

**BUDGET UPDATE REPORT****1. INTRODUCTION**

- 1.1 The purpose of this report is to provide an update on the 2024-25 budget setting process.

**2. RECOMMENDATIONS**

- 2.1 Members of the Policy and Resources Committee are asked to:

i) Consider the budget update report and note that the items outlined in this report will feature in the Budget Pack in February 2024.

ii) Note that options in relation to the funding of LEIP will be brought to a future meeting of the Council.

**3. BUDGET POSITION**

- 3.1 Since the budget outlook was presented to Policy Resources Committee on 12<sup>th</sup> October there have been a number of adjustments as detailed within the budget outlook report. The updated budget gap as a result of these adjustments is as follows:

	<b>2024-25 £000</b>	<b>2025-26 £000</b>	<b>2026-27 £000</b>	<b>2027-28 £000</b>	<b>2028-29 £000</b>
Estimated Budget Surplus / (Gap) Cumulative	(4,503)	(9,388)	(14,880)	(19,433)	(23,176)

- 3.2 In addition to the above, a cost pressure in relation to utilities of circa £1m had previously been highlighted throughout the year within the budget outlook report, albeit no value had been attributed within the figures until there was certainty around the level of cost pressure. The value of this has now been confirmed at £0.936m and a recommendation is included within the budget outlook report to fund this from the £1.4m contingency that was set aside as part of the budget setting process in 2023-24 for inflationary pressures. Should this not be agreed then this will increase the gap further.

**4. STRATHCLYDE PENSION FUND**

- 4.1 The Strathclyde Pension Fund (SPF) has reported an exceptionally strong set of results with a surplus of almost £9bn which will allow a reduction in the employer contribution rate. The largest employers, including 12 councils of which Argyll and Bute Council is one, will see a reduction in their employer contributions from 19.3% to 6.5% over the next two years, before reverting to a sustainable long-term rate in the third year of 17.5%. The estimated recurring saving associated with the long term reduction to 17.5% equates to £1.061m based on 2022-23 actual costs and has been already been built into the budget

outlook estimates included in the table at paragraph 3.1. Note that these figures will be updated as salary calculations for the 2024-25 financial year are finalised. Consideration is now required as to how best to utilise the additional surplus in the first two years as a result of reducing contributions to 6.5%.

- 4.2 The gain in 2024-25 and 2025-26 for the Council is estimated to be £6.486m each year therefore £12.972m in total as a one-off saving. Given the significant gap in the budget in future years there are two officer recommendations in regards how this be utilised. Firstly, it is proposed that £8m of the gain is spread over four years to reduce the gap in the current year and future years by £2m each year. There will be significant challenges to bridge the increasing gaps in future years and this will go some way to assisting in that process. Secondly, again as a result of the position in future years it is recommended the remaining £4.972m is set aside for transformational/spend to save projects that could reap longer term benefits but require initial investment.
- 4.3 There will also be a reduction to employer contributions for employees of Live Argyll from 19.3% to 15.1% over the next two years, before reverting to a sustainable long-term rate in the third year of 17.5%. This equates to circa £0.206m in 2024-25 and 2025-26, reducing to £0.088m in subsequent years on a recurring basis. The clear recommendation from officers, is that the Council reduces the management fee in line with the SPF adjustments to ensure that the Council receive the benefit, noting that it will have no financial impact for Live Argyll and the reduction in management fee will have a corresponding reduction in costs that they have to pay.
- 4.4 Similarly the HSCP will also see a reduction in employer contributions of approximately £0.394m on a recurring basis with a one off saving in both 2024-25 and 2025-26 of circa £2.405m. It is recommended by officers that the recurring saving of £0.394m is retained by the Council and that the £4.810m is ring-fenced within the Council reserves for utilisation by the HSCP in the future.
- 4.5 The overall impact on the budget gap of the above recommendations in relation to the reduction in employer pension contributions is noted in the table below.

	2024-25 £000	2025-26 £000	2026-27 £000	2027-28 £000	2028-29 £000
<b>Updated Budget Gap per para 2.2</b>	<b>(4,503)</b>	<b>(9,388)</b>	<b>(14,880)</b>	<b>(19,433)</b>	<b>(23,176)</b>
Council non-recurring saving over 4 years	2,000	2,000	2,000	2,000	0
Live Argyll saving – no bottom line impact to Leisure Trust	206	206	88	88	88
HSCP – recurring element only	394	394	394	394	394
<b>Updated Budget Gap</b>	<b>(1,903)</b>	<b>(6,788)</b>	<b>(12,398)</b>	<b>(16,951)</b>	<b>(22,694)</b>

£4.972m set aside for transformational/spend to save projects.

£4.810m set aside for HSCP in future.

## 5. FURTHER SAVINGS

- 5.1 Education have identified two earmarked reserves that can be put forward as one-off saving options. The first relates to £0.800m of teacher strike monies and the second relates to COVID logistics funding that was received during the pandemic of which £0.500m is no longer required therefore can be passed back to the centre and used in 2024-25. It should be noted these are one-off in nature and not recurring savings.
- 5.2 During September Financial Services worked with the Councils external Treasury advisors and our Banks to identify three loans that could be repaid early at a discount. These loans were taken out when interest rates were low and due to sufficient cash balances we were able to repay them at a discounted price. This released a gain totalling £0.294m which could be used to bridge the 2024-25 budget gap as a one-off saving.
- 5.3 The updated position taking the above identified savings into accounts is noted in the table below.

	2024-25 £000	2025-26 £000	2026-27 £000	2027-28 £000	2028-29 £000
<b>Updated Budget Gap per para 3.5</b>	<b>(1,903)</b>	<b>(6,788)</b>	<b>(12,398)</b>	<b>(16,951)</b>	<b>(22,694)</b>
Education – Teachers Strike	800	0	0	0	0
Education – COVID Logistics funding	500	0	0	0	0
Financial Services – Treasury Gain	294	0	0	0	0
<b>Updated Budget Surplus/(Gap)</b>	<b>(309)</b>	<b>(6,788)</b>	<b>(12,398)</b>	<b>(16,951)</b>	<b>(22,694)</b>

- 5.4 It should be noted that the level of Scottish Government grant could have a significant impact on the reported position above. Currently a flat cash settlement has been built into the budget outlook based on the settlement over the last few years and the estimates within the spending review which indicate that a flat cash settlement in future years may be the most likely position, however any variation in this assumption could have a significant impact on these figures.
- 5.5 The Scottish Government have announced a Council Tax freeze in 2024-25 and a postponement of proposed increases to Bands E-H. Currently the Council has a 5% increase built into the budget outlook figures in relation to Council Tax increases in 2024-25 which equates to £2.960m. The Scottish Government have advised the freeze will be funded hence no adjustment has been made at this stage to the budget outlook however we have had no confirmation as to what funding we will receive. This will be monitored closely as more information becomes available. Note that nothing had been built into the budget outlook in respect of the increase to Bands E-H.

## 6. OTHER PRESSURES

### Learning Estate Investment Programme

- 6.1 The Councils bid to the Scottish Governments Learning Estate Investment Programme (LEIP) for funding for a new school campus on Mull was successful. While this is good news and will provide welcome investment in the school estate it does come with a financial pressure that is required to be funded if the project is to proceed. The Scottish Government will fund up to 50% of eligible costs and the Council will require to fund the rest, potentially circa £20m. The Council has already set aside £9m within earmarked reserves but will need to determine how to fund the balance remaining. A report will be brought forward to a future meeting of the Council.

### **Argyll and Bute Councils response to the weather incident**

- 6.2 As a result of significant rainfall Argyll and Bute Council activated the Bellwin scheme in relation to the recovery costs associated with the incident. The funding from this scheme is welcomed however eligibility criteria of costs are restrictive. Primarily the first £0.529m has to be covered by the Local Authority of which £0.398m has been identified from Crown Estates funding with the possibility this could be topped up further once the Crown Estate full year allocation of funding is confirmed. Secondly, capital expenditure does not qualify therefore any long term replacements to infrastructure such as bridges cannot be claimed through the scheme. The full costs from the weather incident are still being identified and a verbal update will be provided at the Policy and Resources Committee.

### **6.3 Reinforced Autoclaved Aerated Concrete (RAAC)**

Surveys have been completed in the Councils Learning Estates in relation to RAAC with only 1 building confirmed as having it present with steps underway for its removal. This will include a decant of the students for approximately 9 months plus total removal and replacement of the roof during 2024. The estimated costs associated with this are £3m which will require additional funding.

### **6.4 Funding**

Current options open to Members to help fund these additional pressures include the following:

- Use of Asset Management Fund Earmarked Reserve - £2.098m
- Use of Council's Priorities Investment Fund - £7m
- Utilise one-off pension saving set aside for transformational projects - £4.972m
- Borrowing at a recurring cost to revenue.

## **7. CONCLUSION**

- 7.1 Officers continue to monitor the budget outlook position regularly and update and report to Members any changes. The reported position at paragraph 5.3 does not reflect any additional costs associated with the weather incident and there will be further pressures associated with LEIP and RAAC. There is also uncertainty regarding the levels of funding that will be received from Scottish Government particularly in relation to the Council Tax freeze.

## **8. IMPLICATIONS**

8.1	Policy -	None.
8.2	Financial -	Sets out the financial position over the next five years.
8.3	Legal -	None.
8.4	HR -	None directly from this report but any savings options developed will have to consider the HR implications.
8.5	Fairer Scotland Duty -	See below
8.5.1	Equalities	None directly from this report but any proposals to address the estimated budget gap will need to consider equality issues.
8.5.2	Socio Economic Duty	None directly from this report but any proposals to address the estimated budget gap will need to consider socio economic issues.
8.5.3	Islands Duty	None directly from this report but any proposals to address the estimated budget gap will need to consider any island specific issues.
8.6	Climate Change	The Council is committed to addressing climate change and reviews how Services are delivering this on an ongoing basis within the available budget resources.
8.7	Risk -	None directly from this report but any proposals to address the estimated budget gap will need to consider risk.
8.8	Customer Service -	None directly from this report but any proposals to address the estimated budget gap will need to consider customer service.

**Kirsty Flanagan**  
**Executive Director/Section 95 Officer**  
**10 November 2023**

**Policy Lead for Finance and Commercial Services: Councillor Gary Mulvaney**

For further information contact Anne Blue, Head of Financial Services [anne.blue@argyll-bute.gov.uk](mailto:anne.blue@argyll-bute.gov.uk)