

PERTH & KINROSS COUNCIL

20 February 2019

REVENUE BUDGET 2019/20; 2020/21 & 2021/22 – REPORT NO. 2

Report by the Head of Finance (Report No. 19/46)

PURPOSE OF REPORT

This report recommends setting the Final Revenue Budget for 2019/20, updating the 2020/21 Provisional Revenue Budget and setting the 2021/22 Provisional Revenue Budget. The report also recommends that the Council determines the Final Council Tax for 2019/20 and indicative levels of Council Tax for 2020/21 and 2021/22.

1. BACKGROUND

- 1.1 On 22 February 2018 the Council set Provisional Revenue Budgets for 2019/20 and 2020/21 (Report No. 18/47 refers). These Provisional Revenue Budgets are the starting point for the Council setting a Final Revenue Budget for 2019/20 and Updated Provisional Revenue Budget for 2020/21.
- 1.2 On 3 October 2018 the Council approved the Medium Term Financial Plan for the period 2019 – 2024 (Report No. 18/326 refers). This update built on previously approved Plans and considered future funding levels, increasing costs and rising demand over the short to medium term insofar as they may impact on Perth & Kinross Council. The report approved the development of the 2019/20 Final Revenue Budget and Provisional Revenue Budgets for 2020/21 and 2021/22 including corporate savings targets. The report also provided an update on the Capital budget including the top slicing of resources for 2028/29, the Housing Revenue Account and Reserves position.
- 1.3 The Medium Term Financial Plan is intended to outline the broad “direction of travel” for the Council’s financial management and the update approved in October 2018 covered the five years to financial year 2023/24.
- 1.4 The Council endorsed the “mid-range” level of savings to 2023/24, which are summarised in Table 1 below.

Table 1: Estimated Savings Requirement (October 2018)

	19/20	20/21	21/22	22/23	23/24	TOTAL
	£m	£m	£m	£m	£m	£m
Estimated Savings Requirement	16.5	9.1	9.8	9.0	7.9	52.3

- 1.5 This report focuses on the first three years of the Medium Term Financial Plan.

- 1.6 On 19 December 2018 the Council considered Revenue Budget 2019/20, 2020/21 & 2021/22 – Report No. 1 (Report No. 18/422 refers). The report to Council in December included limited commentary on the content of Local Government Finance Circular 8/2018 which was issued by the Scottish Government on 17 December 2018. Therefore, a verbal update was also provided at the meeting. This report provides more detailed commentary on the contents of Local Government Finance Circular 8/2018 as well as providing an update on developments in the intervening period.
- 1.7 At the Council meeting on 19 December 2018, the Council was advised of the initial implications of the provisional Local Government Finance settlement for 2019/20 and of the excess of budget pressures over identified savings reflected within Service submissions at that stage as follows.

**Table 2: Summary of Revenue Budget Submissions
(as at 12 December 2018)**

	2019/20	2020/21	2021/22	Total
	£'000	£'000	£'000	£'000
Total Pressures	15,180	7,766	8,792	31,738
Total Savings Proposals	(7,856)	(5,416)	(6,236)	(19,508)
Total "Gap" (as at 12/12/18)	7,324	2,350	2,556	12,230

2. LOCAL GOVERNMENT FINANCE CIRCULAR 8/2018

- 2.1 Local Government Finance Circular 8/2018 was issued by the Scottish Government on 17 December 2018 and included the financial settlement for 2019/20 at an individual Council level. As anticipated, the Settlement included information for 2019/20 only with no information from the Scottish Government for 2020/21 and beyond.
- 2.2 The Circular provides details of the provisional total revenue and capital funding allocations for 2019/20, as well as the latest information on current known funding redeterminations for 2018/19. The Circular also provides details on a range of business rates measures, including the 2019/20 Non-Domestic Rates poundage and proposed changes to certain reliefs.
- 2.3 The provisional total funding allocations form the basis for the annual consultation between the Scottish Government and Convention of Scottish Local Authorities (COSLA) ahead of the Local Government Finance (Scotland) Order 2019 being presented to the Scottish Parliament, which is currently scheduled for the end of February 2019.
- 2.4 The Cabinet Secretary also wrote to the COSLA President on 12 December 2018 to confirm the details of the local government finance settlement for 2019/20.

2.5 Both the Finance Circular and the letter to COSLA set out £11.071 billion of funding for local government which includes the following –

- “Baselining from 2019/20 of the full £170 million additional revenue investment announced earlier this year at Stage 1 of the Budget Bill for 2018/19;
- An additional £210 million revenue and £25 million capital to support the expansion in funded Early Learning and Childcare (ELC) entitlement to 1,140 hours by August 2020;
- For 2019/20 local authorities will continue to have the flexibility to increase Council Tax by up to a maximum of 3%, which could potentially generate around £80 million to support services;
- In addition to the £66 million baselined provision from 2018/19, a further £40 million is included to extend Free Personal and Nursing Care for under 65s, as set out in the Programme for Government, and continued implementation of the Carers (Scotland) Act 2016;
- £120 million to be transferred from the health portfolio to Local Authorities in-year for investment in integration, this includes £12 million for school counselling services;
- Taken together, the total additional funding of £160 million allocated to Health and Social Care and Mental Health is to be additional to each Council’s 2018/19 recurrent spending on social care and not substitutional. It means that Local Authority social care budgets for allocation to Integration Authorities (plus those retained for non-delegated social care functions) and funding for school counselling services must be £160 million greater than 2018/19 recurrent budgets;
- Continue to commit an overall funding package of £88 million in the local government finance settlement to support both maintaining the pupil teacher ratio at a national level and ensuring that places are provided for all probationers who require one under the teacher induction scheme. It is recognised that discussions on teachers’ pay are on-going through the tripartite Scottish Negotiating Committee for Teachers and any additional allocation to fund a negotiated agreement will require to be agreed;
- An indicative allocation of £3.3 million for Barclay implementation costs;
- Repayment in full of the reprofiled £150 million capital funding; and
- A new £50 million Town Centre Fund to enable local authorities to stimulate and support place-based economic improvements and inclusive growth through a wide range of investments which contribute to the regeneration and sustainability of town centres”.

2.6 Finance Circular 8/2018 also contained information on revenue funding which has still to be distributed. The following list outlines this undistributed funding and how much is available nationally.

- Teachers’ Induction Scheme - £37.600 million
- Discretionary Housing Payments - £63.200 million
- 1 + 2 Languages – £3.000 million
- Free Personal Care under 65 - £30.000 million
- Mental Health (School Counselling Services) - £12.000 million
- Gaelic - £0.128 million

- Scottish Assessors – Barclay Review - £3.300 million
- Customer First Top-Up - £1.540 million

2.7 Based on Finance Circular 8/2018, the total revenue funding being made available by the Scottish Government to Perth & Kinross Council in 2019/20 as reported to Council in December 2018 is £250.919 million (see Table 3 below).

Table 3: Scottish Government Grant Funding – Perth & Kinross Council

	2019/20
	£m
General Revenue Funding	183.798
Non-Domestic Rates	56.590
Ring-Fenced Grants	10.531
TOTAL REVENUE FUNDING	250.919

Source: Finance Circular 8/2018 – 17 December 2018

- 2.8 In the December budget report, the Council was advised that, on a like for like basis, this represented a cash reduction in funding of 3.06%. This figure does not take account of the additional impact of inflation, which could be significant in future years or demand growth resulting in a real terms cut of around 5.5% (using CPI as the inflationary uplift).
- 2.9 The Finance Circular does not contain any funding information beyond 2019/20 and the assumptions on levels of funding included in the 2020/21 and 2021/22 Provisional Revenue Budgets remain based on the Medium Term Financial Plan approved by Council on 3 October 2018 (Report No. 18/326 refers).
- 2.10 The Scottish Government have, however, committed to bringing forward a three year funding settlement for local government from the 2020/21 budget onwards.
- 2.11 By continuing to plan for the medium term the Council provides authority for officers to roll out the programme of significant change (including transformation) which will seek to protect front line services for the communities within Perth and Kinross.

Implications for 2019/20 Provisional Revenue Budget

- 2.12 The Medium Term Financial Plan approved by Council on 3 October 2018 assumed Scottish Government funding reductions in 2019/20 in cash terms of £5,582,000 or 2.3% (Report 18/326 refers). The provisional Scottish Government funding allocation for 2019/20 was, therefore, £1,989,000 lower than the Council's planning assumption.

Implications for the 2019/20 Capital Budget

- 2.13 Finance Circular 8/2018 also included provisional Capital Grant allocations for 2019/20. These adjustments are included in the Capital Budget report which is on the agenda for today's special meeting of the Council.

Non-Domestic Rates

- 2.14 Finance Circular 8/2018 provisionally set the Non Domestic Rate poundage for 2019/20 at 49.0p (48.0p in 2018/19), an increase of 2.1%, and the Large Business Supplement at 2.6p, which is unchanged since 2018/19. The threshold for the supplement is applicable only to properties with a rateable value over £51,000, which is also unchanged since 2018/19.
- 2.15 Transitional arrangements (including transitional relief) are proposed to continue in 2019/20 to 2021/22 for hospitality properties (with a rateable value of up to £1,500,000 in 2019/20). The level of the cap on annual bill increases will continue to be 12.5% in real terms for eligible properties. (equivalent to 14.84% in cash terms). Eligibility is subject to compatibility with European Union State Aid rules.
- 2.16 The Small Business Bonus Scheme threshold for 100% relief remains at £15,000, so that the overall scheme is applicable as per Table 4 below (which is consistent with the 2018/19 scheme):

Table 4: Small Business Bonus Scheme 2019/20

Combined Rateable Value of all Properties	2019/20
Up to £15,000	100%
£15,001 to £18,000	25%
£18,001 to £35,000	25% on individual property each with rateable value up to £18,000

3. UPDATES SINCE COUNCIL MEETING – 19 DECEMBER 2018

- 3.1 On 19 December the Council were advised of a total funding gap of £14,219,000 which is set out in Table 5 below (Report No. 18/422 refers).

Table 5: Summary of Service Provisional Revenue Budget Submissions (as at 19 December 2018)

	2019/20	2020/21	2021/22	Total
	£'000	£'000	£'000	£'000
Total Pressures	15,180	7,766	8,792	31,738
Total Savings Proposals	(7,856)	(5,416)	(6,236)	(19,508)
Further Funding Reduction	1,989	-	-	1,989
"Gap"	9,313	2,350	2,556	14,219

- 3.2 There have been a number of updates to the information presented to Council on 19 December 2018 and these are described in more detail below.

Pressures in Excess of Savings

- 3.3 Services have reviewed their expenditure pressures and savings proposals to reflect the most up to date information and identify additional savings that are now reflected within the Provisional Revenue Budget. These movements are summarised in Table 6 below.

Table 6: Movement in Service Revenue Budget Submissions

	2019/20	2020/21	2021/22	Total
	£'000	£'000	£'000	£'000
Pressures in Excess of Savings (December 18)	7,324	2,350	2,556	12,230
Additional Savings	(536)	(235)	(100)	(871)
Revised "Gap"	6,788	2,115	2,456	11,359

Pay Award Assumptions

- 3.4 As at 12 February 2019 the final pay award for 2018/19 has yet to be agreed. It is anticipated that the final pay award will be in excess of the levels budgeted in setting the 2018/19 Final Revenue Budget in February 2018. Going forward, this means that the Council's base budget for employee costs is understated by the amount in excess of that budgeted which is currently estimated at £1,000,000.
- 3.5 This estimate should be regarded as indicative as the final figure will be dependent upon the outcome of the pay negotiations and the extent to which the Scottish Government provides additional funding towards the additional costs of teachers' pay increases.

Employers Superannuation Contributions - Teachers

- 3.6 The Scottish Teachers' Superannuation Scheme, which is administered by the Scottish Public Pensions Agency, has been impacted by changes to discount rates included in two recent UK Budgets.
- 3.7 In the Chancellor's budget statement on 16 March 2016, the UK Government announced changes to the Discount Rate which is used for financing purposes in non-funded public service pension schemes including the Teachers' Pension Scheme. The discount rate was reduced from 3% above CPI per annum to 2.8% above CPI per annum, with a resulting impact on certain actuarial factors used in the schemes. In the budget on 29 October 2018 the UK Government announced further changes to the Discount Rate from 2.8% above CPI per annum to 2.4% above CPI per annum.

- 3.8 These changes result in a 30% increase in employers' contributions to the teachers' pension scheme from 1 April 2019 which equates to a £3,000,000 recurring expenditure pressure for Perth & Kinross Council.
- 3.9 On 31 January 2019, the Cabinet Secretary for Finance, Economy & Fair Work provided an update on the funding for this additional cost pressure. The Scottish Government has noted its intention to pass to local government the Barnett consequential of any UK Treasury funding for this cost pressure. The letter advised that Council's should expect to receive 79% of this cost pressure. A revised cost pressure of approximately £630,000 and assumed funding of approximately £2,370,000 has, therefore, been assumed in 2019/20. Further information on UK Treasury funding for this cost pressure is expected to be included in the Spring budget statement. No information is available on how this funding will be provided.

Revised Funding Assumptions

- 3.10 On 19 December 2018 the Council was advised that the provisional Scottish Government funding allocation for 2019/20 was £1,989,000 lower than the Council's planning assumption included within the Medium Term Financial Plan approved by Council on 3 October 2018.
- 3.11 On 31 January 2019, the Cabinet Secretary for Finance, Economy & Fair Work advised that, subject to parliamentary approval in the final stages of the Budget Bill and Local Government Finance (Scotland) Order 2019, an extra £90 million of General Revenue Grant would be allocated to local government in 2019/20.
- 3.12 The Council has been notified that its share of this additional funding amounts to £2,477,000 and will be available to the Council to spend at its own discretion in 2019/20. In line with the COSLA position, this report has been prepared on the assumption that this additional Scottish Government revenue funding is recurring. The letter to Council Leaders, issued by the Cabinet Secretary for Finance, Economy and Fair Work on 31 January 2019 is attached at Appendix A.
- 3.13 Finance Circular 4/2018 (March 2018) included Scottish Government funding of £247,768,000 for 2018/19. The level of funding in 2019/20 is anticipated to be £253,396,000, therefore on a cash basis there is a funding increase of £5,628,000. However, these figures are not directly comparable due to the specific allocation of resources by the Scottish Government.
- 3.14 Based on the updated information issued by the Scottish Government, the total revenue funding being made available to Perth & Kinross Council in 2019/20 is £253,396,000 (see Table 7 below). This latest adjustment to the amount of Scottish Government funding results in a cash reduction of £5,094,000 or 2.1% in 2019/20 (on a like for like comparison with the Council's 2018/19 allocation).
- 3.15 Further funding will be provided by the Scottish Government for a number of initiatives including Teacher's pay and Free Personal Care <65's and these

will be reported to the Strategic Policy & Resources Committee as information becomes available.

Table 7: Scottish Government Grant Funding 2019/20 – Perth & Kinross Council

(Finance Circular 8/2018 – 17 December 2018 and 31 January 2019)

	Total
	£m
General Revenue Funding	186.275
Ring Fenced Grants	56.590
Non-Domestic Rates Income	10.531
Total: Revenue Funding	253.396

Health & Social Care Funding

- 3.16 In preparing their Revenue Budget, Perth & Kinross Integration Joint Board had assumed funding from the Scottish Government of c£1,841,000 towards health and social, care provision in 2019/20 (excluding Free Personal Care for under 65s which has still to be distributed). Finance Circular 8/2018, issued on 17 December 2018, included actual additional funding of £3,465,000 for health and social care, an increase of £1,624,000 from the original assumptions. As set out in section 4 below, the Health and Social Care Revenue Budget submission reflects a significant funding gap between expenditure pressures and savings proposals; therefore the £1,624,000 provides additional resources to support the delivery of health & social care.

Workforce Management

- 3.17 As set out at paragraphs 3.4 and 3.5 above, the Council is likely to face an additional cost pressure in the order of £1,000,000 following the final outcome of national pay negotiations in 2018/19. The final cost to the Council will be dependent on the final pay deal and the level of funding provided by the Scottish Government towards additional teachers' pay costs.
- 3.18 In order to fund this cost pressure, it is proposed that Services increase their internal slippage targets in 2019/20 to deliver the required level of savings. This will require Services to proactively delay the filling of vacancies in order to generate this saving which, in turn, is likely to impact upon service delivery.

Treasury Management

- 3.19 All local authorities are required to manage their internal treasury activities (Capital borrowing; Repayments etc.) through a statutory Loans Fund. The operation of the loans fund is governed by regulation and proper accounting practice.

- 3.20 The Council receives approximately £14,000,000 of general Capital Grant funding from the Scottish Government each year for Capital expenditure (excluding funding towards flood protection schemes). However, for accounting purposes, Council's 'repay' Capital grant over a number of years within their Loans Fund. Perth & Kinross Council currently repays Capital grant within the Loans Fund over the average useful life of Capital expenditure funded by borrowing. This is currently 40 years.
- 3.21 The Council's borrowing is also supported by a substantial Capital Fund which has been built up over a number of years through a proactive approach to Treasury Management. The estimated balance on the Capital Fund is currently approximately £30,000,000 at 31 March 2019. The Capital Fund will be applied in meeting loan charges in future years.
- 3.22 Following a review of Treasury Management Policy, Capital grant will now be applied over a 15 year period in terms of our Loans Fund accounting. This creates the opportunity to reduce our Revenue Budget for loan charges by £5,000,000 on a recurring basis.
- 3.23 This approach remains prudent. Modelling indicates that at the current level of investment in the 10 year Capital programme *and* reducing Capital Financing costs by £5,000,000, the Council can maintain a sustainable strategy for funding its Capital budget over the lifetime of the current programme and into the longer term. The separate report on the Composite Capital Budget to this meeting of the Council (Report 19/47 refers) provides indicative projections of the Council's Loans Fund and Capital Fund over the period 2018/19 to 2049/50.
- 3.24 This change does not increase the cost of the Council's external borrowing (debt) nor does it require the Council to incur less than the £12,000,000 of new borrowing each year assumed in the current 10 year Capital Budget.
- 3.25 The Scottish Government have not provided any funding information beyond 2019/20 and, therefore, the assumptions on levels of funding included in the 2020/21 and 2021/22 Provisional Revenue Budgets are based on the assumptions set out in the Medium Term Financial Plan approved by Council on 3 October 2018 (Report No. 18/326 refers).

4. 2019/20, 2020/21 & 2021/22 PROVISIONAL REVENUE BUDGETS

2019/20 & 2020/21 Provisional Revenue Budget – February 2018

- 4.1 The Council agreed Provisional Revenue Budgets and indicative Council Tax levels for 2019/20 and 2020/21 on 22 February 2018 (Report No. 18/47 refers). Table 8 below sets out the total expenditure pressures and savings for 2019/20 and 2020/21 approved by the Council in February 2018.

Table 8: Pressures and Savings – February 2018

	2019/20	2020/21	Total
	£'000	£'000	£'000
Expenditure Pressures	9,195	4,246	13,441
Service Savings	(3,791)	(3,031)	(6,822)

Process for Preparing the Provisional Revenue Budgets for 2019/20, 2020/21 & 2021/22

- 4.2 The process for updating the Provisional Revenue Budget for 2019/20 & 2020/21 and preparing the new Provisional Revenue Budget for 2021/22 was summarised in the Medium Term Financial Plan report considered by Council on 3 October 2018 (Report No. 18/326 refers) and Revenue Budget 2019/20, 2020/21 & 2021/22 – Report No. 1 to Council on 19 December 2018 (Report No. 18/422 refers).
- 4.3 Each Service has prepared a Revenue Budget submission or “Executive Summary” for 2019/20, 2020/21 & 2021/22. The submissions set out movements to the 2019/20 & 2020/21 Provisional Revenue Budgets (approved in February 2018) and new expenditure pressures and savings proposals for 2021/22.
- 4.4 In addition, Services were asked to contribute towards an updated corporate savings target for 2019/20 & 2020/21 and new target for 2021/22 to fund corporate pressures such as anticipated reductions in Scottish Government funding and pay award assumptions. The submissions are attached at Appendix D to this report.
- 4.5 The Provisional Revenue Budgets for 2019/20, 2020/21 & 2021/22 are predicated on maintaining the same levels of service delivery reflected in the Provisional Revenue Budget approved in February 2018 (Report No. 18/47 refers) with the exception of the specific issues identified within this report or in the Revenue Budget Executive Summaries contained at Appendix D.
- 4.6 In updating Executive Summaries, Services were required to assess and document the potential impact of expenditure pressures (where applicable) and savings proposals against the following criteria:
- Fairness – including the potential socio-economic impact on vulnerable individuals and groups.
 - Workforce – including information on numbers of employees affected, vacancies, staff turnover and fixed term contracts.
 - Customers – including information on the effect on all customers /stakeholders (both external and internal).
 - Equalities/Diversity – ensuring that any statutory equalities issues are considered.
 - Outcome & Performance – identifying any significant impact on the Local Outcomes Improvement Plan and/or Service Business Management and Improvement Plans.

- 4.7 In addition, Services completed Equality and Fairness Impact Assessments for individual expenditure pressures and savings proposals. This facilitated the preparation of a cumulative impact assessment which was distributed to all Elected Members in advance of this special meeting of the Council.
- 4.8 The Provisional Revenue Budgets for 2019/20, 2020/21 & 2021/22 are set out in detail in Appendix B to this report. This includes confirmation of £1,847,000 of resources which are available to either reinstate savings proposals in 2019/20, 2020/21 and 2021/22 or fund additional expenditure pressures (on either a recurring or non-recurring basis).
- 4.9 Elected Members are advised that there may be delays in the implementation of any additional expenditure proposals as arrangements are put in place and some of the activity may slip into future financial years. Elected members should also be aware that additional projects introduced through the Revenue Budget may require a commensurate increase in staffing capacity to deliver them.
- 4.10 The Council is reminded that the Provisional Revenue Budgets, as set out in Appendix B are based upon the assumption that all of the expenditure pressures and all of the savings proposals within the Executive Summaries attached as Appendix D are approved.
- 4.11 **ACTION: The Council is asked to approve the Updated Provisional Revenue Budgets for 2019/20 & 2020/21 and the new Provisional Revenue Budget for 2021/22 as set out in Appendix B.**
- 4.12 The Provisional Revenue Budgets have been prepared based upon the information currently available, both in terms of financial resources and anticipated Service delivery pressures. The analysis reflects the judgement of the Council Officers concerned and has been reviewed by the Council's Executive Officer Team. There is, however, a risk that these assumptions may require to be revised in due course as part of the ongoing monitoring of Council expenditure and income.
- 4.13 The potential workforce implications identified within the Executive Summaries include vacant posts and will be influenced by turnover, including voluntary severance. The Council's positive and proactive approach to workforce management is designed to mitigate the impact on its people, including investment in skills for the future, retraining, support to take on new job roles, career coaching and building resilience.

2019/20 Fees and Charges

- 4.14 The savings proposals set out in Appendix D contain details of proposed increases to existing levels of charges in 2019/20. Specific increases in future years will be considered in setting Final Revenue Budgets at that time. Full details of 2019/20 charges are set out in Appendix E with commentary on individual Services below.

- 4.15 The annual review of charges considers a number of factors including an assessment of previous year's income levels, trends in user demand, inflationary pressures, savings targets, alternative charging structures and the potential impact on vulnerable groups.
- 4.16 All fees and charges should be set in line with the approved individual charging policy and fall into one of the following categories set out in Table 9 below.

Table 9: Charging Categories

Charging Strategy	Objective
Commercial Charges	The Council aims to cover the cost of providing the service and make a surplus.
Full Cost Recovery	The Council aims to cover the cost of providing the service from those who use it.
Subsidised	The Council wishes users of the service to make a contribution to the costs of providing it. This might meet a service objective or allow competition with other providers.
Free	The Council chooses to make the service available at no charge to meet a service objective.
Statutory	Charges are determined in line with legal requirements.

- 4.17 Full details of Council charges for 2019/20 are set out in Appendix E which are included in the 2019/20 Provisional Revenue Budget.

Revenue Budget Flexibility

- 4.18 The Council has an approved Revenue Budget Flexibility Scheme (Report No. 01/306 refers) which allows certain Service under and over spends from one financial year to be carried forward to future financial years subject to Council approval.
- 4.19 The proposed use of Revenue Budget Flexibility (£3,591,000) is reflected within the Provisional Revenue Budget for 2019/20 & 2020/21 and set out in detail at Appendix C to the report.
- 4.20 **ACTION: The Council is requested to approve the use of Revenue Budget Flexibility as set out in Appendix C to the report.**

Perth and Kinross Integration Joint Board

Cost and Demand Pressures

- 4.21 The following is based upon the assessment of current Health & Social Care budgetary pressures undertaken by the Integration Board Chief Officer and Chief Financial Officer. An analysis of expenditure pressures has been undertaken across Core Hospital and Social Care Services. Pressures of £21,600,000 have been identified with £11,300,000 of pressures anticipated in 2019/20 as set out in Table 10 below.

Table 10: Analysis of IJB Expenditure Pressures

	2019/20	2020/21	2021/22	Total
	£'m	£'m	£'m	£'m
Expenditure Pressures B/F	2.2	-	-	2.2
Pay/Price Pressure	4.3	3.0	3.2	10.5
Demand Pressure	3.9	1.7	1.7	7.3
Essential Service Developments	0.9	0.7	-	1.6
Total Pressures	11.3	5.4	4.9	21.6

- 4.22 In 2019/20, approximately £9,200,000 of the expenditure pressures relate to the provision of adult social care.
- 4.23 Expenditure pressures brought forward also reference the use of non-recurring Reserves and the non-achievement of savings in 2018/19.
- 4.24 Pay/Price Pressures relate to pay uplifts for Perth & Kinross Council employees and Scottish Government commitments towards the Living Wage; Free Personal Care over 65; the National Care Home Contract Uplift; Free Personal Care under 65 and the Carers Act.
- 4.25 Demand Pressures reflect the impact of demographic growth on demand for social care services in 2018/19; the stepped increase in the demand for Care at Home; the demand for Occupational Therapy Equipment and the numbers and complexity of the care packages required for people with very complex Mental Health and Learning Disability needs. Going forward, there are further anticipated expenditure pressures from Care at Home, Care Home Placements and Learning Disability and Mental Health Care Packages.
- 4.26 Essential Service Developments include a £1,400,000 investment in enhanced community support (over three years) - predominantly increased health professional capacity in teams to keep people at home for longer and shift the balance from expensive bed-based care. The 2019/20 pressures therefore include £900,000 of essential investment which is fundamental to a wider 3 year 'Invest to Save' strategy that will enable a re-profiling of bed based care in 2020/21, 2021/22 and thereafter and deliver significant savings.

Savings Proposals

- 4.27 Significant work has been undertaken to identify transformation and efficiency plans to respond to the level of pressures whilst in parallel delivering the core Strategic aims of the Integration Joint Board (IJB). Table 11 below sets out the 3 Year savings that have been identified.

TABLE 11: 3 YEAR SAVINGS PROGRAMME

	2019/20	2020/21	2021/22	Total
	£'m	£'m	£'m	£'m
Older People and Unscheduled Care	1.7	1.8	1.3	4.8
Mental Health and Wellbeing	0.9	0.6	0.8	2.3
Other Partnership Wide	-	-	-	-
Total Savings	2.6	2.4	2.1	7.1

- 4.28 The development of savings and transformation proposals has been led by the Perth & Kinross Health & Social Care Partnership Executive Management Team, supported by each of the Strategic Programme Boards.
- 4.29 For Older People and Unscheduled Care, the savings proposals are part of a 3 year invest to save strategy which through upfront investment in community based teams will deliver a fundamental shift in the balance of care with a reprofiling of beds and a delivery of significant savings in 2020/21 & 2021/22.
- 4.30 For Mental Health and Wellbeing, the savings proposals focus on a radical redesign of the Learning Disability Community Care Service Models. In addition, a review of care pathways and community investment will lead to a shift from bed based models within Learning Disabilities and General Adult Psychiatry.
- 4.31 The IJB has also undertaken a review of all other partnership wide budgets and identified a number of further opportunities for efficiency from corporate management and commissioned services.

Recommended Funding for Perth & Kinross Integration Joint Board

- 4.32 Based upon the above assessment, the Revenue Budget submission from Perth & Kinross Integration Joint Board includes expenditure pressures which exceed savings proposals by £8,656,000 over the period 2019/20, to 2021/22. This is significantly higher than that reported in other areas of Council Service delivery for the reasons set out above.
- 4.33 The Chief Executive and current Health & Social Care Partnership Chief Officer have been in discussion throughout the preparation of the Revenue budget on appropriate measures to ensure that the Council's funding for Health & Social Care remains sufficient to meet service demand but

sustainable in the medium to longer term. This is underlined by the significant movement in projected expenditure on adult social care in the current financial year 2018/19 which has necessitated the implementation of agreed recovery plan savings as reported to the Strategic Policy & Resources Committee through the Revenue monitoring process (Report No. 19/36 refers).

- 4.34 The Chief Executive and Executive Officer Team have, therefore, undertaken to work with the incoming Health & Social Care Chief Officer in supporting the development of a range of transformational approaches to service provision aimed at building on best practice in health & social care provision. This may include future Capital investment in areas such as telecare and supported housing.
- 4.35 To ensure that this approach to adult social care remains financially sustainable for Perth & Kinross Council, the Provisional Revenue Budget assumes an efficiency savings target of £2,000,000 for 2019/20 with a further £1,000,000 and £2,000,000 for 2020/21 and 2021/22 respectively.
- 4.36 The Scottish Government has provided an additional £160,000,000 of earmarked funding for health & social care in 2019/20, of which £108,000,000 is included within the provisional grant settlement. Local authorities are required to allocate this funding toward investment in social care and mental health services. Perth & Kinross Council's share of the additional £108,000,000 for social care within the provisional settlement is £3,243,000 which is fully reflected within the recommended funding for Perth & Kinross Integration Board in 2019/20.
- 4.37 In recognising the pressure on local authority expenditure, the Cabinet Secretary's letter of 31 January 2019 (attached at Appendix A), however, provides local authorities with "the flexibility to offset their adult social care allocations to Integration Authorities in 2019-20 by 2.2% compared to 2018-19."
- 4.38 The Council's 2018/19 recurring Revenue Budget for health and social care is £47,087,000. The 2019/20 Provisional Revenue Budget includes an allocation of £51,804,000 for health and social care which represents a cash uplift of £4,717,000 or 10%.
- 4.39 **ACTION: The Council is requested to approve the contribution to Perth & Kinross Integration Joint Board of £51,804,000 in the 2019/20 Provisional Revenue Budget.**

Medium Term Financial Plan

- 4.40 The Council's Medium Term Financial Plan (MTFP) places the development of budgetary strategy in the context of delivering the Council's key outcomes and considers the financial and process risks considered in the management of the Council's finances (Report No. 18/326 refers). The Medium Term Financial Plan is subject to regular review and the updated plan will be submitted, in due course, to a future meeting of the Council for further consideration.

- 4.41 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. The refinement of these assumptions is included in the Provisional Revenue Budgets for 2019/20, 2020/21 and 2021/22.
- 4.42 The key elements of the Medium Term Financial Plan, in addition to the General Fund Revenue Budget, are summarised below.

Composite Capital Budget

- 4.43 In setting the 2019/20 Final Revenue Budget and 2020/21 & 2021/22 Provisional Revenue Budgets, the Council is approving the amount available to support current and future borrowing
- 4.44 The Composite Capital Budget 2019/20 to 2027/28 was the subject of a report to the Strategic Policy and Resources Committee on 6 February 2019 (Report No. 19/37 refers). In addition the Council will also consider proposals in relation to the Composite Capital Budget for financial years 2019/20 to 2028/29 at this special meeting of the Council (Report No. 19/47 refers). Specifically the report outlines proposals to maintain a ten year programme.

General Fund Reserves Strategy

- 4.45 The strategy under-pinning the use of the Council's General Fund Revenue Reserves is an integral part of the development of both the Revenue and the Composite Capital Budget. The Reserves Strategy is the subject of a separate report to this special meeting of the Council (Report No. 19/48 refers).

Housing Revenue Account

- 4.46 The final Housing Revenue Account (HRA) Revenue Budget for 2019/20 and Five Year Capital Investment Programme and Rent Strategy to 2023/24 were approved by the Housing & Communities Committee on 23 January 2019 (Report No. 19/12 refers). The Committee approved the recommendation of an average weekly rent increase for 2019/20 of 1.5% or £1.02 per week in accordance with the requirements of the Council's approved Housing Business Plan including supporting investment in new council housing.

5. COUNCIL TAX

Council Tax Collection Rate

- 5.1 It is recommended that the current budgeted collection rate of 98% be maintained in determining the 2019/20 Final Revenue Budget and 2020/21 and 2021/22 Provisional Revenue Budgets. This target, whilst challenging, is supported by the Council's collection performance over recent years and represents a realistic budgeted collection rate.

- 5.2 The level of Council Tax recovered in the year of billing was 97.3% in 2017/18 (the latest audited statistics), but it takes on average a further 5 years to reach or exceed a collection level of 98%. The Council remains committed to sustaining and improving performance in respect of all of its income recovery activities.
- 5.3 It should, however, be noted that there remains a risk of reduced collection levels due to increases in the level of the tax, the economic environment; changes in legislation in relation to debt recovery and welfare reform.
- 5.4 **ACTION: The Council is asked to agree a Council Tax collection rate of 98% in 2019/20, 2020/21 & 2021/22.**

Council Tax Base

- 5.5 The number of chargeable band D equivalent dwellings for Council Tax purposes, the Council Tax base (after adjusting for assumed non-collection of 2%), is estimated to be 69,753 in 2019/20, 70,430 in 2020/21 and 70,941 in 2021/22.
- 5.6 The Council's tax base is regularly reviewed, based upon an analysis of recent trends, and adjusted for anticipated growth in the number of dwellings as well as increases in the number of discounts and exempt dwellings.
- 5.7 **ACTION: The Council is asked to approve a Council Tax base of 69,753 in 2019/20; 70,430 in 2020/21; and 70,941 in 2021/22.**

Council Tax Rate

- 5.8 The Medium Term Financial Plan and Provisional Revenue Budgets for 2019/20, 2020/21 and 2021/22 assume an increase in the Council Tax rate of 3% each year.
- 5.9 In the letter from the Cabinet Secretary for Finance, Economy & Fair Work of 31 January, Councils were advised that they were being provided with "*the flexibility to increase the Council Tax by 3% in real terms, which equates to 4.79% next year*".

Scottish Water Charges

- 5.10 The Council has received notification from Scottish Water that water and wastewater charges for 2019/20 will increase by 1.6%. This results in a band D equivalent charge in 2019/20 for water and wastewater from Scottish Water of £444.24, an increase of £6.84 (£437.40 in 2018/19).
- 5.11 Scottish Water charges for water and wastewater will continue to be charged using the multiplier that was in place prior to 1 April 2017.

6. WORKFORCE PLANNING

- 6.1 The Council has reduced the size of its workforce over the last five years. This has been achieved using workforce planning measures which include vacancy management, fixed term contracts and the non-filling of vacancies arising from turnover, including retirements and voluntary severance. These measures are now well-embedded within the Council and will continue.
- 6.2 The Council continues to transform and modernise its services as part of the public service reform agenda and to meet the challenges associated with reduced funding and growing service demand. The Council has updated its Transformation Programme and each transformation project incorporates an assessment of the workforce implications of any changes in service delivery which, in turn, will shape our workforce planning and management measures in future.
- 6.3 A new Corporate Workforce Plan for 2018-21 was approved by the Council on 7 March 2018 (Report No. 18/69 refers). The Plan recognises the importance of a flexible and agile workforce in meeting the evolving skills requirements. The implementation of job families and supporting procedures across the workforce facilitates the deployment of staff to meet changing requirements and provides visibility of career paths and job security for employees. Retraining programmes under the banner “Learn To” are facilitating the movement of staff to areas of growth and skill shortage, and have proven to be cost effective tools in managing workforce reduction in certain areas.
- 6.4 The Council’s employment package was modernised as part of the single status agreement in 2007, with the rationalisation of allowances and other terms. Policies and procedures and terms and conditions of employment are kept under review to ensure they remain fit for purpose in attracting and retaining staff, rewarding staff fairly and equitably and ensuring value for money.

7. BUDGET CONSULTATION EXERCISES

- 7.1 The Council undertook a budget consultation exercise with local residents between 23 January 2019 and 3 February 2019. The consultation web page received 521 unique views by the public (not including internal staff views) – an increase from the 382 views in last year’s consultation. Overall, there were 1,085 completed surveys which is a significant increase on previous years (2018 – 736; 2017 – 332; 2016 – 91) and indicates a growing public interest in how the Council budgets for services.
- 7.2 Appendix F includes a report summarising the findings of the consultation exercise.
- 7.3 There was also meeting of the Equalities Strategic Forum on 13 February 2019 to consider budget themes. The output from this session was shared with Elected Members following the meeting.

8. RISK ASSESSMENT

- 8.1 Determining the Revenue Budget 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 its medium term financial plan, the Council must also be aware of the sustainability of its expenditure proposals. Significant risks, which are of relevance in determining the Revenue Budget, are outlined below.
- 8.2 The General Fund Reserves Strategy is integral to supporting the Council's approach to the management of financial risk. The following comments on the most significant risks identified in preparing the Revenue Budget require to be considered in conjunction with the Reserves Strategy which is the subject of a separate report to this special meeting of the Council (Report No. 19/48 refers).

Local Government Funding Beyond 2019/20

- 8.3 The Council has no information on funding levels from the Scottish Government beyond 2019/20. This presents a significant risk to the Provisional Revenue Budgets for 2020/21 and 2021/22. There is also uncertainty as to whether the additional Scottish Government revenue funding of £2,477,000 announced on 31 January 2019 is recurring or non-recurring. In the absence of confirmation, at this time, this report and the 2019/20 Provisional Revenue Budget have been prepared in line with the CoSLA assumption that this funding is recurring.
- 8.4 It is very difficult to estimate Scottish Government future funding scenarios with certainty. The magnitude of any potential future funding reductions will be influenced by many aspects of the wider economic climate and UK and Scottish Government policies. There is also the increasing influence of negotiations in the Scottish Parliament over the budget on the ultimate level of funding available for local government. Scottish Local Government has experienced reductions in funding that are greater than most other parts of the Scottish public sector. The 2020/21 and 2021/22 Provisional Revenue Budgets has been constructed on the basis of projections on levels of Scottish Government funding (General Revenue Grant and Non-Domestic Rates) from the Fraser of Allander Institute issued in Autumn 2018. There is a real risk that these assumptions may prove to be too optimistic placing further pressure on future year's Revenue Budgets.
- 8.5 The Scottish Government has, however, committed to "*bringing forward a three year funding settlement for local government from 2020/21 budget onwards; and to develop a rules based framework for local government funding in partnership with CoSLA that would be introduced in the next Parliament.*"
- 8.6 The potential for cash and real terms reductions in future funding beyond financial year 2019/20 is therefore considered to represent a risk in the management of the budget over the medium term.

- 8.7 Once inflation and demand 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.
- 8.8 In view of this, the Council is advised to consider a prudent approach in applying unallocated budgeted resources towards recurring expenditure proposals in the 2019/20, 2020/21 and 2021/22 Provisional Revenue Budgets.
- 8.9 In addition there is no information on the possible sanctions which may be attached to the local government finance settlement beyond 2019/20. There are particular risks around the assumptions included in the 2020/21 and 2021/22 Provisional Revenue Budgets in relation to teacher numbers, the funding of future Living Wage rates and increases in Council Tax.

Scottish Government Budget 2019/20

- 8.10 At this time (12 February 2018) the Scottish Parliament has not yet formally approved the budget for 2019/20 – this is expected to take place on 21 February 2019. There is a risk that the final budget approved by the Scottish Parliament alters the funding available to local government which would have an impact on the Council.

Corporate Transformation Projects

- 8.11 There are a number of corporate transformation projects (including property asset management, procurement / mobile working and PKC MyAccount) which are included in the 2019/20, 2020/21 and 2021/22 Provisional Revenue Budgets. There is inevitably a degree of uncertainty about the ability of the Council to achieve significant savings in the short to medium term as these projects are implemented.

Service Transformation Projects

- 8.12 All Services include projected Revenue Budget savings from previously approved Service specific transformation projects. In line with the corporate projects, more certainty on these savings will materialise as the projects are progressed.

Number of Band D properties

- 8.13 The 2019/20, 2020/21 and 2021/22 Provisional Revenue Budgets assume growth in the number of band D equivalent properties. These assumptions are consistent with the Medium Term Financial Plan and are based on levels of growth currently being experienced. If the levels of growth in the number of properties do not continue there is a risk to the budgeted level of Council Tax income.

Implementation of Welfare Reform

- 8.14 At this time it is still not possible to fully estimate the potential financial impact on Council Services and budgets of Welfare Reform with any accuracy.
- 8.15 In June 2018, Full Service Universal Credit (UC) was rolled out throughout the whole of Perth and Kinross to all new claimants. Despite the fact that ongoing changes have been made/planned to be made by the DWP in respect of UC, a number of the well documented challenges and issues remain for both customers and Local Authorities. The latest information regarding Managed Migration to UC (for those working age claimants currently on legacy benefits) is that it will take place between July 2019 and 2023, commencing with a pilot of up to 10,000 claimants and this will last until 2020; there is no rollout timetable or any other information available at this time.

Pay Award Assumptions

- 8.16 The 2018/19 Provisional Revenue Budget includes pay award assumptions in line with the statement of the Cabinet Secretary for Finance and the Constitution on 14 December 2017. This statement suggested pay awards of 3% (up to £36,500), 2% (between £36,501 and £80,000) and a flat rate of £1,600 (£80,001 and above). At this time the 2018/19 pay award has still to be agreed. The 2018/19 offer is part of a proposed multi year pay settlement through to 2020/21.
- 8.17 The 2019/20, 2020/21 & 2021/22 Provisional Revenue Budgets assume a 3% increase for all three years.
- 8.18 There is a risk that the final outcome of national pay negotiations in 2018/19, 2019/20, 2020/21 and 2021/22 differs from the Council's assumptions which could have a significant financial impact upon the Council.

Expenditure Pressures in 2020/21 and 2021/22

- 8.19 There is a risk that the assumptions in relation to the expenditure pressures in the 2020/21 and 2021/22 Provisional Revenue Budgets differ from what actually happens and that this has an impact on setting Final Revenue Budgets in those years.

Inflation

- 8.20 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 risk is enhanced by the continued implementation of the National Living Wage, pressure to enhance wage rates paid by service providers and suppliers and the impact of the European Union referendum result and global uncertainty on the value of Sterling.

Current Economic Climate

- 8.21 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.
- 8.22 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.
- 8.23 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.

9. CONCLUSION AND RECOMMENDATIONS

- 9.1 The Council is committed to medium term financial planning and as such has prepared Provisional Revenue Budgets for 2019/20, 2020/21 and 2021/22 during a period of significant financial challenge and uncertainty and against a backdrop of ongoing public sector reform.
- 9.2 The Council is requested to:
 - 9.2.1 Approve the 2019/20, 2020/21 and 2021/22 Provisional Revenue Budgets as set out in **Appendix B** to the report – see para 4.11.
 - 9.2.2 Approve the carry forward of resources from 2018/19 into 2019/20 and future years under the terms of the Revenue Budget Flexibility scheme as set out in **Appendix C** to the report – see para 4.20.
 - 9.2.3 Approve the contribution to Perth & Kinross Integration Joint Board of £51,804,000 that is included in the 2019/20 Provisional Revenue Budget – see para 4.39
 - 9.2.4 Approve a Council Tax collection rate of 98% in 2019/20, 2020/21 and 2021/22 – see para. 5.4.
 - 9.2.5 The Council is asked to approved Council Tax base of 69,753 in 2019/20, 70,430 in 2020/21 and 70,941 in 2021/22 – see para 5.7.
 - 9.2.6 Determine the Final Revenue Budget and Council Tax for financial year 2019/20.
 - 9.2.7 Determine the Updated Provisional Revenue Budget and Indicative Council Tax level for 2020/21.
 - 9.2.8 Determine the Provisional Revenue Budget and Indicative Council Tax level for 2021/22.

Author(s)

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

Approved

Name	Designation	Date
Stewart Mackenzie	Head of Finance	12 February 2019
Jim Valentine	Depute Chief Executive and Chief Operating Officer	12 February 2019

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 – 2023 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 of 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 Revenue Budget Executive Summaries have been subject to an equalities assessment where appropriate.

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 Officer Team and Corporate Human Resources Manager have been consulted in the preparation of the Provisional Revenue Budgets for 2019/20, 2020/21 and 2021/22.

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 – Letter from the Cabinet Secretary for Finance, Economy & Fair Work dated 31 January 2019.
- Appendix B – Provisional Revenue Budgets for 2019/20, 2020/21 and 2021/22.
- Appendix C – Revenue Budget Flexibility Scheme – Proposed Carry Forwards from 2018/19
- Appendix D – Expenditure Pressures and Savings
- Appendix E – Fees and Charges – 2019/20:
- i. Housing & Environment
 - ii. Education & Children’s Services
 - iii. Corporate & Democratic Services
 - iv. Health & Social Care
- Appendix F – Budget Consultation Summary Report