

**BUDGETARY OUTLOOK 2017-18 TO 2019-20**

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**1. EXECUTIVE SUMMARY**

- 1.1 This report summarises the budgetary outlook covering the period 2017-18 to 2019-20 on a best and worst case scenario basis.
- 1.2 On 29 June 2016, the Cabinet Secretary for Finance and Constitution, Derek MacKay MSP, gave evidence to the Scottish Parliament's Finance Committee regarding the timetable for the Scottish Draft Budget for 2017-18 and during the evidence session the Cabinet Secretary confirmed that the Scottish Government will be setting a one year budget for 2017-18.
- 1.3 The budget for 2016-17 has been used as the base budget, with the following changes:
- Add in £0.054m expenditure budget in relation to Discretionary Housing Payments that is fully funded.
  - Remove £0.580m in relation to one-off cost pressure for Broadband Pathfinder.
  - Add back Unitary charge budget that was not required during 2016-17 and was a one-off saving.
  - Reduce the Loan Charges by £1.000m each year.
- 1.4 The assumptions in respect of employee costs are:
- 1% to 1.5% increase for pay award.
  - Increments ranging from £0.350m to £0.700m per annum.
  - Auto enrolment ranging from £0.840m to £1.400m per annum.
  - Living Wage (Council employees) estimated at £0.200m per annum.
- 1.5 Non pay inflation ranging between £0.750m and £1.000m per annum has been assumed.
- 1.6 There are a number of cost and demand pressures, costed on a best and worst case scenario, where applicable:
- Apprenticeship Levy
  - NDR Revaluation
  - Payment Card Industry Compliance
  - Adult Care Growth
  - Younger Adults Demand
  - Living Wage
  - Carers Act
  - Continuing Care
  - New Schools Unitary Charge

- 1.7 There are two element of additional income that have been added into outlook:
- Income from fees and charges with an increase ranging from between 1% and 3%.
  - Income in relation to the investment in the Hub project – from 2019-20.
- 1.8 As part of the budget for 2016-17 a number of management/operational savings were identified, profiled across 2016-17 to 2018-19. In addition a decision was made on all Service Choices policy options irrespective of whether the saving was due to be delivered in 2016-17, 2017-18 or beyond. These savings have now been reflected within the outlook.
- 1.9 At this stage, no savings have been quantified in respect of the Transformation work, including the Asset Management Fund.
- 1.10 In respect of the Scottish Government funding this has been based on latest estimates. The position for 2018-19 and 2019-20 is worse than originally anticipated last year as it was expected that the funding situation would improve, however, from the UK Budget 2016 it is clear that austerity is going to be with us for the next five years.
- 1.11 In line with the First Minister's announcement on Council Tax, the outlook reflects a 3% increase on Council Tax charges per annum. The Council tax base has also been increased by 0.25% to represent growth.
- 1.12 The First Minister also announced that an additional £100m would be invested in schools across Scotland as a result of a package of reforms to Council Tax. At this stage it is unclear how this will be distributed and as such has not been reflected in the outlook.
- 1.13 The funding gap estimated over the three year period 2017-18 to 2019-20 is between £16.9m and £33.9m with a gap of between £3.4m and £10.5m in 2017-18. Consideration needs to be given as to the budget strategy to balance the budget.
- 1.14 Members are asked to note the current estimated budgetary outlook position 2017-18 to 2019-20.

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**2. INTRODUCTION**

- 2.1 This report summarises the budgetary outlook covering the period 2017-18 to 2019-20.
- 2.2 On 29 June 2016, the Cabinet Secretary for Finance and Constitution, Derek MacKay MSP, gave evidence to the Scottish Parliament's Finance Committee regarding the timetable for the Scottish Draft Budget for 2017-18 and during the evidence session the Cabinet Secretary confirmed that the Scottish Government will be setting a one year budget for 2017-18.
- 2.3 Creating a budgetary outlook is challenging as a number of assumptions need to be made anticipating changes to the base budget in relation to employee costs, non-pay inflation, cost and demand pressures and fees and charges. Assumptions also need to be made on the Council's funding position.
- 2.4 Relatively small variations in assumptions can lead to fairly significant changes in the funding gap and therefore the budgetary outlook is presented as two scenarios – best and worst case.

**3. RECOMMENDATIONS**

- 3.1 Members to note the current estimated budgetary outlook position 2017-18 to 2019-20.

**4. DETAIL****4.1 Base Budget**

- 4.1.1 The 2016-17 budget approved by Council on 11 February 2016 was £237.950m.
- 4.1.2 The Scottish Parliament approved the Local Government Finance (Scotland) Order 2016 on 25 February 2016 and Finance Circular 1/2016 was published. There was an additional income allocation of £0.054m in respect of Discretionary Housing Payments and a matching expenditure budget was created.
- 4.1.3 There are three further changes to the base budget noted as follows:
- Remove £0.580m budget in relation to a one-off cost pressure for

Broadband Pathfinder funded from the General Fund in 2016-17.

- Add back in £0.500m unitary charge budget that was not required during 2016-17 and was a one-off saving.
- Reduce the loan charges by £1m each year due to the principal repayments reducing as old debt taken in the 1990s falls out of the calculation.

4.1.4 The base budget, after the changes noted above, will be expected to remain at the same level over the 3 years.

4.1.5 The table below summarises the base budget.

	<b>2017-18 £000</b>	<b>2018-19 £000</b>	<b>2019-20 £000</b>
Base Budget 2016-17	237,950	237,950	237,950
Discretionary Housing Payments	54	54	54
Remove Broadband Pathfinder one-off pressure	(580)	(580)	(580)
Add back unitary charge (one-off saving in 2016-17)	500	500	500
Reduction in Loan Charges	(1,000)	(2,000)	(3,000)
<b>Revised Base Budget</b>	<b>236,924</b>	<b>235,924</b>	<b>234,924</b>

## 4.2 Employee Cost Changes

### Pay Award

4.2.1 The pay award agreed over the last three years is noted below:

2014-15 1% at a cost of £1.005m  
 2015-16 1.5% at a cost of £1.543m  
 2016-17 1% at a cost of £1.054m

4.2.2 There are many variables to consider when estimating future pay awards. They are strongly influenced by inflation, economic uncertainty and pay increases in other organisations. The cost of living is expected to increase in line with inflation which could lead to an increased demand for better pay awards by public sector workers. The UK Government has a public sector pay cap of 1%, for 4 years from 2015-16, but it is unclear what will be applied in Scotland in the future.

4.2.3 For the budgetary outlook it has been assumed that the cost of the pay award could range from between £1m per annum based on a 1% increase (best case) to £1.5m per annum based on a 1.5% increase (worst case).

### Increments

4.2.4 The cost of employee increments over the last three years is noted below.

- 2014-15 £0.792m
- 2015-16 £0.919m

- 2016-17 £0.824m

4.2.5 There is currently still a fairly regular turnover of staff within posts and when this happens the cost of increments can, in some cases, be absorbed by the budget provision for the previous post holder, who may have been at the top of the spinal column point for the grade.

4.2.6 As an estimate, the cost of increments is expected to be around £0.700m in 2017-18 but based on the comment within the previous paragraph this cost may not be required in full. It has been assumed that the cost of increments could range from between £0.350m per annum (best case) to £0.700m per annum (worst case).

### **Auto Enrolment**

4.2.7 Auto enrolment will require the Council to automatically enrol all staff into the pension scheme. This is underway for new staff and a small number of other qualifying existing staff, however the majority of existing staff who are not members of the pension scheme do not need to be auto enrolled until 2017.

4.2.8 Since the staging date in May 2013, there has been a steady increase in the number of employees enrolled into the pension scheme. Since May 2013 approximately 90% of staff auto enrolled into the scheme have remained in the scheme – a large proportion of the staff auto enrolled into the scheme are new staff. For local authorities who didn't defer auto enrolment for existing staff, the auto enrolment retentions (i.e those staying in once enrolled) has generally been quite high, ranging from around 60%.

4.2.9 If all staff who are auto enrolled into the scheme in 2017 remain in the scheme, this would cost £1.4m, worst case. For the best case scenario it has been assumed that 60% of staff would remain in the scheme resulting in a cost of £0.840m.

### **Living Wage**

4.2.10 The Council has agreed to pay the Living Wage and there is commitment by Government that this will rise to £9.00 per hour by 2020. The Living Wage is currently £8.25 (our employees are paid £8.33 which includes the 1% pay award) so to rise to £9.00 over the next three years would result in an average increase of around 3%.

4.2.11 The Living wage is estimated to cost around £0.200m per annum over the next three years.

4.2.12 The table below summarises the employee cost increases.

	Best Case			Worst Case		
	2017-18 £000	2018-19 £000	2019-20 £000	2017-18 £000	2018-19 £000	2019-20 £000
Pay Award	1,000	2,000	3,000	1,500	3,000	4,500
Employee Increments	350	700	1,050	700	1,400	2,100
Auto Enrolment	840	840	840	1,400	1,400	1,400
Living Wage	200	400	600	200	400	600
<b>Total</b>	<b>2,390</b>	<b>3,940</b>	<b>5,490</b>	<b>3,800</b>	<b>6,200</b>	<b>8,600</b>

### 4.3 Non-Pay Inflation

4.3.1 Over the last few years, the Council have only included non-pay inflation within the budget where it was deemed to be unavoidable or inescapable. Consideration needs to be given as to whether this is sustainable into the medium/longer term, however, to date services have been able to manage their budgets on this basis.

4.3.2 The unavoidable/inescapable inflation included within the budget between 2012-13 and 2014-15 was around £2m each year. This was reviewed for the 2015-16 budget and the inflation was reduced to around £1m, with no obvious effect on services. This was further reviewed as part of the 2016-17 budget and only inflation that was absolutely necessary was included and the budget was reduced to £0.505m. It was noted within the 2016-17 budget papers that the reduction was mainly due to utility type costs where latest guidance suggested no increase was required for 2016-17, however, depending on prices in the future, this is likely not to be sustainable over the medium to longer term.

4.3.3 It is suggested that the approach to budgeting for non-pay inflation continues on an unavoidable/inescapable basis. In view of the comments in the previous paragraph it has been assumed that non-pay inflation could range from between £0.750m per annum (best case) to £1m per annum (worst case), recognising that there is a level of risk associated with this estimate.

4.3.4 The table below summarises the non-pay inflation increases.

	Best Case			Worst Case		
	2017-18 £000	2018-19 £000	2019-20 £000	2017-18 £000	2018-19 £000	2019-20 £000
Unavoidable / Inescapable Inflation	750	1,500	2,250	1,000	2,000	3,000
<b>Total</b>	<b>750</b>	<b>1,500</b>	<b>2,250</b>	<b>1,000</b>	<b>2,000</b>	<b>3,000</b>

### 4.4 Cost and Demand Pressures

4.4.1 As part of the 2016-17 budget preparation process, services worked on the

basis of having to contain any cost and demand pressures within current resources wherever this was possible and this is the suggested approach for future years.

- 4.4.2 However, there are a number of cost and demand pressure already identified and they are noted in the paragraphs that follow and are included within the budgetary outlook.
- 4.4.3 An adjustment is required for previously agreed cost and demand pressures that have an impact between 2017-18 and 2019-20. These are noted in the table below:

	<b>2017-18 £000</b>	<b>2018-19 £000</b>	<b>2019-20 £000</b>
<i>Increases:</i>			
Broadband Pathfinder	10	20	30
Universal Credit – HB Admin Grant	55	230	230
Local Plan Enquiry	0	0	90
<i>Reductions:</i>			
Building Warrant Fees	(50)	(50)	(50)
Education Painting	0	(150)	(150)
Argyll and the Isles Tourism Cooperative - match funding	(50)	(50)	(50)
<b>Net Adjustment</b>	<b>(35)</b>	<b>0</b>	<b>100</b>

- 4.4.4 From April 2017 an apprenticeship levy is being applied to larger employers with a paybill in excess of £3m. The levy will be set at 0.5% of an employer's paybill. COSLA are currently seeking exemption from this levy for local authorities in Scotland and the Local Government Association in England have also called for English local authorities to be exempt from the apprenticeship levy. For the budgetary outlook it has been assumed that the cost could range from nil (best case) to £0.679m based on 0.5% of direct employee costs (worst case).
- 4.4.5 The next NDR revaluation is due to take place in 2017. The last revaluation gave rise to a cost pressure of £0.175m as the value of public sector assets went up more than assets generally. Finance Circular 6/2016 published on 6 July 2016 advises of a downward change to the decapitalisation rates for the 2017 revaluation. Whilst this could be seen as positive we have been advised that although some property values may reduce schools may go up by more than average as large tranches of the commercial market have seen large slumps in rental values which are reflected in much reduced values for these subjects. In addition the values of schools and other subjects valued with reference to construction costs contain a significant element of sit value and it is quite possible that increases in land values, could, at least partly, offset any reduction arising from decapitalisation rate changes. It is therefore very difficult to predict what might be required. For the budgetary outlook it has been assumed there will be a cost pressure of between £0.050m (best case) and £0.175m (worst case), however, this will

be kept under review and if further information becomes available, these assumptions will be updated.

- 4.4.6 Compliance with the Payment Card Industry Data Security Standards (PCI DSS) is mandatory for all organisations which accept payments from customers using payment cards such as Visa, Mastercard etc. The Council is currently not PCI DSS compliant and there is risk of a data breach which would have both a financial and reputational impact. If the Council does not address PCI DSS compliance, there is a significant risk that we would not be permitted to collect electronic card payments in future except through our internet payment facility. There is an upfront capital cost for implementing the new software required and an ongoing revenue cost of £0.034 per annum which would increase in line with inflation. The capital cost can be accommodated from within the ICT Capital Programme. Only the ongoing revenue cost has been included as an additional cost pressure.

### **Social Work specific Cost and Demand Pressures**

- 4.4.7 Adult Care Growth: Historically, the Council has included a demand pressure for increasing demand for services for older people based on 3% of the total budget for homecare and purchased residential care. This percentage is based on demographic projection data suggesting a 3% year-on-year increase in the number of people aged 65 and over in Argyll. However, service data suggests that the increase in cost is around 6%, reflecting not only the increase in the number of older people but also the increasingly complex care needs of the oldest residents and changes in how they are looked after resulting from the shift in the balance of care away from care home provision to support at home. At 3%, the demand pressure is approximately £600k per annum, increasing to £1.2m at 6%. For the budgetary outlook it has been assumed that the cost could range from £0.600m (best case) to £1.200m (worst case) per annum.
- 4.4.8 Younger Adults: Between 2012-13 and 2015-16, the spend on supported living services for disabled younger adults (adults aged 18 to 64) increased by 12%, equivalent to approximately £1.000m. Assuming that inflation accounts for around 3% of this, the remaining 9% averaged across the three financial years suggests an annual increase of 3%, equivalent to £0.300m. The key reasons for this increase is that older disabled people are living longer and they require more complex support as they age and their carers, typically elderly parents, are no longer able to support their disabled children as they themselves become frailer with age. Added to this, is new demand from young people transferring from children's services whose costs historically would have been offset by attrition amongst the older service users; as the attrition has reduced, the financial impact on the service is compounded as it is squeezed from both ends of the age spectrum. A demand pressure of £0.300m has been included within the budgetary outlook.
- 4.4.9 Living Wage: For 2016-17, the Deputy First Minister announced the creation of a new £250m Scotland wide Integration Fund to support the



integration of Health and Social Care services to ensure improved outcomes for Social Care. The funding was distributed to Health Boards using both the National Resource Allocation Committee (NRAC) distributions and Grant Aided Expenditure Distributions (GAE). A condition of the funding was for partnerships to work with local care providers to ensure that social care workers are paid the Scottish Living Wage of £8.25 per hour from 1 October 2016, a cost estimated to be around £1.300m for 2016-17 (half year). It is unclear whether the Scottish Government will provide additional funding in 2017-18 to meet the full year cost of the uplifts. The expected minimum cost of meeting the full year cost of the living wage obligation would be at least £1.300m in 2017-18 with additional costs arising in the likely event that the Scottish Living Wage rate increases in 2017-18 – the new rate won't be known until November 2016. For the budgetary outlook the best case scenario is no cost pressure, assuming that the Scottish Government provide funding to meet the full year cost. A worst case scenario of £1.300m has been assumed. It should be noted, that the funding distributed by the Scottish Government assumed that private and third sector providers would meet their share of the Living Wage costs (assumed at 25%) but to date this has not been agreed.

- 4.4.10 Carers Act: The Scottish Government have confirmed by letter on 6 July 2016 that the Carers (Scotland Act) 2016 will be commenced on 1 April 2018. We were further advised that it is possible that Ministers may decide to commence one key provision earlier than this but further information advises that the provision in mind relates to carer involvement in hospital discharge which wouldn't affect Social Work. The Carers Act will introduce new statutory duties in relation to the assessment and provision of support to unpaid and young carers and the people they care for. Although most of the new duties have been decided, discussion is ongoing in relation to the charging of looked after people for replacement care, that is the care provided to replace the input which an absent unpaid carer would normally provide. Although the Scottish Government has advised that sufficient funding will be provided to deliver the new statutory duties, the availability of free replacement care is highly likely to increase demand for support, leading to significant pressure on Social Work budgets. An early assessment of the potential implications for Argyll and Bute of the new Act, assuming that replacement care is provided free, suggests a potential demand pressure of £0.400m from 2018-19.
- 4.4.11 Continuing Care: Part 11 of the Children and Young People (Scotland) Act 2014 introduced new provisions requiring Social Work to continue to provide accommodation for Looked After and Accommodated Children (LAAC) born after 1 April 1999 from their 16th birthday until they reach 21 years if the child chooses to remain in their current or equivalent alternative accommodation. An assessment of the young people currently in care who would be eligible to continue to be accommodated in the next few years suggests a year-on-year increase in the cost to Social Work of £0.500m in 2017-18 and additional £0.735m in 2018-19 and a further £0.321m in 2019-20. These figures assume that 90% of the eligible young people will choose to continue in their current accommodation but do not take account of any

additional eligible children accommodated over the assessment period. At this time we are unaware of any negotiations between COSLA and the Scottish Government and Scottish Government have advised that funding has been provided for continuing care, included within the block grant. The funding is inadequate and if no further funding is provided, it breaches the commitment by the Scottish Government to fund the implications of the Children and Young People (Scotland) Act 2014. For the budgetary outlook, the figures noted above have been included within the worst case scenario and it has been assumed that there is a nil cost pressure in the best case scenario on the basis that the Scottish Government will fully fund the pressures.

### **New Schools Redevelopment Project**

4.4.12 A budget of £0.500m is included within the base budget in respect of additional running costs anticipated at the very early stages of the new schools project.

4.4.13 When the budgetary outlook was updated in June 2015, the budget included for additional running costs was updated based on the information at that time. The update is summarised in the table below.

As at June 2015	<b>2017-18 £000</b>	<b>2018-19 £000</b>	<b>2019-20 £000</b>
Annual Service Payment (previously referred to as Unitary Charge)	859	880	902
Additional NDR	292	300	307
<b>Total</b>	<b>1,151</b>	<b>1,180</b>	<b>1,209</b>
Less Budget Already in the Base	(500)	(500)	(500)
<b>Additional Budget Required</b>	<b>651</b>	<b>680</b>	<b>709</b>

4.4.14 As part of the budget approved in February 2016, Members agreed to make financial provision within the revenue expenditure from 2017-18 onwards to fund the annual service payment requirements for the new DBFM schools in Campbeltown and Oban in recognition of ESA10 changes and requirements. The additional budget required over and above that noted in the previous paragraph was estimated to be around £0.460m per annum, as reported to Policy and Resources Committee on 17 December 2015.

4.4.15 Financial close confirmation has now been received and it outlines the Scottish Government funding as well as our Annual Service Payment (ASP) contribution. The table below summarises the additional budget required and part of the change from the previous estimate reflects a change to the profile due to the completion being later than originally anticipated (now February/March 2018).

	<b>2017-18 £000</b>	<b>2018-19 £000</b>	<b>2019-20 £000</b>
Confirmed ASP	(184)	1,014	1,356
Less: ASP already included in Budgetary Outlook	(859)	(880)	(902)
<b>Additional Budget Required</b>	<b>(1,043)</b>	<b>134</b>	<b>454</b>

- 4.4.16 From the table above it can be seen that in 2017-18, the estimate can be amended to reflect that there is a reduction to the previously estimated annual service payment. This reflects the fact that the annual service payment is not full year (only required towards the end of 2017-18) and the Scottish Government contribution is higher than the annual service payment due to how their contribution is profiled.
- 4.4.17 It should be noted that the Scottish Government will be paying a fixed contribution over the period of the contract, however, inflation is built into the financial model and as a result our annual service payments will require to be inflated each year (the figures noted above take account of inflation up to 2019-20).
- 4.4.18 The full year Non-Domestic Rates increase noted in 4.4.7 will not be required in 2017-18 as the schools will not be occupied until February 2018 at the earliest. The NDR for 2017-18 is estimated to be approximately £0.025m, a reduction to the previous estimate of £0.267 (in 2017-18 only).
- 4.4.19 The table below summarises the cost and demand pressures.

	<b>Best Case</b>			<b>Worst Case</b>		
	<b>2017-18 £000</b>	<b>2018-19 £000</b>	<b>2019-20 £000</b>	<b>2017-18 £000</b>	<b>2018-19 £000</b>	<b>2019-20 £000</b>
Previously Agreed Cost and Demand Pressures	(35)	0	100	(35)	0	100
Apprenticeship Levy	0	0	0	679	679	679
NDR Revaluation	50	50	50	175	175	175
Payment Card Industry Compliance	34	35	36	34	35	36
SW Adult Care Growth	600	1,200	1,800	1,200	2,400	3,600
SW Younger Adults	300	600	900	300	600	900
SW Living Wage – full year effect	0	0	0	1,300	1,300	1,300
SW Carer's Act	0	400	400	0	400	400

SW Continuing Care	0	0	0	500	1,235	1,556
New Schools Running Cost in previous budgetary outlook	651	680	709	651	680	709
Changes to New Schools ASP Payment	(1,043)	134	454	(1,043)	134	454
Adjustment to New School NDR Profile	(267)	0	0	(267)	0	0
<b>Total</b>	<b>290</b>	<b>3,099</b>	<b>4,449</b>	<b>3,494</b>	<b>7,638</b>	<b>9,909</b>

## 4.5 Income

### Fees and Charges

4.5.1 Income from fees and charges that can be varied at the discretion of the Council is just under £16m per annum, however, the fees and charges subject to inflation has been around £12m. There has been a general inflationary increase to fees and charges of 3% for a number of years, with the exception of 2016-17 when a 6% increase was applied. The Council will want to consider the service impact and whether the inflation applied to fees and charges could reduce service uptake.

4.5.2 For the budgetary outlook it has been assumed that increased income could range from between £0.120m per annum based on a 1% increase (worst case) to £0.360m per annum based on a 3% increase (best case).

### Investment in HUB project

4.5.3 Under new ESA10 arrangements there was an opportunity for the Council to invest in the sub debt of its own HUB project and the Council exercised this right on 24 March 2016 and invested £491,691 which was funded from the General Fund. The sub debt is expected to attract a rate of interest around 10% to 10.5% per annum on its investment over the 25 year period. It is anticipated that the Council will receive interest payments of around £0.050m per annum from 2019-20 when the schools are fully operational.

4.5.4 The table below summarises the income increases.

	Best Case			Worst Case		
	2017-18 £000	2018-19 £000	2019-20 £000	2017-18 £000	2018-19 £000	2019-20 £000
Fees and Charges	360	720	1,080	120	240	360
Return on Hub Co Investment	0	0	50	0	0	50
<b>Total</b>	<b>360</b>	<b>720</b>	<b>1,130</b>	<b>120</b>	<b>240</b>	<b>410</b>

## 4.6 Savings Agreed February 2016

- 4.6.1 As part of identifying Service Choices savings for 2016-17 and beyond, a number of management/operational savings were agreed to be taken forward. These were profiled across 2016-17 to 2018-19 and some minor adjustments are required within the budgetary outlook to reflect the profile.
- 4.6.2 At the Council meeting on 11 February 2016, Members were asked to make a decision on all Service Choices policy options that were subject to public consultation irrespective of whether the saving was due to be delivered in 2016-17, 2017-18 or beyond. This was to assist in planning beyond 2016-17 and to allow for preparation time particularly in areas where significant redesign of services to deliver longer term savings was proposed. The budgetary outlook reflects the Service Choices savings approved and the profile of these savings.
- 4.6.3 One of the Service Choices savings was to pursue the creation of a charitable Leisure Trust and some preparatory work has commenced. It was originally considered that the saving could be delivered from the beginning of financial year 2017-18, however, there is a delay on how quickly the Trust would be operational and only 6 month saving is now anticipated within 2017-18, this equates to a reduction of £0.350m (full year saving £0.700m).
- 4.6.4 The table below summarises the savings.

	Best Case			Worst Case		
	2017-18 £000	2018-19 £000	2019-20 £000	2017-18 £000	2018-19 £000	2019-20 £000
Management/ Operational Profile	(101)	(30)	(30)	(101)	(30)	(30)
Service Choices Savings	3,022	4,536	4,536	3,022	4,536	4,536
Adjustment to Leisure Trust Saving	(350)	0	0	(350)	0	0
<b>Total</b>	<b>2,571</b>	<b>4,506</b>	<b>4,506</b>	<b>2,571</b>	<b>4,506</b>	<b>4,506</b>

## 4.7 Other Savings/Income Returns

### Transformation of Service Delivery

- 4.7.1 Part of the Council's budget agreed on 11 February 2016 was an instruction that the Council's Chief Executive report back on areas of transformation of service delivery throughout 2016-17 with a view to implementation from 2017-18 onwards.

4.7.2 A Transformation Group has been established to oversee the review and implementation of the Change to Gain proposals received via COSO and individual employees and also consider the innovation suggestions that were received as part of the budget consultation exercise. In addition the Group will be exploring shared services and other alternative service delivery models.

4.7.3 It is too early at this stage to quantify the levels of savings achievable without detailed business plans being developed. Whilst there have been good suggestions, some are not likely to deliver big savings, more in the tens of thousands than hundreds of thousands. Progress will be reported throughout the year and the budgetary outlook updated once any potential savings become clearer.

### **Asset Management Fund**

4.7.4 The council agreed to the creation of a £2m Asset Management Fund at the budget meeting held on 11 February 2016. The purpose of this Fund is to make investments to deliver returns that support future Council revenue or capital funding.

4.7.5 Officers are currently scoping out the work required for this Fund and it may take 1-2 years before any investment would deliver a return. If the Council simply invested this money for a period of 1 year the expected return would be around £0.018m (0.90%). The investment in the HUB project noted in paragraph 4.5.3 is expecting a return of around 10% to 10.5% and this is more in line with what would be expected from the Asset Management Fund investments, however, nothing can be guaranteed as there is risk involved in any investments.

4.7.6 At this early stage, no estimate of future returns has been included within the budgetary outlook and this will be kept under review as the use of the Fund progresses.

## **4.8 Funding**

### **Scottish Government Finance Settlement**

4.8.1 Forecasting funding needs to take account of a number of variables:

- The overall level of public sector budgets.
- The amount of budget allocated to the Scottish Government.
- The amount the Scottish Government decides to allocate to fund Local Government.
- The impact of population reductions in Argyll and Bute.
- The level of the floor mechanism.
- The scope for any future Council Tax increases.

4.8.2 Projections as to what the Local Government budget might look like post the full Spending review indicate that there could be a cash reduction as noted in the table below. The assumptions are based on two criteria, firstly

what seems the most likely outcome at this point in time, given policy announcements so far, and, secondly, when there is uncertainty, to err on the side of caution with regards to future budgets, it is better to plan future budgets on a prudent basis. Included in the table below is the estimated cash reduction, expressed in percentage terms, along with a suggested best and worst case estimate.

	<b>2017-18</b>	<b>2018-19</b>	<b>2019-20</b>
Estimated Cash Reduction %	-1.4%	-2.9%	-2.4%
Best Case	-1.4%	-2.5%	-2.0%
Worst Case	-1.9%	-3.4%	-2.9%

4.8.3 It should be noted that the position in 2018-19 and 2019-20 is worse than originally anticipated last year as it was expected that the funding situation would improve, however, from the UK Budget 2016 it is clear that austerity is going to be with us for the next five years, with significant additional spending cuts required in later years.

4.8.4 There is an element of the local government finance distribution known as the floor mechanism. This limits the overall reduction in funding or sets a minimum increase in funding for Councils. The Council currently receives support through the floor mechanism and given the population is likely to remain in the floor mechanism for the medium term. The floor mechanism is usually set around 1.5% although in 2016-17 it was 1%. It is suggested that 1% and 1.5% are used as the best and worst case estimates. It should be noted that the floor mechanism is currently subject to a review by the Settlement and Distribution Group.

4.8.5 The table below summarises a set of projections for future funding expressed in percentage terms and monetary value.

	<b>Best Case</b>			<b>Worst Case</b>		
	<b>2017-18 £000</b>	<b>2018-19 £000</b>	<b>2019-20 £000</b>	<b>2017-18 £000</b>	<b>2018-19 £000</b>	<b>2019-20 £000</b>
% Change to funding	-2.4%	-3.5%	-3.0%	-3.4%	-4.9%	-4.4%
Estimated SG Funding Reduction	-4,708	-6,701	-5,543	-6,670	-9,285	-7,929
Estimated SG Funding	191,454	184,753	179,210	189,492	180,207	172,278

### **Council Tax**

4.8.6 For 2016-17, the estimated income budget for Council Tax was increased by £0.100m (0.25%) in respect of growth of the Council Tax base and also by a further £0.200m which reflected a further estimate of the maximum Council Tax collection that could be achieved. It is suggested that the growth of 0.25% per annum remains as an assumption within the budgetary outlook.

4.8.7 On 2 March 2016, the First Minister announced that an additional £100m each year will be invested in schools across Scotland as a result of a package of reforms to Council Tax. The rates paid by those in the four highest council tax bands (E, F, G and H) will be adjusted in a move that will generate £100m per year. The additional revenue will be invested in schools through future local government settlements. It is estimated that the change to the bandings would generate additional income of £2.381m but what is not clear is whether this additional income will be pooled and distributed to authorities based on a different allocation method. As this is still unclear the increases, both to Council Tax and Education, are not included within the budgetary outlook.

4.8.8 The First Minister also announced that from April 2017 the Council Tax freeze will be replaced with discretion for local authorities to increase Council Tax by a maximum of 3% per year which could generate up to £70m for council services across the country. In addition to this extra revenue, local authorities will also retain the £70m per year that has funded the Council Tax freeze. It is estimated that an additional 3% would generate additional income of £1.236m and this additional income has been included in both the best and worst case estimates.

4.8.9 The table below summarises the estimated total funding.

	Best Case			Worst Case		
	2017-18 £000	2018-19 £000	2019-20 £000	2017-18 £000	2018-19 £000	2019-20 £000
Scottish Government Grant	191,454	184,753	179,210	189,492	180,207	172,278
Council Tax Base	41,200	41,200	41,200	41,200	41,200	41,200
Council Tax Growth @ 0.25%	103	210	319	103	210	319
3% Increase to Council Tax	1,236	2,512	3,830	1,236	2,512	3,830
<b>Total</b>	<b>233,993</b>	<b>228,675</b>	<b>224,559</b>	<b>232,031</b>	<b>224,129</b>	<b>217,627</b>

## 4.9 Summary of Estimated Funding Gap

4.9.1 The table below summarises the estimated funding gap and Appendix 1 and 2 provide further detail.



	Best Case			Worst Case		
	2017-18 £000	2018-19 £000	2019-20 £000	2017-18 £000	2018-19 £000	2019-20 £000
Base Budget	236,924	235,924	234,924	236,924	235,924	234,924
Employee Cost Changes	2,390	3,940	5,490	3,800	6,200	8,600
Non-pay Inflation	750	1,500	2,250	1,000	2,000	3,000
Cost and Demand Pressures	290	3,099	4,449	3,494	7,638	9,909
Income	(360)	(720)	(1,130)	(120)	(240)	(410)
Savings Agreed February 2016	(2,571)	(4,506)	(4,506)	(2,571)	(4,506)	(4,506)
<b>Total Estimated Expenditure</b>	<b>237,499</b>	<b>239,237</b>	<b>241,477</b>	<b>242,527</b>	<b>247,016</b>	<b>251,517</b>
Funding	233,993	228,675	224,559	232,031	224,129	217,627
<b>Funding Surplus / (Gap) Cumulative</b>	<b>(3,430)</b>	<b>(10,562)</b>	<b>(16,918)</b>	<b>(10,496)</b>	<b>(22,887)</b>	<b>(33,890)</b>
<b>Funding Surplus / (Gap) In-Year</b>	<b>(3,430)</b>	<b>(7,132)</b>	<b>(6,356)</b>	<b>(10,496)</b>	<b>(12,391)</b>	<b>(11,003)</b>

4.9.2 The funding gap in the table above, is the gap for all Council Services including Social Work services that are now part of the Health and Social Care Partnership. The allocation to Social Work will need to be considered and negotiated and a decision taken on whether the Council will pass on any efficiency or other saving target to the Integrated Joint Board.

4.9.3 This budgetary outlook has taken no account of the impact of the Fiscal Framework Scotland. It is too early to estimate the financial impact, however, this will be monitored and the outlook updated as the impact becomes clearer.

## 5. CONCLUSION

5.1 The funding gap estimated over the three year period 2017-18 to 2019-20 is between £16.9m and £33.9m with a gap of between £3.4m and £10.5m in 2017-18. Consideration needs to be given as to the budget strategy to balance the budget.

## 6. IMPLICATIONS

- 6.1 Policy – Sets out the budgetary outlook that provides the financial envelope for policy decisions.
- 6.2 Financial - Sets best and worst case scenarios in respect of the

- budgetary outlook. Consideration will need to be given as to the budget strategy to balance the budget.
- 6.3 Legal - None directly from this report but Council will need to balance the budget.
- 6.4 HR - None directly from this report but there is a strong link between HR and budgets.
- 6.5 Equalities - None directly from this report but any proposals to address the forecast funding gap will need to consider equalities.
- 6.6 Risk - None directly from this report but any proposals to address the forecast funding gap will need to consider risk.
- 6.7 Customer Service - None directly from this report but any proposals to address the forecast funding gap will need to consider customer service.

**Policy Lead for Finance: Councillor Dick Walsh**

**Kirsty Flanagan  
Head of Strategic Finance  
18 July 2016**

**APPENDICES:**

- Appendix 1 – Budgetary Outlook 2017-18 to 2019-20 Best Case Scenario  
Appendix 2 – Budgetary Outlook 2017-18 to 2019-20 Worst Case Scenario

## BEST CASE SCENARIO

P&amp;R - 18 AUGUST 2016

	2016-17	2017-18	2018-19	2019-20	Comments
	£000s	£000s	£000s	£000s	
<b>Income</b>					
Scottish Government Grant	196,162	191,454	184,753	179,210	Best Case Assumptions -2.4%/-3.5%/-3.0%
Council Tax	41,200	42,539	43,922	45,349	Assumes 0.25% growth per annum in the tax base plus 3% CT increase
Use Of Reserves	580				
<b>Projected Income Total</b>	<b>237,942</b>	<b>233,993</b>	<b>228,675</b>	<b>224,559</b>	
<b>Expenditure</b>					
Base Budget (Approved Budget 2016-17):	238,004	238,004	238,004	238,004	Adjusted for DHPs £54k announced end of Feb.
<b>Base Budget Adjustments:</b>					
Broadband Pathfinder (one-off set up costs in 2016-17)		-580	-580	-580	Decision as part of budget agreed February 2016
Unitary Charge Budget (one-off saving in 2016-17)		500	500	500	Decision as part of budget agreed February 2016
Loan Charges		-1,000	-2,000	-3,000	Updated loan charges profile
<b>Employee Costs:</b>					
Pay Award		1,000	2,000	3,000	Assume 1% per annum
Increments		350	700	1,050	Estimate of £350k per annum
Estimation of Auto enrolment in LGPS		840	840	840	Extra employer contributions arising from auto enrolment - assumes only 60% of staff auto enrolled in the scheme will remain in the scheme.
Living Wage		200	400	600	Estimated cost
Non-Pay Inflation		750	1,500	2,250	Assumed £750k per annum.
<b>Cost and Demand Pressures:</b>					
Previously Agreed Cost and Demand Pressures		-35	0	100	Adjustments to cost pressures previously agreed by Council
New Cost Pressure - Apprenticeship Levy		0	0	0	Assume Local Government will be exempt
New Cost Pressure - NDR Revaluation		50	50	50	Estimate Best Case
New Cost Pressure Payment Card Industry Compliance		34	35	36	Estimate including inflationary element each year
SW - Adult Care Growth		600	1,200	1,800	Assumes 3% Growth
SW - Younger Adults		300	600	900	Assumes 3% Growth
SW - Living Wage		0	0	0	Assumes Scottish Government fund the full year effect of Living Wage
SW - Carers Act		0	400	400	One-off demand pressure as a result of new duties commencing 1 April 2018
SW - Continuing Care		0	0	0	Assumes fully funded by Scottish Government
New Schools Revenue Impact (previously included in budgetary outlook) - Unitary Charge and NDR		651	680	709	Estimates of unitary charge and NDR in previous budgetary outlook
New Schools Unitary Charges as a result of ESA10 and profiling of payments		-1,043	134	454	Based on Scottish Government Schedule
New Schools - Saving in NDR previously estimated		-267	0	0	Saving due to schools not been occupied until February 2018
<b>Changes to Income:</b>					
Fees and Charges		-360	-720	-1,080	General 3% Increase Year on Year
Investment in Hub Co - estimated return				-50	Estimated Interest for 25 years from 2019-20
<b>Savings agreed February 2016:</b>					
Management/Operational Savings adjustment to Profile		101	30	30	Adjustments to profile of management/operational savings
Service Choices savings		-3,022	-4,536	-4,536	As agreed as part of Budget February 2016
Service Choices - assumed delay implementing Leisure Trust		350	0	0	Assume no delay
<b>Other Savings Assumptions:</b>					
Transformation Savings					Too early to estimate
Asset Investment Fund					Too early to estimate
<b>Projected Expenditure Total</b>	<b>238,004</b>	<b>237,423</b>	<b>239,237</b>	<b>241,477</b>	
<b>Projected Funding Surplus/(Gap)</b>	<b>-62</b>	<b>-3,430</b>	<b>-10,562</b>	<b>-16,918</b>	
<b>Year on Year Funding Gap</b>	<b>-62</b>	<b>-3,430</b>	<b>-7,132</b>	<b>-6,356</b>	There is a funding gap in the current year as the funding has been adjusted by -£68k to reflect the error in respect of the floor.

## WORST CASE SCENARIO

P&amp;R - 18 AUGUST 2016

	2016-17	2017-18	2018-19	2019-20	Comments
	£000s	£000s	£000s	£000s	
<b>Income</b>					
Scottish Government Grant	196,162	189,492	180,207	172,278	Worst Case Assumptions -3.4%/-4.9%/-4.4%
Council Tax	41,200	42,539	43,922	45,349	Assumes 0.25% growth per annum in the tax base plus 3% CT increase
Use Of Reserves	580				
<b>Projected Income Total</b>	<b>237,942</b>	<b>232,031</b>	<b>224,129</b>	<b>217,627</b>	
<b>Expenditure</b>					
Base Budget (Approved Budget 2016-17):	238,004	238,004	238,004	238,004	Adjusted for DHPs £54k announced end of Feb.
<b>Base Budget Adjustments:</b>					
Broadband Pathfinder (one-off set up costs in 2016-17)		-580	-580	-580	Decision as part of budget agreed February 2016
Unitary Charge Budget (one-off saving in 2016-17)		500	500	500	Decision as part of budget agreed February 2016
Loan Charges		-1,000	-2,000	-3,000	Updated loan charges profile
<b>Employee Costs:</b>					
Pay Award		1,500	3,000	4,500	Assume 1.5% per annum
Increments		700	1,400	2,100	Estimate of £700k per annum
Estimation of Auto enrolment in LGPS		1,400	1,400	1,400	Extra employer contributions arising from auto enrolment - assumes 100% of staff auto enrolled in the scheme will remain in the scheme.
Living Wage		200	400	600	Estimated cost
Non-Pay Inflation		1,000	2,000	3,000	Assumed £1mk per annum.
<b>Cost and Demand Pressures:</b>					
Previously Agreed Cost and Demand Pressures		-35	0	100	Adjustments to cost pressures previously agreed by Council
New Cost Pressure - Apprenticeship Levy		679	679	679	Based on 0.5% of direct pay costs
New Cost Pressure - NDR Revaluation		175	175	175	Estimate based on last revaluation
New Cost Pressure Payment Card Industry Compliance		34	35	36	Estimate including inflationary element each year
SW - Adult Care Growth		1,200	2,400	3,600	Assumes 6% Growth
SW - Younger Adults		300	600	900	Assumes 3% Growth
SW - Living Wage		1,300	1,300	1,300	Full year effect of Living Wage - not funded by SG
SW - Carers Act		0	400	400	One-off demand pressure as a result of new duties commencing 1 April 2018
SW - Continuing Care		500	1,235	1,556	Cost pressure as a result of new duties
New Schools Revenue Impact (previously included in budgetary outlook) - Unitary Charge and NDR		651	680	709	Estimates of unitary charge and NDR in previous budgetary outlook
New Schools Unitary Charges as a result of ESA10 and profiling of payments		-1,043	134	454	Based on Scottish Government Schedule
New Schools - Saving in NDR previously estimated		-267	0	0	Saving due to schools not been occupied until February 2018
<b>Changes to Income:</b>					
Fees and Charges		-120	-240	-360	General 3% Increase Year on Year
Investment in Hub Co - estimated return				-50	Estimated Interest for 25 years from 2019-20
<b>Savings agreed February 2016:</b>					
Management/Operational Savings adjustment to Profile		101	30	30	Adjustments to profile of management/operational savings
Service Choices savings		-3,022	-4,536	-4,536	As agreed as part of Budget February 2016
Service Choices - assumed delay implementing Leisure Trust		350	0	0	Assumed 6 month delay
<b>Other Savings Assumptions:</b>					
Transformation Savings					Too early to estimate
Asset Investment Fund					Too early to estimate
<b>Projected Expenditure Total</b>	<b>238,004</b>	<b>242,527</b>	<b>247,016</b>	<b>251,517</b>	
<b>Projected Funding Surplus/(Gap)</b>	<b>-62</b>	<b>-10,496</b>	<b>-22,887</b>	<b>-33,890</b>	
<b>Year on Year Funding Gap</b>	<b>-62</b>	<b>-10,496</b>	<b>-12,391</b>	<b>-11,003</b>	There is a funding gap in the current year as the funding has been adjusted by -£68k to reflect the error in respect of the floor.