

**BUDGET OUTLOOK 2019-20 TO 2021-22**

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**1. EXECUTIVE SUMMARY**

- 1.1 This report provides an update to the budget outlook 2019-20 to 2021-22, reported to Policy and Resources Committee on 17 May 2018.
- 1.2 At this stage, there are no changes to the financial assumptions used in the budget outlook reported to Committee in May, however, the Scottish Government published their Medium Term Financial Strategy on 31 May 2018 and there are two elements of the financial strategy that are worthy of comment in respect of our budget outlook.
- 1.3 As with our medium term outlook, Scottish Government are planning using three scenarios: an upper range, central scenario and lower range. The estimates of "Other Expenditure" within the Resource Budget are estimated to change between a 1.18% increase and an 11.55% decrease in funding between 2018-19 and 2020-21.
- 1.4 Our budget outlook assumes a year on year percentage reduction of between 1.5% and 3.2% (mid-range 2.35%). Over the three year period this represents a reduction of between 4.43% and 9.30% (mid-range 6.89%). (For information, the reduction over three years, doesn't equal the sum of the annual reductions as they are calculated on a reducing base.)
- 1.5 The Scottish Government strategy makes it quite clear that the funding figures are subject to change. This is an area that will be kept under close review and I will update the budget outlook if the funding position becomes clearer or more certain.
- 1.6 The other element of the financial strategy that is worthy of comment is in relation to public sector pay.
- 1.7 Decisions on future pay policy will be taken as part of the annual Scottish Budget process, with the next budget expected in December 2018. To illustrate costs of a progressive approach to pay for public sector workers, the Scottish Government have modelled three theoretical public sector pay award scenarios. The central scenario assumes a continuation of the 2018-19 pay policy (based on 3% up to £36,500, 2% up to £80,000 and £1,600 above £80,000) over the next four years. The upper scenario is based on a 4% increase and the lower scenario is based on a 2% increase.
- 1.8 The public sector pay commitment does not directly apply to Local Government, however, it is expected that Trade Unions would expect a package similar to any public sector pay award. The position that COSLA

takes is that any further increases to Local Government pay is unaffordable unless it is funded by Scottish Government.

- 1.9 The current outlook position assumes a pay award between 1.5% and 2.5% (mid-range 2%). In view of the continued uncertainty over future pay awards and the fact that we do not have an agreed position for 2018-19 that we could gauge future pay awards against, I have not changed the budget outlook. Like the Scottish Government funding, I will keep this assumption under close review and will update if I receive any other information that would suggest increasing the assumption.
- 1.10 For the Council overall position, 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.
- 1.11 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.
- 1.12 It is recommended that the Policy and Resources Committee consider the current estimated budget outlook position for the period 2019-20 to 2021-22.

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**2. INTRODUCTION**

- 2.1 This report provides an update to the budget outlook 2019-20 to 2021-22, reported to Policy and Resources Committee on 17 May 2018.

**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 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.

- 4.2 The assumptions built into the budget outlook are as follows:

- Scottish Government Funding
- Growth in Council Tax Base
- Council Tax Increase
- Pay Award including cost of pay increments
- Non-Pay Inflation
- Known Cost and Demand Pressures, with a small allowance included for unknown pressures in the mid-range and worst case scenario.
- Funding for the Health and Social Care Partnership
- Funding for Live Argyll & Bute Council
- Fees and Charges increase.

- 4.3 At this stage, there are no changes to the financial assumptions used in the budget outlook reported to Committee in May, however, the Scottish Government published their Medium Term Financial Strategy on 31 May 2018 and there are two elements of the financial strategy that are worthy of comment in respect of our budget outlook.

**Scottish Government Funding**

- 4.4 The Strategy explains the Fiscal Framework and funding arrangements that the Scottish Government now operates within, outlines their approach to financial management and fiscal rules and sets out a range of possible funding scenarios for the Scottish Budget over the next five years. It is noted within the Strategy that the economic and financial outlook is uncertain. Scottish Government have

no confirmed resource budgets beyond 2019-20 and the forecasts that underpin the Strategy will change between now and the point that the Scottish Government set firm budgets in the future. Therefore, any funding levels noted in the document are indicative.

4.5 The Scottish Government Resource Budget, from which Local Government is funded has a number of commitments that support the Scottish Government’s social contract and require significant investment including Health, Police, Early Learning and Childcare, Attainment, Higher Education and Social Security.

4.6 As with our medium term outlook, Scottish Government are planning using three scenarios: an upper range, central scenario and lower range. In terms of the Resource Budget there is an estimated increase in funding of between 12.55% and 17.60% (central scenario 15.11%) between 2018-19 and 2021-22. However, from additional information received via COSLA that provides further information on the assumptions, the increase is directed to the commitments noted in the earlier paragraph and “Other expenditure” which Local Government is part of, is estimated to change between a 1.18% increase and an 11.55% decrease between 2018-19 and 2020-21 (central scenario 4.99%).

4.7 Our budget outlook assumes a year on year percentage reduction of between 1.5% and 3.2% (mid-range 2.35%). Over the three year period this represents a reduction of between 4.43% and 9.30% (mid-range 6.89%). (For information, the reduction over three years, doesn’t equal the sum of the annual reductions as they are calculated on a reducing base.)

4.8 The comparison, between Scottish Government central scenario and our mid-range scenario is summarised in the table below.

		<b>2019-20</b>	<b>2020-21</b>	<b>2021-22</b>	<b>3 Year Total</b>
SG	Other	4.82%	2.32%	2.20%	4.99%
Expenditure		decrease	decrease	increase	decrease
ABC	Mid-range	2.35%	2.35%	2.35%	6.89%
scenario		decrease	decrease	decrease	decrease

4.9 The Scottish Government scenario estimates a larger decrease in 2019-20 and then a growth in 2021-22. There is likely to be other areas of expenditure in addition to local government that are included within “Other Expenditure”. If there was a decrease closer to 5% in 2019-20 then this would be a much higher cut to what Local Government have experienced over the last 5 years.

4.10 As the Scottish Government strategy makes it quite clear that the figures are subject to change, I haven’t altered my estimates at this stage. This is an area that will be kept under close review and I will update the budget outlook if the funding position becomes clearer or more certain.

### **Pay Award**

4.11 The other element of the financial strategy that is worthy of comment is in

relation to public sector pay. The Scottish Government agreed to remove the 1% public sector pay cap in 2017. The need remains to balance a much needed increase in employee income with what public sector employers can reasonably afford.

- 4.12 Decisions on future pay policy will be taken as part of the annual Scottish Budget process, with the next budget expected in December 2018. To illustrate costs of a progressive approach to pay for public sector workers, the Scottish Government have modelled three theoretical public sector pay award scenarios. The central scenario assumes a continuation of the 2018-19 pay policy (based on 3% up to £36,500, 2% up to £80,000 and £1,600 above £80,000) over the next four years. The upper scenario is based on a 4% increase and the lower scenario is based on a 2% increase.
- 4.13 The public sector pay commitment does not directly apply to Local Government, however, it is expected that Trade Unions would expect a package similar to any public sector pay award. The position that COSLA takes is that any further increases to Local Government pay is unaffordable unless it is funded by Scottish Government.
- 4.14 The current outlook position assumes a pay award between 1.5% and 2.5% (mid range 2%). In view of the continued uncertainty over future pay awards and the fact that we do not have an agreed position for 2018-19 that we could gauge future pay awards against, I have not changed the budget outlook. Like the Scottish Government funding, I will keep this assumption under close review and will update if I receive any other information that would suggest increasing the assumption.
- 4.15 The current position re the pay negotiations for 2018-19 is that they are still ongoing. Within the budget pack in February 2018, I noted that there were Trade Union requests of 6.5% (SJC) and 10% (Teachers) and that high level calculations suggested that any pay award to this extent could cost in excess of £6m over and above the budget. As previously noted, COSLA's position is that any further increase to Local Government pay would have to be fully funded by Scottish Government.
- 4.16 For information, each 0.5% increase to the pay award would add approximately £0.550m onto the estimated gap.

### **Summary Budget Outlook**

- 4.17 The table below summarises the estimated budget gap in the mid-range scenario, based on the current assumptions. Information on the best and worst case scenarios is included within Appendix 1.

	<b>2019-20</b>	<b>2020-21</b>	<b>2021-22</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
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
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)
<b>Total Estimate Expenditure</b>	<b>241,030</b>	<b>244,885</b>	<b>248,837</b>
Estimated Funding	234,460	230,316	226,276
<b>Estimated Budget Surplus / (Gap) Cumulative</b>	<b>(2,506)</b>	<b>(7,214)</b>	<b>(13,188)</b>
<b>Estimated Budget Surplus / (Gap) In Year</b>	<b>(2,506)</b>	<b>(4,708)</b>	<b>(5,974)</b>

4.18 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.

4.19 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 This report provides an update to the budget outlook, covering the period 2019-20 to 2021-22, reported to Policy and Resources Committee on 17 May 2018. 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.

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| 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. |

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**Head of Strategic Finance**  
**23 July 2018**

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

**APPENDICES:**

Appendix 1 – Budget Outlook, Best, Worst and Mid-Range Scenarios

**BUDGET OUTLOOK 2019-20 TO 2021-22**  
**POLICY AND RESOURCES COMMITTEE - 16 AUGUST 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)
<b>Revised Base Budget</b>	<b>236,282</b>	<b>236,252</b>	<b>236,252</b>	<b>236,282</b>	<b>236,282</b>	<b>236,282</b>	<b>236,282</b>	<b>236,282</b>	<b>236,282</b>
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
<b>Total Employee Cost Changes (Council Services)</b>	<b>1,624</b>	<b>3,272</b>	<b>4,945</b>	<b>2,577</b>	<b>5,119</b>	<b>7,706</b>	<b>3,371</b>	<b>6,809</b>	<b>10,317</b>
<b>Non-Pay Inflation - Council Services</b>	<b>967</b>	<b>1,934</b>	<b>2,901</b>	<b>967</b>	<b>1,934</b>	<b>2,901</b>	<b>1,683</b>	<b>3,366</b>	<b>5,049</b>
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
<b>Total Cost and Demand Pressures</b>	<b>848</b>	<b>828</b>	<b>878</b>	<b>1,111</b>	<b>1,361</b>	<b>1,661</b>	<b>1,373</b>	<b>1,893</b>	<b>2,443</b>
<b>Adjustment to Health and Social Care Partnership Payment</b>	<b>(846)</b>	<b>(1,679)</b>	<b>(2,500)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>844</b>	<b>1,688</b>	<b>2,532</b>
<b>Adjustment to Live Argyll Management Fee</b>	<b>93</b>	<b>189</b>	<b>287</b>	<b>93</b>	<b>189</b>	<b>287</b>	<b>93</b>	<b>189</b>	<b>287</b>
<b>Total Estimated Expenditure PRIOR to measures to balance the budget</b>	<b>238,968</b>	<b>240,796</b>	<b>242,763</b>	<b>241,030</b>	<b>244,885</b>	<b>248,837</b>	<b>243,646</b>	<b>250,227</b>	<b>256,910</b>
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
<b>Total Funding</b>	<b>236,203</b>	<b>233,740</b>	<b>231,323</b>	<b>234,460</b>	<b>230,316</b>	<b>226,276</b>	<b>232,717</b>	<b>226,918</b>	<b>221,310</b>
<b>Budget Surplus / (Gap) PRIOR to measures to balance the budget</b>	<b>(2,765)</b>	<b>(7,056)</b>	<b>(11,440)</b>	<b>(6,570)</b>	<b>(14,569)</b>	<b>(22,561)</b>	<b>(10,929)</b>	<b>(23,309)</b>	<b>(35,600)</b>
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
<b>Total Measures to Balance the Budget</b>	<b>4,253</b>	<b>7,744</b>	<b>10,247</b>	<b>4,064</b>	<b>7,355</b>	<b>9,373</b>	<b>2,442</b>	<b>4,046</b>	<b>4,310</b>
<b>Budget Surplus / (Gap) Cumulative AFTER measures to balance the budget</b>	<b>1,488</b>	<b>688</b>	<b>(1,193)</b>	<b>(2,506)</b>	<b>(7,214)</b>	<b>(13,188)</b>	<b>(8,487)</b>	<b>(19,263)</b>	<b>(31,290)</b>
<b>Budget Surplus / (Gap) In Year AFTER measures to balance the budget</b>	<b>1,488</b>	<b>(800)</b>	<b>(1,881)</b>	<b>(2,506)</b>	<b>(4,708)</b>	<b>(5,974)</b>	<b>(8,487)</b>	<b>(10,776)</b>	<b>(12,027)</b>