

BUDGET OUTLOOK 2019-20 TO 2021-22

1. EXECUTIVE SUMMARY

- 1.1 This report summarises the budget outlook covering the period 2019-20 to 2021-22 taking into consideration the budget decisions taken in February 2018. This is the first outlook of the financial year and is mainly a roll forward of assumptions used as part of the budget process. The assumptions will be updated and refined as the year progresses.
- 1.2 The estimates within the report are based on the mid-range scenario with best and worst case scenarios noted in Appendix 1.
- 1.3 It is very difficult to estimate the future Scottish Government funding levels with any degree of accuracy. It would appear, due to the more favourable settlement for 2018-19 that there has been more recognition of the challenges facing Local Government and it is hoped that future settlements will not be reduced as much as the cut in 2016-17 and 2017-18. I consider a prudent estimate to be in the range of 1.5% (best case) and 3.2% (worst case) with a mid-range of 2.35%.
- 1.4 The Council tax base has been assumed to grow by between 0.25% and 0.75%, with a mid-range of 0.50%. In terms of an increase to Council Tax, I have assumed that the Council would wish to increase the Council Tax by 3% in both the mid-range and best case scenarios. I have assumed no increase in the worst case scenario. This is a matter for Council to decide. In terms of presentation within the report, I have shown the Council Tax increase after the initial budget gap and factored the increase into one of the measures to balance the budget.
- 1.5 The approved budget for 2018-19 has been used as the base budget with the following changes:
- Remove budget allocation of £0.260m in support of the One Council approach to property. The amount allocated in 2018-19 was for 2018-19 and 2019-20.
 - Add back one-off project savings of £0.249m.
 - Reduce the funding to Argyll and the Isles Tourism Co-operative by £0.010m in 2019-20 as previously agreed and in the best case scenario it has been assumed that the funding will cease beyond 2019-20 and in the worst case and mid-range scenarios it has been assumed that the funding will continue at the 2019-20 level.
- 1.6 The assumptions in respect of employee costs for Council services are as follows:

- Pay award of between 1.5% and 2.5%, with mid-range at 2%.
 - Increments between zero and £0.664m with mid-range £0.332m.
- 1.7 For non-pay inflation, only unavoidable/inescapable inflation has been built in for the best case and mid-range scenarios, with an additional 1% general inflation built into the worst case scenario.
- 1.8 There are a number of cost and demand pressures for Council services built into each scenario:
- Universal Credit – HB Admin grant
 - New Schools Unitary Charges
 - Asbestos Management Plan
 - Carbon Reduction Scheme
 - Renewal of School and Public Transport Contracts Mid Argyll
 - Local Plan Enquiry
 - Waste PP Financial Model
 - Undeliverable saving as part of longer term Catering and Cleaning redesign in respect of the distribution hub.
- 1.9 In addition to the identified cost and demand pressures an allowance for unidentified cost and demand pressures has been included in mid-range and worst case scenarios of between £0.250m and £0.500m per year.
- 1.10 There is a political decision to be made as to the future allocation to the Health and Social Care Partnership. As part of the budget agreed in February 2018 indicative allocations equal to the 2018-19 allocation were agreed for 2019-20 and 2020-21. This flat cash basis has been reflected within the mid-range scenario. In order to demonstrate different scenario options, I have assumed a reduction to the Health and Social Care Partnership equal to the Scottish Government estimated funding reduction for the best case scenario and for the worst case scenario, assumed a year on year increase equal to the increased funding in 2018-19 (£0.844m). These are only assumptions and there also needs to be recognition that Social Work services cost pressures are proportionately higher than other Council Services due to more older people and those with greater complex needs.
- 1.11 A report on the Leisure and Libraries Trust Financial Agreement was presented to the Policy and Resources Committee on 17 August 2017. The Committee agreed the management fee for three full financial years to 2020-21. The increase between 2018-19 and 2019-20 is £0.093m and a further increase of £0.096m in 2020-21. This represents a 2.6% increase year on year and this has been assumed for 2021-22. The increases are the same across all three scenarios.
- 1.12 The budget gap in the mid-range scenario after allowing for the current base commitments, employee adjustment, non-pay inflation and cost and demand pressures and not factoring in any previous savings decisions or future potential options is an estimated gap over the three year period of £22.561m with a gap of £6.570m in 2019-20.

- 1.13 The measures to balance the budget over the next three years are as follows:
- Loans charges profiling reduction offset by borrowing charges to fund the additional £2.8m allocation for roads capital works in 2019-20.
 - Proposed increase to fees and charges of between 1% and 5% (3% mid-range).
 - Service choices savings in respect of longer term redesign of catering and cleaning service agreed in February 2016 to be delivered by 2021-22.
 - Management/Operational savings already agreed in October 2017.
 - Policy Savings already agreed February 2018.
 - Proposed increase to Council Tax (3% in mid-range and best case scenario, no increase in worst case scenario).
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- 1.14 In the mid-range scenario, the budget gap estimated, after measures to balance the budget, over the three year period 2019-20 to 2021-22 is £13.188m with a gap of £2.506m in 2019-20.
- 1.15 In contrast, the budget gap in the best case scenario over the three years is £1.193m with a surplus of £1.488m in 2019-20 and in the worst case scenario, the budget gap over the three years is £31.290m with a gap of £8.487m in 2019-20.
- 1.16 The Transformation Board have been exploring opportunities to protect/mitigate against future budget gaps and proposals will be brought forward in due course.
- 1.17 It is recommended that the Policy and Resources Committee consider the current estimated budget outlook position for the period 2019-20 to 2021-22.

BUDGET OUTLOOK 2019-20 TO 2021-22

2. INTRODUCTION

- 2.1 This report summarises the budget outlook covering the period 2019-20 to 2021-22 taking into consideration the budget decisions taken in February 2018. This is the first outlook of the financial year and is mainly a roll forward of assumptions used as part of the budget process. The assumptions will be updated and refined as the year progresses.
- 2.2 The budget outlook has been prepared using three different scenarios, best case, worst case and mid-range. Relatively small variations in assumptions can lead to fairly significant changes in the outcome. In the paragraphs that follow, the mid-range outlook is shown, however, all three scenarios are detailed within Appendix 1.

3. RECOMMENDATIONS

- 3.1 It is recommended that the Policy and Resources Committee consider the current estimated budget outlook position for the period 2019-20 to 2021-22.

4. DETAIL**4.1 Funding****Scottish Government Finance Settlement**

- 4.1.1 The Local Government finance settlements continue to be for one year only and this does not provide any certainty for future years. The last two years have also seen additional funding distributed at the last stage of the budget process which whilst welcome, does undermine estimated planning assumptions and makes it difficult to plan given uncertainty over whether similar announcements will be repeated in future settlements.
- 4.1.2 For 2018-19 an additional £159.5m Scotland wide (our share £2.884m) was added to the provisional settlement, paid in two tranches, the first tranche of £0.624m in 2017-18 and the second tranche of £2.260m in 2018-19. It has not been confirmed whether all, or part, of this funding will be baselined. For the budget outlook, I have assumed that the 2018-19 element will be baselined.
- 4.1.3 In considering the level of future years funding, I have looked back across the three previous years.
- 2016-17 funding reduction of 4%
 - 2017-18 funding reduction of 4.4% before additional monies and

reduction of 3.2% after additional monies

- 2018-19 funding reduction of 2.6% before additional monies and reduction of 1.5% after additional monies and also taking into consideration settlement commitments.

4.1.4 There are also other factors to consider in terms of future years funding as follows:

- The distribution of the supporting people grant is to be reviewed during 2018-19 which has the potential to negatively affect the Council by up to £1.5m (a reduction of around 0.8% of current funding)
- The review of the floor mechanism (which protects Councils from the scale of funding reduction in any one year) was delayed last year but is to be reviewed this year and this could have implications for us as we are currently one of the authorities that benefits from the floor allocation. At this stage it is difficult to estimate any impact.
- The additional funding announced on 31 January 2018 and paid in 2017-18 has not been assumed to be part of the baseline going forward. Our share of the funding paid in 2017-18 was £0.624m and Scottish Government could take a decision that the total quantum of additional monies is baselined (an increase of around 0.3% of current funding).

4.1.5 As can be seen from the varying funding reductions over the last three years and also the other factors, it is very difficult to estimate the future funding levels with any degree of accuracy. There are no estimates by the Scottish Government that suggest potential scenarios. It would appear, due to the more favourable settlement for 2018-19 that there has been more recognition of the challenges facing Local Government and it is hoped that future settlements will not be reduced as much as the cut in 2016-17 and 2017-18. I consider a prudent estimate to be in the range of 1.5% (best case) and 3.2% (worst case) with a mid-range of 2.35%. I will keep this position under review and will revise as further intelligence becomes available.

4.1.6 The table below summarises the mid-range scenario estimates expressed in percentage terms and monetary value.

| | 2019-20 £000 | 2020-21 £000 | 2021-22 £000 |
|--------------------------------|-------------------------|-------------------------|-------------------------|
| % Change to Funding | -2.35% | -2.35% | -2.35% |
| Estimated SG Funding Reduction | (4,489) | (4,384) | (4,281) |
| Estimated SG Funding | 186,548 | 182,164 | 177,883 |

Council Tax

4.1.7 The Council Tax budget for 2018-19 was set at £47.674m. This included a 3% increase and 0.5% growth in the Council Tax base.

4.1.8 In terms of future growth in the Council tax base it has been assumed that for the best case scenario this would be 0.75%, worst case 0.25% and mid-range 0.5%.

4.1.9 Councils now have discretion to increase Council Tax by a maximum of 3% each year. Within this report, I will present the budget gap, prior to any decisions and therefore at this stage in the report, the Council tax base is assumed to remain at the same level as 2018-19. Different scenarios are outlined in paragraph 4.9.5 and feed into the final estimated budget surplus/(gap) in paragraph 4.10.1.

4.1.10 The table below summarises the estimated total funding in the mid-range scenario.

| | 2019-20 £000 | 2020-21 £000 | 2021-22 £000 |
|--------------------------------|-------------------------|-------------------------|-------------------------|
| Estimated SG Funding | 186,548 | 182,164 | 177,883 |
| Council Tax Base | 47,674 | 47,674 | 47,674 |
| Council Tax Growth | 238 | 485 | 740 |
| Total Estimated Funding | 234,460 | 230,323 | 226,297 |

4.2 Base Budget

4.2.1 The 2018-19 budget approved by Council on 22 February 2018 was £236.303m.

4.2.2 There are two one-off items agreed as part of the 2018-19 budget that need to be adjusted for as follows:

| | £000 |
|--|-------------|
| Remove budget allocation of £0.260m in support of the One Council approach to property. The amount allocated in 2018-19 was for 2018-19 and 2019-20. | (260) |
| Add back one-off project savings | 249 |
| Reduction to revenue baseline budget | (11) |

4.2.3 The other adjustment to the base budget is noted as follows:

At the Council meeting in February 2017, Council agreed to continue to fund the Argyll and the Isles Tourism Co-operative (AITC) for a further three years, £0.050m in 2017-18, reducing to £0.040m in 2018-19 and reducing to £0.030m in 2019-20. In the best case scenario it has been assumed that the funding will cease beyond 2019-20 and in the worst case and mid-range scenarios it has been assumed that the funding will continue at the 2019-20 level.

4.2.4 The table below summarises the base budget in the mid-range scenario.

| | 2019-20 £000 | 2020-21 £000 | 2021-22 £000 |
|----------------------------|-------------------------|-------------------------|-------------------------|
| Base Budget 2018-19 | 236,303 | 236,303 | 236,303 |
| One-off adjustments | (11) | (11) | (11) |
| AITC | (10) | (10) | (10) |
| Revised Base Budget | 236,282 | 236,282 | 236,282 |

4.3 Employee Cost Changes

Pay Award

- 4.3.1 Negotiations have commenced for 2018-19 but are not concluded. The SJC Joint Trade Union claim is for a £1,500 flat rate increase to all spinal column points or 6.5% whichever is the greater. The EIS teaching union is calling for a 10% pay rise in 2018, saying it would serve as a "first step" to restoring teachers' wages to an "acceptable level". As part of the 2018 Scottish Budget there was a commitment that public sector workers earning less than £36,500 can expect a 3% pay rise next year, public sector workers earning more than £36,500 would receive a 2% pay rise and those above £80,000 will be capped at a £1,600 rise. Although this announcement does not directly apply to local government employees, it is expected that any Trade Union negotiations would be no lower than this scenario and as a result the budget for 2018-19 was based on the public sector pay commitment. COSLA has made this the basis of what is described as a "best and final pay offer" to the Trade Unions.
- 4.3.2 In terms of future years pay awards an assumption of between 1.5% (best case) and 2.5% (worst case) with the mid-range being 2% has been built into the estimates. Whilst it is expected that the Trade Unions will look to negotiate "restorative" pay awards, anything above these planning assumptions would be considered to be unaffordable for Local Authorities unless there is additional funding from Scottish Government.

Increments

- 4.3.3 The cost of employee increments over the last two years has been £0.654m in 2017-18 and £0.664m in 2018-19.
- 4.3.4 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. This is shown in adjustments to the employee base budget.
- 4.3.5 In terms of the budget outlook it has been assumed that for the best case scenario the cost of increments will be absorbed within any base adjustment, for the worst case, the cost of increments will be the same as 2018-19 and the mid-range is between the two.
- 4.3.6 The table below summarises the employee cost increases in the mid-range scenario for Council services. The employee cost increases relating to the Health and Social Care Partnership are summarised within paragraph 4.6.3.

| | 2019-20 £000 | 2020-21 £000 | 2021-22 £000 |
|------------------------------------|-----------------|-----------------|-----------------|
| Pay Award | 2,245 | 4,455 | 6,710 |
| Increments | 332 | 664 | 996 |
| Total Employee Cost Changes | 2,577 | 5,119 | 7,706 |

4.4 Non-Pay Inflation

4.4.1 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.

4.4.2 In terms of the budget outlook, only unavoidable/inescapable non-pay inflation has been built into the best case and mid-range scenarios and this is based on the non-pay inflation estimate for 2018-19. Within the worst case scenario, an additional 1% general inflation has also been included. The non-pay inflation estimates will be reviewed during 2018-19 and updated throughout the year.

4.4.3 The table below summarises the non-pay inflation increases in the mid-range scenario for Council services. The non-pay inflation increases relating to the Health and Social Care Partnership are summarised within paragraph 4.6.3.

| | 2019-20 £000 | 2020-21 £000 | 2021-22 £000 |
|--------------------------------|-------------------------------|-------------------------------|-------------------------------|
| Unavoidable/Inescapable | 967 | 1,934 | 2,901 |
| General Inflation (worst case) | 0 | 0 | 0 |
| Total Non-Pay Inflation | 967 | 1,934 | 2,901 |

4.5 Cost and Demand Pressures

4.5.1 Over the last few years, services have worked on the basis of having to contain any cost and demand pressures within current resources, however, there are a number of cost and demand pressures already identified for Council services (and reported as part of the budget in February 2018) and these are noted in the table below with further detail included within Appendix 2. These cost pressures will be subject to review during the financial year and in particular the Waste PPP Financial model as at this stage there is only a cost pressure built in to 2019-20 and it may be that there are increases to this pressure in future years.

4.5.2

| | 2019-20 £000 | 2020-21 £000 | 2021-22 £000 |
|---|-------------------------------|-------------------------------|-------------------------------|
| Universal Credit – HB Admin Grant | 50 | 100 | 150 |
| New Schools Unitary Charge | 349 | 349 | 349 |
| Asbestos Management Plan | 0 | 40 | 40 |
| Carbon Reduction Scheme | 13 | 13 | 13 |
| Renewal of School and Public Transport Contracts Mid Argyll | 5 | 5 | 5 |
| Local Plan Enquiry | 90 | 0 | 0 |
| Waste PPP Financial Model | 306 | 306 | 306 |
| Total | 813 | 813 | 863 |

4.5.3 The Council agreed to a number of Service Choices savings at the budget

meeting in February 2016. Most of the savings options were to be delivered by 2018-19 with the exception of the longer term redesign for catering and cleaning. The service engaged the services of FMS Consultancy, who are experienced consultants in this field who assisted with a thorough review of the catering and cleaning service and a number of savings workstreams were identified. It was expected that savings for Phase 1 circa £0.331m could be achieved by March 2018-19 and a further £0.446m of savings for Phase 2 to be achieved by 2021-22. Included in the savings for 2018-19 was £0.048m for the development of the catering distribution hub. This project is on hold indefinitely and will only be delivered should other external funding be available to enable it. A cost pressure has been build into all three scenarios for this undeliverable saving.

4.5.4 When creating a budget outlook beyond one year, there is a risk that new cost and demand pressures will emerge that have not been included within the outlook. It is suggested that no allowance is included within the best case scenario, £0.500m general allowance is included within the worst case and a £0.250m allowance included within the mid-range scenario each year.

4.5.5 The table below summarises the cost and demand pressures in the mid-range scenario for Council services. The cost and demand pressures relating to the Health and Social Care Partnership are summarised within paragraph 4.6.3.

| | 2019-20 £000 | 2020-21 £000 | 2021-22 £000 |
|---|-------------------------|-------------------------|-------------------------|
| Previously Identified Cost and Demand Pressures | 813 | 813 | 863 |
| Catering and Cleaning Distribution Hub | 48 | 48 | 48 |
| General Allowance | 250 | 500 | 750 |
| Total Cost and Demand Pressures | 1,111 | 1,361 | 1,661 |

4.6 Health and Social Care Partnership

4.6.1 The budget agreed on 22 February 2018, approved indicative allocations for the Health and Social Care partnership at the same level agreed for 2018-19 subject to the level of Scottish Government funding and the Council's overall financial position in future years.

4.6.2 There is a political decision to be made as to the future allocation to the Health and Social Care Partnership. As part of the budget agreed in February 2018 indicative allocations equal to the 2018-19 allocation were agreed for 2019-20 and 2020-21. This flat cash basis has been reflected within the mid-range scenario. In order to demonstrate different scenario options, I have assumed a reduction to the Health and Social Care Partnership equal to the Scottish Government estimated funding reduction for the best case scenario and for the worst case scenario, assumed a year on year increase equal to the increased funding in 2018-19 (£0.844m). These are only assumptions and there also needs to be recognition that Social Work services cost pressures are

proportionately higher than other Council Services due to more older people and those with greater complex needs.

- 4.6.3 Social Work services have already identified a number of cost pressures and these are summarised below and included within Appendix 3 for information purposes.

| | 2019-20 £000 | 2020-21 £000 | 2021-22 £000 |
|--|-------------------------|-------------------------|-------------------------|
| Pay Inflation | 542 | 1,095 | 1,659 |
| Pay Increments | 44 | 87 | 131 |
| Non-Pay Inflation | 1,000 | 2,000 | 3,000 |
| Care Services for Older People (Growth) | 736 | 1,494 | 2,275 |
| Younger Adults Growth | 321 | 652 | 993 |
| Sleepovers | 182 | 188 | 195 |
| National Care Home Contract | 234 | 475 | 723 |
| Carer's Act | 350 | 700 | 1,050 |
| Total Cost Increase estimates for Social Work | 3,409 | 6,691 | 10,026 |

4.7 Live Argyll

- 4.7.1 A report on the Leisure and Libraries Trust Financial Agreement was presented to the Policy and Resources Committee on 17 August 2017. The Committee agreed the management fee for three full financial years to 2020-21. The increase between 2018-19 and 2019-20 is £0.093m and a further increase of £0.096m in 2020-21. This represents a 2.6% increase year on year and this has been assumed for 2021-22. The increases are the same across all three scenarios.

4.8 Estimated Budget Gap PRIOR to Measures to Balance the Budget

- 4.8.1 The budget gap in the mid-range scenario after allowing for the current base commitments, employee adjustment, non-pay inflation and cost and demand pressures is summarised in the table below. This is the budget gap prior to factoring in any previous savings decisions or potential options towards balancing the budget.

| | 2019-20 £000 | 2020-21 £000 | 2021-22 £000 |
|--|-------------------------|-------------------------|-------------------------|
| Base Budget | 236,282 | 236,282 | 236,282 |
| Employee Cost Changes | 2,577 | 5,119 | 7,706 |
| Non-Pay Inflation | 967 | 1,934 | 2,901 |
| Cost and Demand Pressures | 1,111 | 1,361 | 1,661 |
| Increase/(Decrease) to HSCP allocation | 0 | 0 | 0 |
| Increase/(Decrease) to Live Argyll payment | 93 | 189 | 287 |

| | | | |
|--|----------------|-----------------|-----------------|
| Total Estimate Expenditure | 241,030 | 244,885 | 248,837 |
| Estimated Funding | 234,460 | 230,316 | 226,276 |
| Estimates Budget Surplus / (Gap) Cumulative | (6,570) | (14,569) | (22,561) |

4.9 Measures to Balance the Budget

- 4.9.1 As reported in previous years, the loans charges profile was being reduced by £1.000m each year, with the final reduction in 2019-20. This reduction is offset by the cost of borrowing to fund the additional £2.8m allocation for roads capital works in 2019-20 as agreed at the Council meeting in February 2018. Loans charges of £0.100m are required in 2019-20 rising to a recurring £0.200m in 2020-21.
- 4.9.2 In previous years, a general inflationary increase of 3% has been applied to fees and charges. For the budget outlook it has been assumed a similar increase within the mid-range scenario, a small 1% increase in the worst case scenario and a 5% increase in the best case scenario.
- 4.9.3 As outlined in paragraph 4.5.3, the longer term redesign of catering and cleaning services was expected to achieve a further £0.446m of savings by 2021-22. One of the workstreams was in connection with shared services and this workstream is not progressing as quickly as anticipated and as the Argyll and Bute HSCP is already working to deliver significant savings from its catering service, there is a clear risk that the saving for this workstream of £0.274m will not be deliverable or will not deliver by 2021-22. For the budget outlook, I have assumed full delivery of the £0.446m savings in the best case scenario and £0.172m of savings in mid-range and worst case scenario by year 2021-22.
- 4.9.4 As part of the work of the Transformation Board, further management/operational savings were identified for 2018-19 to 2020-21 and reported to the Council meeting on 26 October 2017, these will be implemented as part of normal business.
- 4.9.5 A number of policy options for 2018-19 to 2020-21 were agreed at the Council meeting on 22 February 2018. These are now factored into the budget outlook, reducing the budget gap.
- 4.9.6 Councils now have discretion to increase Council Tax by a maximum of 3% each year. In light of the estimated reduction in the Scottish Government funding together with cost increases in respect of pay, inflation and other pressures, it is assumed that the Council would wish to increase the Council Tax by 3%, however, this is a matter for Council to decide. In terms of the budget outlook, I have assumed no increase in the worst case scenario and a 3% increase in both the mid-range and best case scenarios.
- 4.9.7 The table below summarises the proposed measures to balance the budget in the mid-range scenario.

| | 2019-20 £000 | 2020-21 £000 | 2021-22 £000 |
|--|-------------------------------|-------------------------------|-------------------------------|
| Loans Charges profiling | 900 | 800 | 800 |
| Fees and Charges Increase | 277 | 554 | 831 |
| Catering and Cleaning Service Choices | 0 | 0 | 172 |
| Management/Operational Savings Agreed October 2017 | 299 | 625 | 625 |
| Policy Savings Agreed February 2018 | 1,151 | 2,437 | 2,437 |
| Council Tax Increase at 3% | 1,437 | 2,939 | 4,508 |
| Total Savings already agreed | 4,064 | 7,355 | 9,373 |

4.10 Estimated Budget Gap AFTER Measures to Balance the Budget

4.10.1 The table below summarises the estimated budget gap in the mid-range scenario.

| | 2019-20 £000 | 2020-21 £000 | 2021-22 £000 |
|--|-------------------------------|-------------------------------|-------------------------------|
| Estimated Budget Gap Prior to Measures to Balance Budget | (6,570) | (14,569) | (22,561) |
| Savings Measures | 4,064 | 7,355 | 9,373 |
| Estimated Budget Surplus / (Gap) Cumulative | (2,506) | (7,214) | (13,188) |
| Estimated Budget Surplus / (Gap) In Year | (2,506) | (4,708) | (5,974) |

4.10.2 In the mid-range scenario, the budget gap estimated over the three year period 2019-20 to 2021-22 is £13.188m with a gap of £2.506m in 2019-20.

4.10.3 In contrast, the budget gap in the best case scenario over the three years is £1.193m with a surplus of £1.488m in 2019-20 and in the worst case scenario, the budget gap over the three years is £31.290m with a gap of £8.487m in 2019-20.

5. CONCLUSION

5.1 In the mid-range scenario, the budget gap estimated over the three year period 2019-20 to 2021-22 is £13.188m with a gap of £2.506m in 2019-20. The Transformation Board have been exploring opportunities to protect/mitigate against future budget gaps and proposals will be brought forward in due course.

6. IMPLICATIONS

- 6.1 Policy - Sets out the budget outlook that provides the financial envelope for policy decisions.
- 6.2 Financial - Sets best, worst and mid-range scenarios in respect of the budget outlook. The medium to longer term financial

- strategy is being developed and the Council are actively continuing to pursue opportunities to mitigate against future budget gaps.
- 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 estimated budget gap will need to consider equalities.
 - 6.6 Risk - None directly from this report but any proposals to address the estimated budget gap will need to consider risk.
 - 6.7 Customer Service - None directly from this report but any proposals to address the estimated budget gap will need to consider customer service.

Kirsty Flanagan
Head of Strategic Finance
30 April 2018

**Policy Lead for Strategic Finance and Capital Regeneration Projects -
Councillor Gary Mulvaney**

APPENDICES:

- Appendix 1 – Budget Outlook, Best, Worst and Mid-Range Scenarios
- Appendix 2 – Cost and Demand Pressures (Council Services)
- Appendix 3 – Cost and Demand Pressures (Social Work)

BUDGET OUTLOOK 2019-20 TO 2021-22
POLICY AND RESOURCES COMMITTEE - 24 MAY 2018

APPENDIX 1

| | Best Case Scenario | | | Mid-Range Scenario | | | Worst Case Scenario | | |
|---|--------------------|----------------|-----------------|--------------------|-----------------|-----------------|---------------------|-----------------|-----------------|
| | 2019-20 | 2020-21 | 2021-22 | 2019-20 | 2020-21 | 2021-22 | 2019-20 | 2020-21 | 2021-22 |
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| Base Budget | 236,303 | 236,303 | 236,303 | 236,303 | 236,303 | 236,303 | 236,303 | 236,303 | 236,303 |
| Base Budget Adjustments | (21) | (51) | (51) | (21) | (21) | (21) | (21) | (21) | (21) |
| Revised Base Budget | 236,282 | 236,252 | 236,252 | 236,282 | 236,282 | 236,282 | 236,282 | 236,282 | 236,282 |
| Pay Award | 1,624 | 3,272 | 4,945 | 2,245 | 4,455 | 6,710 | 2,707 | 5,481 | 8,325 |
| Pay Increments | 0 | 0 | 0 | 332 | 664 | 996 | 664 | 1,328 | 1,992 |
| Total Employee Cost Changes (Council Services) | 1,624 | 3,272 | 4,945 | 2,577 | 5,119 | 7,706 | 3,371 | 6,809 | 10,317 |
| Non-Pay Inflation - Council Services | 967 | 1,934 | 2,901 | 967 | 1,934 | 2,901 | 1,683 | 3,366 | 5,049 |
| Universal Credit - HB Admin Grant | 50 | 100 | 150 | 50 | 100 | 150 | 50 | 100 | 150 |
| New Schools Unitary Charges | 349 | 349 | 349 | 349 | 349 | 349 | 349 | 349 | 349 |
| Asbestos Management Plan | 0 | 20 | 20 | 0 | 40 | 40 | 0 | 60 | 60 |
| Carbon Reduction Scheme | 0 | 0 | 0 | 13 | 13 | 13 | 25 | 25 | 25 |
| Renewal of School and Public Transport Contracts Mid Argyll | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 | 5 |
| Local Plan Enquiry | 90 | 0 | 0 | 90 | 0 | 0 | 90 | 0 | 0 |
| Waste PPP Financial Model | 306 | 306 | 306 | 306 | 306 | 306 | 306 | 306 | 306 |
| Catering Hub (Catering and Cleaning Service Choices) - undeliverable Saving | 48 | 48 | 48 | 48 | 48 | 48 | 48 | 48 | 48 |
| General Allowance for Unidentified Cost and Demand Pressures | 0 | 0 | 0 | 250 | 500 | 750 | 500 | 1,000 | 1,500 |
| Total Cost and Demand Pressures | 848 | 828 | 878 | 1,111 | 1,361 | 1,661 | 1,373 | 1,893 | 2,443 |
| Adjustment to Health and Social Care Partnership Payment | (846) | (1,679) | (2,500) | 0 | 0 | 0 | 844 | 1,688 | 2,532 |
| Adjustment to Live Argyll Management Fee | 93 | 189 | 287 | 93 | 189 | 287 | 93 | 189 | 287 |
| Total Estimated Expenditure PRIOR to measures to balance the budget | 238,968 | 240,796 | 242,763 | 241,030 | 244,885 | 248,837 | 243,646 | 250,227 | 256,910 |
| Scottish Government Grant | 188,171 | 185,348 | 182,568 | 186,548 | 182,164 | 177,883 | 184,924 | 179,006 | 173,278 |
| Council Tax | 48,032 | 48,392 | 48,755 | 47,912 | 48,152 | 48,393 | 47,793 | 47,912 | 48,032 |
| Total Funding | 236,203 | 233,740 | 231,323 | 234,460 | 230,316 | 226,276 | 232,717 | 226,918 | 221,310 |
| Budget Surplus / (Gap) PRIOR to measures to balance the budget | (2,765) | (7,056) | (11,440) | (6,570) | (14,569) | (22,561) | (10,929) | (23,309) | (35,600) |
| Measures to Balance the Budget: | | | | | | | | | |
| Loans Charges Profile Adjustment and Savings | 900 | 800 | 800 | 900 | 800 | 800 | 900 | 800 | 800 |
| Fees and Charges | 462 | 924 | 1,386 | 277 | 554 | 831 | 92 | 184 | 276 |
| Catering and Cleaning Longer Term Redesign (Service Choices February 2016) | 0 | 0 | 446 | 0 | 0 | 172 | 0 | 0 | 172 |
| Management/Operational Savings Identified October 2017 | 299 | 625 | 625 | 299 | 625 | 625 | 299 | 625 | 625 |
| Policy Savings Options agreed February 2018 | 1,151 | 2,437 | 2,437 | 1,151 | 2,437 | 2,437 | 1,151 | 2,437 | 2,437 |
| Council Tax Increase | 1,441 | 2,958 | 4,553 | 1,437 | 2,939 | 4,508 | 0 | 0 | 0 |
| Total Measures to Balance the Budget | 4,253 | 7,744 | 10,247 | 4,064 | 7,355 | 9,373 | 2,442 | 4,046 | 4,310 |
| Budget Surplus / (Gap) Cumulative AFTER measures to balance the budget | 1,488 | 688 | (1,193) | (2,506) | (7,214) | (13,188) | (8,487) | (19,263) | (31,290) |
| Budget Surplus / (Gap) In Year AFTER measures to balance the budget | 1,488 | (800) | (1,881) | (2,506) | (4,708) | (5,974) | (8,487) | (10,776) | (12,027) |

COST AND DEMAND PRESSURES 2019-20 to 2021-22

APPENDIX 2

| Department | Service | Cost/Demand Pressure | Best Case | | | Mid Range Scenario | | | Worst Case | | |
|--------------------------------|----------------------------------|--|-----------------|-----------------|-----------------|--------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | | | 2019-20 £000 | 2020-21 £000 | 2021-22 £000 | 2019-20 £000 | 2020-21 £000 | 2021-22 £000 | 2019-20 £000 | 2020-21 £000 | 2021-22 £000 |
| Development and Infrastructure | Planning and Regulatory Services | Local Plan Enquiry. There is a requirement for the Council to have a local plan enquiry every 5 years as part of legislation - as this is a one-off cost every five years there is no resource included within the current budget. | 90 | 0 | 0 | 90 | 0 | 0 | 90 | 0 | 0 |
| Development and Infrastructure | Roads and Amenity | Waste Financial Model - This relates to the financial model that was developed, which forecast overall waste costs until 2039-40. The estimated cost pressure for 2019-20 is £306k. The landfill ban comes into place in January 2021 and it should be noted that this could lead to possible variations with the Shanks contract. A review of the waste model will be undertaken during 2018-19 and estimates updated as required. | 306 | 306 | 306 | 306 | 306 | 306 | 306 | 306 | 306 |
| Customer Services | Facility Services | The Council agreed to a number of Service Choices savings at the budget meeting in February 2016. One of the savings options was the longer term redesign of catering and cleaning and it was expected that savings for Phase 1 circa £0.331m could be achieved by March 2018-19 and a further £0.446m of savings for Phase 2 to be achieved by 2021-22. Included in the savings for 2018-19 was £0.048m for the development of the catering distribution hub. This project is on hold indefinitely and will only be delivered should other external funding be available to enable it. A cost pressure has been build into all three scenarios for this undeliverable saving. | 48 | 48 | 48 | 48 | 48 | 48 | 48 | 48 | 48 |
| Council Wide | Council Wide | General provision for unidentified Cost and Demand Pressures | 0 | 0 | 0 | 250 | 500 | 750 | 500 | 1,000 | 1,500 |
| TOTAL | | | 848 | 828 | 878 | 1,111 | 1,361 | 1,661 | 1,373 | 1,893 | 2,443 |

SOCIAL WORK COST AND DEMAND PRESSURES 2019-20 to 2021-22

APPENDIX 3

| Service | Cost/Demand Pressure | Cost/Demand Pressure | Best Case | | | Mid Range | | | Worst Case | | |
|-----------------|--|----------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| | | | 2019-20 £000 | 2020-21 £000 | 2021-22 £000 | 2019-20 £000 | 2020-21 £000 | 2021-22 £000 | 2019-20 £000 | 2020-21 £000 | 2021-22 £000 |
| All Social Work | Estimated Pay inflation, best case 1.5%, mid-range 2%, worst case 2.5% | Pay Inflation | 407 | 820 | 1,239 | 542 | 1,095 | 1,659 | 678 | 3,402 | 6,194 |
| All Social Work | Estimated Pay increments, best case absorbed in current staff changes, mid-range, half of 2018-19 cost and worst case same as 2018-19 cost | Pay Inflation | 0 | 0 | 0 | 44 | 87 | 131 | 87 | 174 | 261 |
| All Social Work | Non-pay inflation, best and worst case based on unavoidable/inescapable inflation and worst case, adds on a general 1% inflation | | 1,000 | 2,000 | 3,000 | 1,000 | 2,000 | 3,000 | 1,293 | 2,586 | 3,879 |
| Adult Care | The number of older people is increasing and older people are living longer with significant health and support needs and significant expectations of the support they are entitled to receive. Demand pressure estimates 3% growth in homecare and care home placements, this increase is supported by the growth in clients and care requirements over a number of years. The worst case scenario is based on a 6% increase. | Care Services for Older People | 736 | 1,494 | 2,275 | 736 | 1,494 | 2,275 | 1,472 | 3,032 | 4,686 |
| Adult Care | There has been continuing increase in demand for care and support services for profoundly disabled younger adults (ie under 65) whose parents have historically provided care but are no longer able to. The best case assumes new demand will be met from attrition or reductions in existing services, the mid-range reflects demand of 3% in line with 2018-19 and the worst case reflects demand of 4.5% being the average over 2013-14 to 2016-17. | Care Services for Younger Adults | 0 | 0 | 0 | 321 | 652 | 993 | 482 | 985 | 1,511 |
| Adult Services | Reflects the cost of bringing sleepovers for commissioned social care providers into line with the Scottish Living Wage by 2019-20. There may be some reduction in the best case scenario is the number of sleepovers can be reduced, this will be kept under review. | Sleepovers- Night Rates | 182 | 188 | 195 | 182 | 188 | 195 | 182 | 188 | 195 |
| Adult Services | National Care Home Contract: Contract rates are negotiated on an annual basis with representatives of the Scottish care home sector by Scotland Excel. The best case scenario figures provided are based on an annual increase of 2%, the mid range reflects an increase of 3% and the worst case 4%. | National Care Home Contracts | 156 | 331 | 494 | 234 | 475 | 723 | 312 | 636 | 974 |
| Adult Services | Carer's Act: Carers Act will commence on 1 April 2018. Funding allocated as part of the £66m social care funding, the cost pressure represents the share of funding in relation to the Carers Act and this funding will be the basis of the agreement of the eligibility criteria. There are concerns re the Scottish Government fully funding the commitment and implications of the Act and there is no funding allocation for replacement care, costs will be closely monitored during 2018-19. | Carer's Act | 350 | 700 | 1,050 | 350 | 700 | 1,050 | 350 | 700 | 1,050 |
| TOTAL | | | 2,831 | 5,533 | 8,253 | 3,409 | 6,691 | 10,026 | 4,856 | 11,703 | 18,750 |