in October 2017	40%	60%	100%
Non-pay Inflation	Allowance for unavoidable/inescapable inflation only.	Allowance for unavoidable/inescapable inflation only.	Allowance for unavoidable/inescapable inflation plus 1% general inflation each year.
Identified Cost and Demand Pressures	Various identified cost pressures.	As Best Case.	As Best Case.
Unidentified Cost and Demand Pressures	No Allowance.	£0.250m from 2019-20 on the basis that cost and demand pressures already identified for 2018-19.	£0.500m each year.
Fees and Charges inflationary increase	5%	3%	1%
HSCP Funding	Year on year reduction to HSCP funding equal to the amount permitted in 2017-18.	Mid-point of best and worst case.	No reduction to funding permitted.
Scottish Government Funding Reduction	3.5% reduction	4.0% reduction	4.5% reduction
Council Tax Growth	0.25%	0.50%	0.75%
Increase in Council Tax	3%	As best case.	As best case.

3.5 Medium Term Budget Gap

3.5.1 The medium term gap within the best case scenario is noted below.

	2018-19 £000	**2019-20 £000**	**2020-21 £000**
Base Budget	231,768	231,007	230,977
Employee Cost Changes	1,474	3,149	4,849
Non-Pay Inflation	910	1,820	2,730
Cost and Demand Pressures	1,588	2,409	2,340
Fees and Charges	(517)	(1,034)	(1,551)
Savings Already Agreed	(1,396)	(1,396)	(1,396)
HSCP Payment Adjustment	(1,450)	(2,900)	(4,350)
Total Estimated Expenditure	**232,377**	**233,055**	**233,599**
Total Estimated Funding	**231,525**	**226,885**	**222,547**
Budget Surplus / (Gap) Cumulative	**(852)**	**(6,170)**	**(11,052)**
Budget Surplus / (Gap) In Year	**(852)**	**(5,318)**	**(4,882)**

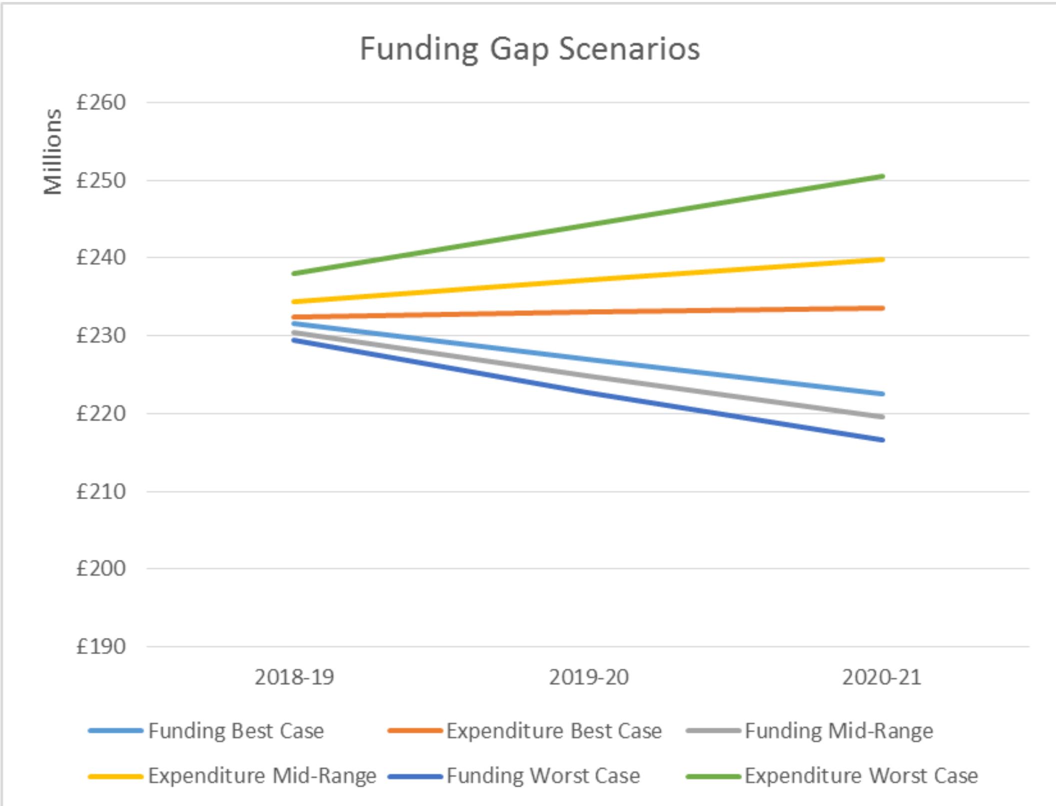
3.5.2 The medium term gap within the mid-range scenario is noted below.

	2018-19 £000	**2019-20 £000**	**2020-21 £000**
Base Budget	231,768	231,007	230,977
Employee Cost Changes	2,487	5,058	7,674
Non-Pay Inflation	910	1,820	2,730
Cost and Demand Pressures	1,629	2,718	2,919
Fees and Charges	(310)	(620)	(930)
Savings Already Agreed	(1,396)	(1,396)	(1,396)
HSCP Payment Adjustment	(725)	(1,450)	(2,175)
Total Estimated Expenditure	**234,363**	**237,137**	**239,799**
Total Estimated Funding	**230,455**	**224,805**	**219,513**
Updated Budget Surplus / (Gap) Cumulative	**(3,908)**	**(12,332)**	**(20,286)**
Updated Budget Surplus / (Gap) In Year	**(3,908)**	**(8,424)**	**(7,954)**

3.5.3 The medium term gap within the worst case scenario is noted below.

	2018-19 £000	2019-20 £000	2020-21 £000
Base Budget	231,768	231,007	231,007
Employee Cost Changes	3,638	7,110	10,653
Non-Pay Inflation	1,850	3,700	5,550
Cost and Demand Pressures	1,671	3,028	3,499
Fees and Charges	(103)	(206)	(309)
Savings Already Agreed	(1,396)	(1,396)	(1,396)
HSCP Payment Adjustment	500	1,000	1,500
Total Estimated Expenditure	**237,928**	**244,243**	**250,504**
Total Estimated Funding	**229,387**	**222,738**	**216,510**
Budget Surplus / (Gap) Cumulative	**(8,541)**	**(21,505)**	**(33,994)**
Budget Surplus / (Gap) In Year	**(8,541)**	**(12,964)**	**(12,489)**

3.5.4 The medium term funding gap for each of the scenarios is shown in the chart below.



3.6 Longer Term Outlook

3.6.1 As noted, beyond three years, prediction does become more difficult. There are a number of uncertainties including any impact as a result of

Brexit, impact of changes to fiscal responsibilities and any future protection/impact due to Education reform. These issues all have bearing on the distribution of Scottish Government funding to local authorities.

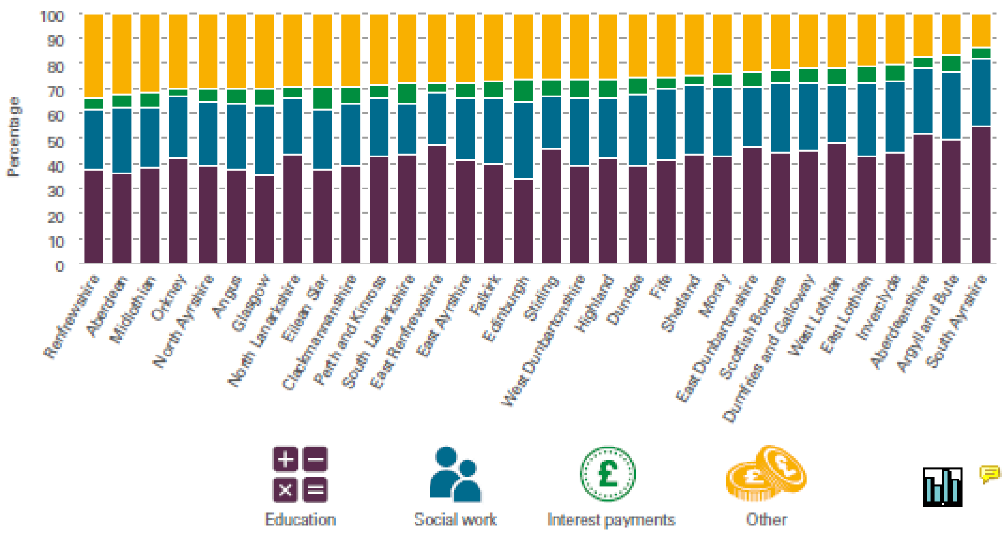
3.6.2 If the medium term estimates were used to project out to 10 years, the mid-range funding gap by year 10 could be in the region of £60m. This assumes a continued year on year reduction to Scottish Government in addition to the expenditure assumptions as noted previously.

3.6.3 Audit Scotland produced an exhibit, shown below, within their Financial Overview Report for 2015-16 published in November 2016 that showed the percentage of council income spent on education, social work and interest payments in 2015-16. It demonstrated the remainder of the budget that the Councils had left to spend on other services, and due to teacher pupil ratio restrictions and Health and Social Care Integration, the level of budget that the Council has discretion over.

Exhibit 17

Percentage of councils' income spent on education, social work and interest payments, 2015/16

Savings may be more difficult to identify where councils devote more spending to education, social work and paying interest on their external debt.

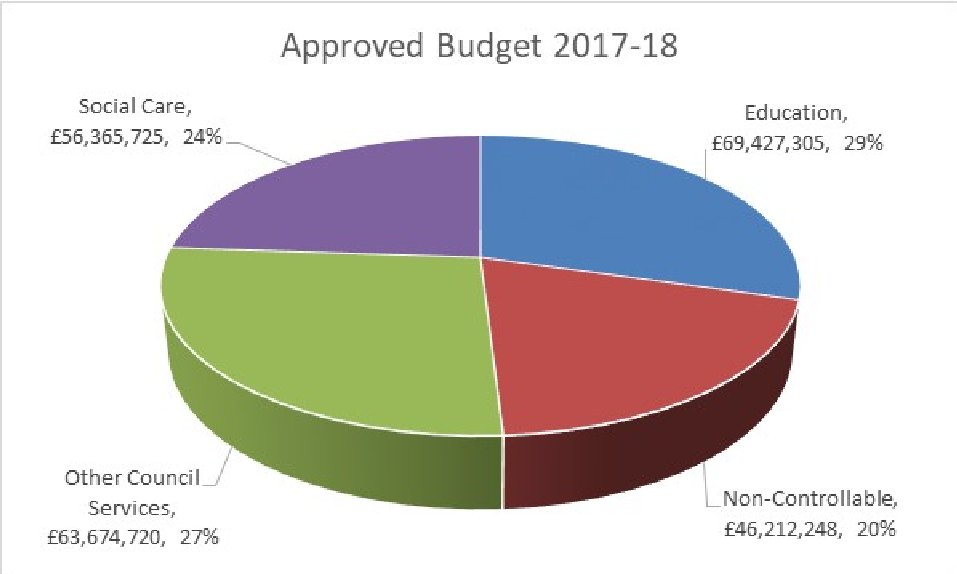


Notes: 1. Figures are from councils' accounts and include interest payments totalling £814 million, including annual interest costs associated with PFI/PPP/NPD projects. 2. The £1.5 billion debt servicing costs quoted elsewhere are on a funding basis and are not directly comparable for the purposes of this analysis and includes the annual repayments of debt related to PFI/PPP/NPD projects. 3. For the purposes of this analysis net spending on social work services includes money directed to and from Integration Authorities.

Source: Councils' audited accounts 2015/16

3.6.4 The net spending on education, social work and interest payments on external debt equates on average to almost 75% of local government income from general revenue grants, NDR, council tax and council housing rents. Councils with a higher proportion of spending on education, social work and debt repayment may face greater challenges in generating their required savings, and potentially face making more significant savings in other areas.

3.6.5 Argyll and Bute Council has the second lowest proportion of remaining budget demonstrating that it is much more difficult to identify opportunities to deliver the required level of savings. The Argyll and Bute position is shown in the chart below:



3.6.6 A wider consideration as to the financial sustainability of local government will be required if the cuts and protection to specific areas of the Scottish Government funding continues beyond the medium term. This view is also outlined in the latest Fraser of Allander Institute Scotland's Budget Report 2017. When commenting on protected and unprotected services (Local Government being one of the unprotected services) they go on to say that this re-ignites the debate about the future of Local Government finance.

4. CAPITAL PLAN

4.1 Funding the Capital Plan

4.1.1 Funding for the capital plan comes from Scottish Government (General Capital Grant and Specific Ring-Fenced Capital Grants), other capital grants (including European Funding), capital receipts from asset disposals, revenue contributions to capital, prudential borrowing and borrowing funded by the loan charges provision in the revenue budget.

4.1.2 Under the new fiscal framework, the decision to devolve tax powers and the complex arrangements for adjustment to the block grant will not apply to capital spending. The Scottish Government will still largely just receive a grant for capital spending from the UK Government. The capital block grant is expected to increase year on year through to 2020-21.

4.2 Medium Term Capital Plan Agreed February 2017

4.2.1 The Council agreed a 3 year capital plan at its meeting on 23 February 2017 and the table below provides a summary of the plan agreed.

Department	**2017-18 £000**	**2018-19 £000**	**2019-20 £000**	**Total**
Argyll and Bute HSCP	387	330	0	**717**
Community Services	14,736	5,757	1,940	**22,433**
Customer Services	3,129	1,284	1,680	**6,093**
Development and Infrastructure	20,725	15,659	14,279	**50,663**
Total	**38,977**	**23,030**	**17,899**	**79,906**

4.2.2 The projects within the capital plan are categorised as either asset sustainability, service development or strategic change with a definition of each category as noted below:

- **Asset sustainability:** this encompasses projects related to ensuring existing assets are fit for purpose/continue to be fit for purpose based on existing use.
- **Service Development:** with a focus on enhancing the current asset to improve its fitness for purpose or its efficiency and effectiveness. Service development would cover construction/acquisition of new assets to replace existing assets on a like for like basis or investment in assets to enhance service delivery based on existing use. Projects in this category would typically be under £1,000,000 in capital costs.

- **Strategic Change:** with a focus on a significant investment across the service asset portfolio to support fundamental service development. The requirement for this investment would be driven by corporate priorities. Projects in this category would typically be at least £1,000,000 in capital costs.

4.2.3 The category split of the 3 year capital plan agreed is noted in the table below:

Category	2017-18 £000	2018-19 £000	2019-20 £000	Total
Asset Sustainability	12,426	6,482	8,870	**27,778**
Service Development	1,376	458	9	**1,843**
Strategic Change	25,175	16,090	9,020	**50,285**
Total	**38,977**	**23,030**	**17,899**	**79,906**

4.3 Medium to Long Term Capital Funding Assumptions

4.3.1 Whilst the capital block grant is expected to increase year on year through to 2020-21, there is no indication as to what the level of increase will be and whether this increase will continue into the long term. As with the revenue estimates, the capital grant is estimated using three scenarios, best case, worst case and mid-range.

4.3.2 The following assumptions are used over the full term of the financial strategy:

Scenario	Assumption
Best Case	2% increase year on year
Mid-Range	1% increase year on year
Worst Case	Constant

4.3.3 The level of General Capital Grant allocated to Private Sector Housing Grant has been estimated to remain the same, in all scenarios, as that allocated by the Council in 2017-18.

4.3.4 The current capital plan included a prudent estimate for capital grant in 2018-19 and 2019-20 of £13m. The capital grant received in 2017-18 amounted to £14.490m and using the scenario assumptions outlined above, the capital grant estimate for these two years would be higher, giving the Council potentially more capital resources that could be allocated to projects. The capital grant estimates also assume that in 2018-19 and 2019-20, we will receive £1.317m in each year of re-profiled capital grant from 2016-17.

4.3.5 Capital funding can also be augmented by the revenue budget providing for additional loans charges to pay for additional borrowing. It has been assumed that no additional budget will be included in the revenue budget to fund additional capital expenditure over the forecast period in order to minimise loans charges and direct revenue expenditure to front line services.

4.3.6 Another method of funding additional capital is through spend to save schemes where the savings in the revenue budget are used to fund the increase in loans charges to service additional borrowing. It is assumed that projects of this nature are a zero-sum game in terms of forecasting, however, there could be additional revenue savings depending on the business case.

4.3.7 Other funding for the capital plan is via capital receipts. Capital receipt estimates are already included within the current capital plan to 2019-20. At this stage, no new capital receipts have been assumed, however, our property portfolio is kept under constant review and additional capital receipts will be built into future estimates as they are identified.

4.4 Change to Current Capital Plan Assumptions

4.4.1 As noted in paragraph 4.3.4, the funding for the current capital plan was based on a prudent estimate and the new scenario assumptions result in a higher estimated capital grant. The increased funding figures assume that there are no changes to the capital receipts assumptions.

4.4.2 The change in the assumptions in the best case scenario are noted in the table below.

	2018-19 £000	2019-20 £000
Current Capital Grant Assumption	13,000	13,000
Best Case Capital Grant Assumption	14,780	15,076
Increased Funding	1,780	2,076

4.4.3 The change in the assumptions in the mid-range scenario are noted in the table below.

	2018-19 £000	2019-20 £000
Current Capital Grant Assumption	13,000	13,000
Mid-Range Capital Grant Assumption	14,635	14,781
Increased Funding	1,635	1,781

4.4.4 The change in the assumptions in the worst case scenario are noted in the table below.

	2018-19 £000	2019-20 £000
Current Capital Grant Assumption	13,000	13,000
Worst Case Capital Grant Assumption	14,490	14,490
Increased Funding	1,490	1,490

4.5 Long Term Capital Grant Estimates

4.5.1 The estimate of capital grant funding for the long term, net of adjustment for private sector housing grant is outlined in the table below.

Scenario	2020-21 £000	2021-22 £000	2022-23 £000	2023-24 £000	2024-25 £000	2025-26 £000	2026-27 £000	2027-28 £000
Best Case	14,345	14,653	14,967	15,287	15,613	15,946	16,286	16,632
Mid-Range	13,896	14,045	14,196	14,348	14,502	14,657	14,814	14,972
Worst Case	13,457	13,457	13,457	13,457	13,457	13,457	13,457	13,457

4.5.2 Currently, the estimated funding for the long term is not committed to any projects, however, Members need to be aware that a large proportion of the capital funding will be required to sustain the current asset base under asset sustainability, for example, re-roofing, replacement windows, roads reconstruction.

5. TREASURY MANAGEMENT

5.1 Treasury Management Function

5.1.1 CIPFA defines treasury management as:

"The management of the local authority's investments and cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with those activities and the pursuit of optimum performance consistent with those risks."

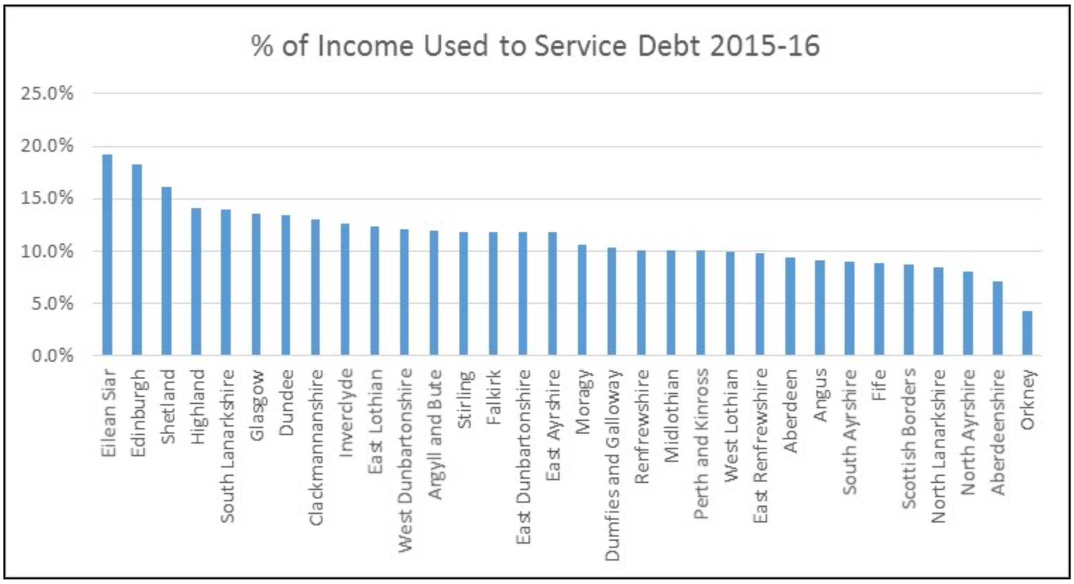
5.1.2 The treasury management operation needs to ensure that cash flow is adequately planned, with cash being available when it is needed. Surplus monies are invested in low risk counterparties or instruments commensurate with the Council's low risk appetite, providing adequate liquidity initially before considering investment return.

5.1.3 The treasury management function is also concerned with the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer term cash flow planning to ensure that the Council can meet its capital spending obligations. This management of longer term cash may involved arranging long or short term loans, or using longer term cash flow surpluses.

5.1.4 The Council uses Capita Asset Services as its external treasury management advisors in order to acquire access to specialist skills and resources.

5.2 Debt Servicing Comparison to other Authorities

5.2.1 The chart below is taken from the Audit Scotland Financial Performance report published in November 2016 and shows the percentage of income used to service debt in 2015-16 across all Councils. Argyll and Bute's % is 12.0% and we are ranked 22 out of 32 Councils. In comparing the level of debt servicing to other Councils, Argyll and Bute's will be proportionately higher due to the large amount of supported borrowing from Central Government to fund large infrastructure projects associated with piers and harbours.

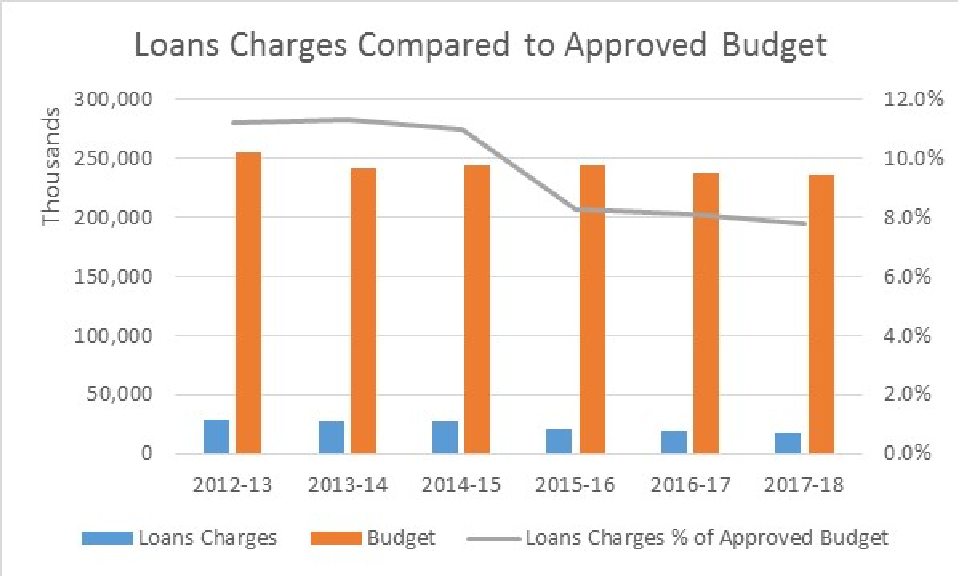


5.2.2 Some Councils over the last few years have taken a conscious decision to reduce debt servicing costs in order to protect front line services. This is in line with Argyll and Bute Council's strategy.

5.3 Current Strategy

5.3.1 The Council's current strategy over the last few years is to reduce the Council's loans charges and as a result the Council has maintained an under-borrowed position. An exercise was carried out approximately 6 years ago and this has seen a year on year reduction to loans charges. A conscious decision was taken to delay borrowing and use the Council's cash balances until such times as long term interest rates were at an advantageous level and cash balances had reduced to a level that we required to take new borrowing.

5.3.2 The chart below demonstrates the year on year reduction in loans charges since 2012-13.



5.3.3 A further review of the loans charges budget has been carried out and additional loans charges savings can be removed from the revenue budget in 2018-19 on a recurring basis. This assumes that no new capital projects require funding by way of borrowing funded from loan charges. This continues the current strategy of reducing the level of loans charges to protect front line services.

5.3 Future Strategy

5.3.1 The Council will continue to seek to minimise debt servicing costs in order to reduce loans charges and protect front line services. The ongoing strategy will:

- Use current cash balances to minimise the level of external debt and interest payments.
- Secure borrowing at low interest rates and take advantage of any discounted rates which become available.
- Seek to maintain a maturity profile in relation to external debt that doesn't expose the Council to refinancing risk in any one year.
- Re-schedule debt as opportunities arise that would be advantageous for the Council.

5.4 Piers and Harbours Prudential Borrowing

5.4.1 Argyll and Bute Council is responsible for 39 piers, harbours and slips. An Asset Management Plan has been produced which identifies works required at all of the Council's 39 piers and harbours over the next 10 years, estimated to be in excess of £50m.

5.4.2 The Council were not in a position to fund the level of improvements via existing resources. A proposal was submitted to the Argyll and Bute Harbour Bute to fund the estimated expenditure through prudential borrowing with the debt servicing costs being met by increased fee income, over and above the standard inflationary increase.

5.4.3 This proposal was agreed by the Harbour Board which will allow the long term investment to be undertaken whilst protecting the Council's revenue budget. In addition this will create future treasury management opportunities.

6. THE STRATEGY TO ADDRESS THE BUDGET GAP

6.1 Actions Already Taken

6.1.1 The council is committed to transforming the way in which it operates and, alongside the work which it has already implemented, is committed to continuing to seek out opportunities for commercialisation, deliver efficiencies and improve the way in which we operate in order to be able to deliver high quality services, support the growth of the economy and balance the budget both now and into the future.

6.1.2 There have been many changes over the last few years, some innovative in nature, that have resulted in changes to service delivery, brought benefits to the economy, resulted in income growth and delivered savings. Examples are outlined in the following paragraphs.

Channel Shift

6.1.3 Argyll and Bute Council saved almost £550,000 in 2016-17 by encouraging customers to use more efficient self-service channels and providing them with increased online and voice-automated telephone options to get in touch about services.

6.1.4 The council has made significant improvements to the digital services it provides. In the past five years the potential savings of shifting to digital channels was around £1.5 million, helping the council meet growing demand for services in financially challenging times. The number of self-service transactions has increased by 41% (from 189,350 in 2012/13 to 336,203 in 2016/17).

6.1.5 The website is the initial point of contact and in the last year it has seen an increase of 17% in page views. The council has also invested in a new customer engagement system which has increased the digital channels available and improved accuracy and scope of voice-automated services.

6.1.6 The council also makes use of social media, with Twitter accounts having almost 11,000 followers and Facebook accounts with just less than 15,000 followers. The recent implementation of personalised MyAccount services links to the national authentication and single sign on services, will also contribute to future website use.

6.1.7 The public can now use online options for services including; changing a house name, register new streets and houses; pest control requests; obtaining copies of marriage, civil partnership or death certificates; and requesting sampling of a private water supply. They are able to access pre-planning application advice online and report anti-social behaviour such as graffiti, dog fouling, fly tipping and abandoned vehicles and request recycling and domestic bins and report road defects.

Digital Improvements

6.1.8 The Digital First Working Group has overseen a number of significant digital improvements over the past year.

- The launch of the Omnichannel customer engagement system, which handles an average of 1,100 customer contacts a day via all channels, with new channels having been added for webchat, voice automated request forms (1207 last year), online smart assistant and mediated Facebook requests.
- The build and launch of thirty-two Oracle online application and request forms for a variety of services, such as pest control, house and street naming and Community Participation Requests; eleven of which have integrated to the Capita secure online payment system.
- The implementation of the personalised MyAccount service on the website integrated to the national MyAccount authentication service, the local Drupal web service and the Oracle customer engagement system.
- A new eBuilding Standards portal for making applications, building warrant enquiries and planning comments online.
- The launch of a new Civil Ceremonies/Weddings website for Registration services
- New Business Gateway and Rural Resettlement Fund web pages and request process
- Set up of a new bin day look up facility to aid the move to 3 weekly collections
- The creation of new automated satisfaction surveys for CSC telephone calls, Online forms, Complaints process, webchat and web content.
- Participation in the Scottish Local Government Digital Office programme of co-ordinated national digital improvement actions.

Three Weekly Bin Collections

6.1.9 The Council introduced a new refuse collection schedule, keeping recycling uplifts as they are, and moving to a three-weekly schedule for one green (general waste) bin. This is in line with the Council's aim of achieving the benefits possible through recycling and its need to deliver savings, following a significant reduction in its funding. The Council is also working towards Scottish Government targets for recycling and reducing the amount of waste it sends to landfill.

6.1.10 Recycling saves space for household waste and money for other services that communities have told us are important to them - for every tonne of waste that goes to landfill the Council has to pay tax of over £80 – and figures show that every household in Scotland could save £460 a year by throwing away less food.

6.1.11 There are still a lot of things people put in their green bin which could easily go in the blue bin. By recycling more there will be space in green bins for more non-recyclable materials. A survey of the composition of waste in green bins showed that over 35% of material could be recycled – in one area the figure was over 45%.

6.1.12 In advance of the change each household received detailed information and an individual waste calendar to ensure they knew when their waste was to be collected. Additional information was also made available on Facebook, Twitter and in local press. To help manage the move to a three weekly green bin collection, and increase recycling, householders were able to request a second recycling bin, where these are used. Other residents could request additional recycling bags.

Glengorm Renewables Project

6.1.13 The Council's Carbon Management Plan targeted reductions in the Council's carbon footprint. Between 2009 and 2013, over 4,000 tonnes of CO2 had been reduced however additional projects, including renewables projects identified through the Renewable Sourcing Strategy, provided the opportunity to further reduce CO2. In addition to the carbon savings, the projects offered the opportunity to reduce energy costs and in some instances generate income.

6.1.14 Since that point Development and Infrastructure Department and Customer Services Department have been working on a number of projects focused on delivering solar, biomass, wind and hydro renewables. A number of solar and biomass projects have been progressed and installed across Council premises. One of these projects identified the opportunity to erect for a single turbine at the Council's Glengorm Landfill Site on the Isle of Mull.

6.1.15 Work commenced on site in June 2016 with the foundation works completed in July and the turbine arriving on site in early August. Over the course of a week the turbine was erected and on 12 August 2016 the turbine was commissioned. This commissioning date was more than 6 weeks before the deadline set by the Feed in Tariff (FIT) pre-accreditation and 2 weeks before the contractual deadline. The turbine has been generating electricity for use on the landfill site and export to the grid since this date.

6.1.16 Teams from across the Council, particularly Economic Development and Strategic Transportation, Property Services and Waste Management, supported the delivery of this project. Their support was an important part of the successful delivery of this project. Confirmation has now been received from Ofgem that the project has been accredited for Feed in Tariff (FIT), a subsidy available to small scale renewables, from 12 August 2016. Meeting the pre-accreditation deadline was critical to secure the FIT upon which the payback projections were calculated.

6.1.17 As part of the contract, community benefits have been provided by the Council's contractor. On 29 August 2016, a visit of pupils from Tobermory High School was undertaken. The pupils completed a walkthrough of the site including looking inside the turbine. A questions and answer session followed covered the installation, wind turbines in general, other renewable technologies and pros and cons of them. A Name the Turbine competition has also been held for pupils across the Mull and Iona primary schools. Suggested names were received from more than 70 school pupils across Mull and the winning name was Miss Hoolie, a suggestion received from Cailen MacLean from Tobermory Primary School.

6.1.18 Below is a summary of the expected electricity generation, payback periods and carbon savings.

Electricity generated	163,171 kwh/annum *
Net Annual Saving	£30,183.17 **
Simple payback of total project costs	16 years
Simple payback of additional project costs incurred after Council approval	14.5 years ***
Working life of major plant	20 years
Expected surplus over lifetime of turbine	Circa £120,000
Annual Carbon Savings	75.4 Tonnes
Lifetime Carbon Savings	1,508 Tonnes

Catering and Cleaning Service Re-design

6.1.19 The Catering and Cleaning Innovations Project has been developed to ensure that the service is fit for purpose as we move forward. Other key aims are to maintain quality and generate the necessary income or savings. The project is made up of eight workstreams all of which are well underway with progress being monitored via the Catering and Cleaning Innovation Working Group and the Transformation Board.

6.1.20 The project is made up of the eight work streams outlined below:

1. Development of an Events Management Function initially at the Helensburgh and Lomond Civic Centre to promote the venue for weddings and corporate events.
2. Exploration of options to increase income from catering in secondary schools by changing how services are offered to pupils as well as other users outwith the school day.
3. Testing the feasibility of establishing a food distribution hub with a view to delivering benefits to the Council, Community Planning Partners and local suppliers and other business by addressing the issues and barriers that arise in Argyll and Bute in relation to food commodity distribution and logistics.
4. Development of additional income through the provision of catering and cleaning services to other parties.

5. Supporting the foregoing through the development of marketing and supply of a @Good Food in Argyll and Bute' brand.
6. A review of school meals pricing.
7. A review of drinks provision in schools.
8. A review of charging to external clients.

Continuing the Journey

6.1.21 The Council continues to explore opportunities to protect against the future funding gap and these are summarised in the paragraphs that follow.

6.2 Rural Growth Deal

6.2.1 Argyll and Bute had a declining and ageing population with the total population falling 3.4% in the 10 years between 2001 and 2011 and forecast to fall by 7% by 2021. There have however been local variations across age groups and sub regions. A falling and ageing population will have a number of implications for Argyll and Bute including lower economic output, shrinking council tax base and implications for demand on local services such as health and social care. It is therefore critical that Argyll and Bute Council and partners work to address the declining population by growing the economy sustainably and creating high value employment opportunities.

6.2.2 The Single Investment Plan for Argyll and Bute has been developed in order to align future infrastructure investment with strategic economic priorities to help drive a step change in economic activity in the area. Argyll and Bute Community Planning Partners have developed a series of strategic plans and the Single Investment Plan is a distillation of these which aims to highlight and advocate for the important opportunities and challenges within Argyll and Bute. It is also intended that the Single Investment Plan will form the foundation for an economic case for additional funding being directed towards Argyll and Bute to facilitate the delivery of priority infrastructure projects. The Council intends to pursue a Regional Growth Deal with Scottish and UK governments and to progress projects included within that deal to a full business case in line with the Treasury's Five case Model methodology. Discussions are taking place with government officials on the potential for such a deal. Any such deal will be predicated on the anticipated rate of return.

6.2.3 The Single Investment Plan identifies a range of priorities including traditional infrastructure such as transport facilities and digital networks to social and soft infrastructure such as education and promotional activities that increase the profile of Argyll and Bute to potential investors, visitors, residents and workers. Based on the key barriers and the evidence gathered from research of existing plans the following five Key Infrastructure Goals have emerged for the Single Investment Plan:

- High Quality Mobile and Broadband
- A Wide Range of Housing and Business Accommodation

- Improved Transport Links
- Market and Promote Argyll and Bute
- Skills and Staff required to grow the local economy.

6.2.4 Moving forward it will be essential to continue to work closely with public and private sector partners to maximise inward investment in the region in order to deliver the key infrastructure goals required to drive economic growth.

6.3 Economic Development Initiatives

6.3.1 The Council agreed, in February 2016, to establish the new flagship “Argyll, Lomond and the Islands Regeneration Initiative”. This initiative encompass all existing and new strategies and plans in relation to population and economic growth into a single and cohesive programme. The focus is supporting the Local Outcome Improvement Plan’s overarching vision to build the economy through a growing population. Three new investments were agreed, totalling £4.5m: Inward Investment Fund, Rural Resettlement Fund and the Lochgilphead and Tarbert Regeneration Fund.

6.3.2 Inward Investment Fund - the Council agreed to allocate £1m towards this Fund to promote economic growth in Argyll and Bute through attracting significant inward investment to the area. It is proposed that the fund is focused on a smaller number of larger strategic investments that have real transformational opportunity. To date we have allocated a £0.040m grant that was matched by both HIE and Discover Space UK creating a fund of £0.120m towards developing the proposition and attraction of investors for a space port at Machrihanish.

6.3.3 Rural Resettlement Fund - the Council agreed to allocate £0.5m to this Fund which is intended to be focused on people. This fund will seek to either incentivise people to settle in Argyll and Bute or create/promote opportunities to do so. This may include businesses where individuals are prepared to move to Argyll and Bute to start up or relocate their business. The specific objective of this fund is growing our population with the benefits of creating economic activity and increasing the Council’s Grant Aided Expenditure. The fund was launched at Argyll Enterprise Week in October 2016. As of 14 August 2017 we have received 44 applications, approved 25, assessing 12 and 7 were either withdrawn or rejected due to not meeting the criteria. Total awarded is £0.140m. Officers have launched a further marketing campaign with a key focus on social media linked to job adverts.

6.3.4 Lochgilphead and Tarbert Regeneration Fund - the Council agreed to award £3m to this Fund to build on the regeneration work in Campbeltown and it is deemed that the main objective of this fund is to promote the regeneration and/or economic development of Lochgilphead, Tarbert and surrounding areas. 11 short listed projects were approved by the Mid Argyll, Kintyre and Islay area committee on 7 December 2016. The next stage has involved the completion of outline business cases for the projects and scoring of the projects with the highest scoring projects to be moved onto delivery.

6.3.5 The Council is committed to levering in external funding to the area. Since 2014, the Economic Development and Strategic Transformation (EDST) team has secured over £17m in external funding, with £8m of this total secured in 2017 including most recently a £2m award of Heritage Lottery Fund (HLF) for Rothesay TH. Work is also continuing with the UK and Scottish Governments with regard to a possible Rural Growth Deal for Argyll through the development of the Single Investment Plan.

6.3.6 EDST has been successful with 3 out of 3 bids for Regional capital Grant Funding, 2 out of 2 bids for Conservation Area Regeneration Scheme (CARS) funding in Dunoon and Rothesay, £0.800m of Sustrans funding, £1m European Regional Development Fund (ERDF) funding for the Pavilion in Rothesay and £0.250m ERDF funding for business growth. A number of smaller bids have also been successful.

6.3.7 Future bids from a range of external funders are being planned for this financial year including from the Scottish Government Strategic Housing Infrastructure Fund to assist the delivery of the Dunbeg Corridor.

6.4 Transformation Board

6.4.1 A Transformation Board has been established to oversee all the Council's transformational opportunities. The Board is chaired by the Executive Director of Customer Services and membership consists of a number of Senior Managers across the Council as well as Trade Union representation.

Service Package Savings

6.4.2 A significant area of work for the Board over the short to medium term is to challenge services to deliver savings. Phase 1 is for front line services to consider savings via four operating principles:

- Business Cost reduction: Can the current service be provided differently for a reduced cost, without having a negative impact on the service? This would include exploring direct provision versus commissioned services (the make or buy principle), the use of Arm's Length External Organisations (ALEOs) and potential shared services opportunities.
- Income Maximisation: Are services maximising the level of income that they currently generate? Are there new opportunities to raise income within the service, new charging regimes, becoming more commercial?
- Service re-design: Consideration will be given to the statutory and non-statutory element of the service as well as considering the priorities of the Council.

- Self funding: Similar to income maximisation but considering how the service can be provided within the boundaries of the level of income it generates.

6.4.3 The Transformation Board have identified a minimum savings target along with the operating principles(s) anticipated to deliver the minimum. This is not prescriptive and it is for services to determine how the saving may be achieved. Services were tasked with drafting initial proposals by the end of July 2017 and proposals will form part of the budget process for 2018-19.

6.4.4 Phase 2 will look at support services, using the four principles as noted above but will also include right sizing the support services to meet the needs of the changing organisation.

Innovation Fund

6.4.5 An Innovation Fund was created in October 2015 to fund innovative projects in developing business cases that would deliver a saving into the future.

6.4.6 During 2016, the first two projects received funding and savings are now built into the medium term outlook as a result of these projects. In June 2017, the Transformation Board heard a further 4 pitches and have agreed funding to progress two of the projects.

6.4.7 The Board will look to encourage further innovative ideas to be brought forward.

Asset and Investment Fund

6.4.8 The Council agreed a £2m Asset Management and Investment Fund in 2016. The purpose of this Fund is to generate income for the Council by seeking out investment opportunities that will provide the Council with a commercially advantageous financial return.

6.4.9 The Fund is currently invested in; the Council's hub schools project for Oban and Campbeltown in the sum of £500K where a return on investment of approximately 10% is expected from 2018 on the invested amount; and the remainder in an enhanced cash fund while the Council is pursuing other investment opportunities.

6.4.10 In the short to medium term it is expected that the fund will be invested in managed property funds on an acceptable risk basis and in accordance with the Council's treasury management policy and this is being explored in liaison with Capita, the Council's external treasury advisers.

6.4.11 In the longer term the Council is exploring investment opportunities particularly in the development of commercial property in relation to land owned by the Council and also land owned by third parties where the

Council can partner with others to deliver a development sharing in risk and reward. The investments in any such projects would be made in accordance with the Council's Treasury Management policy.

6.4.12 The landscape for potential renewables joint ventures has altered recently but Argyll and Bute is well placed to seek to exploit possible commercial energy generation opportunities, across wind, tide, hydro and other emerging technologies. Where opportunities are identified which give reasonable prospects of a financial return to the Council, these will be pursued.

6.4.13 Smarter Places is an initiative developed by the Scottish Futures Trust and accepted by the Argyll and Bute Community Planning Partnership Chief Officers Group as a way to improve the use of assets whilst reducing costs and improve access to services. With emphasis on a 'one public sector' approach, the towns of Oban, Lochgilphead and Dunoon were deemed as the optimum destinations to develop the initiatives further.

6.4.14 Particular projects that were identified as worthy of further consideration include shared depots, single front of house services hub in town centres and co-location of back office functions to outside of town where it is deemed that such an activity will release sites within towns for added economic activity.

6.4.15 The success of the initiative is wholly dependent on all public sector partners being willing to develop capital and revenue projects jointly. These resources will be taken forward as resources allow.

Digital Transformation

6.4.16 The Council are continuing to pursue digital transformation as it is well known that going digital can make savings. The Council have a Digital First Working Group committed to digital improvement across the organisation.

6.4.17 The latest phase of the programme includes 22 digital initiatives that are being considered across the 3 key workstream groups:

- Customer Services (CS)
- Community Services (Com)
- Development & Infrastructure (D&I).

6.4.18 For most areas, business cases are being developed, based on the understanding of potential costs and scope. These initiatives are by themselves unlikely to generate significant cashable savings, but contribute to the transformation of the Council. Examples include:

Initiative	**Position June 2017**
Provide improved online integration for landlords & individuals from the Revenues	Specification being finalised for publication 14th June. Procurement will be via the Crown

and Benefits system.	Commercial (LASA) Framework. Earliest live date May 2018
Extension of the Building Management IT System	Reviewing scope and potential outcomes by December 2017
“Tell-us-Once”–type approach to provide single financial assessments.	Outline business case being prepared for September 2017
Digital application service for Economic development funds and grants.	Scoping of broader/longer term requirement for all grant funding.
Online parking permit system:	In live environment. Website live July 2017.
eBuilding Standards and Online Plan sharing:	Scottish Government national solution- at scoping stage

Commerciality

6.4.19 Developing commercial opportunities for the Council is one of the Transformation Board’s main themes. A number of possibilities have been identified in the immediately preceding paragraphs, but part of the Board’s responsibilities also extend to the identification of new opportunities, including the possibility of expanding into areas of service provision where the Council has not previously.

6.5 Workforce Planning

6.5.1 The Council’s People Strategy identified that an overall workforce planning framework supporting the identification of training and development opportunities will be completed by March 2018. In order to support the Medium to Long Term Financial Strategy and to support the Transformation agenda, a Strategic Workforce Plan has been developed and supports and complements the Financial Strategy. The Council has an agreed approach to more detailed workforce planning that is being rolled out in services and will be fully developed by March 2018. This includes detailed information on employee profile that enables managers to assess the potential risks to future service delivery and to plan mitigation to these risks.

6.5.2 The principles in the Strategic Workforce Plan relate to the Council’s strategic priorities, and sets the overall context of the plan as Transforming our Workforce for the Future through ensuring:

- Size and flexibility
- Recruitment and retention
- Growing Our Own – Skills for the Future
- Employer of Choice – Employer for Life

6.5.3 The Strategic Workforce Plan recognises that we are facing a medium to long term reduction in our revenue budget position, which will impact on our staffing. The Council is the second largest employer in the area and has a significant and positive economic impact in Argyll and Bute in terms of wages spent locally. In order to minimise the impact of this, the Strategic Workforce Plan recognises that we need to focus more on developing flexible and transferable skills in our workforce, supporting a more commercial skill set to match our Transformation strategy objectives, in order that we minimise the resultant impact on jobs and our economy. We will encourage movement in careers within the organisation to build the Council as an Employer for Life, enabling our existing employees to develop skills in areas where we need posts filled as a result of service demand increases or national policy positions, such as Early Years expansion. The Plan also recognises that we have a disproportionately aging workforce and that bringing in younger employees into the organisation through Growing Our Own will improve our future workforce resilience.

6.5.4 The Strategic Workforce Plan therefore ensures that the People resource of the Council is clearly aligned to and supports the Financial Strategy and our Transformation Agenda. It is supported by service specific workforce plans providing detailed information on projected staffing needs.

6.6 Volunteer Framework

6.6.1 Argyll and Bute is an area where volunteering is a widespread and popular activity across our communities. In remote and island areas, communities tend to be more active in taking part in voluntary activities as both private and public sector services are less widely available than in urban areas. Argyll and Bute follows this trend.

6.6.2 The national body for volunteering in Scotland, SCVO has identified, through the Supporting Voluntary Action Programme, a checklist for Volunteer Friendly organisations to complete to become accredited and it is the intention that we will progress to become accredited in 2017.

6.6.3 The approach taken in some local authorities in England, where the budget reductions have already resulted in fundamental change, has been to introduce a greater level of service delivery by volunteers. In some areas, such as Newcastle, this is large in scale. In Wiltshire, their strategic workforce planning strategy has identified that the workforce in future will comprise 40% employees, 30% volunteers and 30% trainees.

6.6.4 There are a number of challenges in taking this type of approach forward in Argyll and Bute. The current framework sets out clearly that volunteers will not be substitutes for paid employees and this aligns with principles developed by the Improvement Service who are carrying out work on volunteering. The trade unions are involved in the Transformation Board led work on refreshing our Volunteer Framework. Whilst they do not agree to replacing paid jobs with volunteers, there is a recognition that there may be a role for volunteers to deliver services that would otherwise be stopped due to budget reductions.

6.6.5 At a time that requires radical thinking, there are benefits in this approach as a means to deliver services that would otherwise not be delivered. There are benefits for volunteers in terms of health and wellbeing, both individually and in communities, which contributes overall to the area's prosperity.

6.7 Shared Services and Partnership Working

6.7.1 The Council has increasingly explored and undertaken innovative approaches to partnership working and shared services in a manner that can support community development, create economic activity, secure the future of our built environment, reduce costs whilst maintaining or improving service levels, generate income and secure employment.

6.7.2 A range of examples include working with:

- Conservation groups to lever in funding to secure a sustainable future for historic buildings and environments important to the identity and sense of place for our communities e.g. St Peters Seminary, Dunoon Conservation Area Regeneration Initiative, and Rothesay Town Heritage bid.
- Shared service agreements with community groups for the provision of Customer Service Points on Colonsay, Jura and Tiree including for Passport Service Interviews at all Customer Service Points to reduce need for travel to secure a passport.
- Public sector partners and community development trusts for the development of community led action plans through 'charrettes' or 'planning for real' which influence the Local Development Plan and other strategic plans e.g. Dunoon, Scottish Canals, Tiree Development Trust. The Council developed a Community Led Action Plan Toolkit which was launched in March 2107. Partnership working with agencies and industry to support the growth of key economic sectors e.g. Argyll and Bute Renewables Alliance, Argyll and the Isles Tourism Cooperative Ltd, Oban as a University Town.
- Commercial provision of services including grounds maintenance (Scottish Canals), Building Standards verifications (Babcock), LGV and HGV vehicle maintenance and repair, Planning Services for Loch Lomond and the Trossachs National Park.
- Housing; pilot to create a 'Simplified Planning Zone' for self-build, close working with agencies and housing associations to deliver significant but challenging housing sites e.g. Dunbeg, Ganavan and Inveraray.
- Joint working with Transport Scotland on winter roads maintenance including sharing of depots, fleet and salt stores.

6.7.3 The Council will continue to explore new initiatives of sharing and or selling professional services and equipment in a manner that safeguards council employment and or supports our strategic priorities.

6.8 Alternative Service Delivery Mechanisms

6.8.1 The Council has established an Arms Length External Organisation (ALEO), Charitable Trust, to take forward the delivery of Leisure and Library services in the Argyll and Bute area. A full business case prepared by Ernest and Young was approved by the Council in November 2016 and following the development of management and lease agreements the new organisation, Live Argyll, commences service delivery in October 2017.

6.8.2 This should enable the sustainable development of services within a framework that supports the well-being and economic development of the area through a new business model that reduces financial pressures on the Council.

6.8.3 The Council will continue to explore further opportunities for alternative service delivery mechanisms, particularly where they provide a financial benefit.

6.9 Piers and Harbours Infrastructure

6.9.1 Argyll and Bute Council is responsible for 39 piers, harbours and slips. An Asset Management Plan has been produced which identifies works required at all of the Council's 39 piers and harbours over the next 10 years. It also provides indicative budgets and currently the overall costs for planned works is in excess of £50m. This would have a significant budget implication for the Council, however, the Harbour Board agreed a strategy in August 2016.

6.9.2 The Argyll and Bute Harbour Board agreed in August 2016 that "future pier/harbour dues should be set, as a minimum, at a level which will cover operating and staffing costs; inspection, maintenance and whole life asset management costs; any prudential borrowing costs required to fund shoreside infrastructure associated with the future ferry services'.

6.9.3 The budget agreed in February 2017 for 2017-18 included an additional 2% increase on piers and harbours fees to ensure that the income is sufficient to maintain and develop the Council's marine assets this financial year. Further increases will be required to fund prudential borrowing in future years.

6.9.4 The fees and charges increase for future years would require to be variable across the years to reflect the end of year funding requirement. It has been proposed that the funding model be reviewed with a view to smoothing the increases over the next 10 years and that any excess income gathered each year is ring-fenced and carried forward into future years.

6.10 Procurement

6.10.1 The Council is required to publish its Procurement and Commissioning Strategy on an annual basis. The 2018-19 strategy has been prepared in response to the changing procurement agenda and the current financial climate. The strategy sets out the procurement aims and goals of the Council for 2018-19. These aims and goals reflect both national and local policies and priorities. The strategy is aimed at ensuring the Council procures the goods, services and works it needs in the most economically advantageous manner. This recognises the importance of a procurement strategy towards meeting the Council's statutory duty of best value.

6.10.2 The Council has been making changes to what we do and how we do it in order to protect jobs and services in the face of reducing budgets. The Transformation Board has been set-up to find ways in which to continue this process of change to deliver savings and generate income by redesigning services and exploring self-funding and business cost reduction opportunities. The Procurement and Commissioning Strategy supports the transformation agenda.

6.11 Developing Cost Information

6.11.1 Using cost information effectively can help the Council to make well informed policy decisions and assess the effectiveness of their services. If the Council does not fully understand what it costs to deliver their services, they cannot properly assess whether the services are representing value for money.

6.11.2 A number of services are using unit cost information and trend analysis as part of their routine budget monitoring, however, where applicable, this approach needs to be developed further across the Council.

6.11.3 Work is being undertaken to develop a Council wide approach to using unit cost and trend analysis as part of routine budget monitoring and preparation to ensure that potential efficiencies are identified at the earliest opportunity.

7. RISKS AND OTHER ISSUES TO CONSIDER

7.1 Forecast Assumptions

7.1.1 The assumptions which the financial projections are built upon are the best estimate at September 2017 of the likely future movement in the financial environment.

7.1.2 The use of scenario planning using a best case, worst case and mid-range estimate shows the likely impact of changes to these assumptions. Whilst the outcome will no doubt differ from the scenarios, they provide a useful illustration of the overall financial envelope.

7.1.3 The assumptions will continue to be kept under review and updated as appropriate.

7.2 Expansion of Early Learning and Childcare Provision to 1,140 hours

7.2.1 From August 2014, all Local Authorities had a duty to increase provision to 600 hours for all 3 and 4 year old children and to introduce some flexibility on how entitlement was provided and also offer 2 year old children in workless/job seeking households 600 hours of early learning and childcare.

7.2.2 Further expansion of early learning and childcare, as set out in the Scottish Government Blueprint, will require the Council to provide 1,140 hours per year for every 3 and 4 year old and every entitled 2 year old with implementation by 2020. This will require further expansion of available facilities and although it is expected that a specific allocation of grant will be available from the Scottish Government to meet the costs of this new burden, as yet the scale of this grant is unknown.

7.2.3 A specific element of the expansion of ELCC will necessitate the recruitment and retention of further suitably qualified and skilled employees to support the expansion of ELCC provision for eligible children. Current staffing levels within Argyll and Bute will not support the delivery of this expectation. The workforce will not solely be required for local authority provision, but also from within independent and private childcare providers including childminders. A further expectation of degree qualified practitioners in identified ELCC settings is set out within the Blueprint.

7.3 Education Governance Review

7.3.1 On 15 June 2017, the Scottish Government published a proposals entitled "Education Governance: Next Steps" which has broad ranging proposals that will fundamentally change the role of local government in the governance and management of education services.

7.3.2 The proposals are significant and wide ranging, with some of the proposals highlighted below.

Short Term: Establishment of education regions, consultation on new Education Bill, Consultation on fair funding for schools, Development of a Head Teachers Charter, Enhancing the leadership support package for teachers and Head Teachers.

Medium to Longer Term: Develop a mechanism to identify and fast track aspiring Head Teachers by end of 2018, developing new Executive Consultant Head and Cluster Leader roles with partners to strengthen school leadership by end of 2018, ensuring by 2019 every school has access to a Home School Link worker to support parents and their participation, developing a single inspection model for early learning and childcare by end of 2018, setting out proposals for funding of schools by summer of 2018.

7.3.3 The future role for local authorities is defined in the Next Steps document as consisting of:

- The provision of support services (supply of school buildings, administering placing requests; planning for future requirements; appointing Head Teachers).
- The provision of HR Services; and be the employer of the staff in schools and early learning establishments;
- Supporting the provision of early learning and childcare in council and commissioned provider establishments.
- Being accountable to local communities for the provision of education support services.
- Appointing a Chief Education Officer.
- Adopting a new duty to collaborate to support improvement on a regional basis.
- Being responsible for improvement through the provision of support services, their regional collaboration and securing leadership in schools.
- Collaborate with other local authorities through the provision of staffing to work in regional improvement collaborations.
- Ensure other council services work effectively with schools and regional improvement collaboratives.
- Continue to channel the vast majority of funding for school education ensuring that it is properly accounted for.

7.3.4 There are a great many questions which are raised by the proposal document which remain to be clarified. This detail will be developed through engagement directly with the Scottish Government and via COSLA. Any financial implications will be considered once more is known.

7.4 Health and Social Care Partnership

7.4.1 The Argyll and Bute Integration Joint Board (IJB) with responsibility for social work and a range of health services was established and came into effect of 1 April 2016.

7.4.2 At the end of the first financial year, the IJB overall had an underspend of £479k, which was a positive outcome for the first year, however, a number of one-off savings helped contribute to this position. The budget gap across 2017-18 and 2018-19 is £18.5m, with £10.1m in 2017-18 and £8.4m in 2018-19. To date the IJB have still to identify £6.1m of savings, with £2m still to be identified for 2017-18.

7.4.3 Whilst it is the responsibility of the IJB to manage their overall financial resources and put in place a recovery plan, if recovery plans are unsuccessful and there are insufficient reserves to meet the overspend, then the partners will be required to make additional payments to the IJB. This additional payment will be deducted from the following years payment.

7.5 Waste Management

7.5.1 Argyll and Bute Council is both waste collection and waste disposal authority. Waste collection is carried out by council staff with assistance from third sector groups for recycled materials.

7.5.2 Waste disposal is dealt with by 3 separate models across the council. These are:

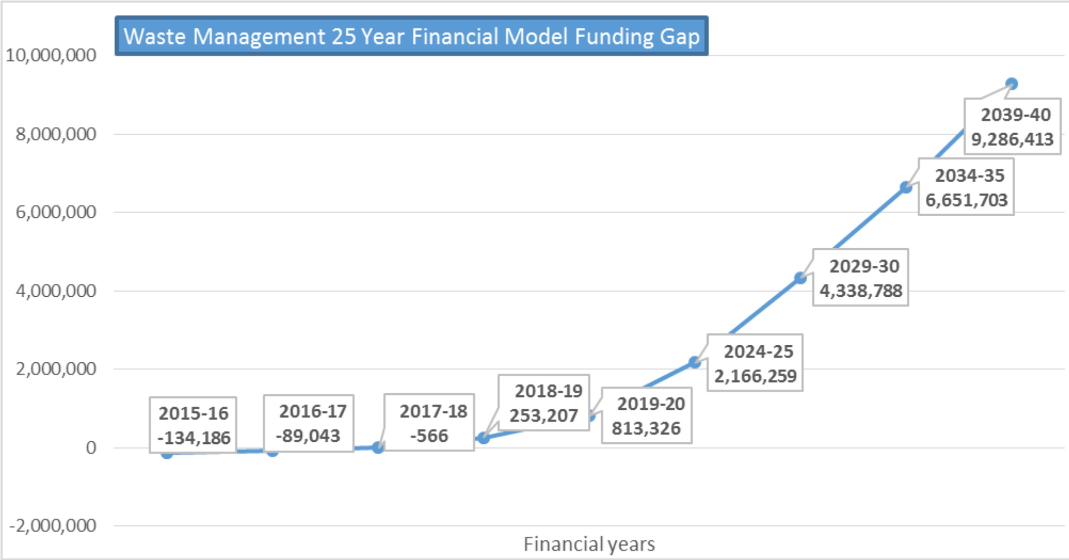
- Island sites which are operated directly by the council.
- A 25 year PPP contract covering the mainland other than Helensburgh and
- Lomond – this runs until 2026.
- Helensburgh and Lomond where collected waste is disposed of at third party sites outside Argyll and Bute.

7.5.3 Waste to landfill is environmentally unsound and legislation and guidelines have been put in place to reduce material to landfill. One of the measures introduced nationally is a landfill tax which currently costs the council £82.60 per tonne. National guidance is expected with regards to the ban on biodegradable waste going to landfill from 2021.

7.5.4 The landfill sites operated by the council and those returning to the council in 2026 will have an ongoing maintenance requirement. This will include monitoring for leachate and gas, restoration works and environmental compliance as well as general health and safety.

7.5.5 A revised waste strategy is required to deal with the known requirements over the coming years and also to shape service delivery over the next 25 year period and beyond. Whilst the current delivery model is working and was contained within budget for 2016-17 and 2017-18 this is not a sustainable position in the longer term. Doing nothing is not an option, by 2028/29 the financial model indicates that the council would be at an adverse budget position of £3,912,094 increasing to £9,286,413 by 2039/40 should we continue as is. The Council's ability to consider alternatives to landfill is limited by the 25 year PPP contract covering the mainland (other than Helensburgh and Lomond) which runs until 2026.

7.5.6 The graph below demonstrates the cost pressure facing waste management up to 2039-40.



7.6 Public Sector Pay

7.6.1 The First Minister as part of her Programme for Government has removed the public sector pay cap of 1%. There is continued pressure from Trade Unions to provide a pay award of at least equal to the current level of inflation. RPI in August was 3.9%.

7.6.2 A pay award equal to the current level of inflation is not affordable for Local Government going forward unless it is partly funded by the Scottish Government.

7.6.3 This is an area that will be kept under close review.

7.7 Review of Risks

7.7.1 The council has a risk management strategy in place that is subject to regular review and has been assessed as "embedded and integrated" as per CIPFA Benchmarking. Detailed guidance is in place which provides detail on the risk management framework including risk identification and risk treatment. Strategic and operational risks are reviewed on a regular basis and active mitigations are in place.

7.7.2 SMT have recently reviewed the Strategic Risk Register and have consolidated some risks and removed those that are deemed no longer relevant or operational in nature, moving the number of risks from 15 down to 9. They have also updated the mitigations and controls and included a risk control strategy category based on the recognised 4T approach, Treat, Tolerate, Transfer or Terminate.

7.7.3 The 9 risks facing the Council are noted as follows:

- Population and economic decline
- Infrastructure and Asset Base
- Welfare Reform
- Health and Social Care
- Civil Contingencies
- Financial Sustainability
- Governance and Leadership
- Engagement and Understand
- Service Delivery.

7.7.4 Financial risks are considered as part of the Council's annual budget process and there are also detailed financial risks reported throughout the year as part of the routine budget monitoring.

7.7.5 The risk assessment as part of the budget process is in relation to assessing the adequacy of reserves, taking into accounts strategic, operational and financial risks facing the Council and considering both internal and external factors. Risks considered include cost and demand pressures, funding, inflation, interest rates and track record of budget management.

7.7.6 Risks will continually be kept under review to identify any changes to the current risks and identify any emerging risks and these will be included in any update to the strategy.

8. CONCLUSION

8.1 The financial environment for Local Government continues to be extremely challenging with many unknowns. Whilst this makes it extremely difficult to forecast ahead, the uncertainty strengthens the argument for developing a medium to long term financial strategy to ensure that Members are informed in advance of potential scenarios and can plan and prioritise.

8.2 Audit Scotland have recommended that all Councils should have long term financial strategies in place, ideally covering five to ten years. There are varying examples across Scottish Local Government, some that simply project the forecast funding gap. This strategy provides medium to longer term forecasts for revenue, capital and treasury management along with information on what the Council has in place to mitigate against the future budget gaps.

8.3 The Council is on a long term journey transforming the way in which it operates. There have been many changes over the last few years, some innovate in nature that have resulted in changes to service delivery, brought about benefits to the economy, resulted in income growth and delivered savings.

8.4 The Council is continuing on its transformation journey exploring opportunities for commercialisation and delivering efficiencies in order to be able to deliver high quality services, support the growth of the economy and balance the budget both now and into the future.