

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 08/2023 was published on 21 December 2023 provides detail of the provisional total revenue and capital funding allocations for 2024-25. The Council's provisional General Revenue Grant is £237.475m (there is also £4.526m of Revenue Specific Grants).
- 1.4 The Council Tax budget for 2023-24 was set at £58.896m. The growth has been estimated at 0.5% for 2024-25 which amounts to £0.294m.
- 1.5 The budget for 2023-24 has been rolled forward into 2024-25 and the changes to the 2024-25 base budget are summarised below:
- Removal of one-off Management/Operational savings of £1.053m
 - Removal of cost pressures relating to 2023-24 only of £0.442m
 - Adjustment re floral displays as agreed at EDI Committee of £0.008m
 - Recognition of the 2023-24 Teachers pay award being agreed at a higher cost than the original estimate by £3.333m
 - Recognition of the 2023-24 SJC pay award being agreed at a higher cost than the original estimate by £2.942m
 - Adjustment to ferries budget of £0.191m following confirmation of specific grant
 - Adjustment to base of £0.024m regarding Council Tax collection rates as a result of the Business Process Review (BPR)
 - Removal of inflationary contingency of £0.058m.
- 1.6 The revised payment to the Health and Social Care Partnership, reflects 2023-24 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 £74.326m.

- 1.7 There are a number of measures to balance the budget that have previously been agreed at the Council's budget meetings in 2022 and 2023 which have a net effect of reducing the 2024-25 budget gap by £0.093m.
- 1.8 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 £0.385m of additional income.
 - 10% reduction to the Live Argyll Management Fee.
 - Strathclyde Pension Fund Gain totalling £2.206m.
 - New management/operational savings amounting to £3.950m.
 - New policy options savings amounting to £1.024m.
- 1.9 The setting of Council Tax should happen on the same day as the Council sets its revenue budget as once all proposals are considered, Council Tax is the balancing figure. The gap noted above is based on acceptance of the Council Tax freeze with funding from the Scottish Government equivalent to 4.8% for Argyll and Bute being made available. In order to get to a balanced budget, Council should consider whether to reject the Council Tax freeze and increase Council Tax by 6.04% to balance the budget. The alternative is that Council would need to fund the gap using reserves or other funds held, which would be a one-off fix, however, Members need to be mindful of the significant gap within the capital programme that requires funding.
- 1.10 The budget gap in the period 2025-26 to 2028-29 across each scenario is summarised in the table below.

Budget Gap	2025-26 £000	2026-27 £000	2027-28 £000	2028-29 £000	Total £000
Best Case	(1,503)	(1,856)	(2,130)	(3,185)	(8,674)
Mid-Range	(6,583)	(12,133)	(15,991)	(21,191)	(55,898)
Worst Case	(20,351)	(38,317)	(55,229)	(73,943)	(187,840)

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

Fees and Charges

- 1.12 This report sets out proposals for increases in fees and charges and the resulting impact on income included in the revenue budget.
- 1.13 The general increase to fees and charges is proposed at 6% for 2024-25 and is expected to generate additional income of £0.385m.
- 1.14 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 31 January 2024.
- 1.15 Harbour Fees have been increased by 3%. This 3% increase is ring fenced to fund asset improvement and sustainability within the piers and harbours. This is estimated

to generate additional income of £0.279m. No general inflationary increase has been proposed for piers and harbours dues in order that the service is cost neutral.

Financial Risks Analysis 2024-25

- 1.16 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.
- 1.17 There are 6 Council wide revenue risks identified for 2024-25 currently amounting to £6.833m. One of these risks have been classified as likely and four as possible as follows:
- The pay award exceeding 3% has been categorised as likely although the expectation is that additional funding would be forthcoming from Scottish Government for an enhanced pay award, which has been the case for the last 2 years.
 - 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.
- 1.18 There are currently 38 departmental risks totalling £5.080m. Five of the 38 departmental risks are categorised as likely with no risks categorised as almost certain.

Reserves and Balances

- 1.19 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.
- 1.20 The Council had a total of £93.828m usable reserves as at 31 March 2023. Of this balance, £2.916m relates to the Repairs and Renewals Fund, £4.503m relates to Capital Funds and the remainder of £86.409m is held in the General Fund, with £79.466m of this balance earmarked for specific purposes.
- 1.21 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 2024-25. The revised contingency at 2% of net expenditure amounts to £6.120m.
- 1.22 Due to the pressure on the capital programme, officers have conducted a review of the earmarked balances and have agreed release of earmarkings totalling £2.212m which could assist with some of the gap in the capital programme.

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

Heading	Detail	£000	£000
Unallocated General Fund as at 31 March 2023	This is the balance that is unallocated over and above the 2% contingency which amounts to £5.691m		1,252
Allocation to General Fund for 2023-24 budget	Per Budget Motion at Council on 23 February 2023		19
Earmarked Balances no longer required	Amounts previously earmarked that can be released back to the General Fund		2,316
Transfer of contingency to maintain 2% level			(429)
Forecast Outturn for 2023-24 as at 31 December 2023			(91)
Allocation from unallocated general fund balance during the year			(8)
Estimated costs associated with weather incident not claimable through Bellwin scheme			(839)
Estimated Unallocated General Fund Balance as at 31 March 2024			2,220

CAPITAL PACK

Capital Plan Summary

- 1.24 This report details the revisions proposed to the capital plan approved in February 2023 for the period 2024-25 to 2025-26 and extends the capital plan for a further year to 2026-27. The revisions are based on updated capital funding assumptions, phasing and cost changes.
- 1.25 The annual General Capital Grant for 2024-25 was estimated when the plan was agreed last year to be £9.771m. 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 £8.834m and is therefore a

£0.937m reduction on the previous estimate. This creates a gap of £1.782m across the life of the capital programme.

- 1.26 The amount of capital resources allocated to Private Sector Housing Grant (PSHG) is £1.033m per annum, similar to previous years.
- 1.27 In addition to the £8.834m general capital grant there is ring-fenced funding of £0.379m for Walking Cycling & Safer Streets which will also be built into the capital programme.
- 1.28 The restricted capital funding of £5.122m 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.
- 1.29 A comparison between the capital plan as at December 2023, including the new block allocation for 2026-27, has been compared to the estimated funding and there is gap up to 2026-27 of £2.076m. After adjusting for further anticipated pressures the total gap within the capital programme is £29.843m. Borrowing could be taken out to cover the gap in the programme however this creates a revenue cost. Every £1m of borrowing for the capital programme creates a revenue pressure of circa £0.064m on average per annum which has not been built into the revenue budget overview report.
- 1.30 There are four significant areas contributing towards the total gap of £29.384m which are detailed within the capital report and are as follows:
- Removal of Reinforced Autoclaved Aerated Concrete (RAAC) from the Council's Learning Estate - £3m
 - Weather event not claimable through Bellwin scheme - £4.348m
 - Rothesay Pavilion - £8.859m
 - Learning Estate Investment Programme (LEIP) - £11.560m

While the costs associated with RAAC and the weather incident are unavoidable, Members will be required to make decisions regarding the proposals relating to Rothesay Pavilion and LEIP.

- 1.31 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 significant cost increases through a combination of higher prices and longer materials delivery lead times.

Corporate Asset Management Strategy and Plan

- 1.32 This report outlines the overall principles, policies and priorities within the Councils Asset Management Strategy and Plan.

1.33 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 2024-25 and that consequently the local tax requirement estimated at £63.114m is funded from Council Tax. Approve the following rates and charges for the year, 2024-25:
 1. Council Tax to be paid in respect of a chargeable dwelling in Band “D” of £1,568.54 representing a 6.04% increase.
 2. 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.
 3. Business Rates as determined by Scottish Ministers.
- b) Approve the revenue budget for 2024-25 as set out in the revenue budget overview report.
- c) In respect of the gain received from the reduction in the Strathclyde Pension Employer’s Contribution rate between 17.5% and 6.5% over 2024-25 and 2025-26:
 1. Note that £2m is proposed to be used towards the Council revenue budget each year over the next 4 years (see management/operational savings).
 2. Agree that the balance remaining attributable to all Council employees is transferred to the General Fund and set aside for transformational/spend to save projects.
 3. Agree that HSCP projects that fit the above criteria (point 2 above) be eligible for funding up to the value of £6.106m with the release of any funding delegated to the Chief Executive and the Executive Directors of the Council.
 4. Note that reports on the drawdowns from the General Fund balance will be submitted to Policy and Resources Committee as part of the monitoring pack.
- d) Approve a base allocation to the Health and Social Care Partnership of £74.326m for 2024-25. Approve indicative base allocations for 2025-26 of £74.326m and 2026-27 of £77.379m. 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.
- 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 five funding requests received as set out within Appendix 8 of the Revenue Budget Overview Report.
- g) Approve the following in relation to fees and charges with effect from 1 April 2024 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 £0.385m in total.
 2. Approve no increase to school meal charges in 2023-24 as detailed in section 3.6.2 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.
- h) Note the financial risks analysis.
- i) Approve the contingency level for the General Fund balance at a level of 2% of net expenditure, equivalent to £6.120m and note the report on reserves and balances.
- j) 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 £29.384m gap.
- k) In respect of LEIP:
1. Note the successful award of a major bid funding bid;
 2. Note the funding provided by Scottish Government is not a capital grant for full cost of project – in summary SG will provide **up to 50%** of eligible costs over a 25 year period following completion. The Council will require to pay the total cost up front;
 3. Note due to the 1year time delay of LEIP announcement the requirement to open the new Campus by December 2027 (which was the original timescale) cannot be met – now forecast for October 2028 at earliest;
 4. Note the updated timescale programme forecast as outlined at **Appendix A + B**;
 5. Consider overall affordability of project as outlined at **Appendix C** and determine whether:
 1. Proceed with the LEIP Project in the knowledge that Members will be required to take hard decisions to reduce other Council areas of capital and / or revenue spend, in future revenue budgets / capital programmes.
Or
 2. Not to proceed with the current LEIP Project based on current capital affordability considerations and as an alternative develop a programme of significant building fabric upgrade works to (a) prolong the operational life and (b) enhance learning and teaching spaces of

the existing school buildings (Primary and Secondary) at Tobermory using £9m of previously earmarked funds.

- l) In respect of Rothesay Pavilion note that a further paper will be available for Members at the Special Meeting of the Council prior to the budget meeting which will provide detailed information on the project and recommendations for consideration.

- 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 2024-25 to 2028-29 and the funding and commitments for the capital plan 2024-27.
- 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 \(argyll-bute.gov.uk\)](https://www.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.
- 3.9 The Rights of the Child (UNCRC) - None

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