

BUDGET UPDATE

1. INTRODUCTION

- 1.1 This is a paper to present the estimated impact of COVID on the delivery of previously agreed savings options and the additional cost pressures and savings arising. It also updates the Committee on progress to identify possible areas for service redesign to deliver future savings.

2. RECOMMENDATIONS

- 2.1 To note the estimated budget gap for the period 2021/22 – 2025/26 before the potential impact of COVID on savings and cost pressures.
- 2.2 To note the impact COVID may have on the delivery of agreed savings options up until the end of June 2020 and the anticipated cost pressures and potential savings created by COVID up till the end of June 2020.
- 2.4 To note there is an assumption that all additional costs incurred by the Council as a consequence of COVID-19 will be fully funded by the Scottish Government.
- 2.5 To note that officers are considering areas for potential service redesign and agree that progress will be reported to future meetings of the Business Continuity Committee/Policy and Resources Committee with final proposals to be presented to Members in December 2020 to enable these to be reflected in budget consultation.

3. DETAIL**3.1 Estimated Budget Gap – 2021/22 to 2025/26**

- 3.1.1 The budget outlook has been updated to reflect the Council's 2020/21 budget agreed on 27 February 2020. In the mid-range the estimated in-year budget gaps are:
- 2021/22 - £4.350m
 - 2022/23 - £6.464m
 - 2023/24 - £6.783m
 - 2024/25 - £6.704m
 - 2025/26 - £6.834m

This amounts to a cumulative mid-range scenario gap over the five year period of £31.135m. The equivalent in the best case scenario is £9.315m and in the worst case it is £46.679m.

- 3.1.2 It is important to highlight that these projected future budget gaps are after all current measures to balance the budget have been applied, including measures where Member approval is required, for example, Council Tax, fees and charges inflation and payment to HSCP. It is also important to highlight that whilst assumptions are always estimates, this year in particular, they are very difficult to estimate with any degree of confidence due to the uncertainty created by the impact of COVID on the economy and potential future funding levels.

3.2 COVID-19 Impact on Agreed Savings

- 3.2.1 Throughout 2019/20 we reported to the Policy and Resources Committee on progress made against savings agreed in 2018/19 and 2019/20. Further savings were agreed as part of the 2020/21 budget agreed on 27 February 2020. These savings have been reviewed to assess the expected impact COVID will have on their delivery up until the end of June 2020.
- 3.2.2 Appendix 1 provides the detail of each agreed saving and a summary is provided in the table below.

Saving / Budget Year	Anticipated Shortfall by end of June 2020 (£,000)
Savings Agreed (Feb 2018 and Feb 2019)	173
Policy Savings (Feb 2020)	13
Mgt/Operational Savings (Feb 2020)	77
Total	263

- 3.2.3 In summary, it is estimated that £0.263m of 2020/21 savings will not be delivered by the end of June 2020.

3.3 COVID-19 Cost Pressures

- 3.3.1 Consideration has also been given to the financial impact COVID might have on the Council in terms of creating new cost pressures and any possible savings. The figures presented in this section are extremely difficult to measure and are best estimates at the current time. These estimates will be kept under review.
- 3.3.2 When performing this review officers were asked to estimate the anticipated costs until the end of June 2020. Therefore the figures represent a quarter of the financial year. The extent to which these should be extrapolated depends on when we estimate the country will come out of lockdown and

how long it will take for service delivery to return to normal. Furthermore there is likely to be costs we are not aware of yet.

- 3.3.3 The table below summarises the total net cost pressures at Head of Service level anticipated to the end of June 2020. Appendix 2 provides a breakdown of the figures in the table.

Anticipated Cost Pressures

- 3.3.4

HoS	Cost Pressure (£,000)	Saving (£,000)	Net Cost Pressure
DEG	707	(10)	697
RAIS	2,298	(236)	2,062
EDU	661	0	661
CSS	78	(24)	54
CS	226	(336)	(110)
L&RS	3	0	3
FS	633	0	633
Council Wide	33	(166)	(133)
Total	4,639	(772)	3,867

- 3.3.5 In addition there may be smaller savings across the Council for areas such as reduced printing, postage and stationery costs during the lockdown. These will be relatively small amounts and no attempt has been made to quantify these at the current time.

- 3.3.6 In summary, it is estimated that there are £3.867m of additional cost pressures up until the end of June 2020.

COVID COSLA Return

- 3.3.7 COSLA are in the process of gathering information from all councils on the financial impact of COVID and our first submission was prepared on 24 April and reflects the cost pressures and savings impact set out in this report. Updated submissions will be made on a fortnightly basis as clearer information becomes available. The Directors of Finance are reviewing the individual council submissions and will be aggregating them for COSLA who will then submit the consolidated Scotland wide figure to the Scottish Government.

- 3.3.8 In total the estimated impact on the 2020/21 outturn of the shortfall in savings and the net cost pressures is £4.130m. There is an expectation that these cost impacts will be fully funded. We have already received £895k from the Hardship Fund which is available to the Council with no restrictions on usage however it is unclear if the Scottish Government expect us to use this funding toward additional costs.

- 3.3.9 Furthermore the UK Government recently announced a further £1.6bn of

funding for councils to deal with COVID. The Barnett consequentials mean Scotland will receive £155m of this. The Scottish Government have confirmed this will be fully distributed to councils. We have not been advised of our exact allocation yet however if a standard distribution formula is used we estimate it will be approximately £2.8m.

- 3.3.10 If no additional funding is distribute to councils this will have a detrimental impact on the Council's general fund which will mean we require a financial recovery plan to rebuild the Council's general fund contingency fund to 2% of net expenditure. This will increase the pressure on the Council's 2021/22 budget.

3.4 **Controllable vs Non Controllable Elements of the Council Budget**

- 3.4.1 There is a large part of the Council's budget which is 'non-controllable.' This includes payments to joint boards, loans charges, historic pension costs, NPDO and waste PPP contract costs, audit fees and bank charges. In addition, the Scottish Government has maintained a level of protection for social work and education which further limits areas where savings can be delivered.

- 3.4.2 Out of the Council's total 2020/21 expenditure budget of £247.9m, £174.9m (71%) of it is non-controllable. This is set out in appendix 3. This means any savings need to be delivered from the remaining £73.0m (29%). This emphasizes the extent of the challenge for the Council to address the budget gaps set out in paragraph 3.1 and manage the additional pressures brought about by COVID.

- 3.4.3 The controllable elements are as follows:

Roads and Infrastructure	£18,769,860
Development and Economic Growth	£7,585,863
Education Services (excluding Teachers)	£26,618,100
Customer Support Services	£8,047,996
Financial Services	£4,217,406
Legal & Regulatory	£4,247,554
Commercial Services	£3,241,679
Other (CEX, Exec Director Costs and CPD)	£273,721
Total	£73,002,179

3.5 **Discussion on Potential Service Redesign**

- 3.5.1 The SMT met on 20 April 2020 to initiate discussions about areas for service redesign and a further meeting was held on 27 April 2020 with the Full SMT (incorporating all Heads of Service). It was agreed that discussions on potential areas for service redesign and efficiency would primarily focus on:

- Service Restructure

- COVID Impact and Learning
- Previous Rejected Savings Proposals

Service Restructure

3.5.2 Consideration will be given to where there may be opportunities to deliver material savings by service restructure. This could include, but not be limited to, considering:

- Current structures to determine if there are alternative ways to deliver services in a leaner manner.
- Whether there may be scope for more efficient working through potential changes to where services sit within the current structure.
- Whether there are any material areas of service delivery within the controllable £73.0m where there may be value in committing an element of the £0.4m which was set aside from the 2020/21 budget to support transformational change.

COVID Impact and Learning

3.5.3 Dealing with the impact of COVID has been, and continues to be, very challenging for the Council with officers and elected members adjusting to new ways of working and, in some cases, entirely new services being implemented in a matter of days or weeks. Whilst this has created considerable cost pressures as set out in paragraph 3.3.4 it also might give rise to opportunities to deliver savings through applying learning and adopting new ways of working. Some ideas to be explored are:

- Reduced Travel and Subsistence - the ongoing period of enforced homeworking and virtual meetings may further raise awareness of the potential and effectiveness of remote working which could realise savings through reduction in travel and subsistence claims. Savings of this nature could be realised with minimal delay and consideration could be given to establishing saving targets on a service by service basis.
- Asset rationalisation – greater remote working may provide a further opportunity to reduce the number of operational buildings the Council operates from. There would be a longer lead time to realise any potential savings from asset rationalisation and any proposals would require detailed analysis and costings.
- Customer Service Centres - All CSCs have been closed throughout the COVID-19 lockdown and there could be scope to remove or reduce the face to face elements of CSCs in future. Greater emphasis could be placed on digital/self-service.
- Catering Provision - During 2019 the Council explored solutions in

respect of the delivery of catering provision across Argyll and Bute including a solution in partnership with NHS Highland. The response to mitigate the impact of COVID saw the Council rapidly implement a food distribution model to cater for vulnerable people and free school meals. The experience gathered from this response may generate new or revised options for catering provision and there could be merit in exploring this to determine if greater savings can be realised.

Other Savings Proposals

- 3.5.4 If the Scottish Government do not provide additional funding to help bridge the increase in council's funding gaps as a consequence of COVID there will be some very difficult budget decisions which require to be taken in February 2021 with less scope to reject savings proposals which might be considered undesirable. This may mean revisiting savings proposals which have been recently rejected.
- 3.5.5 All services, in particular those not subject to service redesign, will still be expected to look for efficiencies and report these as and when identified. Whilst these would be on a smaller scale they would still be important as they would help reduce the amount of savings required from redesign projects each year thus creating time for them to be delivered effectively.

3.6 Next Steps

- 3.6.1 Ideas for service redesign will be developed and progress will be reported to future meetings of the Business Continuity Committee. Policy and Resources Committee with final proposals to be presented to Members in December 2020 to enable these to be reflected in the budget consultation.

4. IMPLICATIONS

- 4.1 Policy – None
- 4.2 Financial – None the paper provides information that may inform future savings decisions however it has no financial implications in itself.
- 4.3 Legal -None
- 4.4 HR - None
- 4.5 Fairer Scotland Duty - None
- 4.5.1 Equalities – None
- 4.5.2 Socio-Economic Duty – None
- 4.5.3 Islands Duty - None
- 4.6 Risk – None
- 4.7 Customer Service - None

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S95 Officer
06 May 2020

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

APPENDICES

Appendix 1 – COVID Impact on previously agreed cost savings (until end of June 2020)

Appendix 2 – Cost pressures / savings as consequence of COVID-19 (until 30 June 2020)

Appendix 3 – 2020/21 expenditure budget – controllable vs non -controllable

Appendix 1 - COVID Impact on previously agreed cost savings (Until end of June 2020)

			Anticipated Shortfall	Comments
POLICY SAVINGS FEBRUARY 2018 AND FEBRUARY 2019				
TB07	RAIS	Create one main depot in key areas to reduce costs	25	Work on depot rationalisation stalled
TB09	RAIS	Public Conveniences - Progress sustainable models including turnstiles and franchising	6	Public conveniences closed plus delay in fitting door entry systems
TB12b	RAIS	Review charges for stadiums to enable improvement work	8	Stadiums closed due to COVID
TB13b	RAIS	Roads & Amenity Services charging (non-statutory services)	25	Internal work stopped due to COVID
TB14	RAIS	Waste services - increase commercial income; reduce costs of collection and disposal	96	Commercial waste collection ceased.
TB17	CS	Opportunities for office rationalisation and raising income	13	Expectation work will be delayed.
POLICY SAVINGS FEBRUARY 2020				
DEG05(a)	DEG	Raise additional fees by adopting the current Building Cost Information Service guide for the cost of building work.	13	Reduction in work due to COVID means reduction in income.
MANAGEMENT OPERATIONAL SAVINGS FEBRUARY 2020				
CSS02(a)	CSS	Increase in NRS (National Records of Scotland) fees in line with decision nationally to increase fees.	6	Increase on hold per NRS due to COVID
CSS02(e)	CSS	Social Security Scotland - charging for use of accommodation	2	Delay in making use of our building due to COVID
CSS02(f)	CSS	Lease Inveraray marriage room as an office space	1	COVID lockdown prevents use
DEG05(b)	DEG	Additional commercialisation through processing Building Warrant applications for other local authorities	13	Reduced work due to COVID.
RAIS06(b)	RAIS	Increase work through fleet workshops	5	External work ceased
RAIS08	RAIS	Cost recovery for Capital Projects within Roads and Infrastructure	50	Capital work has stopped due to COVID
GRAND TOTAL			263	

Appendix 2 – Cost Pressures / Savings as Consequence of COVID-19 (till end of June 2020)

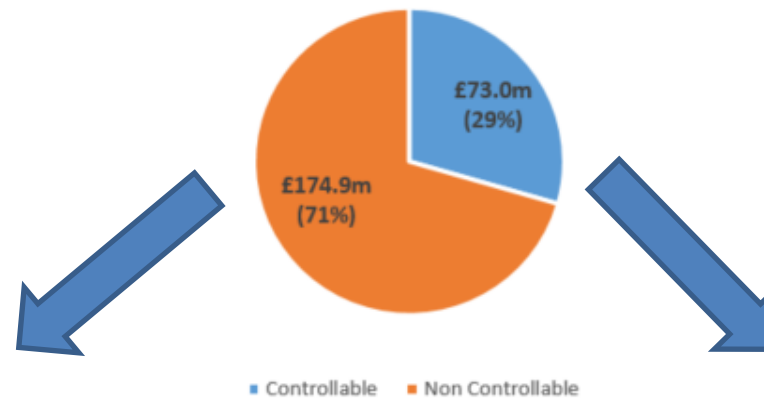
HoS	Pressure	£,000 (COST)	£,000 (SAVING)	Comment/Basis
DEG	Provision of additional support to homeless population due to vulnerability of population	270		
DEG	Building Standards – loss of income for building warrants	73		
DEG	Planning Fees – loss of income	188		75% reduction on income
DEG	Pre application advice – loss of income	11		75% reduction on income
DEG	Increase in housing arrears	15		
DEG	Housing support services - increased funding required by 3rd party providers to support clients through COVID. Not obliged to pay but under pressure to fund	50		
DEG	Previously approved grant payments may not be made due to events being cancelled		(5)	
DEG	Opportunities and Growth Team – reduced promotion related to tourism		(5)	
DEG	Airfield Landing Dues - non-scheduled flights – loss of income	10		
DEG	DIS – EH – Fish export certificates	42		25% of annual income
DEG	DIS – EH – Appraisal of water supplies	42		25% of annual income
DEG	DIS – EH – Environmental health licenses	5		25% of annual income
DEG	DIS – EH - PPE	1		Extra PPE for frontline staff
DEG	Total	707	(10)	
RAIS	Parking – loss of income	156		90% reduction in income
RAIS	Piers and Harbours – loss of income	450		
RAIS	Piers and Harbours – loss of income through fish landings	33		2019/20 income till June
RAIS	Ferries – loss of income	116		
RAIS	Fleet management – loss of income from external work	25		
RAIS	Parks – loss of income from external grounds maintenance (e.g. ACHA)	20		
RAIS	Parks – loss of income from facility hire due to event cancellation	6		2019/20 income till June
RAIS	Waste collection – loss of income from commercial refuse	459		
RAIS	Network & Traffic Mgt – loss of TRO/Permit income	17		2019/20 income till June
RAIS	Cemeteries/Cremations – additional income		(24)	Assumed 10% increase
RAIS	Public conveniences – loss of income due to PC closures	19		Door entry systems still to be fitted. Full years income

RAIS	RIS additional costs in revenue budget which would normally be capitalised (Infrastructure Design and Charges)	650		
RAIS	Pupil transport in house - reduction in fuel costs due to school closures		(14)	School bus fleet operating at 40% capacity
RAIS	Waste disposal – increased landfill tax	247		
RAIS	Waste disposal – increase in private contractors costs	24		
RAIS	Waste disposal – co-mingling reduction in costs due to stopping recycling and incurring separate recycling disposal costs		(83)	
RAIS	Waste disposal – haulage reduction in costs due to stopping recycling thereby not incurring separate haulage costs		(49)	
RAIS	Waste disposal – recycle income loss of income	41		
RAIS	Waste disposal – reduction in 3 rd party payments due to stopping of recycling and the recycled waste being added to normal waste (green bin) hereby not incurring separate recycling disposal costs.		(24)	
RAIS	Waste collection – additional external hire of refuse collection vehicles	30		
RAIS	Amenity Services – savings in fuel due to decrease in work		(42)	
RAIS	Additional PPE Costs	5		
RAIS	Total	2,298	(236)	
EDU	Staff travel – delivering meals	3		
EDU	Free school meals for key worker children	16		
EDU	Catering – loss of income from meals for pupils and teachers	410		
EDU	Music tuition – loss of income	37		
EDU	School lets – loss of income	7		
EDU	Pre primary partner providers payments for key worker children	49		
EDU	Payments to community childminders for key worker children	13		
EDU	Cost of psychological services telephone helpline	1		
EDU	Increase cost of Supply Teachers due to using average from January - March which is higher than April-June would have cost	100		
EDU	Possible additional placement in schools residential accommodation due to family breakdown	25		
EDU	Total	661	(0)	
CSS	Loss of registrar income (mainly marriage)	72		
CSS	Additional LEON licenses	2		
CSS	Reduction in training costs due to suspension of training		(24)	

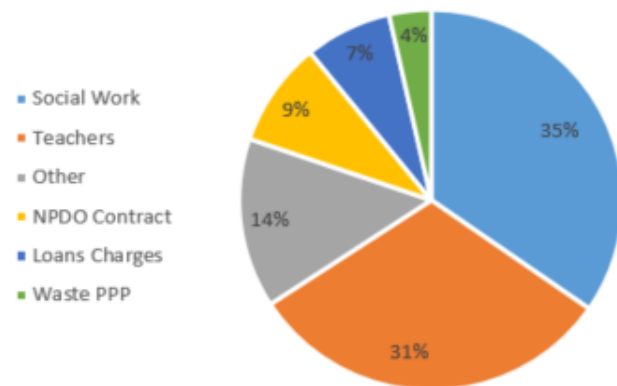
CSS	Additional staff costs due to increased opening hours for registrars	4		
CSS	Total	78	(24)	
CS	Loss of income from events at H&L Civic Centre	11		
CS	Loss of income from catering at H&L Civic Centre due to office closure	19		
CS	Loss of income from catering at Kilmory due to office closure	26		
CS	Cost of catering for community food hubs over and above increased funding	170		
CS	Reduction in catering costs due to school closures		(336)	
CS	Total	226	(336)	
L&RS	Increased staff cost relating to expected increase in anti-social behaviour orders	3	0	
L&RS	Total	3	0	
FS	Reduction in Council Tax collection	600		
FS	Reduction in Council Tax growth	33		
FS	Total	633	0	
Council Wide	Estimated Council wide saving on utility bills due to buildings being closed during lockdown		(66)	
Council Wide	Savings in subsistence, staff travel etc		(100)	60% of T&S charges April to June 2019/20
Council Wide	Overtime payments to staff	25		
Council Wide	Redeployment costs for staff temporarily on higher grades	8		
CW	Total	33	(166)	
GRAND TOTAL		4,639	(772)	(NET) 3,867

Appendix 3 – 2020/21 Expenditure Budget – Controllable vs Non-Controllable

2020-21 Budget (£247.9m)



2020-21 Non-Controllable (£174.9m)



2020-21 Controllable (£73.0m)

