

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 18 October 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 The distribution of the supporting people grant was reviewed and COSLA Leaders have agreed that there will continue to be a dampening which means that our funding projection will not be further adversely affected by this decision. The group reviewing the floor mechanism have concluded their review and subject to COSLA Leaders approval, there is no adverse impact for Argyll and Bute. These two issues, as well as not ignoring what appears to be a more positive UK/Scottish Budget position, has led me to adjust my mid-range scenario by 0.8% which relates to the impact of the supporting people distribution if the continuation of the dampening had not been agreed. The mid-range scenario assumption is now fairly close to the actual position in 2018-19. At this stage, I have not updated the best and worst case scenarios as the focus of attention is on the mid-range scenario.
- 1.3 There has been a small change to the base budget assumptions in relation to the anticipated 2018-19 pay award budget shortfall. Previous costing within the mid-range scenario was £0.090m and after a more detailed calculation this is now estimated to be £0.094m. The amount in the worst case scenario, that includes the teachers cost should the Scottish Government not distribute the additional £10m on a recurring basis has increased from £0.305m to £0.310m.
- 1.4 There is an increase of £0.960m on the previous employee changes estimate as follows:
- The pay award costs are more than originally anticipated as the public sector pay commitment was averaged at 2.6% within the previous outlook, however, it is very dependent on the mix of employees and our salary template exercise has calculated the cost is £0.373m more than anticipated.
 - The pay increment costs are more than originally anticipated as within the mid-range scenario only 50% of the incremental cost from 2018-19 had been included on the basis that turnover of staff may have resulted in a reduction to the employee base that could have offset some of the incremental provision, this has not been the case. The increase on previous estimate is £0.514m.
 - In terms of the level of employee budgets for 2019-20, the expectation would be that the budget would reflect the 2018-19 budget plus any increase due to incremental progression, inflation and any other

unavoidable employee cost increases less previously approved employee budget savings. For 2019-20 there is an overall increase on the employee budget base of £0.073m. This is a small amount and in the main is linked to employee turnover and the classification of employees in or out the superannuation scheme which has a cost.

- 1.5 In respect of cost and demand pressures, there has been a small change to the cost pressure in relation to the Local Plan Enquiry. It is now anticipated that the profile of this cost pressure will be £0.068m in 2019-20 and £0.022m in 2020-21 instead of £0.090m in 2019-20.
- 1.6 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 £23.089m with a gap of £7.229m in 2019-20.
- 1.7 After factoring in previous savings decisions or potential options towards balancing the budget this reduces the gap to £13.737m over the three year period with a gap of £3.172m in 2019-20.
- 1.8 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. The HM Treasury Budget publication allocated an extra £4.7 billion to the Reserve next year to cover the costs in 2019-20. The 2019 Spending Review will settle the funding for costs beyond 2019-20 arising from the valuations. Whilst it looks like funding has been provided for the increased rate, it is unclear how the Scottish Government will distribute this additional funding and whether it will meet the full cost due to the distribution methodology.
- 1.9 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 18 October 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.
- 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.

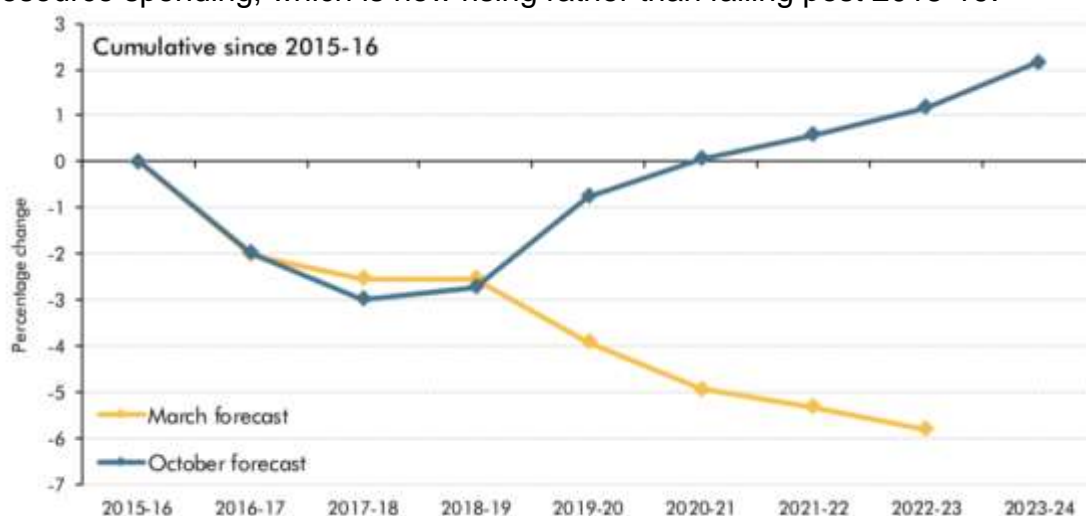
3. RECOMMENDATIONS

- 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 The Scottish Government funding assumption is one of the key assumptions affecting the budget outlook and it is also the one where it is extremely difficult to predict. Within previous budget outlook reports, I considered a prudent assumption to be within the range of a reduction between 1.5% (best case) and 3.2% (worst case) with a mid-range of 2.35%.
- 4.1.2 The UK Government's Autumn Budget for 2018 was published on 29 October 2018 along with the latest Office for Budget Responsibility (OBR) Economic and Fiscal Outlook (EFO). This is now the central annual Budgetary announcement by the UK Government, having replaced the traditional Spring Budget. Some of the key points are:
- Total Revenue** has been revised up considerably as a result of better than expected tax receipts with respect to: National Insurance Contributions; VAT; and Corporation Tax;
- Total Expenditure** has been revised up by similar amounts, except in 2018-19, due largely to commitments made with respect to future NHS resource funding levels;
- Total Borrowing** is largely unchanged (2018-19 excepted) as the changes to Revenues and Expenditure largely cancel each other out;
- Resource DEL (Departmental Expenditure Limit):** The Chart below highlights

the degree to which the latest forecasts have improved for UK public sector resource spending, which is now rising rather than falling post 2018-19.



- 4.1.3 In terms of the Scottish Budget, the Barnett formula related consequential from the 2018 UK Budget amounts to £959.7m. The majority of this increase (around £550 million) relates to NHS resource spend, which the Scottish Government is likely to reserve for the NHS (or a wider definition of healthcare) in Scotland. However, much of the remainder relates to Local Government areas of spend, both in 2019-20 as well as in the current financial year (2018-19). The draft Scottish Budget Statement for 2019-20 is due to be delivered on Wednesday 12 December, with individual Council allocations expected to be known week commencing 17 December 2018.
- 4.1.4 There is still a great deal of uncertainty as to what the settlement may be and, at the time of writing this report, it is so close to the date when we will know our settlement that revising the assumption based on the economic forecast alone would add little value to our budget planning. Having said that, I had previously indicated that my assumptions were prudent and there were factors that influenced the prudence, one being the review of the supporting people distribution which had the potential to reduce our funding by a further 0.8% and the other issue being the review of the floor mechanism.
- 4.1.5 The distribution of the supporting people grant was reviewed and COSLA Leaders have agreed that there will continue to be a dampening which means that our funding projection will not be further adversely affected by this decision. The group reviewing the floor mechanism have concluded their review and subject to COSLA Leaders approval, there is no adverse impact for Argyll and Bute. These two issues, as well as not ignoring what appears to be a more positive UK/Scottish Budget position, has lead me to adjust my mid-range scenario by 0.8% which relates to the impact of the supporting people distribution if the continuation of the dampening had not been agreed. The mid-range scenario assumption is now fairly close to the actual position in 2018-19. At this stage, I have not updated the best and worst case scenarios as the focus of attention is on the mid-range scenario.
- 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	-1.55%	-1.55%	-1.55%
Estimated SG Funding Reduction	(2,961)	(2,915)	(2,870)
Estimated SG Funding	188,076	185,161	182,291

- 4.1.7 By way of a reminder, and as reported in the May 2018 budget outlook report, 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, however, COSLA are pushing that the total funding i.e. the amount paid in 2017-18 and 2018-19 should be baselined as it was given for revenue purposes. Our share of the funding paid in 2017-18 was £0.624m which if confirmed would reduce the outstanding budget gap accordingly.

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	188,076	185,161	182,291
Council Tax Base	47,674	47,674	47,674
Council Tax Growth	238	478	719
Total Estimated Funding	235,988	233,313	230,684

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). In my update in October I advised of an accounting transfer between Live Argyll and the Council budget in respect of the apprenticeship levy, this had no bottom line impact on the Council position.
- 4.3.3 I also advised in October that there is a possible adjustment to the base budget in respect of the pay award and this remains the case and figures have been updated slightly to reflect more accurate costings. The negotiations are still

ongoing for 2018-19, however, there is currently a 3% best and final offer on the table for all employee groups which has been rejected. 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 £0.094m for local government employees plus an additional £0.216m 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 £0.094m in respect of local government employees in the mid-range scenario and an additional cost of £0.310m 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 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)
Reduce Apprenticeship Levy budget (transfer to Live Argyll see para 4.8.1)	(20)	(20)	(20)
2018-19 pay award shortfall	94	94	94
Revised Base Budget	236,356	236,356	236,356

4.4 Employee Cost Changes

- 4.4.1 The employee cost change assumptions included in the previous budget outlook reports related to the pay award and the cost of increments, as well as the potential cost pressure from the in relation to the increase in teacher's pensions contribution rate.
- 4.4.2 Strategic Finance have populated salary templates with details of the staff establishment for 2018-19 and where necessary liaised with budget holders to confirm their staff. The templates calculate the next years pay bill, including superannuation and national insurance contributions. The cost of the employees from the template is compared to the previous year and reasons for differences explained.
- 4.4.3 In terms of the level of employee budgets for 2019-20, the expectation would be that the budget would reflect the 2018-19 budget plus any increase due to

incremental progression, inflation and any other unavoidable employee cost increases less previously approved employee budget savings. For 2019-20 there is an overall increase on the employee budget base of £0.073m. This is a small amount and in the main is linked to employee turnover and the classification of employees in or out the superannuation scheme which has a cost.

- 4.4.4 The cost of the pay inflation and increments as well as the changes to the employee base are compared to the original estimate included within the budget outlook and the table below summarises a £0.956m increase to the budget gap within the mid-range scenario. The pay award costs are more than originally anticipated as the public sector pay commitment was averaged at 2.6% within the previous outlook, however, it is very dependent on the mix of employees. The pay increment costs are more than originally anticipated as within the mid-range scenario only 50% of the incremental cost from 2018-19 had been included on the basis that turnover of staff may have resulted in a reduction to the employee base that could have offset some of the incremental provision, this has not been the case.

Category	Budget Outlook Mid-Range £000	Draft 2019-20 Budget £000	Increase (Decrease) to Budget Gap £000
Pay Award (includes base pay award, National Insurance & Superannuation as a result of pay award and Living Wage)	2,815	3,188	373
Increments	332	846	514
Change to Employee Base	0	73	73
Total	3,147	4,107	960

- 4.4.5 It should be noted, that the 2019-20 budget estimate is based on the pay award being equal to the public sector pay commitment (3%/2%). Negotiations are ongoing in relation to the pay award for 2018-19 and both the Scottish Joint Council and the Teachers Trade Unions have rejected the Employers revised pay offer and advised that preparations are now in hand to conduct strike ballots. It is difficult to predict what the pay award might be in 2019-20 but at this stage, the budget estimate has been build up using the public sector pay commitment. There is a risk that it could be higher.
- 4.4.6 In terms of the assumption on future years pay award, 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 assumed at a 3% flat rate and the best case scenario been assumed at a 2% flat rate.

Teachers' Pensions

- 4.4.7 Within the October budget outlook, I advised that there is a further pressure in

relation to teachers' pensions. As a result of the Treasury decision to adjust a discount rate within the Scottish Teachers' Pension Scheme, 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%.

- 4.4.8 The UK Budget confirms a reduction of the discount rate for calculating employer contributions in unfunded public service pension schemes. The HM Treasury Budget publication has also allocated an extra £4.7 billion to the Reserve next year to cover the costs in 2019-20. The 2019 Spending Review will settle the funding for costs beyond 2019-20 arising from the valuations. Whilst it looks like funding has been provided for the increased rate, it is unclear how the Scottish Government will distribute this additional funding and whether it will meet the full cost due to the distribution methodology.
- 4.4.9 Another issue that has been raised is the timing of any funding announcement. It is unclear whether it will be included within the Scottish Budget Statement on 12 December or announced at a later date which will be hugely unhelpful for the budget setting process. At this stage, I have continued to not include the additional cost, estimated to be £1.8m within the budget gap on the assumption that it will be fully funded.
- 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 £000	2020-21 £000	2021-22 £000
Pay Award	3,188	6,459	9,813
Increments	846	1,269	1,692
Increase to Pay Base	73	73	73
Total Employee Cost Changes	4,107	7,801	11,578

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 and reported within the October budget outlook report. There has been one small change to the non-pay inflation, removing the events and festivals inflation of £0.002m as the budget for 2019-20 was agreed earlier in the year and the inflationary increase is not required. The non-pay inflation amounts to £1.031m and this has been included each year in both the best and mid-range scenario. The worst case scenario also includes a 1% general inflation in Years 2 and 3 over and above the unavoidable/inescapable inflation amount. Further detail is contained within Appendix 2.

4.6 Cost and Demand Pressures

- 4.6.1 A review of cost and demand pressures was carried out during September by Strategic Finance staff in consultation with services and reported within the

October budget outlook report. The cost and demand pressures previously reported within the mid-range scenario are summarised in the table below.

	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 and Lorn	54	54	54
Local Plan Enquiry	68	22	0
Waste PPP Financial Model	266	266	266
Catering and Cleaning Service Choices shortfall	83	83	83
General provision for unidentified cost and demand pressures	0	250	500
Council anti-virus software	19	19	19
ASN Demand	708	837	965
Total	1,610	2,033	2,439

- 4.6.2 There has been a small change to the cost pressure in relation to the Local Plan Enquiry. It is now anticipated that the profile of this cost pressure will be £0.068m in 2019-20 and £0.022m in 2020-21. Further information on all cost and demand pressures across all three scenarios is included within Appendix 3.

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, Strategic Finance have now prepared the salary budgets for 2019-20 and the pay inflation and pay increments estimates have been updated and a change to employee base added. The table below summarises the Social Work cost and demand pressures and more information is included within Appendix 4.

	2019-20 £000	2020-21 £000	2021-22 £000
Pay Inflation	728	1,475	2,241
Pay Increments	91	137	182
Change to Pay Base	130	130	130
Non-Pay Inflation	1,260	2,520	3,780
Base Adjustment 2018-19	43	43	43
Potential Pay Award shortfall			
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	3,500	6,650	9,849
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 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. Also added into this is a base budget transfer from 2018-19 in respect of the apprenticeship levy of £0.020, there is a corresponding adjustment to the Councils budget allocation for the apprenticeship levy.

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	236,356	236,356	236,356
Employee Cost Changes	4,107	7,801	11,578
Non-Pay Inflation	1,031	2,062	3,093
Cost and Demand Pressures	1,610	2,033	2,439
Increase/(Decrease) to HSCP allocation	0	0	0
Increase/(Decrease) to Live Argyll payment	113	209	307
Total Estimated Expenditure	243,217	248,461	253,773
Estimated Funding	235,988	233,313	230,684
Estimated Budget Surplus / (Gap) Cumulative	(7,229)	(15,148)	(23,089)

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 £23.089m with a gap of £7.229m 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 £15.776m with a gap of £5.933m in 2019-20 and in the worst case scenario, the budget gap over the three years is £39.611m with a gap of £11.658m in 2019-20.

4.10 Measures to Balance the Budget

4.10.1 There are no changes to my previous assumptions on measures to balance the budget. 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	(7,229)	(15,148)	(23,089)
Savings Measures	4,057	7,341	9,352
Estimated Budget Surplus / (Gap) Cumulative	(3,172)	(7,807)	(13,737)
Estimated Budget Surplus / (Gap) In Year	(3,172)	(4,635)	(5,930)

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 £13.737m with a gap of £3.172m 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 £5.565m with a gap of £1.692m in 2019-20 and in the worst case scenario, the budget gap over the three years is £35.307m with a gap of £9.218m 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)	(3,760)	(9,348)	(16,231)
Small change to 2018-19 pay award shortfall	(4)	(4)	(4)
Change to Scottish Government funding assumption	1,528	2,997	4,408
Increase on calculated pay inflation cost	(373)	(756)	(1,147)
Increase on calculated pay increments costs	(514)	(605)	(696)
Change to employee base	(73)	(73)	(73)
Adjustment to non-pay inflation	2	4	6
Re-profile of Local Plan Enquiry cost pressure	22	(22)	0
Total Savings	(3,172)	(7,807)	(13,737)

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, 16 August 2018 and 18 October 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 £13.737m with a gap of £3.172m in 2019-20.

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 November 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

BUDGET OUTLOOK 2019-20 TO 2021-22
POLICY AND RESOURCES COMMITTEE - 13 DECEMBER 2018

APPENDIX 1

	Best Case Scenario			Mid-Range Scenario			Worst Case Scenario		
	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
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)	53	53	53	269	269	269
Revised Base Budget	236,262	236,232	236,232	236,356	236,356	236,356	236,572	236,572	236,572
Pay Award	3,188	5,640	7,527	3,188	6,459	9,813	3,188	6,866	11,111
Pay Increments	846	846	846	846	1,269	1,692	846	1,692	2,538
Change to employee base	73	73	73	73	73	73	73	73	73
Total Employee Cost Changes (Council Services)	4,107	6,559	8,446	4,107	7,801	11,578	4,107	8,631	13,722
Non-Pay Inflation - Council Services	1,031	2,062	3,093	1,031	2,062	3,093	1,031	2,796	4,561
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	68	22	0	68	22	0	68	22	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	1,469	1,493	1,521	1,610	2,033	2,439	1,708	2,486	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	242,136	244,876	247,099	243,217	248,461	253,773	244,375	252,382	260,921
Scottish Government Grant	188,171	185,348	182,568	188,076	185,161	182,291	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	235,988	233,313	230,684	232,717	226,918	221,310
Budget Surplus / (Gap) PRIOR to measures to balance the budget	(5,933)	(11,136)	(15,776)	(7,229)	(15,148)	(23,089)	(11,658)	(25,464)	(39,611)
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	(1,692)	(3,416)	(5,565)	(3,172)	(7,807)	(13,737)	(9,218)	(21,422)	(35,307)
Budget Surplus / (Gap) In Year AFTER measures to balance the budget	(1,692)	(1,724)	(2,148)	(3,172)	(4,635)	(5,930)	(9,218)	(12,204)	(13,884)

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 price volatility - 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	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					257
Grand Total					1,031

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
Customer Services	Customer and Support Services	Universal Credit "Full" Service goes live in May 2018. The DWP will reduce the Housing Benefit Administration Subsidy they pay to the Council from 2018/2019 as some claimants come off of Housing Benefit processed by Council staff and go onto Universal Credit processed by the DWP. It is too early to predict what the impact will be on the Council's caseload and at this stage we will not know the size of the funding reduction from DWP until December 2018. These figures represent our best estimates at this time.	50	100	150	50	100	150	50	100	150
Customer Services	Executive Director	Profile of the annual service payment (previously referred to as unitary charge) in respect of the new schools.	349	349	349	349	349	349	349	349	349
Customer Services	Facility Services	There is an ongoing need for the Council to manage the activities associated with delivery of the Asbestos Management Plan. An earmarked reserve equivalent to £90k per annum was agreed by the Council in FQ2 2017 which should allow the management arrangements to be funded until FQ2 2020 on the understanding that this provision is the subject of ongoing review. From a budgetary perspective, the worst case scenario is that funding of the anticipated staff resource will continue to be required beyond 2020.	0	20	20	0	40	40	0	60	60
Customer Services	Facility Services	The annual payment of allowances under the Carbon Reduction Commitment scheme ends in its present form on 31 March 2019. There is the risk that this may lead to the introduction of a more punitive regime.	0	0	0	13	13	13	25	25	25
Customer Services	Facility Services	Renewal of school and public transport contracts in Mid Argyll and Lorn in July 2018	54	54	54	54	54	54	54	54	54
Development and Infrastructure	Planning and Regulatory Services	Local Development Plan. 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.	68	22	0	68	22	0	68	22	0
Development and Infrastructure	Roads and Amenity	Waste Financial Model - This relates to the financial model that has been updated to reflect waste costs until 2027-28. The estimated cost pressure for 2019-20 is £266k. The bio-municipal waste landfill ban comes into place in January 2021 and it should be noted that this could lead to possible variations with the Renewi contract.	266	266	266	266	266	266	266	266	266
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 and also £0.035m for drinks provision increase. This distribution hub project is on hold indefinitely and will only be delivered should other external funding be available to enable it. The drinks provision charge was lower than recommended creating this ongoing shortfall. A cost pressure has been build into all three scenarios for this undeliverable saving.	83	83	83	83	83	83	83	83	83

UPDATED

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
Council Wide	Council Wide	General provision for unidentified Cost and Demand Pressures	0	0	0	0	250	500	0	500	1,000
Customer Services	Customer and Support Services	Additional resource required to ensure all Council IT software, including Education, has appropriate anti—virus protection.	19	19	19	19	19	19	19	19	19
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 demand pressure reflects the position as matters stand. There has been an ongoing review of ASN provision for the last 2 years and the Director of Customer Services has asked for an interim report 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
TOTAL			1,469	1,493	1,521	1,610	2,033	2,439	1,708	2,486	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%	728	1,288	1,719	728	1,475	2,241	728	1,568	2,537
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.	91	91	91	91	137	182	91	182	273
All Social Work	Increase to pay base as a result of employee changes/turnover.	130	130	130	130	130	130	130	130	130
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
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
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
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
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
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

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
TOTAL UNFUNDED COST AND DEMAND PRESSURES		2,583	4,616	6,533	3,500	6,649	9,849	4,380	8,575	12,961

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
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