

**BUDGET OUTLOOK 2021-22 TO 2025-26**

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**1. EXECUTIVE SUMMARY**

- 1.1 This report summarises the budget outlook covering the period 2021-22 to 2025-26 taking into consideration the budget decisions taken at the Council Budget meeting held on 27 February 2020. This is the first outlook of the financial year and is predominantly a roll forward of assumptions used as part of the budget process and extends the budget outlook to 2025-26. This is the first time the outlook has been extended to a five year window. This provides a longer term view of the Council's estimated budget gap and the Council's external auditors agreed that it would be best practice to have this longer term view. The assumptions will be updated and refined as the year progresses.
- 1.2 The estimates within the report are based on the mid-range scenario with best and worst case scenarios noted in Appendix 1.
- 1.3 It is very difficult to estimate the future Scottish Government funding levels with any degree of accuracy. I have reflected on the previous three years funding reductions which were as follows:
- 2018-19 – 1.5%
  - 2019-20 – 1.6%
  - 2020-21 – 0.3% (after accounting for additional funds awarded at Stage 1 of budget process and £0.454m of additional ferry funding)

This gives a three year average of circa 1.2%.

The impact of COVID-19 could also be an important factor in future years funding. This can be looked at from two different perspectives.

The first is that the additional funds made available by the UK and Scottish Government to combat the impact of COVID-19 may have medium to longer term consequences for the Scottish Government. In particular how they seek to effectively pay these back and how the economy is going to recover from this pandemic. This could result in future funding reductions that are higher than those experienced in recent years.

The second perspective is that the Scottish Government recognise the pressures facing Local Government, that the final Scottish Local Government revenue settlement for 2020-21 was flat cash, and that the response required as a result of the COVID-19 pandemic will have an impact on the time councils will be able to spend in 2020-21 developing proposals to deliver a balanced

2021-22 budget. It is hoped these factors will result in a more positive settlement than the one I have set out in the first perspective.

As mentioned, it is very difficult to estimate the future years funding position but I would consider a prudent estimate within the mid-range scenario to be the average of the last three years settlement, 1.2%. The best case and worst case variable would be +/- 0.5% from the mid-range.

- 1.4 The Council tax base has been assumed to grow by 0.1% in the worst case scenario, 0.25% in the mid-range scenario and 0.4% in the best case.
- 1.5 The starting point for the 2021-22 budget is the approved budget for 2020-21 as agreed at Council on 27 February 2020 with the following updates:
  - 27 February 2020 budget decisions to:
    - Invest £0.400m in technology to support remote learning.
    - Invest £0.050m in community engagement on shared transport.
    - Invest £0.500m in roads to provide for climate change mitigation and road maintenance.
    - Invest £0.400m in green transportation especially cycle paths and footpaths.
    - Utilise £0.600m of the reprofiling gain from the loans fund review.
  - Adjust for £0.022m profiling of the local plan enquiry cost pressure agreed at the 21 February 2019 budget meeting.
  - Adjust for a one off 2020-21 planning fee cost pressure of £0.060m.
  - Adjust for a one off 2020-21 living wage project cost pressure of £0.050m.
- 1.6 The assumptions in respect of employee costs for Council services are as follows:
  - Pay award for 2021-22 to 2025-26 of between 2.7% and 3.5%, with mid-range 3%.
  - Increments between £0.369m and £0.737m with mid-range £0.737m.
- 1.7 For non-pay inflation, only unavoidable/inescapable inflation has been built in for the best case and mid-range scenarios. A further general inflationary increase has been built into the worst case scenario.
- 1.8 There are a number of cost and demand pressures for Council services built into each scenario:
  - Universal Credit – HB Admin grant
  - Asbestos Management Plan
  - Skype for Education
  - Oracle EBS Upgrade/Replacement Software Support
  - Oracle EBS Upgrade/Replacement Project Team
  - New HR System Project Team
  - Waste
  - Local Development Plan
  - Implementation of IDOX System
  - Consolidation of the Living Wage

- 1.9 In addition to the identified cost and demand pressures an allowance for unidentified cost and demand pressures has been included in mid-range and worst case scenarios of between £0.250m and £0.500m per year.
- 1.10 There is a political decision to be made as to the future allocation to the Health and Social Care Partnership. As part of the budget agreed in February 2020, indicative allocations for 2021-22 and 2022-23 were agreed on the basis of a flat cash allocation. This decision was taken after reflecting on the instruction from the Minister for Public Finance and Digital Economy, as part of the budget announcement, that the additional funding of £100m to be allocated for Health and Social Care and Mental Health services should be additional to the HSCP 2019-20 budget and as a result the payment to the HSCP was effectively protected from any reduction to their base budget.

On 28 February 2020 a letter was issued by the Directorate of Health Finance and Governance which stated that there was flexibility in terms of the HSCP funding however this came after the Council had set its 2020-21 budget and officers were unaware this was an area still being considered. In particular the letter stated:

*Similar to last year, flexibility will be available to Local Authorities to offset their adult social care allocations to Integration Authorities by up to 2% and a maximum of £50 million in 2020-21 based on local needs.*

This would have provided the flexibility for the Council to have adjusted the 2020-2021 adult social care allocation to the HSCP by up to £0.930m (2% of the total 2020-20201 Adult Social Care allocation of £46.511m.

In the budget outlook, I have assumed flat cash allocations in the mid-range and worst case scenarios and a 2% reduction equal to the adult social care portion of the HSCP budget in the best case scenario.

- 1.11 For Live Argyll, I have assumed the management fee will reduce by 1.9% in the best case scenario, in the mid-range scenario reduce by 1% and worst case would remain at a flat rate equal to the 2020-21 payment. These are only assumptions. Officers will be considering options for the Live Argyll management fee as part of a wider review of budget and service planning. The setting of the fee will be a matter for Council to consider as part of the budget process next year.
- 1.12 The budget gap in the mid-range scenario after allowing for the current base commitments, employee adjustment, non-pay inflation and cost and demand pressures and not factoring in any previous savings decisions or future potential options is an estimated gap over the five year period of £41.865m with a gap of £6.734m in 2021-22.
- 1.13 The measures to balance the budget over the next five 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 agreed by Council in February 2020.
- Policy Savings already agreed by Council in February 2019 and February 2020.
- Proposed increase to Council Tax (4.84% in best case, 3% in mid-range and 3% in worst case scenario).

- 1.14 In the mid-range scenario, the budget gap estimated over the five year period 2021-22 to 2025-26 is £31.135m with a gap of £4.350m in 2021-22.
- 1.15 In contrast, the budget gap in the best case scenario over the five years is £9.315m with a surplus of £0.455m in 2021-22 and in the worst case scenario, the budget gap over the five years is £46.679m with a gap of £7.724m in 2021-22. A summary of all three scenarios is included within Appendix 1.
- 1.16 It is recommended that the Business Continuity Committee consider the current estimated budget outlook position for the period 2021-22 to 2025-26.

**BUDGET OUTLOOK 2021-22 TO 2025-26**

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**2. INTRODUCTION**

- 2.1 This report summarises the budget outlook covering the period 2021-22 to 2025-26 taking into consideration the budget decisions taken at the Council Budget meeting held on 27 February 2020. This is the first outlook of the financial year and is predominantly a roll forward of assumptions used as part of the budget process and extends the budget outlook to 2025-2026. This is the first time the outlook has been extended to a five year window. The assumptions will be updated and refined as the year progresses.
- 2.2 The budget outlook has been prepared using three different scenarios, best case, worst case and mid-range. Relatively small variations in assumptions can lead to fairly significant changes in the outcome. In the paragraphs that follow, the mid-range outlook is shown, however, all three scenarios are detailed within Appendix 1.

**3. RECOMMENDATIONS**

- 3.1 It is recommended that the Business Continuity Committee consider the current estimated budget outlook position for the period 2021-22 to 2025-26.

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

- 4.1.1 The Local Government finance settlements provided over the last few years have been for one year only and this does not provide any certainty for future years. The last four years have also seen additional funding distributed after the provisional announcement and, whilst welcome, does undermine estimated planning assumptions and makes it difficult to plan given uncertainty over whether similar announcements will be repeated in future settlements. The outbreak of the coronavirus and the subsequent need for major funding provision by both the UK and Scottish Governments to help to combat the implications of it create a further uncertainty about levels of future year funding.
- 4.1.2 For 2020-21 a package of further measures was announced following the Budget Bill Stage 1 debate in Parliament on 27 February 2020. It included additional revenue funding of £95m (our share £1.701m). Prior to that the Scottish Government also confirmed additional ferries funding of £0.954m as

advised in the supplementary paper to the budget pack. £0.500m of this was for the required replacement of the MV Lismore to meet MCA requirements and £0.454m was to cover the net expenditure to the Council of providing ferry services. This funding was not confirmed beyond 2020-21. For the purposes of future budget projections it has been assumed that:

- the £0.500m will not be recurring as, whilst it was allocated as revenue funding, it was a one-off for capital purposes
- the £0.454m will be recurring as when revenue funding for ferries was first provided to Orkney and Shetland in 2018-19, it was continued in future years.

4.1.3 The impact of these changes is to increase the settlement for 2020-21, net of specific grants, from the £195.364m referenced in the budget pack considered by Council on 27 February 2020 to £197.519m.

4.1.4 It is very difficult to estimate the future Scottish Government funding levels with any degree of accuracy. I have reflected on the previous three years funding reductions which were as follows:

- 2018-19 – 1.5%
- 2019-20 – 1.6%
- 2020-21 – 0.3% (after accounting for additional funds awarded at Stage 1 of budget process and £0.454m of additional ferry funding)

This gives a three year average of circa 1.2%.

The impact of COVID-19 could also be an important factor in future years funding. This can be looked at from two different perspectives.

The first is that the additional funds made available by the UK and Scottish Government to combat the impact of COVID-19 may have medium to longer term consequences for the Scottish Government. In particular how they seek to effectively pay these back and how the economy is going to recover from this pandemic. This could result in future funding reductions that are higher than those experienced in recent years.

The second perspective is that the Scottish Government recognise the pressures facing Local Government, that the final Scottish Local Government revenue settlement for 2020-21 was flat cash, and that the response required as a result of the COVID-19 pandemic will have an impact on the time councils will be able to spend in 2020-21 developing proposals to deliver a balanced 2021-22 budget. It is hoped these factors will result in a more positive settlement than the one I have set out in the first perspective.

As mentioned, it is very difficult to estimate the future years funding position but I would consider a prudent estimate within the mid-range scenario to be the average of the last three years settlement, 1.2%. The best case and worst case

variable would be +/- 0.5% from the mid-range. This is an area that will be kept under close review and I will engage with other Directors of Finance and COSLA as to their view of future years funding and update the report throughout the year as necessary.

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

	<b>2021-22 £000</b>	<b>2022-23 £000</b>	<b>2023-24 £000</b>	<b>2024-25 £000</b>	<b>2025-26 £000</b>
% Change to Funding	-1.2%	-1.2%	-1.2%	-1.2%	-1.2%
Estimated SG Funding Reduction	(2,370)	(2,342)	(2,314)	(2,286)	(2,258)
<b>Estimated SG Funding</b>	<b>195,149</b>	<b>192,807</b>	<b>190,493</b>	<b>188,207</b>	<b>185,949</b>

### **Council Tax**

- 4.1.6 The Council Tax budget for 2020-21 was set at £52.859m. This included a 4.5% increase and 0.25% growth in the Council Tax base.
- 4.1.7 In terms of future growth in the Council tax base it has been assumed that it will grow by 0.1% in the worst case scenario, 0.25% in the mid-range scenario and 0.4% in the best case.
- 4.1.8 For the past two years councils have had discretion to increase Council Tax by a maximum of 3% in real terms each year. This equated to 4.79% in cash terms in 2019-20 and 4.84% in 2020-21. Within this report, I will present the budget gap, prior to any decisions and therefore at this stage in the report, the Council tax base is assumed to remain at the same level as 2020-21. Different scenarios are outlined in paragraph 4.9.6 and feed into the final estimated budget surplus/(gap) in paragraph 4.10.1.
- 4.1.9 The table below summarises the estimated total funding in the mid-range scenario.

	<b>2021-22 £000</b>	<b>2022-23 £000</b>	<b>2023-24 £000</b>	<b>2024-25 £000</b>	<b>2025-26 £000</b>
Estimated SG Funding	195,149	192,807	190,493	188,207	185,949
Earmarked Reserves for Teachers Pensions (as previously agreed)	112	0	0	0	0
Council Tax Base	52,859	52,859	52,859	52,859	52,859
Council Tax Growth	132	264	397	530	663
<b>Total Estimated Funding</b>	<b>248,252</b>	<b>245,930</b>	<b>243,749</b>	<b>241,956</b>	<b>239,471</b>

## **4.2 Base Budget**

- 4.2.1 The 2020-21 budget approved by Council on 27 February 2020 was £247.860m.

- 4.2.2 There are adjustments required to the base budget from decisions by Council on 21 February 2019 and 27 February 2020, noted as follows:

	<b>2021-22 £000</b>	<b>2022-23 £000</b>	<b>2023-24 £000</b>	<b>2024-25 £000</b>	<b>2025-26 £000</b>
Base Budget 2020-21	247,860	247,860	247,860	247,860	247,860
<b>27 Feb 2020 Budget</b>					
Technology to support remote learning	(400)	(400)	(400)	(400)	(400)
Community engagement for shared transport	(50)	(50)	(50)	(50)	(50)
Roads – climate change mitigation and maintenance	(500)	(500)	(500)	(500)	(500)
Green transport – cycle paths and footpaths	(400)	(400)	(400)	(400)	(400)
Re-profiling gain from loans fund	600	600	600	600	600
<b>Other Adjustments</b>					
21 Feb 2019 Budget - Local Plan Enquiry Cost	(22)	(22)	(22)	(22)	(22)
Planning fees – one off cost pressure in 2020/21	(60)	(60)	(60)	(60)	(60)
Consolidation of living wage project costs – one off cost in 2020/21	(50)	(50)	(50)	(50)	(50)
One off fleet savings in 2020/21	278	278	278	278	278
Profiling of mgt/operational savings agreed February 2019	240	240	240	240	240
<b>Revised Base Budget</b>	<b>247,496</b>	<b>247,496</b>	<b>247,496</b>	<b>247,496</b>	<b>247,496</b>

### 4.3 Employee Cost Changes

#### Pay Award

- 4.3.1 The 2020-21 pay award was agreed at 3% as part of a previously agreed multi-year pay deal which covered the years 2018-19 to 2020-21. This equated to an increase of £3.929m in 2020-21. For the budget outlook an assumption has been made that there will be an annual increase of 2.7% in the worst case scenario, 3% in the mid-range and 3.5% in the worst case.
- 4.3.2 In terms of teachers, a pay deal was agreed covering the years 2018-19 to 2020-21. Future year assumptions are that teachers pay will increase in line with the SJC employee costs as outlined in paragraph 4.3.1.

#### Increments

- 4.3.3 The cost of employee increments for 2020-21 was £0.737m. There remains a fairly regular turnover of staff within posts and when this happens the cost of increments can, in some cases, be absorbed by the budget provision for the



previous post holder, who may have been at the top of the spinal column point for the grade. This is shown in adjustments to the employee base budget.

4.3.4 In terms of the budget outlook it has been assumed that for future years, the best case is assumed to be half of the previous year cost, for mid-range and worst case, assumes equal to the cost in 2020-21.

4.3.5 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 4.6.4.

	<b>2021-22 £000</b>	<b>2022-23 £000</b>	<b>2023-24 £000</b>	<b>2024-25 £000</b>	<b>2025-26 £000</b>
Pay Award	4,047	8,215	12,508	16,930	21,485
Increments	737	1,474	2,211	2,948	3,685
<b>Total Employee Cost Changes</b>	<b>4,784</b>	<b>9,689</b>	<b>14,719</b>	<b>19,878</b>	<b>25,170</b>

#### **4.4 Non-Pay Inflation**

4.4.1 Over the last few years, the Council have only included non-pay inflation within the budget where it was deemed to be unavoidable or inescapable.

4.4.2 In terms of the budget outlook, only unavoidable/inescapable non-pay inflation has been built into the best case and mid-range scenarios. This is based on the non-pay inflation estimate for 2020-21. A general inflationary increase of £0.750m per annum has been built into the worst case scenario. The non-pay inflation estimates will be reviewed during 2020-21 and updated throughout the year.

4.4.3 The table below summarises the non-pay inflation increases in the mid-range scenario for Council services. The non-pay inflation increases relating to Social Work within the Health and Social Care Partnership are summarised within paragraph 4.6.4.

	<b>2021-22 £000</b>	<b>2022-23 £000</b>	<b>2023-24 £000</b>	<b>2024-25 £000</b>	<b>2025-26 £000</b>
Unavoidable/Inescapable	1,294	2,588	3,882	5,176	6,470
<b>Total Non-Pay Inflation</b>	<b>1,294</b>	<b>2,588</b>	<b>3,882</b>	<b>5,176</b>	<b>6,470</b>

#### **4.5 Cost and Demand Pressures**

4.5.1 Over the last few years, services have worked on the basis of having to contain any cost and demand pressures within current resources, however, there are a number of cost and demand pressures already identified for Council services (and reported as part of the budget in February 2020) and these are noted in the table below with further detail included within Appendix 2. This and the other cost pressures will be subject to review during the financial year.

4.5.2 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.

#### 4.5.3

	<b>2021-22 £000</b>	<b>2022-23 £000</b>	<b>2023-24 £000</b>	<b>2024-25 £000</b>	<b>2025-26 £000</b>
Universal Credit – HB Admin Grant	60	120	180	240	300
Asbestos Management Plan	48	48	48	48	48
Skype for Education	25	25	25	25	25
Consolidation of Living Wage	500	500	500	500	500
Waste (ref to para 4.5.4)	0	25	29	26	23
Local Development Plan	0	0	50	0	50
New IDOX System	77	0	0	0	0
New HR System Project Team	200	0	0	0	0
Oracle/EBS Upgrade / Replacement Software Support	190	190	190	190	190
Oracle/EBS Upgrade / Replacement Project Team	100	0	0	0	0
Allowance for pressures in future years	250	500	750	1,000	1,250
<b>Total Cost and Demand Pressures</b>	<b>1,450</b>	<b>1,408</b>	<b>1,772</b>	<b>2,029</b>	<b>2,386</b>

#### *Unquantified Cost Pressures*

- 4.5.4 The cost and demand pressure relating to waste, as noted in the table above, relates to additional costs within the current waste model. This does not account for the additional costs due to the ban of biodegradable municipal waste from January 2025 and the Deposit Return Scheme in 2022. Officers are currently working on the future waste strategy, but at this stage the medium to longer term cost pressure has not been sufficiently calculated.
- 4.5.5 The budget outlook report presented to the Policy and Resources Committee in December 2019 highlighted an unquantified cost pressure relating to changes to the nutritional requirements for food and drink in schools. The Scottish Government reviewed the regulations that govern the food and drinks provided in schools the outcome of which was changes to the current food and drinks standards being published in June 2019, with an implementation date of Autumn 2020. The implementation has been delayed until after the Easter 2021 school holidays therefore the cost pressure will be predominantly be from the 2021-22 financial year onwards although there may be a smaller cost pressure for the initial cost of planning and set up in 2020-21. The costs associated with this are difficult to quantify with any accuracy at the current time, especially in a post COVID environment. Therefore this remains as an unquantified cost pressure however this will be kept under review and reported as and when there is additional information.

- 4.5.6 Officers are currently working on identifying and monitoring the short term impact of COVID-19 in terms of creating immediate cost pressures however there will likely be a range of longer term cost and demand pressures associated with COVID-19 (for example reduction in businesses reducing commercial waste income). At this stage, these have not been quantified and it is also unclear as to whether additional funding will be provided towards the ongoing pressures. Officers will keep this position under review and if required will reflect in future budget outlook reports.
- 4.5.7 The cost and demand pressures relating to Social Work within the Health and Social Care Partnership are summarised within paragraph 4.6.4.

#### **4.6 Health and Social Care Partnership**

- 4.6.1 The Local Government Finance Circular 1/2020 supporting the draft Scottish budget for 2020-21 advised of additional funding of £100m to be allocated for Health and Social Care and Mental Health services. The instruction from the Minister for Public Finance and Digital Economy, as part of the budget announcement, was that this £100m should be additional to the HSCP 2019-20 budget and as a result the payment to the HSCP was effectively protected from any reduction to their base budget. On the basis of this the Council, at the budget meeting on 27 February 2020, agreed a 2020-21 flat cash allocation to the HSCP which equated to £60.577m for 2020-21 as well as indicative flat cash allocations for 2021-22 and 2022-23.
- 4.6.2 On 28 February 2020 a letter was issued by the Directorate of Health Finance and Governance which stated that there was flexibility in terms of the HSCP funding however this came after the Council had set its 2020-21 budget and officers were unaware this was an area still being considered. In particular the letter stated:

*Similar to last year, flexibility will be available to Local Authorities to offset their adult social care allocations to Integration Authorities by up to 2% and a maximum of £50 million in 2020-21 based on local needs.*

This would have provided the flexibility for the Council to have adjusted the 2020-21 adult social care allocation to the HSCP by up to £0.930m (2% of the total 2020-21 Adult Social Care allocation of £46.511m).

- 4.6.3 In the budget outlook, I have assumed flat cash allocations in the mid-range and worst case scenarios and a 2% reduction equal to the adult social care portion of the HSCP budget in the best case scenario. These are only assumptions and it will be a matter for Council to consider as part of the budget process next year.
- 4.6.4 Social Work services have already identified a number of cost pressures and these are summarised below and included within Appendix 3 for information purposes. Note that these only extend to three years rather than the five years within this Council budget outlook. Extending the outlook to five years is a

decision for the HSCP to take and their Chief Financial Officer is currently of the view that a five year planning window is not appropriate at the current time due to the uncertainty caused by COVID-19.

	<b>2021-22 £000</b>	<b>2022-23 £000</b>	<b>2023-24 £000</b>
Pay Inflation	964	1,957	2,980
Pay Increments	82	164	246
Non-Pay Inflation	1,398	2,847	4,361
Care Services for Older People (Growth)	340	685	1,035
Care Services for Younger Adults	278	548	818
National Care Home Contract	339	691	1,058
Continuing Care for Looked After Children	250	500	750
Unknown Cost and Demand Pressures	500	1,000	1,500
<b>Total Cost Increase estimates for Social Work</b>	<b>4,151</b>	<b>8,392</b>	<b>12,748</b>

## **4.7 Live Argyll**

- 4.7.1 The management fee for Live Argyll was agreed between October 2017 and 31 March 2021 on that basis that, during this time, the Trust would be able to grow its income streams and over time the percentage of the Trust expenditure represented by the management fee would reduced.
- 4.7.2 At the budget meeting on 27 February 2020, Council approved the management fee for 2020-21 and instructed officers to engage with Live Argyll, in light of the Trust's ongoing income generation and the non-statutory elements of the service, with a view to exploring a reduction in the management fee. Council requested that officers provide reports to the Policy and Resources Committee over the course of 2020-21 as this work progresses. This work has still to be completed.
- 4.7.3 For the budget outlook, I have assumed the management fee will reduce by 1.9% in the best case scenario, in the mid-range scenario reduce by 1% and remain at a flat cash position in the worst case scenario. Officers will be considering options for the Live Argyll management fee as part of a wider review of budget and service planning.

## **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.

	<b>2021-22 £000</b>	<b>2022-23 £000</b>	<b>2023-24 £000</b>	<b>2024-25 £000</b>	<b>2025-26 £000</b>
Base Budget	247,496	247,496	247,496	247,496	247,496
Employee Cost Changes	4,784	9,689	14,719	19,878	25,170
Non-Pay Inflation	1,294	2,588	3,882	5,176	6,470
Cost and Demand Pressures	1,450	1,408	1,772	2,029	2,386
Increase/(Decrease) to HSCP allocation	0	0	0	0	0
Increase/(Decrease) to Live Argyll payment	(38)	(76)	(113)	(150)	(186)
<b>Total Estimated Expenditure</b>	<b>254,986</b>	<b>261,105</b>	<b>267,756</b>	<b>274,429</b>	<b>281,336</b>
Estimated Funding	248,252	245,930	243,749	241,596	239,471
<b>Estimated Budget Surplus / (Gap) Cumulative</b>	<b>(6,734)</b>	<b>(15,175)</b>	<b>(24,007)</b>	<b>(32,833)</b>	<b>(41,865)</b>

## 4.9 Measures to Balance the Budget

- 4.9.1 In previous years, a general inflationary increase of 3% has been applied to fees and charges. For the budget outlook it has been assumed a similar increase within the mid-range scenario, a small 1% increase in the worst case scenario and a 5% increase in the best case scenario.
- 4.9.2 A longer term redesign of catering and cleaning services was expected to achieve a further £0.446m of savings by 2021-22 however it is looking less likely that these savings will be delivered in full by 2021-22. For the budget outlook, I have assumed savings in 2021-22 of £0.172m across all scenarios.
- 4.9.3 As part of the work of the Transformation Board, management/operational savings were identified and reported to the Council meeting on 27 February 2020. These will be implemented as per the profiles reported to Council as part of normal business.
- 4.9.4 A number of policy options were agreed at the Council meeting on 21 February 2019 and 27 February 2020. These are now factored into the budget outlook, reducing the budget gap.
- 4.9.5 Councils have had the discretion to increase Council Tax by a maximum of 3% each year since 2017-18. As noted in paragraph 4.1.8, Councils were given the flexibility to increase the Council Tax for 2020-21 by 3% in real terms which the Scottish Government confirmed as 4.84% in cash terms. 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 a 3% increase in the worst case scenario and mid-range scenario and a 4.84% increase in the best case scenario.
- 4.9.6 The table below summarises the proposed measures to balance the budget in

the mid-range scenario.

	<b>2021-22 £000</b>	<b>2022-23 £000</b>	<b>2023-24 £000</b>	<b>2024-25 £000</b>	<b>2025-26 £000</b>
Fees and Charges Increase	318	646	984	1,332	1,690
Catering and Cleaning Service Choices	172	172	172	172	172
Management/Operational Savings February 2020	42	42	42	42	42
Policy Savings February 2019	75	75	75	75	75
Policy Savings February 2020	187	187	187	187	187
Council Tax Increase	1,590	3,239	4,950	6,724	8,564
<b>Total Savings</b>	<b>2,384</b>	<b>4,361</b>	<b>6,410</b>	<b>8,532</b>	<b>10,730</b>

#### **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.

	<b>2021-22 £000</b>	<b>2022-23 £000</b>	<b>2023-24 £000</b>	<b>2024-25 £000</b>	<b>2025-26 £000</b>
Estimated Budget Gap Prior to Measures to Balance Budget	(6,734)	(15,175)	(24,007)	(32,833)	(41,865)
Savings Measures	2,384	4,361	6,410	8,532	10,730
<b>Estimated Budget Surplus / (Gap) Cumulative</b>	<b>(4,350)</b>	<b>(10,814)</b>	<b>(17,597)</b>	<b>(24,301)</b>	<b>(31,135)</b>
<b>Estimated Budget Surplus / (Gap) In Year</b>	<b>(4,350)</b>	<b>(6,464)</b>	<b>(6,783)</b>	<b>(6,704)</b>	<b>(6,834)</b>

4.10.2 In the mid-range scenario, the budget gap estimated over the five year period 2021-22 to 2025-26 is £31.135m with a gap of £4.350m in 2021-22.

4.10.3 In contrast, the budget gap in the best case scenario over the five years is £9.315m with a surplus of £0.455m in 2021-22 and in the worst case scenario, the budget gap over the five years is £46.679m with a gap of £7.724m in 2021-22. A summary of all three scenarios is included within Appendix 1.

4.10.4 The changes from the previous anticipated outlook to 2022-23 (as noted at the budget meeting on 27 February 2020) are summarised in the table below. Note that the budget meeting report was not extended to 2025-26 which is why the table below only extends to 2022-23.

	<b>2021-22 £000</b>	<b>2022-23 £000</b>
<b>Previously reported budget surplus / (gap) Cumulative</b>	<b>(5,014)</b>	<b>(12,907)</b>
Funding – change in assumed Scottish Government Grant	1,797	3,097
Council Tax rounding adjustment	(3)	(9)
Base budget adjustment (add in ferries monies)	(454)	(454)
Employee costs inflationary factor	(118)	(357)
Cost pressure – removed inflation on SEEMIS	0	3
Cost pressure - Waste	0	(25)
Cost Pressure - New Idox system for Digital Performance Management plus transfer of ABC documents	(77)	0
Cost Pressure - New HR System Project Team	(200)	0
Cost Pressure - Oracle EBS Upgrade/Replacement Project Team	(100)	0
Cost Pressure - Oracle EBS Upgrade/Replacement Software Support	(190)	(190)
Fees and Charges - adjustment	9	28
<b>Revised Budget Surplus / (Gap) Cumulative</b>	<b>(4,350)</b>	<b>(10,814)</b>

## 5. CONCLUSION

- 5.1 In the mid-range scenario, the budget gap estimated over the five year period 2021-22 to 2025-26 is £31.135m with a gap of £4.350m in 2021-22. Council officers are currently working on developing a three year savings programme that will bring forward proposals for balancing the budget in future years.

## 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 -	See below
6.5.1	Equalities	None directly from this report but any proposals to address the estimated budget gap will need to consider equality issues.
6.5.2	Socio Economic Duty	None directly from this report but any proposals to address the estimated budget gap will need to consider socio economic issues.
6.5.3	Islands Duty	None directly from this report but any proposals to address the estimated budget gap will need to consider any island specific issues.
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**  
**S95 Officer**  
**04 May 2020**

**Policy Lead for Financial Services and Major Projects: Councillor Gary Mulvaney**

#### **APPENDICES:**

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