PERTH AND KINROSS COUNCIL

20 December 2017

REVENUE BUDGET 2018/19, 2019/20 & 2020/21 – REPORT NO.1

Report by Head of Finance

PURPOSE OF REPORT

This report provides an update in relation to the Revenue Budget for 2018/19, 2019/20 and 2020/21 in light of the information contained in the UK Autumn Budget that was announced on 22 November 2017 and the Scottish Budget announced on 14 December 2017.

1. BACKGROUND

1.1. On 22 February 2017 the Council approved a balanced 2018/19 Provisional Revenue Budget (Report No. 17/47 refers). An indicative Council Tax level for 2018/19 was also approved at this time.

1.2. On 4 October 2017 the Council approved the update of the Medium Term Financial Plan (MTFP) (Report No. 17/317 refers). The Plan included a summary of the implications of the latest financial projections on future Council General Fund Revenue Budgets over the medium term.

1.3. The update of the Plan included the latest assumptions in relation to potential reductions in grant funding and increases in pay awards. Specifically Council endorsed the Fraser of Allander projections of funding reductions of 3% in 2018/19 and 1.8% in 20019/20 and 0.5% growth in 2020/21. For financial management purposes, the Plan also included indicative Council Tax rises of 3% in 2018/19, 2019/20 and 2020/21. This resulted in the allocation of a further Corporate Savings Target to Services for 2018/19, over and above the levels previously approved in the Provisional Revenue Budgets in February 2016 and February 2017. The Plan also included Corporate Savings Targets for 2019/20 and 2020/21.

1.4. The Council approved:

- The development of a three year Revenue Budget for 2018/19, 2019/20 and 2020/21.

- The allocation of estimated capital resources to a number of top sliced / ring fenced programmes for 2023/24 and 2024/25 but not to invite further detailed business cases for these years at this time.

- The presentation of the updated Reserves Strategy to Council in February 2018.

- The presentation of the HRA Budget and rent levels to the Housing and Communities Committee in January 2018.

1.5. There have been a number of developments since the meeting of the Council on 4 October 2017 and these are outlined in the remainder of this report.

2. UNITED KINGDOM FISCAL POSITION

2.1 The Chancellor of the Exchequer presented his 2017 Budget to parliament on 22 November 2017. This Budget contained spending plans for all UK Departments and devolved administrations through to 2019/20 for resource (revenue) spending and to 2020/21 for capital spending; as well as a range of tax plans in advance of the new tax year in April 2018.

2.2 The Budget contained the following key statements in relation to the state of UK public finances.

- Annual government borrowing of £49.9bn in 2017/18, £8.4bn lower than forecast in March 2017.

- Borrowing forecast to fall in real terms in the subsequent five years from £39.5bn in 2018/19 to £25.6bn in 2022/23.

- Projected borrowing has been revised up for 2019/20, 2020/21 and 2021/22, compared to March 2017, due to the weaker economic outlook and expected lower tax yields.

- Public sector net borrowing forecast to fall from 3.8% of Gross Domestic Product (GDP) in 2016/17 to 2.4% in 2017/18, then 1.9%, 1.6%, 1.5% and 1.3% in subsequent years, reaching 1.1% in 2022/23.

- Debt will peak at 86.5% of GDP in 2017/18, and then fall to 86.4% in 2018/19; then 86.1%, 83.1% and 79.3% in subsequent years, reaching 79.1% in 2022/23.

2.3 The Office of Budget Responsibility (OBR) published its latest forecasts for the UK economy on 22 November 2017. In summary, public finances recently have performed better than expected, but future Gross Domestic Product forecasts have been lowered. The combined effects of the better fiscal position now but weaker prospects looking forward has resulted in the OBR revising up their forecasts for the budget deficits by increasing amounts over the next five years.

3. IMPACT ON SCOTLAND

3.1 Based on the information contained in the 2017 UK Budget, the latest block grant allocations to Scotland are set out in Table 1 below.

Table 1: Scottish Block Funding to 2019/20

	2017/18	2018/19		2019/20	
Cash Terms	£m	£m	%	£m	%
Revenue	26,635	26,824	0.7	26,866	0.2
Capital	3,166	3,414	7.8	3,726	9.2
Financial Transactions*	445	488	9.7	519	6.3
TOTAL	30,246	30,726	1.6	31,111	1.3

Source: SPICe Briefing – UK Autumn Budget 2017 – impact on Scotland

*Financial transactions, which can only be used to make loans or equity investments into the private sector, and must ultimately be repaid to HM Treasury.

3.2 Based on the analysis undertaken by the Scottish Parliament Information Centre (SPICe), the Departmental Expenditure Limit (DEL) Resource (revenue) budget will increase in cash terms in 2018/19 by 0.7%, which represents a real terms fall of 0.8%. For DEL capital there is a cash increase of 7.8%, equivalent to a real terms increase of 6.2%.

3.3 The Scottish Barnett consequentials of the 2017 UK Budget are summarised in Table 2 below. The Barnett formula is a mechanism used by the Treasury in the United Kingdom to automatically adjust the amounts of public expenditure allocated to Northern Ireland, Scotland and Wales to reflect changes in spending levels allocated to public services in England, England and Wales or the United Kingdom as appropriate. The formula applies to a large proportion, but not the whole, of the devolved Governments' budgets.

Table 2: Barnett Consequentials to 2020/21

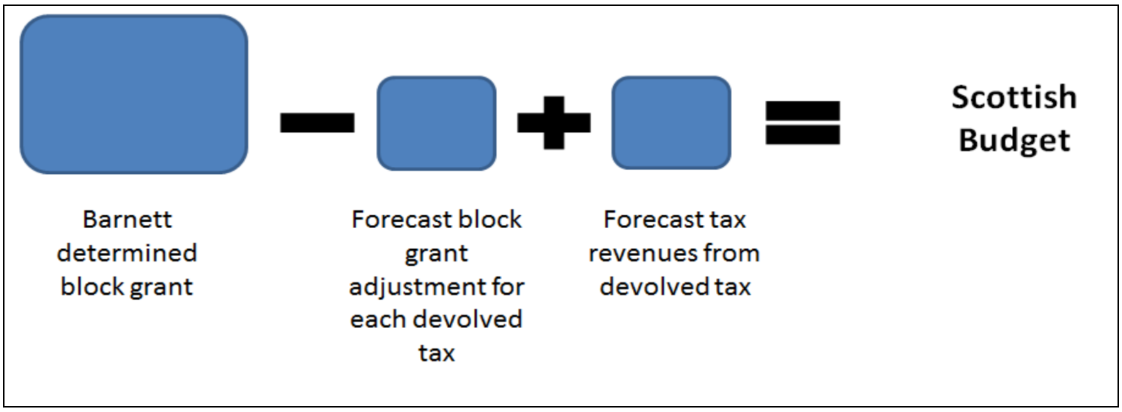
	2017/18	2018/19	2019/20	2020/21
Cash Terms	£m	£m	£m	£m
Revenue	8.4	183.3	154.9	n/a
Capital	58.6	68.6	169.3	212.1
Financial Transactions	156.3	271.3	332.0	355.3
TOTAL CONSEQUENTIALS	**223.3**	**523.2**	**656.2**	**567.4**
TOTAL OVER FOUR YEARS				**1,970.1**

Source: SPICe Briefing – UK Autumn Budget 2017 – impact on Scotland

3.4 How these increases in the overall amount of funding for Scotland impacts on "unprotected budgets" will depend upon two key variables. Firstly the ultimate allocation of Barnett "consequentials" to unprotected areas of the budget. Secondly, how much of the increased estimate of CPI inflation feeds through to the allocations to the NHS and Police Scotland. "Unprotected budgets" are defined as those areas of activity that are not included in Scottish Government manifesto commitment to the NHS, Police Scotland and Early Years and Childcare.

3.5 Under the terms of the Fiscal Framework agreed between the UK and Scottish Government to implement the Scotland Act 2016, the size of the Scottish Budget is not only comprised of the UK Treasury block grant. It is now determined by the three elements set out in Table 3 below.

Table 3: Scottish Block Grant Allocation Determination



- The block grant allocations from the UK Budget – changes in this block are determined by increases or decreases in English spending on functions that are "comparable" to those devolved to the Scottish Parliament.

- A block grant adjustment, which is essentially a forecast of the revenue the UK Government has foregone by devolving taxes to the Scottish Parliament (such as Scottish Income Tax).

- The Scottish Fiscal Commission will produce forecasts of the tax revenue raised from taxes devolved or transferred to the Scottish Government

3.6 The Scottish Fiscal Commission published its forecast of Scottish tax revenues on 14 December which are factored into the Scottish Government's budget assumptions which are set out in Section 4 below. These estimates are the sum available to the Scottish Government to draw down from the UK Treasury throughout 2018/19. These forecasts will be reconciled to final data once it is available, and the Scottish budget adjusted up or down in subsequent years to account for this.

4. SCOTTISH GOVERNMENT BUDGET – 14 DECEMBER 2017

4.1 Local Government Finance Circular 5/2017 was issued by the Scottish Government on 14 December 2017 and included the Financial Settlement for 2018/19 at an individual Council level. As anticipated the Settlement included information for 2018/19 only with no information from the Scottish Government for 2019/20 and beyond. The full Finance Circular can be found at the following link - Local Government Finance Circular, December 2017.

4.2 The Cabinet Secretary also wrote to the COSLA President on 14 December 2017 confirming the package of measures that make up the settlement to be provided to local government in return for the provisional funding allocations set out in the Finance Circular (see Appendix A).

4.3 The Circular provides details of the provisional total revenue and capital funding allocations for 2018/19, as well as the latest information on current known redeterminations for 2017/18. The Circular also provides details on a range of business rates measures, including the 2018/19 poundage and proposed changes to certain reliefs.

4.4 The provisional allocations form the basis for the annual consultation between the Scottish Government and COSLA ahead of the Local Government Finance (Scotland) Order 2018 being presented to the Scottish Parliament in late February 2018. Any individual authority **not** intending to agree the offer and accept the full package of measures and benefits has been requested to write to the Cabinet Secretary for Finance and the Constitution by no later than Friday 19 January 2018.

4.5 Finance Circular 5/2017 stated that "for 2018/19 the Scottish Government will work in partnership with local government to implement the budget and the joint priorities in return for the full funding package which includes:

- Baselining from 2018/19 of the £130 million additional revenue investment announced earlier this year at Stage 1 of the Budget Bill for 2017/18;

- £52.2 million revenue and £150 million capital to deliver on our joint agreed ambitious programme for the expansion of Early Years Education and Childcare provision. This is in addition to the £11 million of revenue which has been added to support the initial expansion of Early Years set out in the 2014 Act provisions;

- An additional £24 million to cover the additional full year cost of the teachers' pay offer for 2017/18;

- A continued funding package of £88 million, made up of £51 million to maintain teacher numbers and £37 million to support the Teacher Induction Scheme. Local authorities will continue to be required to maintain an overall pupil:teacher ratio of 13:7, and secure places for all probationers who require one under the Teacher Induction Scheme;

- An additional £66 million to support additional investment in social care in recognition of a range of pressures local authorities are facing, including support for the implementation of the Carers (Scotland) Act 2016, maintaining our joint commitment to the Living Wage (including our agreement to now extend it to cover sleepovers following the further work undertaken) and an increase in the Free Personal and Nursing Care payments;

- Maintenance of the £355 million baseline transfer from NHS Boards to Integration Authorities in support for health and social care; and

- The continued flexibility to increase Council Tax by up to 3% which could generate an additional £77 million."

4.6 The 2018/19 provisional allocations set out in this Circular assume that all councils will sign up to the package and therefore that the full current distributable revenue amount of £9,400.501 million will be issued.

4.7 Finance Circular 5/2017 also contained information on revenue funding that has still to be distributed. The following list outlines this undistributed funding and how much is available nationally.

- Teachers' Induction Scheme - £37.469 million
- Discretionary Housing Payments - £52.100 million
- Gaelic - £0.110 million
- Criminal Justice Social Work - £86.450 million
- Early Years Expansion - £52.200 million
- Customer First Top-Up - £1.940m

4.8 Based on Finance Circular 5/2017 the total revenue funding being made available by the Scottish Government to Perth and Kinross Council in 2018/19 is £239.094 million (see Table 4 below).

Table 4: Scottish Government Grant Funding – Perth & Kinross Council

	2018/19
	£m
General Revenue Funding	185.419
Non-Domestic Rates	51.953
Ring-Fenced Grants	1.722
TOTAL REVENUE FUNDING	**239.094**

Source: Finance Circular 5/2017 – 14 December 2017

4.9 Table 5 below, summarises the movements in the total funding package from the Scottish Government to facilitate a comparison of the 2018/19 Settlement with the current year on a comparable basis.

Table 5: Cash Movements between 2017/18 and 2018/19 (on a comparable basis)

	2018/19
	£m
Finance Circular 1/2017 – March 2017	242.629
Adjustments	
- Community Justice (still to be allocated)	(1.629)
- Carer's Act Funding	1.961
- Teacher's Pay	640
- Temporary Accommodation	508
- Other Net Adjustments	(0.577)
Updated 2017/18 (on a comparable basis)	**243.532**
Finance Circular 5/2017	**239.094**
Cash Reduction	**4.438**
% Reduction	**1.8%**

4.10 The total amount of funding, on a cash basis, reduced by £3,535,000 between 2017/18 and 2018/19. However the 2018/19 allocation includes funding for the Carer's Act (£1,961,000), Teacher's Pay (£640,000) and Temporary Accommodation (£508,000) and does not include Community Justice Social Work (£1,629,000) which has still to be allocated. There are other net minor adjustments of £577,000 across the entire Perth & Kinross Council settlement for 2018/19.

4.11 Therefore on a like for like basis, the cash reduction in funding from the Scottish Government between 2017/18 and 2018/19 is estimated at £4,438,000 or 1.8%. This figure does not take account of the additional impact of inflation, which could be significant in 2018/19 or demand growth resulting in a real terms cut of around 5% (using CPI as the inflationary uplift).

4.12 The Finance Circular does not contain any funding information beyond 2018/19 and the assumptions on levels of funding included in the 2019/20 and 2020/21 Provisional Revenue Budgets remain based on the Medium Term Financial Plan approved by Council on 4 October 2017 (Report No. 17/317 refers).

4.13 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 2018/19 Provisional Revenue Budget

4.14 The Medium Term Financial Plan approved by Council on 4 October 2017 assumed Scottish Government funding reductions of £7,178,000 in 2018/19 (Report No. 17/317 refers). The actual funding reduction for 2018/19 (on a comparable basis) is £4,438,000 (see Table 5 above). In terms of the 2018/19 Provisional Revenue Budget this means additional resources (a smaller reduction) of £2,740,000.

Implications for the 2018/19 Capital Budget

4.15 Finance Circular 5/2017 also includes individual Capital Grant allocations for 2018/19. In setting earlier Capital Budgets, the Council had previously made assumptions on the level of funding in 2018/19. The figures in the Finance Circular show additional Capital Grant funding of £676,000. However, £440,000 of this relates to Flood Allocations which were previously assumed to be paid in 2019/20 and are already reflected in the approved Capital Budget. Accordingly, there is a net additional £236,000 of Capital Grant available for application in 2018/19.

4.16 These additional resources will be included in the Capital Budget report which will be considered by the special meeting of the Council in February 2018.

Non-Domestic Rates

4.17 Finance Circular 5/2017 provisionally set the Non Domestic Rate poundage for 2018/19 at 48.0p (46.6p in 2017/18), an increase of 3%, and the Large Business Supplement at 2.6p (2.6p in 2017/18). The threshold for the supplement is applicable only to properties with a rateable value over £51,000 (£51,000 in 2017/18).

4.18 Transitional arrangements (including transitional relief) are proposed to continue into 2018/19 for hospitality properties (with a rateable value of up to £1,500,000). The level of the cap on bill increases from 2017/18 to 2018/19 will be 12.5% in real terms (equivalent to 15.88% in cash terms) (2017/18 12.5% in real terms, 14.75% in cash terms). No other transitional arrangements will apply for 2018/19 bills. Eligibility is subject to compatibility with European Union State Aid rules.

4.19 The Small Business Bonus Scheme threshold for 100% relief remains at £15,000, so that the overall scheme is applicable as per Table 6 below (which is consistent with the 2017/18 scheme).

Table 6: Small Business Bonus Scheme 2018/19

Combined Rateable Value of all Properties	2018/19
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

4.20 The Implementation Plan in response to the Barclay Review was also published on 14 December 2017. The implementation plan set out the Scottish Government's response to all of Barclay's recommendations, together with their delivery actions.

4.21 Specifically in relation to ALEOs the Scottish Government do "not intend to change charity relief or sports club relief eligibility for council ALEOs. However, in light of concerns regarding the continuing expansion of the ALEO approach, they will offset further relief benefit to councils to mitigate against future ALEO expansion."

5. PROVISIONAL REVENUE BUDGETS 2018/19, 2019/20 & 2020/21

5.1 In line with the recommendations included in the Medium Term Financial Plan approved by Council on 4 October 2017, Services have been developing updated Revenue Budget submissions for 2018/19 and new detailed submissions for 2019/20 and 2020/21.

5.2 For 2018/19 the submissions include new corporate savings targets which reflect revised assumptions in relation to funding reductions and pay awards as well Service specific updated expenditure pressures and savings proposals. For 2019/20 and 2020/21 the submissions include corporate savings targets and Service expenditure pressures and savings proposals.

5.3 On the basis of the revised assumptions for 2018/19, budget submissions from Services are summarised in the following table. For the avoidance of doubt the information in Table 7 below only includes the **movements** in the 2018/19 Provisional Revenue Budget i.e. decisions taken in February 2016 and 2017 in relation to 2018/19 are **excluded**. The Service Provisional Revenue Budget submissions were circulated to all Elected Members on Monday 18 December 2017.

Table 7: Summary of Service Provisional Revenue Budget Submissions (as at 14 December 2017)

	2018/19	2019/20	2020/21	Total
	£'000	**£'000**	**£'000**	**£'000**
Total Pressures	7,739	9,300	4,151	21,190
Total Savings Proposals	7,561	7,773	3,831	19,165
"Gap"	**178**	**1,527**	**320**	**2,025**

5.4 Table 7 demonstrates that in 2018/19, 2019/20 and 2020/21, expenditure pressures exceed savings proposals by £178,000, £1,527,000 and £320,000 respectively. Cumulatively there is a funding gap of £2,025,000 over the three years. This is primarily due to the lead in times that are required for a number of savings proposals and the levels of projected funding reductions (particularly in 2018/19 and 2019/20).

5.5 The Local Government Finance Circular includes funding information for 2018/19 only. It remains critical, however, that the Council continues to plan over the medium term to allow sufficient lead in times to deliver the savings that are likely to be necessary in future years. The delivery of the transformation programme and savings options in financial years 2019/20 and 2020/21 require a longer term planning horizon.

<u>2018/19 Pay Award – Scottish Government Announcement</u>

5.6 The Scottish Government Budget for 2018/19 includes a commitment to lifting the public sector pay cap. Specifically the Cabinet Secretary announced a 3% increase for all employees earning up to £30,000, 2% for all earning up to £80,000 and a maximum increase of £1,600 for all earning over £80,000. However the Scottish Government Budget goes on to say that this commitment only applies to the NHS, police officers, fire fighters and teachers. For other Council employees the Budget stresses that "pay and other employment matters are delegated to local authorities". This commitment is in excess of the Council's revised pay award assumption of 2% for all staff groups and will undoubtedly influence national negotiations with individual Trade Unions.

5.7 This is an unfunded additional expenditure pressure facing the Council. If the Scottish Government's commitment was applied to all Council staff then the estimated additional cost would be approximately £1,500,000 in 2018/19 for Perth and Kinross Council. At this stage it is considered prudent to earmark this funding in advance of setting the budget on 15 February 2018 by which time there may be more information available. It is also considered prudent to increase the provisional pay award assumptions in 2019/20 and 2020/21 from 1.5% to 2% at an estimated additional cost of approximately £900,000 in 2019/20 and a further £900,000 in 2020/21.

Options for Managing the Imbalance

5.8 As set out in Table 7, the Council currently has an estimated funding “gap” in its Provisional Revenue Budgets of £178,000 in 2018/19, £1,527,000 in 2019/20 and £320,000 in 2020/21 based on the Local Government Finance Settlement announced on 14 December 2017 and the assumptions in the Medium Term Financial Plan. There is also potential additional cost pressures of £1,500,000 in relation to the 2018/19 pay award; an additional £900,000 in relation to the 2019/20 award and a further £900,000 in relation to the 2020/21 award– see para 5.7 above.

5.9 Options for managing this imbalance over 2018/19, 2019/20 and 2020/21 have been developed and are set out below. These options are intended to demonstrate that it will be possible to achieve a balanced Revenue Budget over the three years under consideration, if the savings proposals currently being developed are accepted by the Council.

2017/18 Pay Award

5.10 Revenue Monitoring Report No. 1, considered by the Strategic Policy and Resources Committee on 13 September 2017, included information on the outcome of the 2017/18 pay negotiations for all non-teaching staff groups (Report No. 17/279 refers). At that time, the SP&R Committee were advised of potential unallocated resources of £122,000. The teachers’ pay award for 2017/18 was agreed om 14 December 2017 and the Council has received additional funding in Finance Circular 5/2017.

2018/19 Pay Allocation – Perth and Kinross Council

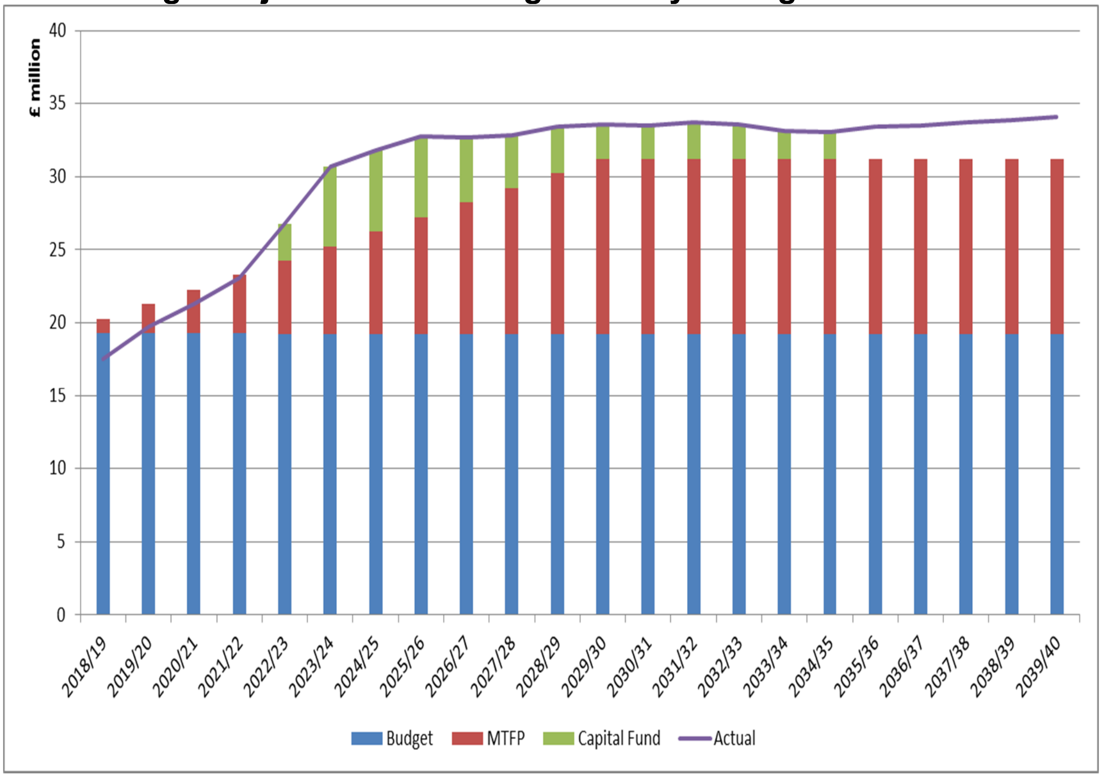
5.11 The 2018/19 Provisional Revenue Budget includes an estimated provision for pay award for all staff groups across the Council. This initial estimate is based on Council wide assumptions of 2% on headline staff costs. As per normal practice, a technical review is undertaken with all Services to examine the detailed implications of the wider assumptions. This review has identified £193,000 that is not required for 2018/19 and is therefore available to contribute to the options for managing the imbalance in Service submissions.

Treasury Management

5.12 The 2018/19 Provisional Revenue Budget includes a £1,000,000 increase in the Loan Charges budget. The Medium Term Financial Plan, approved by Council on 4 October 2017, (Report No. 17/317 refers) also assumes further increases of £1,000,000 in every year of the updated plan. Financial modelling demonstrates that the £1,000,000 increase is actually required in each and every year through to 2029/30 based on existing treasury management policies. This significant increase in the Loan Charges Budget is required to fund the approved Capital Programme.

5.13 The following graph sets out current projections in relation to the Council’s borrowing costs. The graph shows the existing Loan Charges budget (blue column), the £1,000,000 increase in the budget through to 2029/30 (red column) and contributions from the Capital Fund (green column) with a “gap” emerging in 2035/36. The purple line sets out the latest projected borrowing costs of the approved Capital budget.

Loan Charge Projections – Existing Treasury Management Policies



5.14 The Treasury Activity and Compliance Report – 2017/18, Quarter 1, approved by Council on 4 October 2017 (Report No. 17/318 refers), authorised the Head of Finance to review the operation of the Loans Fund with a view to bringing back any proposals to a future meeting of the Council.

5.15 This review has now taken place and has focussed on Asset Lives and the Repayment Basis.

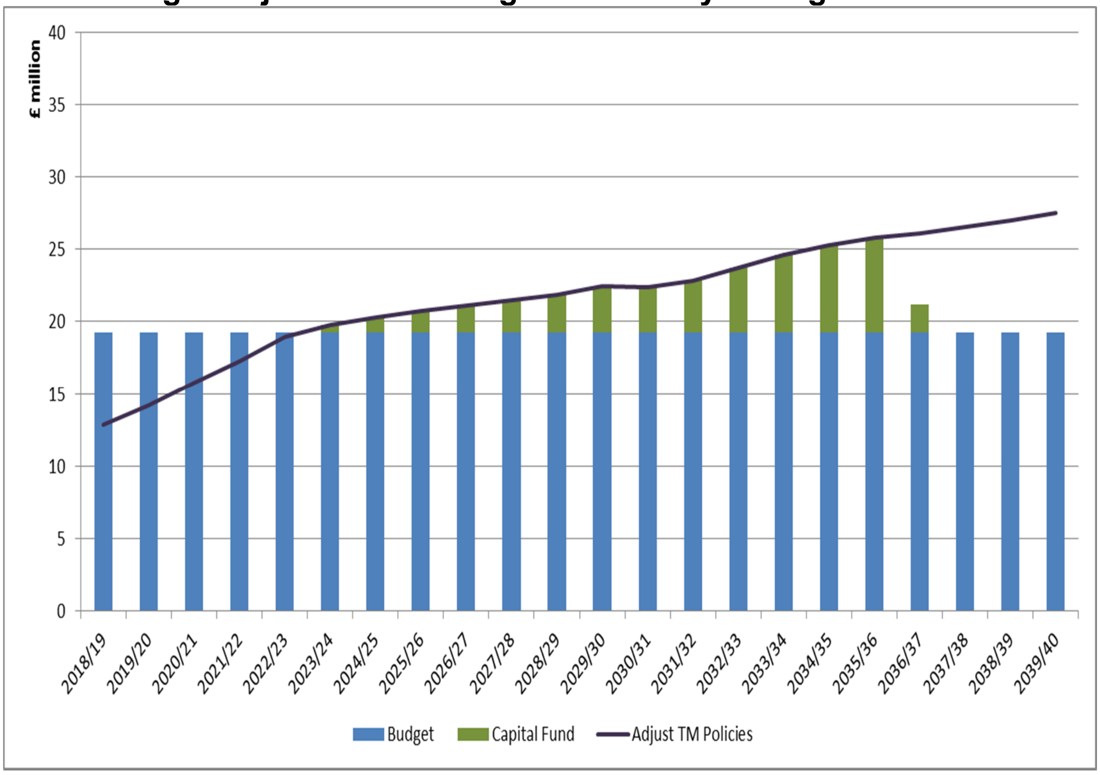
5.16 In terms of Asset Lives, the Council has, historically, written-off/amortised capital expenditure over a period of up to a maximum of 30 years. However this does not reflect the anticipated asset life of much of the Council’s infrastructure and property assets. It is now proposed that the Council review the asset lives assumed in the Loan Fund, to match the actual useful lives, up to a maximum of 50 years.

5.17 This adjustment will ensure that charges reflect the actual use of assets and therefore future charges are levied on an equitable basis. Repayments would also then be consistent with the capital charges reflected in the Council’s Annual Statement of Accounts. This change in policy will bring Perth and Kinross Council into line with other Scottish Local Authorities and the asset lives will now match the borrowing periods.

5.18 In terms of the Repayment Basis, the Council has historically written-off/amortised capital expenditure on an annuity basis, i.e. principal payment lower in earlier years (and interest charges higher), and vice-versa in later years – thus the annual charge in total is broadly constant each year. Scottish Government statutory guidance issued in 2016 required the repayments from 2021/22 to be made on a "prudent basis" but it was for each authority to decide which method to apply. It was therefore decided to change to the straight-line method of loans fund principal repayment, and consequently Loans Fund modelling used this method from 2021/22. This has the effect of increasing the charges in early years, and reducing them in later years. It is now proposed that the annuity method should continue for all debt, i.e. continues with the current practice, on the basis that this change ensures consistency with current practice and also smooths the total charges from year to year, all other things being equal.

5.19 The implications of making the adjustments to treasury management as set out above are shown in the following graph. The graph demonstrates that the Council can support the approved level of expenditure in the Capital Budget without having to increase the Loan Charges budget by an additional £1,000,000 each year from 2018/19 onwards and that the "gap" does not start to emerge until 2036/37. This gives the Council time to start making small adjustments to the Loan Charges budget to manage borrowing costs over the longer term. The graph includes the existing budget (blue column) and contributions from the Capital Fund (green column). The purple line sets out the latest projected borrowing costs of the approved Capital budget, based on the revised methodology.

Loan Charge Projections – Change in Treasury Management Policies



5.20 This proposed adjustment in treasury management practice to negate the requirement for the additional £1,000,000 increase in the Loan Charges budget is predicated on the under spends in this area being transferred to the Capital Fund (as has become the norm in recent years).

<u>Council Tax Income</u>

5.21 The level of Council Tax income received by the Council is based on two main factors, firstly, the number of Band D equivalent properties, and secondly, the actual level of the charge.

5.22 For budgeting purposes the number of properties as at 30 September each year is used for future years planning. The number of Band D properties on 30 September 2017 was 69,864. The mid-range assumption included in the recent update of the Medium Term Financial Plan was of growth in the number of Band D equivalent properties of 600 per year. This would result in tax bases of 70,464, 71,064 and 71,664 in 2018/19, 2019/20 and 2020/21 respectively.

5.23 Furthermore, the 2018/19 Provisional Revenue Budget, approved by Council on 22 February 2017, included an indicative rise of 3% in Council Tax (Report No. 17/47 refers). For financial planning purposes, the Medium Term Financial Plan approved by Council on 4 October 2017 also included indicative Council Tax increases of 3% for 2019/20 and 2020/21 (Report No. 17/317 refers).

5.24 The factors listed above contribute to additional potential Council Tax income of £181,000, £857,000 and £977,000 in 2018/19, 2019/20 and 2020/21 respectively.

5.25 A summary of the options for managing the imbalance in the Provisional Revenue Budgets is set out in Table 8 below.

Table 8: Options for Managing the Imbalance

	2018/19	**2019/20**	**2020/21**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
2017/18 Pay Award – Actual	122			122
2018/19 Pay Award – Assumed	193			193
Loan Charges	1,000	1,000	1,000	3,000
Council Tax	181	857	977	2,015
Funding Options	**1,496**	**1,857**	**1,977**	**5,330**

5.26 When the resources identified in Table 8 above are applied to the Service Revenue Budget submissions in Table 7, in combination with the Settlement implications described at 4.12 and the revised pay implications at para 5.7, there is the potential for Revenue Budget headroom of £2,558,000 in 2018/19, and £757,000 in 2020/21 with a potential budget shortfall of £570,000 in

2019/20 as summarised in Table 9 below. Revenue Budget headroom is the excess of income over expenditure and provides capacity for the Council to reject savings proposals or identify new expenditure pressures.

5.27 It is not intended that Council approve the options identified above at this stage as they will be further developed and updated in line with the final Local Government Finance Settlement for 2018/19 and presented to Council on 15 February 2018 for consideration.

Table 9: Summary Position for 2018/19, 2019/20 and 2020/21 Provisional Revenue Budgets

	2018/19	**2019/20**	**2020/21**	**Total**
	£’000	£’000	£’000	£’000
“Gap” (ref. Table 7)	(178)	(1,527)	(320)	(2,025)
Settlement Implications (ref. para 4.13)	2,740			2,740
Revised Pay Award Assumptions (ref. para 5.7)	(1,500)	(900)	(900)	(3,300)
Funding Options (ref. Table 8)	1,496	1,857	1,977	5,330
Potential Revenue Budget Headroom / (Shortfall)	**2,558**	**(570)**	**757**	**2,745**

5.28 Members are also reminded that there were significant savings included in the Provisional Revenue Budgets for 2018/19 (approved by Council in February 2016 and February 2017). These, together with the proposals identified at Table 7 above are summarised in Table 10 below.

Table 10: Summary of Total Potential Savings (excluding P&K IJB)

	2018/19	**2019/20**	**2020/21**	**Total**
	£’000	**£’000**	**£’000**	**£’000**
Savings Approved February 2016 and 2017	**5,178**			**5,178**
Savings Options February 2018 (see Table 7)	**7,561**	**7,773**	**3,831**	**19,165**
Total Potential Savings	**12,739**	**7,773**	**3,831**	**24,343**

Application of Revenue Budget Headroom

5.29 As outlined in the Medium Term Financial Plan, considered by Council on 4 October 2017 (Report No. 17/317 refers), the potential for cash and real terms **reductions in future funding** beyond financial year 2018/19 is considered to represent a significant risk in the management of the budget over the medium term. However, it is very difficult to estimate the probability of various levels of reduction with any certainty. The magnitude of the reduction will be influenced by many aspects of the wider economic climate and UK and Scottish Government policies. Future levels of public sector funding will be more heavily dependent upon the economy.

5.30 With this in mind and with the potential for a budget shortfall in 2019/20, the Council is advised to consider a **prudent approach** in applying any eventual Revenue Budget Headroom towards recurring expenditure proposals in the Provisional Revenue Budgets. The protection of recurring headroom does, however, allow the Council to **reject** Service savings proposals. In recent years, headroom has also been committed, on a non-recurring basis to, amongst other areas, economic development and employability.

6. NEXT STEPS

6.1 As set out above, the Local Government Finance Circular was received by the Council on 14 December 2017. A preliminary analysis of its contents has been included in this report to Council. However, over the coming weeks it is likely that additional information will be received that will allow further analysis on the impact to Perth and Kinross Council to be undertaken. This will include a review of all existing savings proposals to ensure that they are compatible with the "offer" from the Scottish Government.

6.2 This analysis will also be undertaken in advance of the Scottish Government finalising its budget in January and February 2018. All additional information and any adjustments will be considered and analysed with updates being provided to Budget Review Groups as they become available in advance of the special meeting of Council on 15 February 2018.

7. WORKFORCE MANAGEMENT

7.1 The Council's Voluntary Severance Scheme continues to be available for staff expressing an interest in leaving the Council.

7.2 As at 18 December 2017 the Council had received 66 formal applications for staff to access the Voluntary Severance Scheme.

7.3 Under delegated authority, Service Management Teams and the Executive Officer Team will scrutinise individual applications and associated business cases to ensure that financial savings can be delivered whilst minimising the impact on service delivery or facilitating change or transformation. The outcome of this will be reported to Council in February 2018. The Council's existing approach is consistent with good practice outlined in the Accounts Commission report "Managing Early Departures from the Scottish Public Sector". Members will also receive information on the Voluntary Severance Scheme via the annual reports on Savings Arising from Early Retirement Decisions.

7.4 The exact number of employees who will eventually be affected by the Revenue Budget decisions in February 2018 is not known at this time and will be dependent upon the detailed implementation of the savings proposals and the number of employees in post at any particular time.

7.5 The Council's approach to date has helped to keep compulsory redundancies to a minimum. However, this approach will be kept under review and the Council will continue to rigorously apply its workforce management measures with a view to avoiding or mitigating the impact of compulsory redundancies. These measures include:

- The approved approach to the management of vacancies and scrutiny of all staff costs will be rigorously applied.

- The Council will seek to maximise employment opportunities for existing employees through preparing employees for change, equipping them with the skills and confidence to consider new roles, retraining and supporting redeployment into alternative posts throughout the Council.

- Existing levels of staff turnover and the application of workforce management measures are anticipated to create capacity for some redeployment within the Council. However, as the workforce reduces in size, opportunities for redeployment may become more limited.

- The promotion of the Voluntary Severance Scheme as set out above.

7.6 As has been the case in previous years, the trade unions have met with the Chief Executive and senior officers for a briefing on the financial situation and the Council's approach. These discussions encompass the workforce implications from revenue budget decisions taken in 2016 and 2017 and which have yet to be implemented. There are specific obligations on employers regarding redundancy situations, including collective consultation with the trade unions on how the Council may achieve the required reduction in the workforce, the rationale behind the proposals, and the steps it is taking to mitigate the consequences of redundancy on its employees. The Council will continue to monitor the potential workforce impact and ensure its legal obligations are met. This will include working closely with the trade unions in order to achieve these objectives and to promote a shared understanding of the extent of the financial challenges and the steps being taken to lead our people through change and sustain a workforce equipped to deliver the best possible services within available resources to its communities.

7.7 The Council will continue to work closely with the trade unions in order to achieve these objectives and to promote a shared understanding of the extent of the financial challenges and the steps being taken to protect jobs and sustain a workforce equipped to deliver the best possible services within available resources to its communities.

8. CONCLUSION AND RECOMMENDATIONS

8.1. In common with all Scottish local authorities and the wider public sector, Perth and Kinross Council continues to anticipate a period of continued financial constraint and growing demand for Council Services. The Council continues to take proactive measures to enable it to address this challenge from a robust financial position and continues to develop and strengthen its arrangements for financial and resource management.

8.2. It is recommended that the Council notes the contents of this report.

Author(s)

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Approved

Name	Designation	Date
Stewart Mackenzie	Head of Finance	18 December 2017
Jim Valentine	Depute Chief Executive and Chief Operating Officer	

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. <u>Corporate Plan</u>

1.1.1. The Council's Corporate Plan 2013 – 2018 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. <u>Financial</u>

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, Senior Depute Chief Executive, Depute Chief Executive and all Executive Directors 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 – Correspondence from Cabinet Secretary for Finance and Constitution to COSLA President – 14 December 2017