PERTH & KINROSS COUNCIL

30 September 2020

MEDIUM TERM FINANCIAL PLAN 2021 - 2027

Report by Head of Finance (Report No. 20/174)

PURPOSE OF REPORT

This report updates the Medium-Term Financial Plan (MTFP) approved by Council on 3 October 2018 (Report No. 18/326 refers). The report summarises the implications of the latest projections on future Council General Fund Revenue Budgets over the medium term, provides an update on the Council's Capital Budget, Housing Revenue Account, Reserves position and other Funds and provides an update on how the Council will develop the Revenue and Capital Budget over the short to medium term.

1. BACKGROUND

1.1. In December 2019, the Council approved an update report on the implementation of the Perth and Kinross Offer (Report No. 19/361 refers). The Offer established a new direction for the Council, designed to transform the way it works with its communities, citizens, partners, businesses, employees and other stakeholders, to ensure that public services can be co-created and delivered sustainably to achieve better outcomes for the people of Perth and Kinross.

1.2. The report acknowledged that this transformation would require a change in the traditional relationship between public services, citizens, businesses, investors and visitors. It also outlined the need to move away from the relationship of provider and consumer to work collaboratively, agreeing joint priorities and designing the future we want together. The report also highlighted the requirement to align budgets with our ambitions, using our resources to maximum impact and ensuring communities have services where and when they need them. It is a radical approach and one, it was agreed, required the commitment, enthusiasm and a "think yes" approach from everyone.

1.3. Within the context of the Offer this report sets out forecasts of the Council's anticipated cost pressures and changes to funding over the medium term. It also outlines the resultant implications for financial planning during a period when it is widely expected that there will continue to be significant constraints upon public sector expenditure, high levels of uncertainty and increasing demand for Council Services.

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

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

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

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

	Report Reference
Medium Term Financial Plan 2019 – 2024	18/326
Housing Revenue Account Strategic Financial Plan	20/29
Revenue Budget 2020/21, 2021/22 & 2022/23	20/57
Composite Capital Budget 2020 – 2029	20/58
Reserves Strategy	20/59
Unaudited Annual Accounts 2019/20	20/162

1.8. In addition, the Treasury & Investment Strategy report will be submitted to Council on 7 October 2020.

1.9. The Council's draft Audited 2019/20 Annual Accounts and the draft Annual Audit Report to the Members of Perth & Kinross Council and the Controller of Audit for the Year Ended 31 March 2020 were considered by the Audit Committee on 16 September 2020 (Report No. 20/162 refers). Shortly thereafter, the Council's external auditors, KPMG issued their unqualified audit certificate and final audit report. KPMG state that "the approach to financial management, including budget setting and monitoring is appropriate with clear supporting governance arrangements. The Council demonstrates good practice, in a local authority context, through regular financial reporting".

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

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

1.12. There continues to be significant uncertainty around the full impact of the United Kingdom's departure from the European Union and the full impact of the Covid-19 pandemic is still to emerge. The wider implications of both events on the Council are still evolving, particularly in relation to the economy, communities and the resultant impact on public sector funding.

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

1.14. Many of the assumptions set out in this report will change in response to external factors including the ongoing impact of the negotiations on the United Kingdom's withdrawal from membership of the European Union, future Spending Reviews and the full impact of Covid -19.

1.15. Ordinarily, the Council's Medium-Term Financial Plan (MTFP) is subject to an annual update with the latest revision being approved by Council on 3 October 2018 (Report No. 18/326 refers).

1.16. The update scheduled for Autumn 2019 was delayed due to national uncertainties surrounding Brexit (October 2019) and the UK Parliamentary election (December 2019).

1.17. The Council's financial management and budgetary process is also developing to support the Offer. The first step in this process was a change in the presentation of the Council's 2020/21 Revenue budget and resultant budget decisions to more closely align with the Council's Strategic objectives. This is part of a staged move to developing an Outcome Based approach to the Council's budget where the relationship between how the Council allocates its resources and the outcomes realised through this allocation are more evident.

1.18. The modernisation of Council Services will be supported through the Council's financial planning, better use of data and data analysis and a more entrepreneurial and commercial approach. An increasing focus on the Council's digital capacity and continuing investment in the development of an agile workforce will be crucial in ensuring that future service delivery remains sustainable. The introduction and development of carbon budgeting will also be progressed to support the Council's response to the climate emergency.

2. ECONOMIC AND FISCAL OUTLOOK

2.1 In considering an appropriate approach to preparing the Council's medium-term Revenue and Capital Budgets, it is necessary to consider the outlook for the United Kingdom and Scotland's public finances. Much of the commentary below is derived from the sources listed in 1.9 above.

2.2 Since the last update of the Medium-Term Financial Plan (MTFP) there have been several developments affecting prospects for the UK economy and public finances.

2.3 The spread of Covid-19 and the actions to contain it have had a dramatic impact on the United Kingdom and most countries around the world. The outlook for the United Kingdom and global economies remains uncertain. It will depend on the evolution of the pandemic, measures taken to protect public health and how governments, households and businesses respond to these factors.

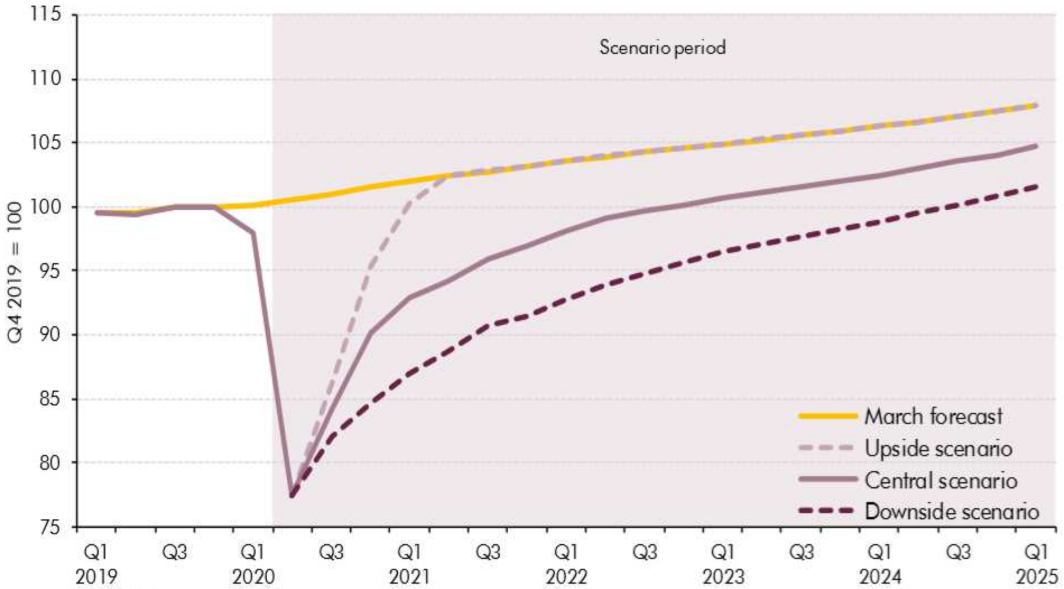
2.4 The coronavirus outbreak and the health measures put in place to address it have resulted in a very sharp economic contraction, leaving the UK on track to record its largest annual fall in Gross Domestic Product in 300 years (source: Office of Budget Responsibility). But the pace of the recovery and the extent of any long-term economic 'scarring' are both still highly uncertain. They will depend on: the course of the Covid-19 pandemic and the development of effective vaccines and treatments; the speed and consistency with which the Government can lift public health restrictions; the response of individuals and businesses as it does so; and the effectiveness of policy measures to protect viable businesses, foster new opportunities and sustain employment.

2.5 The Office of Budget Responsibility (OBR) has developed three scenarios to base their assessment on public finances and these are set out in the following graph.

2.6 In the upside scenario, activity rebounds quickly, recovering its pre-virus peak by the first quarter of 2021, and there is no enduring economic scarring.

2.7 In the central scenario, output recovers more slowly, regaining its pre-virus peak by the end of 2022. Cumulative business investment is 6 per cent lower than in the March forecast over five years, while unemployment and business failures remain elevated. Real Gross Domestic Product (GDP) is 3 per cent lower in the first quarter of 2025 than in the March forecast.

2.8 In the downside scenario, output recovers even more slowly, returning to its pre-virus peak only in the third quarter of 2024. This results in a more significant loss of business investment, more business failures and persistently high unemployment as the economy undergoes significant restructuring. Real GDP is 6 per cent lower in the first quarter of 2025 under this scenario than in the March forecast.



Source: ONS, OBR

2.9 The OBR analysis also highlights that the pandemic may create several additional sources of pressure on public spending:

- Having experienced a public health crisis on this scale, there is likely to be pressure to devote a higher share of GDP to the NHS and wider care services, including adult social care, where proposals for reform have been pushed back repeatedly.

- Temporary measures to support individuals and businesses through the crisis are expected to cost £142 billion in 2020/21 in their central scenario. History suggests that some of these temporary support measures could become permanent.

- There are many other individual risks either created or exacerbated by the crisis. These range from the pressures on local authorities' finances to the risks posed by the historical link between high unemployment and future chronic health conditions.

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

3. SCOTTISH BUDGET

3.1 There is extremely limited information on how the implications of both the UK and Scottish Government's response to Covid-19 will impact upon future funding for local government. The direction of travel for the Scottish Budget is extremely uncertain. The major uncertainty for the Scottish Budget will be what continues to happen at a UK level.

3.2 In late September, there are two significant publications which may impact on the Scottish Budget. The Chancellor's Autumn budget review statement which will set out where additional spending is being allocated and the final income tax reconciliation figure for 2018/19 will be published which may have a further impact on future years.

3.3 If, as expected, the reconciliation is negative, this will mean less money will be available for future Scottish budgets. The Scottish Government may be able to manage some of this through borrowing or use of the Scotland Reserve. However, the borrowing powers available to the Scottish Government and the rules about withdrawing funds from the Scotland Reserve mean that these will not cover all the expected negative reconciliations. The Scottish Government may have to adjust its spending plans or increase taxes to address this.

3.4 At this time, it is still assumed that the UK Government will set its budget in Autumn which will allow the Scottish Government to set its budget before Christmas.

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

3.6 The Programme for Government, which was announced on 1 September, also sets out a “challenging fiscal position that the Scottish Government faces in light of the pandemic” and the UK’s exit from the European Union. The Programme for Government also sets out the Scottish Government’s policy and legislative priorities which in turn will impact on the MTFP.

3.7 Overall, the future funding outlook for local government remains highly uncertain. The outlook for the Scottish Government’s block grant, together with the Scottish Government’s stated spending commitments and tax plans as well as the impact of Covid-19, indicates that local government should expect reductions in both real terms and cash reductions in its funding over the short to medium term.

4. ANALYSIS OF MEDIUM TERM – PERTH AND KINROSS COUNCIL

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

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

4.3 The MTFP is, however, an evolving model, which will require refinement and updating on a regular basis as new information becomes available. The following section of this report focusses on the key areas to be considered in developing future years' budget strategies and sets out the assumptions made in respect of each area. The financial impact of these assumptions is summarised in the table at paragraph 4.43.

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

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

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

Employee Pay Inflation

4.6 The recent three year pay award comes to an end in the current year therefore the Council has no certainty on future year settlements. The Provisional Revenue Budgets for 2021/22 and 2022/23, approved in March 2020, assume an increase of 3%. Historic pay awards are set out in the following table

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

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

4.7 Therefore, looking beyond the current year, there are several scenarios which could emerge for pay awards ranging from increases below or in line with recent rises to awards more than this level. This could include differential pay awards for different types of staff groups. For the purposes of this update of the MTFP, the mid-range scenario assumes an increase of 3% in each year with 2% and 4% for the optimistic and pessimistic scenarios respectively.

4.8 There is a risk that the assumptions set out in this MTFP and in Appendix B underestimate future pay inflation, but conversely, given the pressure on future public spending, the projected increases may be in excess of final settlements. A 1% movement on pay award assumptions equates to c£1.85 million for all staff groups.

Increments

4.9 Local authority pay is negotiated nationally and applies to all employees. The vast majority of local government employees (Single Status and Teaching staff) are placed on nationally agreed grades which contain a number of scale points (under contractual arrangements). Each year employees are incrementally moved up to the next scale point on their grade until the maximum point is reached.

4.10 In terms of the cost of incremental progression, for the purposes of this update, £500,000 per annum has been assumed for all financial years under all three scenarios. This figure is consistent with the cost of incremental progression in previous years.

Employer's Superannuation Contributions

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

4.12 The most recent triennial review of Tayside Pension Fund was carried out as at 31 March 2017 with the recommendations from this review determining the level of employer contributions from 1 April 2018 to 31 March 2021. The Council was formally advised that there would be no change to the LGPS rates in January 2018 for that period which remained at 17%.

4.13 This update of the MTFP will also cover the triennial reviews as at 31 March 2020 and 31 March 2023. For the purposes of this update, the following assumptions have been made in relation to increases in the employer's contribution rates. A 1% increase represents a cost pressure of around £917,000 per annum.

	2021/22	2024/25
Optimistic	0%	0%
Mid-range	+1%	+1%
Pessimistic	+2%	+2%

4.14 The teacher's scheme is administered separately by the Scottish Public Pensions Agency (SPPA) which is an Executive Agency of the Scottish Government. The employer's contributions for this scheme are set by the UK Treasury. There was a significant increase in employers' contributions (from 17.2% to 23%) that took effect from 1 September 2019.

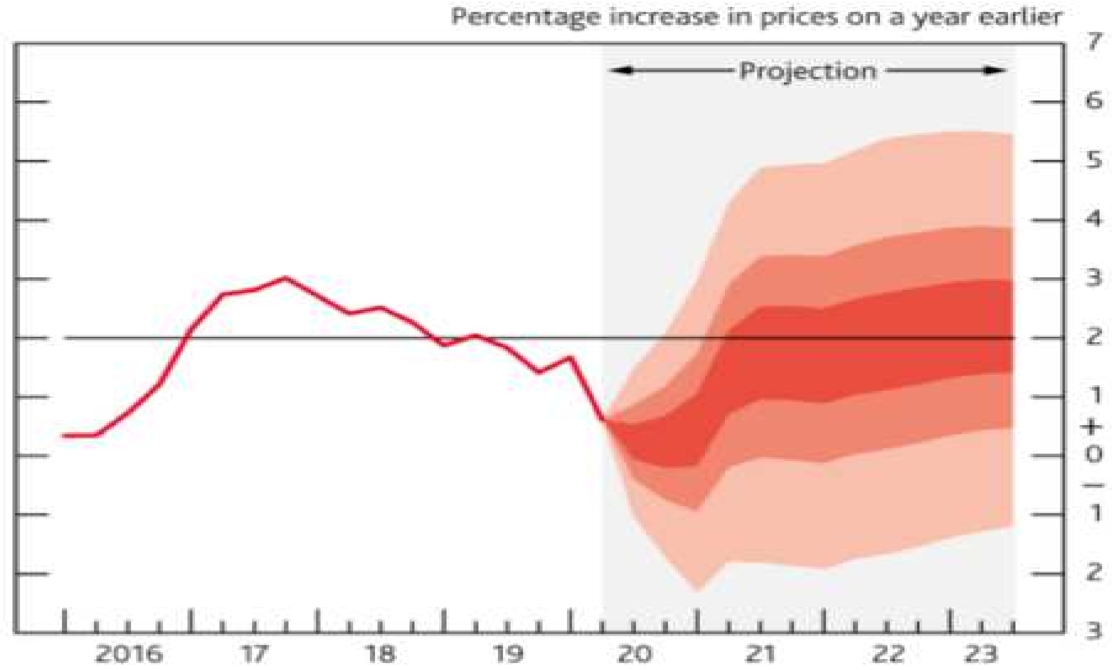
4.15 For the purposes of this update, the following assumptions have been made in relation to increases in the employer's contribution rates. A 1% increase represents a cost pressure of around £857,000 per annum.

	2022/23	2025/26
Optimistic	0%	0%
Mid-range	+1%	+1%
Pessimistic	+2%	+2%

Inflation

4.16 The most recent inflation report published by the Bank of England in August 2020 included the following graphic in relation to its forecasts through to the end of 2022. The graph sets out the Bank of England's projections for inflation over the next 3 to 4 years with the darkest segment illustrating the range where the highest degree of confidence exists.

Bank of England CPI Inflation Projection (August 2020)



4.17 Based on the graph above, the Bank of England have a high degree of confidence that inflation will range between around 1.6% and 2.2% between 2021 and 2023 with marginal increases each year.

4.18 Under the mid-range scenario, it is assumed that general inflation for 2021/22 is 1.6% rising to 2.0% by 2026/27. Under the optimistic and pessimistic scenarios, it is assumed that inflation rates rise from 1.1% and 2.1% to 1.6% and 2.6% respectively.

4.19 The Bank of England are currently projecting that, with all the economic uncertainty, Consumer Price Inflation is projected to fall below the Monetary Policy Committee's (MPC) target of 2%.

4.20 However, there are also a number of areas of Council activity where annual cost increases may be significantly in excess of the level of general inflation. These include energy and fuel where increases of between 5% and 9% have been assumed in the three planning scenarios.

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

Demographics

4.22 The MTFP attempts to reflect the potential additional costs to the Council of demographic changes within the area. This includes reflecting anticipated increases in population particularly amongst the over 65s and in the number of both young and old people with extremely complex care needs.

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

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

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

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

School Estate

4.27 Over the period of this update of the Medium-Term Financial Plan, there will be further significant investment in the school estate which is reflected in the Composite Capital Budget 2019/20 to 2028/29. In relation to the impact on the Revenue Budget, the most significant development is the provision of a Revenue funded new secondary school at Bertha Park. The anticipated additional recurring running costs of the school estate facilities are included in this update of the MTFP.

Cultural Estate (Perth Museum and Art Gallery / Perth City Hall / Storage Facilities)

4.28 The Council has approved the development of a major visual arts space and cultural attraction in the City Centre (Report No. 16/278 refers). It is anticipated that this attraction will open in 2023/24, subject to the decision of the Council later in the Agenda for this meeting of the Council. The 2017/18 Revenue Budget commenced provision for this new expenditure and for the purposes of the MTFP, it is assumed that the running costs will be phased in following the opening of the new facilities.

Response to Covid-19

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

Funding and Income

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

Scottish Government Funding

4.31 Previously, the MTFP has made separate assumptions in relation to General Revenue Grant (GRG) and Non-Domestic Rates Income (NDRI). Over the last few years, this income has been aggregated and any reductions have been based on a total package of funding. On that basis, these projections are based on total income of £255.5 million (which is the total of GRG and NDRI in 2020/21).

4.32 At this time, there is also no clarity on how many years of funding will be announced by the Scottish Government in December 2020.

4.33 There is currently no information available on future levels of funding for Scottish local authorities. In the past, analysis provided by organisations such as the Fraser of Allander institute or the Scottish Government itself has been used to inform future years funding levels.

4.34 The following table sets out the financial implications, in cash terms, of the mid-range assumptions on the Council's future funding from the Scottish Government.

2021/22	**2022/23**	**2023/24**	**2024/25**	**2025/26**	**2026/27**
-2%	-2%	-1%	0%	+1%	+1%
£(5.110)	£(5.110)m	£(2.453)m	£0m	£2.428m	£2.428m

4.35 The approved 2021/22 and 2022/23 Provisional Revenue Budgets include a projected cash flat settlement. In view of the impact of Covid 19 on the Scottish economy and the likely prioritisation of public expenditure towards the health and social care sectors, the assumptions on future Scottish Government grant funding have been revised downwards over the medium term from those contained within the Provisional Revenue Budget. It is stressed that these assumptions are for financial planning purposes only and will be updated upon confirmation of the Local Government Settlement. These funding reductions are factored into the amended corporate savings target set out at paragraph 5.13.

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

Demographics (Impact on Funding)

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

Council Tax Income

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

4.39 Second is the capacity for the Council to increase the level of Council Tax charges. The 2021/22 and 2022/23 Provisional Revenue Budgets already include an increase in the level of Council Tax of 4.28%. It is assumed that this level will still be in line with the Scottish Government's expectations as part of the 2021/22 local government funding settlement arrangement. The working assumption for the purposes of preparing the MTFP is that Council Tax will increase by 4.28% in each year of the Plan. The actual level of Council Tax, however, will be determined by Council each year in approving the final Revenue Budgets.

Fees and Charges

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

Utilisation of Reserves

4.41 The Council could consider the utilisation of Reserves on a non-recurring basis in order to manage budget pressures in the short term. However, Reserves are only available on a one-off, non-recurring basis. Any proposals to utilise Reserves to support recurring expenditure will require either an exit strategy or further savings to be identified. The application of Reserves will require to be considered in the context of the recommendations set out in the Reserves Strategy report to Council in February 2021.

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

Medium Term Financial Plan – Estimated Savings

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

	21/22	22/23	23/24	24/25	25/26	26/27	Total
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Optimistic	4,900	6,009	396	(5,247)	(8,079)	(2,335)	(4,357)
Mid- Range	16,405	17,732	11,345	6,685	2,296	5,630	60,094
Pessimistic	28,945	30,344	23,457	19,195	15,988	18,235	136,165

4.44 The table above sets out scenarios with cumulative potential savings targets up to c£136 million. While the level of savings identified will undoubtedly change as work progresses on the Revenue Budget, this provides an indication of the scale of the financial challenge potentially facing the Council over the six-year period 2021/22 to 2026/27. These scenarios include the corporate savings target identified in this report as well as expenditure pressures that will be brought forward as part of the detailed consideration of future years' Revenue Budgets.

4.45 There are significant variations between the scenarios due to the sensitivities around the financial modelling. For example, over the six years there is over £27 million between the potential pay inflation costs by adjusting the assumption by just 1%. Non staff inflation is impacted by around £19.5 million and projected levels of Scottish Government funding by almost £30 million.

4.46 It is important to note that the potential savings identified in the above table are in addition to the tens of millions of savings that have been identified in the previous financial years.

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

5. PROPOSED APPROACH FOR FINANCIAL YEARS 2021/22 AND 2022/23

5.1 The Council has previously agreed Provisional Revenue Budgets for financial years 2021/22 and 2022/23 which were approved on 6 March 2020 (Report No. 20/57 refers).

5.2 The 2021/22 and 2022/23 Provisional Revenue Budgets included approved expenditure pressures and savings. Expenditure pressures include contributions to corporate savings targets (for example pay awards) and increases in Service costs (for example increased demand for Council Services and inflation).

5.3 As set out earlier in this report, there is significant uncertainty beyond financial year 2020/21. This is not any different from previous financial years whereby the Council receives information on future funding levels in line with the Scottish Government's budget timetable. At this point, it is assumed that the Council will only receive detailed funding information for 2021/22.

5.4 However, the Covid-19 pandemic has added a further level of complexity to financial planning. Unlike in previous updates of the Medium-Term Financial Plan, there is currently no published information on future levels of funding and how the pandemic will have impacted on local, national and international economies. Furthermore, the Council will have to ensure that, going forward, budgeted expenditure aligns with the Perth and Kinross Offer and the Council's approved strategic priorities. Given this level of uncertainty it is proposed to focus attention on the 2021/22 Revenue Budget. The 2022/23 Provisional Revenue Budget remains in place and officers will continue to work towards its delivery but no immediate work will be undertaken to update it.

5.5 Whilst it would be desirable to continue with the development of Revenue Budgets on a three-year planning horizon, the level of uncertainty is unprecedented. This position will be kept under review with a view to reinstating detailed multi-year budgets for the 2022/23 Revenue Budget process.

5.6 **ACTION: The Council is asked to approve the setting of the 2021/22 Final Revenue Budget in February 2021.**

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

5.8 The Executive Officer Team will be requested to contain all revised or new un-funded expenditure pressures, including general inflation, within existing base budgets, through identifying compensating savings, or using Revenue Budget flexibility to manage resources between financial years under the terms of the Council's approved scheme.

5.9 The 2021/22 Provisional Revenue Budget that was approved on 6 March 2020 (Report No. 20/57 refers) was not in balance by £3.006 million. All things being equal savings to this amount would have to be delivered in order to deliver a balanced 2021/22 Final Revenue Budget.

5.10 There are three issues identified in section four above that are also likely to impact on delivery of the 2021/22 Final Revenue Budget. There is a risk that the employer's superannuation rate payable to Tayside Pension Fund will increase which could cost c£1 million. In addition, there is a risk that the Council will suffer cash reductions in funding in 2021/22. For financial planning purposes, it is assumed that this could be around 2% or £5.110million. There is also the gap of £3.006 million included in the 2021/22 Provisional Revenue Budget.

5.11 It is proposed that these issues are amalgamated to form an additional corporate savings target in 2021/22 of £9.116 million and that the Executive Officer Team identify additional savings / funding solutions in line with the Council's strategic objectives as follows:

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

5.12 Revenue Budgets will be also be prepared by strategic objective to ensure consistency with the Council's Corporate Plan.

5.13 **ACTION: The Council is asked to approve the proposal for the Executive Officer Team to identify additional savings / funding solutions towards a corporate savings target of £9.116 million.**

5.14 In addition, there are likely to be costs identified in relation to Covid-19 (recovery & renewal, economic regeneration, welfare etc). It is anticipated that these will be considered in the detailed Revenue Budget submissions that the Council will consider in February 2021

Perth & Kinross Integration Joint Board

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

5.16 At this time, it is anticipated the IJB will notify the Council (and NHS Tayside) of the funding required for their Strategic Delivery Plan. The level of funding requested will then be assessed against the other financial pressures (reduced grant funding and increased demand pressures) arriving at a recommendation to Council on funding for the IJB.

6. COMPOSITE CAPITAL BUDGET

6.1 On 6 March 2020, the Council approved a Capital Update Report 2020/21 to 2029/30 (Report Number 20/58 refers). This update included recommendations to develop an Investment Blueprint, adopt a gateway review process and bring back proposals for PH20 and Blairgowrie Recreation to a meeting in June 2020.

6.2 The Council's response to the Covid-19 pandemic has meant that there have been delays in progressing these as many of the officers involved in this work were retasked.

6.3 On the agenda for this meeting of the Council is an update on the Investment Blueprint and Capital Budget including:

- Cross Tay Link Road
- Perth City Hall
- Blairgowrie Recreation Centre
- Perth High School Replacement
- North Muirton / Balhousie Primary School

6.4 It is anticipated that there will be a review of the Capital Budget in advance of the special meeting of the Council in February / March 2021. This will be underpinned by the development of an Investment Blueprint which will support the development of a longer-term investment strategy that aligns with the aspirations of the Offer and which will replace the existing capital programme.

7. RESERVES UPDATE

7.1 The Council's Reserves Strategy is subject to an annual review to ensure that recommendations on the use of Reserves take due cognisance of the Council's anticipated cash flows and make reasonable provision, within available resources, for both predicted liabilities and unforeseen events. The latest update of the Reserves Strategy was approved by the Council on 6 March 2020 (Report No. 20/59 refers).

7.2 The Reserves projections have been updated to reflect the position in the Audited Annual Accounts for 2019/20 which were considered by the Audit Committee on 16 September (Report No. 20/59 refers) and is a separate item on the agenda for the meeting of the Council on 7 October. Further information on Reserves is set out in Appendix C to this report.

7.3 The Audited Annual Accounts for 2019/20 show that the Council had a General Fund Balance (excluding the Housing Revenue Account) of £49.296

million as at 31 March 2020 with £36.375 million earmarked for known commitments. This results in uncommitted General Fund Reserves of £12.921 million at 31 March 2020 which is in line with the Reserves Strategy approved by Council in March 2020 (Report No. 20/59 refers).

7.4 The Council's Useable Reserves as at 31 March 2020 are summarised as follows:

Total Useable Reserve as at 31 March 2020	£89.743m
Less:	
General Fund Earmarked Reserves (see Appendix C)	£36.375m
Housing Revenue Account *These balances are earmarked for use on Housing Revenue Account activities only.*	£1.000m
Capital Fund *The Fund can be only used to meet the principal element of loan repayments or to defray capital expenditure*	£31.640m
Insurance Fund *The fund is used to meet the future liabilities of the Council self-insuring for certain categories of insurance.*	£2.970m
Capital Receipts Reserve *This Reserve holds proceeds from capital receipts for future investment.*	£2.648m
Capital Grants Unapplied *The Capital Grants Unapplied Reserve holds capital grants which have been received by the Council for which the capital works have not yet been undertaken or completed.*	£2.189m
General Fund Uncommitted Balance at 31 March 2020	**£12.921m**

7.5 The level of uncommitted Reserves of £12,921,000 represents around 3.7% of the 2020/21 Net Revenue Budget.

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

Winter Maintenance Final Over / (Under) Spends	
2019/20	Over spend of £648,000
2018/19	Under spend of £143,000
2017/18	Over spend of £1,300,000
2016/17	Under spend of £540,000
2015/16	Over spend of £59,000
2014/15	Over spend of £260,000
2013/14	Under spend of £531,000
2012/13	Over spend of £1,411,000
2011/12	Over spend of £785,000
2010/11	Over spend of £3,160,000
2009/10	Over spend of £2,044,000

7.7 It is proposed that the updated Reserves Strategy is presented to the Council in February 2021. This update will include further options on how Reserves might be utilised over the medium term.

7.8 ACTION: The Council is asked to approve the submission of the updated Reserves Strategy to the Council in February 2021.

8. HOUSING REVENUE ACCOUNT

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

8.2 It is anticipated that the Housing and Communities Committee determine the Housing Revenue Account (HRA) Budget and rent levels for 2021/22 at its meeting in January 2021. It is also anticipated that the five-year Housing Investment Programme will be submitted for consideration by the Committee based on the requirements of the Housing Delivery Plan.

8.3 ACTION: The Council is asked to endorse the proposals to determine the Housing Revenue Account (HRA) Budget and rent levels for 2021/22 and the five-year Housing Investment Programme at the meeting of the Housing and Communities Committee in January 2021.

9. WORKFORCE PLANNING MEASURES

9.1 The Council's Corporate Workforce Plan 2018-21 recognises the pace of change is increasing and the world of work is evolving as public services continue to transform and people's expectations from both an employee and customer perspective change too. Throughout the response to the COVID-19 pandemic, Council staff have demonstrated in abundance their skills, dedication and passion to ensure delivery of essential services to the people, businesses and communities of Perth and Kinross. The Corporate Workforce Plan is being reviewed so that it supports the development and delivery of the Perth and Kinross Offer, using the experiences and learning from our response to the pandemic and focussing on multi-disciplinary teams, integrated working and more locality-based decision-making. Investment in building the capability and capacity in the workforce through learning and development opportunities, boosting productivity, encouraging innovation and creativity, promoting fair work, embracing digital technology and promoting wellbeing and resilience are key to our future approach.

9.2 A range of enabling projects are already underway to prepare employees and the organisation for the future – digital skills, mobile/remote working, positive career choices, job families, building resilience and promoting positive mental health and wellbeing, along with the Organisational Development (OD) Plan which will be set out at the Council meeting on 7 October 2020. Leadership development, coaching skills and a collaborative leadership development programme with neighbouring councils are all in place. The Council continues to invest in training and development opportunities for young people via its Modern Apprenticeship and Graduate Programmes. Together these initiatives help develop and nurture talent to meet future requirements and are even more important at a time when employment opportunities have reduced because of the impact of COVID-19.

9.3 Within the 2019/20 Audited Annual Accounts, there is an earmarked Reserve of £6.278 million to fund Transformation (including Workforce Management and Organisational Development) which has, in the main, already been committed to a number of projects/initiatives. This sum is also available, in part, to help reshape and upskill our workforce to ensure we have the skills and capacity to deliver agreed priorities.

10. ASSET MANAGEMENT

10.1 In March 2020, the Council approved the development of a long-term Investment Blueprint supported by the adoption of a gateway review approach to the management of Capital projects (Report 20/58 refers). The development of a long-term planning horizon for Capital investment - together with a medium-term delivery plan - is intended to ensure that the Council's investment decisions are responsive to key strategic drivers such as economic; social; environmental and technological change.

10.2 The adoption of a gateway review approach is recognised as best practice by both the UK and Scottish Governments and is part of the arrangements for projects funded through the Tay Cities Deal. The robust challenge of projects at key gateway stages will strengthen project management and ensure projects are tested against the outcomes contained within their business case. Part of these arrangements will be the development of a whole life costing approach to more clearly set out the financial commitments the Council is making through its asset management.

11. RISK ASSESSMENT

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

<u>Local Government Funding Beyond 2020/21</u>

11.2 It is anticipated that the Council will receive a one year financial settlement for 2021/22 in December 2020.

11.3 Future funding settlements will be influenced by many aspects of the wider economic climate and UK and Scottish Government policies. The final outcome of the European Union exit negotiations may also potentially result in significant additional uncertainty over future levels of income. The UK and Scottish Government's response to Covid-19 may also have an impact on future funding levels.

11.4 The potential for cash and real terms reductions in funding beyond financial year 2020/21 is considered to represent a significant risk in the management of the budget over the medium term.

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

11.6 At this time, there is also no information on any conditions which may be attached to the local government finance settlement in 2021/22 and beyond.

11.7 There has been speculation that the Barnett formula could be revisited in the medium term. This could have a further significant impact on the level of funding available to the Scottish Government and, by extension, the public sector in Scotland.

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

<u>Corporate Transformation Projects</u>

11.9 There are a number of corporate transformation projects (including procurement, PKC MyAccount and corporate property asset management) from which savings have been assumed in the Provisional Revenue Budgets. These have been regularly reported to the Strategic Policy & Resources

Committee. There is currently a degree of uncertainty over the ability to deliver these savings in line with the original timescale and these projects will be subject to review as part of the Revenue Budget process.

Service Transformation Projects

11.10 All Services include 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

11.11 The MTFP assumes levels of growth in the number of Band D equivalent properties. These assumptions are based on levels of growth currently being experienced. If these levels of growth in the number of properties do not continue there is a risk to the budgeted level of Council Tax income. In the current year there has been a noticeable reduction as a result of Covid-19.

Perth & Kinross Integration Joint Board

11.12 The Council has no information on future levels of national funding which may be channelled through the National Health Service to support expenditure on health and social care. It is worth noting that Health and Social Care has received significant funding over the last three years. If this funding is not continued this may present a significant risk to future service delivery. In addition, there is no information on whether this funding will grow in line with the anticipated increases in costs including demand pressures and the Living Wage. Furthermore, if the funding arrangements for Integrated Joint Boards change then this may introduce further uncertainty and risk into the Council's financial planning.

11.13 Perth & Kinross Integration Joint Board has also over spent in both 2018/19 and 2019/20 which has required to be funded by the Council.

Social Care Final Over / (Under) Spends	
2019/20	Over spend of £1,290,000
2018/19	Over spend of £759,000

Implementation of Welfare Reform

11.14 It is not possible to fully estimate the potential total financial impact on Council Services and budgets of Welfare Reform with any accuracy. Information from other Councils, where Universal Credit has been rolled out more widely, is that there have been reductions in Council Tax and Council Housing Rent income levels. The impact might be further exacerbated by high levels of unemployment locally.

11.15 The initial roll out of Universal Credit "Live" for Perth and Kinross took place during April 2016 which impacted on a relatively low number of claimants. Full Service Universal Credit (FSUC) roll out commenced on 13 June 2018 which extends the Universal Credit to all types of working age claimants. It is anticipated that the numbers of FSUC cases will continue to increase over the coming years and the impact on claimants and Council income levels will continue to be monitored. The Housing and Communities Committee received an update on this in January 2020 (Report No. 20/30 refers).

11.16 The Department of Work & Pensions will move those who remain on legacy benefits over to FSUC through a process of managed migration with the latest timescale for this being between 2019 and 2023.

Future Years' Pay Awards

11.17 There is a risk that the outcome of national pay negotiations beyond 2020/21 differs from the Council's pay assumptions which could have a significant financial impact upon the Council. The negotiations on 2021/22 pay awards have yet to start.

11.18 The 2021/22 and 2022/23 Provisional Revenue Budgets contain pay award assumptions of 3% for all staff groups.

Barclay Review of Non-Domestic Rates in Scotland

11.19 The previous Medium Tem Financial Plan advised that there was a risk that the Barclay Review of Non-Domestic Rates in Scotland may have a significant impact on Council resources going forward in that existing Arm's Length External Organisation rates relief might be removed from Scottish Government funding. Whilst this issue has not materialised, there is a risk that the recommendations may impact on ALEOs in the future e.g. the planning assumptions around the running of the City Hall as a new cultural attraction.

Expenditure Pressures in 2021/22 and 2022/23

11.20 There is a risk that assumptions in relation to the expenditure pressures included in the 2021/22 and 2022/23 Provisional Revenue Budgets differ from what actually materialises and that this has an impact on setting Final Revenue Budgets in these years.

Inflation

11.21 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. Further increases in the National Living Wage and "Foundation Living Wage" may exacerbate this risk with pressure to compensate providers and suppliers for enhanced wage rates.

Current Economic Climate

11.22 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.

11.23 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.

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

Demographics

11.25 The overall population of Perth and Kinross is anticipated to reduce by around 1.5% over the next 25 years based upon National Registrars of Scotland forecasts. This may lead to reduced funding from Scottish Government.

11.26 However, within these overall projections the population aged over 65 is projected to grow by around 32.5%. This may place an additional financial pressure on both the Council and the Integration Joint Board into future years' Revenue Budgets and financial plans.

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

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

Severe Weather

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

12. CONCLUSION AND RECOMMENDATIONS

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

12.2 Responding to the Covid 19 epidemic has given rise to significant financial pressure on the Council's Revenue Budget in 2020/21 and the long-term impact upon service demand; service delivery and the Council's ability to generate and collect income will take some time to establish.

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

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

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

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

12.7 It is recommended that the Council:

(i) requests the Head of Finance maintain the Medium-Term Financial Plan and further refine the assumptions which underpin it – see paragraph 4.47.

(ii) approves the setting of the 2021/22 Final Revenue Budget in February 2021 see paragraph 5.6.

(iii) approves the proposal for the Executive Officer Team to identify additional savings / funding solutions towards a corporate savings target of £9.116 million – see paragraph 5.13.

(iv) approves the submission of the updated Reserves Strategy to the Council in February 2021 – see paragraph 6.8.

(v) endorses the proposals to determine the Housing Revenue Account (HRA) Budget and rent levels for 2021/22 and the five-year Housing Investment Programme at the meeting of the Housing and Communities Committee in January 2021 – see paragraph 7.3.

Author

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Approved

Name	Designation	Date
Stewart Mackenzie	Head of Finance	23 September 2020
Karen Donaldson	Interim Chief Operating Officer (Corporate & Democratic Services)	23 September 2020

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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

Corporate Plan

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

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

1.2 This report relates to all these objectives.

2. Resource Implications

Financial

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

Workforce

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

Asset Management (land, property, IT)

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

3 Assessments

Equality Impact Assessment

3.1 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.

3.2 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.

Strategic Environmental Assessment

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

3.4 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.

Sustainability

3.5 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.

3.6 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

Internal

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

2. BACKGROUND PAPERS

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

3. APPENDICES

Appendix A (i) – Optimistic Scenario
Appendix A (ii) – Mid-Range Scenario
Appendix A (iii) – Pessimistic Scenario
Appendix B – Assumptions Underlying Medium Term Financial Plan
Appendix C –Summary of General Fund Balances as at 31 March 2020