
DELIVERING ON THE SINGLE OUTCOME AGREEMENT

1 INTRODUCTION

1.1 This report sets out key challenges facing the Council, summarises the single outcome agreement (SOA) commitments and sets out the longer term budgetary outlook. It then outlines 4 options for addressing these various challenges. The 4 options are summarised as:

- An annual incremental approach to budgeting.
- A longer term structured approach to balancing the budget.
- Considering the investment needed to support economic growth and strategic infrastructure.
- Supporting the above with an approach to investing for income.

1.2 The report also sets out an options appraisal for the 4 options based on strengths, weaknesses, opportunities, threats and risks.

1.3 Presented alongside this report are further reports in relation to:

- Budget outlook – sets out the overall financial outlook and budget challenge from 2016-17.
- Service choices – sets out a proposed approach to a longer term structured approach to balancing the budget.
- Investing for economic growth – sets out a proposed way forward along with the Strategic Infrastructure Plan to support economic growth.
- Strategic Infrastructure Plan - sets out a proposed way forward to develop a plan for the strategic infrastructure to support economic growth.
- Investing for income – sets out proposals for consideration on how the Council may look to secure new sources of income rather than focus exclusively on cost reduction.

1.4 A report setting out the principles and approach of a communications and engagement strategy is also submitted for consideration.

1.5 All of the recommendations are incorporated into this covering report with no recommendations included in the individual reports.

2 RECOMMENDATIONS

- 2.1 Members note the budgetary outlook and forecast funding gap.
- 2.2 Members note the key challenges around economic growth and population and the commitment in the SOA to address these.
- 2.3 Members note the options appraisal set out in Appendix 1.
- 2.4 Taking account of the options appraisal members approve option D as the preferred way forward on the basis it is the option which most fully addresses the challenges facing Argyll and Bute.
- 2.5 Subject to approval of option D officers are requested to commence the process set out in the service choices report, develop a PID to take forward the proposals on investing for economic growth and Strategic Infrastructure Plan and bring forward more detailed reports setting out the benefits, issues, risks and governance matters related to each of the proposals within the investing for income report.
- 2.6 Subject to approval of option D officers bring forward a further report setting out the arrangements for resourcing and governance of this programme.
- 2.7 Subject to approval of option D then in relation to the report on communication and involvement agree to take forward the approach set out in relation to service choices with additional communications and involvement necessary in relation to investing for economic growth, Strategic Infrastructure Plan and investing for income developed as part of the PIDs or further reports on these and incorporated in an overall integrated communications approach.
- 2.8 Members note the importance of community planning in relation to the matters outlined in this report and request officers to:
 - Advise community planning partners of the approach being taken by the Council to address the challenges facing Argyll and Bute.
 - Seek information from each of the community planning partners on how they are planning to address these issues.
 - Ensure effective partnership working across the CPP to successfully deliver on the SOA.

3 DETAIL

3.1 Background

3.1.1 A report was submitted to the Policy and Resources Committee on 27 November 2014. The report set out the key challenges facing Argyll and Bute in relation to population, the economy, the SOA and the budgetary outlook. It further set out proposals around addressing these challenges through service choices, investing for economic growth, developing a strategic infrastructure plan and investing for income. Members agreed officers should develop more detailed reports on each of these proposals and carry out an options appraisal for consideration at the Policy and Resources Committee on 18 December 2014. In addition to the proposals and options then communications and involvement will be a key issue and a report on that along with a more detailed budgetary outlook is now being presented to members.

3.1.2 This report introduces and summarises the individual reports in relation to the budgetary outlook, service choices, investing for economic growth, developing a strategic infrastructure plan, investing for income, and communications and engagement. This report also sets out an options appraisal for members to consider. To provide the context for this the key challenges as highlighted in the report to the Policy and Resources Committee on 27 November 2014 are also set out again. Whilst this may be an element of repetition it is important that members understand the context for the proposals and options that follow.

3.1.3 The reports and proposals presented here relate to the Council. It should be noted that the challenges set out affect Argyll and Bute rather than just the Council, the SOA is a commitment by the community planning partnership (CPP) and the budgetary outlook is challenging across the public sector. To fully realise the SOA outcomes and address the challenges facing Argyll and Bute will require commitment across the CPP.

3.2 Key Challenges

3.2.1 Argyll and Bute was one of only 4 council areas in Scotland to suffer a reduction in population between the 2001 census and the 2011 census. Latest longer term population projections suggest a further reduction in population over the period to 2035. The proportion of older people in Argyll and Bute is already above the national average and the proportion of older people to people of normal working age is projected to increase significantly. The maritime change programme may see a significant transfer of naval staff and support staff to Faslane but the detail, timing, service implications and economic impact of this is not sufficiently clear.

3.2.2 There are a number of challenges relating to the economy and employment. Whilst there has been an improvement in Gross Value

Added (GVA) over recent years GVA still lags behind the Scottish average in a number of key industrial sectors. Argyll and Bute has a relatively high proportion of its population employed in the sectors of tourism, agriculture, forestry, fishing, public administration, education and health. Unemployment is generally below the Scottish average although the position varies from area to area and the dependence on seasonal or lower paid industries means average earnings in Argyll and Bute are lower than the Scottish average.

- 3.2.3 The Strategic Risk Register (SRR) sets out economic and population decline as the greatest risk facing Argyll and Bute. This picks up on the very significant issues identified in preparation of the SOA and through release of census data and population projections. In stark terms the economy in Argyll and Bute is underperforming and this combined with a reduced and reducing population represents a huge challenge to future prosperity, sustainability and viability.
- 3.2.4 In summary Argyll and Bute faces a very challenging future. These challenges are multiple ranging from population, demographics, economic performance, employment base, investment needs and public sector funding reductions.
- 3.2.5 The Council and the Community Planning Partnership (CPP) have already recognised the economic and population challenges facing the area. The SOA sets out an overall objective based on addressing or overcoming these challenges. The overall objective is supported by 6 longer term outcomes. The overall objective of the SOA is:
Argyll and Bute's economic success is built on a growing population.
- 3.2.6 The 6 long term outcomes are:
- The economy is diverse and thriving.
 - We have infrastructure that supports 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
- 3.2.7 The overall objective and longer term outcomes were developed to address the challenges set out above. They will not simply happen of their own accord but will require commitment, action and investment. The SOA is 10 year plan so the benefits will not arise for a number of years but steps need to be taken to support and deliver on the SOA now if we want to reap these benefits in the future.
- 3.2.8 The Council can support delivery of the SOA in a number of ways:
- How it delivers its services.
 - The priority given to particular services.
 - Capital expenditure and investment.
 - How it uses the significant powers available to it.
 - How it leads and supports partners across the CPP to support

and deliver on the SOA.

- Making a compelling case for support and investment in Argyll and Bute.

3.3 **Budgetary Outlook**

3.3.1 The budget for 2015-16 has expenditure being slightly less than funding. Going forward the overall base budget remains unchanged in total. However the impact of pay inflation, non pay inflation, cost and demand pressures and funding changes is likely to see a significant funding gap emerge. There are many assumptions making up the future forecast of the funding gap. Relatively small variations in assumptions can lead to fairly significant changes in the funding gap over 5 years. Information on the various assumptions on which the budgetary outlook is based are set out in the budgetary outlook report.

3.3.2 The initial worst case scenario sees a funding gap of £54.3m emerge over the next 5 years with a funding gap under the best case scenario of £14.9m. There is a very large variation between these 2 figures caused by relatively small changes in the assumptions. A review and refinement of the assumptions sees a funding gap of £37.5m based on a set of assumptions for a narrower worst case scenario and a funding gap of £28.1m emerge based on a set of assumptions for a narrower best case scenario. Fiscal Affairs Scotland suggest for the period 2015-16 to 2018-19 an average annual real terms reduction of 3.5% on the Scottish Barnett Block budget or 2.7% after allowing for income from non domestic rates and council tax. Taking all of the above into account the budgetary outlook report suggests the Council is facing a gap of between £27.5m and £37.5m over the next 5 years. This equates to an annual funding gap of between £5.5m to £7.5m.

3.4 **Proposals**

3.4.1 There are separate reports setting out more information in relation to:

- Service choices
- Investing for economic growth
- Strategic Infrastructure Plan
- Investing for income,

3.4.2 Service choices sets out a structured approach to aligning budget with Council priorities over the medium term. This is essential if the Council is to address the challenge of the budgetary outlook and delivering on the SOA. The proposals around service choices as set out would allow members to identify initial options on changes to budget, review them based on consultation feedback and templates setting out implications before proceeding to detailed planning and implementation.

3.4.3 Investing for economic growth focusses on the development of the Argyll and Bute Investment Plan (ABIP). The ABIP will be a strategic document that will be critical to securing external support and

investment for economic growth. This will capture the opportunity for economic growth, build a compelling case for investment, secure commitment from key partners and then set out the actions required to turn the opportunity into reality. The report recognises the need for partnership working across the CPP and the Scottish Government and its agencies and targeting and prioritisation of actions and investment.

3.4.4 The Strategic Infrastructure Plan will identify the critically important pieces of infrastructure that are necessary for economic growth and how this can be implemented given our limited resources. Improving the delivery of essential infrastructure is considered to be critical in responding to the need for economic growth to reverse the continued loss of population. The report sets out an approach on how this can be taken forward through 5 identified stages.

3.4.5 The Council could consider investing for income as a means of increasing its income rather than focussing only on cost cutting. This could also help underpin some of the other investment in economic growth and the SOA. There are a range of potential opportunities but further investigation is required into the benefits, issues, risks and governance of the various options.

3.5 Options

3.5.1 Four options have been identified for the Council to consider as a way forward for addressing the challenges and budgetary outlook set out above. The options build progressively from an annual incremental approach to budgeting through a structured longer term approach to identifying budget reductions through service choices to also considering proposals for investing for growth and development of a strategic infrastructure plan to finally adopting an approach that would also see the Council investing for income. The options are listed below with a short explanation of each of the options. There are 4 basic options or approaches to planning for the future and these are:

- Do minimum / do nothing type option based on minimum change, no longer term strategic planning but an annual review of corporate plans, service plans and budgets (annual planning budget cycle).
- Adopt a more structured approach to managing the budget challenge and service choices but without detail of investment for economic growth income and strategic infrastructure plan (longer term approach to budget cycle with prioritisation / choices).
- Adopt a more structured approach to managing the budget and service choices with a planned approach to investing for economic growth and a strategic infrastructure plan (longer term approach to budget cycle with prioritisation and investment plans for economic growth and strategic infrastructure).
- Adopt a more structured approach to managing the budget and service choices with a planned approach to investing for

economic growth, a strategic infrastructure plan and investing for income (as above plus investing for income).

- 3.5.2 Option A would be similar to an incremental budgeting approach. There would be no longer term plan about how the Council was going to deliver on the SOA as corporate and service plans would be reviewed annually and there would be no strategic reallocations or reductions in budget as budgets would be adjusted up or down each year and savings identified annually.
 - 3.5.3 Option B would see a more structured approach to managing the budget challenge. A longer term strategy would be developed to manage the financial position. Adopting a structured approach based on service choices would allow the Council to consider priorities. This would not specifically consider how the Council invests for economic growth, the infrastructure required to support that or how it uses its own resources and powers to invest for income.
 - 3.5.4 Option C would see a more structured approach to managing the budget challenge. A longer term strategy would be developed to manage the financial position. Adopting a structured approach based on service choices would allow the Council to consider priorities. Developing an approach to investing for economic growth and a strategic infrastructure plan would set out how the Council planned to support the SOA as well as balancing its budget over the longer term.
 - 3.5.5 Option D would see a more structured approach to managing the budget challenge. A longer term strategy would be developed to manage the financial position. Adopting a structured approach based on service choices would allow the Council to consider priorities. Developing an approach to investing for economic growth and a strategic infrastructure plan would set out how the Council planned to support the SOA as well as balancing its budget over the longer term. In addition to all of these this option would also see the Council using the balance on the General Fund earmarked to support the SOA invested for income and where possible use this to establish an investment fund that could borrow to take forward projects that would generate an income stream and support the economy.
- 3.6 **Options appraisal**
- 3.6.1 An options appraisal is set out in Appendix 1. The options appraisal gives a further explanation of each option/approach and sets out for each of the different approaches the strengths, weaknesses, opportunities, threats and risks. The options appraisal is not scored but sets out the key features/impacts of each of the options against the factors in a way that allows members to reach their own judgement on the preferred option.

3.7 Communications and involvement

- 3.7.1 Whatever approach is taken forward communications and involvement will be a critical activity. The separate report sets out the approach for taking forward communications and involvement. It sets out the 3 stages of communications and involvement for service choices and advises that separate communications plans will be required if the Council proceeds with the proposals on investing for economic growth, strategic infrastructure plan and investing for income.
- 3.7.2 Members decision on which of the options to take forward will impact on communication and involvement. Option B will only require the communications and involvement in relation to service choices. For options C which will see investing for economic growth and the Strategic Infrastructure Plan proceed and option D which will also see investing for income proceed then the separate communications plan in relation to these will need to be incorporated into overall communications and involvement activity for service choices to ensure an integrated approach to communications.

4 CONCLUSION

- 4.1 This report sets out the key challenges facing the Council going forward. It also includes an appraisal based on strengths, weaknesses, opportunities, threats and risk of the 4 options identified for addressing the challenges faced by the Council. The 4 options are:
- Option A - Similar to an incremental budgeting approach.
 - Option B - Adopt a more structured approach to managing the budget challenge and service choices.
 - Option C - Adopt a more structured approach to managing the budget and service choices with a planned approach to investing for economic growth and strategic infrastructure plan.
 - Option D - Adopt a more structured approach to managing the budget and service choices with a planned approach to investing for economic growth strategic infrastructure plan and investing for income. Same as option C above but with addition of investing for income.
- 4.2 There are further reports covering the budgetary outlook and communications and engagement accompanying this covering report and also more detailed reports on:
- Service choices.
 - Investing for economic growth.
 - Strategic Infrastructure Plan.
 - Investing for income.

5 IMPLICATIONS

- 5.1 Policy – Whichever option is chosen there will be a range of policy issues that members need to consider in due course.

- 5.2 Financial – A high level longer term budgetary outlook is included as a separate report and this will continue to be refined.
- 5.3 Legal – Once an agreed option and set of approaches has been chosen the Council will need to bear in mind legal issues as it takes them forward.
- 5.4 HR – None directly in this report but whichever option is eventually selected there will without doubt be HR implications.
- 5.5 Equalities – None directly in this report but whichever option is eventually selected consideration will need to be given to any potential equalities implications going forward.
- 5.6 Risk – All of the options and approaches (even do minimum/do nothing) will involve risks but also opportunities and risk management will be key issue going forward whichever options is selected.
- 5.7 Customer Service - None directly in this report but whichever option is selected consideration will need to be given to customer service implications going forward.

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Comparison Of Options – SWOT and Risk Analysis				Appendix 1
Option	Option A - Similar to an incremental budgeting approach (Do minimum / do nothing)	Option B - Adopt a more structured approach to managing the budget challenge and service choices	Option C - Adopt a more structured approach to managing the budget and service choices with a planned approach to investing for economic growth and strategic infrastructure plan	Option D - Adopt a more structured approach to managing the budget and service choices with a planned approach to investing for economic growth strategic infrastructure plan and investing for income. Same as option C above but with addition of investing for income.
Explanation	This approach would be similar to an incremental budgeting approach. There would be no longer term plan about how the Council was going to deliver on the SOA as corporate and service plans would be reviewed annually and there would be no strategic reallocations or reductions in budget as budgets would be adjusted up or down each year and savings identified annually.	This would see a more structured approach to managing the budget challenge. A longer term strategy would be developed to manage the financial position. Adopting a structured approach based on service choices would allow the Council to consider priorities. No consideration given to how the Council invests for economic growth and the infrastructure required	This would see a more structured approach to managing the budget challenge. A longer term strategy would be developed to manage the financial position. Adopting a structured approach based on service choices would allow the Council to consider priorities. Developing an approach to investing for economic growth and a strategic infrastructure plan would set out how the Council	This would see a more structured approach to managing the budget challenge. A longer term strategy would be developed to manage the financial position. Adopting a structured approach based on service choices would allow the Council to consider priorities. Developing an approach to investing for economic growth and a strategic infrastructure plan would set out how the Council

		to support that or how it uses its own resources and powers to invest for income.	planned to support the SOA as well as balancing its budget over the longer term.	planned to support the SOA as well as balancing its budget over the longer term. In addition to all of these this option would also see the Council using the free balance in the General Fund to invest for income and where possible use this to establish an investment fund that could borrow to take forward projects that would generate an income stream and support the economy.
Strengths	This is probably the most straight forward and simplistic approach. Incremental budgeting is well understood. Processes for updating corporate and service plans and budgets annually are well embedded. In theory this would avoid “big decisions” to stop doing things. In administrative terms this	Would allow the Council to be clear about future performance levels given the budget constraints. Allows a longer term planning window to manage reductions.	Would allow the Council to be clear about future performance levels given the budget constraints. Allows a longer term planning window to manage reductions. In addition by including consideration of investing for economic growth and the strategic infrastructure plan it creates specific links to the SOA and the	Would allow the Council to be clear about future performance levels given the budget constraints. Allows a longer term planning window to manage reductions. In addition by including consideration of investing for economic growth and the strategic infrastructure plan it creates specific links to the SOA and the

	would be easy to implement.		overall objective of economic growth and a growing population.	overall objective of economic growth and a growing population. Use of free balance on the General Fund and prudential borrowing aimed at creating an income stream would underpin commitment to the economy and jobs growth as well as returning income to the Council. This approach should help maximise opportunity for any match funding and investment from other sources.
Weaknesses	An incremental approach is a short term reactionary approach and would not clearly articulate how the Council is planning to address the multiple challenges of economic and population decline, SOA delivery/investment and the challenging financial outlook. Unlikely to deliver clear plans for	With an exclusive focus on balancing the budget and in effect reducing expenditure in line with projected funding this would create a focus for bad news. It would not set out how the Council was looking to deliver on the SOA and grow the economy or population.	The Council may be exposed to criticism of increasing expenditure in some areas around economic development and infrastructure at a time when it is cutting service in what some people may regard as more core areas of service delivery. Failure to consider how best to use the resources	The Council may be exposed to criticism of increasing expenditure in some areas around economic development and infrastructure at a time when it is cutting service in what some people may regard as more core areas of service delivery. This criticism has the potential to be greater if

	<p>economic growth. No clear mechanism for using the financial resources and powers the Council has to achieve the step change necessary for supporting the SOA.</p>		<p>and powers available to the Council to invest for income may reduce the ability to secure matched funding and investment from other sources leading to a less than best return.</p>	<p>the Council is investing taxpayers money in what are seen as commercial ventures.</p>
<p>Opportunities</p>	<p>None.</p>	<p>A long term structured programme of budget reductions based on members priorities should be more deliverable. Would clearly establish in budget terms what members priorities were in terms of service delivery.</p>	<p>A long term structured programme of budget reductions based on members priorities should be more deliverable. Would clearly establish in budget terms what members priorities were in terms of current service delivery. This approach would also allow a positive narrative to be presented that sets out how the Council is planning to address the greatest risk in the SRR.</p>	<p>A long term structured programme of budget reductions based on members priorities should be more deliverable. Would clearly establish in budget terms what members priorities were in terms of current service delivery. This approach would also allow a positive narrative to be presented that sets out how the Council is planning to address the greatest risk in the SRR. Investing for income has the potential to increase funding in the longer term and should help support jobs growth. It would be a further statement of the Councils</p>

				commitment to the SOA.
Threats	<p>Could undermine commitment to SOA and core objective of growing the economy and population. An annual approach to budget reductions may not be sustainable and may lead to unrealistic expectations. Council seen to be sending out confusing messages of long term commitment to economy, population and SOA but also adopting a short term reactionary approach to budgeting. In the long term the annual approach may fail to achieve the significant reductions and realignment of spending required as it avoids “big decisions”.</p>	<p>Could undermine commitment to SOA and core objective of growing the economy and population. Council seen to be sending out confusing messages of long term commitment to economy, population and SOA but focussing on how it reduces its budget rather than how it invest to supports economic and population growth.</p>	<p>The cuts in service and budget are likely to become apparent immediately or in the short term whereas the benefits of investing economic growth and strategic infrastructure may not be realised for a number of years.</p>	<p>The cuts in service and budget are likely to become apparent immediately or in the short term whereas the benefits of investing for economic growth, strategic infrastructure and investing for income may not be realised for a number of years.</p>
Risks	<p>The extent of budget reductions is likely to attract criticism. A prolonged period of annual incremental budget</p>	<p>The extent of budget reductions is likely to attract criticism. Although a more structured approach would be taken</p>	<p>The extent of budget reductions is likely to attract criticism. There is the potential for even greater criticism if it is</p>	<p>The extent of budget reductions is likely to attract criticism. There is the potential for even greater criticism if it is</p>

	<p>reductions is less likely to see budgets and services aligned to priorities in a strategic and structured manner. Does not create the momentum for change necessary to address the challenges set out earlier in this report. Would not set out a process to address the greatest risk set out in the SRR.</p>	<p>it would still be a prolonged programme of budget reductions without any move to address the economic and population challenges. Would not set out a process to address the greatest risk set out in the SRR. Focus only on managing budget reductions will expose the Council to accusations of adopting a managing decline approach.</p>	<p>viewed by some that investment in less core areas/services is being increased eg economic development. It is not certain that even with the investing for economic growth and investing in the strategic infrastructure plan that the economy and population decline will be reversed and recover to grow. However without this investment it seems more likely that they will continue to decline.</p>	<p>viewed by some that investment in less core areas/services is being increased eg economic development. It is not certain that even with the investing for economic growth, investing in the strategic infrastructure plan and investing for income that the economy and population decline will be reversed and recover to grow. However without this investment it seems more likely that they will continue to decline. It is also likely that at some point some losses will be incurred through investing for income and it is essential that the investing for income proposals are commercially managed, subject to business, risk and credit analysis and that a diversified portfolio approach is taken.</p>
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