

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**Revenue Budget Overview**

- 1.2 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.
- 1.3 The Local Government Finance Circular 9/2021, published on 20 December 2021, provides detail of the provisional total revenue and capital funding allocations for 2022-23. The Council's provisional General Revenue Grant is £207.515m (there is also £12.186m of Revenue Specific Grants). A further one-off allocation of £120m across Scotland was announced on 27 January 2022 and our share is estimated to be £2.146m. The Scottish Government have given a commitment to provide funding towards the teachers pay settlement and this has been estimated at £0.370m but is unconfirmed at this stage.
- 1.4 The Council Tax budget for 2021-22 was set at £52.859m. The growth has been estimated at 1.5% for 2022-23, due to a better than anticipated growth in the current year. The growth amounts to £0.793m.
- 1.5 The budget for 2021-22 has been rolled forward into 2022-23 and the main changes are as follows:
- Base budget adjustments including settlement commitments amounting to £5.629m.
 - Increases to employee budgets in respect of pay inflation, increments, changes to the employee base and national insurance increase amounting to £5.841m.
 - Non-pay inflation of £2.158m.
 - Cost and demand pressures of £0.962m.
- 1.6 In respect of the payment to the Health and Social Care Partnership (HSCP), the Local Government Finance Circular 9/2021 advises of all Scotland additional funding of £553.9m that is allocated for Health and Social Care and Mental Health services. £200m of this relates to Additional Investment to support health and social care which has not yet been distributed therefore Argyll and Bute's share of the funding excluding this element amounts to £6.640m. This amount plus

£0.050m for Implementation of National Trauma Training and £0.66m for Mental Health Recovery and Renewal require to be passed over to the HSCP. There is a further £0.044m for Scottish Disability Assistance for which half (£0.022m) will be passed to the HSCP and half retained by the Education Service.

- 1.7 There are a number of measures to balance the budget that have previously been agreed at the Council's budget meetings in 2019, 2020 and 2021 which have a net effect of reducing the 2022-23 budget gap by £0.081m.
- 1.8 There are a number of other measures to balance the budget that are for Council approval, summarised as follows:
- General inflationary increase to fees and charges resulting in £0.390m of additional income.
 - A 3% reduction to Live Argyll Management fee amounting to £0.122m.
 - New management/operational savings amounting to £2.442m.
 - New policy savings options amounting to £0.360m.
 - 3% increase to Council Tax amounting to £1.610m.
- 1.9 If Members agreed to all the proposals noted within the revenue budget overview report there would be a balanced budget in 2022-23 with a surplus of £2.784m. This positive position is a result of proposals which had already been brought forward to balance the budget plus the additional funding announcement at Stage 1 of the Parliamentary process estimated at £2.146m. If Council use the surplus in 2022-23 in a recurring way, the expenditure in 2023-24 will rise by the amount of the recurring expenditure and therefore the gap could potentially increase to £10.377m. It is therefore strongly recommended that Members use this revenue surplus in 2022-23 for one-off purposes.
- 1.10 The budget gap over 2023-24 and 2026-27 across each scenario is summarised in the table below.

Budget Gap	2023-24 £000	2024-25 £000	2025-26 £000	2026-27 £000	Total £000
Best Case	(4,275)*	(2,606)	(3,370)	(2,120)	(12,371)
Mid-Range	(7,593)*	(6,137)	(7,255)	(5,070)	(26,055)
Worst Case	(10,805)*	(10,612)	(12,900)	(7,654)	(41,971)

*assuming 2022-23 surplus is used for one-off purposes.

- 1.11 Three third party funding requests have been received and Members are asked to give consideration to these requests and how they would be funded.

COVID-19 Financial Position

- 1.12 This paper provides an update on the projected impact of the COVID pandemic on the Council's revenue budget in 2021-22 and 2022-23, comments on the estimated financial increases being experienced in relation to capital projects, outlines the remaining COVID funding and updates Members on the most recent developments in respect of the loans fund principal repayment holiday and service concessions financial flexibilities.

- 1.13 Members are asked to approve changes to the 2021-22 COVID cost pressures, which includes a one-off cost relating to the SJC and Chief officers pay award between January 2021 and March 2021. The COVID revenue pressures for 2022-23 have been quantified at £0.413m. It would also be prudent to set aside a provision of £3m for capital contract increases.
- 1.14 Remaining in the COVID earmarking is £6.937m as follows:
- COVID revenue pressures for future years £0.999m
 - Provision for Capital Contract increases £3.000m
 - Recovery and Renewal Fund £1.872m
 - Unallocated Amount £1.066m.
- 1.15 The Cabinet Secretary for Finance and the Economy has agreed to extend the loans fund principal repayment holiday facility which can now be used in 2022-23 (the previous agreement was for 2020-21 or 2021-22) – it can only be used once. The regulations are in the process of being updated and will require Scottish Government approval which should be a matter of course, although there is minimal risk that the regulations are not agreed. As the Council do not need the cash in 2021-22 due to COVID grants remaining, the loans fund principal repayment holiday can be exercised in 2022-23 instead of 2021-22 as originally planned.
- 1.16 The Directors of Finance Group continue to work on securing the service concession flexibility and have written to the Cabinet Secretary for Finance and the Economy to ensure complete alignment on what is required. We still await the outcome but it is looking likely that we should reach a conclusion in the near future. If there is a positive outcome which results in a one-off retrospective gain, it would remove the need to exercise the principal repayment holiday and therefore reducing the pressure on the revenue budget over the next 20 years to repay the holiday.

Fees and Charges

- 1.17 This report sets out proposals for increases in fees and charges and the resulting impact on income included in the revenue budget.
- 1.18 The general increase to fees and charges is proposed at 3% for 2022-23 and is expected to generate additional income of £0.390m.
- 1.19 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.
- 1.20 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 26 January 2022.
- 1.21 The 5% additional increase over and above general inflation on piers and harbours is estimated to generate additional income of £0.388m which is ring fenced to fund asset improvements.

Financial Risks Analysis 2022-23

- 1.22 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.
- 1.23 There are 7 Council wide revenue risks identified for 2022-23 currently amounting to £4.807m. Five of the risks have been classified as possible as follows:
- Pay award exceeding 2% as ongoing discussions with the Unions may result in a higher increase;
 - The IJB referring to the Council for additional funding has been categorised as possible due to the outturn in previous years before 2020-21;
 - Energy costs increasing 20% more than estimated due to current volatility;
 - A 1% variation in council tax income which is still uncertain due to ongoing impact of COVID-19 on collection rates;
 - A 10% variation in officer estimates of the financial impact of COVID in 2022-23.
- 1.24 There are currently 41 departmental risks totalling £4.730m. Three of the 41 departmental risks are categorised as likely with no risks categorised as almost certain.

Reserves and Balances

- 1.25 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.
- 1.26 The Council had a total of £84.785m usable reserves as at 31 March 2021. Of this balance, £2.134m relates to the Repairs and Renewals Fund, £4.406m relates to Capital Funds and the remainder of £78.245m is held in the General Fund, with £71.888m of this balance earmarked for specific purposes.
- 1.27 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 2022-23. The revised contingency at 2% of net expenditure amounts to £5.250m.
- 1.28 The revenue budget position as at 31 December 2021 was estimated to be £0.192m underspent, however, this is subject to change, particularly as the last three months of the financial year are the time of winter maintenance and the level of expenditure is difficult to predict. An adjustment in relation to the HSCP overspend is being made for the purpose of the year end estimated outturn on the basis that the CFO of the IJB is confident that expenditure will be brought back into line with budget by the year end. This results in an adjusted Forecast Outturn for 2021-22 of £0.472m.
- 1.29 The table below summarises the position of the unallocated General Fund balance.

Heading	Detail	£000	£000
Unallocated General Fund as at 31 March 2021	This is the balance that is unallocated over and above the 2% contingency which amounts to £5.032m		1,325
HSCP repayment towards previous year overspends	Agreed repayment within 2021-22 financial year		200
Earmarked Balances no longer required	Amounts previously earmarked that can be released back to general fund		200
Transfer of contingency to maintain 2% level			(218)
Forecast Outturn for 2021-22 as at 31 December 2021	Adjusted for the updated IJB position		472
Estimated Unallocated General Fund Balance as at 31 March 2022			1,979

CAPITAL PACK

Capital Plan Summary

- 1.30 This report details the revisions proposed to the capital plan approved in February 2021 for the period 2022-23 to 2023-24 and extends the capital plan for a further year to 2024-25. The revisions are based on updated capital funding assumptions, phasing and cost changes.
- 1.31 The annual General Capital Grant for 2022-23 was estimated when the plan was agreed last year to be £9.751m. This estimation was based on the Capital Spending Review undertaken by Scottish Government which advised that the capital settlements were likely to stay constant over the next five years. The updated General Capital Grant based on the settlement is £9.724m and is therefore a £0.027m reduction on previous estimate. This creates a gap of £0.081m across the life of the capital programme.
- 1.32 The amount of capital resources allocated to Private Sector Housing Grant (PSHG) is £1.033m per annum, similar to previous years.
- 1.33 In addition to the £9.724m general capital grant there is ring fenced funding of £2.472m for Campbeltown Flood Protection Scheme, £4.282m of Bridge Maintenance funding and a Specific Grant for Cycling, Walking and Safer Streets of £0.374m. These will also be built into the capital programme.
- 1.34 The restricted capital funding of £15.662m 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.

- 1.35 A comparison between the capital plan as at December 2021, including the new block allocation for 2024-25, has been compared to the estimated funding and there is gap up to 2024-25 of £0.943m. After adjusting for further anticipated shortfalls the total gap within the capital programme is £0.992m. If the gap was funded through borrowing it would create a revenue cost pressure of £0.064m per annum which has not been built into the revenue budget overview report.
- 1.36 As part of the Service Asset Management plans, three anticipated shortfalls amounting to £0.049m have been identified that require additional funding over and above the block allocation. They relate to the replacement of an ICT application and additional costs associated with the Corporate and Education desktop equipment replacement cycles.
- 1.37 There is likely to be ongoing pressure on the Capital Programme as a result of increasing costs, for example for materials and labour, that cannot be quantified at this stage. While an element of COVID-19 funding has been allocated to the Programme relating to current works, increases could continue for some time and result in further significant overspends across the life of the programme.

Corporate Asset Management Strategy

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

Corporate Asset Management Plan

- 1.39 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) Approve the revenue estimates for 2022-23 and that consequently the local tax requirement estimated at £55.262m is funded from Council Tax.
Approve the following rates and charges for the year, 2022-23:
 - a. Council Tax to be paid in respect of a chargeable dwelling in Band "D" of £1,408.76 representing a 3% 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.
- b) Approve the revenue budget for 2022-23 as set out in the revenue budget overview report.

- c) Approve a base allocation to the Health and Social Care Partnership of £69.005m for 2022-23. Approve indicative base allocations for 2023-24 and 2024-25 to be £69.005m. 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.
- d) Approve the 3% reduction to the Live Argyll Management Fee, resulting in a management fee in 2022-23 of £3.953m.
- e) 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.
- f) Approve that the surplus on the revenue budget is transferred into the Unallocated General Fund pending a decision on how this is used.
- g) Consider the three funding requests received as set out within Appendix 8 of the Revenue Budget Overview Report.
- h) Approve the 2021-22 revenue cost changes as detailed in section 2.2 of the COVID-19 Financial Position Report.
- i) Approve the use of unallocated COVID-19 balance to fund the one-off payment of £0.372m in relation to backdated pay for the period January 2021 to March 2021.
- j) Approve the 2022-23 revenue cost pressures as detailed in section 2.5 of the COVID-19 Financial Position Report amounting to £0.413m.
- k) Approve the use of uncommitted COVID-19 funding to set aside £3m funding for capital contract increases.
- l) Approve that should the Council be permitted by the Scottish Government to apply the service concession flexibility, that this is used in preference to the loans fund principal repayment holiday.
- m) Approve the following in relation to fees and charges with effect from 1 April 2022 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 £0.390m 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.
- n) Note the financial risks analysis.
- o) Approve the contingency level for the General Fund balance at a level of 2%

of net expenditure, equivalent to £5.250m and note the report on reserves and balances.

- p) 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 to fund the £0.992m gap. If borrowing was taken out to fund the gap within the capital programme it would create a revenue cost pressure of £0.064m per annum from 2023-24.
- q) Approve the Corporate Asset Management Strategy.
- r) 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 2022-23 to 2026-27 and the funding and commitments for the capital plan 2022-25.
- 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 Climate Change – The Council is committed to addressing climate change and reviews of how Services are delivered is ongoing within the available budget

resources.

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

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Section 95 Officer
10 February 2022

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