ARGYLL AND BUTE COUNCIL	COUNCIL
STRATEGIC FINANCE	22 FEBRUARY 2018

INTRODUCTORY REPORT AND RECOMMENDATIONS FOR BUDGET PAPERS

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.

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 770 people responded and provided nearly 2,500 ideas and comments.

Service Plans 2017-20

1.4 This report is to present the draft Service Plans for 2017-20 for the 2018-19 budget allocation. The Strategic Management Team agreed at their meeting on 19 September 2016 to proceed with three-year service plans with a one-year budget, the Service Plans attached cover the 2017-20 period with budget allocation for 2018-19.

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 excluding ring-fenced grants for 2018-19, as advised in the provisional settlement, is £188.777m. Subject to Parliamentary approval, the additional funding that is proposed totals £2.884m for Argyll and Bute Council with £2.260m in financial year 2018-19.

1.7 The Council Tax income for 2017-18 was agreed as £45.476m and this is the starting position for 2018-19. 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 £0.227m.
- Increase Council by 3%, subject to Members approval, which would amount to £1.371m additional income.
- Increase to the base budget of £0.600m due to increased collection of double Council Tax on empty homes and a general increase over and above the base anticipated.

1.8 The budget for 2017-18 has been rolled forward into 2018-19 and the main changes to the 2018-19 budget are summarised below:

- Removal of one-off items agreed as part of the 2017-18 budget in respect of HSCP funding for 2017-18 only, one-off funding for amenity services and one-off cost pressure for Catering and Cleaning post on a spend to save basis.
- Re-instatement of one-off reduction to loans charges and one-off reduction to new schools NDR costs.
- Other adjustments to the base budget in relation to painting Education establishments, loans charges and Argyll and the Isles Tourism funding and the additional cost required for the settled Local Government employees pay award.
- Increases to the base budget in order to fund the commitments as outlined in the settlement for Early Years, Social Work, British Sign Language (Scotland) Act 2015, Teachers Pay and Temporary Accommodation.
- Employee cost increases amounting to £3.415m relating to pay inflation, pay increments, the full year 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 £0.967m.
- Cost and demand pressures amounting to £1.877m

1.9 There are a further two cost pressures for Members consideration that are not included within the cost and demand pressures noted above or in the updated financial outlook in relation to Bute Advice Centre (£0.022m) and the World War 1 commemorations (£0.015m).

1.10 The measures to balance the budget include:

- Reduction to loans charges as a result of a number of factors, including lower interest, rates, use of cash balances and profiling changes.
- Release of two surplus balances sitting against two European Projects.
- Removal of budget provision for employer's superannuation no longer required.
- A general increase to fees and charges of 3%, subject to Members approval.
- Previous agreed savings as part of Service Choices, management/operational savings and efficiency savings.

1.11 In respect of the Health and Social Care Partnership, there are no conditions as part of the settlement as to the level of payment this year. The settlement does included £1.217m to support additional investment in social care in recognition of a range of pressures and £0.011 for the British Sign Language (Scotland) Act 2015 and whilst this funding is not ring-fenced there is a presumption that this funding should be transferred to the Health and Social Care Partnership. In the previous budget outlook there was an assumption around the level of funding for 2018-19 and in the mid-scenario this was a £0.725m reduction to the base payment last year. This overview has continued to include this assumption, however, in light of the more favourable Local Government settlement than expected, the prospect of further additional funding and the current forecast outturn position of the HSCP, this is an area that Members may wish to give consideration to.

1.12 The payment to the Health and Social Care Partnership has also been increased to reflect the additional budget (£0.105m) required as part of auto enrolment.

1.13 The Policy and Resources Committee agreed the management fee to Live Argyll for 2018-19 of £3.546m. As a result of auto enrolment and holiday pay entitlement (refer to paragraph 3.3.7 and 3.3.8) the management fee requires to be increased by £0.033m to £3.579m.

1.14 If Members agreed to all the proposals noted within this report, which includes increasing the Council Tax by 3%, increasing fees and charges by a general 3% inflation, agreeing to a number of cost/demand and inflationary pressures and reducing the payment to the HSCP by £0.725m, this would produce a balanced budget for 2018-19 with a surplus of £0.689m or £2.949m if the additional settlement funds indicated by the Cabinet Secretary for Finance and the Constitution are agreed by Parliament. There remains estimated significant savings required in 2019-20 and 2020-21.

1.15 There were a number of policy options reported to Council on 26 October 2017 and subject to the Council's budget consultation exercise. Members are asked to give consideration to all the savings options as they would assist in reducing the budget gap in future years. Accepting all options would produce savings of £1.810m in 2018-19 rising to £5.673m by 2020-21.

1.16 Five funding requests have been received from organisations that currently have a Service Level Agreement in place. Bute Advice Centre have asked for an extension to their loan arrangement. Argyll and Bute Citizen's Advice Bureau, MACPool, Rejig and Kintyre Recycling are all looking for additional funding over and above their current service level agreement.

Fees and Charges

1.17 This report sets out proposals for increases in fees and charges and the resulting impact on income included in the revenue budget.

1.18 The general increase to fees and charges is proposed at 3% for 2018-19. This was the increase applied each year between 2013-14 and 2015-16, with a 6% increase applied in 2016-17 and another 3% applied in 2017-18. There are some exceptions to the standard inflationary increase and these are outlined within the report. The inflationary increase is expected to generate additional income of £0.277m.

1.19 There are two fee changes, as part of the service choices savings previously agreed, in relation to schools meals and school milk and these will generate £0.046m of income that is already included within the budget outlook as part of previously agreed service choices savings.

1.20 The 3% additional increase over and above general inflation on piers and harbours is estimated to generate additional income of £0.158m which is ring fenced to fund asset improvements.

1.21 There are a number of fee proposals as part of the Transformation Board Service

Packages and they are anticipated to generate income of around £0.698m should Members wish to accept the proposals. Within the budget outlook, this additional income has been accounted for as part of the service package policy options.

Revenue Budget Monitoring Report as at 31 December 2017

1.22 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.

1.23 There is a forecast underspend of £1.000m as at the end of December 2017. The underspend is in respect of the following:

- Underspend within NPDO (utilities and deductions) as a result of enhanced contract management £0.098m.
- Over recovery of vacancy savings within Customer Services and Development and Infrastructure of £0.153m.
- Grant income in Development and Infrastructure relating to expenditure in the previous year £0.097m.
- Underspend in fleet of £0.132m relating to a delay in replacing vehicles over 5 years old.
- Over-recovery of income within regulatory services (fish export certifications, private landlord registration and appraisal of water supplies) amounting to £0.070m.
- Over recovering of income within piers and harbours as a result of RET £0.200m.
- Underspend of £0.245m relating to a provision for superannuation costs that is no longer required.
- Apprenticeship levy estimated to be £0.090m below budget.
- Estimated £0.395m underspend within utilities across the Council.
- Over recovery of Council Tax income amounting to £0.600m.
- Overspend of £0.177m in relation to dangerous buildings.
- Increased demand within ASN support and residential schools placement estimated overspend of £0.213m.
- Under recovery of planning fee income estimated to be £0.240m.
- Estimated winter maintenance overspend of £0.450m. This was the figure calculated as at the end of December, however, due to the snow in January, this overspend is likely to increase and a further estimate will be calculated.

1.24 Where the forecast outturn position is recurring in nature, this has already been accounted for as part of the budget outlook position.

Financial Risks Analysis 2018-19

1.25 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.

1.26 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.

1.27 There are currently 44 departmental risks totalling £6.026m. Only 5 of the 44 departmental risks are categorised as likely with no risks categorised as almost certain.

Reserves and Balances

1.28 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.

1.29 The Council has a total of £58.449m usable reserves as at the end of 31 March 2017. Of this balance, £0.896m relates to the Repairs and Renewals Fund, £4.064m relates to Capital Funds and the remainder is held in the General Fund, with £41.519m of the balance earmarked for specific purposes.

1.30 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 2018-19, and a top up of £0.045m is required towards the contingency. The revised contingency at 2% of net expenditure amounts to £4.716m.

1.31 There is currently an estimated surplus over contingency of £3.549m. If the additional funding is approved, the surplus over contingency will be £4.173m. In addition, the forecast underspend for 2017-18 is currently estimated to be £1.000m underspent which could increase the balance as at 31 March 2018 to £5.173m, however, this is an estimated position and is subject to change.

CAPITAL PACK

Capital Plan Summary

1.32 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.

1.33 There is a decrease in the capital funding available of £2.673m as a result of:

- A decrease in the General Capital Grant advised for 2018-19 of £0.062m and a reduction to the assumed General Capital Grant for 2019-20 of £0.062m.
- A reduction in the estimate of capital receipts of £2.668m.
- Additional Specific Grant in respect of Cycling, Walking and Safer Streets of £0.119m.

1.34 The additional Specific Grant monies must be spent on Cycling, Walking and Safer Streets and therefore an additional £0.119m will be built into the programme for this.

1.35 After adjusting for the funding there is an over commitment in the capital plan of £2.792m. However, when the capital plan was approved at the Council meeting on

23 February 2017, there was an under commitment at that time of £0.031m and this reduces the over commitment to £2.761m.

1.36 It should also be noted that there are further pressures on the capital plan. The capital monitoring as at the end of December is reporting an overspend on total capital plan of £0.537m, with one project marked as off track and a problem in respect of CHORD Dunoon with a £0.400m overspend. Within the Corporate Asset Management Plan report, paragraph 3.19 summarises a number of high risks assets, across all services, that are not addressed within the current capital plan. In addition, the limited provision within the central repairs account means that in the main only statutory/regulatory inspection and maintenance takes places and this places pressure on assets. Members are asked to take these issues into consideration as part of the capital plan process for 2018-19.

Corporate Asset Management Strategy

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

Corporate Asset Management Plan

1.38 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

1.39 There are Service Asset Management plans for each department including the Argyll and Bute Health and Social Care Partnership and Live Argyll. 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 2018-19.

c) Approve the 2018-19 allocation to the Health and Social Care Partnership of £54.831m.

d) Approve the adjustment to the Live Argyll Management Fee, resulting in a management fee in 2018-19 of £3.579m.

e) Approve the revenue estimates for 2018-19 and that consequently the local tax requirement estimated at £47.674m is funded from Council Tax. Approve the following rates and charges for the year, 2018-19:

- Council Tax to be paid in respect of a chargeable dwelling in Band "D" of

£1,249 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.

f) Approve the revenue budget for 2018-19 as set out in the revenue budget overview report. This would result in a surplus of £0.689m or £2.949m if the additional settlement funds indicated by the Cabinet Secretary for Finance and the Constitution are agreed by Parliament on 21 February 2018 and subject to any decisions on further savings.

g) Approve the policy savings options as outlined in Appendix 5 of the revenue budget overview report noting that any savings approved will change the budget position as noted above.

h) Give consideration as to what the surplus in 2018-19 is to be spent on, acknowledging that any commitment to recurring expenditure will increase the gap in future years. Any surplus not spent will be transferred to the General Fund balance.

i) Approve or otherwise the cost pressures in respect of Bute Advice Centre and the World War 1 commemoration event.

j) Approve or otherwise the five external funding requests noted within Appendix 8 of the revenue budget overview report.

k) Approve the proposals for the fees and charges inflationary increase of 3%, the two fee changes in respect of schools meals and milk previously advised as part of service choices proposals and approve the additional 3% increase over and above inflationary increase for piers and harbours to be ring-fenced to fund asset improvements.

l) Note the revenue budget monitoring position as at 31 December 2017.

m) Note the financial risks analysis.

n) Approve the contingency level for the General Fund balance at a level of 2% of net expenditure, equivalent to £4.716m and note the report on reserves and balances.

o) Approve the phasing and cost changes and the proposed additions as set out in appendices 3 and 4 of the capital plan summary report.

p) Approve the capital plan as set out in appendix 5 of the capital plan summary report and approve how the Council will address the capital plan over commitment.

q) Approve the Corporate Asset Management Strategy.

r) Approve the Corporate Asset Management Plan.

s) Approve the Service Asset Management Plans and ICT Group Asset Management Plan.

3. IMPLICATIONS

3.1 Policy – There are policy implications associated with proposals to balance the revenue budget as well as the policy options that have been subject to employee consultation.

3.2 Financial – The report outlines the revenue budget position over 2018-19 to 2020-21 and the funding and commitments for the capital plan 2018-20.

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 there are a number of red risks highlighted within the service asset management plans.

3.7 Customer Service – There may be some customer service implications arising from previously agreed savings options and the new policy options. Future customer service implications will be considered when developing savings options.

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2 February 2018

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