

BUDGET OUTLOOK 2020-21 TO 2022-23

1. EXECUTIVE SUMMARY

- 1.1 This report provides an update to the budget outlook 2020-21 to 2022-23, reported to the Policy and Resources Committee on 16 May 2019 and 15 August 2019. The estimates within the report are based on the mid-range scenario with best and worst case scenarios noted in Appendix 1.
- 1.2 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 2.5% (worst case) with a mid-range of 2.0%.
- 1.3 There are no changes to my previous assumptions around the growth in Council Tax. It has been assumed that for the best case scenario this would be 0.75%, worst case 0.25% and mid-range 0.5%.
- 1.4 The estimated funding in respect of Teachers Pensions was updated within the last budget outlook and there has been no change to this assumption.
- 1.5 There is one change to the base budget since the report on 15 August 2019 and this is to remove the £0.030m budget provision for payment to Argyll and the Isles Tourism Co-operative (AITC) as Council additional funding agreed in February 2017 comes to an end at 31 March 2020.
- 1.6 The assumptions in respect of employee costs for Council services have remained unchanged and are noted as follows:
- Pay award for 2020-21 as agreed per the multi-year pay deal.
 - Pay award of between 2.7% and 3.5%, with mid-range 3% for 2021-22 and 2022-23.
 - Increments between zero and £0.848m with mid-range £0.424m.
 - Further increase to the teachers' employer contribution rate.
- 1.7 A review of the unavoidable/inescapable non-pay inflation provision required in 2020-21 was carried out during September by finance staff in consultation with services. The non-pay inflation previously estimated within the budget outlook was £1.031m (equal to the 2019-20 non-pay inflation) and the updated estimate is £1.325m, an increase of £0.294m. There are a number of increases, with the most significant ones being in relation to utilities, NPDO contract and fuel.
- 1.8 There are a number of cost and demand pressures for Council services built into each scenario. There is one new cost pressure included within this report

in relation to the loss of income on off-street parking quantified as £0.347m in 2020-21.

- 1.9 In addition to the identified cost and demand pressures an allowance for unidentified cost and demand pressures has been included in mid-range and worst case scenarios of between £0.250m and £0.500m per year.
- 1.10 I reported in my previous budget outlook report that there were two known costs pressures that have not been quantified at this stage.
- The first is in relation to the ban on biodegradable municipal waste to landfill from January 2021. A letter was received from the Cabinet Secretary for Environment, Climate Change and Land Reform on 19 September 2019 to advise that enforcement is delayed until 2025 for both public and private sectors managing waste covered by the ban. The letter further outlines that Scottish Landfill tax will be used as an incentive to ensure the transitional work proceeds at the necessary pace which means that the Landfill Tax is likely to increase which could create a pressure between now and 2025.
 - The second unquantified cost pressure is in relation to the consolidation of the living wage and there is no further update at this stage.
- 1.11 There is a political decision to be made as to the future allocation to the Health and Social Care Partnership. As part of the budget agreed in February 2019, indicative allocations for 2020-21 and 2021-22 were agreed on the basis of current year funding less 1%. This indicative position has been included as the mid-range scenario with the 1% reflected in 2022-23 also. In order to reflect different scenarios within the budget outlook, I have assumed a reduction equal to the mid-range Scottish Government funding reduction (2%) within the best case scenario and assumed a flat cash basis in the worst case scenario. These are only assumptions and it will be a matter for Council to consider as part of the budget process next year.
- 1.12 For Live Argyll, I have assumed the increase in 2020-21 as previously agreed by the Policy and Resources Committee on 17 August 2017. For 2021-22 and 2022-23 I have assumed a reduction equal to the mid-range Scottish Government Funding reduction (2%) within the best case scenario, a 1% reduction within the mid-range scenario and a flat cash basis in the worst case scenario. These are only assumptions and it will be a matter for Council to consider as part of the budget process next year.
- 1.13 The budget gap in the mid-range scenario after allowing for the current base commitments, employee adjustment, non-pay inflation and cost and demand pressures and not factoring in any previous savings decisions or future potential options is an estimated gap over the three year period of £26.525m with a gap of £9.197m in 2020-21.
- 1.14 The measures to balance the budget over the next three years are as follows:
- Proposed increase to fees and charges of between 1% and 5% (3% mid-range).
 - Service choices savings in respect of longer term redesign of catering and cleaning service agreed in February 2016 to be delivered by 2021-22.

- Management/operational savings already agreed in October 2017 and further management/operational savings agreed in February 2019.
 - Policy Savings already agreed February 2018 and further policy savings agreed in February 2019.
 - Proposed increase to Council Tax (4.79% in best case, 3% in mid-range and no increase in worst case scenario).
- 1.15 In the mid-range scenario, the budget gap estimated over the three year period 2020-21 to 2022-23 is £19.190m with a gap of £5.736m in 2020-21.
- 1.16 In contrast, the budget gap in the best case scenario over the three years is £7.070m with a gap of £2.055m in 2020-21 and in the worst case scenario, the budget gap over the three years is £34.610m with a gap of £9.986m in 2020-21. A summary of all three scenarios is included within Appendix 1.
- 1.17 It was the intention to update the medium to longer term financial strategy and present to Committee in October, however, this has been delayed for a number of reasons and will be updated later in the financial year.
- 1.18 It is recommended that the Policy and Resources Committee consider the current estimated budget outlook position for the period 2020-21 to 2022-23.

BUDGET OUTLOOK 2020-21 TO 2022-23**2. INTRODUCTION**

- 2.1 This report provides an update to the budget outlook 2020-21 to 2022-23, reported to the Policy and Resources Committee on 16 May 2019 and 15 August 2019.
- 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 2020-21 to 2022-23.

4. DETAIL**4.1 Funding****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 2.5% (worst case) with a mid-range of 2.0%.
- 4.1.2 The table below summarises the mid-range scenario estimates expressed in percentage terms and monetary value.

	2020-21 £000	2021-22 £000	2022-23 £000
% Change to Funding	-2.0%	-2.0%	-2.0%
Estimated SG Funding Reduction	(3,874)	(3,797)	(3,721)
Estimated SG Funding	189,837	186,040	182,319

Council Tax

- 4.1.3 There are no changes to my previous assumptions around the growth in Council Tax. It has been assumed that for the best case scenario this would be 0.75%,

worst case 0.25% and mid-range 0.5%. The Council tax increase is included within paragraph 4.9.2 of this report.

UK Government Funding for Teachers Pensions

- 4.1.4 The funding for 2019-20 was confirmed by letter on 6 June 2019. The estimated full year costs based on the revised rate of 23% is £2.147m and it is assumed that the Scottish Government would continue to fund 79% of the cost being £1.696m.
- 4.1.5 Within the last budget outlook, I advised that due to the increase being deferred until 1 September, the cost in 2019-20 was less than budgeted for and Council approved that the surplus budget be earmarked to pay for the further rate increase in future years of 0.6% which was agreed when the increase was deferred until 1 September.
- 4.1.6 The estimated funding and earmarking have been built into the outlook.
- 4.1.7 The table below summarises the estimated total funding in the mid-range scenario.

	2020-21 £000	2021-22 £000	2022-23 £000
Estimated SG Funding	189,837	186,040	182,319
Council Tax Base	50,457	50,457	50,457
Council Tax Growth	252	506	761
UK Government Funding for Teachers Pensions	1,696	1,696	1,696
Earmarked Reserve funding brought forward for Teachers Pensions	63	63	63
Total Estimated Funding	242,305	238,762	235,296

4.2 Base Budget

- 4.2.1 The starting point for the base budget for 2020-21 is the 2019-20 approved budget adjusted for any one-off items as well as any other items that have an impact on the base.
- 4.2.2 There are adjustments required to the base budget from previous Council decisions as follows:

	2020-21 £000	2021-22 £000	2022-23 £000
Base Budget 2019-20	243,048	243,048	243,048
Remove budget provision for payment to Argyll and the Isles Tourism Co-operative (AITC) as Council additional funding agreed in February 2017 comes to an	(30)	(30)	(30)

end at 31 March 2020.			
Increase loans charges budget by £0.100m from 2020-21 to pay for prudential borrowing cost of £2.8m of capital expenditure on roads – agreed 22 February 2018	100	100	100
Remove Mod baseline funding from 2020-21 as additional one-off funding was agreed in 2019-20 and the base budget is no longer required – agreed 21 February 2019	(40)	(40)	(40)
Reduce budget for Events and Festivals to £0.090m from 2020-21 – agreed 21 February 2019	(23)	(23)	(23)
Reduce budget for Supporting Communities Fund to £0.090m from 2020-21 – agreed 21 February 2019	(8)	(8)	(8)
Local Plan Enquiry Cost Pressure of £0.068m agreed for 2019-20 to be reduced to £0.022m in 2020-21 and zero from 2021-22 – agreed 21 February 2019	(46)	(68)	(68)
Total	243,001	242,979	242,979

4.3 Employee Cost Changes

Pay Award

- 4.3.1 There are no changes to my previous assumptions around Local Government staff. A multi-year pay deal was agreed in March for SJC employees, Craft Workers and Chief Officers up to 2020-21 and this gives us certainty on the cost of the pay award to then. For 2021-22 and 2022-23 it has been assumed that the pay award would be within the range of 2.7% (best case) and 3.5% (worst case) with a mid-range of 3%
- 4.3.2 In terms of teachers, a pay deal was agreed covering the years 2018-19 to 2020-21. Additional funding was advised on 21 June in relation to 2019-20 which covers the impact of the enhancement COSLA's original pay offer to increase it from 2% to 3% for those earning more than £36,500 in 2018-19. It also covers the policy intervention in relation to the maingrade restructuring and the revaluation of all other SNCT payscales from 1 April 2019 as agreed with COSLA. The additional funding of £2.366m is sufficient to cover the cost in 2019-20 and the funding built into future estimates.
- 4.3.3 As with Local Government employees the pay award in 2020-21 is known and the estimate is therefore much more certain. For 2021-22 and 2022-23 it has been assumed that the pay award would be within the range of 2.7% (best case) and 3.5% (worst case) with a mid-range of 3%.

Increments

- 4.3.4 There are no changes to my previous 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 2019-20 (£0.848m) and the mid-range is between the two.

Teachers Pensions Increase

- 4.3.5 The base budget includes the original estimated full year cost of the teachers' pension scheme if it had been implemented on 1 April 2019 at a rate of 22.4% - a cost of £1.846m. As the rate is increasing by a further 0.6%, in addition to the grading changes, the full year cost has increased by £0.301m to £2.147m. This additional cost will need to be built into the employee increases and the additional funding has also been built in within the funding section. Overall, there is a nil effect on the budget outlook for the pension changes as the surplus in 2019-20 created by deferring the increase by 5 months will be earmarked to pay for the increased cost in future years.
- 4.3.6 The table below summarises the employee cost increases in the mid-range scenario for Council services. The employee cost increases relating to Social Work within the Health and Social Care Partnership are summarised within paragraph 4.6.3.

	2020-21 £000	2021-22 £000	2022-23 £000
Pay Award	3,500	7,000	10,500
Teachers Pay Deal 2019-20 Additional Cost	2,366	2,366	2,366
Pay Award on Teachers Pay Deal 2019-20	71	144	219
Increments	424	848	1,272
Teachers Pensions Increase	301	301	301
Total Employee Cost Changes	6,662	10,659	14,658

- 4.3.7 Finance staff have started work on preparing the salary templates for 2020-21. These templates detail all employees and cost the salaries for 2020-21. The budget outlook in December will provided updated pay award and increment figures based on this exercise.

4.4 Non-Pay Inflation

- 4.4.1 A review of the unavoidable/inescapable non-pay inflation provision required in 2020-21 was carried out during September by finance staff in consultation with services. The non-pay inflation previously estimated within the budget outlook was £1.031m (equal to the 2019-20 non-pay inflation) and the updated estimate is £1.325m, an increase of £0.294m. The table below summaries the new inflation along with the changes from previous year. Further information is

contained within Appendix 2.

Service	Inflation	Inflation Required	Increase / (Decrease) from Previous Assumption
		£000	£000
Council Wide	Utilities – Electricity	198	124
Council Wide	Utilities – Gas	9	9
Council Wide	Utilities – Oil	11	11
Council Wide	Utilities – Water	10	(2)
Council Wide	Non Domestic Rates	129	(9)
Council Wide	Vehicle Fuel	56	56
Education	Pre-Primary Partner Uplift	0	(16)
Commercial Services	Catering Purchases and Milk	177	38
Commercial Services	School and Public Transport	50	0
Legal and Regulatory Support	Community Pool Subsidies	20	0
Legal and Regulatory Support	NPDO Schools Contract	323	77
Legal and Regulatory Support	HUB Schools Contract	51	(28)
Head of Customer and Support Services	ICT	68	68
Roads and Infrastructure	Landfill Tax	73	(12)
Roads and Infrastructure	Waste PPP Contract	135	(19)
Roads and Infrastructure	Street Lighting Electricity	15	(3)
		1,325	294

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

4.4.3 The non-pay inflation increases relating to Social Work within the Health and Social Care Partnership are summarised within paragraph 4.6.3.

4.5 Cost and Demand Pressures

4.5.1 Over the last few years, services have worked on the basis of having to contain any cost and demand pressures within current resources. A number of future cost and demand pressures were already identified for Council Services as part of the 2019-20 budget and in the last budget outlook report three new cost pressures were identified in relation to SEEMIS, Third Sector Recycling and Oracle Support Costs. These cost pressures are summarised within the table below.

	2020-21 £000	2021-22 £000	2022-23 £000
Universal Credit – HB Admin Grant	60	120	180
Asbestos Management Plan	87	135	135
ASN Demand	129	257	386
SEEMIS (Education Management Information System) membership fee	15	16	18
Third Sector Recycling	100	100	100
Oracle support costs	18	18	18
Total	409	646	837

4.5.2 Cost and Demand pressures are regularly reviewed and the latest review has identified one cost pressures as summarised within the table below. Further detail on all the cost and demand pressures is included within Appendix 3.

	2020-21 £000	2021-22 £000	2022-23 £000
<i>NEW</i> – Loss of income off-street parking – cancellation of saving option TB08 agreed February 2018	347	347	347
Total	347	347	347

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

4.5.4 I reported in my previous budget outlook report that there were two known costs pressures that have not been quantified at this stage.

- The first is in relation to the ban on biodegradable municipal waste to landfill from January 2021. A letter was received from the Cabinet Secretary for Environment, Climate Change and Land Reform on 19 September 2019 to advise that enforcement is delayed until 2025 for both public and private sectors managing waste covered by the ban. The letter further outlines that Scottish Landfill tax will be used as an incentive to ensure the transitional work proceeds at the necessary pace which means that the Landfill Tax is

likely to increase which could create a pressure between now and 2025.

- The second unquantified cost pressure is in relation to the consolidation of the living wage and there is no further update at this stage.

4.5.5 Officers have been liaising with Rothesay Pavilion Trust who have been reviewing their 5 year business plan. Further information will be presented to Committee once known.

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

	2020-21 £000	2021-22 £000	2022-23 £000
Previously Identified Cost and Demand Pressures	409	646	837
New Cost and Demand Pressures	347	347	347
General Allowance	250	500	750
Total Cost and Demand Pressures	1,006	1,493	1,934

4.6 Health and Social Care Partnership

4.6.1 There are no changes to the previous assumption on the payment to the Health and Social Care Partnership (HSCP). In order to reflect different scenarios within the budget outlook, I have assumed a reduction equal to the mid-range Scottish Government funding reduction (2%) within the best case scenario, assumed a flat cash basis in the worst case scenario and the mid-range scenario is based on a 1% reduction, being the indicative allocation for 2020-21 and 2021-22 agreed as part of the Council budget in March 2019.

4.6.2 The HSCP was overspent in both 2017-18 and 2018-19 and £4.282m is outstanding to be repaid to the Council. The forecast outturn for 2019-20 as at the end of August 2019 is a further overspend of £2.012m (£1.712m related to Social Work Services) and it is therefore apparent that the HSCP are struggling to deliver services within current resources. Whilst it is a reasonable approach to pass on a reduction in funding to the HSCP, in line with the Council's reduction in funding from the Scottish Government, consideration will need to be given as to whether the HSCP will be able operate within a reduced budget due to increased demand pressures and the difficulty the HSCP have in delivering substantial cashable savings.

4.6.3 Social Work services have already identified a number of cost pressures and these have been reviewed and updated and are summarised below within more information included within Appendix 4. These pressures are not included within the Council's budget gap, they will have to be managed by the Health and Social Care Partnership but are included within this report for information.

	2020-21 £000	2021-22 £000	2022-23 £000
Pay Inflation	970	1,940	2,910
Pay Increments	46	92	138
Non-Pay Inflation	1,306	2,673	4,169
Older People Demand Growth	640	980	1,325
Younger Adults Demand Growth	539	817	1,087
National Care Home Contract	326	665	1,017
Social Work Emergency Standby	150	157	164
Greenwood Hostel overnight staffing	50	52	54
Criminal Justice Development funding	50	50	50
<i>NEW</i> – IJB Governance	95	99	103
Unknown Cost and Demand Pressures	250	750	1,250
Total Cost Increase estimates for Social Work	4,422	8,275	12,267

4.7 Live Argyll

- 4.7.1 There are no changes to the previous assumption on the future payments to Live Argyll. For 2020-21 I have assumed the increase as previously agreed within the financial agreement. This agreement comes to an end at 31 March 2021 and for future years the assumption is the same as the Health and Social Care Partnership, that is:
- Best Case – reduction equal to mid-range Scottish Government funding reduction (2%).
 - Mid-Range – 1% reduction
 - Worst Case – flat cash.

4.8 Estimated Budget Gap PRIOR to Measures to Balance the Budget

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

	2020-21 £000	2021-22 £000	2022-23 £000
Base Budget	243,001	242,979	242,979
Employee Cost Changes	6,662	10,659	14,658
Non-Pay Inflation	1,325	2,650	3,975
Cost and Demand Pressures	1,006	1,493	1,934
Increase/(Decrease) to HSCP allocation	(588)	(1,170)	(1,746)
Increase/(Decrease) to Live Argyll payment	96	58	21
Total Estimated Expenditure	251,502	256,669	261,821
Estimated Funding	242,305	238,762	235,296
Estimated Budget Surplus / (Gap) Cumulative	(9,197)	(17,907)	(26,525)

4.9 Measures to Balance the Budget

- 4.9.1 At this stage there are no changes to previous assumptions on measures to balance the budget, however, the fees and charges inflationary increase has been updated based on the updated budget. The measures include:
- Inflationary increase on fees and charges of between 1% (worst case) and 5% (best case) with a mid-range of 3%.
 - Adjustment to previously agreed catering and cleaning saving in connection with shared services. I have assumed full delivery of the previously agreed saving of £0.446m in 2020-21 in the best case scenario and £0.172m of savings in the mid-range and worst case scenario by year 2021-22.
 - Previously agreed management/operational and policy savings options.
- 4.9.2 Councils have had the discretion to increase Council Tax by a maximum of 3% each year since 2017-18. Councils were given the flexibility to increase the Council Tax for 2019-20 by 3% in real terms which the Scottish Government confirmed as 4.79%. It could be assumed that a similar increase would be permitted in future years, however, this has not been confirmed. For the budget outlook, I have assumed no increase in the worst case scenario, a 3% increase in the mid-range scenario and a 4.79% increase in the best case scenario.
- 4.9.3 Finance Services have engaged the services of their Treasury Advisors, Link Asset Services to carry out a review of loans charges. There has been a live debate that has been ongoing for a number of months around changing the repayment periods of loan debt principal to reflect full asset life. The debate has concluded that the Section 95 officer now has more flexibility to consider altering the repayment period as long as it is "prudent". Based on our current principal repayments, this may give some flexibility to repay some debt over longer periods to reflect actual asset life, therefore, reducing the annual loan charge repayment. This will be quantified and reported to Members later in the year but it is likely that the review could give rise to both recurring and one-off savings.
- 4.9.4 The table below summarises the proposed measures to balance the budget in the mid-range scenario.

	2020-21 £000	2021-22 £000	2022-23 £000
Fees and Charges Increase	308	616	924
Catering and Cleaning Service Choices	0	172	172
Management/Operational Savings Agreed October 2017	326	326	326
Management/Operational Savings Agreed February 2019 (as per agreed profile, shown as a negative as there was one off savings in 2019-20)	(452)	(692)	(692)
Policy Savings Agreed February 2018	1,286	1,286	1,286
Policy Savings Agreed February 2019	472	547	547
Council Tax Increase	1,521	3,111	4,772
Total Savings already agreed	3,461	5,366	7,335

4.10 Estimated Budget Gap AFTER Measures to Balance the Budget

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

	2020-21 £000	2021-22 £000	2022-23 £000
Estimated Budget Gap Prior to Measures to Balance Budget	(9,197)	(17,907)	(26,525)
Savings Measures	3,461	5,366	7,335
Estimated Budget Surplus / (Gap) Cumulative	(5,736)	(12,541)	(19,190)
Estimated Budget Surplus / (Gap) In Year	(5,736)	(6,805)	(6,649)

4.10.2 In the mid-range scenario, the budget gap estimated over the three year period 2020-21 to 2022-23 is £19.190m with a gap of £5.736m in 2020-21.

4.10.3 In contrast, the budget gap in the best case scenario over the three years is £7.070m with a gap of £2.055m in 2020-21 and in the worst case scenario, the budget gap over the three years is £34.610m with a gap of £9.986m in 2020-21. A summary of all three scenarios is included within Appendix 1.

4.10.4 The changes from the previous budget outlook reported to Policy and Resources Committee on 15 August 2019 are summarised in the table below:

	2020-21 £000	2021-22 £000	2022-23 £000
Previously reported budget surplus / (gap) cumulative	(5,158)	(11,702)	(18,090)
Base Adjustment – AITC 3 year agreement ends	30	30	30
Non Pay-Inflation Increases	(294)	(588)	(882)
New Cost and Demand Pressures	(347)	(347)	(347)
Updated Fees and Charges monetary increase	33	66	99
Revised Budget Surplus / (Gap) Cumulative	(5,736)	(12,541)	(19,190)

4.11 Medium to Longer Term Financial Strategy

4.11.1 The Council has a medium to longer term financial strategy that was endorsed by the Policy and Resources Committee on 18 October 2017. The strategy includes sections on the current economic context, the revenue budget, the capital plan, treasury management and the strategy to address the budget gap.

4.11.2 It was the intention to update the medium to longer term financial strategy and present to Committee in October, however, this has been delayed for a number of reasons as noted below:

- The current economic context section is very difficult to write at this time due to the significant uncertainty surrounding the terms of the UK's withdrawal from the European Union.
- The Scottish Government have given a commitment to provide a three year funding settlement from 2020-21 and it would be extremely helpful to have this information built into any updated strategy.
- Officers are currently writing a capital strategy that will be part of the overall medium to longer term financial strategy but this will not be completed until later in the year.
- As mentioned earlier in the report, Finance Services have engaged the services of their Treasury Advisors, Link Asset Services to carry out a review of loans charges and the outcome of this review will be built into any updated strategy. This review won't be concluded until later in the year.

4.11.3 The regular three year budget outlook reports presented to every Policy and Resources Committee continue to give Members information on the latest revenue outlook position and for some Authorities this type of document is deemed to be their financial strategy.

4.11.4 The medium to longer term strategy will be updated and presented to Committee later in the financial year once clarity is received on the implications from the bullet points noted above.

5. CONCLUSION

5.1 This report provides information on the estimated budget gap over the three

year period 2020-21 to 2022-23. In the mid-range scenario, the budget gap estimated over the three year period 2020-21 to 2022-23 is £19.190m with a gap of £5.736m in 2020-21. There is a separate report on the agenda that brings forward savings options to help close the gap.

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 updated 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 | Fairer Scotland Duty - | None directly from this report but any proposals to address the estimated budget gap will need to consider equality and socio-economic impact. |
| 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 Financial Services
23 September 2019

**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 – Non-Pay Inflation
- Appendix 3 – Cost and Demand Pressures (Council Services)
- Appendix 4 – Cost and Demand Pressures (Social Work)

	Best Case Scenario			Mid-Range Scenario			Worst Case Scenario		
	2020-21	2021-22	2022-23	2020-21	2021-22	2022-23	2020-21	2021-22	2022-23
	£000	£000	£000	£000	£000	£000	£000	£000	£000
Base Budget	243,048	243,048	243,048	243,048	243,048	243,048	243,048	243,048	243,048
Base Budget Adjustments	(47)	(69)	(69)	(47)	(69)	(69)	(47)	(69)	(69)
Revised Base Budget	243,001	242,979	242,979	243,001	242,979	242,979	243,001	242,979	242,979
Pay Award	3,500	6,650	9,800	3,500	7,000	10,500	3,500	7,583	11,666
Teachers Pay Deal 2019-20 Additional Cost	2,366	2,366	2,366	2,366	2,366	2,366	2,366	2,366	2,366
Pay Award on Teachers Pay Deal 2019-20	64	130	197	71	144	219	83	169	258
Pay Increments	0	0	0	424	848	1,272	848	1,696	2,544
Change to employee base	0	0	0	0	0	0	0	0	0
Teachers Pensions Increase	301	301	301	301	301	301	301	301	301
Total Employee Cost Changes (Council Services)	6,231	9,447	12,664	6,662	10,659	14,658	7,098	12,115	17,135
Non-Pay Inflation - Council Services	1,325	2,650	3,975	1,325	2,650	3,975	1,325	3,400	5,475
Previously Agreed - HB Admin Grant	60	120	180	60	120	180	60	120	180
Asbestos Management Plan	67	115	115	87	135	135	107	155	155
ASN Demand	0	0	0	129	257	386	214	428	642
SEEMIS membership fee	15	16	18	15	16	18	15	16	18
Third Sector Recycling	50	50	50	100	100	100	150	150	150
Loss of income off-street parking	347	347	347	347	347	347	347	347	347
Oracle support costs	18	18	18	18	18	18	18	18	18
Allowance for Cost and Demand Pressures Future Years	0	0	0	250	500	750	500	1,000	1,500
Total Cost and Demand Pressures	557	666	728	1,006	1,493	1,934	1,411	2,234	3,010
Adjustment to Health and Social Care Partnership Payment	(1,176)	(2,329)	(3,459)	(588)	(1,170)	(1,746)	0	0	0
Adjustment to Live Argyll Management Fee	96	20	(54)	96	58	21	96	96	96
Total Estimated Expenditure PRIOR to measures to balance the budget	250,034	253,433	256,833	251,502	256,669	261,821	252,931	260,824	268,695
Scottish Government Grant	190,805	187,943	185,124	189,837	186,040	182,319	188,868	184,146	179,542
UK Government Funding - Teachers Pensions	1,696	1,696	1,696	1,696	1,696	1,696	1,696	1,696	1,696
Earmarked Reserves for Teachers Pensions	63	63	63	63	63	63	63	63	63
Council Tax	50,835	51,216	51,600	50,709	50,963	51,218	50,583	50,709	50,836
Total Funding	243,399	240,918	238,483	242,305	238,762	235,296	241,210	236,614	232,137
Budget Surplus / (Gap) PRIOR to measures to balance the budget	(6,635)	(12,515)	(18,350)	(9,197)	(17,907)	(26,525)	(11,721)	(24,210)	(36,558)
Measures to Balance the Budget:									
Fees and Charges	513	1,026	1,539	308	616	924	103	206	309
Catering and Cleaning Longer Term Redesign (Service Choices February 2016)	0	446	446	0	172	172	0	172	172
Management/Operational Savings Identified October 2017	326	326	326	326	326	326	326	326	326
Management/Operational Savings Identified February 2019	(452)	(692)	(692)	(452)	(692)	(692)	(452)	(692)	(692)
Policy Savings Options agreed February 2018	1,286	1,286	1,286	1,286	1,286	1,286	1,286	1,286	1,286
Policy Savings Options agreed February 2019	472	547	547	472	547	547	472	547	547
Council Tax Increase	2,435	5,041	7,828	1,521	3,111	4,772	0	0	0
Total Measures to Balance the Budget	4,580	7,980	11,280	3,461	5,366	7,335	1,735	1,845	1,948
Budget Surplus / (Gap) Cumulative AFTER measures to balance the budget	(2,055)	(4,535)	(7,070)	(5,736)	(12,541)	(19,190)	(9,986)	(22,365)	(34,610)
Budget Surplus / (Gap) In Year AFTER measures to balance the budget	(2,055)	(2,480)	(2,535)	(5,736)	(6,805)	(6,649)	(9,986)	(12,379)	(12,245)

Non-Pay Inflation (Council)

APPENDIX 2

Service	Inflation Category	Basis of Inflation	2020-21 Inflation %	2020-21 Inflation £000	Increase from 2019-20 £000
Council Wide	Utilities - Electricity	This is a volatile areas and it is difficult to predict the inflation. Assumed inflation at 9.76% based on Scottish Government price risk index report as at June 2019.	9.76%	198	124
Council Wide	Utilities - Gas	This is a volatile areas and it is difficult to predict the inflation. Assumed CPI rate of 2% (July 2019) for 2020-21.	2.00%	9	9
Council Wide	Utilities - Oil	This is a volatile areas and it is difficult to predict the inflation. Assumed CPI rate of 2% (July 2019) for 2020-21.	2.00%	11	11
Council Wide	Utilities - Solid Fuel	This is a volatile areas and it is difficult to predict the inflation. Assumed CPI rate of 2% (July 2019) for 2020-21.	2.00%	-	0
Council Wide	Utilities - Water	Assumed inflation at CPI rate of 2% (July 2019) for 2020-21.	2.00%	10	(2)
Council Wide	Non Domestic Rates	Based on current RPI as at end of July 2018	2.80%	129	(9)
Council Wode	Vehicle Fuel	Based on advice from Fleet Manager	5.00%	56	56
Council Wide Total				413	189
Education	Pre-Primary Partner Provider Uplift	No increase required this year - provision for 1,140 hours is sufficient	0.00%	-	(16)
Commercial Services	Catering Purchases and Milk	Estimated 10% increase predicted as a result of price volatility. Estimated 10% is based on national estimates regarding increase in food prices following EU exit.	10.00%	177	38
Commercial 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	0
Legal and Regulatory Support	Community Pool Subsidies	For Atlantis Leisure subsidy agreement the annual increase is based on RPI at Sept so estimate based on anticipated RPI at Sept 2019 then Sept 2020. MacPool & Islay Pool inflation based on anticipated RPI at March 2020.	3.00%	20	0
Legal and Regulatory Support	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.	2.10%	323	77
Legal and Regulatory Support	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.	0.98%	51	(28)
Executive Director - Douglas Hendry - Total				621	71
Head of Customer Support Services	ICT	Inflationary increases re renewals for support and maintenance of hardware and software	15.00%	68	68
Roads and Infrastructure	Landfill Tax	Calculation is based on a formula approach similar to last year.	2.36%	73	(12)
Roads and Infrastructure	Waste PPP Contract	85% of RPIX as at end of Q2 2018	2.32%	135	(19)

Service	Inflation Category	Basis of Inflation	2020-21 Inflation %	2020-21 Inflation £000	Increase from 2019-20 £000
Roads and Infrastructure	Street Lighting Electricity	The business case for the LED project assumed that inflation would be applied to street lighting electricity therefore inflation should be applied at the CPI rate of 2.1% (July 2019) for 2020-21.	2.10%	15	(3)
Executive Director - Pippa Milne - Total				291	34
				1,325	294

COUNCIL COST AND DEMAND PRESSURES 2020-21 to 2022-23

APPENDIX 3

Department	Service	Cost/Demand Pressure	Best Case			Mid Range Scenario			Worst Case		
			2020-21 £000	2021-22 £000	2022-23 £000	2020-21 £000	2021-22 £000	2022-23 £000	2020-21 £000	2021-22 £000	2022-23 £000
Chief Executive's Unit	Financial Services	Universal Credit "Full" Service went live in Sept 2018, but managed migration has been deferred to 2021 and will not be completed until 2024. The DWP will reduce the Housing Benefit Administration Subsidy they pay to the Council as some claimants come off of Housing Benefit processed by Council staff and go onto Universal Credit processed by the DWP. The Council's caseload has reduced by 14% in the first year of Full Universal Credit but it is hard to predict just how quickly the rest of the working age caseload will migrate from Housing Benefit to Universal Credit between now and 2024. DWP announce funding allocations each December. For 2020/21 we are benefitting from transitional protection. These figures represent our best estimates at this time.	60	120	180	60	120	180	60	120	180
Executive Director - Douglas Hendry	Commercial 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 the end of FQ2 2020 on the understanding that this provision is the subject of ongoing review. From a budgetary perspective, the best case scenario is that funding of the anticipated staff resource will continue to be required beyond the end of FQ2 2020 with no emergent asbestos related issues. The worst case scenario includes an allowance to deal with non-funded emergent issues associated with the management of asbestos.	67	115	115	87	135	135	107	155	155
Executive Director - Douglas Hendry	Education	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 was a substantial increase in ASN provision, resulting in an overspend for that 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.	0	0	0	129	257	386	214	428	642
Executive Director - Douglas Hendry	Education	The SEEMiS group, provider of the Council's Education Management Information System, recently reviewed their long term financial plan and refreshed it to cover the period 2019/20 to 2023/24. As a result of this exercise there were implications on Membership fees with a cost pressure on the Education service arising from financial year 2020/21. Indicative membership fees were provided for financial years 2021/22 to 2023/24 and these have been factored in accordingly.	15	16	18	15	16	18	15	16	18

COUNCIL COST AND DEMAND PRESSURES 2020-21 to 2022-23

APPENDIX 3

Department	Service	Cost/Demand Pressure	Best Case			Mid Range Scenario			Worst Case		
			2020-21 £000	2021-22 £000	2022-23 £000	2020-21 £000	2021-22 £000	2022-23 £000	2020-21 £000	2021-22 £000	2022-23 £000
Executive Director - Pippa Milne	Roads and Infrastructure Services	A report was presented to Council on 27 June 2019 in relation to third sector recycling services and additional funding was agreed for KRL and Fyne Futures to continue the kerbside service delivery until March 2020. Officers were instructed to report back to Policy and Resources Committee prior to March 2020 once a full evaluation of options for future service delivery have been evaluated. Based on the additional funding that has been agreed within 2019-20, it is possible that this evaluation could indicate further cost pressure for future years. At this stage, a high level estimate of the costs across the scenarios has been made and these will be revised once the evaluation is completed.	50	50	50	100	100	100	150	150	150
Executive Director - Pippa Milne	Roads and Infrastructure Services	This relates to saving option TB08 agreed in February 2018. This saving will no longer be pursued following the decision at the Oban, Lorn and the Isles Area Committee on 11 September 2019. The shortfall of £0.347m from 2020-21 onwards will now be reflected within the budget outlook report.	347	347	347	347	347	347	347	347	347
Executive Director - Pippa Milne	ICT	The support for the Oracle e-business suite (The Council's financial system) was moved to a different supplier in 2018 to assist with revenue budget savings. It now transpires that this different supplier cannot provide the full level of support required. In moving back to Oracle for support, there is an increased cost.	18	18	18	18	18	18	18	18	18
Council Wide	Council Wide	General provision for unidentified Cost and Demand Pressures	0	0	0	250	500	750	500	1,000	1,500
TOTAL			557	666	728	1,006	1,493	1,934	1,411	2,234	3,010

NEW

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

APPENDIX 4

Service	Cost/Demand Pressure	Best Case			Mid Range			Worst Case			
		2020-21 £000	2021-22 £000	2022-23 £000	2020-21 £000	2021-22 £000	2022-23 £000	2020-21 £000	2021-22 £000	2022-23 £000	
All Social Work	Based on pay deal until 2020-21 and thereafter between 2.7% and 3.5% (mid-range 2%)	970	1,843	2,716	970	1,940	2,910	970	2,102	3,234	
All Social Work	Cost of increments - the best case assumes the incremental cost is absorbed in the base budget changes, the worst case is based on the incremental cost in 2019-20 and the mid-range is in between the two.	0	0	0	46	92	138	91	182	273	
All Social Work	Non-pay inflation, best and worst case based on unavoidable/inescapable inflation and worst case.	1,090	2,224	3,463	1,306	2,673	4,169	1,523	3,123	4,886	Updated
Adult Care	Older People Demand Growth: 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 reflects a one-off adjustment to recognise part of the current budget deficit with no growth thereafter, the mid-range reflects 1.5% growth and the worst case reflects 3% growth.	311	311	311	640	980	1,325	970	1,659	2,370	Updated
Adult Care	Younger Adults Demand Growth: 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 reflects a one-off adjustment to recognise part of the current budget deficit with no growth thereafter, the mid-range reflects 1.5% growth and the worst case reflects 3% growth.	269	269	269	539	817	1,087	808	1,372	1,911	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% , the mid range reflects an increase of 4% (in-line with the 2019/20 NCHC increase) and the worst case 5%.	244	496	755	326	665	1,017	407	835	1,284	Updated
All Social Work	Social Work Emergency Standby: A review of the Social Work Emergency Standby service was completed during 2019/20 which included consultation work with staff and information gathering in relation to the approaches used by other local authorities. A new service design has been developed and will be piloted during 2019/20 using non-recurring funding as a test of change. This pressure reflects the estimated cost of fully implementing the outcome of the review on a permanent basis. Adjustment has been made for inflation and pay increments at 3% best case, 4.5% mid range and 6% worst case.	150	155	160	150	157	164	150	159	169	Updated

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

APPENDIX 4

Service	Cost/Demand Pressure	Best Case			Mid Range			Worst Case			
		2020-21 £000	2021-22 £000	2022-23 £000	2020-21 £000	2021-22 £000	2022-23 £000	2020-21 £000	2021-22 £000	2022-23 £000	
Adult Services	Greenwood Hostel Overnight Staffing: Building on previous reviews of staff work patterns in the partnership's 24/7 care establishments, taking into account the law in relation to sleepover payments and breaks between shifts, a cost pressure has been identified in relation to staffing arrangements at Greenwood Hostel in Campbeltown where additional staff are required to comply with employee law and safe working in relation to staff and residents at the hostel. Adjustment has been made for inflation and pay increments at 3% best case, 4.5% mid range and 6% worst case.	50	52	54	50	52	54	50	53	56	Updated
Criminal Justice	Criminal Justice Redesign: The Scottish Government has provided funding for transitional arrangements in relation to changes in the Criminal Justice Service for several years and continues to do so. Until 2019/20, this funding had been routed separately from the Council's general grant and an allowance had been built into the 2019/20 for this funding method, assuming the separate allocation would be added to the budget. Unfortunately, the method changed and the funding was instead allocated as part of the general grant and the funding was not added to the Criminal Justice budget as expected but absorbed into the overall social work budget. The transition work remains ongoing and the Criminal Justice service is continuing to have to pick up these costs. This was covered on a one-off basis from an earmarked reserve in 2019/20 but the additional funding requires to be re-established from 2020/21 onwards to continue to support the redesign of Criminal Justice services.	50	50	50	50	50	50	50	50	50	Updated
Integrated Joint Board	Integrated Joint Board Governance: The Integrated Joint Board requires additional governance support from the Council. This has been agreed between Douglas Hendry, Executive Director and Joanna MacDonald, Chief Officer. The cost pressure consists of 2 additional posts plus other support costs. Adjustment has been made for inflation and pay increments on the governance costs at 3% best case, 4.5% mid range and 6% worst case.	95	98	101	95	99	103	95	101	107	Updated
All Social Work	Provision for Unknown Cost and Demand Pressures	0	250	500	250	750	1,250	500	1,250	2,000	
TOTAL UNFUNDED COST AND DEMAND PRESSURES		3,229	5,748	8,379	4,422	8,275	12,267	5,614	10,886	16,340	