PERTH AND KINROSS COUNCIL

3 October 2018

MEDIUM TERM FINANCIAL PLAN 2019 - 2024

Report by Head of Finance (Report No. 18/326)

PURPOSE OF REPORT

This report updates the Medium Term Financial Plan (MTFP) approved by Council on 4 October 2017 (Report No. 17/317 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 also makes recommendations on how the Council develops the Revenue Budget over the short to medium term.

1. BACKGROUND / MAIN ISSUES

1.1. The Council's Medium Term Financial Plan (MTFP) is subject to an annual update with the latest revision being approved by Council on 4 October 2017 (Report No. 17/317 refers).

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

1.3. The 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 Budget process.

1.4. For the purposes of this update, the medium term is broadly defined as the five years to financial year 2023/24.

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

	Report Reference
Medium Term Financial Plan 2018 - 23	17/317
Housing Revenue Account Strategic Financial Plan	18/16
Revenue Budget 2018/19, 2019/20 & 2020/21	18/47
Reserves Strategy	18/48
Treasury & Investment Strategy and Prudential Indicators 2018/19 to 2022/23	18/67
Annual Treasury Report 2017/18	18/211

Composite Capital Budget 2018 - 2028	18/212
Unaudited Annual Accounts 2017/18	18/223
Revenue Budget 2018/19 – Monitoring Report No. 1	18/284
Composite Capital Budget 2018/28 and Housing Improvement Programme 2018/23 – Monitoring Report No. 1	18/285

1.6. The Council's Audited 2017/18 Annual Accounts and the Annual Audit Report to the Members of Perth & Kinross Council and the Controller of Audit for the Year Ended 31 March 2018 are on the agenda for this meeting of the Council (Report No. 18/306 refers). The KPMG Annual Audit Report confirms that the Council has "sound processes to manage its finance and resources which aids effective financial planning and budget setting", "open and transparent budget setting which supports effective financial management", demonstrates "continued high standards of governance and accountability" and "conclude that by having long term plans in place, the Council has oversight to effectively plan and prepare for future years". The Accounts were approved by the Audit Committee on 26 September 2018 (Report No. 18/301 refers).

1.7. The MTFP seeks to provide a range of scenarios for key variables that are used in long-term budgeting and financial planning. There is no one definitive source for such data and the projections have been taken from a range of sources, in particular:

- Fraser of Allander Institute (FAI)
- Government Expenditure and Revenue Scotland (GERS)
- Office for Budget Responsibility (OBR)
- HM Treasury
- Bank of England
- Scottish forecasts (e.g. Ernst &Young Scottish ITEM Club)
- Fiscal Affairs Scotland (FAS)
- The Improvement Service (IS)

1.8. There continues to be significant uncertainty around the impact of the United Kingdom's departure from the European Union, the implications for the economy and the resultant impact on public sector funding.

1.9. The report considers, firstly, the wider economic and fiscal outlook, how this might impact on the Council over the medium term and how the Council intends to develop the Revenue Budget over the shorter term. The report also provides an update on the Council's Capital Budget, Housing Revenue Account, Reserves and other Funds.

1.10. Many of the assumptions included in this report will change in response to external factors such as the ongoing impact of the negotiations on the United Kingdom's withdrawal from membership of the European Union, future Spending Reviews and a number of other variables.

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 as a whole. Much of the commentary below is derived from the sources listed in 1.7 above.

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

2.3 The United Kingdom Government triggered Article 50 on 29 March 2017 commencing the start of a two year period of formal negotiations on the United Kingdom's exit from the European Union. Negotiations with the European Union commenced on 19 June 2017 with the United Kingdom scheduled to leave on 29 March 2019. In March 2018 the European Union and the UK Government agreed a transition period to 31 December 2020 "which is conditional on both sides agreeing a final withdrawal treaty and would smooth the path to a future permanent relationship".

2.4 Economic commentators (including the Bank of England, the Institute of Fiscal Studies, the International Monetary Fund and others) continue to predict that the exit from the European Union will have an impact on the UK economy in the short, medium and, potentially, longer term, although to widely varying degrees. This is largely due to increased uncertainty in the short term and to potentially reduced trading and inward investment prospects in the medium to longer term. The full economic implications still remain highly uncertain and will not become clearer for some time.

2.5 The Office for Budget Responsibility (OBR) published its first Fiscal Risks report in July 2017. This report included a comprehensive review of risks from the UK economy and financial system, to tax revenues, public spending and the balance sheet and included a fiscal stress test. This document is produced every two years and has, therefore, not been updated.

2.6 However in the Economic and Fiscal Outlook, published in March 2018, the OBR stated that "the vote to leave the European Union appears to have slowed the economy, but by less than we (OBR) expected immediately after the referendum".

2.7 The UK Government and the European Commission have both published further documents and delivered speeches that set out their respective positions and frame the continuing negotiations. The OBR go on to say that "there is still no meaningful way for us to predict the precise end-point of the negotiations upon which to base our (OBR) forecast. There is also considerable uncertainty about the economic and fiscal implications of different potential outcomes, including the impact of any monetary policy response that might accompany them".

2.8 In terms of the UK Government's performance against the broader fiscal objective of a balanced budget "interpreted as applying to 2025/26, looks challenging. In particular, this is a period in which population ageing will continue to exert upward pressure on spending" – Office for Budget Responsibility – Economic and Fiscal Outlook – March 2018.

2.9 The Ernst and Young Scottish Items Club Summer 2018 update highlighted that "Scotland's non-oil Gross Domestic Product is forecast to grow by 1.3% in 2018, a slight downgrade from our previous projection of 1.4%. Although we expect Scotland to grow faster this year than the 0.8% pace achieved in 2017, the economy will still lag behind the UK average of 1.6% in 2018. Further out, we estimate growth will pick up in 2019 to 1.6%, driven by consumer spending — but over the period to 2021, we expect Scotland to grow at a slower pace than the UK as a whole".

2.10 However, compared with the Ernst and Young forecast, Scotland's Chief Statistician published the Quarterly National Accounts Scotland on 15 August 2018. This indicated that Scotland's Gross Domestic Product had grown by more than the UK for the first quarter of 2018.

2.11 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 (reductions) for each element of taxation devolved to the Scottish Government. It is anticipated that by 2019/20, 50% of Scottish Government expenditure will be funded from tax revenues raised in Scotland. This means that the future sustainability of public sector funding and Scottish Government expenditure will be increasingly dependent upon the performance of the Scottish economy.

2.12 In May 2018, Scotland's Fiscal Outlook: the Scottish Government's Five Year Financial Strategy was published which set out the Fiscal Framework and funding arrangements that the Scottish Government now operates within. The report outlines the Scottish Government's approach to financial management and fiscal rules and sets out a range of possible funding scenarios for the Scottish Budget over the next five years based on modelling using the Scottish Fiscal Commission's economic and fiscal forecasts as the central scenario. The Strategy also details the Scottish Government's key policy priorities and approach to supporting Scotland's economy.

2.13 At face value the resource budget going forward is over £3bn higher, at £30.5bn, than it was in 2016/17. However, when the resources being transferred to pay for the new social security benefits are removed to consider the Scottish budget on a like-for-like basis, the resource budget – based on the Scottish Government's latest scenarios – is expected to be around half a percent lower in real terms by the end of this parliament compared to the end of the preceding parliament.

2.14 The Five Year Strategy identifies six key commitments ‘that support the Government’s social contract and require significant investment’. These are:

- Health: to increase NHS resource spending by £2bn over the parliament.
- Police: to protect the resource budget of the Scottish Police Authority in real terms over the parliament.
- Early learning and childcare: to increase resource funding to local authorities to £567m annually by the end of the parliament to support 1,140 hours per year of childcare.
- Attainment: to allocate £750m to the Attainment Scotland Fund over the parliamentary term.
- Higher Education: to continue to allocate £1bn each year to the sector.
- Social Security: to deliver a more generous Carer’s Allowance Supplement from 2018 and a new Best Start Grant (replacing Sure Start Maternity Grant) from 2019.

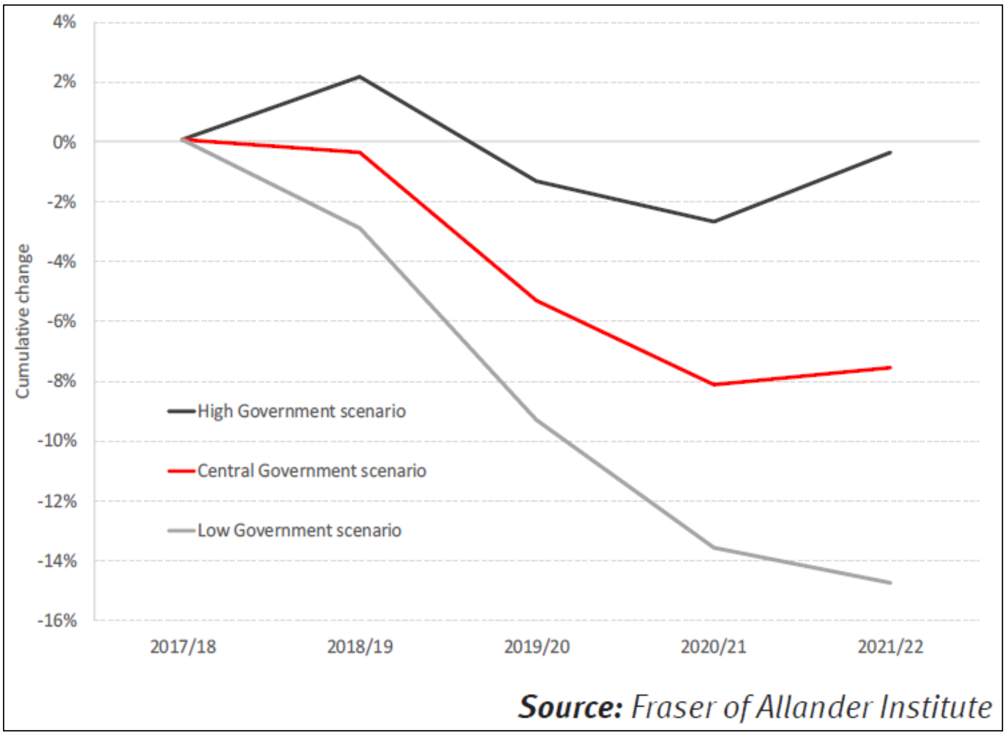
2.15 If the government’s overall resource budget is falling in real terms there may be a greater than proportionate impact on ‘other’ areas of spend (those that are not mentioned as a specific priority) The areas included in this catch-all ‘other’ category include local government (including schools expenditure outwith the ring-fenced Attainment Fund), enterprise, the environment, tourism and culture.

2.16 The Five Year Strategy identifies a ‘central scenario’ – based on the latest forecasts for the block grant and Scottish tax revenues – as well as an ‘upper range’ and a ‘lower range’ scenario around that. The upper and lower range scenarios are developed by considering historic variations in tax revenues that have been transferred to Scotland.

2.17 Under the government’s ‘central scenario’, the resource budget available for these other areas will fall by around 10% in real terms between 2016/17 and 2021/22.

2.18 The outlook for local government however, may, to some extent, be mitigated by anticipated growth in Non-Domestic Rate Income (NDRI). Including forecasts for NDRI, the resources available for ‘other’ spending areas will fall by around 8% over the course of the parliament in real terms, under the central scenario.

Cumulative Real Terms Change in Spend on “Other” Policy Areas (Fraser of Allander – June 2018)



2.19 The balance of Council expenditure continues to shift with Councils being given enhanced responsibilities in areas such as early year’s education and childcare services and the new Children and Young Peoples Act. Local government’s core settlement, on a like-for-like basis, has declined by more than headline reductions suggest.

2.20 There has been some evidence of a change in the distribution of spending across broad service areas – with spending on education and social care being protected in real terms at the expense of other service areas (source: Audit Scotland: Local Government in Scotland – Challenges and Performance 2018) – reflecting demographic pressures and also policy preferences.

2.21 The way in which funding is allocated between local authorities, while kept under review, has remained relatively unchanged in recent years. Funding is allocated primarily through the Grant Aided Expenditure (GAE) assessment. The GAE system takes account of how the cost of delivering particular public services varies across the country based on factors such as population and relative deprivation. There would be significant challenges in moving towards a more outcome based allocation model.

2.22 Overall, the future funding outlook for local government remains uncertain. The Scottish Government has only set a one year Budget for 2018/19 and has indicated that this will be the same for 2019/20 unless there is confirmation of future funding levels from the UK Government’s Spending Review. The outlook for the Scottish Government’s block grant, together with the Scottish Government’s stated spending commitments and tax plans, indicates that local government should expect further real term reductions in its funding over the short to medium term.

3. ANALYSIS OF MEDIUM TERM – PERTH AND KINROSS COUNCIL

3.1 The purpose of this section is to highlight the 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.

3.2 Expenditure pressures classified as "demographic" or "inflation" related are normally identified in detail in Service submissions considered by Council in setting Revenue Budgets each year. The MTFP, however, makes global assumptions about these variables in advance of Service 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.

3.3 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 3.41.

3.4 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 (Aiii)

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

<u>Employee Pay Inflation</u>

3.6 There are a number of scenarios which could emerge for pay awards ranging from increases below or in line with current rates of inflation to awards significantly in excess of this level. If a period of public sector pay restraint, general increases in the cost of living and higher personal taxation (including income tax and national insurance contributions) are factored into negotiations, this could put further pressure on future pay negotiations. In addition, the Scottish Government set out a revised pay policy for public sector workers under its direct remit based on uplifts of 3% for those earning up to £36,500, 2% between £36,501 and £80,000 and £1,600 for those earning over £80,001 in 2018/19.

3.7 The 2019/20 and 2020/21 Provisional Revenue Budgets already include pay award assumptions of 2%. Given the UK and Scottish Government's commitment to remove the public sector pay cap and recent settlements for NHS employees, this may mean that the amount provided in 2018/19 could be insufficient. On that basis, it is considered prudent to increase the mid-range assumption to 3% for all staff groups which would require further savings in 2019/20 and 2020/21. The Optimistic scenario assumes pay awards of 2% and the Pessimistic 4% for all staff groups.

3.8 There is clearly a risk that the assumptions set out in Appendix B underestimate future pay inflation, particularly in light of the growing expectation of increasing pay awards in future financial years.

Increments

3.9 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. Each year employees are incrementally moved up to the next scale point on their grade until the maximum point is reached.

3.10 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

3.11 Almost all employees (and Councillors) in Perth & Kinross Council are automatically admitted to either the Teacher (Scottish Public Pensions Agency (SPPA)) or the Local Government Pension Schemes (LGPS) 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.

3.12 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%.

3.13 This update of the MTFP will also cover the triennial review as at 31 March 2020. For the purposes of this update, it is assumed that under the pessimistic scenario there will be increase of 1% in the employer's contribution rate in 2021/22.

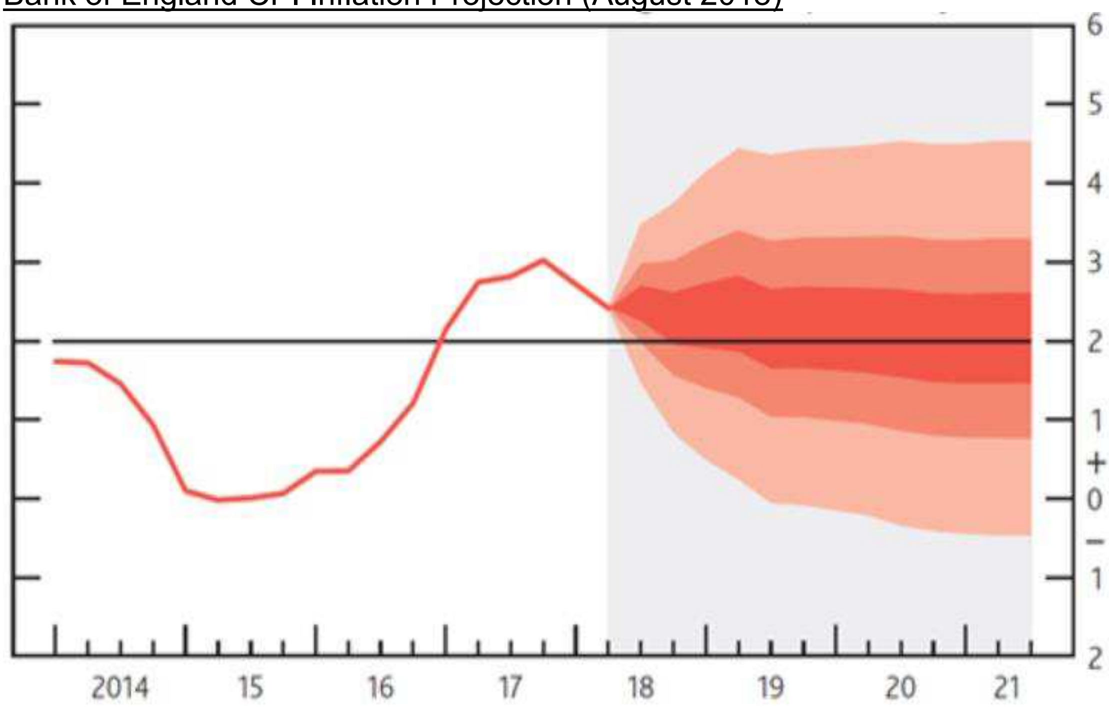
3.14 The Teachers scheme is administered by the Scottish Public Pensions Agency (SPPA) which is an Executive Agency of the Scottish Government. The employer's contributions for this scheme are set by the UK Treasury. In the 2016 Budget, the Chancellor announced that the Government has reassessed the discount rate which would result in increased employer's contributions. At this point the UK Government's Actuary has passed its assumptions to the UK Treasury but directions have yet to be issued   This delay may impact on the roll out of the increase.

3.15 The pessimistic scenario assumes an increase of 1.5% in 2019/20 with a further 2% in 2022/23. The mid-range scenario only assumes the latter increase in 2022/23 with no increases included for either year under the optimistic scenario.

Inflation

3.16 The most recent Inflation report published by the Bank of England in August 2018 included the following infographic in relation to its forecasts through to the end of 2021. 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 2018)



3.17 Based on the graph above the Bank of England have a high degree of confidence that inflation will range between around 2% and 3% in 2019/20 reducing very marginally over the following few years.

3.18 The assumptions for general inflation included in this MTFP start at 1.8%, 2.3% and 2.8% under the three scenarios with a 0.1% reduction in each subsequent year.

3.19 There are, however, a number of areas of Council expenditure 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.

3.20 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

3.21 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.

3.22 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 between 0.4 and 0.5% for general population growth every year.

3.23 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 17% in the number of local residents aged 80+ over the five 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.

3.24 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

3.25 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 2018/19 to 2027/28. In so far as 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)

3.26 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 2020/21. 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 continue to be phased in between 2018/19 and 2020/21.

Funding and Income

3.27 There are a number of 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

3.28 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 £242,697,000 (which is the total of GRG and NDRI in 2018/19).

3.29 It is currently anticipated that the Council will only receive funding information for financial year 2019/20 and that this will not be provided until December 2018.

3.30 However, for the purposes of this update of the MTFP the projections from Scotland's Fiscal Outlook: the Scottish Government's Five Year Financial Strategy published in May 2018 and the Fraser of Allander Institute's subsequent analysis of the Scottish Government's position, published in June 2018) have been largely adopted for the mid-range scenario. This includes assumptions on the protection of the budgets for the National Health Service and Police Scotland and investment in other known "policy commitments" such as early learning and childcare. The projections for 2022/23 and 2023/24 are based on extrapolations of the recovery in public finances which the Fraser of Allander Institute anticipates in their June 2018 report.

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

2019/20	2020/21	2021/22	2022/23	2023/24
(2.3)%	0.0%	0.0%	0.5%	0.5%
£(5.582)m	£0.000m	£0.000m	£1.186m	£1.192m

3.32 The approved 2019/20 and 2020/21 Provisional Revenue Budgets include a projected cash reduction of 1.8% and a cash increase of 0.5% respectively. Based on the latest analysis set out above, the revised projections represent a worsening in the level of anticipated funding and will therefore require further savings to be made. The additional funding reduction of £1,200,000 in both 2019/20 and 2020/21 is factored into the amended corporate savings target set out at paragraph 4.17

3.33 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.

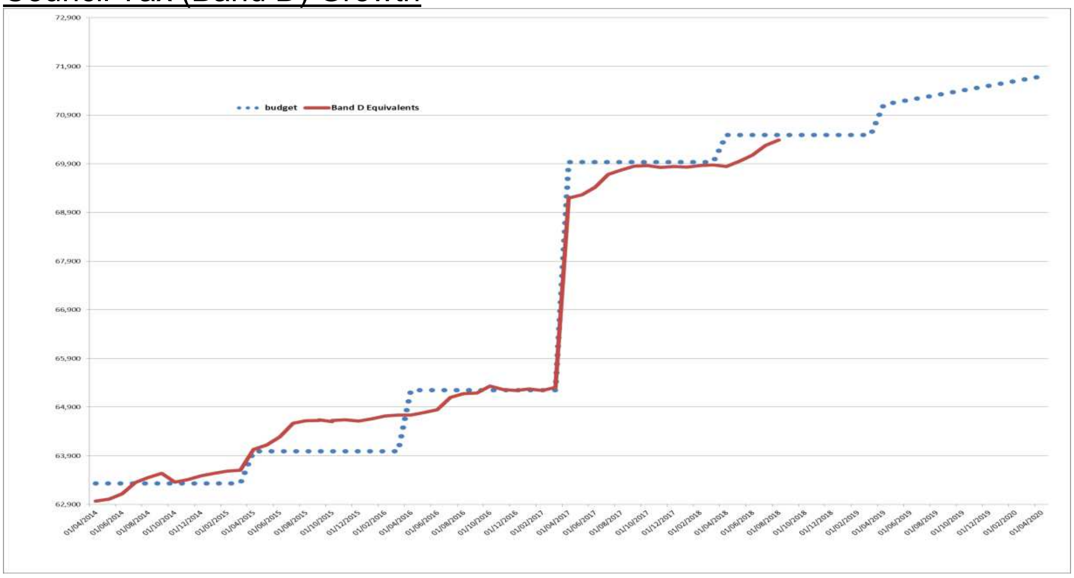
Demographics (Impact on Funding)

3.34 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 0.4% to 0.5% 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

3.35 For Council Tax, there are potentially two sources of additional income. Firstly, in relation to the projected growth in 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. The graph below sets out the level of growth in the number of Band D equivalent properties. The solid line represents actual properties with the dotted line representing the approved budget.

Council Tax (Band D) Growth



3.36 Secondly is the capacity for the Council to increase the level of Council Tax charges. The 2019/20 and 2020/21 Provisional Revenue Budgets already include an increase in the level of Council Tax of 3%. It is assumed that this will be the maximum increase allowed by the Scottish Government as part of their funding settlement arrangement with local authorities. The working assumption for the purposes of preparing the MTFP is that Council Tax will increase by 3% in each year of the Plan. The actual level of Council Tax will be determined by the Council in approving final Revenue Budgets in February of each year.

Fees and Charges

3.37 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 Revenue Budget in February each year.

Revenue Budget "Headroom"

3.38 At this stage the Council has no "headroom" available to reject savings proposals or invest in new expenditure priorities when the budget is set in February 2019. This reflects the magnitude of the anticipated pressures, the limited capacity of Services to identify further additional savings and the continued uncertainty surrounding the Local Government Financial Settlement in future years. Headroom is generated from the excess of Council income over expenditure. This position will be kept under review as the Revenue Budget evolves and further information on funding levels becomes available.

3.39 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 2019.

3.40 All of the forecasts discussed in sections 3.3 to 3.37 are uncertain. Actual income and expenditure will depend on a number of factors which are set out within the Risk Assessment (section 11) commentary in this report.

Medium Term Financial Plan – Estimated Savings

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

	2019/20	2020/21	2021/22	2022/23	2023/24	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Optimistic	8,287	1,501	2,005	(681)	(1,510)	9,600
Mid- Range	16,507	9,101	9,761	9,046	7,904	52,319
Pessimistic	26,294	20,118	21,908	19,939	18,541	106,800

3.42 The table above sets out scenarios with cumulative savings targets between approximately £10 million and £107 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 five year period 2019/20 to 2023/24.

3.43 There are significant variations between the scenarios due to the sensitivities around the financial modelling. For example, over the five years there is almost £20,000,000 between the potential pay inflation costs by adjusting the assumption by just 1%. Non staff inflation is impacted by around £15,000,000 and projected levels of Scottish Government funding by around £35,000,000.

3.44 It is important to note that the potential savings identified in the above table are in addition to the approximately £65million of savings that have been identified in the previous five financial years.

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

4. PROPOSED APPROACH FOR FINANCIAL YEARS 2019/20 TO 2021/22

4.1 The Council has previously agreed Provisional Revenue Budgets for financial years 2019/20 and 2020/21 which were approved on 22 February 2018 (Report No. 18/47 refers).

4.2 The 2019/20 and 2020/21 Provisional Revenue Budgets include expenditure pressures and compensating savings. Expenditure pressures include contributions to corporate savings targets (for example pay awards and reduced funding) and increases in Service costs (for example increased demand for foster care and inflation). Services are also required to identify savings proposals to fund the pressures identified.

4.3 The provisionally approved expenditure pressures amounting to £13,341,000 and agreed savings totalling £6,425,000 are set out on a Service by Service basis in the following table. The figures are out of balance because the Council set a three year Revenue Budget in February 2018 and utilised a significant element of the additional resources announced in January 2018 on a non-recurring basis meaning that they were available for application in 2019/20 and 2020/21. The table below does not include any expenditure pressures or savings in relation to Health & Social Care as Perth & Kinross Integration Joint Board has not set a budget beyond 2018/19.

	2019/20	**2020/21**	**Total**
	£'000	**£'000**	**£'000**
Expenditure Pressures			
• Education & Children Services	5,158	2,145	7,303
• Housing & Environment	3,361	1,727	5,088
• Corporate & Democratic Services	676	274	950
• Health & Social Care *	-	-	-
TOTAL EXPENDITURE PRESSURES	**9,195**	**4,146**	**13,341**
Savings			
• Education & Children Services	(1,110)	(705)	(1,815)
• Housing & Environment	(1,863)	(1,610)	(3,473)

• Corporate & Democratic Services	(789)	(348)	(1,137)
• Health & Social Care *	-	-	-
TOTAL SAVINGS	**(3,762)**	**(2,663)**	**(6,425)**
** Perth & Kinross Integration Joint Board has not set a Revenue Budget beyond 2018/19*			

4.4 On the basis of the agreed Provisional Revenue Budgets, £3,762,000 of savings will be removed from Service Revenue Budgets on 1 April 2019 and a further £2,663,000 on 1 April 2020.

4.5 The draft financial plan for Perth & Kinross Health & Social Care Partnership (PKHSCP) forecasts cost and demand pressures for 2019/20 of between £5,000,000 and £7,000,000 across social care services. At this time there is no information on further social care funding from the Scottish Government for 2019/20 and beyond. In 2018/19, additional funding of £1,766,000 was provided towards total expenditure pressures of c£4,600,000. The Council is committed to working with the PKHSCP to mitigate these pressures as far as possible.

4.6 As set out earlier in this report, there is significant uncertainty beyond financial year 2018/19. 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 2019/20.

4.7 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.

4.8 At this stage it is proposed that the Council continues with the development of Revenue Budgets on a three year planning horizon. Despite an uncertain future, this is considered to be essential to the Council's sustainable financial management given the significant lead in times associated with many of the proposals being considered to balance the budget. This requires the update of the Provisional Revenue Budget for 2019/20 and 2020/21 and the development of a new Provisional Revenue Budget for 2021/22.

4.9 As has been the case in previous years, Services will be requested to contain all new un-funded expenditure pressures, including general inflation, within their existing base budgets, through identifying compensating savings, or through the use of Revenue Budget flexibility to manage resources between financial years under the terms of the Council's approved scheme.

4.10 **ACTION:** The Council is asked to approve the proposal to update the Provisional Revenue Budgets for 2019/20 and 2020/21 and commence the development of a new Provisional Revenue Budget for 2021/22.

4.11 Subject to Council approval, Services will develop Revenue Budget submissions setting out new and updated expenditure pressures and compensating savings proposals for approval by the Council in February 2019. In addition, Services will be required to identify further savings towards the updated Corporate Savings target.

Perth & Kinross Integration Joint Board

4.12 It is anticipated that Perth & Kinross Integration Joint Board (IJB) will continue to progress the development of an integrated budget 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 and 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.

4.13 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.

Corporate Savings Target

4.14 In line with previous years' Revenue Budgets, it is proposed that, in addition to funding Service specific pressures, Services are required to identify savings proposals towards a corporate savings target.

4.15 It is proposed that the previous corporate savings targets for 2019/20 and 2020/21 are updated in light of revised assumptions on pay awards and Scottish Government funding and that new targets for 2021/22 are included.

4.16 The following table sets out additional corporate savings targets of £3,000,000, £3,300,000 and £2,625,000 for 2019/20, 2020/21 and 2021/22 respectively. The table also includes savings which were approved in February 2018 that relate to 2019/20 and 2020/21.

	2019/20	**2020/21**	**2021/22**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
October 2018 Adjustments –				
- Pay Award	1,800	1,800	5,400	9,000
- Increments	-	-	500	500
- Funding Reductions	1,200	1,200	-	2,400
- Additional Council Wide Efficiency Target	-	300	-	300
- Council Tax Base	-	-	(775)	(775)
- Council Tax Level	-	-	(2,500)	(2,500)

ADDITIONAL CORPORATE SAVINGS TARGET	**3,000**	**3,300**	**2,625**	**8,925**
Corporate Savings Targets (approved October 2017)	5,995	656		6,651
TOTAL CORPORATE SAVINGS TARGET	**8,995**	**3,656**	**2,625**	**15,576**

4.17 The additional corporate savings targets, which are based on the mid-range scenario set out above, are explained in more detail below.

Employer Costs

4.18 The 2019/20 and 2020/21 Provisional Revenue Budgets include assumptions on pay inflation of 2% per annum. It is proposed that these assumptions are revised upwards to 3% and that this level of increase is also assumed for 2021/22. This results in additional estimated cost pressures of £1,800,000, £1,800,000 and £5,400,000 in 2019/20, 2020/21 and 2021/22 respectively.

4.19 It is also necessary to include an allowance for staff cost increments of £500,000 in 2021/22 (£500,000 has already been assumed in the 2019/20 and 2020/21 Provisional Revenue Budgets).

Scottish Government Funding

4.20 The 2019/20 Provisional Revenue Budget includes a projected reduction in Scottish Government funding of 1.8% on a cash basis with an increase of 0.5% assumed in 2020/21. Following an analysis of the latest independent commentary on future levels of Scottish Government funding, it is considered appropriate to adjust the assumption for 2019/20 to a cash reduction of 2.3% and to flat cash for 2020/21. This results in a potential reduction in income from the Scottish Government of £1,200,000 in both 2019/20 and 2020/21. At this time, it is also assumed that the funding settlement for 2021/22 will be flat cash too.

Council Tax Income

4.21 There are two distinct elements that influence the level of Council Tax income available to the Council. Firstly the level of assumed growth in the number of Band D equivalent properties (Council Tax base) and secondly the Council Tax rate.

4.22 Consistent with the assumptions included in the mid-range scenario described above the Corporate Savings target is based on annual growth in the Council Tax base of 600 Band D equivalent properties and an increase of 3% in Council Tax which generates £775,000 and £2,500,000 respectively. The 2019/20 and 2020/21 Provisional Revenue Budgets already include increases in both the number of Band D properties and Council Tax levels.

4.23 These assumptions result in net additional corporate savings targets of £3,000,000 and £3,300,000 in 2019/20 and 2020/21 respectively and a new savings target of £2,625,000 in 2021/22. The impact of these revised Corporate Savings targets on a Service by Service basis are set out in the following table. The allocation of these savings between Council Services is proportionate to net Revenue Budgets (excluding direct teacher costs due to the Scottish Government's requirement to maintain pupil / teacher ratios) and is consistent with the approach adopted in February 2018.

Proposed Allocation of Additional Corporate Savings Targets

	2019/20	**2020/21**	**2020/21**	**Total**
	£'000	**£'000**	**£'000**	**£'000**
Education & Children's Services	1,145	1,260	1,002	3,407
Housing & Environment	862	948	754	2,564
Corporate & Democratic Services	369	406	323	1,098
Health & Social Care	624	686	546	1,856
	3,000	**3,300**	**2,625**	**8,925**

4.24 The £8,925,000 identified above will be subject to review as more information becomes available in relation to actual pay awards and levels of Scottish Government funding. For financial planning purposes the Executive Officer Team will develop savings proposals in response to a number of scenarios. This may vary from the figure listed in the table above.

4.25 **ACTION:** The Council is asked to approve the corporate savings targets set out above as the basis for updating the 2019/20 and 2020/21 Provisional Revenue Budgets and for the preparation of the 2021/22 Provisional Revenue Budget. These targets will be reviewed for the reasons set out at 4.24.

4.26 The following table sets out the minimum level of savings that may be required over the next three financial years. This includes savings agreed in February 2018 and new additional corporate savings targets. The table excludes any new Service pressures for 2019/20, 2020/21 and 2021/22 that are currently being identified.

	19/20 £'000	20/21 £'000	21/22 £'000	Total £'000
Previously Approved Savings (February 2018)	3,762	2,663	-	6,425
New Corporate Savings Target	3,000	3,300	2,625	8,925
New Service Pressures	?	?	?	?
Total Savings (Minimum)	**6,762**	**5,963**	**2,625**	**15,350**

4.27 All other expenditure pressures (e.g. increasing demand / inflation) for Council Services will be included in Service Revenue Budget submissions together with compensating savings proposals.

Impact on Service Revenue Budgets

4.28 Over the last five years, over £65,000,000 has been removed from Service Revenue Budgets. Services are required to prioritise savings, this should have meant that, in the main, the “easier” or “less hard” savings have already been removed and that further savings will, undoubtedly impact on front line service delivery. To further compound the challenges around the identification of further savings, the percentage of gross Service Revenue budgets that could be defined as uncontrollable or unavailable for the application of savings has increased, for example, the pay costs of teacher’s or elected members and unitary charges.

5. COMPOSITE CAPITAL BUDGET

5.1 On 20 June 2018, the Council approved a ten year Capital Budget covering financial years 2018/19 to 2027/28 (Report No. 18/213 refers). This budget includes a number of strategic projects including funding towards the Cross Tay Link Road, the replacement of Perth High School as well as further investment in the wider school estate and IT infrastructure.

5.2 Updates in relation to the 2018/19 to 2027/28 Capital Budget will be provided to future meetings of the Strategic Policy and Resources Committee in line with the normal reporting cycle.

5.3 Approval is sought to maintain a rolling ten year Capital Budget with the Council approving the inclusion of funding and expenditure for financial year 2028/29 at the special meeting of the Council in February 2019. This will result in the Revenue and Capital Budgets being considered at the same Council meeting.

5.4 **ACTION:** The Council approves the setting of the 2028/29 Capital Budget at the special meeting of the Council in February 2019.

5.5 On the basis that the Council agrees to set a 2028/29 Capital Budget in February 2019, this will be based on estimated levels of Composite Capital Budget resources of £28,550,000, commitments of £22,742,000 resulting in available resources of £5,808,000 which is set out in the table below.

5.6 The commitments include all the rolling programmes approved in the most recent Capital budget.

	2028/29
	£’000
RESOURCES	
- Composite Borrowing	12,000
- General Capital Grant (anticipated)	14,000
- Ring-Fenced Capital Grant (anticipated)	200
- Developer Contributions (anticipated)	2,100
- Capital Receipts (anticipated)	250
Total Resources Available	**28,550**

COMMITMENTS	
- Structural Maintenance	9,800
- Footways	435
- Cycling, Walking & Safer Streets	200
- ICT Infrastructure	2,412
- Investment in the school Estate	4,650
- Schools Audio-Visual Equipment	425
- Road Safety	100
- Traffic signals	100
- Bridges & Parapets	740
- Property Capital Improvements	2,000
- Property Compliance works	650
- Property DDA Works	200
- Community Greenspace	300
- Play Parks	150
- Cemetery Extensions	100
- IT Replacements (HE)	120
- OT Replacements	250
- Software Licences (Housing)	70
- Council Contact Centre	40
Total Commitments	**22,742**
AVAILABLE RESOURCES	**5,808**

5.7 Should expenditure on existing commitments be maintained at the current approved levels then uncommitted resources would be £5,808,000. In considering the Capital Budget, it is, however, for the Council to determine the overall level of resources and commitments for 2028/29 and all preceding years.

5.8 Approval is sought to instruct the Executive Officer Team to undertake a review of the existing Capital Budget to ensure that it continues to meet the priorities of the Council – both in terms of specific projects and general programmes. Given the inflationary pressures facing the construction and IT sectors, the review will include consideration of the Council's future borrowing level to ensure that the approved Capital Budget remains deliverable and affordable. Furthermore, approval is sought to instruct the Executive Officer Team may be instructed to identify Capital projects of strategic significance for inclusion in future years' Capital Budgets. This may include discussions with NHS Tayside around the joint commissioning / procurement of health and social care services for Perth and Kinross communities.

5.9 **ACTION:** The Executive Officer Team is instructed to review the existing Capital Budget, Capital resourcing and potential projects for financial year 2028/29 and bring forward recommendations for consideration by Council.

6. RESERVES UPDATE

6.1 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 22 February 2018 (Report No. 18/48 refers).

6.2 The Reserves projections have been updated to reflect the position in the Audited Annual Accounts for 2017/18 which is a separate item on the agenda for this meeting of the Council (Report No. 18/306 refers). Further information on Reserves is set out in Appendix C to this report.

6.3 The Audited Annual Accounts for 2017/18 show that the Council had a General Fund Balance (excluding the Housing Revenue Account) of £51,099,000 as at 31 March 2018 with £38,991,000 earmarked for known commitments. This results in uncommitted General Fund Reserves of £12,108,000 at 31 March 2018 which is in line with the Reserves Strategy approved by Council in February 2018 (Report No. 18/48 refers). The 2018/19 Final Revenue Budget and 2019/20 & 2020/21 Provisional Revenue Budgets already assume a contribution of £1,119,000 from Reserves in those years.

6.4 The Council's Useable Reserves as at 31 March 2018 are summarised as follows:

Total Useable Reserve as at 31 March 2018	£80.081m
Less:	
General Fund Earmarked Reserves (see Appendix C)	£38.991m
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*	£25.060m
Renewal and Repair Fund *The fund can be only used to meet the costs on the renewal, repair, maintaining or replacing any buildings, works, plant, equipment or articles belonging to the Council.*	£0.020m
Insurance Fund *The fund is used to meet the future liabilities of the Council self-insuring for certain categories of insurance.*	£2.815m

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.*	£0.087m
General Fund Uncommitted Balance at 31 March 2018	**£12.108m**

6.5 The level of uncommitted Reserves of £12,108,000 represents around 3.6% of the 2018/19 Net Revenue Budget.

6.6 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. The following table sets out the levels of over and under spends in winter maintenance over the last ten years.

Winter Maintenance Final Over / (Under) Spend	
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
2008/09	Over spend of £656,000

6.7 It is proposed that the updated Reserves Strategy is presented to the Council in February 2019. This update will include further options on how Reserves might be utilised over the medium term.

6.8 **ACTION:** The Council is asked to approve the submission of the updated Reserves Strategy to the Council in February 2019.

7. HOUSING REVENUE ACCOUNT

7.1 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.

7.2 It is proposed that the Housing and Communities Committee determine the Housing Revenue Account (HRA) Budget and rent levels for 2019/20 at its meeting in January 2019. It is also proposed that the five year Housing Investment Programme will be submitted for consideration by the Committee based on the requirements of the Housing Delivery Plan.

7.3 **ACTION:** The Council is asked to endorse the proposals to determine the Housing Revenue Account (HRA) Budget and rent levels for 2019/20 and the five year Housing Investment Programme at the meeting of the Housing and Communities Committee in January 2019.

8. WORKFORCE PLANNING MEASURES

8.1 Financial pressures, demand for Council services, changing demographics and public service reform have informed the development of the Council's transformation programme and continue to drive efficiencies, service redesign and rationalisation which in turn determine workforce requirements. The Council's Building Ambition - Transformation Strategy 2015-20 sets out how it will transform Services along with an Organisational Development (OD) Framework. The OD Framework ensures that the Council continues to harness the talent of its people based around the Learn Innovate Grow principles. These principles act as enablers for transforming the organisation and reinforce the commitment to developing its organisational culture.

8.2 The new Corporate Workforce Plan 2018-21 recognises 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. This plan has a strong focus on culture and identifies priorities for attracting, retaining and developing talent, healthy working lives and fair work within the overall context of a reducing workforce.

8.3 The Council continues to invest in building the capability and capacity in its workforce through learning and development opportunities, encouraging innovation and creativity, embracing agility, digital skills, promoting wellbeing and resilience and boosting productivity.

8.4 Its plans include enabling projects which are helping to prepare employees and the organisation for the future – mobile working, positive career choices, job families and more effective processes for workforce flexibility. It recognises that learning is fundamental to growth and continues to organise sharing of knowledge, skills and expertise, leadership development, and Modern Apprenticeship and Graduate Programmes. Together these initiatives help develop and nurture talent to meet future requirements.

8.5 The Council's workforce management strategy is inherently linked to the Transformation Programme and the Medium Term Financial Plan. Since 2009, the Council has implemented a range of workforce management measures which are designed to make the best use of opportunities to reshape the workforce on an on-going basis, enable service redesign and deliver a leaner workforce while avoiding compulsory redundancies as far as possible. With a renewed focus on retraining and deploying staff to areas of growth, such as early learning and childcare, and hard to fill posts, such as teachers, the Council has also successfully used voluntary severance as a means of reshaping the workforce, making significant recurring annual savings through volunteers who seek to exit the organisation. This approach recognises the importance of managing staff costs and also recognises and values the contribution of employees, as described within the annual workforce report Building Ambition – A Workforce For the 21st Century (Report No. 17/418 refers).

8.6 Within the 2017/18 Audited Annual Accounts, there is an earmarked Reserve of £10,971,000 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 fund voluntary severance requests and might also be utilised for other initiatives aimed at reshaping and reducing the workforce.

8.7 The Council's Voluntary Severance Scheme remains open to employees interested in exploring their options for moving on from the organisation. The Scheme also helps the Council to meet its financial challenges and helps deliver a balanced budget, as well as facilitating workforce change to support its Transformation Programme.

8.8 On 23 August 2016, the Executive Sub-Committee of the Strategic Policy & Resources Committee approved an adjustment to the existing policy to apply a maximum payment of up to 60 weeks' pay for voluntary severance and voluntary redundancy (Report No. 16/362 refers). This adjustment was extended to 31 March 2019 by Council on 4 October 2017 (Report No. 17/371 refers). This adjustment has been effective in increasing the number of leavers who are under 50, those over 50 and not in the Local Government Pension Scheme (LGPS) and those aged between 50-54 who were not in the LGPS on 5 April 2006. The change also brought the Council's severance terms for these groups more into line with other Scottish Councils. It is proposed that this adjustment be confirmed as a permanent feature of the Council's Framework for Managing Workforce Change and Local Government Pension Scheme – Employing Authority Discretions Policy (Report No. 09/434 refers) with relevant updates made to these policy documents.

8.9 **ACTION:** The Council is asked to approve the extension on a permanent basis of the severance payment scheme of up to 60 weeks' pay in the Framework for Managing Workforce Change and Employing Authority Pension Discretions Policy.

9. ASSET MANAGEMENT

9.1 Asset Management Planning is used for the proper management and monitoring of assets and as a tool for robust and sound investment decision making. Having an integrated asset management, service management and capital planning system is a key principle in ensuring that all investment decisions are considered within an overall systematic appraisal system. This includes the use of business cases, asset management plans and strategies, impact analysis reports and annual asset status reports to assess and maximise the sustainability of Council service delivery.

9.2 Life cycle costs for an asset are the average costs that would be required to sustain a defined service level over the accepted life of that asset. Life cycle costs include maintenance and asset consumption (depreciation expense). Life cycle expenditure, for an asset, is the actual expenditure on that asset; including maintenance and capital renewal expenditure.

9.3 Comparing theoretical life cycle costs against actual life cycle expenditure can give an indicator of the sustainability of service delivery. A gap between life cycle costs and life cycle expenditure gives an indication as to whether present consumers are paying their share of the assets they are consuming each year. Identifying such sustainability gaps allows the Council to readdress the levels of service that its customers need, expect and can afford, and allows the Council to develop the necessary long term financial plans to provide this service in a sustainable manner.

10. TRANSFORMATION

10.1 The Council needs to continue to develop new, innovative ways of working and transformational change to deliver and support local people now and in the future. This requires strong and effective leadership at all levels of the organisation, and a commitment to working in collaboration with local people and our community planning partners.

10.2 The Council's Transformation Programme 2015-2020 is key to supporting the Council in addressing the challenges it faces in continuing to deliver highly valued services to our communities. To achieve this, around £7,700,000 of non-recurring funding has been committed to support a programme of reviews with progress reported to each meeting of the Strategic Policy & Resources Committee.

10.3 The Council recognises the central role of our Community Planning partners, local communities and businesses, as well as the third sector to work together to deliver a shared ambition to build a better place to live, work and visit, and protect the most vulnerable members of our community.

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 2019/20</u>

11.2 It is anticipated that the Council will receive a one year financial settlement for 2019/20 in December 2018. This presents a risk to the Provisional Revenue Budgets for 2020/21 and 2021/22.

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 Brexit negotiations may also potentially result in significant additional uncertainty over future levels of income.

11.4 The potential for cash and real terms reductions in funding beyond financial year 2019/20 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 no information on any conditions which may be attached to the local government finance settlement in 2019/20 and beyond.

11.7 There is speculation that the Barnett formula may 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.

11.9 In late September 2018, the Scottish Government published the Fiscal Framework Outturn Report. This document sets out a number of scenarios emphasising the importance of receipts from devolved taxes towards the delivery of public services across Scotland in the future. The publication illustrates the range of variables (both positive and negative) that may influence the final amount of resources available to the Scottish Government.

Corporate Transformation Projects

11.10 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

11.11 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

11.12 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.

Perth & Kinross Integration Joint Board

11.13 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 (routed through the National Health Service in 2016/17 and 2017/18 and the Council in 2018/19). Previously funding has been provided of £6,540,000, £2,800,000 and £1,766,000 in 2016/17, 2017/18 and 2018/19 respectively. 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.

11.14 Financial year 2019/20 is the fourth year of operation for Perth & Kinross Integration Joint Board (IJB) under the Integration Scheme. From 2019/20 the Council and NHS Tayside move to a "risk sharing agreement" whereby both partners are potentially liable to meet their respective share of any over spend on the activities under the direction of the Board.

Implementation of Welfare Reform

11.15 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.

11.16 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.

11.17 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

11.18 There is a risk that the outcome of national pay negotiations in 2019/20, 2020/21 and 2021/22 differs from the Council's pay assumptions which could have a significant financial impact upon the Council.

11.19 The 2019/20 and 2020/21 Provisional Revenue Budgets contain pay award assumptions of 2% for all staff groups. Assuming that the recommendations included within this report are agreed then the pay award assumptions will be revised to 3% in 2019/20, 2020/21 and 2021/22.

11.20 There remains a risk that, with the end of the public sector pay cap being announced by both the UK and Scottish Governments, these assumptions are understated. In addition, pay inflation in other sectors of the economy is projected to be above these levels which may have an impact on future pay negotiations.

11.21 The 2018/19 pay negotiations have yet to conclude with any award in excess of that contained in the current year's Revenue Budget putting further pressure on future years.

Barclay Review of Non-Domestic Rates in Scotland

11.22 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 ALEO 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 2019/20, 2020/21 and 2021/22

11.23 There is a risk that assumptions in relation to the expenditure pressures included in the 2019/20, 2020/21 and 2021/22 Provisional Revenue Budgets differ from what actually materialises and that this has an impact on setting Final Revenue Budgets in these years.

Inflation

11.24 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

11.25 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.

11.26 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.

11.27 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.

Public Sector Reform

11.28 The Scottish Government has set out its vision of a public service delivery landscape which is affordable, rises to the challenge of tackling inequalities and supports economic growth across Scotland: where communities are empowered and supported to take responsibility for their own actions; and public services are confident and agile enough to allow that to happen. Public bodies will play a full part in delivering improved outcomes: working collaboratively across organisational boundaries to ensure that services are shaped around the needs and demands of individuals and communities; and there will be a clear focus on prevention and early intervention, with the aim of breaking cycles of inequality and poverty.

11.29 The Council will continue to stay focussed on this agenda to ensure that is it best placed to continue to meet the needs of its citizens.

Demographics

11.30 The population of Perth and Kinross is anticipated to grow by around 8% over the next 20 years based upon National Registrars of Scotland forecasts. This level of growth will result in additional costs to the Council which will require to be factored into future years' Revenue Budgets and financial plans. However, the level and components of growth will be largely dependent on complex net migration patterns which are difficult to forecast with any certainty.

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

Severe Weather

11.32 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. 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.

12.2. To prepare for the predicted financial challenges over the short to medium term the Council has in place an ambitious Transformation Strategy and Programme and will further develop workforce planning measures.

12.3. The Council remains committed to modernising and improving the efficiency of its Services, with the service review programme forming the latest phase of this strategy. 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 across all Services which requires the engagement of the Council's workforce; Elected Members; Community Planning Partners and the communities which it serves.

12.4. It is recommended that the Council:

12.4.1 Instruct the Head of Finance to maintain the Medium Term Financial Plan and further refine the assumptions which underpin it – see paragraph 3.45.

12.4.2 Approve the proposal to update the Provisional Revenue Budgets for 2019/20 and 2020/21 and commence the development of a new Provisional Revenue Budget for 2021/22 – see paragraph 4.10.

12.4.3 Approve the corporate savings targets set out above as the basis for updating the 2019/20 and 2020/21 Provisional Revenue Budgets and for the preparation of the 2021/22 Provisional Revenue Budget. These targets will be reviewed for the reasons set out at 4.20 - see paragraph 4.25.

12.4.4 Approves the setting of the 2028/29 Composite Capital Budget at the special meeting of the Council in February 2019 – see paragraph 5.4.

12.4.5 Instruct the Executive Officer Team review the existing Capital Budget, Capital resourcing and potential projects for financial year 2028/29 and bring forward recommendations for consideration by Council – see para 5.9.

12.4.6 Approve the recommendation to submit the updated Reserves Strategy to the Council in February 2019 – see paragraph 6.8.

12.4.7 Approve the recommendation to determine the Housing Revenue Account (HRA) Budget and rent levels for 2019/20 and the five year Housing Investment Programme at the meeting of the Housing and Communities Committee in January 2019 – see paragraph 7.3.

12.4.8 Approve the extension on a permanent basis of the severance payment scheme of up to 60 weeks' pay in the Framework for Managing Workforce Change and Employing Authority Pension Discretions Policy – see paragraph 8.9.

Author

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

Approved

Name	Designation	Date
Stewart Mackenzie	Head of Finance	24 September 2018
Jim Valentine	Depute Chief Executive and Chief Operating Officer	24 September 2018

ANNEX

1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

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

1. Strategic Implications

1.1. Corporate Plan

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

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

1.1.2 This report relates to all of these objectives.

2. Resource Implications

2.1. Financial

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

2.2. Workforce

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

2.3. Asset Management (land, property, IT)

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

3. Assessments

3.1. Equality Impact Assessment

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

3.1.2. The 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, Depute Chief Executive, Executive Directors, Head of Strategic Commissioning & Organisational Development and Corporate

Human Resources Manager 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 2018