

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 11/2022, published on 20 December 2022, provides detail of the provisional total revenue and capital funding allocations for 2023-24. The Council's provisional General Revenue Grant is £219.275m (there is also £11.619m of Revenue Specific Grants).
- 1.4 Following the issue of the Finance Circular, we have been advised of three further changes: a reduction to the empty property relief funding of £0.014, the re-instatement of the teachers' pay award funding for 2021-22 of £0.506m and the allocation of funding for the HSCP relating to the Real Living Wage in Adult Social Care of £1.840m. This gives a revised funding total for 2023-24 excluding ring-fenced grants of £221.607m.
- 1.5 The Council Tax budget for 2022-23 was set at £55.262m. The growth has been estimated at 1.5% for 2023-24 which amounts to £0.829m.
- 1.6 The budget for 2022-23 has been rolled forward into 2023-24 and the main changes are as follows:
- Base budget adjustments including settlement commitments amounting to £7.500m.
 - Increases to employee budgets in respect of pay inflation, increments, changes to the employee base and national insurance increase amounting to £5.205m.
 - Non-pay inflation of £4.355m.
 - Cost and demand pressures of £4.428m.
 - Increase to HSCP allocation of £2.299m.
- 1.7 The revised payment to the Health and Social Care Partnership, reflects 2022-23 in year adjustments and the net changes to the settlement in respect of Social Work

that we have been directed to pass over to the Health and Social Care Partnership. The revised payment amounts to £76.253m.

- 1.8 There are a number of measures to balance the budget that have previously been agreed at the Council's budget meetings in 2021 and 2022 which have a net effect of reducing the 2023-24 budget gap by £0.151m.
- 1.9 There are a number of other measures to balance the budget that are for Council approval, summarised as follows:
- General inflationary increase of 6% to fees and charges resulting in £0.838m of additional income.
 - A 3% reduction to the 2022-23 Live Argyll Management fee that was deferred a year amounting to £0.122m.
 - A 3% reduction to the 2023-24 Live Argyll Management fee amounting to £0.119m.
 - New management/operational savings amounting to £2.962m.
 - New policy options savings amounting to £6.464m.
- 1.10 The assumption throughout the year in respect of Council Tax was an approval of an increase equivalent to 3%. The setting of Council Tax should happen on the same day as the Council sets its revenue budget as once all proposals are considered, the Council Tax represents the balance required to balance the budget. In order to balance the budget based on the proposals included within this report, the Council will need to raise Council Tax by a further 1.33% to 4.33%. This balances the 2023-24 budget with a gap in future years.
- 1.11 The budget surplus / (gap) in the period 2024-25 to 2027-28 across each scenario is summarised in the table below.

Budget Gap	2024-25 £000	2025-26 £000	2026-27 £000	2027-28 £000	Total £000
Best Case	(4,378)	(3,381)	(5,283)	(2,459)	(15,500)
Mid-Range	(7,970)	(6,520)	(7,456)	(6,445)	(28,391)
Worst Case	(17,455)	(15,442)	(16,458)	(16,024)	(65,378)

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

Service Concession Flexibility – Accounting Change Proposal

- 1.13 This purpose of this report is to detail a proposed change to the accounting treatment of the Council's School PPP (Service Concession) contracts following the issuing of revised accounting guidance by Scottish Government contained in Local Government Finance Circular 10/2022.
- 1.14 The Council have two school service concession contracts for the build of seven schools. The NPDO schools contract was entered into on 30/09/2006 at £88.432m repayable over a period of 30 years and the DBFM schools contract created on 30/09/2016 at £60.927m repayable over a period of 25 years.

- 1.15 It is proposed that rather than reflecting the repayment of the capital investment in building the schools over the 25 and 30 years of the PPP contracts, the Council now account for this over a 60 year period. This better reflects the asset life of the schools.
- 1.16 The principal repayments from the start of the contract period up to and including 2022-23 total £38.144m. Based on the proposed 60 year annuity repayment the principal repayments would have been £2.106m by 31 March 2023. This creates a one-off retrospective benefit to be transferred to reserves of £36.038m. Due to the extension of the repayment period, there is also a revenue saving each year until the end of the contract period. The revenue saving for 2023-24 is included within the policy savings in the revenue budget overview report.
- 1.17 This accounting change requires approval by full Council. The approach is considered to be affordable, sustainable and prudent by the Section 95 Officer.
- 1.18 The Council agreed to use the service concessions flexibility in preference to the principal repayment holiday, but as the principal repayment holiday has already been accounted for as part of the current year budget, £5.4m of the one-off retrospective benefit will require to be used to replace the principal repayment holiday.
- 1.19 The Council needs to consider carefully how to use the remaining service concessions one-off retrospective benefit. The Council should consider directing some to the capital pressures that are facing the Council, in addition to investing in options/projects that will provide the opportunity to create a revenue saving in the future.

Fees and Charges

- 1.20 This report sets out proposals for increases in fees and charges and the resulting impact on income included in the revenue budget.
- 1.21 The general increase to fees and charges is proposed at 6% for 2023-24 and is expected to generate additional income of £0.838m.
- 1.22 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.
- 1.23 The proposed 5% additional increase over and above the general inflationary increase on piers and harbours is estimated to generate additional income of £0.419m which is ring fenced to fund asset improvements.

Financial Risks Analysis 2023-24

- 1.24 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.

- 1.25 There are 6 Council wide revenue risks identified for 2023-24 currently amounting to £5.621m. One of these risks have been classified as likely and four as possible as follows:
- The pay award exceeding 3.5% has been categorised as likely as ongoing discussions with the Unions may result in a higher increase based on the 2022-23 settlement;
 - Energy costs increasing by more than 20% greater than projected has been categorised as possible due to ongoing rising costs;
 - The IJB referring to the Council for additional funding should they have insufficient reserves has been categorised as possible;
 - A 1% variation in council tax income which is uncertain due to the current cost of living crisis impacting collection rates has been categorised as possible;
 - A 1% variation of general inflation risk is categorised as possible.

- 1.26 There are currently 40 departmental risks totalling £4.750m. Five of the 40 departmental risks are categorised as likely with no risks categorised as almost certain.

Reserves and Balances

- 1.27 This report summarises 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.
- 1.28 The Council had a total of £103.183m usable reserves as at 31 March 2022. Of this balance, £2.682m relates to the Repairs and Renewals Fund, £4.414m relates to Capital Funds and the remainder of £96.087m is held in the General Fund, with £88.990m of this balance earmarked for specific purposes.
- 1.29 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 2023-24. The revised contingency at 2% of net expenditure amounts to £5.684m.
- 1.30 The revenue budget position as at 31 December 2022 was estimated to be £3.408m 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. This underspend is largely as a result of the treasury gain of £5.398m due to receiving a discount on the early repayment of three PWLB loans offset by £1.491m recognised for the net expected shortfall in funding from the 2022-23 pay award plus other forecast variances within the Departments netting to a £0.499m overspend.
- 1.31 The Current Forecast Outturn at December includes an overspend against the Social Work service of £0.253m. The Chief Financial Officer of the IJB is confident that the spend will be brought in line with budget by the end of the financial year using slippage from growth projects and anticipated additional funding allocations. Social Work began to accumulate reserves at 31 March 2022 therefore it is expected that any residual overspend that materialises would be covered from

those reserves and the General Fund of the Council would not be impacted. As a result of this, the overspend is effectively removed from the forecast outturn position.

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

Heading	Detail	£000	£000
Unallocated General Fund as at 31 March 2022	This is the balance that is unallocated over and above the 2% contingency which amounts to £5.256m		1,841
Allocation to General Fund for 2022-23 budget	Per Budget Motion at Council on 24 February 2022		2,482
Earmarked Balances no longer required	Amounts previously earmarked that can be released back to general fund		553
Transfer of contingency to maintain 2% level			(428)
Forecast Outturn for 2021-22 as at 31 December 2022			3,408
Social Work outturn adjustment			253
Estimated Unallocated General Fund Balance as at 31 March 2023			8,109

CAPITAL PACK

Capital Plan Summary

- 1.33 This report details the revisions proposed to the capital plan approved in February 2022 for the period 2023-24 to 2024-25 and extends the capital plan for a further year to 2025-26. The revisions are based on updated capital funding assumptions, phasing and cost changes.
- 1.34 The annual General Capital Grant for 2022-23 was estimated when the plan was agreed last year to be £9.724m. 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 £9.771m and is therefore a £0.047m increase on the previous estimate. This creates a surplus of £0.141m across the life of the capital programme.
- 1.35 The amount of capital resources allocated to Private Sector Housing Grant (PSHG) is £1.033m per annum, similar to previous years.

- 1.36 In addition to the £9.771m general capital grant there is ring fenced funding of £5.424m for Campbeltown Flood Protection Scheme, £0.376m for Cycling, Walking and Safer Streets, £0.157m for Playparks and £2.127m for Free School Meals. These will also be built into the capital programme.
- 1.37 The restricted capital funding of £6.501m 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 projects, thereby showing the gross cost of the projects.
- 1.38 A comparison between the capital plan as at December 2022, including the new block allocation for 2025-26, has been compared to the estimated funding and there is gap up to 2025-26 of £0.278m. After adjusting for further anticipated shortfalls the total gap within the capital programme is £0.725m. If the gap was funded through borrowing it would create a revenue cost pressure of £0.046m per annum which has not been built into the revenue budget overview report.
- 1.39 As part of the Service Asset Management plans, two anticipated shortfalls amounting to £0.447m have been identified that require additional funding over and above the block allocation. The first totalling £0.137m relates to the replacement of two ICT systems which are both approaching end of contract and replacement costs are higher. The second relates to cemeteries and totals £0.310m. There are six cemeteries that have an operational life of 5 years or less based on the number of lairs left therefore this would support their extension.
- 1.40 Although the direct impact of COVID on most local services has reduced or even ceased altogether over the last 12 months, COVID-19 in conjunction with the UK exit from the European Union and the Russian invasion of Ukraine, continues to affect worldwide supply chains. This has the impact of reducing the availability of supplies and materials resulting in cost increases through a combination of higher prices and longer materials delivery lead times.
- 1.41 Other future pressures within the Capital Programme include Rothesay Pavilion, Roads Reconstruction programme, further ICT pressures, the ban on biodegradable municipal waste and the Learning Estate Investment Programme. All of these will require additional funding in the years beyond 2023-24.

Corporate Asset Management Strategy and Plan

- 1.42 This report outlines the overall principles, policies and priorities within the Councils Asset Management Strategy and Plan.
- 1.43 This report identifies key issues for this planning cycle in managing the asset base, the proposed actions and any 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 2023-24 and that consequently the local tax requirement estimated at £58.901m is funded from Council Tax.
Approve the following rates and charges for the year, 2023-24:
 - a. Council Tax to be paid in respect of a chargeable dwelling in Band “D” of £1,469.76 representing a 4.33% 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 2023-24 as set out in the revenue budget overview report.
- c) Approve a base allocation to the Health and Social Care Partnership of £76.253m for 2023-24. Approve indicative base allocations for 2024-25 and 2025-26 to be £76.253m. 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 deferred 3% reduction to the Live Argyll Management Fee from 2022-23 and a 3% reduction in 2023-24, resulting in a management fee in 2023-24 of £3.835m.
- 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) Consider the three funding requests received as set out within Appendix 8 of the Revenue Budget Overview Report.
- g) In respect of the service concession arrangements:
 1. Consider the accounting change as outlined within the report.
 2. Note that the view of the Section 95 Officer is that the revised accounting approach is affordable, sustainable and prudent.
 3. Approve the accounting change as outlined within the report, noting the principal repayment period will now be 60 years which better reflects the life of the asset.
 4. Note that this accounting change will create a one-off retrospective benefit of £36.038m.
 5. Agree that £5.4m of the one-off retrospective benefit will be used to replace exercising the principal repayment holiday that was previously agreed by Council.
 6. Consider how the remaining one-off retrospective benefit generated from the accounting change will be used.
- h) Approve the following in relation to fees and charges with effect from 1 April 2023 unless otherwise noted:

1. Approve the proposals for the fees and charges inflationary increase of 6% and approve the charges that are over and above inflation. Note that this would generate additional income of £0.838m in total.
 2. Approve no increase to school meal charges in 2023-24 as detailed in section 3.5.2 of the Fees and Charges report.
 3. Approve the changes proposed to the Social Work fees and charges.
 4. Approve all other charges as noted within the Fees and Charges Schedule.
- i) Note the financial risks analysis.
- j) Approve the contingency level for the General Fund balance at a level of 2% of net expenditure, equivalent to £5.684m and note the report on reserves and balances.
- k) Approve the allocation of £0.100m from the unallocated General Fund balance for the HSCP, in partnership with the Council, to engage with Hub North to develop a strategic business case in relation to the provision of services for older adults and other vulnerable people across Argyll and Bute.
- l) 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 £0.725m gap. If borrowing was taken out to fund the gap within the capital programme it would create a revenue cost pressure of £0.046m per annum from 2024-25.
- m) Approve the Corporate Asset Management Strategy and Plan including 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 2023-24 to 2027-28 and the funding and commitments for the capital plan 2023-26.
- 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. These assessments can be found on the Councils website here: [Equality and Socio-Economic Impact Assessments \(argyll-bute.gov.uk\)](http://argyll-bute.gov.uk)
- 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, ongoing cost increases, grant funding, future pressures and there are a number of other 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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