MEDIUM TO LONG TERM FINANCIAL STRATEGY

2021-22 TO 2030-31

AUGUST 2021

Contents

1. INTRODUCTION

1.1 Argyll and Bute Council (the Council), like all councils, faces significant financial challenges and is required to operate within tight fiscal constraints for the foreseeable future due to the continuing difficult national economic outlook and increased demand for services. This Strategy recognises the Council's duty to set a prudent, sustainable budget, and seeks to provide a practical foundation for the provision of the best possible value for money in the delivery of Council services in the longer term.

1.2 In partnership with our community planning partners we have agreed a shared vision and developed six outcomes to make Argyll and Bute the place people choose to live, learn, work and invest. These outcomes underpin the overarching aim that Argyll and Bute's economic success will be built on a growing population. The outcomes. set out in our shared Argyll and Bute Outcome Improvement Plan, are:

- Our 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 we will deliver on that shared ambition and demonstrates the alignment of our Business Outcomes to these strategic outcomes to deliver the overall Council 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 A medium to long term financial strategy is essential to ensure the challenges the Council faces are addressed in the most effective way. The principal objectives of the financial strategy are to:

- Outline the Council's high level financial position over the years 2021-2031 based on a range of assumptions.
- Highlight the key issues that have been considered in developing the strategy.
- Ensure there are resources to deliver the Council's key priorities.
- Plan for a sustainable revenue budget and capital investment programme which will support the Council's key priorities.
- Ensure the Council is fully aware of the financial challenges and uncertainties 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 faces over the next ten years to balance its budget.

1.5 This revision of the Council's Financial Strategy has been prepared at a time when the country and the Council are continuing to respond to the COVID-19 pandemic which has created financial pressures and a fiscal response which are without precedent in recent decades. It is anticipated that the impact of dealing with COVID-19 will be felt for many years.

1.6 The strategy provides financial estimates for the period 2022/23 to 2026/27 in detail and also considers longer term issues beyond that five year window that the Council needs to be sighted on. It is based on a set of assumptions and provides a range of potential scenarios and the financial implications.

1.7 The medium term estimates and assumptions detailed in the Strategy will continue to be reviewed on a regular basis and reported to the Policy and Resources Committee as part of the Budget Outlook report.

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 With so many external influences impacting on the economy, forecasting remains very difficult. The COVID-19 pandemic has elicited a fiscal response from the UK and Scottish Governments which is without precedent in modern times with both governments releasing large sums of funding to support the economy, households and frontline services in the COVID-19 response to help protect jobs, businesses and livelihoods. It is not currently clear what the medium to longer term impact of the COVID-19 outbreak will have on the UK economy and on funding levels available to support public services.

2.2 In their Economic and Fiscal Outlook published in March 2021 the Office of Budget Responsibility (OBR) have forecast that as the UK economy reopens and emergency fiscal support is withdrawn, government borrowing is forecast to fall from a high of £355 billion (16.9% of GDP) in 2020/21 to £234 billion (10.3% of GDP) in 2021/22. This is still higher than the 2009/10 peak at the height of the financial crisis. Beyond this, as fiscal policy moves from rescue to recovery then to repair they forecast the deficit will fall back to £107 billion in 2022/23 and, by 2025/26 will be £74 billion (2.8% of GDP)

2.3 Borrowing on this scale will have a long term impact on the future UK fiscal strategy and it is likely that the Chancellor will have to increase taxes (or cut spending). Areas which could contribute to increases in taxes or cost reductions could include:

- increasing VAT and National Insurance contributions
- further Public Sector pay freezes or minimal increases
- potentially ending the pension 'triple lock' which was introduced in 2010 and guarantees the state pension will increase in line with inflation, earnings or 2.5% – whichever is higher.

2.4 Approximately 78% of the Council's budget is supported by Aggregated External Finance (AEF) from the Scottish Government. This includes general revenue grant, specific grants and Non Domestic Rate income. The remaining 22% is made up from Council Tax and other Council sources of finance e.g. fees and charges. Consequently the Council has limited access to levers to influence income levels. In addition the Scottish Government currently produces single year financial settlements for Local Government making it extremely challenging for the Council to accurately estimate future funding levels.

2.5 In response to COVID-19 the Scottish Government has, to date, been allocated approximately £8.6 billion from UK Consequentials to help fund recovery activity and support businesses, addressing issues such as food insecurity, increased demand for Crisis Grants and other benefits plus allocating extra resources to the Health Service and Local Government. What happens beyond 2021/22 will largely be dependent on the UK Government's fiscal response.

2.6 There is however, nothing to indicate that Local Government will receive a real terms funding boost in the medium term over and above the implementation of Scottish Government policies and national initiatives. In this context it is likely that Local Government in Scotland is faced with a continuing reduction in resources which will have a clear impact on service delivery.

2.7 Given the current level of uncertainty surrounding funding, it is therefore considered that a strategy covering the period 2022/23 to 2026/27 in detail with very high level estimates for 2027-2031 is reasonable and appropriate for planning purposes.

2.8 The pressure on the Council to deliver balanced budgets is further exacerbated by the extent to which funding provided by the Scottish Government is ring fenced. Effectively this means a large element of the Council's budget is 'non-controllable' which means there is limited scope for identifying saving options from those budget areas due to national policies on issues such as teacher/ pupil ratios and prioritising social work. Approximately 68% of the Council's budget is 'non-controllable which means savings need to be delivered from the remaining 32%.

3. REVENUE BUDGET

Revenue Budget Outlook Reports

3.1 The Council's Revenue Budget Outlook is updated with the latest assumptions and reported to the Policy and Resources Committee as a standard agenda item. Prior to May 2020 the budget outlook reports extended the outlook over a three year period. From May 2020 onwards this was extended to a five year period which provides a longer term view of the Council's estimated budget gap.

Scenario Planning

3.2 The revenue budget outlook report uses scenario planning to present estimates using a best case, mid-range and worst case scenario.

3.3 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.

3.4 Beyond five 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.

Baseline Position

3.5 The starting point for forecasting forward, is to use the current year's budget as the baseline. The Council agreed the 2021/22 budget at its meeting on 25 February 2021. The agreed budget provides a base budget of £251.314m

3.6 In terms of using this budget as the base budget going forward, there are a number of adjustments required to reflect decisions taken by Council, noted as follows:

- Remove the £5.101m 2021/22 COVID-19 cost pressure
- Adjust for the £5.400m one off 2021/22 gain from the loans fund principal repayment holiday
- Adjustment for the £162k cost of repaying the loans fund principal repayment holiday
- Additional borrowing costs of £70k to fund capital plan
- Remove the one off 2021/22 festive parking funding of £20k
- Remove the one off 2021/22 cost of £206k for proving recycling services
- Remove the one off 2021/22 cost of £60k for the Planning Act
- Remove the one off 2021/22 ledger update projects costs of £50k

3.7 The table below summarises the impact of these adjustments on the 2021/22 base budget to provide a base budget for 2022/23.

	£,000	**£000**
Base Budget 2021/22		**251,314**
Remove:		
2021/22 COVID Cost Pressure	(5,101)	
2021/22 Recycling Services Cost	(206)	
2021/22 Planning Act costs	(60)	
2021/22 Ledger Upgrade Project	(50)	
2021/22 Festive Parking	(20)	
Total to Remove		(5,437)
Add Back:		
One off 2021/22 gain from principal repayment holiday	5,400	
Adjust for repayment of loans fund principal repayment holiday	162	
Additional borrowing costs to fund capital plan	70	
Total to Remove		5,632
2022/23 Base Budget		**251,509**

Five Year Budget Gap Scenario Assumptions

3.8 The assumptions used within the five year budget gap outlook are noted in the following table:

Assumption	**Best Case**	**Mid-Range**	**Worst Case**
Pay Award	1.0%	2.0%	3.0%
Increments	50% of prior year cost	Equal to prior year cost	Equal to prior year cost
Non-pay Inflation	Equal to prior year inflation	Equal to prior year inflation	Equal to prior year inflation plus 1% general inflation per 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 per annum	£0.500m per annum.
Fees and Charges inflationary increase	3%	3%	1%
HSCP Funding	No Change	No Change	No Change
Scottish Government Funding	-0.5%	-1.0%	-1.5%
Council Tax Growth	0.4%	0.25%	0.1%
Increase in Council Tax	3%	3%	3%.

Five Year Budget Gap (2022/23 to 2026/27)

3.9 The five year budget gap within the best case scenario is noted below.

	22-23 £000	23-24 £000	24-25 £000	25-26 £000	26-27 £000
Base Budget	251,509	251,517	251,526	251,535	251,545
Employee Cost Changes	1,736	3,538	5,328	7,157	8,995
Non-Pay Inflation	1,164	2,328	3,492	4,656	5,820
Cost and Demand Pressures	944	946	1,108	2,052	1,873
Savings Adjustment	(81)	(229)	(229)	(229)	(229)
Fees and Charges	(344)	(698)	(1,063)	(1,439)	(1,826)
HSCP Payment Adjustment	0	0	0	0	0
Total Estimated Expenditure	**254,928**	**257,402**	**260,162**	**263,732**	**266,178**
Estimated Funding	201,597	200,592	199,592	198,597	197,607
Estimated Council Tax	54,662	56,533	58,474	60,487	62,574
Total Estimated Income	**256,259**	**257,125**	**258,066**	**259,084**	**260,181**
Budget Surplus / (Gap) Cumulative	**1,331**	**(277)**	**(2,096)**	**(4,648)**	**(5,997)**
Budget Surplus / (Gap) In Year	**1,331**	**(1,608)**	**(1,819)**	**(2,552)**	**(1,349)**

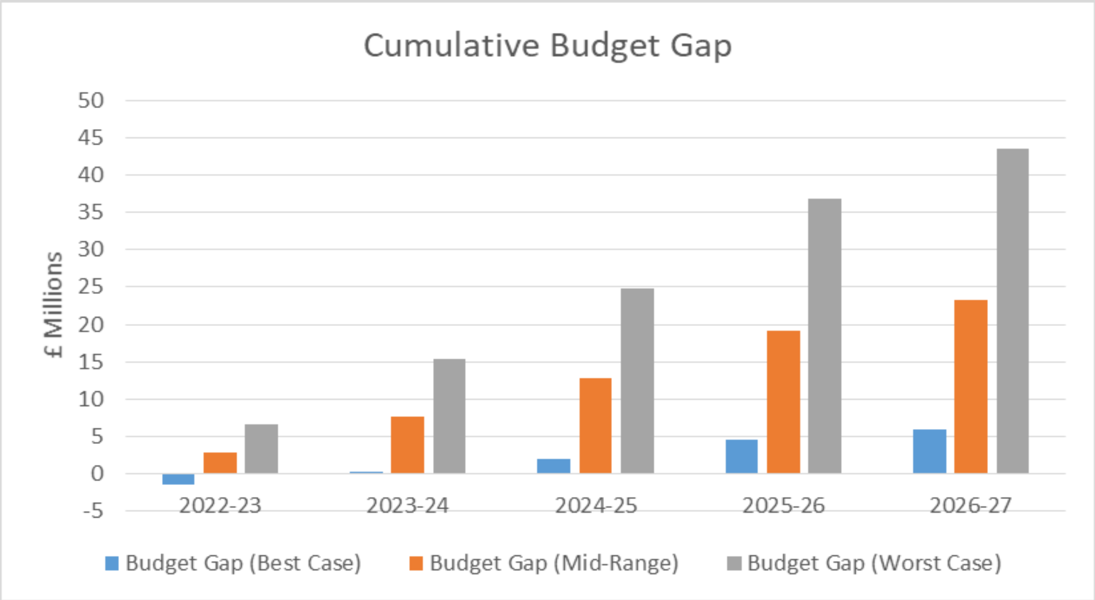
3.10 The five year budget gap within the mid-range scenario is noted below.

	22-23 £000	23-24 £000	24-25 £000	25-26 £000	26-27 £000
Base Budget	251,509	251,517	251,526	251,535	251,545
Employee Cost Changes	3,513	7,137	10,793	14,534	18,330
Non-Pay Inflation	1,164	2,328	3,492	4,656	5,820
Cost and Demand Pressures	1,218	1,545	2,113	3,860	3,481
Savings Adjustment	(81)	(229)	(229)	(229)	(229)
Fees and Charges	(344)	(698)	(1,063)	(1,439)	(1,826)
HSCP Payment Adjustment	0	0	0	0	0
Total Estimated Expenditure	**256,979**	**261,600**	**266,652**	**272,917**	**277,121**
Estimated Funding	199,587	197,597	195,627	193,676	191,745
Estimated Council Tax	54,581	56,362	58,206	60,113	62,086
Total Estimated Income	**254,168**	**253,959**	**253,833**	**253,789**	**253,831**
Budget Surplus / (Gap) Cumulative	**(2,811)**	**(7,641)**	**(12,819)**	**(19,128)**	**(23,290)**
Budget Surplus / (Gap) In Year	**(2,811)**	**(4,830)**	**(5,178)**	**(6,309)**	**(4,162)**

3.11 The five year budget gap within the worst case scenario is noted below.

	22-23 £000	23-24 £000	24-25 £000	25-26 £000	26-27 £000
Base Budget	251,509	251,517	251,526	251,535	251,545
Employee Cost Changes	4,974	10,131	15,397	20,826	26,393
Non-Pay Inflation	1,914	3,828	5,742	7,656	9,570
Cost and Demand Pressures	1,492	2,147	3,428	6,998	5,319
Savings Adjustment	(81)	(229)	(229)	(229)	(229)
Fees and Charges	(115)	(230)	(347)	(465)	(584)
HSCP Payment Adjustment	0	0	0	0	0
Total Estimated Expenditure	**259,693**	**267,164**	**275,517**	**286,321**	**292,014**
Estimated Funding	198,581	195,611	192,685	189,803	186,964
Estimated Council Tax	54,499	56,192	57,938	59,740	61,600
Total Estimated Income	**253,080**	**251,803**	**250,623**	**249,543**	**248,564**
Budget Surplus / (Gap) Cumulative	**(6,613)**	**(15,361)**	**(24,894)**	**(36,778)**	**(43,450)**
Budget Surplus / (Gap) In Year	**(6,613)**	**(8,748)**	**(9,533)**	**(11,884)**	**(6,672)**

3.12 The cumulative five year budget gap for each of the scenarios is shown in the chart below.



4. RESERVES

4.1 A key aspect for consideration is the position of the Council's General Fund Reserve.

4.2 Reserves can be held for three main purposes:

- a working balance to help cushion the impact of uneven cash flows
- a contingency to cushion the impact of unexpected events or emergencies
- a means of building up funds, often referred to as earmarked reserves, to meet known or predicted liabilities.

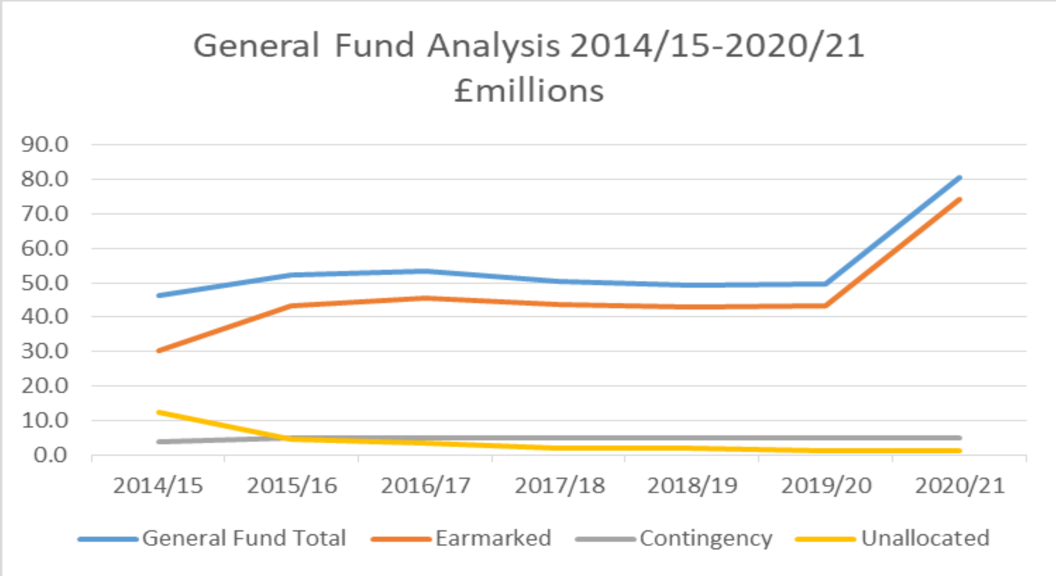
4.3 The Council currently maintains an agreed General Fund contingency level of 2% of the budgeted net expenditure for the subsequent year, and the adequacy of this level is reviewed annually. Should this contingency have to be utilised then the S95 Officer is required to put a recovery plan in place immediately to ensure the Council's contingency balance is restored. Various factors/risks are considered when setting this level and this is reported annually at the Council Budget meeting as part of the reserves and balances report within the budget pack.

4.4 The Council also assumes the continued use of earmarked reserves. In this way, earmarked reserves can be separated from the core General Fund Reserve which should allow Members to more transparently track the underlying reserves position. Earmarked Reserves are reviewed annually as part of the budget process.

4.5 The Council's usable reserves are:

- **General Fund** - represents the Council's contingency for unforeseen/ unquantifiable events and includes balances that the Council has agreed to earmark for specific purposes.
- **Capital Fund** - established to receive all capital receipts generated by the Council and can be used to support the capital plan or meet the principal repayments on loan charges.
- **Capital Receipts Reserve** - relates to the accumulated unspent capital receipts from sale of council houses prior to transfer of the housing stock. The reserve forms part of the Council's Strategic Housing Fund and can only be used for investment in social housing.
- **Repairs and Renewables Fund** - established to support funding of renewal and replacement of school equipment.

4.6 The diagram on the next page shows how the general fund, and its component parts, have changed over the six year period 2015/16-2020/21 (note the 2020/21 figures are based on the unaudited accounts).



4.7 This shows that, with the exception of 2020/21, the overall level of the general fund, and the extent to which it is earmarked has been fairly stable. The spike in both the overall general fund balance, and levels of earmarking in 2020/21 is largely as a consequence of COVID-19 funding made available by the Scottish Government near the year-end. This was always intended for the Council to use either in 2020-21 or in future years. Much of this has been carried forward to address the significant COVID pressures in 2021/22 and beyond. This position is consistent with a lot of other Scottish councils who also have significant amounts of COVID-19 funding received prior to the year-end that is earmarked and carried forward.

4.8 The diagram also shows that the Council has managed to carry forward appropriate contingency and unallocated balances to allow for unforeseen financial challenges of a reasonable scale. However the COVID-19 pandemic is not a financial challenge of a ‘reasonable scale’ and as such the Council has set aside funds to address future unforeseen COVID-19 specific pressures on both the revenue and capital budgets. This is further explained in section 7 of the Strategy.

5. LONGER TERM OUTLOOK

5.1 Beyond five years, prediction does become even more difficult. There are a number of uncertainties including the longer term impact of the COVID-19 outbreak and the UK’s withdrawal from the EU. These issues, and others which may emerge, will all have bearing on the quantum of funds available to the Scottish Government and the distribution of that Scottish Government funding to local authorities. The Oxford Economics Vulnerability Index considers a local authority’s economic diversity, business environment and digital connectivity to determine how able, or not, an area is to withstand and respond to the economic shock resulting from COVID-19. This index illustrates that the majority of Scottish districts are more vulnerable to COVID-19 compared with the Great Britain average, with urban districts being more resilient. Significantly, Argyll and Bute is the most vulnerable area in Scotland with a score of 150.6. (A score above 100 means an area is more vulnerable than the Great Britain average).

5.2 If the medium term estimates were used to project out to 10 years, the cumulative mid-range funding gap by year 10 could be in the region of £50m. This assumes a continued year on year reduction in Scottish Government funding in addition to the expenditure assumptions as noted previously.

5.3 The further we look into the future the greater the uncertainty about the financial challenges the Council will face. In addition to the extent to which COVID-19 and the UK's exit from the EU will affect the national economy there are a number of further key issues which are likely to impact on the Council's revenue budget. These include:

- the impact of population change/demographic shifts on funding levels
- future decisions of the Scottish Government regarding protection afforded to Local Government or other parts of the national budget
- potential use of available tax raising powers
- Welfare Reform changes and any associated budget cuts
- continuance of Health and Social Care integration within a context of increasing demand and insufficient funding
- pension costs influenced by the impact of auto-enrolment
- costs associated with sustainability including waste disposal and recycling, energy and fuel costs
- the impact of the Feeley review of the delivery of Adult Social Care (refer to paragraphs 10.21-10.24).

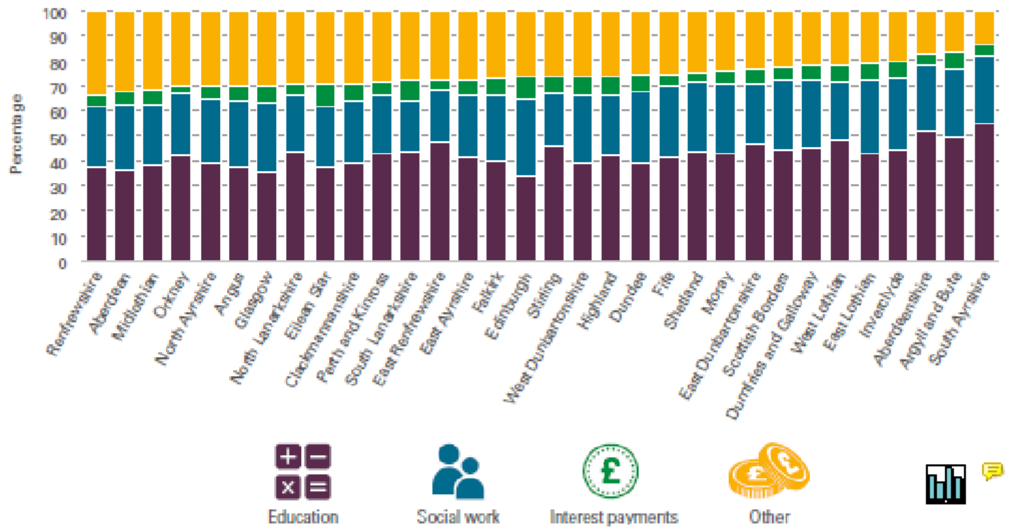
5.4 Whenever possible, future costs associated with issues such as those listed in paragraph 5.3 are built into the budget outlook if they can be reasonably estimated. Where it is not possible to estimate them with any degree of accuracy they will be highlighted as unquantifiable future cost pressures and/or future financial risks.

5.5 Audit Scotland produced an exhibit, shown below, within their 2015/16 Financial Overview Report 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. Whilst this was published five years ago the general message about flexibility in our revenue budget is still very valid in 2021/22 and beyond.

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.

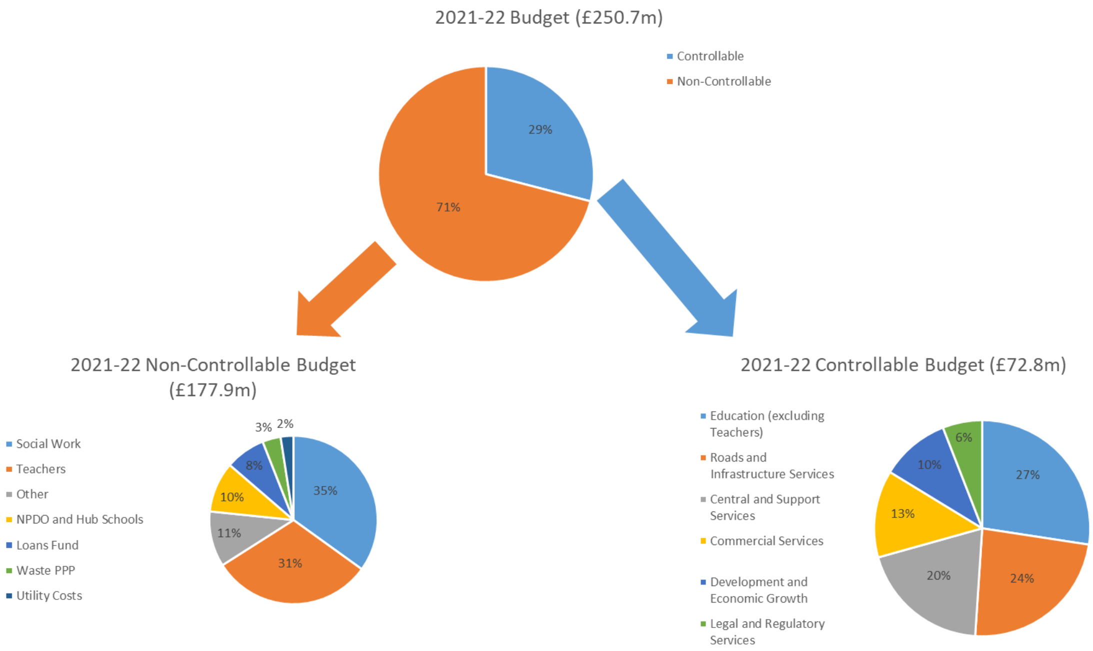


Notes: 1. Figures are from councils' accounts and include interest payments totalling £814 million, including annual interest costs associated with PFI/PPP/NPD projects. 2. The £1.5 billion debt servicing costs quoted elsewhere are on a funding basis and are not directly comparable for the purposes of 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

5.6 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.

5.7 The exhibit at paragraph 5.5 showed that in 2015/16 the Council had 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 based on the 2021/22 expenditure budget is shown in the chart below:



6. CAPITAL PLAN

Funding the Capital Plan

6.1 The capital plan is funded by the Scottish Government (General Capital Grant and Specific Ring-Fenced Capital Grants), other capital grants, capital receipts from asset disposals, revenue contributions to capital, earmarked reserves, prudential borrowing and borrowing funded by the loan charges provision in the revenue budget.

6.2 The Scottish Government receive a grant for capital spending from the UK Government which is then allocated to individual councils. The capital block grant has reduced year on year since 2017/18 through to 2020/21 and in 2021/22 the settlement was very similar to the previous year. The Scottish Government also undertook a Capital Spending Review which indicates that the capital settlement for the next five years is likely to remain constant.

6.3 The impact of the COVID-19 pandemic saw a reduction in capital receipts in 2020-21 and slippage within the Council's capital programme. Furthermore, early indications for 2021-22 suggest there will be a significant increase in project costs as a result of the pandemic therefore consideration may have to be given as to how the current programme will be funded or whether it can still be fully delivered within the intended timescales. This will be monitored on an ongoing basis.

6.4 The Council has a specific Capital Strategy which provides further detail.

Medium Term Capital Plan Agreed February 2021

6.5 The Council agreed a 3 year capital plan at its meeting on 25 February 2021. The table below summarises the plan.

Service Area	2021/22 £000	2022/23 £000	2023/24 £000	Total
Education	12,143	2,562	2,243	**16,948**
Shared Offices	2,954	571	431	**3,956**
Major Projects/ CHORD	14,555	2,975	285	**17,815**
ICT	1,491	1,209	919	**3,619**
Roads and Infrastructure	29,960	21,163	11,995	**63,118**
Development & Economic Growth	2,069	0	0	**2,069**
Argyll and Bute HSCP	1,450	576	431	**2,457**
Live Argyll	828	563	431	**1,822**
Total	**65,450**	**29,619**	**16,735**	**111,804**

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

- **Asset sustainability:** projects related to ensuring existing assets are fit for purpose/continue to be fit for purpose based on existing use.
- **Service Development:** projects with a focus on enhancing the current asset to improve its fitness for purpose or its efficiency and effectiveness. This includes 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. Service development projects would typically be under £1,000,000 in capital costs.
- **Strategic Change:** projects which are a significant investment across the service asset portfolio to support fundamental service development. The requirement for this investment would be driven by corporate priorities. Strategic Change projects would typically be in excess of £1,000,000 in capital costs.

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

Category	2021/22 £000	2022/23 £000	2023/24 £000	Total
Asset Sustainability	24,970	10,352	8,925	**44,247**
Service Development	10,427	1,422	0	**11,849**
Strategic Change	30,053	17,845	7,810	**55,708**
Total	**65,450**	**29,619**	**16,735**	**111,804**

Medium to Long Term Capital Funding Assumptions

6.8 The capital block grant has reduced year on year since 2017/18 through to 2020/21 and in 2021/22 the settlement was very similar to the previous year.

The Scottish Government also undertook a Capital Spending Review which indicates that the capital settlement for the next five years is likely to remain constant. However, as with the revenue estimates, the capital grant is estimated using three scenarios, best case, worst case and mid-range.

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

Scenario	Assumption
Best Case	Increase by 2%
Mid-Range	Constant
Worst Case	Reduction by 2%

6.10 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 2021/22.

6.11 The capital plan previously included an estimated capital grant in 2021/22 and 2022/23 of £12.278m (based on the average of the settlements over the previous four years). However, the capital grant actually received in 2021/22 amounted to £9.876m, significantly less than this estimate. The Scottish Government have advised that the indicative General Capital Grant settlements up to 2025/26 will remain constant at the same level as the 2021/22 settlement which resulted in a funding gap in both 2021/22 and 2022/23. Given the volatility of the settlement in recent years and also taking into account the indicative settlement to 2025/26 there are some assumptions outlined in the scenarios in 6.9.

6.12 The significant reduction in the capital grant in 2021/22 and 2022/23 to what was estimated was managed by utilising earmarked reserves previously set aside for significant change projects, COVID-19 specific funding received, unallocated General Fund balance, revenue surplus in 2021/22 and additional borrowing.

6.13 Capital funding can also be augmented by the revenue budget providing for additional loans charges to pay for additional borrowing. For example, the Harbour Investment Programme expenditure is funded through prudential borrowing with the debt servicing costs being met by increased fee income within Piers and Harbours, over and above the standard inflationary increase.

6.14 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.

Change to Current Capital Plan Assumptions

6.15 As noted in paragraph 6.11, the funding for the 2021/22 and 2022/23 capital plan was based on an average of the previous four years settlements and the new scenario assumptions result in a lower estimated capital grant. The reduction in funding figures assume there are no changes to the capital receipts assumptions that were revised as part of the budget setting process.

6.16 The change in the assumptions in the best case scenario are noted in the table on the next page. Increase of 2% capital grant year on year compared to 2021/22 settlement of £9,876k.

	2022/23 £000	2023/24 £000
Current Capital Grant Assumption built into budget in February 2021	9,751	9,751
Best Case Capital Grant Assumption	10,074	10,275
Increase/(Decrease) in Funding	**323**	**524**

6.17 The change in the assumptions in the mid-range scenario are noted in the table below. No change to capital grant compared to 2021/22 settlement of £9,876k.

	2022/23 £000	2023/24 £000
Current Capital Grant Assumption built into budget in February 2021	9,751	9,751
Mid-Range Capital Grant Assumption	9,876	9,876
Increase/(Decrease) in Funding	**125**	**125**

6.18 The change in the assumptions in the worst case scenario are noted in the table below. Reduction of 2% capital grant year on year compared to 2021/22 settlement of £9,876k.

	2022/23 £000	2023/24 £000
Current Capital Grant Assumption built into budget in February 2021	9,751	9,751
Worst Case Capital Grant Assumption	9,678	9,485
Increase/(Decrease) in Funding	**(73)**	**(266)**

Long Term Capital Grant Estimates

6.19 The estimate of capital grant funding for the long term is outlined in the table below.

Scenario	2024/25 £000	2025/26 £000	2026/27 £000	2027/28 £000	2028/29 £000	2029/30 £000	2030/31 £000	2031/32 £000
Best Case	10,481	10,690	10,904	11,122	11,344	11,571	11,803	12,039
Mid-Range	9,876	9,876	9,876	9,876	9,876	9,876	9,876	9,876
Worst Case	9,295	9,109	8,927	8,749	8,574	8,402	8,234	8,069

6.20 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 in order to meet health and safety requirements, for example, re- roofing, replacement windows, roads reconstruction

7. MANAGING THE FINANCIAL IMPACT OF COVID-19

Revenue and Capital Cost Pressures

7.1 Since the outbreak of the COVID-19 pandemic in early 2020, Financial Services have regularly updated actual and projected estimates of the financial impact of the pandemic on the Council's revenue position. In addition capital monitoring has identified slippage in the capital programme which can be directly attributed to COVID-19. Furthermore COVID-19 is impacting on the cost of capital contracts due to issues such as the availability of labour and materials.

7.2 Regular updates on the financial impact of COVID-19 were presented to the Business Continuity Committee and Policy and Resources Committee throughout 2020 and, at the Budget meeting on 25 February 2021, the Council agreed to provide for

- £5.1m to address the estimated impact of COVID-19 on the Council's 2021/22 revenue budget
- £2.0m to address the cost pressures on the Council's 2021/22 capital budget as a direct consequence of COVID-19
- £2.5m to create a provision for potential COVID-19 cost pressures that may materialise beyond 2021/22.
- £2.5m to create a provision for capital contract increases as a result of COVID

7.3 Financial Services will continue to monitor the impact COVID-19 has on expenditure and lost income to reflect eases in restrictions and update future assumptions. Furthermore the ongoing impact of COVID-19 on the capital programme and costs of capital projects will be kept under review. This will ensure the monies set aside by the Council for COVID cost pressures are used appropriately.

Recovery and Renewal Fund

7.4 At the February 2021 Budget meeting the Council also approved the creation of a £0.892m Recovery and Renewal fund to make provision for future recovery, regeneration and renewal cost pressures which may arise following the COVID-19 pandemic. Following that Council meeting the fund has been increased to £2.080m through additional non-recurring funding made available by the Scottish Government.

7.5 Proposals for use of this fund will be presented to the Policy and Resources Committee with an initial focus on maximising Argyll and Bute's potential as a staycation destination of choice. This will provide benefit to the local economy, and businesses and help promote Argyll and Bute as a place to visit and potentially relocate to.

8. TREASURY MANAGEMENT

Treasury Management Function

8.1 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."

8.2 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.

8.3 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 involve arranging long or short term loans, or using longer term cash flow surpluses.

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

8.5 The Council has a Treasury Management Strategy Statement and Annual Investment Strategy which is prepared and approved each year as part of the budget setting process. It provides further detailed information and can be found here.

Investment Strategy

8.6 The Council's investment priorities are security first, liquidity second and then return. The Council has adopted a prudent approach to managing risk however, the authority also pursues value for money in treasury management and will monitor the yield from investment income against appropriate benchmarks for investment performance. Regular monitoring of investment performance is carried out on an ongoing basis.

Borrowing Strategy

8.7 Over the past few years, the Council has benefited from lower borrowing costs due to low interest rates, in particular utilisation of short term temporary borrowing and internal borrowing (use of existing cash). In recent years the Council has reported an under-borrowed position as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This was particularly evident during 2021/22 when no new borrowing was required due to high levels of cash. This strategy is prudent as investment returns are low and counterparty risk is still an issue to be considered

8.8 Taking this into account and the risks within the economic forecast, which have been emphasised due to the COVID-19 pandemic, and the uncertainties around the impact of the UK's withdrawal from the EU, a cautious approach will be adopted regarding treasury operations. Financial Services, in conjunction with our treasury advisors, will continually monitor prevailing interest rates and market forecasts, adopting a pragmatic approach to changing circumstances.

8.9 To ensure borrowing levels are prudent over the medium term and only for a capital purpose, the Council ensures its gross external borrowing does not exceed the total capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This essentially means the Council is not borrowing to support revenue expenditure. The table below shows estimated financing costs as a proportion of net revenue stream for the next three years:

	Average over last 5 years for all Scottish Councils	**2021-22 Estimate for Argyll & Bute**	**2022-23 Estimate for Argyll & Bute**	**2023-24 Estimate for Argyll & Bute**
Financing costs as a proportion of net revenue stream	7.78%	4.30%	4.22%	4.13%

Loans Fund Strategy

8.10 The Local Authority (Capital Finance and Accounting) (Scotland) Regulations 2016 (the Regulations) came into force on 1 April 2016 replacing the statutory provisions for local authority borrowing, lending and loans fund as set out in Schedule 3 of the Local Authority (Scotland) Act 1975. The Regulations changed the basis on which the loans fund is accounted for. The change moves from a prescriptive basis on how the repayment values are to be calculated (maximum periods permitted for each asset class), to a prudent one with each local authority allowed to determine what is prudent. These changes in Regulations have brought in more flexibility for councils to repay the outstanding loans fund advances over a different period, if it can be justified as prudent to do so. The Regulations also stated that a council may subsequently vary the period or the amount of repayment (or both), if it considers it prudent.

8.11 During 2019/20 a review was undertaken to ensure the Council continues to make a prudent provision each year for the repayment of loans fund advances. In doing so a revised policy on loans fund advance repayment profiling was introduced as follows:

- For loans fund advances made before 1 April 2019, the policy will be to maintain the practice of previous years and apply the **Statutory Method**, with all loans fund advances being repaid using a 5.1% annuity rate over an average period of 32 years. For those loans fund advances outstanding at 1 April 2004 a repayment period of 14 years will be used.
- For loans fund advances made after 1 April 2019:
  - **Asset life method** – loans fund advances will be repaid with reference to the life of an asset using a 5.1% annuity rate;
  - **Funding / Income profile method** – loans fund advances will be repaid by reference to an associated income stream using a 5.1% annuity rate. This would be utilised where the asset will generate income which can be used to repay the debt or as a result of spend to save schemes where again the savings can be used to repay the

loans fund advances.

8.12 The impact of the above review resulted in a one off gain of £20.561m, however it also meant that future year principal loans fund repayments would increase. As a result of this a provision was made for the increasing principal repayments over the next 10 years which was in line with Audit Scotland's view of longer term financial planning. There will be a further need to plan how these repayments will be funded beyond the 10 year period and this will be considered on an ongoing basis over the medium term period. The table below sets out what Council, at the 27 February 2020 budget meeting, agreed the one off gain should be used for.

	£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	(600)	
Transfer to 2020-21 revenue budget	(600)	
Future Redundancies provision	(1,500)	
Spend to Save Route Optimisation	(100)	
		(3,300)
Capital Pressures:		
Funding Gap in Capital Programme	(2,619)	
Capital Programme Intolerable Red Risks	(574)	
Campbeltown Flood Protection Scheme	(1,406)	
Significant Strategic Change Projects	(5,013)	
		(9,612)
Remaining One-off Gain		**0**

8.13 In recent years, increasing pressure on capital budgets and constraints on capital funding have meant greater emphasis on maintaining existing assets rather than creating new assets, and improvements to building design, technology and materials mean that buildings are lasting longer than previously expected. As such, the lives of assets classes/repayment periods were reviewed and are outlined within the table below.

Asset Type	**Repayment Period (Years)**
Land (including cemeteries)	100
Road Structures - Bridges, Retaining Walls, Sea Walls, Flood Defences	60
Piers and Harbours - Major Structural Work	60
Piers and Harbours - Medium Term Works e.g painting/cathodic protection	20
Piers and Harbours - Limited Lifespan Improvements	10
Roads and Footways	20
Street Lighting	30
Vehicles & Plant	7
IT Equipment	5

Major Regeneration Works (Public Realm etc)	60
New Builds including Schools	60
Buildings - Electrical	40
Buildings - Plant	20
Buildings - Roofing	35
Buildings - Windows & External Doors	20
Buildings - Structural	25

8.14 Further reviews of the loans charges budget will continue to take place annually as part of the budget setting process and additional loans charges savings will be removed if appropriate to do so bearing in mind the potential pressure regarding repayments after 10 years as detailed in paragraph 8.12.

9. THE STRATEGY TO ADDRESS THE BUDGET GAP

Actions Already Taken

9.1 The Council is committed to transforming the way in which it operates and, alongside the work already implemented, to continuing to seek out opportunities for service redesign and to 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 in the future.

2019/20 Loans Fund Review

9.2 The most significant action taken in recent years was a comprehensive review of the Council's loan fund which was carried out in 2019/20 as explained in paragraphs 8.10-8.14.

9.3 The review considered new loans fund advances and historic loans fund advances to assess whether the repayment methodology was still the most prudent option. In particular it focused on:

- The period set for which each advance is to be repaid to the loans fund.
- The annuity interest rate (the method used which links the repayments of the borrowing to the flow of benefits from an asset where the benefits are expected to increase in later years).

9.4 In summary the review concluded that:

- The repayment period on historic debt taken between 2004/05 and 2018/19 should be increased from 26 years to 32 years which reflected the greater emphasis on maintaining existing assets, asset lives being longer due to better building design and some historic inconsistencies in the repayment periods allocated to assets.
- The repayment period for loans outstanding at 1 April 2004 was set at 14 years based on averaging across the whole population of those loans (ranged from 1-19 years)
- An annuity interest rate of 5.1% should be applied to all loans, new and old, based on the overall average loans fund borrowing rate over the period 2004/05 to 2018/19.

9.5 This review generated a one off reprofiling gain of £20.561m which the Council agreed, when setting the 2020/21 budget, to use as follows:

- £7.649m provision for increased loans fund principal payments over the following ten years
- £3.300m to fund existing revenue pressures
- £9.612m to fund existing capital pressures.

In addition the review also generated £2.367m of revenue savings in 2019/20 and a recurring revenue saving of £2.500m for the next ten years. A further recurring savings of £0.500m from the loans fund was identified as part of the 2021/22 budget setting process.

Other Savings

9.6 In addition to the review of the loans fund there have been a number of other changes to service delivery which have resulted in income growth and delivered savings. Some examples are outlined below:

- £0.294m savings through greater use of digital working thus reducing travel and subsistence costs for officers and elected members
- £0.284m of additional income through taking a more commercial approach to piers and harbours
- £0.248m savings through a review of youth and adult learning provision
- £0.184m savings through a review of the delivery of community learning and development
- £0.183m savings through changes in the delivery of the Council's financial services and internal audit departments
- £0.180m of additional income through changes to parking charges
- £0.140m of additional income from burial and cremation fees
- £0.140m of additional income from environmental/animal health fees to benchmark the Council against other Scottish councils
- £0.125m savings by centralising the processing of housing benefit and restructuring the team
- £0.113m savings through a reduction in the central education management team
- £0.112m savings through a review of central support to Development and Infrastructure Services
- £0.105m of savings through refocusing the work of environmental services on income generation elements.

2022/23 Budget Process and Beyond

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

9.8 Prior to 2021/22 the Council's approach to identifying savings primarily focused on setting a percentage target which has been applied to all services – in effect a 'salami slicing' budget process. In 2021/22 the intention had been for the budget process to look at service redesign over a planned three year period however the COVID pandemic meant a number of staff had to focus on the immediate response and then on the Council's approach to recovery. It was also hoped there would have been a multi-year settlement in 2020/21, however, this did not happen mainly as a result of the exit from EU deliberations and a General Election being called.

9.9 As a result of the above, the 2021/22 budget process predominantly focused on balancing the 2021/22 budget however it did lay foundations for the 2022/23 budget process and for future years. In particular consideration was given to where there may be opportunities to deliver material savings by considering current structures to determine if there are alternative ways to deliver services in a leaner manner and to reflect on corporate learning through the response to COVID-19 and enforced changes to working practices across Council services

9.10 There is a commitment on the part of the Council to move toward developing multiyear savings proposals to facilitate longer term planning however this continues to be difficult when there is uncertainty over future years funding due to single year settlements. This is recognised in Audit Scotland's Local Government in Scotland Overview 2021 (published May 2021) which states that:

"The timing and nature of funding for local government is creating pressure and uncertainty for councils beyond the current financial year. Funding is being provided incrementally and the lack of certainty regarding future budgets makes effective short- and medium-term planning very difficult for councils."

9.11 The 2021/22 budget approach identified specific themes which officers led on to identify saving options. As per paragraph 9.9 not only did these themes identify 2021/22 saving options they also laid the foundations for future year savings and identified options which required further development and consultation. These themes, listed below, will be continued as part of the 2022/23 budget approach. For each theme the remit will be to further develop savings options already identified and determine whether there are further options which should be considered.

1. Digital by Default - More digital working, asset rationalisation, and reduction in travel and office costs.
2. Amenity Services – through service redesign.
3. Fleet - through reviewing fleet management processes.
4. Property – through rationalising the Council's property portfolio.
5. Transportation – through progressing the action plan developed in response to the Argyll and Bute Transport Consultancy carried out in 2020.
6. Modernising Education – through transforming the delivery of education
7. Energy – through reducing the Council's utility costs.

9.12 In addition to continuing these established themes there will be a further theme to assess the potential benefits that could be delivered through a shared service approach with the HSCP to catering and cleaning.

Other Initiatives

9.13 In addition to activity to identify savings options to deliver a balanced budget and redesign services the Council are progressing a range of initiatives which will help the Council deliver on its overarching aim that Argyll and Bute's economic success will be built on a growing population and to deliver the overall Council mission to Make Argyll and Bute a Place People Choose to Live, Learn, Work and do Business. Key ones are set in the paragraphs below.

Rural Growth Deal

9.14 The Council is continuing to take forward its £70m Rural Growth Deal (RGD) following the signing of Heads of Term in February 2021 to full deal status by the summer of 2022. Both the UK and Scottish Governments are contributing £25m each with a further £20m (at least) matched funding from the Council and partners.

9.15 The focus is now on developing the outline business cases and linking to new and evolving funding streams that can increase the economic and social benefits of the deal on our communities.

9.16 The RGD will be delivered over a ten year period and a programme office has been established that will help guide sub groups formed with key delivery partners to develop the outline business cases.

Attracting Investment

9.17 The Council's Economic Growth team works across council services and with partners on attracting inward investment with a focus on supporting the creation of a diverse and resilient rural economy, with a growing reputation for innovation and high quality employment opportunities for both residents and also a focus on attracting new talent to the area. Some examples of the activity they have been involved in are set out below.

9.18 *Machrihanish Airbase Community Company (MACC) Spaceport*

The Council has worked in partnership with MACC (community owned business) over the past five years to promote the possibility of a UK spaceport being established at Machrihanish. The latest project is a 'CanSat' competition amongst universities and further education colleges to design and launch rockets (which will contain fake satellites) from the MACC base. Eleven university teams from across the UK attended the event at MACC on the 14th/15th/16th of July 2021 and launched their rockets. There was then a "meet the industry" event for the students to meet experts in the satellite industry.

9.19 *Expansion of Bute Island Foods Ltd (BIF) on the Island of Bute*

The Council, working with HIE, has supported BIF to expand, develop new facilities and new packaging processes for their highly innovative vegan products. This will allow for a significant number of much needed new jobs for the island rising from 27 in 2017, to 180 in June 2021, with plans to expand further.

9.20 *Seaweed Farming Industry*

The Council is backing the development of sustainable seaweed farming in Argyll working with Scottish Association for Marine Science and other partners. Following the successful commissioning of a new guide on setting up new seaweed farms, officers regularly participate in local, national and international meetings to help develop this important new industry. Based on sustainable principles the harvesting of seaweed has the potential to create significant local employment opportunities from research to harvesting seaweed for use in numerous products.

Strategic Housing Fund

9.21 The Council no longer has its own housing since transferring stock to ACHA in 2006. However, as the Strategic Housing Authority, the Council has a number of statutory duties and responsibilities in terms of delivery of, and investment in, affordable housing, and improving housing condition across all housing sectors. All Scottish local authorities are required to prepare a Local Housing Strategy (LHS) every five years, setting out how the Council and its partners will address local need and demand, and contribute to national housing priorities.

9.22 The Council has established a Strategic Housing Fund (SHF) to allow for allocations in support of priority projects emerging from the LHS. The SHF is primarily funded by revenue raised through a decision to reduce the discount awarded to Council Tax on empty and second homes in Argyll and Bute.

9.23 In particular the SHF focuses on

- A Landbanking fund to address the limited supply of effective land for affordable housing development which has been identified as a crucial factor within the LHS.
- An Empty Homes Strategy to bring empty properties in the area back into use.
- Promoting additional investment in infrastructure capacity where further development of affordable housing is otherwise constrained.

9.24 As at 31 March 2021 there is £9.999m in the SHF with £3.118m of it already committed. This leaves an uncommitted balance of £6.881m which will be fully utilised over 5 years (2021-26) to support the affordable housing development program, including empty homes grants and loans, as set out in the Strategic Housing Improvement Plan (SHIP). The delivery of affordable housing is an essential part of the Council's overarching aim that Argyll and Bute's economic success will be built on a growing population.

Tax Incremental Finance

9.25 Tax Incremental Financing (TIF) is a means of funding public sector investment infrastructure judged to be necessary to unlock regeneration in an area, and which may otherwise be unaffordable to local authorities.

9.26 TIF enables the Council to deliver infrastructure projects, funded through borrowing based on the strength of future potential revenues raised from additional non-domestic rates (NDR) within the designated area of the approved projects. The loan is repaid primarily through uplift in the NDR revenues which are generated by an increase in business activity which has been stimulated by the funded infrastructure. Any NDR uplift (adjusted for a displacement effect) is ring fenced and utilised by the Council to repay the loan.

9.27 The Council's Lorn Arc TIF Programme was approved by the Scottish Government in 2014 and relates to infrastructure investment that will directly stimulate specific economic development in the Oban, Dunstaffnage, Dunbeg, North Connel and Barcaldine area. To date the TIF programme has delivered improvements to the Lorn Road/ Kirk Road, Oban North Pier and Oban Airport Business Park and the progress is being made on projects to create new gateway features on the approach to Dunbeg and to build a roundabout in Dunbeg to provide access to a hotel site, commercial site and potential housing development sites.

10. RISKS AND OTHER ISSUES TO CONSIDER

10.1 In addition to the risks and uncertainty created by COVID-19 and the UK's exit from the EU which are referenced above there are other risks and issues which need to be kept in view when considering the Council's financial position and future spending proposals.

Forecast Assumptions

10.2 The assumptions which the financial projections are built upon (detailed at paragraph 3.8) are the best estimate at August 2021 of the likely future movement in the financial environment.

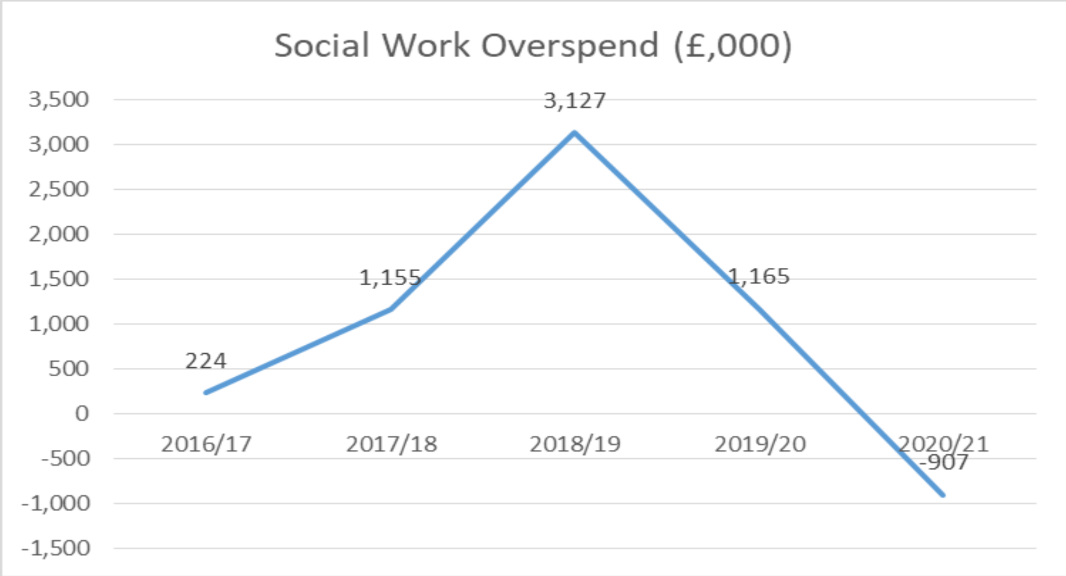
10.3 The use of scenario planning using a best case, worst case and mid-range estimate shows the likely impact of changes to these assumptions. Whilst the outcome will no doubt differ from the scenarios, they provide a useful illustration of the overall financial envelope.

Health and Social Care Partnership

10.4 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.

10.5 It is the responsibility of the IJB to manage their overall financial resources and put in place a recovery plan if an overspend is forecast. However if recovery plans are unsuccessful and there are insufficient reserves to meet the overspend, then the partners (the Council and NHS Highland) will be required to make additional payments to the IJB. This additional payment to be repaid through deductions in future payments to the IJB

10.6 The Social Work element of the HSCP budget was overspent for four consecutive years however there was improved position in 2019/20 due to the implementation of robust monitoring and reporting processes and an underspend in 2020/21 due predominantly to the Scottish Government agreeing to fund undelivered savings as a direct consequence of the COVID-19 pandemic. This is summarised in the chart below.



10.7 The HSCP, like most public sector bodies are continuing to deal with the impact of COVID-19 which will create further challenges to the delivery of financial balance in 2021/22 and beyond. Therefore the outturn of the social work element of the HSCP continues to represent a financial risk to the Council's revenue position and levels of reserve.

Waste Management

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

10.9 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.

10.10 Waste to landfill is environmentally unsound and legislation and guidelines have been put in place to reduce material to landfill. In particular the Biodegradable Municipal Waste Ban comes into force across Scotland in 2025.

10.11 The preferred approach of the Council is a transition from landfill as the primary disposal method for residual waste in order to comply with the ban. However, to achieving landfill ban compliance represents a significant and ongoing cost challenge to the Council. Officers have studied a number of options that have the potential to be compliant solutions. A cost model has been developed by officers to enable discussion and seek support from partners such as the Scottish Government. The cost model looks at all of the options open to the Council but due to an ever changing market and policy environment, there are still a number of variables, uncertainties and assumptions which are built in to the model.

A cost pressure for this is built into the estimated revenue budget gap shown in paragraphs 3.8-3.10 however due to the complexity of the model estimates are subject to change. There are also capital cost implications that are not included within these revenue estimates.

Depopulation

10.12 One of the most significant challenges facing the Council is depopulation and associated demographic change – this has been recognised by the Council in the Strategic Risk Register and more widely with our community planning partners who share in the Council's vision to make Argyll and Bute the place people choose to live, learn, work and invest and the overarching aim that Argyll and Bute's economic success will be built on a growing population.

10.13 Between 1998 and 2018, Argyll and Bute has experienced high levels of population decline (-5.9%) and working age population decline (-11.2%) which is the second and third highest rates of decline respectively across all Scottish local authorities. The area has one of the oldest age structures in Scotland with 25.5% of the population aged over 65 and, in addition, is experiencing a net outmigration of people as well as natural decline in the population. Population decline is widespread among different geographies and island/mainland areas. The area also has the highest proportion of second homes of all local authorities in Scotland. The population of Argyll and Bute between 2018 and 2028 is projected to decrease from 86,260 to 81,197, a decrease of 5.9%, compared with a projected increase of 1.8% for Scotland as a whole.

10.14 EU Exit is likely to further exacerbate the declining population trend for Argyll and Bute and others parts of the Highlands and Islands.

10.15 Therefore, a targeted, inter-agency response is crucial to mitigate these trends. In particular, through the Convention of the Highlands and Islands (COHI) it has been suggested that a sub-regional population response team is established, whose goal should be to rapidly impact on population issues in Argyll and Bute, the Outer Hebrides and Caithness and Sutherland, and bring forward a 'repopulation plan', including consideration of the establishment of a "West Coast Innovation Zone" and other appropriate policy interventions.

10.16 Demographic change will have significant impact on services as funding allocated from the Scottish Government is partly based on the population of an area. Furthermore projected population changes will have an impact on all service areas, particularly education and social care, where there will be a need to manage the transition from current service delivery arrangements to new models that are built around the needs of the future population.

Workforce Planning

10.17 The Council's HROD team undertake an annual, detailed workforce planning assessment on a team by team basis. This is a well-established process and has built a clear picture of the current workforce and highlights risks and issues.

10.18 The most recent assessment found a generally positive picture of the workforce and an improvement in filling professional posts, largely attributed to the greater flexibility afforded by home working during COVID. This will be built into more flexible ways of working on a permanent basis. The work being carried out by the Communications Team on social media, promoting #abplace2b as a great place to live and work is having a positive impact on attracting applicants. Working from home was a strong theme during workforce planning discussions and work is progressing on this through Our Modern Workplace.

10.19 Argyll and Bute has an ageing population and the Council's workforce reflects this. Around 48% of the workforce is aged 50 or over and this is the most prevalent workforce risk across teams. The Council is managing this through structured succession and improving access to skills and training, more easily delivered through improved online learning. Managers are encouraged to review vacancies before filling them to ascertain the potential for a trainee to be brought in. This is the core of our Growing Our Own approach and has been very successful, particularly in teams like ICT and Digital. However managers continue to cite capacity demands as an ongoing barrier to taking on trainees or apprentices, as workload pressures have increased. Earmarked reserves have been set aside to support investment in trainees for the highest risk teams, although this provides only limited scope to fill posts.

10.20 Key ongoing actions are to:

- continue to identify funding opportunities which will enable services to attract a younger workforce and put in place solutions to minimise workforce risks.
- identify more ways to improve our profile as an employer of choice to attract new applicants to posts
- review our modern apprenticeship and graduate trainee scheme to ensure they remain attractive and meet the Council's needs
- update the induction for new employees to highlight remote working
- continue to develop materials to support managers to manage remotely as part of Our Modern Workplace
- help to build a culture of allowing thinking and learning time within people's roles
- develop an eLearning mentoring course to provide mentors with the skills to undertake their role and continue to encourage a culture of mentoring within the organisation
- work with relevant partners and services to identify and implement alternative ways of promoting the Council as an employer.

Scottish Government Review of Adult Social Care

10.21 In February 2021, the Scottish Government published a report on the outcome of the Independent Review of Adult Social Care Completed in late 2020 and led by Derek Feeley. The report sets out a vision for transforming how adult social care is delivered and contains 53 recommendations across the following eight key areas:

- A human rights based approach
- Unpaid carers
- The creation of a new National Care Service for Scotland
- A new approach to improving outcomes
- Models of care
- Commissioning for public good
- Fair work
- Finance

10.22 The recommendations have potentially far reaching implications for councils, particularly:

- transfer of responsibility for adult social care to Scottish Government ministers and the establishment of a National Care Service which would oversee the commissioning and procurement of social care
- the reform of Integration Joint Boards including direct funding to boards from the Scottish Government instead of via councils
- a substantial change in the relationship between Integration Joint Boards and councils with councils essentially becoming suppliers of staff and services to their local Board.

10.23 In terms of finance, the report sets out a transformation agenda for adult social care which focuses on a human rights based approach to service delivery, a focus on early intervention and prevention, the removal of eligibility criteria for services based on funding availability and fair work, the latter focussing on social care staff pay and conditions and the investment in staff development and training. These aspirations will all come with a cost which has still to be determined and the risk to IJBs and councils will very much depend on how many of the report's recommendations are implemented and in what order. For example if the move to the direct funding of IJBs from the Scottish Government happens early in the process, then the financial risk to councils of underfunding is dramatically reduced/removed as they will no longer be involved in funding services.

10.24 A key financial risk to councils arises from the proposed changes to the financial structure of IJBs, with funding provided directly from the Scottish Government via the proposed National Care Service. This will reduce the funding available to councils and therefore reduce the flexibility council's currently have around how they allocate funding and deliver savings.

11. REVIEW OF RISKS

11.1 The Council has a risk management manual that is subject to regular review and approval by the Policy and Resources Committee. The manual provides an overview of the risk management processes within the Council and gives practical guidance for the management of risk within departments and teams Strategic and operational risks are reviewed on a regular basis and active mitigations are in place.

11.2 There are thirteen risks in the Council's Strategic Risk Register at the current time. Four are classified as red risks, five as amber and four as green. They are:

Red
- Population and Economic Decline
- Health and Social Care Partnership
- Waste Management
- Impact of COVID-19

Amber
- Infrastructure and Asset Base
- Financial Sustainability
- Governance and Leadership
- Welfare Reform
- Withdrawal from the EU

Green
- Engagement and Understanding Needs of the Community
- Service Delivery
- Civil Contingency & Business Continuity
- Cyber Security

11.3 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.

11.4 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.

11.5 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.

12. CONCLUSION

12.1 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.

12.2 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 and capital along with information on how the Council intends to mitigate against future budget gaps.

12.3 The Council continues to explore options for longer term service redesign with a focus on delivering both savings and efficiencies which are recurring, will help deliver balanced budgets in the future, and protect the delivery of services into the medium to longer term.