

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 process, which this year happened in three parts.
- 1.3 Overall we received nearly 3,000 responses, and more than 4,300 comments from across Argyll and Bute

Service Plans 2021-24

- 1.4 This report presents the draft service plans for 2021-24 including the 2021-22 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 2021-22 budget, 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 2021-22, as advised in the provisional settlement, is £201.043m. If you compare the settlement of £201.043m to the cash funding in 2020-2021 the funding increase is £3.845m or 1.95%. If you take into account the funding that has been allocated this year for specific additional responsibilities that require us to incur more cost as well as accounting for the indicators still to be distributed the funding increase is £0.774m or 0.39%.
- 1.10 In terms of the growth in the council tax base, due to the impact of COVID-19 I have considered it prudent to assume no growth in 2021-22. For future years I am assuming the 0.1%, 0.25% and 0.4% growth across the scenarios. This assumption will be kept under review during 2021-22 to see if there is a longer term impact of COVID-19 on the Council tax base.
- 1.11 The 2021-22 settlement includes an additional £90 million available to compensate councils who choose to freeze their council tax at 2020-21 levels. The Council's allocation of this is £1.762m. An assumption has been made in this report that the Council will freeze council tax at 2020-21 rates.
- 1.12 The budget for 2020-21 has been rolled forward into 2021-22 and the main changes are as follows:
- Base budget adjustments amounting to £0.418m.
 - Settlement commitments amounting to £1.421m
 - Increases to employee budgets in respect of pay inflation, increments, changes to the employee base and teachers' pensions amounting to £3.770m.
 - Non-pay inflation of £1.031m.
 - Cost and demand pressures of £1.172m.
 - Decrease to Live Argyll management fee of £0.370m.
 - A funding request from AITC of £0.030m
- 1.13 In respect of the payment to the Health and Social Care Partnership (HSCP), the Local Government Finance Circular 1/2021 advises of additional funding of £72.6m that is allocated for Health and Social Care and Mental Health services. Argyll and Bute's share of this amounts to £1.385m. This amount plus £0.013m for Community Justice Transitional Funding require to be passed over to the HSCP.
- 1.14 The payment to the HSCP is an issue for Council to agree. There is a request from the HSCP for an additional £0.236m of funding to be passed over to them to reflect a proportionate share of the Council's 0.39% increase in the 2021-22 settlement. This request has been built into the budget gap however it is an issue for Council to agree. Currently I have assumed flat cash allocations in the best case, mid-range and worst case scenarios in future years.

- 1.15 There are a number of measures to balance the budget that have previously been agreed at the Council's budget meetings in 2019 and 2020 which have a net effect of reducing the 2021-22 budget gap by £0.076m.
- 1.16 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 £0.334m of additional income.
 - New management/operational savings amounting to £2.141m.
 - New policy savings options amounting to £0.693m.
- 1.17 If Members agreed to all the proposals noted within the report, this would produce a balanced budget in 2021-22 with a surplus of £3.080m before considering the impact of COVID.
- 1.18 The capital plan summary report within the budget pack advises the Council that there is a significant funding gap within the current capital plan and it is recommended the surplus on the revenue is used towards the gap, which would save projects from having to be reduced/removed from the current capital plan or reduce the level of borrowing required to fund the budget gap.
- 1.19 The budget gap over 2022-23 and 2025-26 across each scenario is summarised in the table below.

Budget Gap	2022-23 £000	2023-24 £000	2024-25 £000	2025-26 £000	Total £000
Best Case	(1,445)*	(1,778)	(1,412)	(1,678)	(6,312)
Mid-Range	(4,918)*	(5,090)	(4,661)	(5,018)	(19,687)
Worst Case	(9,019)*	(9,098)	(8,646)	(9,125)	(35,888)

*dependant on how the 2021-22 surplus is used.

- 1.20 It is estimated that the net financial impact of COVID-19 on the Council's revenue position in 2021-22 will be £5.101m with an additional estimated pressure on the Council's capital budget of £2.0m due to increases in contract costs. It also needs to be recognised that the financial impact of COVID may extend beyond 2021-22 and it would be prudent to create a provision of at least £2.0m in respect of this.
- 1.21 The UK and Scottish Government has announced three financial flexibilities that councils can consider exercising to fund COVID specific cost pressures. The preference would be to use the credit arrangements flexibility, however, there are ongoing discussions with the Scottish Government regarding the repayment methodology associated with this option. Should the issue be resolved enabling Council's to change this credit arrangement and use an annuity repayment method, then this is a flexibility that we should exercise. In the meantime it is recommended that Members agree to the use of the loans fund principal repayment holiday flexibility which would free up £5.4m of budget to be directed towards COVID pressures.
- 1.22 The Scottish Government have allocated a further £259 million of non-recurring COVID-19 funding for 2021-22. The distribution of this funding, is not confirmed yet

but it is expected, as with other COVID general revenue funding, that this will be distributed based on GAE and SINA which would result in Argyll and Bute receiving £4.609m additional funding.

- 1.23 The table below summarises the position in relation to COVID. As can be seen there is net funding of £0.908m and Members may wish to give consideration as to how this could be used in relation to the recovery from COVID.

	£,000	£,000
2021-22 Revenue Cost Pressure	(5,101)	
2021-22 Capital Cost Pressure	(2,000)	
Provision for COVID Cost Pressures Beyond 2021-22	(2,000)	
Total COVID Cost Pressure		(9,101)
Estimated Council Share of £259m Non-Recurring COVID Funding	4,609	
Principal Repayment Holiday	5,400	
Available COVID Funding		10,009
Net Position		908

- 1.24 In view of the future savings requirements officers continue to further develop savings options which have been identified through the service redesign work carried out during 2020-21 and which require further refinement and community engagement.
- 1.25 One funding request has been received from an organisation where funding has previously been provided. The Council is asked to consider the funding request. The recommendation within the appendix has already been built into the budget figures.

Fees and Charges

- 1.26 This report sets out proposals for increases in fees and charges and the resulting impact on income included in the revenue budget.
- 1.27 The general increase to fees and charges is proposed at 3% for 2021-22 and further recommended increases over and above inflation. These increases are expected to generate additional income of £0.334m.
- 1.28 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.
- 1.29 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 27 January 2021.

- 1.30 The 5% additional increase over and above general inflation on piers and harbours is estimated to generate additional income of £0.354m which is ring fenced to fund asset improvements.

Financial Risks Analysis 2021-22

- 1.31 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.
- 1.32 There are 6 Council wide revenue risks identified for 2021-22 currently amounting to £3.886m. Three of the risks have been classified as possible. The first 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. The second is a 1% variation in council tax income due to an expected ongoing impact of COVID on collection rates. The third relates to a 10% variation in officer estimates of the financial impact of COVID in 2021-22.
- 1.33 There are currently 38 departmental risks totalling £3.504m. Only 1 of the 38 departmental risks are categorised as likely with no risks categorised as almost certain.

Reserves and Balances

- 1.34 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.
- 1.35 The Council had a total of £55.892m usable reserves as at the end of 31 March 2020. Of this balance, £1.843m relates to the Repairs and Renewals Fund, £4.379m relates to Capital Funds and the remainder of £49.670m is held in the General Fund, with £43.375m of this balance earmarked for specific purposes.
- 1.36 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 2021-22. The revised contingency at 2% of net expenditure amounts to £5.030m.
- 1.37 The revenue budget position as at 31 December 2020 is estimated to be £5.124m overspent. Although this was the position at the end of December, there have been significant updates to this figure since December and these are noted below.
- Our share of the £90m COVID Lost Income Scheme has been confirmed as £2.043m.
 - The Scottish Government has announced an additional £110m in respect of the Lost Income Scheme. Whilst this hasn't currently been distributed, it is expected that the distribution will be similar to the £90m and, if this is the case, we will receive £2.497m.
 - Estimated increased investment income of £0.300m due to the rate of return

achieved by the Council's investments continuing to be higher than the average LIBID despite the challenging investment market.

- The forecast outturn position for Social Work as at the end of December was a £1.879m overspend, which assumed that there would be no funding from Scottish Government in respect of undelivered savings. It has now been confirmed that funding will be made available for the undelivered savings and as a result Social Work would no longer be overspent.

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

Heading	Detail	£000	£000
Unallocated General Fund as at 31 March 2020	This is the balance that is unallocated over and above the 2% contingency which amounts to £4.969m		1,326
HSCP repayment towards previous year overspends	Agreed as £0.500m in 20-21 but £0.100m had already been paid in 19-20		400
Earmarked Balances no longer required	Amounts previously earmarked that can be released back to general fund		424
Supplementary Estimate Agreed 13 August 2020	Agreed in relation to Export Health Certificates		(15)
Transfer of contingency to maintain 2% level			(61)
Sub Total			2,074
Forecast Outturn for 2020-21 as at 31 December 2020	Two main factors: Council additional costs and lost income in relation to COVID. Social Work estimated overspend.	(5,124)	
£90m Lost Income Scheme	Distribution of the £90m Scottish Government Lost Income Scheme	2,043	
Additional £110m Lost Income Scheme	Estimated share of additional £110m announced by Scottish Government for Lost Income Scheme	2,497	
Loans Fund estimated increased investment income		300	
Social Work Adjustment	Based on funding advised in respect of undelivered savings, Social Work will no longer be overspent	1,879	
Updated Estimated			1,595

Forecast Outturn 2020-21			
Estimated Unallocated General Fund Balance as at 31 March 2021			3,669

CAPITAL PACK

Capital Plan Summary

- 1.39 This report details the revisions proposed to the capital plan approved in February 2020 for the period 2021-22 to 2022-23 and extends the capital plan out for a further year to 2023-24. The revisions are based on updated capital funding assumptions, phasing and cost changes.
- 1.40 The annual General Capital Grant for 2021-22 was estimated when the plan was agreed last year to be £12.278m. The updated General Capital Grant based on the settlement is £9.876m less £0.155m for general flooding projects and £0.125m specifically for Campbeltown Flood Scheme, and is therefore a £2.682m reduction on previous estimate.
- 1.41 In light of the significantly reduced settlement in 2020-21, consideration was given to the Capital Grant assumption for 2023-24 when setting the block allocations available to Services. The estimated General Capital Grant at that time for 2023-24 was based on the 2020-21 settlement of £9.661m therefore comparing this to the settlement for 2021-22, and again taking into account the flooding allocation of £0.155m and the Campbeltown flood scheme allocation of £0.125m, this results in a gap of £0.065m in 2023-24. Confirmation has now been received from Scottish Government that the indicative General Capital Grant settlements up to 2025-26 will remain constant at the same level as the 2021-22 settlement.
- 1.42 The amount of capital resources allocated to Private Sector Housing Grant (PSHG) is £1.033m per annum, similar to previous years.
- 1.43 The additional Specific Grant monies must be spent on Cycling, Walking and Safer Streets and therefore an additional £0.376m will be built into the programme for this.
- 1.44 The restricted capital funding of £10.315m 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.
- 1.45 A comparison between the capital plan as at December 2020, including the new block allocation for 2023-24 has been compared to the estimated funding and there is gap up to 2023-24 of £6.262m. After adjusting for the intolerable red risks, cost pressures and other funding sources the total gap within the capital programme is £0.259m. If the gap was funded through borrowing it would create a revenue cost

pressure of £0.017m per annum which has not been built into the revenue budget overview report.

1.46 As part of the Service Asset Management plans, three intolerable red risks, amounting to £0.072m, have been identified that require additional funding over and above the block allocation. They relate to the replacement of three key business applications.

1.47 There is one cost pressure of £1.162m in relation to significant strategic change projects based on the best case scenario as detailed in exempt Appendix 4 of the Capital Plan Summary Report.

Should the worst case scenario be realised within Significant Strategic Change projects then the Significant Strategic Change Fund would need to be augmented by £3.114m which could be funded through borrowing at an estimated cost of £0.199m per annum to the revenue budget. This borrowing would only be taken if required.

Corporate Asset Management Strategy

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

Corporate Asset Management Plan

1.49 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 2021-22.
- 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 the revenue estimates for 2021-22 and that consequently the local tax requirement estimated at £52.859m is funded from Council Tax.
Approve the following rates and charges for the year, 2021-22:
 - a. Council Tax to be paid in respect of a chargeable dwelling in Band

“D” of £1,367.73 representing a 0.00% increase.

- b. 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.
 - c. Business Rates as determined by Scottish Ministers.
- e) Approve the revenue budget for 2021-22 as set out in the revenue budget overview report.
 - f) Approve a base allocation to the Health and Social Care Partnership of £62.211m for 2021-22. Approve indicative allocations base for 2022-23 and 2023-24 to be £62.211m. 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.
 - g) Within reference to the HSCP request for a deferral of £1m of the £1.2m that is due to be paid in 2021-22, agree this in principle, subject to the proviso that the amount to be deferred be reduced by the amount of any HSCP underspend in 2020-21.
 - h) Approve the 10% reduction to the Live Argyll Management Fee, resulting in a management fee in 2021-22 of £3.418m.
 - i) Approve funding of £0.030m per annum for AITC for a three year period (2021-22 to 2023-24) to support core costs.
 - j) Endorse the new management/operational savings as outlined in Appendix 5 of the revenue budget overview report and approve the policy savings options as outlined in Appendix 6 of the revenue budget overview report.
 - k) Approve that the surplus on the revenue budget is used to contribute towards the funding gap identified within the current capital plan.
 - l) Approve that the Council exercises the principal repayment holiday flexibility to make £5.4m available to be directed towards COVID revenue and capital costs but that the use of this flexibility be replaced by the credit arrangements financial flexibility if the Scottish Government give permission for the repayment arrangements to be made on an annuity basis. If this is the case a report will be brought back to the next available Council meeting.
 - m) Note that the Council expect to receive £4.609m from the £259m non-recurring funding set aside by Scottish Government for COVID related expenditure. The distribution has still to be confirmed.
 - n) Approve expenditure in relation to COVID as follows:
 - a. Estimated Revenue Cost Pressures amounting to £5.101m as outlined in Appendix 8 to the revenue budget overview report
 - b. Capital Contract Cost Pressures amounting to £2.0m as outlined in the capital plan summary report.
 - c. Provision for COVID cost pressures beyond 2021-22 amounting to

£2.0m.

- o) Approve the following in relation to fees and charges with effect from 1 April 2021 unless otherwise noted:
 - a. 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 £0.334m in total.
 - b. Approve the changes proposed to the Social Work fees and charges.
 - c. Approve all other charges as noted within the Fees and Charges Schedule.
- p) Agree to the recommendations set out within paragraph 2.2 of appendix 9 to the revenue budget overview report.
- q) Note the financial risks analysis.
- r) Approve the contingency level for the General Fund balance at a level of 2% of net expenditure, equivalent to £5.030m and note the report on reserves and balances.
- s) Approve the capital plan as set out in Appendix 3 of the capital plan summary report, noting that consideration needs to be given as to how fund the £0.259m gap. If borrowing was taken out to fund the gap within the capital programme it would create a revenue cost pressure of £0.017m per annum from 2022-23.
- t) Agree to the recommendations set out within paragraphs 2.1 to 2.2 including sub-paragraphs of appendix 4 to the capital plan summary report.
- u) Approve the Corporate Asset Management Strategy.
- v) 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 2021-22 to 2025-26 and the funding and commitments for the capital plan 2021-24.
- 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 – See Below
 - 3.5.1 Equalities - 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.
 - 3.5.2 Socio-Economic 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.
 - 3.5.3 Islands Duty – Islands duty is considered as part of the Equality and Socio-Economic Impact Assessments
- 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
8 February 2021

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