

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 1,500 responses were received from across Argyll and Bute and from residents aged 12-75+.

Service Plans 2019-22

- 1.4 This report is to present the draft Service Plans for 2019-22 for the 2019-20 budget allocation. Service Plans are a core part of the Council's Performance and Improvement Framework (PIF). They set out the Business Outcomes that each Service will work to deliver over the period of the plan. They include the resources, both revenue and personnel, that are available to deliver on these Outcomes.
- 1.5 Work has continued to improve the quality and number of Business Outcomes. The Business Outcomes have been reduced from 32 to 17. The 17 Business Outcomes have been mapped to the Argyll and Bute Outcome Improvement Plan (ABOIP), the Corporate Plan and the Administration's Priorities. They reflect the structure of the Council and service delivery.

Assessing Equality and Socio Economic Impact

- 1.6 The Council as a public authority has a duty under the Equality Act 2010, the Public Sector Equality Duty 2011, the Fairer Scotland Duty (Part one of the Equality Act) and the Island (Scotland) Act (2018) to have due regard to their provisions when making strategic financial decisions. This is done through assessing the potential impact of the decision on equality through Equality and Socio-Economic Impact Assessments (EQSEIAs).
- 1.7 This report outlines for members the process that has been undertaken to ensure that due regard is given to equalities, islands and the Fairer Scotland duties in the decision making process on service choices and presents a strategic EQSEIA for the Budget Reconstruction programme to advise on overall impact.

Revenue Budget Overview

- 1.8 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.
- 1.9 The funding excluding ring-fenced grants for 2019-20, as advised in the provisional settlement, and amended in the letter from the Cabinet Secretary for Finance, Economy and Fair Work on 31 January 2019 is £190.215m. If you compare the provisional settlement of £190.215m to the cash funding in 2018-19, taking into consideration the monies not distributed yet (£0.671m), the funding reduction is £0.923m or 0.5%. If you allow for the settlement commitments in relation to HSCP and Carer's Act on the basis that they will require additional matched expenditure, the funding reduction is £3.091m or 1.6%.
- 1.10 The Council Tax budget for 2018-19 was set at £47.674m. This included a 3% increase and a 0.50% growth in the Council Tax base. This is the starting position for 2019-20. In terms of the growth in the Council tax base it had been assumed within the previous budget outlook that growth would be between 0.25% and 0.75%. These assumptions will continue to be in place for 2020-21 and 2021-22 and 0.5% growth has been built into 2019-20 budget amounting to £0.238m.
- 1.11 The UK Treasury has made two changes to the SCAPE (Superannuation Contribution's Adjusted for Past Experience) discount rate assumptions for the Teachers' Pensions and this results in an increase to the teachers' employers' contribution rate which will cost an additional £1.846m from 2019-20. In September, the Government said that departments and devolved administrations would need to meet the increase in costs from the first change but it would support them with the increased cost from second change. It is expected that additional funding will be announced as part of the Spring Budget. Estimated additional income equal to 79% of the cost (£1.458m) has been included within the budget.
- 1.12 The budget for 2018-19 has been rolled forward into 2019-20 and the main changes are as follows:
- Base Budget Adjustments amounting to £0.330m.
 - Increases to employee budgets in respect of pay inflation, increments and the increase on teachers' pensions amounting to £5.978m.
 - Non-pay inflation of £1.031m.
 - Cost and Demand pressures of £1.460m.
 - Increase to Live Argyll Management Fee of £0.113m.
- 1.13 In respect of the payment to the Health and Social Care Partnership, The Scottish Government letter on 31 January 2019 introduced flexibility in the funding local authorities can allocate to Integration Authorities in order to help local authorities balance their own budgets. The 2019-20 allocation can be reduced by 2.2% compared to 2018-19, however, the additional £160m funding within the settlement must be passed on (£2.168m currently distributed). The payment to the HSCP is an issue for Council to agree, however, as there have been conditions placed on the funding allocations in previous years, referenced to base budgets, it would be wise

for the Council to take this into consideration when setting this year's budget in order to provide as much flexibility as possible in the future.

- 1.14 There are a number of measures to balance the budget that had previously been agreed, summarised as follows:
- Management Operational Savings reported to Council on 26 October 2017 with increased savings in 2019-20 of £0.299m.
 - Policy options agreed by Council on 22 February 2018, within increased savings in 2019-20 of £1.151m.
 - Changes to the loans charges profile savings of £0.900m.
- 1.15 There are a number of measures to balance the budget that are for Council approval, summarised as follows:
- General inflationary increase to fees and charges resulting in £0.270m of additional income.
 - Further fees and charges increases over and above inflation in respect of car parking resulting in £0.050m of additional income.
 - Increase Council Tax by 4.79% next year, the maximum that Councils are permitted to increase it by resulting in £2.295m of additional income.
 - New management/operational savings reported to Policy and Resources Committee on 13 December 2018 amounting to £2.090m.
 - New policy savings options reported amounting to £1.873m.
- 1.16 If Members agreed to all the proposals noted within the report, this would produce a balanced budget in 2019-20 with a surplus of £1.032m.
- 1.17 The budget gap over 2020-21 and 2021-22 across each scenario is summarised in the table below.

| Budget Gap | 2020-21 £000 | 2021-22 £000 | Total £000 |
|-------------------|-------------------------|-------------------------|-----------------------|
| Best Case | 2,523 | 3,214 | 5,737 |
| Mid-Range | 5,560 | 7,083 | 12,643 |
| Worst Case | 10,706 | 12,920 | 23,626 |

- 1.18 There remains a significant budget gap in future years and the Transformation Board have already identified a number of longer term options worthy of pursuit.
- 1.19 The Council are asked to consider a funding request in relation to the Royal National Mod and Kintyre Recycling Limited. Further they are asked to approve the funding for Events and Festivals in 2020-21 and give consideration to approving the funding for the Supporting Communities Fund in 2020-21.

Fees and Charges

- 1.20 This report sets out proposals for increases in fees and charges and the resulting impact on income included in the revenue budget.
- 1.21 The general increase to fees and charges is proposed at 3% for 2019-20 and this is expected to generate additional income of £0.270m. There are further increases

recommended over and above inflation in respect of some roads and amenity services and these would generate further income of £0.050m.

- 1.22 There is a separate report to the Policy and Resources Committee on 14 February 2019 in relation to the proposed parking pilot for Oban, Lorn and the Isles.
- 1.23 There are proposals for new charges in relation to registrars printing copy certificates, pre-application meetings and private water supplies. It is recommended that all new charges are implemented from 22 February 2019 rather than wait until the new financial year.
- 1.24 The changes proposed to the Social Work fees and charges are noted within the report and have been the subject of a report to the Integrated Joint Board on 30 January 2019.
- 1.25 The 3% additional increase over and above general inflation on piers and harbours is estimated to generate additional income of £0.164m which is ring fenced to fund asset improvements.

Revenue Budget Monitoring Report as at 31 December 2018

- 1.23 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.
- 1.24 There is a forecast overspend of £2.041m as at the end of December 2018. The overspend is in respect of the following:
- Overspend of £0.371m in relation to anticipated pay award for 2018/19 based on the most recent offer made
 - Overspend of £2.998m in Social Work due to unidentified IJB savings allocated to Social Work, shortfall in delivering the planned savings as well as the net impact of service demand
 - Overspend of £0.350m in relation to Education ASN due to a significant increase in demand
 - Overspend of £0.083m in relation to a shortfall in savings for the Catering and Cleaning project.
 - Overspend of £0.080m in relation to additional staff costs within pupil transport
 - Overspend of £0.047m relating to airports PSA contract
 - Reduction in income of £0.050m in relation to public conveniences
 - Underspend on fleet retained budget of £0.669m due to a decision to delay replacing vehicles.
 - Underspend on apprenticeship levy budget of £0.090m
 - Underspend on superannuation auto enrolment budget no longer required of £0.281m
 - Underspend on utilities across the Council £0.124m.
 - Underspend within Customer Services directorate of £0.200m
 - Underspend within Education in relation to vacancies £0.100m
 - Underspend of £0.021m in relation to the Valuation Joint Board payment being less than budget

- Underspend of £0.122m in relation to Hub Schools
- Income received in excess of budget across various areas £0.260m
- Variety of smaller variances £0.020m.

1.25 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 2019-20

- 1.26 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.
- 1.27 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.
- 1.28 There are currently 45 departmental risks totalling £5.336m. Only 1 of the 45 departmental risks are categorised as likely with no risks categorised as almost certain.

Reserves and Balances

- 1.29 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.
- 1.30 The Council has a total of £56.183m usable reserves as at the end of 31 March 2018. Of this balance, £1.515m relates to the Repairs and Renewals Fund, £4.326m relates to Capital Funds and the remainder is held in the General Fund, with £43.717m of the balance earmarked for specific purposes.
- 1.31 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 2019-20, and a top up of £0.096m is required towards the contingency. The revised contingency at 2% of net expenditure amounts to £4.822m.
- 1.32 There is currently an estimated surplus over contingency, after accounting for the earmarked balance that can be released back to reserves is £3.040m. The forecast outturn for 2018-19 is currently estimated to be £2.041m overspent which could reduce the balance as at 31 March 2019 to £0.999m, however, this is an estimated position and is subject to change.

| | £000 |
|---|--------------|
| Unallocated General Fund Balance as at 31 March 2018 | 1,899 |
| Balance no longer required | 1,237 |
| Transfer to contingency to maintain 2% level | (96) |
| Revised Unallocated General Fund Balance | 3,040 |
| Current Forecast Outturn for 2018-19 as at 31 December 2018 | (2,041) |
| Estimated Unallocated General Fund Balance as at 31 March 2019 | 999 |

CAPITAL PACK

Capital Plan Summary

- 1.33 This report details the revisions proposed to the capital plan approved in February 2018 for the period 2019-20 and extends the capital plan out for a further 2 years to 2021-22. The revisions are based on updated capital funding assumptions, phasing and cost changes.
- 1.34 The annual General Capital Grant for 2019-20 that was previously estimated when the plan was agreed last year was £12.938m. The updated General Capital Grant is now £12.262m, and is therefore a £0.676m reduction on previous estimate. The 2019-20 General Capital Grant has been used as the basis for the 2020-21 and 2021-22 block allocations available to Services.
- 1.35 The amount of capital resources allocated to Private Sector Housing Grant (PSHG) is £1.033m per annum, similar to previous years.
- 1.36 The additional Specific Grant monies must be spent on Cycling, Walking and Safer Streets and therefore an additional £0.143m will be built into the programme for this.
- 1.37 The restricted capital funding of £18.682m is noted within Appendix 2. This relates to income which is restricted to specific projects and this has been matched with expenditure against the project, thereby showing the gross cost of the project.
- 1.38 A comparison between the capital plan as at December 2018, including the new block allocations for 2020-21 and 2021-22 has been compared to the estimated funding and there is surplus up to 2021-22 of £1.865m.
- 1.39 Included with the surplus are two projects within the current capital plan reporting an underspend. The first is in relation to the project at Kilmahew/St Peter's and NVA have now wound up business in July 2018 and although some elements of the project were delivered, the works did not involve any drawdown on the Council commitment. The other is in relation to the Kintyre's Renewable Hub where the project has come in less than budget. It is recommended that the budget is removed from both these projects in the capital plan.
- 1.40 There are other cost pressures identified in respect of Campbeltown Flood Scheme, CARS Lochgilphead and Helensburgh and HSCP Block Allocation. If Council agree to fund these pressures the surplus will reduce to £0.929m. It is recommended that

this balance is retained within earmarked reserves as a capital plan contingency.

Corporate Asset Management Strategy

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

Corporate Asset Management Plan

- 1.42 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. It includes the Asset Group Summaries.

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 2019-20.
- c) Note that through the EQSEIA process, we have paid due regard to our duties under the Equality Act 2010, our associated Fairer Scotland Duty and the Islands Act. Note that some of the savings proposals have an impact in some of areas, but this has been given due regard. There are no impacts identified through the EQSEIA process that show actual or potential unlawful discrimination.
- d) Approve a base allocation to the Health and Social Care Partnership of £57.132m for 2019-20 in addition to an in-year payment of £1.236m. Approve indicative allocations base for 2020-21 and 2021-22 to be £57.132m with a further in-year payment of £1.236m in both years. The level of future years funding is subject to the level of Scottish Government funding and the Council's overall financial position in future years.
- e) Agree to defer the pay-back of the 2017-18 Social Work overspend by the HSCP by 1 year, resulting in repayments of £0.100m in 2019-20, £0.300m in 2020-21 and £0.755m in 2021-22. This will alter the payments as noted in recommendation (d).
- f) Approve the adjustment to the Live Argyll Management Fee, resulting in a management fee in 2019-20 of £3.692m. Approve the increase in the Management Fee for 2020-21 as was previously agreed when the Trust was established and note that the fee for 2021-22 will be subject to review on the basis that the Trust should have been able to grow its income streams and the management fee will reduce.
- g) Approve the revenue estimates for 2019-20 and that consequently the local tax requirement estimated at £50.457m is funded from Council Tax. Approve the following rates and charges for the year, 2019-20:
 - i. Council Tax to be paid in respect of a chargeable dwelling in Band "D"

- of £1,308.33 representing a 4.79% increase.
 - ii. 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.
 - iii. Business Rates as determined by Scottish Ministers.
- h) Approve the new management/operations savings as outlined in Appendix 5 and the policy savings options as outlined in Appendix 6 of the revenue budget overview report noting that any savings approved will change the budget position as noted above.
- i) Approve the revenue budget for 2019-20 as set out in the revenue budget overview report.
- j) Give consideration to approving the funding requests for the Royal National Mod (£0.120m) and Kintyre Recycling Limited (£23,330).
- k) Approve the funding for Events and Festivals for 2020-21 in order that the grant application process can commence during 2019-20.
- l) In a similar position to the Events and Festivals funding, consider approving the funding for the Supporting Communities Fund in 2020-21 in order that the grant application process can commence during 2019-20.
- m) Approve the following in relation to fees and charges with effect from 1 April 2019 unless otherwise noted:
 - i. Approve the proposals for the fees and charges inflationary increase of 3% and approve the charges that are over and above inflation. Note that this would generate additional income of £0.320m in total.
 - ii. Approve the new charges in relation to registers printing copy certificates, pre-application meetings and private water supplies and agree that these charges will be implemented from 22 February 2019.
 - iii. Approve the new charges in relation to the proposed parking pilot for Oban, Lorn and the Isles as per the Policy and Resources Committee report on 14 February 2019.
 - iv. Approve the changes proposed to the Social Work fees and charges.
 - v. Approve all other charges as noted within the Fees and Charges Schedule.
- n) Note the revenue budget monitoring position as at 31 December 2018.
- o) Note the financial risks analysis.
- p) Approve the contingency level for the General Fund balance at a level of 2% of net expenditure, equivalent to £4.822m and note the report on reserves and balances.
- q) Approve the capital plan block allocations for 2020-21 and 2021-22 and the contribution to the private sector housing grant for these years as noted in the capital summary report.

- r) Approve the following changes to the capital plan:
- i. Approve that additional funding of £0.514m is allocated to the Helensburgh Waterfront Project and £0.510m to Dunoon CHORD in line with the current reported overspends on these projects.
 - ii. Approve the removal of the Kilmahew/St Peter's project from the capital plan and transfer the £0.250m to the capital plan surplus.
 - iii. Approve that the underspend of £0.423m on the Kintyre Renewables Hub project is removed from the capital plan and transferred to the capital plan surplus.
 - iv. Approve that the £0.500m funding that was accelerated from the Education Block allocation in 2019-20 towards Dunoon Primary School is re-instated and used towards the projects originally intended for.
 - v. Approve a 20% contribution towards the Campbeltown Flooding Scheme to 2019-20 of £0.159m.
 - vi. Approve the full capital ask of £0.200m towards the CARS Lochgilphead Project, profiled over 2019-24.
 - vii. Approve the full capital ask of £0.327m towards the CARS Helensburgh Project, profiled over 2020-25.
 - viii. Approve an additional allocation of £0.250m for the Health and Social Care block allocation in 2019-20 to be used for asset sustainability.
- s) Approve the capital plan as set out in Appendix 3 of the capital plan summary.
- t) Approve that the remaining capital plan surplus of £0.929m is retained within earmarked reserves as a capital plan contingency.
- u) Approve the Corporate Asset Management Strategy.
- v) Approve the Corporate Asset Management Plan and the Asset Group Summaries.

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 2019-20 to 2021-22 and the funding and commitments for the capital plan 2019-22.
- 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 Fairer Scotland Duty – Equality and Socio-Economic Impact Assessments have been carried out where appropriate for savings options already agreed or developed. Equality and Socio-Economic 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 around the level of capital receipts, future grant funding and there are a number of red risks highlighted within the corporate asset management plan.
- 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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6 February 2019

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