

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 budget.

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 1,400 responses were received from across Argyll and Bute from residents aged 11-75+. In total there were over 2,300 comments received.

Service Plans 2020-23

- 1.4 This report presents the draft service plans for 2020-23 including the 2020-21 budget allocation. Service Plans are a core part of the Council's Performance and Improvement Framework. 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 these outcomes.
- 1.5 There are 17 business outcomes which have been mapped to the Argyll and Bute Outcome Improvement Plan, 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 2020-21, as advised in the provisional settlement, is £195.364m. If you compare the settlement of £195.364m to the cash funding in 2019-2020 the funding reduction is £0.332m or 0.17%. If you take into account the funding that has been allocated this year for specific additional responsibilities that require us to incur more costs the funding reduction is £2.725m or 1.39%.
- 1.10 The Council Tax budget for 2019-20 was set at £50.457m. This included a 4.79% increase and a 0.50% growth in the Council Tax base. This is the starting position for 2020-21. In terms of the growth in the Council tax base it had previously been assumed within the budget outlook that growth would be between 0.25% and 0.75% with a mid-range of 0.5%. As reported to the Policy and Resources Committee on 17 December 2019 this assumption was updated following a review of actual growth since 2015. The growth assumption has been updated to reduce the mid-range scenario to a 0.25% growth amounting to £0.126m.
- 1.11 The budget for 2019-20 has been rolled forward into 2020-21 and the main changes are as follows:
- Base budget adjustments amounting to £3.248m.
 - Increases to employee budgets in respect of pay inflation, increments, changes to the employee base and teachers' pensions amounting to £4.733m.
 - Non-pay inflation of £1.294m.
 - Cost and demand pressures of £0.435m.
 - Increase to Live Argyll management fee of £0.096m.
- 1.12 In respect of the payment to the Health and Social Care Partnership (HSCP), the Local Government Finance Circular 1/2020 advises of additional funding of £100m that is allocated for Health and Social Care and Mental Health services. In a letter issued by the Directorate of Health Finance and Governance on 6 February 2020 it was made clear that the funding should be additional to the 2019-20 budget and as a result the payment to the HSCP is effectively protected from any reduction to their base budget. Based on this letter, the payment to the HSCP for 2020-21 does not include the 1% reduction to the HSCP funding and passes over the share of the additional funding.
- 1.13 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 2020-21 of £0.326m.
 - Management operational savings reported to Council on 21 February 2019 with decreased savings in 2020-21 of £0.452m.

- Policy saving options reported to Council on 22 February 2018 with increased savings in 2020-21 of £1.286m.
- Policy saving options reported to Council on 21 February 2019 with increased savings in 2020-21 of £0.472m.

1.14 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 £0.309m of additional income.
- Increase Council Tax by 3.0% next year resulting in £1.517m of additional income.
- New management/operational savings reported to Council on 17 October 2019 amounting to £1.371m.
- New policy savings options within Council control reported to Council on 17 October 2019 and subsequently amended after officers developed them further, amounting to £2.050m.
- New policy savings options outwith Council control reported to Council on 17 October 2019, subsequently adjusted, amounting to £0.454m.
- One off fleet savings of £0.278m.
- Loans fund savings of £2.500m.

1.15 If Members agreed to all the proposals noted within the report, this would produce a balanced budget in 2020-21 with a surplus of £1.570m.

1.16 The budget gap over 2021-22 and 2022-23 across each scenario is summarised in the table below.

Budget Gap	2021-22 £000	2022-23 £000	Total £000
Best Case	4,565	4,525	9,089
Mid-Range	8,241	7,919	16,160
Worst Case	12,768	12,381	25,149

1.17 In addition to approving the £2.500m of loans fund revenue savings highlighted at paragraph 1.14 Council are also asked to consider the most prudent use of the one-off re-profiling gain of £20.561m generated by the loans fund review. It is recommended that a provision is made for the increasing principal repayments over the next 10 years. Based on a recurring loans fund revenue saving of £2.5m a provision of £7.649m would be required. There are known liabilities/cost pressures that Council should give consideration to. These are noted within the table below and it is recommended that the one-off re-profiling gain is used to fund these.

	£000	£000
One-off re-profiling gain	20,561	
Provision for increased principal repayments	(7,649)	
Revised Gain		12,912
Revenue Pressures:		
Provision to Support Organisational Change	(500)	
Estimated cost of 2020-21 redundancies that are part of budget savings proposals	(1,200)	
Future Redundancies provision	(1,500)	
Spend to Save Route Optimisation	(100)	
		(3,500)
Capital Pressures:		
Funding Gap in Capital Programme	(2,619)	
Capital Programme Intolerable Red Risks	(574)	
Lismore Ferry	(200)	
Campbeltown Flood Protection Scheme	(1,406)	
Significant Strategic Change Projects	(4,613)	
		(9,412)
Remaining One-off Gain		0

1.18 In view of the future savings requirements officers will be look to identify savings for future years, through a structured programme of service redesign. This will take cognisance of the unique challenges faced by the Council and reflect on service redesign already delivered in previous years. In particular there will be a focus on greater digital transformation and commercialisation.

1.19 Four funding requests have been received from organisations where funding has previously been provided. The Council is asked to consider the funding requests.

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 2020-21 and further recommended increases over and above inflation. These increases are expected to generate additional income of £0.309m.

1.22 In addition to the inflationary increases there are also potential fee increases which are policy saving proposals which require member approval. Within the budget outlook, this additional income has been accounted for as part of the service package policy options.

1.23 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 29 January 2020.

- 1.24 The 5% additional increase over and above general inflation on piers and harbours is estimated to generate additional income of £0.309m which is ring fenced to fund asset improvements.
- 1.25 Officers are to explore options with CMAL/CalMac about moving to a flat fee per facility for berthing at Craignure Pier rather than the current approach which applies the established fees and charges approved by Council and an additional charge per passenger, vehicle, livestock, goods etc.
- 1.26 Officers are reviewing the charge for Export Certificates with a view to introducing a change to the small quantities level and information will be brought to a future EDI Committee.

Financial Risks Analysis 2020-21

- 1.27 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.
- 1.28 There are 5 Council wide revenue risks identified for 2020-21 currently amounting to £3.701m. The risk in relation to the IJB referring to the Council for additional funding has been categorised as possible due to the outturn over the previous three years. All other Council wide risks have been classified as unlikely.
- 1.29 There are currently 40 departmental risks totalling £4.080m. Only 1 of the 40 departmental risks are categorised as likely with no risks categorised as almost certain.
- 1.30 Looking beyond 2020-21, there is a potential significant risk in relation to the ban on Biodegradable Municipal Waste (BMW) being disposed of via landfill from 2025. Solutions being rolled out nationally aren't suitable here as waste quantities make the facilities practically and financially unviable. Any solution requires waste to be transported out of the area, over long distances. This risk will need to be kept under review and it is recommended that a provision is made from the loans fund one-off re-profiling gain towards this and other significant capital projects.

Reserves and Balances

- 1.31 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.
- 1.32 The Council has a total of £55.528m usable reserves as at the end of 31 March 2019. Of this balance, £1.696m relates to the Repairs and Renewals Fund, £4.352m relates to Capital Funds and the remainder of £49.480m is held in the General Fund, with £42.936m of this balance earmarked for specific purposes.
- 1.33 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 2020-21. The revised contingency at 2% of net

expenditure amounts to £4.920m.

1.34 The revenue budget as at 31 December 2019 is estimated to be £2.490m overspent, however, this is subject to change, particularly as the last three months of the financial year are the time of winter maintenance and the level of expenditure is difficult to predict. Furthermore the recently completed review of the Council's Loans Fund is estimated to provide £2.500m in savings in 2019-20 subject to member approval of the policy change.

1.35 The table below summarises the position of the unallocated General Fund balance.

	£000
Unallocated balance as at 31 March 2019	1,706
Balance no longer required	200
Supplementary estimates agreed 27 June 2019	(94)
Transfer of contingency to maintain 2% level	(82)
Revised Unallocated General Fund Balance	1,730
Current Forecast Outturn for 2019-20 as at 31 December 2019	(2,490)
Loans fund review savings	2,500
Estimated Unallocated balance as at 31 March 2020	1,740

CAPITAL PACK

Capital Plan Summary

1.36 This report details the revisions proposed to the capital plan approved in February 2019 for the period 2020-21 to 2021-22 and extends the capital plan out for a further year to 2022-23. The revisions are based on updated capital funding assumptions, phasing and cost changes.

1.37 The annual General Capital Grant for 2020-21 and 2021-22 was previously based on the 2019-20 settlement of £12.262m when the plan was agreed last year and further used as the basis for the 2022-23 block allocations. The settlement was announced on 6 February 2020 and the General Capital Grant for 2020-21 was £2.601m less than estimated at £9.661m.

1.38 In light of the significantly reduced settlement in 2020-21, consideration was given to the Capital Grant assumption for future years. An average over the last four years settlements has been assumed and this provides an estimated annual General Capital Grant of £12.278m. As this is significantly higher than the settlement in 2020-21, there is a risk that the actual settlement is lower and Members should give consideration as to the funding of the capital plan beyond 2021-22 should that be the case. This could be further impacted if there are any additional capital monies allocated later in the financial year.

1.39 The amount of capital resources allocated to Private Sector Housing Grant (PSHG) is £1.033m per annum, similar to previous years.

- 1.40 The additional Specific Grant monies must be spent on Cycling, Walking and Safer Streets and therefore an additional £0.142m will be built into the programme for this.
- 1.41 The restricted capital funding of £69.606m is noted within Appendix 2 of the Capital Plan Summary Report. 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.
- 1.42 A comparison between the capital plan as at December 2019, including the new block allocation for 2022-23 has been compared to the estimated funding and there is gap up to 2022-23 of £2.619m.
- 1.43 As part of the Service Asset Management plans a number of intolerable red risks, amounting to £0.574m have been identified that require additional funding over and above the block allocation. The most significant of these is in relation to the replacement of three key business applications. It is recommended that these risks are funded by one off re-profiling savings as a result of the loans fund review.
- 1.44 There are three cost pressures identified in respect of significant strategic change projects, Lismore Ferry and Campbeltown Flood Protection Scheme. Again, it is recommended that these risks are funded by one off re-profiling savings as a result of the loans fund review.

Corporate Asset Management Strategy

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

Corporate Asset Management Plan

- 1.46 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 Group and Service Asset Management Plan summary templates.

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 2020-21.
 - 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 £60.577m for 2020-21. Approve indicative allocations base for 2021-22 and 2022-23 to be £60.577m. 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) Give consideration to the request made by the Health and Social Care Partnership to revise the current repayment programme to:

	Repayment 2017-18 Overspend £000	Repayment 2018-19 Overspend £000	Repayment 2019-20 Estimated Overspend £000	Total Repayment £000
2020-21	200	300	0	500
2021-22	400	800	0	1,200
2022-23	355	900	0	1,255
2023-24	200	1,127	0	1,327
2024-25	0	0	1,310	1,310
Total	1,155	3,127	1,310	5,592

- f) Approve the adjustment to the Live Argyll Management Fee, resulting in a management fee in 2020-21 of £3.788m.
- g) Approve the revenue estimates for 2020-21 and that consequently the local tax requirement estimated at £52.100m is funded from Council Tax. Approve the following rates and charges for the year, 2020-21:
- i. Council Tax to be paid in respect of a chargeable dwelling in Band "D" of £1,348.09 representing a 3.00% 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.
- i) Approve the revenue budget for 2020-21 as set out in the revenue budget overview report.
- j) Approve the use of the £20.561m one-off re-profiling gain from the loans fund review to create a £7.649m provision for the increasing principal repayments over the next 10 years, and approve that the remainder of the gain is used to fund the known liabilities/cost pressures set out below:

	£000	£000
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		(9,412)
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- k) Give consideration to funding requests in relation to the Argyll and Isles Tourism Co-operative, Kintyre Recycling Limited, Fyne Futures and the ask from Rothesay Pavilion Charity (RPC) as per the additional briefing provided by officers following the meeting with RPC on 14 February 2020.
- l) Approve the following in relation to fees and charges with effect from 1 April 2020 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 £0.309m in total.
 - ii. Approve the changes proposed to the Social Work fees and charges.
 - iii. Approve all other charges as noted within the Fees and Charges Schedule.
 - iv. Note that officers are exploring moving to an annual flat fee model for CalMac ferry vessels berthing at Craignure Pier and agree that any revision to how the charge is levied is delegated to the Council's Executive Directors as long as this is of no financial detriment to the Council.
 - v. Note that officers are reviewing the charge for Export Certificates with a view to introducing a change to the small quantities level and further note that any proposal in relation to this would be reported to the Environment, Development and Infrastructure Committee in the first instance.
- 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 £4.920m and note the report on reserves and balances.

- o) Approve the capital plan as set out in Appendix 3 of the capital plan summary, noting that consideration needs to be given to how the capital programme will be funded in future years, should the funding settlement for 2021-22 and 2022-23 be less than estimated.
- p) Approve the Corporate Asset Management Strategy
- q) Note 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 2020-21 to 2022-23 and the funding and commitments for the capital plan 2020-23.
- 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.

Kirsty Flanagan
Section 95 Officer
13 February 2020

Policy Lead for Financial Services and Major Projects: Councillor Gary Mulvaney