

BUDGET OUTLOOK 2019-20 TO 2021-22

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 16 August 2018. It summarises the position based on previous assumptions that haven't changed and provides information on any assumptions that have changed. The changes in assumptions are summarised in the paragraphs that follow.
- 1.2 Increase to base budget for potential shortfall in 2018-19 pay award budget. As negotiations are ongoing, this will be kept under review.
- 1.3 Increase to future pay award assumption. Previously assumed to be between 1.5% and 2.5% with mid-range 2%, now updated to be between 2% and 3% with a mid-range of 2.6% which represents the overall average increase for the public sector pay commitment.
- 1.4 Increase to unavoidable/inescapable non-pay inflation of £0.066m. Following a review all the non-pay inflation, this has increased mainly as a result of utilities inflation. In 2018-19 no utilities inflation was provided for on the basis that the budget was deemed to be sufficient, however, at this stage inflation has been assumed for this category of expenditure.
- 1.5 Changes to existing cost and demand pressures in respect of:
- Increase to renewal of school and public transport now in Mid Argyll and Lorn
 - Update to Waste PPP Financial Model
 - Increase to Catering and Cleaning Services Choices shortfall
 - Removal of allowance for unidentified cost and demand pressures in 2019-20 as review has now taken place.
- 1.6 Two new cost pressures in respect of:
- Council anti-virus software
 - ASN Demand.
- 1.7 Transfer between the Council's base budget and the Live Argyll Management Fee in respect of a budget allowance for the apprenticeship levy.
- 1.8 In the mid-range scenario the budget gap, prior to factoring in previous savings decisions or potential options towards balancing the budget, is estimated, over the three year period 2019-20 to 2021-22, to be £25.583m with a gap of £7.817m in 2019-20.
- 1.9 After factoring in previous savings decisions or potential options towards

balancing the budget this reduces the gap to £16.231m over the three year period with a gap of £3.760m in 2019-20.

- 1.10 There is one further potential pressure not included within the budget gap, at this stage, in relation to teachers' pensions. Following the valuation of the teachers' pension scheme, HM Treasury have advised of a change to the discount rate which results in an increase of 30% to the employer contribution rate from 17.2% to 22.4% which will take effect from 1 April 2019. The additional cost for our Council is estimated at £1.8m but the Government have stated that they will provide support for some of the additional cost but how much that might be and how this would filter through to the Scottish Government and be distributed is still an unknown.
- 1.11 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 provides an update to the budget outlook 2019-20 to 2021-22, reported to Policy and Resources Committee on 16 August 2018. It summarises the position based on previous assumptions that haven't changed and provides information on any assumptions that have changed.
- 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 Scottish Government Finance Settlement**

- 4.1.1 There are no changes to my previous assumptions around the level of Scottish Government (SG) funding. I consider a prudent assumption still to be within the range of a reduction of between 1.5% (best case) and 3.2% (worst case) with a mid-range of 2.5%.
- 4.1.2 The distribution of the supporting people grant was reviewed this year and COSLA Leaders have agreed that there will continue to be a dampening percentage applied to any reduction in supporting people grant which will be phased out over a 5 year period. This is the best outcome for Argyll and Bute Council and although we will receive a reduction in supporting people grant it will be in line with previous year's reductions.
- 4.1.3 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 |

4.2 Council Tax

4.2.1 There are no changes to my previous assumptions around the growth in Council Tax. It has been assumed that for the best case scenario there will be a growth in the Council Tax base of 0.75%, worst case 0.25% and mid-range 0.5%. The Council tax increase is included within paragraph 4.10.1 of this report.

4.2.2 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 |

4.3 Base Budget

4.3.1 The starting point for the base budget for 2019-20 budget is the 2018-19 approved budget adjusted for any one-off items as well as any other items that have an impact on the base.

4.3.2 Within my report to the Policy and Resources Committee in May, I advised of two one off adjustments in respect of the One Council approach to property and the one-off project savings. There was also an adjustment reflecting a previous decision on the funding of Argyll and the Isles Tourism Co-operative (AITC).

4.3.3 There is a possible adjustment to the base budget in respect of the pay award. The negotiations are still ongoing for 2018-19, however, there is currently a 3% offer on the table for all employee groups. The budget within 2018-19 was based on the public sector pay commitment of 3% for those earning below £36,500, 2% for those earning above £36,500 with a cap of a £1,600 rise for those earning above £80,000. If a 3% pay award was agreed for all employees up to £80,000, then this would cost an additional £0.090m for local government employees plus an additional £0.215m for teachers. As well as this being a pressure in 2018-19, this would need to be added into the base budget for 2019-20. The Scottish Government have given a commitment to provide £10m of funding towards the teachers pay award, but nothing for other local government employees. What is unclear is whether this £10m funding will be baselined for future years. The budget outlook assumes no further increase beyond the public sector pay commitment within the best case scenario, an additional cost of £0.090m in respect of local government employees in the mid-range scenario and an additional cost of £0.305m in the worst case scenario. It is also possible that the £10m funding when distributed may not cover the full cost of applying the 3% increase within Argyll and Bute and this will be kept under review.

4.3.4 The other change to the base budget relates to an accounting transfer between Live Argyll and the Council budget in respect of the apprenticeship levy. There

is no bottom line impact on the Council position. The Council had budgeted for the cost of the apprenticeship levy for all staff, but an allocation had never been included within the management fee for Live Argyll. The apprenticeship levy for Live Argyll employees at the date of transfer amounted to £0.020m and it is now proposed that this should be added to the management fee and the base Council budget reduced by the corresponding amount.

4.3.5 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 |
| Remove budget allocation for One Council approach to property | (260) | (260) | (260) |
| Add back one-off project savings | 249 | 249 | 249 |
| AITC | (10) | (10) | (10) |
| 2018-19 pay award shortfall | 90 | 90 | 90 |
| Reduce Apprenticeship Levy budget (transfer to Live Argyll see para 4.8.2) | (20) | (20) | (20) |
| Revised Base Budget | 236,352 | 236,352 | 236,352 |

4.4 Employee Cost Changes

4.4.1 There are no changes to the assumption around the cost of employee increments. 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.

4.4.2 In terms of the assumption on future years pay award, I had been assuming the pay award would be between a range of 1.5% (best case) and 2.5% (worst case) with the mid-range being 2%. This was on the basis that whilst it was 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.

4.4.3 However, it is now becoming apparent that the public sector pay commitment is a starting point for any pay negotiations and as noted in paragraph 4.3.3, the current offer on the table for the 2018-19 pay award is 3%. No additional funding appears to be forthcoming for local government employees, although there is a commitment to fund the teachers pay award.

4.4.4 It would now be prudent to increase the pay award assumption. The public sector pay commitment averages out at an additional increase equal to 2.6% of pay costs and this has been assumed within the mid-range scenario. The worst case scenario has been increased to a 3% flat rate and the best case scenario been increased to a 2% flat rate.

Teachers' Pensions

- 4.4.5 There is a further pressure in relation to teachers' pensions. The Government Actuary Department (GAD) has been undertaking the 2016 valuation of the Scottish teachers' pension scheme. This work started in 2017, but announcements on changes were delayed due to HM Treasury not wishing to give direction on the valuation until GAD assumptions had been concluded for all similar public pension schemes.
- 4.4.6 We have now been advised that as a result of the Treasury decision to adjust the Superannuation Contributions Adjusted for Past Experience (SCAPE) discount rate for the Scottish Teachers' Pension Scheme, this will mean that the employer contribution rate will increase by 5.2% (currently 17.2% increasing to 22.4%) and this will apply from 1 April 2019, meaning that the employer's contributions figure will increase by 30%.
- 4.4.7 There was an announcement as part of the UK Budget 2016 that the SCAPE discount rate would be reduced from 3% to 2.8%. The HM Treasury are now proposing a further change to the SCAPE rate from 2.8% to 2.4%. A lower discount rate results in a higher contribution rate.
- 4.4.8 In a House of Commons paper published in September 2018, it outlines that Departments and devolved administrations would need to meet the increase in costs from the 2016 Budget announcement in full. The Government will support the increased cost associated with the latest announcement to reduce the SCAPE rate further in 2019-20 but not necessarily beyond that. Further discussions will take place as part of the spending review. Any additional funding provided by HM Treasury will find its way through the Barnett Formula and this is an issue that COSLA will be raising with Scottish Government.
- 4.4.9 As it is currently unclear as to whether there will be additional funding that will fund this additional cost, I have not included it within the budget gap at this stage. The estimated pressure on teachers' pensions is calculated at approximately £1.8m based on current teachers' pensions costs, however, this figure could increase depending on the conclusion of the pay award negotiations. There is also a risk that even if additional funding is provided, it may not meet the actual cost in full due to the distribution methodology.
- 4.4.10 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 4.7.2.

| | 2019-20 | 2020-21 | 2021-22 |
|------------------------------------|----------------|----------------|----------------|
| | £000 | £000 | £000 |
| Pay Award at 2% | 2,245 | 4,455 | 6,710 |
| Increase based on 2.6% | 570 | 1,248 | 1,956 |
| Increments | 332 | 664 | 996 |
| Total Employee Cost Changes | 3,147 | 6,367 | 9,662 |

4.5 Non-Pay Inflation

4.5.1 A review of the unavoidable/inescapable non-pay inflation provision required in 2019-20 was carried out during September by Strategic Finance staff in consultation with services. The table below summarises the inflation required, with further information contained within Appendix 2.

| Department | Service | Inflation Category | Inflation Required £000 |
|-------------------|----------------------------|---|----------------------------|
| Council Wide | Council Wide | Utilities – Electricity and Heating | 74 |
| Council Wide | Council Wide | Utilities – Water | 12 |
| Council Wide | Council Wide | Non-Domestic Rates | 138 |
| Education | Education | Pre-Primary Partner Provider Uplift | 16 |
| Customer Services | Facility Services | Catering Purchases and Milk | 139 |
| Customer Services | Facility Services | School and Public Transport Contract Fuel | 50 |
| Customer Services | Special Projects | Community Pool Subsidies | 20 |
| Customer Services | Special Projects | NPDO Schools | 246 |
| Customer Services | Special Projects | Hub-DBFM Schools | 79 |
| DIS | Economic Development | Events and Festivals | 2 |
| DIS | Roads and Amenity Services | Landfill Tax | 85 |
| DIS | Roads and Amenity Services | Waste PPP Contract | 154 |
| DIS | Roads and Amenity Services | Street Lighting Electricity | 18 |
| Total | | | 1,033 |

4.5.2 The non-pay inflation previously estimated within the budget outlook was £0.967m; this new estimate reflects an increase of £0.066m. The most significant change is in respect of utilities inflation as in 2018-19 no inflation was provided for on the basis that the budget was deemed to be sufficient, however, at this stage inflation has been assumed for these costs.

4.5.3 As with the previous estimate, the worst case scenario also includes a 1% general inflation over and above the unavoidable/inescapable inflation amount.

4.6 Cost and Demand Pressures

4.6.1 Over the last few years, services have worked on the basis of having to contain any cost and demand pressures within current resources, however, a number of

cost and demand pressures already identified for the period 2019-20 to 2021-22 were reported within the previous budget outlook report. The table below notes the existing cost and demand pressures identified within the mid-range scenario.

| | 2019-20 £000 | 2020-21 £000 | 2021-22 £000 |
|--|-------------------------|-------------------------|-------------------------|
| 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 |
| Catering and Cleaning Service Choices shortfall | 48 | 48 | 48 |
| General provision for unidentified cost and demand pressures | 250 | 500 | 750 |
| Total | 1,111 | 1,361 | 1,661 |

4.6.2 A review of cost and demand pressures was carried out during September by Strategic Finance staff in consultation with services. The table below notes the updated cost and demand pressures identified within the mid-range scenario.

| | 2019-20 £000 | 2020-21 £000 | 2021-22 £000 |
|--|-------------------------|-------------------------|-------------------------|
| Renewal of School and Public Transport Contracts Mid Argyll | 5 | 5 | 5 |
| Revised – now also in Lorn | 54 | 54 | 54 |
| Increase/(Decrease) | 49 | 49 | 49 |
| Waste PPP Financial Model | 306 | 306 | 306 |
| Revised | 266 | 266 | 266 |
| Increase/(Decrease) | (40) | (40) | (40) |
| Catering and Cleaning Services Choices shortfall | 48 | 48 | 48 |
| Revised | 83 | 83 | 83 |
| Increase/(Decrease) | 35 | 35 | 35 |
| General provision for unidentified cost and demand pressures | 250 | 500 | 750 |
| Revised | 0 | 250 | 500 |
| Increase/(Decrease) | (250) | (250) | (250) |
| Total Increase/(Decrease) | (206) | (206) | (206) |

4.6.3 The review also identified two new cost and demand pressures as noted in the

table below. The most significant new pressure relates to ASN Demand and the pressure reflects the position if no action is taken. There has been an ongoing review of ASN provision for the last 2 years and the Director of Customer Services has asked for interim conclusions in the next few weeks. It is hoped that mitigating actions can be put in place to reduce the demand pressure and if this is the case, the demand pressure will be updated within a future budget outlook. Further information on all cost and demand pressures across all three scenarios is included within Appendix 3.

| | 2019-20 £000 | 2020-21 £000 | 2021-22 £000 |
|-----------------------------|-------------------------|-------------------------|-------------------------|
| Council anti-virus software | 19 | 19 | 19 |
| ASN Demand | 708 | 837 | 965 |
| Total | 727 | 856 | 984 |

4.6.4 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 4.7.2.

| | 2019-20 £000 | 2020-21 £000 | 2021-22 £000 |
|---|-------------------------|-------------------------|-------------------------|
| Previously Identified Cost and Demand Pressures | 1,111 | 1,361 | 1,661 |
| Updated Cost and Demand Pressures | (206) | (206) | (206) |
| New Cost and Demand Pressures | 727 | 856 | 984 |
| Total Cost and Demand Pressures | 1,632 | 2,011 | 2,439 |

4.7 Health and Social Care Partnership (HSCP)

4.7.1 There remains a political decision to be made as to the future allocation to the HSCP and there is no change to my previous assumption. 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 HSCP 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.

4.7.2 As with Council services, a review of current non-pay inflation and cost and demand pressures has been carried out during September and these are summarised in the table below and included within Appendix 4 for information purposes.

| | 2019-20 £000 | 2020-21 £000 | 2021-22 £000 |
|--|-------------------------|-------------------------|-------------------------|
| Pay Inflation | 705 | 1,428 | 2,170 |
| Pay Increments | 44 | 87 | 131 |
| Non-Pay Inflation | 1,260 | 2,520 | 3,780 |
| Base Adjustment 2018-19 Potential Pay Award shortfall | 43 | 43 | 43 |
| Older People Growth | 322 | 649 | 982 |
| Care Services for Younger Adults | 179 | 361 | 540 |
| Sleepovers Night Rates | 185 | 185 | 185 |
| National Care Home Contract | 336 | 687 | 1,054 |
| Children and Young People Act | 226 | 463 | 712 |
| Total Social Work Cost and Demand Pressures | 3,300 | 6,423 | 9,597 |
| Plus Additional cost pressure that should be fully funded by SG: | | | |
| Carer's Act | 530 | 760 | 1,294 |

4.8 Live Argyll

4.8.1 There is one small change to my previous assumption in respect of the management fee. 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.

4.8.2 As noted in paragraph 4.3.4, the Council had budgeted for the cost of the apprenticeship levy for all staff, but an allocation had never been included within the management fee for Live Argyll. The apprenticeship levy for Live Argyll employees at the date of transfer amounted to £0.020m and it is now proposed that this should be added to the Live Argyll management fee and the base Council budget reduced by the corresponding amount.

4.9 Estimated Budget Gap PRIOR to Measures to Balance the Budget

4.9.1 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.

| | 2019-20 £000 | 2020-21 £000 | 2021-22 £000 |
|---|-------------------------|-------------------------|-------------------------|
| Base Budget | 236,352 | 236,352 | 236,352 |
| Employee Cost Changes | 3,147 | 6,367 | 9,662 |
| Non-Pay Inflation | 1,033 | 2,066 | 3,099 |
| Cost and Demand Pressures | 1,632 | 2,011 | 2,439 |
| Increase/(Decrease) to HSCP allocation | 0 | 0 | 0 |
| Increase/(Decrease) to Live Argyll | 113 | 209 | 307 |

| | | | |
|--|----------------|-----------------|-----------------|
| payment | | | |
| Total Estimated Expenditure | 242,277 | 247,005 | 251,859 |
| Estimated Funding | 234,460 | 230,316 | 226,276 |
| Estimated Budget Surplus / (Gap) Cumulative | (7,817) | (16,689) | (25,583) |

4.9.2 In the mid-range scenario the budget gap prior to factoring in previous savings decisions or potential options towards balancing the budget is estimated over the three year period 2019-20 to 2021-22 to be £25.583m with a gap of £7.817m in 2019-20.

4.9.3 In contrast, the budget gap prior to factoring in previous savings decisions or potential options towards balancing the budget, in the best case scenario over the three years is £13.963 with a gap of £4.015m in 2019-20 and in the worst case scenario, the budget gap over the three years is £37.918m with a gap of £11.482m in 2019-20.

4.10 Measures to Balance the Budget

4.10.1 There is one change to my previous assumptions on the measures to balance the budget in respect of the fees and charges inflationary increase. The 3% increase in the mid-range scenario has been estimated to equate to a monetary increase of £0.277m each year, however, after further analysis of the fees and charges budget, this has reduced to £0.270m. There are no further changes to the assumptions previously advised. It should be noted that the Fees and Charges Inflationary increase and Council Tax increase, whilst included with the estimates, will require Council approval.

| | 2019-20 £000 | 2020-21 £000 | 2021-22 £000 |
|--|-------------------------|-------------------------|-------------------------|
| Loans Charges profiling | 900 | 800 | 800 |
| Fees and Charges Inflationary Increase | 270 | 540 | 810 |
| Catering and Cleaning Service Choices | 0 | 0 | 172 |
| Management/Operational Savings Agreed October 2017 | 299 | 625 | 625 |
| Policy Savings Agreed Feb 2018 | 1,151 | 2,437 | 2,437 |
| Council Tax Increase at 3% | 1,437 | 2,939 | 4,508 |
| Total Savings | 4,057 | 7,341 | 9,352 |

4.11 Estimated Budget Gap AFTER Measures to Balance the Budget

4.11.1 The table below summarises the estimated budget gap in the mid-range scenario after factoring in any previous savings decisions or potential options towards balancing the budget.

| | 2019-20 £000 | 2020-21 £000 | 2021-22 £000 |
|--|-------------------------|-------------------------|-------------------------|
| Estimated Budget Gap Prior to Measures to Balance Budget | (7,817) | (16,689) | (25,583) |
| Savings Measures | 4,057 | 7,341 | 9,352 |
| Estimated Budget Surplus / (Gap) Cumulative | (3,760) | (9,348) | (16,231) |
| Estimated Budget Surplus / (Gap) In Year | (3,760) | (5,588) | (6,883) |

4.11.2 In the mid-range scenario the budget gap after factoring in previous savings decisions or potential options towards balancing the budget is estimated over the three year period 2019-20 to 2021-22 to be £16.231m with a gap of £3.760m in 2019-20.

4.11.3 In contrast, the budget gap after factoring in previous savings decisions or potential options towards balancing the budget, in the best case scenario over the three years is £3.752m with a surplus of £0.226m in 2019-20 and in the worst case scenario, the budget gap over the three years is £33.614m with a gap of £9.042m in 2019-20.

4.11.4 The changes from the previous reported budget outlook are summarised in the table below:

| | 2019-20 £000 | 2020-21 £000 | 2021-22 £000 |
|--|-------------------------|-------------------------|-------------------------|
| Previous reported budget gap (mid-range) | (2,506) | (7,214) | (13,188) |
| Revision to Base in respect of 2018-19 Pay Award shortfall | (90) | (90) | (90) |
| Increase to future Pay Award assumption | (570) | (1,248) | (1,956) |
| Increase to Non-Pay Inflation | (66) | (132) | (198) |
| Increase to Cost and Demand Pressures | (521) | (650) | (778) |
| Revision to Fees and Charges Inflationary Increase calculation | (7) | (14) | (21) |
| Total Savings | (3,760) | (9,348) | (16,231) |

4.12 Budget Process Timetable

4.12.1 The budget process timetable for 2019-20 is included in Appendix 5. The key dates are noted as follows:

- 29 October 2018 – UK Government Autumn Statement
- 12 December 2018 – Scottish Government Draft Budget
- 13 December 2018 – P&R Committee and Members Development Session that will advise of savings options being considered as part of the budget.
- 21 February 2019 – Council budget meeting.

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 and 16 August 2018. In the mid-range scenario the budget gap after factoring in previous savings decisions or potential options towards balancing the budget is estimated over the three year period 2019-20 to 2021-22 to be £16.231m with a gap of £3.760m 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
5 October 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 – Council Non-Pay Inflation
- Appendix 3 – Council Cost and Demand Pressures
- Appendix 4 – Social Work Pressures
- Appendix 5 – Budget Process Timetable 2019-20

BUDGET OUTLOOK 2019-20 TO 2021-22
POLICY AND RESOURCES COMMITTEE - 18 OCTOBER 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 | (41) | (71) | (71) | 49 | 49 | 49 | 264 | 264 | 264 |
| Revised Base Budget | 236,262 | 236,232 | 236,232 | 236,352 | 236,352 | 236,352 | 236,567 | 236,567 | 236,567 |
| Pay Award | 2,165 | 4,374 | 6,627 | 2,815 | 5,703 | 8,666 | 3,248 | 6,594 | 10,040 |
| Pay Increments | 0 | 0 | 0 | 332 | 664 | 996 | 664 | 1,328 | 1,992 |
| Total Employee Cost Changes (Council Services) | 2,165 | 4,374 | 6,627 | 3,147 | 6,367 | 9,662 | 3,912 | 7,922 | 12,032 |
| Non-Pay Inflation - Council Services | 1,033 | 2,066 | 3,099 | 1,033 | 2,066 | 3,099 | 1,033 | 2,798 | 4,563 |
| 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 and Lorn | 54 | 54 | 54 | 54 | 54 | 54 | 54 | 54 | 54 |
| Local Plan Enquiry | 90 | 0 | 0 | 90 | 0 | 0 | 90 | 0 | 0 |
| Waste PPP Financial Model | 266 | 266 | 266 | 266 | 266 | 266 | 266 | 266 | 266 |
| Catering Hub (Catering and Cleaning Service Choices) - undeliverable Saving | 83 | 83 | 83 | 83 | 83 | 83 | 83 | 83 | 83 |
| Anti-Virus Software | 19 | 19 | 19 | 19 | 19 | 19 | 19 | 19 | 19 |
| ASN Demand | 580 | 580 | 580 | 708 | 837 | 965 | 794 | 1,008 | 1,221 |
| General Allowance for Unidentified Cost and Demand Pressures | 0 | 0 | 0 | 0 | 250 | 500 | 0 | 500 | 1,000 |
| Total Cost and Demand Pressures | 1,491 | 1,471 | 1,521 | 1,632 | 2,011 | 2,439 | 1,730 | 2,464 | 3,227 |
| 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 | 113 | 209 | 307 | 113 | 209 | 307 | 113 | 209 | 307 |
| Total Estimated Expenditure PRIOR to measures to balance the budget | 240,218 | 242,673 | 245,286 | 242,277 | 247,005 | 251,859 | 244,199 | 251,648 | 259,228 |
| 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 | (4,015) | (8,933) | (13,963) | (7,817) | (16,689) | (25,583) | (11,482) | (24,730) | (37,918) |
| Measures to Balance the Budget: | | | | | | | | | |
| Loans Charges Profile Adjustment and Savings | 900 | 800 | 800 | 900 | 800 | 800 | 900 | 800 | 800 |
| Fees and Charges | 450 | 900 | 1,350 | 270 | 540 | 810 | 90 | 180 | 270 |
| 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 | 4,241 | 7,720 | 10,211 | 4,057 | 7,341 | 9,352 | 2,440 | 4,042 | 4,304 |
| Budget Surplus / (Gap) Cumulative AFTER measures to balance the budget | 226 | (1,213) | (3,752) | (3,760) | (9,348) | (16,231) | (9,042) | (20,688) | (33,614) |
| Budget Surplus / (Gap) In Year AFTER measures to balance the budget | 226 | (1,439) | (2,539) | (3,760) | (5,588) | (6,883) | (9,042) | (11,646) | (12,926) |

| Department | Service | Inflation Category | Basis of Inflation | 2019-20 Inflation % | Inflation 2019-20 £000 |
|---|----------------------|---|---|---------------------|------------------------|
| Council Wide | Council Wide | Utilities - Electricity and Heating | This is a volatile area and it is difficult to predict the inflation. No inflation was applied in 2018-19 as the base budget was deemed to be sufficient, but have assumed inflation at CPI rate of 2.5% (July 2018) for 2019-20. | 2.50% | 74 |
| Council Wide | Council Wide | Utilities - Water | This is a volatile area and it is difficult to predict the inflation. No inflation was applied in 2018-19 as the base budget was deemed to be sufficient, but have assumed inflation at CPI rate of 2.5% (July 2018) for 2019-20. | 2.50% | 12 |
| Council Wide | Council Wide | Non Domestic Rates | Based on current RPI as at end of July 2018 | 3.20% | 138 |
| Council Wide Total | | | | | 224 |
| Community Services | Education | Pre-Primary Partner Provider Uplift | Inflationary increase agreed as per service choices | 1.00% | 16 |
| Community Services Total | | | | | 16 |
| Customer Services | Facility Services | Catering Purchases and Milk | Estimated 8% increase predicted as a result of Brexit and weather - there is a risk that this could be substantially higher. | 8.00% | 139 |
| Customer Services | Facility Services | School and Public Transport Contract Fuel Uplifts | Inflation to fuel element of transport contracts based on projected fuel price increases. Only the fuel element of the contracts would be affected by this uplift. | | 50 |
| Customer Services | Special Projects | Community Pool Subsidies | Based on current RPI as at end of July 2018 | 3.20% | 20 |
| Customer Services | Special Projects | NPDO Schools | NPDO Schools contracts are subject to inflation year on year. Inflation, per the contract pay mechanism, applied to the payments only i.e. account code 44000 as the income is linked to Education FM payment. | 1.62% | 246 |
| Customer Services | Special Projects | Hub Schools | Hub-DBFM Schools contracts are subject to inflation year on year. Inflation, per the contract pay mechanism, is applied to the payments only i.e. account code 44000 as the grant income is fixed for the term of the contract. | 1.62% | 79 |
| Customer Services Total | | | | | 534 |
| Development and Infrastructure | Economic Development | Events and Festivals | Based on CPI to support Service Level Agreements for Major Events & Festivals | 2.40% | 2 |
| Development and Infrastructure | Roads and Amenities | Landfill Tax | Calculation is based on a formula approach similar to last year. | 2.89% | 85 |
| Development and Infrastructure | Roads and Amenities | Waste PPP Contract | 85% of RPIX as at end of Q2 2018 | 2.77% | 154 |
| Development and Infrastructure | Roads and Amenities | Street Lighting Electricity | This is a volatile area and it is difficult to predict the inflation. No inflation was applied in 2018-19 as the base budget was deemed to be sufficient, but have assumed inflation at CPI rate of 2.5 (July 2018) for 2019-20. | 2.50% | 18 |
| Development and Infrastructure Total | | | | | 259 |
| Grand Total | | | | | 1,033 |

COUNCIL COST AND DEMAND PRESSURES 2019-20 to 2021-22

APPENDIX 3

| 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 | |
| Education | Education | <p>The demand for ASN support in Argyll and Bute has continued to grow with a significant increase in, and early identification of children and young people presenting with complex additional support needs, including mental health difficulties. In 2018-19, there has been a substantial increase in ASN provision, resulting in a forecast overspend for the financial year. It is anticipated that growth continues over the next 3 years however the extent of this growth is difficult to determine. Scottish Government statistics show that the number of pupils identified with ASN has increased markedly since 2010 and there continue to be year on year increases. These increases are likely due to continued improvements in recording and the introduction of the additional need types 'Child plans' and 'Other' in 2011. Scottish Government statistical datasets show that the percentage of school roll in mainstream schools of pupils with ASN has increased by approximately 3% year on year. Within many authorities, this means increased numbers of children accessing specialist provision.</p> <p>Within Argyll and Bute, resources require to be directed to support children and young people in their mainstream schools and therefore there is little capacity for effective sharing of resources. In addition, the continued success in retaining children and young people within their local schools and communities has an associated budgetary cost. The Council and the Education service are bound by statutory requirements, as prescribed within legislation, including the Education (Additional Support for Learning) Scotland Act 2004, Children and Young Persons Act and the recently introduced GIRFEC duty. The inability to respond to the identified needs of children as requested by parents and professionals, including health and social care, would be detrimental and a failure in meeting the statutory duties associated with the identified legislation.</p> <p>The demand pressure reflects the position if no action is taken. There has been an ongoing review of ASN provision for the last 2 years and the Director of Customer Services has asked for interim conclusions in the next few weeks. It is hoped that mitigating actions can be put in place to reduce the demand pressure and if this is the case, the demand pressure will be updated within a future budget outlook.</p> | 580 | 580 | 580 | 708 | 837 | 965 | 794 | 1,008 | 1,221 | NEW |
| TOTAL | | | 1,491 | 1,471 | 1,521 | 1,632 | 2,011 | 2,439 | 1,730 | 2,464 | 3,227 | |

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

APPENDIX 4

| Service | 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 2%, mid-range 2.6% (based on public sector pay commitment average), worst case 3% | 542 | 1,095 | 1,659 | 705 | 1,428 | 2,170 | 813 | 4,086 | 7,457 | Updated |
| 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. | 0 | 0 | 0 | 44 | 87 | 131 | 87 | 174 | 261 | |
| All Social Work | Base budget adjustment - possible additional costs if 3% pay award agreed for 2018-19 - budgeted position is the public sector pay commitment. The best case assumes that there is no additional cost over and above the public sector pay commitment. | 0 | 0 | 0 | 43 | 43 | 43 | 43 | 43 | 43 | New |
| All Social Work | Non-pay inflation, best and mid-range based on unavoidable/inescapable (with some small variables in terms of the estimated inflation increase) and worst case, adds on a general 1% inflation | 1,087 | 2,174 | 3,261 | 1,260 | 2,520 | 3,780 | 1,432 | 2,865 | 4,298 | Updated |
| 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 although in some areas the service capacity is being fully utilised and service expansion is proving difficult. The best case recognises the current capacity limits, the mid-range reflects 1.5% growth and the worst case reflects 3% growth. | 0 | 0 | 0 | 322 | 649 | 982 | 645 | 1,310 | 1,996 | Updated |
| 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 1.5% and the worst case reflects demand of 3%. | 0 | 0 | 0 | 179 | 361 | 540 | 358 | 727 | 1,085 | Updated |
| Adult Services | Reflects the cost of bringing sleepovers for commissioned social care providers into line with the Scottish Living Wage (SLW) by 2019-20. There may be some reduction in the best case scenario if the number of sleepovers can be reduced, this will be kept under review. Note: after the switch to a SLW based rate, year on year increases will be included within the annual non-pay inflation estimate. | 173 | 173 | 173 | 185 | 185 | 185 | 203 | 203 | 203 | Updated |
| 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 3.5% (in-line with the 2018/19 increase in the Scottish Living Wage), the mid range reflects an increase of 4.5% and the worst case 5.5%. | 261 | 531 | 811 | 336 | 687 | 1,054 | 411 | 844 | 1,301 | Updated |

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

APPENDIX 4

| Service | 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 | |
| Children and Families | Continuing Care of Looked After Children: 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. Based on the expenditure trend over the period 2014/15 to 2018/19. the average annual increase in spending is 5%. The best case reflects an increase of 2.5%, the mid range 5% and the worst case 7.5%. | 113 | 229 | 348 | 226 | 463 | 712 | 339 | 703 | 1,095 | New |
| TOTAL UNFUNDED COST AND DEMAND PRESSURES | | 2,176 | 4,202 | 6,252 | 3,300 | 6,423 | 9,597 | 4,331 | 10,955 | 17,739 | |

Additional Cost Pressure that should be fully funded by Scottish Government:

| | | | | | | | | | | |
|----------------|--|-----|-----|-------|-----|-----|-------|-----|-----|-------|
| Adult Services | Carer's Act: Carers Act commenced 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. | 530 | 760 | 1,294 | 530 | 760 | 1,294 | 530 | 760 | 1,294 |
|----------------|--|-----|-----|-------|-----|-----|-------|-----|-----|-------|

Appendix 5

Budget Process 2019-20

Timetable

| Date | Event | Purpose/Agenda |
|-----------------------|--|---|
| 18 October 2018 | P&R Committee | Updated Budget Outlook 2019-20 to 2021-22 – this will include an update to cost and demand pressures and inflation assumptions. |
| October/November 2018 | Budget Consultation | Seeks views from the public on general consultation. |
| 29 October 2018 | UK Government Autumn Statement | |
| 12 December 2018 | Scottish Government Draft Budget Announcement (not expecting individual council allocations on this day) | |
| 13 December 2018 | Development Session for All Members | To advise all Members on progress with the budget and the savings options being considered. |
| 13 December 2018 | P&R Committee | Updated Budget Outlook 2019-20 to 2021-22 – this will include an update on employee costs following salary template exercise. Report on savings options being considered for the 2019-20 budget process. |
| w/c 17 December 2018 | Settlement at individual Council level known (this could be delayed into January) | |
| 7 February 2019 | Budget pack goes public | Budget pack included in release of P&R Papers. |
| 14 February 2019 | P&R Committee | Consider budget proposals and make recommendation to Council. |
| 21 February 2019 | Council | Set Budget |