PERTH & KINROSS COUNCIL

25 November 2021

MEDIUM TERM FINANCIAL PLAN 2022 - 2028

Report by the Head of Finance
(Report No. 21/212)

PURPOSE OF REPORT
This report updates the Medium-Term Financial Plan (MTFP) approved by Council on 30 September 2020 (Report No. 20/174 refers). The report summarises the implications of the latest projections on future Council General Fund Revenue Budgets over the medium term and provides an update on the Council's Capital Budget, Housing Revenue Account and Reserves position. The report also sets out a proposed approach to the development of the Revenue and Capital Budgets.

1. BACKGROUND

1.1. The Medium-Term Financial Plan (MTFP) is intended to outline the broad "direction of travel" for the Council's financial management with further detail and options for managing the various challenges being developed as part of the Revenue and Capital Budget process.

1.2. The report also considers the potential financial implications of the Covid-19 pandemic on the Council over the short, medium and longer term.

1.3. For the purposes of this update, the medium term is broadly defined as the six years to financial year 2027/28.

1.4. The Council has approved the following key elements of its financial strategy:

	Report Reference
2022/23 Provisional Revenue Budget	20/57
Medium Term Financial Plan 2020 – 2027	20/174
Housing Revenue Account Strategic Financial Plan	21/15
2021/22 Final Revenue Budget	21/33
Composite Capital Budget 2020 – 2029	20/58
Reserves Strategy	21/34
Unaudited Annual Accounts 2020/21	21/112
Draft Audited Annual Account 2020/21	21/164

1.5. The Audited Annual Accounts for 2020/21 and the Annual Audit Report to the Members of Perth & Kinross Council and the Controller of Audit for the Year Ended 31 March 2021 were considered by the Council on 25 October 2021 (Report No. 21/186 refers). In their final report, KPMG state that "the approach to financial management, including budget setting and monitoring is appropriate with clear supporting governance arrangements. The Council demonstrates good practice, in a local authority context, through regular financial reporting".

1.6. The Perth and Kinross Best Value Assurance Report 2019 was considered by Council on 25 September 2019 (Report No. 19/274 refers). The Best Value report confirmed that “the Council has robust financial planning and management arrangements, including effective monitoring and reporting and medium-term financial planning”. It also confirmed that “the financial outlook is challenging, but the Council is well placed to address projected funding gaps through its transformation programme and savings identified as part of the medium-term financial plan”.

1.7. The MTFP seeks to provide a range of scenarios for key variables that are used in long-term budgeting and financial planning. There is no one definitive source for such data and the projections have been taken from a range of sources, including Government Expenditure and Revenue Scotland (GERS), the Office for Budget Responsibility (OBR) and the Bank of England.

1.8. The report considers the wider economic and fiscal outlook and how this might impact on the Council over the medium term. The report also provides an update on the Council’s Revenue and Capital Budgets, Housing Revenue Account, Reserves and other Funds.

1.9. Many of the assumptions set out in this report will change over time in response to external factors including the ongoing impact of Covid-19, future spending reviews and the implications of the United Kingdom’s withdrawal from membership of the European Union.

1.10. The Council’s financial management and budgetary process is also developing to support the Perth and Kinross Offer. Budget proposals and decisions will continue to be aligned with the Council’s Strategic objectives. This is part of a staged move to developing an Outcome Based approach to the Council’s budget where the relationship between how the Council allocates its resources and the outcomes realised through this allocation are more evident.

2. ECONOMIC AND FISCAL OUTLOOK

2.1 In considering an appropriate approach to preparing the Council’s medium-term Revenue and Capital Budgets, it is necessary to consider the outlook for the United Kingdom and Scotland’s public finances.

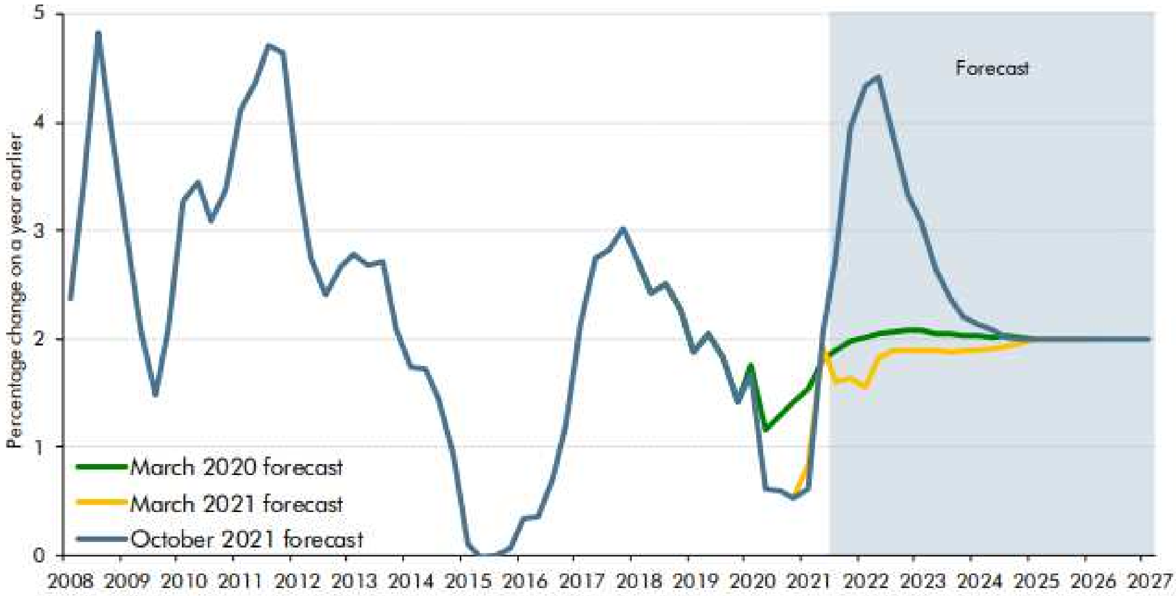
2.2 The global spread of coronavirus and the actions taken by governments to contain it have had a dramatic impact upon the economy of the United Kingdom and countries around the world and the long-term economic outlook remains uncertain.

2.3 In October 2021, the Office of Budget Responsibility (OBR) published its latest economic and fiscal outlook. This report advised that the successful vaccine roll out has allowed the economy to reopen largely on schedule. The vaccines’ high degree of effectiveness, combined with consumers’ and businesses’ response to public health restrictions has meant that output this year has recovered faster than expected, boosting tax revenues in the process. The economy is now expected to grow by 6.5% in 2021 (2.4%

greater than previously projected) and unemployment is expected to rise to 5.25% this winter (1.25% less than previous projections). The UK budget deficit is hence forecast to almost halve to £183 billion in 2021/22 (£51 billion lower than previous projections).

2.4 However, the strength of the rebound in demand in the UK and internationally has led to supply constraints in several markets. In the UK, these supply bottlenecks have been exacerbated by changes in migration and trading arrangements following the UK leaving the European Union. Energy prices have soared, labour shortages have emerged in some occupations, and there have been blockages in some supply chains. These can be expected to hold back output growth in the coming quarters, while raising prices and putting pressure on wages. Consumer Price Inflation is expected to reach 4.4% next year which is set out in the following chart. Since their report was published, the OBR have advised that this position would be consistent with inflation peaking at close to 5% next year. And it could hit the highest rate seen in the UK for three decades.

CPI Inflation

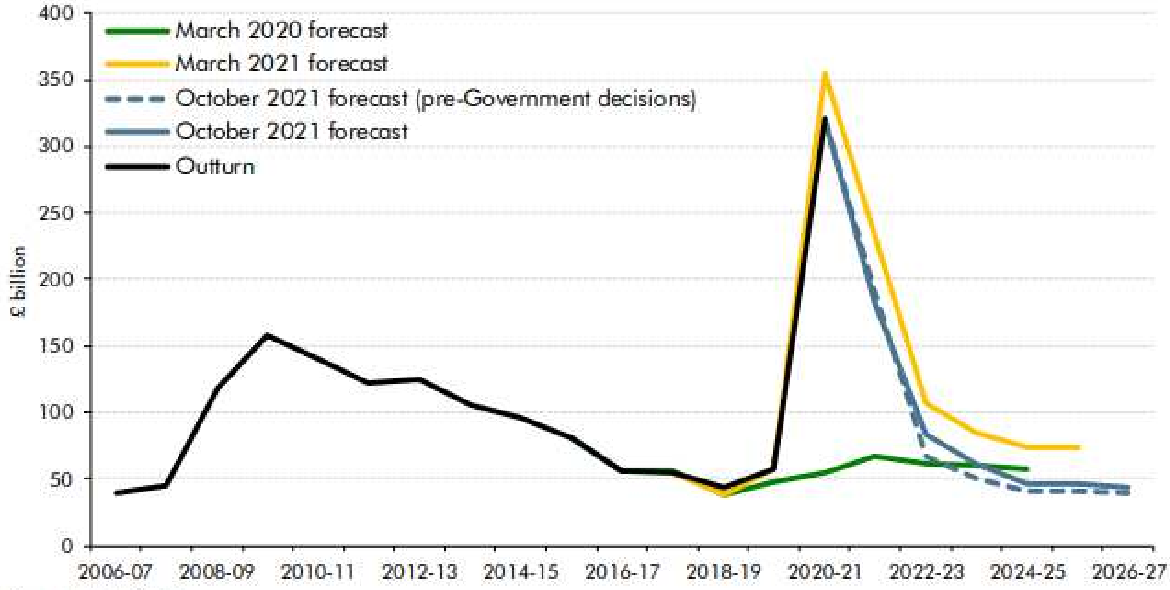


Source: ONS, OBR

2.5 The Covid-19 pandemic has also pushed UK Government borrowing up to a post-war high and debt to its highest level in sixty years. In 2020/21, public sector net borrowing is forecast to reach 16.9% of GDP (£355 billion), its highest level since 1944-45 with public sector net debt to rise to 100.2% of GDP, its highest level since 1960-61. Most of the £298 billion increase in borrowing this year is due to an unprecedented peacetime expansion in government spending, with the full-year cost of the Government's virus-related support to public services, households, and businesses reaching £250 billion in 2020/21 and £344 billion in total.

2.6 Taking account of both changes in forecasts and policy, borrowing is forecast to fall back to below £100 billion next year, declining more slowly to stabilise at around £44 billion (1.5% of Gross Domestic Product). This leaves borrowing lower in every year than previous forecasts and down to £27 billion in 2025/26 which is set out in the following chart.

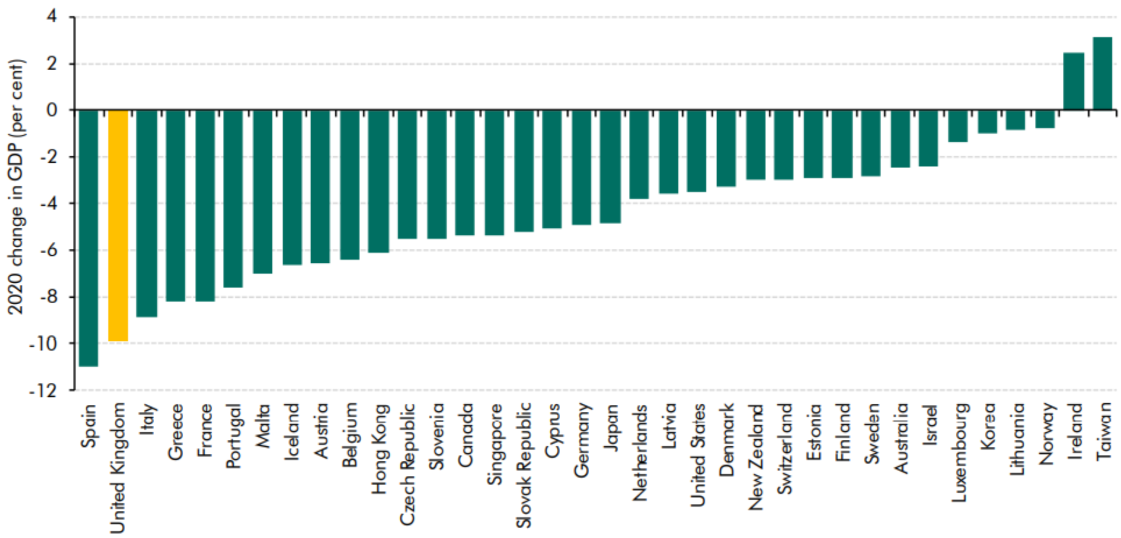
Public Sector Net Borrowing Projections



Source: ONS, OBR

2.7 In July 2021, the Office of Budget Responsibility published its Fiscal Risks report. The July report confirmed that the UK had suffered one of the deepest recessions among advanced economies, falling by 10% in 2020, twice the advanced economy average.

Fall in Real GDP in 2020 in Advanced Economies



Note: Based on IMF definition of advanced economies.
Source: IMF, ONS

2.8 The July report goes on to single out three areas of activity that represent a “material risk” to the public spending outlook, Health, Education and Transport.

2.9 The focus on economic performance is of even more relevance in that under the fiscal framework of the Scotland Act (2016), a number of taxes including Income Tax (rates not allowances) are now devolved to the Scottish Government. The devolution of these taxes will have an impact on the Barnett Formula and Block Grant from the UK Treasury with adjustments made for each element of taxation devolved to the Scottish Government. It was anticipated that by 2019/20, 50% of Scottish Government expenditure would be funded from tax revenues raised in Scotland. This means that the future sustainability of public sector funding and Scottish Government expenditure will be increasingly dependent upon the performance of the Scottish economy.

2.10 On 27 October 2021, the Chancellor of the Exchequer presented the UK Autumn Budget and Spending Review 2021. The detailed implications for the Scottish Budget will be included in the announcements on 9 December 2021.

2.11 Some of the key headlines are as follows:

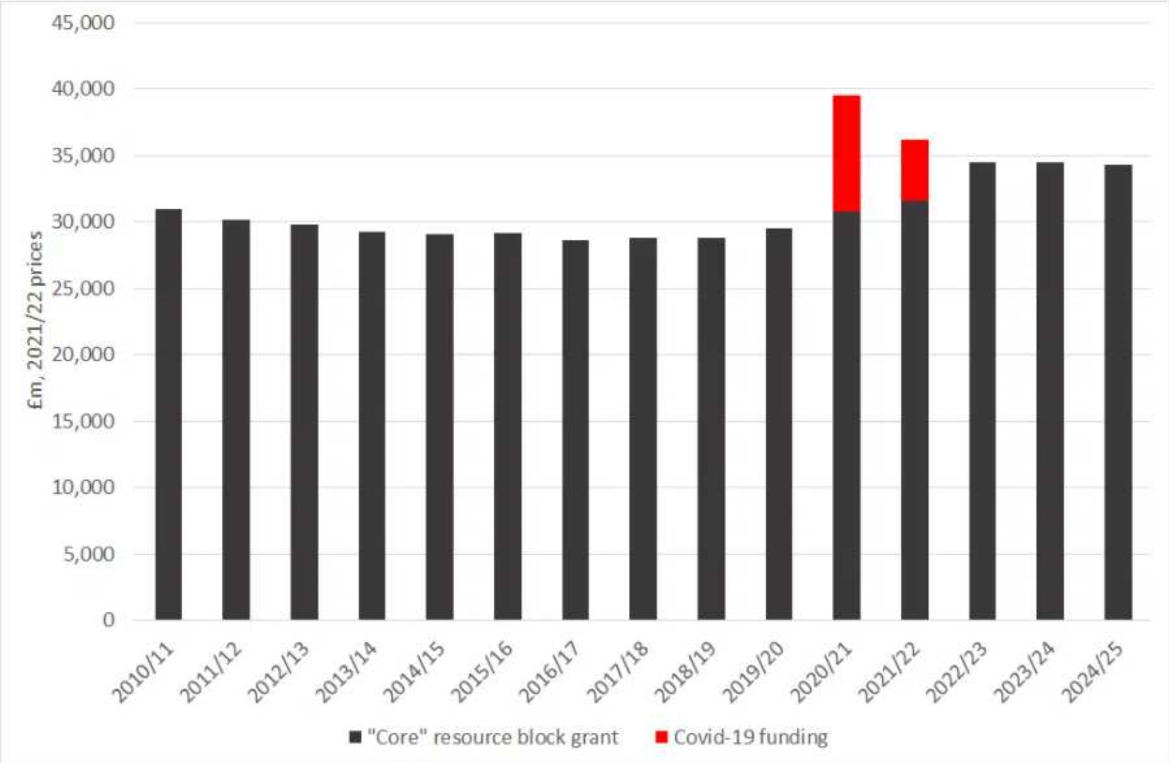
- Inflation in September was 3.1% and is likely to rise to average 4% over next year
- UK economy forecast to return to pre-Covid levels by 2022
- Annual growth set to rebound by 6.5% this year, followed by 6% in 2022
- Unemployment expected to peak at 5.2% next year, lower than 11.9% previously predicted
- Wages have grown in real terms by 3.4% since February 2020
- Borrowing as a percentage of GDP is forecast to fall from 7.9% this year to 3.3% next year
- Borrowing as a percentage of GDP will then fall in the following four years to 1.5%
- Whitehall departments to receive rise in overall spending, totalling £150bn over the course of this Parliament
- Funding will rise by an average of £4.6bn for Scottish Government, £2.5bn for Welsh Government, and £1.6bn for Northern Ireland Executive
- Levelling Up Fund will mean £1.7bn invested in local areas across the UK – locally, £250,000 will be provided to Rannoch Community Trust to help set up a pub and community centre in the old school.

2.12 The Fraser of Allander Institute have published an initial analysis of the implications of the Autumn Budget and Spending Review on future Scottish block grant funding. There is a forecast improvement in the outlook for the resource block grant due to higher UK departmental spending and cuts in English business rates both feeding through to increased consequentials for the Scottish Budget.

2.13 These forecast increases are frontloaded – a larger increase in 2022/23 and relatively flat in real terms in the subsequent two years of the Spending

Review period (the position of the resource block grant in 2024/25 is anticipated to be only £300m more than the UK government's projected spending envelope in September 2021). As shown in the graph below, due to the impact of non-recurring adjustments to the Scottish block in 2020/21 and 2021/22 arising from the UK Government's response to the pandemic, in absolute (cash) terms, forecast funding in 2022/23 is still anticipated to be lower than the preceding two financial years.

Outlook for the Scottish Resource Block Grant



3. SCOTTISH BUDGET

3.1 On 30 September 2021, the Scottish Government published their fourth annual Fiscal Framework Report. This provided information on the reconciliation process for Income Tax, Land and Buildings Transaction Tax, Scottish Landfill Tax, Social Security expenditure and Fines, Forfeitures and Fixed Penalties, as well as operation of the Scotland Reserve and our borrowing powers.

3.2 In summary the following is relevant for the 2022/23 Budget considerations –

- The total provisional reconciliation required in the 2022/23 Budget will be a negative **£14.8** million reflecting lower than anticipated tax receipts.

- The residual balance on the Scotland reserve is **£32 million** based on 2021/22 drawdown plans. This is subject to change over the course of the financial year.

- Under current plans, the Scottish Government's capital debt will be £**2.5 billion** by the end of 2022/23, 82% of its overall £3 billion limit.

- The Scottish Government plans to use its resource borrowing powers in 2021/22 to borrow **£319 million**.

3.3 It has been confirmed by the Cabinet Secretary for Finance that the Scottish Budget will take place on Thursday 9 December 2021. However, it is understood that the information to be published at that time will be at an aggregate level and therefore, is unlikely to contain information specific to Perth & Kinross Council. Following the agreement between the Scottish Government and the Scottish Green Party earlier in August, which provides a parliamentary majority, it is anticipated that the Budget published on 9 December 2021 will, in the main, progress through to the Budget Bill in 2022.

3.4 It is anticipated that the Budget published on 9 December 2021will cover the 2022/23 financial year only. It is further anticipated that information on financial years 2023/24 and 2024/25 will be included in a Spending Review that will be published in Spring 2022.

3.5 It is further understood that the Finance Circular, which contains the level of detail required to fully understand the implications of the Scottish Budget for Perth & Kinross Council, will not be published until 20 December 2021. This is due to key education statistics, which constitute a material element of the distribution formula, not being available until 14 December 2021.

3.6 There is extremely limited information on how the implications of both the UK and Scottish Government's response to Covid-19 will impact upon future funding for local government.

3.7 There is also no information on how much of the additional funding applied in the current year will continue into next year and beyond. Furthermore, there is no information on how the UK and Scottish Governments will fund the unprecedented level of public sector expenditure.

3.8 The Programme for Government, which was announced on 1 September, also sets out a "challenging fiscal position that the Scottish Government faces in light of the pandemic" and the UK's exit from the European Union".

3.9 Overall, the future funding outlook for local government remains highly uncertain. The outlook for the Scottish Government's block grant, together with the Scottish Government's stated spending commitments; the ongoing impact of Covid-19 and increasing demand pressures on public expenditure indicate that the local government settlement in 2022/23 and beyond will continue to be challenging.

4. ANALYSIS OF MEDIUM TERM – PERTH AND KINROSS COUNCIL

4.1 The purpose of this section is to highlight the potential financial implications of changes in key areas affecting the Council's need to spend and to compare these to the projected level of available resources. The continued development of the Medium-Term Financial Plan (MTFP) into future years will further establish the Plan as the foundation of the Council's financial management. The Plan recognises the combined impact of increasing demand for Council services, particularly because of demographic trends, inflationary pressures and anticipated pressures on funding. This approach allows the consideration of options and the refinement of strategies to manage these pressures over the medium to longer term.

4.2 Expenditure pressures classified as "demographic" or "inflation" related are normally identified in detailed submissions considered by Council in setting Revenue Budgets each year. The MTFP, however, makes global assumptions about these variables in advance of detailed submissions to inform the Council's financial planning process over the medium term. The Plan also assumes that any additional costs in relation to new legislation will be funded by the Scottish Government.

4.3 The MTFP is, however, an evolving model, which will require refinement and updating on a regular basis as new information becomes available. The following section of this report focusses on the key areas to be considered in developing future years' budget strategies and sets out the assumptions made in respect of each area. The financial impact of these assumptions is summarised in the table at paragraph 4.41.

4.4 For financial planning purpose this update to the Medium-Term Financial Plan includes the following three scenarios –

- Optimistic – Appendix A(i)
- Mid-Range – Appendix A(ii)
- Pessimistic – Appendix A(iii)

4.5 The detailed assumptions underpinning each of the scenarios are set out in Appendix B with supporting narrative provided under each category below.

<u>Employee Pay Inflation</u>

4.6 Discussions on 2021/22 pay settlements for all staff groups are currently ongoing, and at the time of writing this report, these have not yet concluded. The 2021/22 Final Revenue Budget and the 2022/23 Provisional Revenue Budget both assume an increase of 3%. It is assumed that the final 2021/22 pay award will be weighted to enhancing pay rates at the lower end of pay scales. If the final 2021/22 pay settlement exceeds the budgeted provision, this will have an impact on future years. The pay negotiations for 2022/23 and beyond have not yet commenced. Historic pay awards are set out in the following table

	15/16	16/17	17/18	18/19	19/20	20/21
Teachers	1.5%	1%	1.25%*	3%	7%	3%
Other Staff	1.5%	1%	1%	3.5%	3%	3%

* In 2017/18, Teachers received 1% from 1/4/17 with a further 1% from 1/1/18

4.7 Looking beyond the current year, there are several scenarios which could emerge for pay settlements ranging from increases below or in line with recent rises to awards more than this level. Although COSLA maintain a position of seeking parity in settlements for all local government employee groups, recent settlements have included differential pay awards for different staff groups. For the purposes of this update of the MTFP, the mid-range scenario assumes an increase of 3% in each year for all staff groups with 2% and 4% for the optimistic and pessimistic scenarios respectively.

4.8 There is a risk that the assumptions set out in this MTFP and in Appendix B underestimate future pay inflation and vice versa. A 1% movement on pay award assumptions equates to c£2 million for all staff groups.

<u>Increments</u>

4.9 Local authority pay is negotiated nationally and applies to all employees. Most local government employees (Single Status and Teaching staff) are placed on nationally agreed grades which contain several scale points. Each year employees are incrementally moved up to the next scale point on their grade until the maximum point is reached. Increments are an annual cost that the Council is contractually required to pay

4.10 In terms of the cost of incremental progression, for the purposes of this update, £750,000 per annum has been assumed for all financial years under all three scenarios. This figure is consistent with the cost of incremental progression in previous years.

<u>Employer's Superannuation Contributions</u>

4.11 Employees (and elected members) in Perth & Kinross Council are automatically admitted to either the Scottish Public Pensions Agency (SPPA) (teachers) or the Local Government Pension Schemes (LGPS) (other staff) upon entry to the Council. Both schemes are statutory and ensure that the Council complies with its legislative Auto Enrolment duties. Employees can opt out of either scheme; however, Perth & Kinross Council is listed in statute as an employing authority with a legislative obligation to participate in both schemes.

4.12 The most recent triennial review of Tayside Pension Fund was carried out at 31 March 2020 with the recommendations from this review determining the level of employer contributions from 1 April 2021 to 31 March 2024. The Council was formally advised that there would be no change to the LGPS rates in Spring 2021 for that period, with the employer's contribution remaining at 17%.

4.13 This update of the MTFP covers the period of the next triennial review as at 31 March 2023 which may impact on financial year 2024/25. For the purposes of this update, the following assumptions have been made in relation to increases in the employer's contribution rates. A 1% increase represents a cost pressure of around £986,000 per annum in respect of non-teaching employees.

	2024/25
Optimistic	0%
Mid-range	+1%
Pessimistic	+2%

4.14 The teacher's scheme is administered separately by the Scottish Public Pensions Agency (SPPA) which is an Executive Agency of the Scottish Government. The employer's contributions for this scheme are set by the UK Treasury. There was a significant increase in employers' contributions (from 17.2% to 23%) which took effect from 1 September 2019 to 31 March 2023. There is no information on employer contributions beyond this date.

4.15 For the purposes of this update, the following assumptions have been made in relation to increases in the employer's contribution rates. A 1% increase represents a cost pressure of around £650,000 per annum in respect of teaching employees.

	2023/24	2026/27
Optimistic	0%	0%
Mid-range	+1%	+1%
Pessimistic	+2%	+2%

Inflation

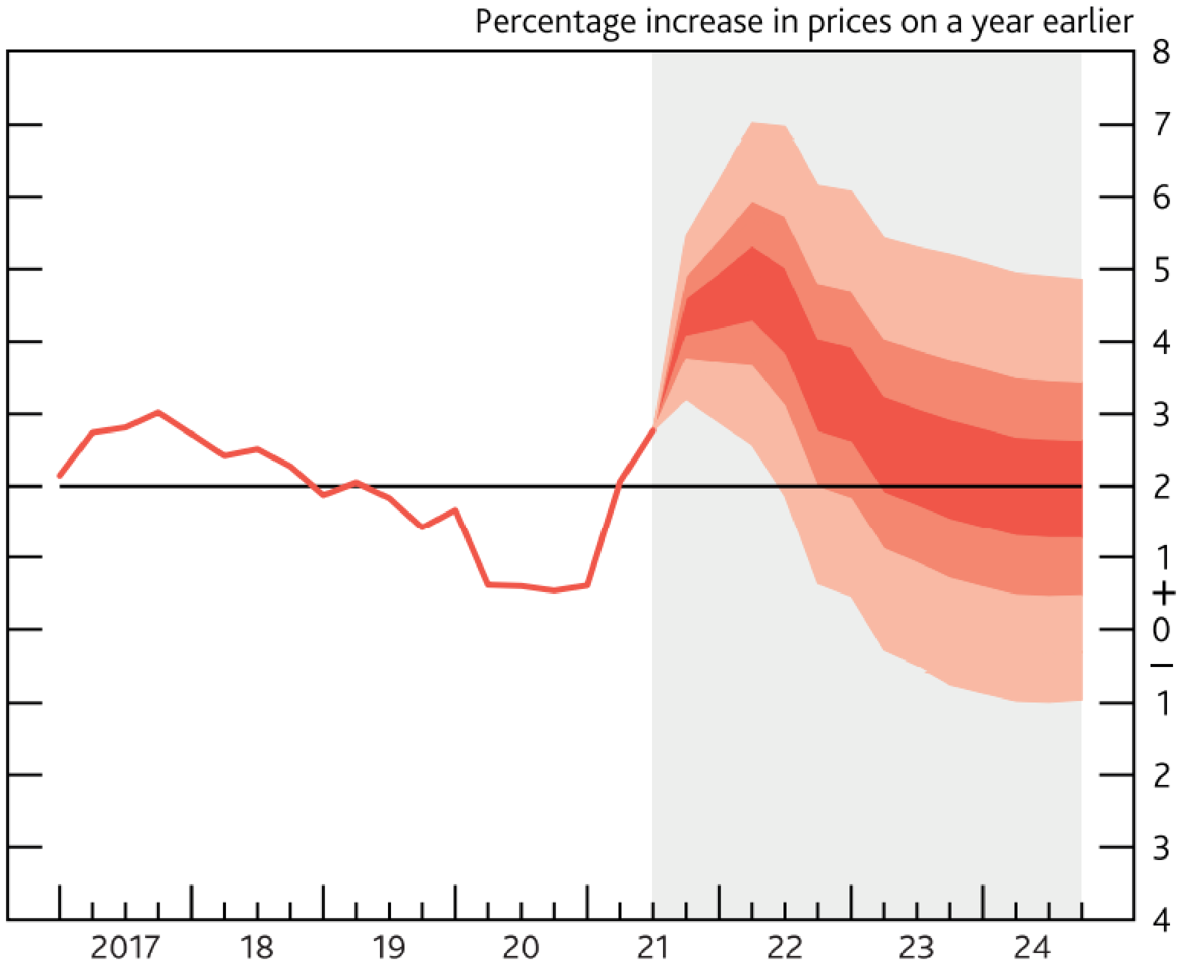
4.16 The most recent Monetary Policy Report was published by the Bank of England on 4 November 2021. The report advised that inflation was above the 2% target and that it is expected to rise further in the coming months, but then fall back in around two years, and this is set out in the following graph:

Inflation Rate (%change)

Source: Bank of England: Monetary Policy Report – August 2021

4.17 A further graph sets out the Bank of England's projections for inflation over the next three to four years with the darkest segment illustrating the range where the highest degree of confidence exists.

Bank of England CPI Inflation Projection (November 2021)



4.18 Based on the graph above, the Bank of England have a higher degree of confidence that inflation will range between around 4.5% and 5% at the start of 2022 reducing to 2% by the middle of 2024.

4.19 Under the mid-range scenario, it is assumed that general inflation for 2022/23 is 4% reducing to 2% by 2025/26. Under the optimistic and pessimistic scenarios, it is assumed that inflation rates reduce from 3% and 5% to 1% and 3% respectively.

4.20 However, there are also several areas of Council activity where annual cost increases may be significantly more than the level of general inflation. These include energy and fuel where increases of between 8% and 12% have been assumed in the three planning scenarios.

4.21 As the Council also acts as a commissioner of services rather than direct provider, this element of the Revenue Budget may also be exposed to increases beyond that of general levels of inflation e.g. living wage commitments.

Demographics

4.22 The MTFP attempts to reflect the potential additional costs to the Council of demographic changes in the population within the area. This includes in the number of both young and older people with extremely complex care needs.

4.23 This update of the MTFP makes use of the most up to date projections available from the National Records of Scotland and are based on 2018 data.

4.24 This area is extremely complex with the changing profile of the local population in terms of need and age. For the purposes of modelling the MTFP, a range of scenarios have been assumed based on information from the National Records of Scotland. This update of the MTFP assumes an increase of around 0.1% for general population growth every year of the Medium-Term Financial Plan.

4.25 Beyond this, the MTFP uses projections for different age groups to further refine the potential impact of demographics on the Council. Consistent with previous years, the most significant demographic pressure is around older people with a projected increase of approximately 20% in the number of local residents aged 80+ over the six-year period of this Plan. This additional demand is derived from an increasing ageing population compounded by the frailty of individuals with complex care needs requiring more expensive care packages.

4.26 The Council continues to support the work of the Health & Social Care Partnership to implement measures to mitigate these pressures. However, in the short-term, additional costs to reflect demand growth have been factored in to the MTFP to inform the Council's financial planning.

School Estate

4.27 Over the period of this update of the Medium-Term Financial Plan, there will be further significant investment in the school estate which is reflected in the Composite Capital Budget. In relation to the impact on the Revenue Budget, the most significant development is the provision of a new primary school at Bertha Park as well as additional year groups within Bertha Park High School. The anticipated additional recurring running costs of the school estate facilities are included in this update of the MTFP.

Perth City Hall

4.28 The Council has approved the development of Perth City Hall which is anticipated to open in 2023/24. The 2017/18 Revenue Budget commenced provision for this new expenditure and for the purposes of the MTFP, it is assumed that the running costs will be phased in following the opening of the new facilities.

Response to Covid-19

4.29 The final impact of Covid-19 on the Council and the local area remains unknown at this stage. In terms of expenditure, there will be a requirement for the Council to invest in economic regeneration, to further support communities and to respond to emerging developments. In addition, there may be further pressures on household incomes leading to increases in poverty that may require a Council response. Similarly, there is likely to be an impact on income streams, both in terms of Council Tax and fees & charges. For this update of the Medium-Term Financial Plan, it is assumed that the initial cost will be incurred in early years with the impact reducing as the Covid-19 virus is managed and / or resources are redirected across the Council.

Implications of Capital Investment Decisions

4.30 As set out in the Capital Budget Update Report to Council on 6 October 2021(Report No. 21/181 refers), it is anticipated that there will be a significant requirement for additional investment in the Council's future Capital Budget. As the Capital Fund is reduced on a planned and managed basis to support this capital investment, there will be a requirement to apply additional revenue resources to the Loan Charges Budget. Under the mid-range scenario, an additional £250,000 is applied each and every year. Under the optimistic and pessimistic scenarios, the year-on-year increases are £150,000 and £500,000.

Funding and Income

4.31 There are several funding / income streams that will have a significant impact on the financial position of the Council over the medium term which are discussed in further detail below.

Scottish Government Funding

4.32 Previously, the MTFP has made separate assumptions in relation to General Revenue Grant (GRG) and Non-Domestic Rates Income (NDRI). Over the last few years, this income has been aggregated and any reductions have been based on a total package of funding. On that basis, these projections are based on the current total package of funding of £264.4 million (which is the total of GRG and NDRI in 2021/22).

4.33 There is currently no information on levels of funding for Scottish local authorities and the mid -range assumptions, set out in the table below are, therefore, based on no overall increase or a "flat cash" scenario. This reflects both experience in recent years of relatively small movements in funding together with the likely prioritisation of public expenditure on health and social care in light of the ongoing impact of Covid 19. It is stressed that these assumptions are for financial planning purposes only and will be updated upon confirmation of the Local Government Settlement.

2022/23	**2023/24**	**2024/25**	**2025/26**	**2026/27**	**2027/28**
0%	0%	0%	+1%	+1%	+1%
£0m	£0m	£0m	£2.644m	£2.670m	£2.697m

4.34 The MTFP assumes that all new legislative pressures and any requirements of the Local Government Finance Settlement such as the social care living wage commitment, Carers Act etc. will be fully funded by the Scottish Government. There is clearly an element of risk in this assumption given anticipated pressures on the Scottish Government's budget.

Demographics (Impact on Funding)

4.35 In line with the demographic pressures discussed above, an estimate of the impact of demographic changes on the General Revenue Grant has been included. This update of the MTFP assumes an increase of approximately 0.1% in funding for general population growth every year of the Medium-Term Financial Plan (under the mid-range scenario). This is highly speculative and is dependent on the funding for Councils with reducing populations transferring to Councils with growing populations. These adjustments tend to take several years to work their way through the Local Government Settlement and the impact is often dampened by the “floor mechanism” which is in place to protect Councils from large movements in funding.

Council Tax Income

4.36 For Council Tax, there are potentially two sources of additional income. Firstly, in relation to the projected growth in the number of Band D equivalent properties. Scenarios have been modelled around the impact of population growth on the Council Tax base in line with the demographic assumptions outlined above.

4.37 Second is the capacity for the Council to increase the level of Council Tax charges. The 2022/23 Provisional Revenue Budget already includes an increase in the level of Council Tax of 4.25%. It is assumed that this level will still be in line with the Scottish Government’s expectations as part of the 2022/23 local government funding settlement arrangement. The working assumption for the purposes of preparing the MTFP is that Council Tax will increase by 4.25% in each year of the Plan. The actual level of Council Tax, however, will be determined by Council each year in approving the final Revenue Budget.

Fees and Charges

4.38 The proposed MTFP assumes that the Council raises its charges for goods and services by between 2% and 3.5% per annum. Decisions on actual levels of charges will be considered by the Council in setting the Final Revenue Budget.

Utilisation of Reserves

4.39 The Council could consider the utilisation of Reserves on a non-recurring basis to manage budget pressures in the short term. However, Reserves are only available on a one-off, non-recurring basis. Any proposals to utilise Reserves to support recurring expenditure will require either an exit strategy or further savings to be identified.

4.40 All the forecasts discussed in sections 4.3 to 4.38 are extremely uncertain. Actual income and expenditure will depend on several factors which are set out within the Risk Assessment (section 11) commentary in this report.

Medium Term Financial Plan – Estimated Savings

4.41 The estimated levels of savings required under each scenario are summarised in the following table and set out in detail in Appendix A.

	22/23	23/24	24/25	25/26	26/27	27/28	Total
	£m	£m	£m	£m	£m	£m	£m
Optimistic	5.425	4.064	0.469	(8.337)	(7.454)	(2.947)	(8.780)
Mid- Range	16.633	16.345	12.437	3.760	4.813	6.948	60.936
Pessimistic	28.968	29.846	25.731	17.447	18.644	19.862	140.498

4.42 The table above sets out scenarios with cumulative potential savings targets up to **£140.498 million.** While the level of savings identified will undoubtedly change as work progresses on the Revenue Budget, this provides an indication of the scale of the financial challenge potentially facing the Council over the six-year period 2022/23 to 2027/28. These scenarios include the expenditure pressures that will be brought forward as part of the detailed consideration of future years' Revenue Budgets.

4.43 There are significant variations between the scenarios due to the sensitivities around the financial modelling. For example, over the six years there is around £29 million of a difference between the optimistic and pessimistic scenarios on pay inflation. Non staff inflation varies by around £36 million and projected levels of Scottish Government funding by around £33 million.

4.44 It is important to note that the potential savings identified in the above table are in addition to the significant savings that have been identified in the previous financial years.

4.45 **ACTION:** The Council is asked to request the Head of Finance to maintain the Medium-Term Financial Plan and further refine the assumptions that underpin it.

5. PROPOSED APPROACH FOR 2022/23

5.1 On 6 March 2020, the Council agreed the 2022/23 Provisional Revenue Budget (Report No. 20/57 refers).

5.2 The 2022/23 Provisional Revenue Budget includes estimates of approved expenditure pressures and savings at a point in time. Expenditure pressures include contributions to corporate savings targets (for example pay awards) and increases in Service costs (for example increased demand for Council Services and inflation).

5.3 The 2022/23 Provisional Revenue Budget was also approved before the impact of the Covid-19 global pandemic and it is, therefore, likely that material changes will be required to the Provisional Budget. Costs identified in relation to Covid-19 (recovery & renewal, economic regeneration, welfare etc) will be included within the detailed Revenue Budget submissions that the Council will consider on 23 February 2022.

5.4 As set out earlier in this report, there is significant uncertainty beyond financial year 2021/22. This is not unlike previous financial years whereby the Council receives information on future funding levels in line with the Scottish Government's budget timetable. At this point, and as set out above, it is assumed that the Council will only receive detailed funding information for 2022/23 in December 2021.

5.5 On 30 September 2020, when agreeing to only set a 2021/22 Revenue Budget in February 2021, the Council was advised that this position would be "kept under review with a view to reinstating multi years budgets for the 2022/23 Revenue Budget process".

5.6 The Council's long term financial sustainability remains a key consideration in all decision making and this update of the Medium-Term Financial Plan is intended to provide elected members with both an overview of the financial challenges and risks facing the Council and to support consideration of how these may require to be addressed in the longer term. Given that the Council is only expecting to receive confirmation of Scottish Government funding for 2022/23 prior to setting the budget and that, following the local government elections in May 2022, it will be for the incoming Administration to determine the future strategic priorities of the Council, it is proposed to focus attention upon the 2022/23 Revenue Budget. It is, therefore, not proposed to develop detailed Revenue budgets for 2023/24 and 2024/25 at this time but elected members will be advised of any recurring impact of decisions they may be considering in setting the 2022/23 Revenue Budget. Furthermore, with the new Council being formed in May 2022, it may choose to commence the development of future years' Budgets as a matter of priority.

5.7 **ACTION: The Council is asked to approve the setting of the 2022/23 Final Revenue Budget on 23 February 2022.**

5.8 The MTFP is designed to inform the direction of travel of the Council for financial planning purposes. As individual Services develop detailed budget proposals, the broad assumptions included in the MTFP will be superseded by more detailed analysis of individual cost pressures and the identification of savings options.

5.9 The Revenue Budget will be prepared by strategic objective to ensure consistency with the Council's Corporate Plan as follows -

- Giving every child the best start in life
- Developing educated, responsible and informed citizens
- Promoting a prosperous, inclusive and sustainable economy
- Supporting people to lead independent, healthy and active lives
- Creating a safe and sustainable place for future generations
- Organised to Deliver

5.10 The 2022/23 Provisional Revenue Budget is currently out of balance by **£6.114 million** i.e. budgeted expenditure exceeds budgeted income at this stage. This is a consequence of decisions taken by the Council in setting previous years Revenue Budgets as set out in the following table.

March 2020 – Provisional Revenue Budgets		
2021/22	£3.006m	Funded on a non-recurring basis
2022/23	£2.482m	
Council decisions	£0.626m	
Total	**£6.114m**	

5.11 Since setting the 2022/23 Provisional Revenue Budget the UK Government has announced the introduction of a Health and Social Care Levy to fund additional investment in health and care services, to be generated through a 1.25% increase in both employer and employee National Insurance Contributions (NIC) from April 2022. The determination of NIC rates is not devolved and the UK Government propose to legally ring-fence how the additional income generated is spent, but there will be a funding consequential in the form of an uplift in the Scottish block grant. The implications for the Council in 2022/23 will be an increase in the rate of employer's national insurance contributions from 13.8% to 15.05% - representing an increase of 9.1% on the base budget. Currently, the Council spends around £16.2 million on employers' national insurance contributions, which will increase by approximately **£1.5 million** to £17.7 million in 2022/23.

5.12 The Council has a statutory requirement to produce a balanced budget. Given the lead in time to identify savings / additional income of this magnitude it is unlikely that sufficient resources will be identified. Furthermore, the Council may not wish to commit the incoming Administration (post May 2022) to a specific direction of travel.

5.13 Currently the Council has just over **£21 million** in an earmarked Reserve to support the response to Covid-19. Approval is sought to designate **£7.614 million** towards addressing issues identified in paragraphs 5.10 and 5.11 above.

5.14 **ACTION: The Council is asked to approve the redesignation of £7.614 million from the Covid-19 earmarked Reserve to support the 2022/23 Revenue Budget.**

Perth & Kinross Integration Joint Board

5.15 It is anticipated that Perth & Kinross Integration Joint Board (IJB) will continue to progress the development of integrated budgets which will bring together funding from both the Council and NHS Tayside. Discussions remain ongoing with all three parties as to the potential implications for the Council's Revenue Budget process. The outcome of this will be reported to future meetings of the Council. It is important to recognise the financial challenges faced by both the Council and NHS Tayside and how this may impact on the work of the IJB.

5.16 Furthermore, in recent times, there has been an increase in the level of directly awarded funding from the Scottish Government which adds a further layer of complexity.

5.17 At this time, it is anticipated the IJB will notify the Council (and NHS Tayside) of the funding required for their Strategic Delivery Plan. The level of funding requested will then be assessed in the context of the overall level of resources available to the Council in arriving at a recommendation on funding for the IJB in 2022/23.

6. COMPOSITE CAPITAL BUDGET

6.1 On 6 October 2021 the Council approved two reports relating to the Composite Capital Budget. Firstly, the Investment Blueprint which will support a more transparent and flexible approach to investment decision making and support the long-term vision of the Council (Report No. 21/180 refers). Secondly the Capital Budget 2021/22 – 2028/29 Update which made several adjustments to the existing Capital Budget and introduced two new proposals (Report No.21/181 refers).

6.2 On 6 October 2021, the Council also agreed that a further review of the Capital Budget will be undertaken over the next six months leading to the development of a 30-Year Investment Plan using the Investment Blueprint principles. In addition, the Council approved that the Composite Capital Budget is set on 23 February 2022.

7. RESERVES UPDATE

7.1 The Council's Reserves Strategy is subject to an annual review to ensure that recommendations on the use of Reserves take due cognisance of the Council's anticipated cash flows and make reasonable provision, within available resources, for both predicted liabilities and unforeseen events. The latest update of the Reserves Strategy was approved by the Council on 10 March 2021 (Report No. 21/34 refers).

7.2 The Reserves projections have been updated to reflect the position in the Audited Annual Accounts for 2020/21 which were approved by the Audit Committee on 20 September 2021 (Report No. 21/164 refers) and reported to Council for noting on 25 October 2021. Further information on Reserves is set out in Appendix C to this report.

7.3 The Audited Annual Accounts for 2020/21 show that the Council had a General Fund Balance (excluding the Housing Revenue Account) of £72.483 million at 31 March 2021 with £64.283 million earmarked for known commitments. This results in uncommitted General Fund Reserves of £8.200 million at 31 March 2021 which is in line with the Reserves Strategy approved by Council on 10 March 2021 (Report No. 21/34 refers).

7.4 The Council's Useable Reserves as at 31 March 2021 are summarised as follows:

Total Useable Reserve as at 31 March 2021	£111.084m
Less:	
General Fund Earmarked Reserves (see Appendix C)	£64.283m
Housing Revenue Account *These balances are earmarked for use on Housing Revenue Account activities only.*	£3.006m
Capital Fund *The Fund can be only used to meet the principal element of loan repayments or to defray capital expenditure*	£27.944m
Insurance Fund *The fund is used to meet the future liabilities of the Council self-insuring for certain categories of insurance.*	£2.392m
Capital Receipts Reserve *This Reserve holds proceeds from capital receipts for future investment.*	£2.529m
Capital Grants Unapplied *The Capital Grants Unapplied Reserve holds capital grants which have been received by the Council for which the capital works have not yet been undertaken or completed.*	£2.730m
General Fund Uncommitted Balance at 31 March 2021	**£8.200m**

7.5 The level of uncommitted Reserves of **£8.200 million** represents around **2%** of the 2021/22 Net Revenue Budget. In setting the Reserves Strategy in March 2021, the Council agreed to reduce uncommitted Reserves to 2% which is the minimum level in the approved Reserves Strategy of holding between 2%-4% of the Net Revenue Budget as uncommitted. This was a proactive proposal to allocate resources towards the Council's response to responding and recovering from the Covid-19 pandemic. Furthermore, the Council received notification of significant funding relating to 2020/21 and 2021/22 at the very end of March 2021 that was also applied to the Covid-19 earmarked Reserve.

7.6 In recent years uncommitted Reserves have been required to meet significant additional expenditure responding to both severe weather events and winter maintenance. In addition, the Perth & Kinross Integration Scheme adds a further risk in relation to potential health and social care overspends (as was the case in 2018/19 and 2019/20). The following table sets out the levels of over and under spends in winter maintenance over the last ten years.

Winter Maintenance Final Over / Under Spends	
2020/21	Over spend of £1,024,000
2019/20	Over spend of £648,000
2018/19	Under spend of £143,000
2017/18	Over spend of £1,300,000
2016/17	Under spend of £540,000
2015/16	Over spend of £59,000
2014/15	Over spend of £260,000
2013/14	Under spend of £531,000
2012/13	Over spend of £1,411,000
2011/12	Over spend of £785,000

7.7 It is proposed that the updated Reserves Strategy is presented to the Council on 23 February 2022. This update will include further options on how Reserves might be utilised over the medium term.

7.8 ACTION: The Council is asked to approve the submission of the updated Reserves Strategy to the Council on 23 February 2022.

7.9 As set out above, in March 2021, the Council agreed to reduce the level of uncommitted Reserves to 2% to transfer resources into the Covid-19 earmarked Reserve. However, in light of the significant funding that was made available to the Council in late March 2021 (£11.173 million) with a further £7.220 million through a grant re-determination in 2021/22 (Report No. 21/40 refers), it is proposed that this position is reviewed. For comparison, the Council maintained uncommitted Reserves of between 3.6% - 3.7% of its Net Revenue Budget between 2017/18 to 2019/20 and previously operated with uncommitted Reserves in excess of 3%. The holding of uncommitted Reserves in beyond the minimum recommended level of 2% has enabled the Council, over a number of years, to respond to operational demands on the Revenue budget; invest in Service transformation and address the impact of severe weather events. It is, therefore, recommended that unearmarked Reserves are increased to 3% or £12.3 million by transferring resources from the Covid-19 earmarked Reserve. The future application of both earmarked and uncommitted Reserves remains subject to the approval of the Strategic Policy and Resources Committee or Council.

7.10 The impact on unearmarked Reserves and the Covid-19 earmarked Reserve are shown in the following table.

	Unearmarked Reserves £m	Covid-19 Earmarked Reserve £m
Balance as at 31 October 2021	8.200	21.003
Contribution to 2022/23 Final Revenue Budget (see para 5.16)	-	(7.614)
Transfer between Reserves	4.100	(4.100)
Updated Balances	**12.300**	**9.289**

7.11 **ACTION: The Council is asked to approve the un-earmarking of £4.1 million from the Covid-19 earmarked Reserve**

8. HOUSING REVENUE ACCOUNT

8.1 In agreement with tenants, the Council will continue to develop a medium / long term funding strategy for investment based upon linking annual reviews of rents to both the Tenants' and Council priorities; consideration of the state of the local economy and creating more efficient services in the future. Any revisions to the Council's Housing Investment Programme, Housing Repairs, Locality Services and the rental strategy will be subject to consultation with the Tenants.

8.2 It is anticipated that the Housing & Communities Committee will determine the Housing Revenue Account (HRA) Budget and rent levels for 2022/23 at its meeting in January 2022. It is also anticipated that the five-year Housing Investment Programme will be submitted for consideration by the Committee based on the requirements of the Housing Delivery Plan.

8.3 ACTION: The Council is asked to endorse the proposals to determine the Housing Revenue Account (HRA) Budget and rent levels for 2022/23 and the five-year Housing Investment Programme at the meeting of the Housing & Communities Committee in January 2022.

9. WORKFORCE PLANNING MEASURES

9.1 People are the Council's most important asset and remain at the heart of everything it does. The Council's Corporate Workforce Plan (2021 – 2023), together with the Medium-Term Financial Plan, Organisational Development Plan, Digital Strategy and Health & Wellbeing Plan collectively set the direction for its recovery. The Covid-19 pandemic has changed the way we live and work forever and has created an opportunity to build an even better Perth and Kinross. In recognition of the inter-connectedness of workforce, digital and use of property, a new project has been established to take a strategic and integrated approach to people, technology and property to improve how the Council works to support delivery of the Perth and Kinross Offer. The refreshed Corporate Workforce Plan is designed to be adaptable to prepare the Council's response to new strategic influences, recognising the pace of change and evolving public sector landscape (Report No. 21/84 refers). It will help the Council proactively create the enablers to meet the future workforce, financial and demographic challenges and requirements of the organisation.

9.2 The Recovery and Renewal Framework set out the Council's response and recovery to the pandemic. The Council continues to build on what it has learned, focussing on multi-disciplinary teams, integrated working and more locality-based decision-making. In the challenging economic climate, it is important that the Council safeguards the health and wellbeing of its current workforce, builds in agility and develops new skills to embrace the changing world of work. This will ensure that it has the right skills in the right place when it needs them and will ultimately contribute to building an even better Perth and Kinross supporting the development and delivery of the Perth and Kinross Offer.

9.3 The Council's workforce continues to demonstrate in abundance their skills, dedication and passion to ensure delivery of essential services to the people, businesses and communities of Perth and Kinross. Working smarter means being more flexible about when and where the Council works and how it uses space and technology to find new and more effective ways of doing things. This project and a range of enabling projects are already underway to prepare employees and the organisation for the future. The Council continues to invest in training and development opportunities for young people via its Modern Apprenticeship and Graduate Programmes, as well as the leadership development programme, coaching skills for its existing workforce to nurture and develop talent. Workforce planning is an essential activity to support the Council to continue to recover and build from the Covid-19 pandemic. Adopting a more effective and consistent approach to workforce and succession planning will enable it to provide versatile people solutions to support the future strategic direction of the organisation.

9.4 The Council holds £3.751 million in an earmarked Reserve to fund Transformation (including Workforce Management and Organisational Development). This earmarked Reserve also includes provision to help reshape and upskill our workforce to ensure we have the skills and capacity to deliver agreed priorities.

10. ASSET MANAGEMENT

10.1 At its meeting on 6 October 2021, the Council approved The Investment Blueprint which sets out the principles that will direct the Council's future Capital investment. (Report No. 21/180 refers). These principles are that the Council's investment decisions must:

- mitigate against the impact of climate change
- promote inclusive economic growth and a vibrant community
- promote equality and fairness
- support the delivery of sustainable public services through effective management of our assets
- promote and enhance digital inclusion

10.2 The Blueprint is intended to help shape and inform a rolling 30 Year unfunded Investment Plan together with a 6-year rolling delivery plan which will detail the delivery of costed and funded projects and programmes developed from proposals within the 30 Year Plan.

10.3 Proposals set out within the 30-year investment plan will be subject to the Council's project governance framework, building in further opportunity to review, respond and adapt the Plan to respond to changing needs, circumstances and priorities as they emerge. The Plan will be reviewed annually by elected members to ensure that proposals continue to meet the strategic priorities of the Council.

11. PERTH & KINROSS OFFER

11.1 The Perth & Kinross Offer aims to enable everyone in Perth and Kinross to play their part in making this a fairer and more equitable place for all. It is centred around the premise that we all have something to offer in building and sustaining our communities and area. Developed through consultation and engagement with communities, partners, businesses and staff, it sets out the Council's "Offer" to everyone and the actions that we can all take to help communities realise their ambitions. It will mean different things to different people and advocates a new way of working that will help individuals, communities and businesses to share their ideas, skills and connections.

11.2 This work had already started before the pandemic, but the response to it in Perth and Kinross has proved that we can do things differently and introduce change quickly when necessary. Watching the Offer in action, has also highlighted the talent within our communities with a real willingness to help and a wealth of local knowledge and community connections. In doing all of this, we need to remember that 'one size does not fit all': what is appropriate for one group of people may not be the right thing for another. So, the Council want to make sure that when it is designing services, it listens carefully to all residents and businesses who use those services to ensure it is building services around their needs.

11.3 The Council is currently developing its Perth & Kinross Offer Framework which will set outcomes and actions for the Offer over the next five years and give a clear direction for engagement and consultation with communities. It is anticipated that a report on the Framework will be submitted to Council meeting on 15 December 2021. The aim is to "work together so everyone in Perth and Kinross can live life well" and the Council's commitments set out to:

- generate greater involvement in decision making – people, partners, businesses, staff
- reduce inequalities and the gap in wellbeing outcomes for people and the places they live
- adapt to diverse and complex needs and the changing expectations on public services
- challenge existing modes of service delivery through re-design to be more sustainable and more effective in tackling poverty and health inequalities
- build on our experience of successful transformation and do more to shift from reactive strategy/funding towards more preventative and asset-based community driven approaches

12. RISK ASSESSMENT

12.1 Developing the Medium-Term Financial Plan requires consideration of the strategic, operational and financial risks potentially facing the Council. Both the uncertainty of future events and resource constraints make it impractical to mitigate against all potential risks. In developing the Medium-Term Financial Plan, the Council must also be aware of the sustainability of its expenditure proposals. Significant issues, which are of relevance in determining the Revenue Budget, are outlined below.

Local Government Funding Beyond 2022/23

12.2 It is anticipated that the Council will receive a one-year financial settlement for 2022/23 in December 2021.

12.3 Future funding settlements will be influenced by many aspects of the wider economic climate and UK and Scottish Government policies. The impact of the UK leaving the European Union as well as the UK and Scottish Government's response to Covid-19 may result in significant additional uncertainty over future funding levels.

12.4 The potential for cash and real terms reductions in funding beyond financial year 2021/22 is considered to represent a significant risk in the management of the budget over the medium term.

12.5 Once inflation is included, these factors may result in further significant real terms reductions in funding to the Council over the medium term at a time of rising demand for Council services.

12.6 At this time, there is also no information on any conditions which may be attached to the local government finance settlement in 2022/23 and beyond.

12.7 Following the devolvement of a number of taxes to the Scottish Government, under the terms of the Scotland Acts, the actual level of funding available to the public sector is more directly linked to the performance of the Scottish economy. Income from devolved taxation will be dependent upon the relative performance of the Scottish economy.

Final Pay Awards

12.8 The 2021/22 pay negotiations are ongoing, and a further revised offer is now with the Trade Unions for consideration by their memberships.

12.9 In 2021/22 the Council has budgeted for a 3% increase in the pay bill for all staff groups. There is a risk that the outcome of national pay negotiations in 2021/22 differs from the Council's pay assumptions which could have a significant financial impact in the current financial year. This may also impact on the staff cost base for future financial years.

12.10 There is also a further risk that future years' pay settlements are more than budgeted assumptions resulting in further financial pressures.

Expenditure Pressures in 2022/23

12.11 Elected members have previously been briefed on the current challenges in the construction sector and as widely reported, supply chain pressures are emerging across all sectors of the economy. There is accordingly a risk in updating the assumptions on expenditure pressures within the 2022/23

Provisional Revenue Budget that, in some instances, forecast expenditure may have increased significantly with a consequential impact upon the budget.

Approved Savings in 2022/23

12.12 The 2022/23 Provisional Revenue Budget is constructed on the basis that previously approved savings are delivered. In setting the 2021/22, several savings were delayed as officer capacity was diverted to the Covid-19 response and these were funded on a non-recurring basis from Reserves. There remains a risk that due to capacity issues or changes in demand for services, as well as the Covid-19 response/recovery, these savings require to be further delayed or may no longer be deliverable.

12.13 Furthermore, there is a risk that savings approved for 2022/23 in March 2020 will not be delivered placing further pressure on the Final Revenue Budget for 2022/23.

Implications of Capital Budget

12.14 The Council has an established policy of drawing down the Capital Fund to support capital expenditure. As the Capital Fund reduces, resources will have to be redirected from the Revenue Budget to support the loan repayments over the short to medium term.

Council Tax

12.15 The 2022/23 Provisional Revenue Budget assumes an increase of 4.25% in the level of Council Tax. If, in setting the 2022/23 Final Revenue Budget, the Council moves away from this assumption, as was the case in 2021/22, this could lead to a further financial pressure in 2022/23.

12.16 The MTFP and 2022/23 Provisional Revenue Budget assumes levels of growth in the number of Band D equivalent properties. These assumptions are based on levels of growth currently being experienced. If these levels of growth in the number of properties do not continue there is a risk to the budgeted level of Council Tax income.

Perth & Kinross Integration Joint Board

12.17 The Integration Joint Board has received significant additional Scottish Government funding, linked to national policy initiatives, over the last three years either directly or channelled through the NHS and there is an assumption that this will both continue and increase in 2022/23 in line with Scottish Government announcements. As noted earlier, the UK Government will introduce a Health & Social Care Levy from April 2022 to support additional investment in this sector and there is expected to be a consequential uplift in the Scottish block grant. There remains, however, a risk that Scottish Government funding for health and social care does not fully reflect anticipated increases in costs including demand and inflationary pressures.

12.18 As set out in the Council's response to the Scottish Government consultation on a National Care Service (Report No. 21/185 refers), there is the potential for the creation of a National Care Service to have a significant impact upon the Council's future budget assuming that resources and funding is transferred to the proposed new Boards.

Inflation

12.19 There is a risk that levels of Service specific inflation exceed budgeted provisions and that levels of general inflation cannot be contained within existing resources as is currently assumed within the Provisional Revenue Budgets. This may lead to reductions in levels of service in order to contain these inflationary pressures Further increases in the National Living Wage and "Foundation Living Wage" may exacerbate this risk with pressure to compensate providers and suppliers for enhanced wage rates.

Current Economic Climate

12.20 There is a risk that both the Council's capacity to generate income, and the expenditure it incurs in meeting demand for its Services, may be less predictable in the current volatile economic climate.

12.21 In terms of income generation, there is a continued risk that Council Tax collection levels, commercial rental income and other areas of income generated by the Council may be further affected.

12.22 The economic climate may also increase demand for and expenditure on Council services. This risk will require to be managed within the Council's available resources.

Demographics

12.23 The overall population of Perth and Kinross is anticipated to reduce by around 1.0% over the next 25 years based upon National Registrars of Scotland forecasts. This may lead to reduced funding from Scottish Government.

12.24 However, within these overall projections the population aged over 65 is projected to grow significantly. This may place an additional financial pressure on both the Council and the Integration Joint Board into future years' Revenue Budgets and financial plans.

12.25 The level and components of growth will be largely dependent on complex net migration patterns which are difficult to forecast with any certainty.

12.26 The needs of the population are also changing with more complex intervention measures required to protect young and old people alike.

Climate Change

12.27 On 19 June 2019, Council passed a Motion that committed it to leading by example in accelerating the transformational change required to address the

Climate Emergency, which had been declared by both the UK and Scottish Parliaments earlier that year. On 18 December 2019, the Council approved an Interim Climate Emergency Report and Action Plan (Report No. 19/362 refers) and on 30 August 2021, the Council agreed to the establishment of a Climate Change Commission (Report No. 21/142 refers) which will provide scrutiny and oversight to Perth and Kinross's Climate Change Plan.

12.28 Legislation has been introduced by the Scottish Government that will aim to ensure Scotland reaches net zero greenhouse gas emissions by 2045. There are also a range of challenging intermediate targets and a further possibility that these targets will be accelerated by legislation.

12.29 As the Council strives to decarbonise, this will undoubtedly mean significant additional investment will be required. However, it must also be noted that there are major, current and proposed, national funding sources available and the Council must ensure it is in a position to fully capitalise on these.

Arm's Length External Organisations

12.30 There is an ongoing risk to the financial sustainability of the Council's three Arm's Length External Organisations. All three ALEOs may experience reduced income and additional costs as they adjust their offer to respond to the consequences of Covid-19.

Severe Weather

12.31 There is a risk that the Council incurs further significant levels of expenditure on severe weather as has been the case in previous years.

13. CONCLUSION AND RECOMMENDATIONS

13.1. In common with all Scottish local authorities and the wider public sector, Perth & Kinross Council continues to anticipate a period of financial constraint and growing costs and demand for services.

13.2. Responding to the Covid 19 epidemic has given rise to significant financial pressure on the Council's Revenue Budget and the long-term impact upon service demand; service delivery and the Council's ability to generate and collect income will take some time to establish.

13.3. A new approach to Council service delivery, based on the Perth and Kinross Offer and shaped by the experience of the pandemic is being developed and will be integral to the future review of the Medium-Term Financial Plan, but the financial challenges facing the Council are likely to be considerable and potentially long standing.

13.4. The Council continues to take proactive measures to enable it to address these challenges from a robust financial position and continues to develop and strengthen its arrangements for financial and resource management.

13.5. The Perth and Kinross Offer will underpin all that the Council does, based on an approach where it works together with its communities. Linked to this, is the approach to recovery and renewal, as well as ongoing response arrangements, because of the pandemic.

13.6. The Council remains committed to modernising and improving the efficiency of functions. This update of the Medium-Term Financial Plan reinforces the Council's commitment to the delivery of excellent services in the context of meeting challenging savings targets which requires the engagement of the Council's workforce; Elected Members; Community Planning Partners and the communities which it serves.

13.7. It is recommended that the Council:

13.7.1. requests the Head of Finance maintain the Medium-Term Financial Plan and further refine the assumptions which underpin it – see paragraph 4.45.

13.7.2. approves the setting of the 2022/23 Final Revenue Budget on 23 February 2022 see paragraph 5.7.

13.7.3. Approve the redesignation of £7.614 million from the Covid-19 earmarked Reserve to support the 2022/23 Revenue Budget (see paragraph 5.14).

13.7.4. approves the submission of the updated Reserves Strategy to the Council in February 2021 – see paragraph 7.8.

13.7.5. approve the un-earmarking of £4.1 million from the Covid-19 earmarked Reserve – see paragraph 7.11.

13.7.6. endorses the proposals to determine the Housing Revenue Account (HRA) Budget and rent levels for 2022/23 and the five-year Housing Investment Programme at the meeting of the Housing and Communities Committee in January 2022 – see paragraph 8.3.

Author

Name	**Designation**	**Contact Details**
Scott Walker	Chief Accountant	chxfinance@pkc.gov.uk

Approved

Name	**Designation**	**Date**
Stewart Mackenzie	Head of Finance	8 November 2021
Karen Donaldson	Chief Operating Officer	8 November 2021

ANNEX

1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

Strategic Implications	**Yes / None**
Community Plan / Single Outcome Agreement	None
Corporate Plan	Yes
Resource Implications	
Financial	Yes
Workforce	Yes
Asset Management (land, property, IST)	Yes
Assessments	
Equality Impact Assessment	Yes
Strategic Environmental Assessment	Yes
Sustainability (community, economic, environmental)	Yes
Legal and Governance	None
Risk	None
Consultation	
Internal	Yes
External	None
Communication	
Communications Plan	None

1. Strategic Implications

1.1. Corporate Plan

1.1.1. The Council's Corporate Plan 2018 – 2022 lays out five outcome focussed strategic objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:

(i) Giving every child the best start in life;
(ii) Developing educated, responsible and informed citizens;
(iii) Promoting a prosperous, inclusive and sustainable economy;
(iv) Supporting people to lead independent, healthy and active lives; and
(v) Creating a safe and sustainable place for future generations.

1.1.2 This report relates to all these objectives.

2. Resource Implications

2.1. Financial

2.1.1. There are no direct financial implications arising from this report other than those reported within the body of the main report.

2.2. Workforce

2.2.1. There are no direct workforce implications arising from this report other than those reported within the body of the main report.

2.3. Asset Management (land, property, IT)

2.3.1. There are no direct asset management implications arising from this report other than those reported within the body of the main report.

3. Assessments

3.1. Equality Impact Assessment

3.1.1. Under the Equality Act 2010, the Council is required to eliminate discrimination, advance equality of opportunity, and foster good relations between equality groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties.

3.1.2. The information contained within this report has been considered under the Corporate Equalities Impact Assessment process (EqIA) and has been assessed as **not relevant** for the purposes of EqIA.

3.2 Strategic Environmental Assessment

3.2.1 The Environmental Assessment (Scotland) Act 2005 places a duty on the Council to identify and assess the environmental consequences of its proposals.

3.2.2 The information contained within this report has been considered under the Act. However, no action is required as the Act does not apply to the matters presented in this report.

3.3 Sustainability

3.3.1 Under the provisions of the Local Government in Scotland Act 2003 the Council has to discharge its duties in a way which contributes to the achievement of sustainable development. In terms of the Climate Change Act, the Council has a general duty to demonstrate its commitment to sustainability and the community, environmental and economic impacts of its actions.

3.3.2 The information contained within this report has been considered under the Act. However, no action is required as the Act does not apply to the matters presented in this report.

4. Consultation

4.1 Internal

4.1.1 The Chief Executive, Executive Directors and Chief Operating Officer have been consulted in the preparation of this report.

2. BACKGROUND PAPERS

2.1 No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above report.

3. APPENDICES

Appendix A (i) – Optimistic Scenario

Appendix A (ii) – Mid-Range Scenario

Appendix A (iii) – Pessimistic Scenario

Appendix B – Assumptions Underlying Medium Term Financial Plan

Appendix C – Summary of General Fund Balances as at 31 March 2021