

BUDGET OUTLOOK 2022-23 TO 2026-27

1. EXECUTIVE SUMMARY

- 1.1 This report provides an update to the budget outlook 2022-23 to 2026-27, reported to the Policy and Resources Committee on 13 May 2021.
- 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 The assumptions in respect of future years Scottish Government funding remain unchanged from those I reported on 13 May 2021. Those being a prudent estimate of a reduction in funding of 1.0% in the mid-range scenario (based on an average of the last four years settlements with a slight adjustment to reflect the uncertainty about the medium to longer term impact of COVID and the UK's exit from the EU on future funding levels) with the best case and worst case variable being +/- 0.5% from the mid-range.
- 1.4 There are no changes to my previous assumptions around the growth in Council Tax. 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 There are no changes to the base budget since the report on 13 May 2021.
- 1.6 Similarly there are no changes to the assumptions in respect of employee costs for Council services which previously noted as follows:
- Pay award for 2022-23 to 2026-27 of between 1% and 3%, with mid-range of 2%.
 - Increments between £0.317m and £0.634m with mid-range £0.634m.
- 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 of £0.750m 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. Changes to these pressures since the report on 13 May 2021 are:
- New - Removal of charge for school milk
 - New – Reversal of 2019-20 procurement saving option
 - Amended – Increase to anticipated cost of May 2022 local government elections

- 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 will be 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 2021, indicative allocations for 2022-23 – 2024-25 were agreed on the basis of a flat cash allocation. In the budget outlook I have assumed flat cash allocations across all three scenarios.
- 1.11 At this stage no assumptions have been made around the Live Argyll management fee. This will be subject to an annual review through the budget setting process with options brought forward for Member's consideration.
- 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 £34.475m with a gap of £5.392m in 2022-23.
- 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 3% (3% mid-range).
 - Management/operational savings agreed by Council in February 2021.
 - Policy savings already agreed by Council in February 2021.
 - Proposed increase to Council Tax (3% in all scenarios).
- 1.14 In the mid-range scenario, the budget gap estimated over the five year period 2022-23 to 2026-27 is £23.290m with a gap of £2.812m in 2022-23.
- 1.15 In contrast, the budget gap in the best case scenario over the five years is £5.997m with a surplus of £1.3311m in 2022-23 and in the worst case scenario, the budget gap over the five years is £43.449m with a gap of £6.613m in 2022-23. A summary of all three scenarios is included within Appendix 1.
- 1.16 It is recommended that the Policy and Resources Committee consider the current estimated budget outlook position for the period 2022-23 to 2026-27.

BUDGET OUTLOOK 2022-23 TO 2026-27**2. INTRODUCTION**

- 2.1 This report provides an update to the budget outlook 2022-23 to 2026-27, reported to the Policy and Resources Committee on 13 May 2021.
- 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 Consider the current estimated budget outlook position for the period 2022-23 to 2026-27.

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 0.5% (best case) and 1.5% (worst case) with a mid-range of 1.0%.
- 4.1.2 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.
- 4.1.3 The table below summarises the mid-range scenario estimates expressed in percentage terms and monetary value.

	2022-23 £000	2023-24 £000	2024-25 £000	2025-26 £000	2026-27 £000
% Change to Funding	-1.0%	-1.0%	-1.0%	-1.0%	-1.0%
Estimated SG Funding Reduction	(2,010)	(1,990)	(1,970)	(1,951)	(1,931)
Estimated SG Funding	199,033	197,043	195,073	193,122	191,191

4.1.4 In addition to the Scottish Government Grant funding noted above I have built in £0.554m of specific grant funding for ferries in each of the five years as there is an assumption that this financial support, first provided in 2020-21 (£0.454m) and increased to £0.554m in 2021-22, for internal ferries continues however this has not been formally agreed by the Scottish Government.

Council Tax

4.1.5 The Council Tax budget for 2021-22 was set at £52.859m which reflected the Council Tax freeze agreed by the Council on 23 February 2021 and an assumption there will be no increase in the Council Tax base due to the impact of COVID.

4.1.6 There are no changes to my previous assumptions around the growth in Council Tax. 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.

4.1.7 In 2021-22 the Council's settlement included £1.762m of funding to compensate for agreeing a Council Tax freeze. In the two years prior to this 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 2021-22.

4.1.8 The table below summarises the estimated total funding in the mid-range scenario.

	2022-23 £000	2023-24 £000	2024-25 £000	2025-26 £000	2026-27 £000
Estimated SG Funding	199,033	197,043	195,073	193,122	191,191
Specific Ferries Grant	554	554	554	554	554
Council Tax Base	52,859	52,859	52,859	52,859	52,859
Council Tax Growth	132	264	397	530	663
Total Estimated Funding	252,578	250,720	248,883	247,065	245,267

4.2 Base Budget

4.2.1 The starting point for the 2022-23 base budget is the 2021-22 approved budget adjusted for any one-off items as well as any other items that have an impact on the base. There are no changes to the base budget since the last Budget Outlook reported to the Policy and resources Committee on 13 May 2021.

4.2.2 The adjustments required to the base budget from decisions by Council on 25 February 2021 and other adjustments are noted as follows:

	2022-23 £000	2023-24 £000	2024-25 £000	2025-26 £000	2026-27 £000
Base Budget 2021-22	251,314	251,314	251,314	251,314	251,314
Additional borrowing costs to fund capital plan	70	70	70	70	70
Remove 2021-22 COVID cost pressure	(5,101)	(5,101)	(5,101)	(5,101)	(5,101)
Adjust for one off 2021-22 gain from principal repayment holiday	5,400	5,400	5,400	5,400	5,400
Adjust for repayment of loans fund principal repayment holiday	162	170	179	188	198
Remove funding for 2021-22 festive parking	(20)	(20)	(20)	(20)	(20)
Remove one off 2021-22 providing recycling services costs	(206)	(206)	(206)	(206)	(206)
Remove one off 2021-22 Ledger Upgrade Project costs	(50)	(50)	(50)	(50)	(50)
Remove one off 2021-22 Planning Act costs	(60)	(60)	(60)	(60)	(60)
Revised Base Budget	251,509	251,517	251,526	251,535	251,545

4.3 Employee Cost Changes

Pay Award

- 4.3.1 When the Council agreed the 2021-22 Budget on 23 February 2021 the 2021-22 Scottish Public Sector Pay Policy had been announced. Whilst that isn't the agreed policy for teachers and local government employees it provided a reasonable basis to make assumptions for budget purposes and it supported a 2% award budget assumption in 2021-22.

COSLA's policy and aspiration remains to achieve parity of pay awards across the Local Government workforce and, as such, have adopted a position that the 2021-22 Local Government Pay offer should align, as far as possible, with the Scottish Public Sector Pay Policy. The 2021-22 Policy was revised in March 2021, after Stage 2 of the Budget Process, and its key features were:

- A flat rate payment of £800 for all employees earning up to £25,000
- A 2% uplift for those earning £25,000 to £40,000
- A 1% rise for those earning up to £80,000 with a cap of £800.

At that time officers revisited the salary template to assess the impact of this policy and it created a 2021-22 cost pressure for the Council of £0.311m.

In May 2021 the Scottish Government announced an NHS pay deal offering an average increase of 4% including a back date to 1 December 2020. This in addition to the £500 thank you payment for health and social care workers. If the

same deal was agreed for Local Government this would create:

- 2020-21 cost pressure (due to backdating) of £0.477m
- 2021-22 cost pressure of £3.129m

Officers are currently working on what the financial impact would be if the £500 thank you payment was extended to all local government officers.

The Local Government pay deal is not agreed yet and COSLA are engaging with the Scottish Government regarding the affordability of any deal and the provision of any additional funding. In the meantime we are recognising this issue as a financial risk to the Council and will report back to Committee on any developments in relation to it.

- 4.3.2 In terms of assumptions for future years I have assumed there will be pay awards within a range of 1% (best case) and 3.0% (worst case) with a mid-range of 2%.

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 2021-22 cost (£0.634m).
- 4.3.4 At the Policy and Resources Committee on 13 May 2021 I reported further refinements to the financial impact of modernising the LGE pay grade and employment deal from 1 April 2021 onwards. The majority of these costs/savings have been built into the base budget however there are some adjustments required in future years to reflect the profiling of the associated costs and savings.

Review of LGE14 Grade

- 4.3.5 The Council agreed the consolidation of the living wage at the June 2020 Council meeting. This project was wider than the consolidation of the living wage and included a review of all LGE14 grade officer and the creation of a new LGE15 and LGE16 post. We have almost concluded the review of these posts and there will be a cost implication of making any changes. We should be in a position to report the impact of this on employee costs within the budget outlook to be reported to the Policy and Resources Committee in October.
- 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.

	2022-23 £000	2023-24 £000	2024-25 £000	2025-26 £000	2026-27 £000
Pay Award	2,921	5,901	8,940	12,040	15,202
Increments	634	1,268	1,902	2,536	3,170
Living wage consolidation and modernising the employment deal	(42)	(32)	(49)	(42)	(42)
Total Employee Cost Changes	3,513	7,137	10,793	14,534	18,330

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 2021-22. 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 2021-22 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 4.6.3.

	2022-23 £000	2023-24 £000	2024-25 £000	2025-26 £000	2026-27 £000
Unavoidable/Inescapable	1,164	2,328	3,492	4,656	5,820
Total Non-Pay Inflation	1,164	2,328	3,492	4,656	5,820

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 which were reported as part of the budget in February 2021. Since the Policy and Resources Committee on 13 May 2021 the following changes have been made to the cost and demand pressures:

- New - Removal of charge for school milk as agreed by Council on 24 June 2021
- New – Reversal of 2019-20 procurement saving option
- Amended – Increase to anticipated cost of May 2022 local government elections

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 The cost pressures are detailed in appendix 2 and are summarised in the table below and will be subject to review during the financial year.

4.5.4

	2022-23 £000	2023-24 £000	2024-25 £000	2025-26 £000	2026-27 £000
Universal Credit – HB Admin Grant	40	80	120	160	200
SEEMIS Membership	0	5	7	10	10
ASN Support	122	247	375	506	506
Waste Model	91	98	116	169	0*
Cost of BMW Ban	0	0	400	1,600	1,150
Local Development Plan	0	50	0	50	0
New HR System Project Team	0	200	0	0	0
Loss of Parking Income	15	15	15	15	15
School Bandwidth Costs	19	19	19	19	19
Local Government Election	350	0	0	0	0
House Loans	19	19	19	19	19
Removal of charges for milk in schools	22	22	22	22	22
Reversal of 2019-20 procurement saving option	250	250	250	250	250
Apprenticeship Levy	40	40	40	40	40
Allowance for pressures in future years	250	500	750	1,000	1,250
Total Cost and Demand Pressures	1,218	1,545	2,133	3,860	3,481

*The Waste Model Cost Pressure is zero in 2026-27 as that is when the Council's current Waste PPP contract expires.

Unquantified Cost Pressures

4.5.5 There is potentially a new cost pressure which is not quantified at this stage. The Scottish Government require the Council to set a sustainable rate for our education partner providers that will enable them to pay at least the real living wage to their care staff. An external benchmarking exercise was commissioned by Moray Council which identified a need to increase the hourly rate they are paying to care providers. Officers are reviewing this to determine whether any increase is required to the Council's rate. In order to receive this rate partner providers must guarantee that the real living wage or higher will be paid to staff.

4.5.6 The cost and demand pressures relating to Social Work within the Health and Social Care Partnership are summarised within paragraph 4.6.3.

4.6 Health and Social Care Partnership

4.6.1 The Council, at the budget meeting on 25 February 2021, agreed a base allocation to the HSCP of £62.211m for 2021-22 as well as indicative flat cash

allocations for 2022-23 and 2023-24.

4.6.2 In the budget outlook, I have assumed flat cash allocations across all scenarios. These are only assumptions and it will be a matter for Council to consider as part of the budget process next year.

4.6.3 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 three year planning window is appropriate.

	2022-23 £000	2023-24 £000	2024-25 £000
Pay Inflation	685	1,384	2,097
Pay Increments	87	174	261
Non-Pay Inflation	1,431	2,899	4,411
Social Work Emergency Standby	25	51	78
Care Services for Older People (Growth)	387	780	1,180
Care Services for Younger Adults	391	790	1,197
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	3,756	7,578	11,474

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 reduce.

4.7.2 At the budget meeting on 25 February 2021, Council approved a 10% reduction in the management fee resulting in a 2021-22 fee of £3.419m. The management fee has only been agreed for a one year period.

4.7.3 At this stage no assumptions have been made around the payment to Live Argyll. This will be subject to an annual review through the budget setting process with options brought forward for Member's consideration.

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.

	2022-23 £000	2023-24 £000	2024-25 £000	2025-26 £000	2026-27 £000
Base Budget	251,509	251,517	251,526	251,535	251,545
Employee Cost Changes	3,513	7,137	10,793	14,534	18,330
Non-Pay Inflation	1,164	2,328	3,492	4,656	5,820
Cost and Demand Pressures	1,218	1,545	2,133	3,860	3,481
Increase/(Decrease) to HSCP allocation	0	0	0	0	0
Total Estimated Expenditure	257,404	262,527	267,994	274,585	279,176
Estimated Funding	252,578	250,720	248,883	247,065	245,267
Estimated Budget Surplus / (Gap) Cumulative	(4,826)	(11,807)	(19,061)	(27,520)	(33,909)

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 best case and mid-range scenario and a smaller 1% increase in the worst case scenario.

4.9.2 A number of policy options were agreed at the Council meeting on 25 February 2021. These are now factored into the budget outlook, reducing the budget gap.

4.9.3 In the two years prior to this 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. In 2021-22 Councils were provided with compensatory funding in return for agreeing a Council Tax freeze. For the budget outlook, I have assumed a 3% Council Tax increase in the best case, mid-range and worst case scenarios.

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

	2022-23 £000	2023-24 £000	2024-25 £000	2025-26 £000	2026-27 £000
Fees and Charges Increase	344	698	1,063	1,439	1,826
Management/Operational Savings February 2021	(250)	(230)	(230)	(230)	(230)
Policy Savings February 2021	331	459	459	459	459
Council Tax Increase	1,590	3,239	4,950	6,724	8,564
Total Savings	2,015	4,166	6,242	8,392	10,619

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.

	2022-23 £000	2023-24 £000	2024-25 £000	2025-26 £000	2026-27 £000
Estimated Budget Gap Prior to Measures to Balance Budget	(4,826)	(11,807)	(19,061)	(27,520)	(33,909)
Savings Measures	2,015	4,166	6,242	8,392	10,619
Estimated Budget Surplus / (Gap) Cumulative	(2,811)	(7,641)	(12,819)	(19,128)	(23,290)
Estimated Budget Surplus / (Gap) In Year	(2,811)	(4,830)	(5,178)	(6,309)	(4,162)

4.10.2 In the mid-range scenario, the budget gap estimated over the five year period 2022-23 to 2026-27 is £23.290m with a gap of £2.811m in 2022-23.

4.10.3 In contrast, the budget gap in the best case scenario over the five years is £5.997m with a surplus of £1.331m in 2022-23 and in the worst case scenario, the budget gap over the five years is £43.449m with a gap of £6.613m in 2022-23. A summary of all three scenarios is included within Appendix 1.

4.10.4 The changes from the previous budget outlook reported to the Policy and Resources Committee on 13 May 2021 are summarised in the table below

	2022-23 £000	2023-24 £000	2024-25 £000	2025-26 £000	2026-27 £000
Previously reported budget surplus / (gap) Cumulative	(2,489)	(7,369)	(12,547)	(18,856)	(23,018)
New C&D Pressure – Remove charges for milk in schools	(22)	(22)	(22)	(22)	(22)
New C&D Pressure – reversal of procurement saving option	(250)	(250)	(250)	(250)	(250)
Amended C&D Pressure to refine anticipates cost of 2022 local government election	(50)	0	0	0	0
Revised Budget Surplus / (Gap) Cumulative	(2,811)	(7,641)	(12,819)	(19,128)	(23,290)

5. CONCLUSION

5.1 In the mid-range scenario, the budget gap estimated over the five year period 2022-23 to 2026-27 is £23.290m with a gap of £2.811m in 2022-23. Council officers are continuing to further develop savings options identified during the 2020-21 service redesign which require further development and consultation. These will be presented to members at a future date to help balance the budget in future years.

6. IMPLICATIONS

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| 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
Executive Director/Section 95 Officer
20 July 2021

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)