

BUDGET OUTLOOK 2021-22 TO 2025-26

1. EXECUTIVE SUMMARY

- 1.1 This report provides an update to the budget outlook 2021-22 to 2025-26, reported to the Business Continuity Committee on 13 August 2020. The estimates within the report are based on the mid-range scenario with best and worst case scenarios noted in Appendix 1.
- 1.2 The assumptions in respect of future years Scottish Government funding remain unchanged from those reported on 13 August 2020. Those being a prudent estimate of a reduction in funding of 1.2% in the mid-range scenario (based on an average of the last three years settlements) with the best case and worst case variable being +/- 0.5% from the mid-range.
- 1.3 There are no changes to my previous assumptions around the growth in Council Tax. It has been assumed that the Council tax base will grow by 0.1% in the worst case scenario, 0.25% in the mid-range scenario and 0.4% in the best case.
- 1.4 There are no changes to the base budget since the report on 13 August 2020.
- 1.5 The assumptions in respect of employee costs for Council services were previously noted 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.
- These remain unchanged.
- 1.6 A review of the unavoidable/inescapable non-pay inflation provision required in 2021-22 was carried out during September by finance staff in consultation with services. The non-pay inflation previously estimated within the budget outlook was £1.294m (equal to the 2020-21 non-pay inflation) and the updated estimate is £1.016m, a decrease of £0.278m. A further general inflationary increase of £0.750m has been built into the worst case scenario from 2021/22 onwards.
- 1.7 There are a number of cost and demand pressures for Council services built into each scenario. Changes to these pressures since the report on 13 August 2020 are:
- New – Food and drink standards in schools.
 - New – Implementation of planning act

- New – Introduction of small quantities charge for export health certificates
- Amended – HB admin grant
- Amended – Waste model

1.8 In addition to the identified cost and demand pressures an annual allowance for unidentified cost and demand pressures has been included in the mid-range scenario of £0.250m with £0.500m included in the worst case scenario.

There are also unquantified cost pressures associated with the January 2025 ban of biodegradable municipal waste, the 2022 Deposit Return Scheme, and the potential longer term financial impact of COVID-19.

1.9 There is a political decision to be made as to the future allocation to the Health and Social Care Partnership (HSCP). 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 indicative position has been included as the mid-range and worst case scenario with a 2% reduction to the adult social care portion of the HSCP budget in the best case scenario.

1.10 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 and it will be a matter for Council to consider as part of the budget process next year. Live Argyll have been asked to suggest proposals to deliver savings which will be brought back to Members as part of the 2021-22 budget setting process.

1.11 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 £41.645 with a gap of £6.529m in 2021-22.

1.12 The measures to balance the budget over the next five years are as follows:

- inflationary increase on fees and charges of between 1% (worst case) and 5% (best case) with a mid-range of 3%
- previously agreed management/operational and policy savings options
- proposed increase to Council Tax (4.84% in best case, 3% in both mid-range and worst case scenario).

1.13 In the mid-range scenario, the budget gap estimated over the five year period 2021-22 to 2025-26 is £31.327m with a gap of £4.577m in 2021-22.

1.14 In contrast, the budget gap in the best case scenario over the five years is £9.464m with a gap of £0.032m in 2021-22 and in the worst case scenario, the budget gap over the five years is £46.386m with a gap of £7.094m in 2021-22. A summary of all three scenarios is included within Appendix 1.

- 1.15 It is recommended that the Policy and Resources Committee consider the current estimated budget outlook position for the period 2021-22 to 2025-26.

BUDGET OUTLOOK 2021-22 TO 2025-26

2. INTRODUCTION

- 2.1 This report provides an update to the budget outlook 2021-22 to 2025-26, reported to the Business Continuity Committee on 13 August 2020.
- 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 2021-22 to 2025-26.

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

- 4.1.1 There are no changes to my previous assumptions around the level of future Scottish Government funding. I consider a prudent assumption still to be within the range of a reduction of between 0.7% (best case) and 1.7% (worst case) with a mid-range of 1.2%.

The ongoing uncertainty over the impact of COVID-19 on future years funding means this is an assumption that needs to be kept under close review and I will continue to 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.

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

	2021-22 £000	2022-23 £000	2023-24 £000	2024-25 £000	2025-26 £000
% 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)
Estimated SG Funding	195,149	192,807	190,493	188,207	185,949

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 0.4%, 0.1% for the worst case 0.25% for the mid-range. The Council tax increase is included within paragraph 4.9.3 of this report.
- 4.1.4 The table below summarises the estimated total funding in the mid-range scenario.

	2021-22 £000	2022-23 £000	2023-24 £000	2024-25 £000	2025-26 £000
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
Total Estimated Funding	248,252	245,930	243,749	241,956	239,471

4.2 Base Budget

- 4.2.1 The starting point for the base budget for 2021-22 is the 2020-21 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 no changes to the base budget since the last Budget Outlook report on 13 August 2020. The adjustments required to the base budget are as follows:

	2021-22 £000	2022-23 £000	2023-24 £000	2024-25 £000	2025-26 £000
Base Budget 2020-21	247,860	247,860	247,860	247,860	247,860
27 Feb 2020 Budget					
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
Other Adjustments					
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
Counselling in Schools	166	166	166	166	166
Revised Base Budget	247,422	247,422	247,422	247,422	247,422

4.3 Employee Cost Changes

Pay Award

4.3.1 There are no changes to my previous assumptions in respect of employee costs for Council services which were:

- 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.

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. Furthermore there have been no changes to the costs in relation to the consolidation of the living wage which were reported to the Business Continuity Committee on 13 August 2020.

Increments

4.3.3 There are no changes to my previous assumption around the cost of employee increments. It has been assumed that, for future years, the best case is half of the previous year cost, for mid-range and worst case it will be equal to the 2020-21 cost (£0.737m).

4.3.4 The table below summarises the employee cost increases in the mid-range scenario for Council services. The assumed 3% pay award in the mid-range has been applied to the Living Wage costs. The employee cost increases relating to Social Work within the Health and Social Care Partnership are summarised within paragraph 4.6.2.

	2021-22 £000	2022-23 £000	2023-24 £000	2024-25 £000	2025-26 £000
Pay Award	4,047	8,215	12,508	16,930	21,485
Living Wage Consolidation	576	524	525	498	495
Pay Award Applied to Living Wage	0	15	31	47	63
Increments	737	1,474	2,211	2,948	3,685
Total Employee Cost Changes	5,360	10,228	15,275	20,423	25,728

4.4 Non-Pay Inflation

- 4.4.1 A review of the unavoidable/inescapable non-pay inflation provision required in 2021-22 was carried out during September by finance staff in consultation with services. The non-pay inflation previously estimated within the budget outlook was £1.294m (equal to the 2020-21 non-pay inflation) and the updated estimate is £1.016m, a decrease of £0.278m. More detail is provided in appendix 2.
- 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 4.6.2.

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). Since the report to Business Continuity Committee on 13 August 2020 three cost and demand pressures have been added and two existing ones amended.
- 4.5.2
- New – Food and drink standards in schools.
 - New – Implementation of planning act
 - New – Introduction of small quantities charge for export health certificates
 - Amended – HB admin grant
 - Amended – Waste model
- 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 The cost pressures are summarised in the table below and will be subject to review during the financial year.

	2021-22 £000	2022-23 £000	2023-24 £000	2024-25 £000	2025-26 £000
Universal Credit – HB Admin Grant	40	80	120	160	200
Asbestos Management Plan	48	48	48	48	48
Office Enterprise Agreement	20	20	20	22	22
Maintenance of schools estate	225	225	225	225	225
ASN Support	72	145	219	294	370
Skype for Education	25	25	25	25	25
Waste	0	91	98	116	169

Local Development Plan	0	0	50	0	50
New HR System Project Team	0	0	200	0	0
Oracle/EBS Upgrade / Replacement Software Support	86	86	86	86	86
Oracle/EBS Upgrade / Replacement Project Team	100	0	0	0	0
Food and Drink Standards in Schools	65	65	65	65	65
Implementation of planning act	60	0	0	0	0
Small Quantities Charge for Export Health Certificates	30	30	30	30	30
Allowance for pressures in future years	250	500	750	1,000	1,250
Total Cost and Demand Pressures	1,021	1,315	1,936	2,071	2,540

Unquantified Cost Pressures

4.5.4 There is still a cost pressure relating to the ban of biodegradable municipal waste which is not quantified at this stage. The Biodegradable Municipal Waste ban comes into force across Scotland in 2025. The preferred approach of Argyll and Bute Council is a transition from landfill as the primary disposal method for residual waste in order to comply with the ban. However, to achieve landfill ban compliance it represents a significant and ongoing cost challenge to the Council. Officers have studied a number of options that have the potential to be compliant solutions. A cost model has been developed by officers to enable discussion and seek support from partners such as the Scottish Government. The cost model looks at all of the options open to the Council but due to an ever changing market and policy environment, there are still a number of variables, uncertainties and assumptions which are built in to the model. The model shows that the likely range of recurring revenue costs could be in the region of £0.800m to £3.500m (falling to £1.500m after the end of the Waste PPP in 2026).

4.5.5 In relation to COVID-19, officers have continued to work on identifying and monitoring its financial impact on the Council until the end of 2020-21 and we continue to report this where appropriate. A short term working group has been established to consider the Council's options for addressing any shortfall between the impact on the 2020-21 revenue budget and the funding made available by the Scottish Government.

It is likely that there will be a number of cost pressures that will continue into financial year 2021-22, however, at this stage, these additional pressures have not been built into the financial outlook. We intend to quantify the likely cost pressures and include them in the budget outlook that will be presented to the December meeting of the Policy and Resources Committee. It is hoped that by

December we will be clearer on the restrictions that are likely to continue into next year and also be clearer on any additional funding or funding flexibilities that may be available to the Council.

- 4.5.6 The cost and demand pressures relating to Social Work within the Health and Social Care Partnership are summarised within paragraph 4.6.2.

4.6 Health and Social Care Partnership

- 4.6.1 There are no changes to the previous assumption on the payment to the HSCP. In order to reflect different scenarios within the budget outlook, I have assumed flat cash allocations in the mid-range and worst case scenarios and a 2% reduction 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.
- 4.6.2 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.

	2021-22 £000	2022-23 £000	2023-24 £000
Pay Inflation	964	1,957	2,980
Pay Increments	82	164	246
Impact of Living Wage Consolidation	57	59	61
Non-Pay Inflation	1,640	3,223	4,858
Care Services for Older People (Growth)	367	740	1,119
Care Services for Younger Adults	355	710	1,065
Continuing Care for Looked After Children	250	500	750
Unknown Cost and Demand Pressures	500	1,000	1,500
Total Cost Increase Estimates for Social Work	4,215	8,353	12,579

4.7 Live Argyll

- 4.7.1 There are no changes to the previous assumption on the future payments to Live Argyll which are a reduction to the management fee of 1.9% in the best case scenario, 1% in the mid-range scenario and a flat cash position in the worst case scenario.
- 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 with a view to

exploring a reduction in the management fee. This work is ongoing and Live Argyll have been asked to suggest proposals to deliver savings which will be brought back to Members as part of the 2021-22 budget setting process.

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.

	2021-22 £000	2022-23 £000	2023-24 £000	2024-25 £000	2025-26 £000
Revised Base Budget	247,422	247,422	247,422	247,422	247,422
Employee Cost Changes	5,360	10,228	15,275	20,423	25,728
Non-Pay Inflation	1,016	2,165	3,314	4,463	5,612
Cost and Demand Pressures	1,021	1,315	1,936	2,071	2,540
Increase/(Decrease) to HSCP allocation	0	0	0	0	0
Increase/(Decrease) to Live Argyll payment	(38)	(76)	(113)	(150)	(186)
Total Estimated Expenditure	254,781	261,054	267,834	274,229	281,116
Estimated Funding	248,252	245,930	243,749	241,596	239,471
Estimated Budget Surplus / (Gap) Cumulative	(6,529)	(15,124)	(24,085)	(32,633)	(41,645)

4.9 Measures to Balance the Budget

4.9.1 There is one change to previous assumptions on measures to balance the budget. The previous budget outlook reported on 13 August 2020 included a £172k revenue saving to be delivered through a transformation in the delivery of catering and cleaning services. The implementation of free school meals for early years children has changed the approach to shared services as this was not a national priority at the time the Council's shared service work initially commenced. This is anticipated to result in a growth in the region of 25% which is a significant expansion at a time when budgets are constrained. As a consequence it has been determined that the associated revenue saving cannot be delivered and has therefore been removed as a measure to balance the budget. However the delivery model will be subject to a revised review to identify and new saving options which can be considered as part of the 2021- 22 budget.

Other measures to balance the budget include:

- inflationary increase on fees and charges of between 1% (worst case) and 5% (best case) with a mid-range of 3%

- previously agreed management/operational and policy savings options (refer to paragraph 4.9.4)

4.9.2 As part of the work carried out by Financial Services in consultation with services to identify and monitor the financial impact of COVID-19 on the Council in 2020-21 they have identified savings options which may not be delivered in 2020-21. For now there is an assumption that these savings will be delivered from 2021-22 onwards however officers will keep this under review.

4.9.3 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 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.

4.9.4 The table below summarises the proposed measures to balance the budget in the mid-range scenario.

	2021-22 £000	2022-23 £000	2023-24 £000	2024-25 £000	2025-26 £000
Fees and Charges Increase	318	646	984	1,332	1,690
Management/Operational Savings February 2020	(240)	(240)	(240)	(240)	(240)
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
Total Savings	1,972	3,949	5,998	8,120	10,318

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.

	2021-22 £000	2022-23 £000	2023-24 £000	2024-25 £000	2025-26 £000
Estimated Budget Gap Prior to Measures to Balance Budget	(6,605)	(15,209)	(24,179)	(32,736)	(41,757)
Savings Measures	1,972	3,949	5,998	8,120	10,318
Estimated Budget	(4,577)	(11,175)	(18,087)	(24,513)	(31,327)

Surplus / (Gap) Cumulative					
Estimated Budget Surplus / (Gap) In Year	(4,577)	(6,618)	(6,912)	(6,426)	(6,814)

- 4.10.2 In the mid-range scenario, the budget gap estimated over the five year period 2021-22 to 2025-26 is £31.327m with a gap of £4.6557m in 2021-22.
- 4.10.3 In contrast, the budget gap in the best case scenario over the five years is £9.464m with a gap of £0.032m in 2021-22 and in the worst case scenario, the budget gap over the five years is £46.6386m with a gap of £7.094m in 2021-22. A summary of all three scenarios is included within Appendix 1.
- 4.10.4 The changes from the previous budget outlook reported to the Business Continuity Committee on 13 August 2020 are summarised in the table below

	2021-22 £000	2022-23 £000	2023-24 £000	2024-25 £000	2025-26 £000
Previously reported budget surplus / (gap) Cumulative	(4,528)	(11,305)	(18,379)	(24,949)	(31,872)
New cost and demand pressure for food and drink standards	(65)	(65)	(65)	(65)	(65)
New cost and demand pressure for implementation of planning act	(60)	0	0	0	0
New cost and demand pressure for small quantities charges	(30)	(30)	(30)	(30)	(30)
Increased cost and demand pressure for waste model	0	(66)	(69)	(90)	(146)
Decreased cost and demand pressure for HB admin grant	20	40	60	80	100
Decrease in non-pay inflation estimate	278	423	568	713	858
Remove savings from catering and cleaning redesign	(172)	(172)	(172)	(172)	(172)
Revised Budget Surplus / (Gap) Cumulative	(4,577)	(11,175)	(18,087)	(24,513)	(31,327)

5. CONCLUSION

- 5.1 In the mid-range scenario, the budget gap estimated over the five year period 2021-22 to 2025-26 is £31.327m with a gap of £4.577m in 2021-22. Council officers are currently working on developing savings options 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
17 September 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 – Non-Pay Inflation
Appendix 3 – Cost and Demand Pressures (Council Services)
Appendix 4 – Cost and Demand Pressures (Social Work)