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Council Building
2 High Street
Perth
PH1 5PH

18 December 2018

Attached is a supplementary agenda for the meeting of **Perth and Kinross Council** which will be held in **the Council Chamber, 2 High Street, Perth, PH1 5PH** on **Wednesday, 19 December 2018 at 11:00.**

If you have any queries please contact Committee Services on (01738) 475000 or email Committee@pkc.gov.uk.

KAREN REID
Chief Executive

Those attending the meeting are requested to ensure that all electronic equipment is in silent mode.

Please note that the meeting will be recorded and will be publicly available on the Council's website following the meeting.

Members:

Provost D Melloy
All Councillors

Perth and Kinross Council

Wednesday, 19 December 2018

AGENDA

MEMBERS ARE REMINDED OF THEIR OBLIGATION TO DECLARE ANY FINANCIAL OR NON-FINANCIAL INTEREST WHICH THEY MAY HAVE IN ANY ITEM ON THIS AGENDA IN ACCORDANCE WITH THE COUNCILLORS' CODE OF CONDUCT.

- 8 REVENUE BUDGET 2019/20, 2020/21 & 2021/22 - REPORT NO.1 5 - 20**
Report by Head of Finance (copy herewith 18/422)

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PERTH & KINROSS COUNCIL

19 December 2018

REVENUE BUDGET 2019/20, 2020/21 & 2021/22 – REPORT NO.1

Report by Head of Finance (Report No. 18/422)

PURPOSE OF REPORT

This report provides an update in relation to the Revenue Budget for 2019/20, 2020/21 and 2021/22 in light of the information contained in the UK Budget announced on 29 October 2018 and the Scottish Budget announced on 12 December 2018.

1. BACKGROUND

- 1.1. On 22 February 2018 the Council approved balanced Provisional Revenue Budgets for 2019/20 and 2020/21 (Report No. 18/47 refers). Indicative Council Tax levels for 2019/20 and 2020/21 were also approved at this time.
- 1.2. On 3 October 2018 the Council approved the update of the Medium Term Financial Plan (MTFP) (Report No. 18/326 refers). The Plan included a summary of the implications of the latest financial projections on future Council General Fund Revenue Budgets over the medium term.
- 1.3. The update of the Plan included the latest assumptions in relation to potential reductions in Scottish Government grant funding and increases in pay awards. The Council approved a planning assumption of a cash reduction in grant funding of 2.3% in 2019/20 with an assumed cash standstill in funding in 2020/21 and 2021/22. The Plan also assumed indicative Council Tax rises of 3% in 2019/20, 2020/21 and 2021/22. This resulted in the allocation of revised corporate savings targets to Services for 2019/20 and 2020/21, over and above the levels previously approved in the Provisional Revenue Budgets in February 2018. The Plan also included new corporate savings targets for 2021/22.
- 1.4. Specifically, the Council approved:
 - The Head of Finance maintain the Medium Term Financial Plan and further refine the assumptions which underpin it.
 - 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.
 - New corporate savings targets 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. (which may be subject to further review).

- The setting of the 2028/29 Composite Capital Budget at the special meeting of the Council in February 2019.
- The Executive Officer Team reviews the existing Capital Budget, Capital resourcing and potential projects for financial year 2028/29 and brings forward recommendations for consideration by Council.
- To submit the updated Reserves Strategy to the Council in February 2019
- Determining 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 & Communities Committee on 23 January 2019.

- 1.5. There have been a number of developments since the meeting of the Council on 3 October 2018 and these are outlined in the remainder of this report.

2. UNITED KINGDOM FISCAL POSITION

- 2.1 The Chancellor of the Exchequer presented the 2018 Budget to the UK Parliament on 29 October 2018. This budget was published alongside the latest Office of Budget Responsibility (OBR) Economic and Fiscal Outlook.
- 2.2 The key points in the most recent budget are set out below. All forecasts remain highly uncertain at this time, especially in relation to the ultimate impact of Brexit.

UK Economic Outlook:

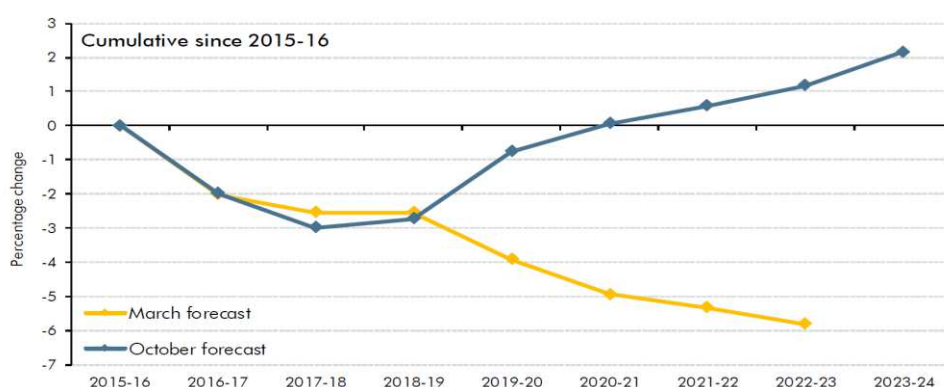
- Expected real terms growth in Gross Domestic Product has increased slightly in 2019/20 but is largely unchanged at around 1.5% per annum.
- Inflation (Consumer Price Index) is forecast to rise above the Bank of England's target this year (2%) but to quickly return to near target.
- Interest rates are expected to see further rises in the coming years but to still remain at historically low levels.

UK Fiscal Outlook:

- Total Revenue has been revised up considerably as a result of better than expected tax receipts.
- Total Expenditure has been revised up by similar amounts, except in 2018/19, due largely to commitments made with respect to future NHS resource funding levels.
- Total Borrowing is largely unchanged (2018/19 excepted) as the changes to Revenues and Expenditure largely cancel each other out.

- The Departmental Expenditure Limits (DEL) for UK Government expenditure illustrated in Chart 1 below demonstrate the degree to which the latest forecasts have improved for resource spending, which is now projected to rising rather than falling post 2018/19.

Chart 1: Change in Real Resource (Revenue) DEL per capital from 2015/16



Source: Office of Budget Responsibility Economic & Fiscal Outlook – October 2018

3. IMPLICATIONS FOR THE SCOTTISH BUDGET

- 3.1 The Barnett formula related consequential from the 2018 November UK Budget amount to £960 million for the financial year to 2020/21. The majority of this increase (around £550 million) relates to NHS resource spend, which the Scottish Government has committed to support healthcare. In addition £150m has also been allocated for the Tay Cities Deal. The Scottish Government's analysis of the consequential is set out in Table 1.

Table 1: Barnett Consequential to 2020/21

	2018/19	2019/20	2020/21	Total
	£m	£m	£m	£m
Resource DEL	123.0	719.5	-	842.5
Capital DEL	91.1	4.3	7.8	102.2
Financial Transactions	0.0	0.0	14.0	14.0
TOTAL	214.1	723.8	21.8	959.7

Source: Scottish Government 30 October 2018

- 3.2 The Barnett formula is a mechanism used by the Treasury to automatically adjust the amounts of public expenditure allocated to the devolved administrations in Northern Ireland, Scotland and Wales to reflect changes in spending levels allocated to public services in England, England and Wales or the United Kingdom as appropriate. The formula applies to a large proportion, but not the whole, of the devolved Governments' budgets.
- 3.3 How these increases in the overall amount of funding for Scotland impacts on "unprotected budgets" including much of local government expenditure will

depend upon the ultimate allocation of Barnett “consequentials” to unprotected areas of the budget. “Unprotected budgets” are defined as those areas of activity that are not included in Scottish Government manifesto commitments to the NHS, Police Scotland, Social Security, Higher Education and Early Years and Childcare.

- 3.4 The Scottish Parliamentary Information Centre (SPICe) have also analysed the Treasury allocations to Scotland for 2019/20 which are set out in Table 2 below. These figures represent an improvement on the position at the last UK fiscal event with Resource (revenue) spending now expected to grow, after inflation by 0.7% next year. Capital spending will grow by 10.4% in real terms in 2019/20.

Table 2: Scottish Treasury Allocations (real terms, 2017/18 prices)

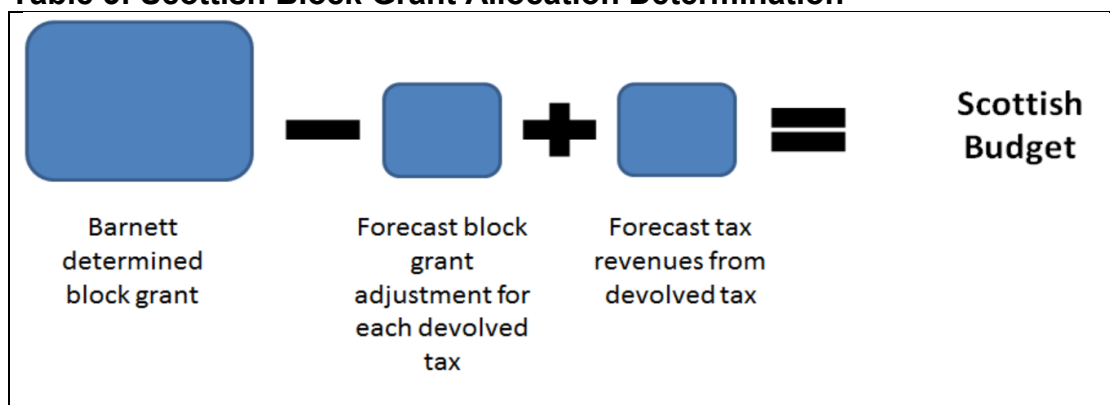
	2018/19	2019/20	
	£m	£m	%
Resource (Revenue)	26,500	26,690	0.7
Capital	3,457	3,817	10.4
TOTAL	29,957	30,509	1.8

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

Source: SPICe Briefing – UK Autumn Budget 2018

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

Table 3: Scottish Block Grant Allocation Determination



- The block grant allocations from the UK Budget – changes in this block are determined by increases or decreases in English spending on functions that are “comparable” to those devolved to the Scottish Parliament.
- A block grant adjustment, which is essentially a forecast of the revenue the UK Government has foregone by devolving taxes to the Scottish Parliament (such as Scottish Income Tax).

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

3.6 The Scottish Fiscal Commission published its latest forecast of Scottish Government tax revenues, social security and the Scottish Economy on 12 December 2018 which are factored into the Scottish Government's budget assumptions. The full report can be found at this link – [Scottish Fiscal Commission - December 2018](#).

4. SCOTTISH GOVERNMENT BUDGET – 12 DECEMBER 2018

4.1 The Cabinet Secretary for Finance, Economy and Fair Work presented the draft 2019/20 Scottish budget to the Scottish Parliament on 12 December 2018 – see link - [Scottish Draft Budget 2019/20](#).

4.2 Finance Circular 8/2018 was issued by the Scottish Government on 17 December 2018. Finance Circulars can be found at the following link - [Scottish Government Finance Circulars](#).

4.3 As advised in the update of the Medium Term Financial Plan, Finance Circular 8/2018 provided by the Scottish Government relates to financial year 2019/20 only, with no information for 2020/21 and beyond.

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

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

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

Source: Finance Circular 8/2018 – 17 December 2018

4.5 Table 4 below, summarises the movements in the total funding package from the Scottish Government to facilitate a comparison of the 2019/20 provisional allocation with the current year on a comparable basis.

Table 4: Cash Movements between 2018/19 and 2019/20 (on a comparable basis)

	£m
2018/19 Position	
Finance Circular 4/2018 – March 2018	247.768
2019/20 Position	
Finance Circular 8/2018	250.919
Less	
- Expansion of Early Learning & Childcare	(6.991)
- Health & Social Care	(3.243)
- Sanitary Products in Public Bodies	(0.078)
- School Clothing Grant	(0.077)
- Whole System Approach (Youth Justice)	(0.025)
- Free Child Burials	(0.008)
- Carers Act Extension	(0.300)
Updated 2019/20 (on a comparable basis)	240.197
£ Cash Reduction	7.571
% Cash Reduction	3.06%

- 4.6 The 2019/20 provisional allocation includes funding for the Expansion of Early Learning & Childcare, Health & Social Care, Sanitary Products in Public Bodies, School Clothing Grant, Whole System Approach, Free Child Burials and the extension of the Carers Act.
- 4.7 Funding towards Discretionary Housing Payments, the Teachers Induction Scheme, Free Personal Care for Under 65s, School Counselling Services, Gaelic, the new Town Centre Fund, Free Sanitary Products in Schools and 1+2 Languages has still to be allocated.
- 4.8 Based on Finance Circular 8/2018, the 2019/20 Scottish Government provisional funding allocation of £250,919,000 is £3,151,000 greater than the allocation for 2018/19 as set out in Finance Circular 4/2018 (issued March 2018).
- 4.9 However, the 2019/20 provisional funding allocation includes £10,722,000 which is either ring-fenced by the Scottish Government towards meeting specific initiatives, most notably £6,991,000 for Early Learning and Childcare, or where there is an expectation that the Council will apply funding for a stated purpose. At the time of writing, some of the conditions attached to this funding are still to be confirmed.

- 4.10 On a like for like basis, the provisional Scottish Government funding allocation for 2019/20, therefore, represents a £7,571,000 cash reduction (3.06%) over the equivalent position for 2018/19 set out in Finance Circular 4/2018. This is a cash reduction and does not take account of the additional impact of inflation or demand growth resulting in a significant real terms reduction.
- 4.11 The Medium Term Financial Plan approved by Council on 3 October 2018 assumed Scottish Government funding reductions in 2019/20 of £5,582,000 or 2.3% (Report 18/326 refers). The provisional Scottish Government funding allocation for 2019/20 is, therefore, £1,989,000 lower than the Council's planning assumption, therefore additional savings may be required to achieve a balanced budget.
- 4.12 It is stressed that the above analysis is based upon the provisional Local Government Settlement for 2019/20. As is normal, a number of issues and points of clarification have been identified at this stage in relation to the provisional funding figures and it is not unusual for individual local authority allocations to change significantly through this process.
- 4.13 Any changes in the Council's funding position will be provided to Elected Member Budget Review Groups during the period leading up to the setting of the Council Revenue and Capital Budgets on 20 February 2019 as and when they become available.
- 4.14 As anticipated the information received on 17 December 2018 does not contain any funding information beyond 2019/20 and the assumptions on levels of funding included in the 2020/21 and 2021/22 Provisional Revenue Budgets remain based on the Medium Term Financial Plan approved by Council on 3 October 2018 (Report No. 18/326 refers).
- 4.15 By continuing to plan for the medium term the Council provides authority for officers to roll out the programme of significant change (including transformation) which will seek to protect front line services for the communities within Perth and Kinross.

Implications for the 2019/20 Capital Budget

- 4.16 Finance Circular 8/2018 also includes provisional Capital Grant allocations for 2019/20 which are set out in Table 5 below - .

Table 5: Capital Settlement 2019/20

	2019/20
	£m
General Capital Grant	25.195
Reprofiled General Capital Grant (from 2016/17)	3.246
Specific Grant – Cycling, Walking, Safer Streets	0.205
Specific Grant – Early Year's Expansion	5.600
Reprofiled Specific Grant – Cycling, Walking, Safer Streets(2016/17)	0.042
TOTAL CAPITAL GRANT FUNDING	34.288

4.17 In setting earlier Capital Budgets, the Council had previously made assumptions on the level of funding in 2019/20. The figures in the information received on 17 December 2018 show a net increase in Capital Grant funding of £9,492,000. The breakdown of this additional funding is as follows –

- Flood Prevention Grant of £9,514,000 will now be received within the 2019/20 settlement for specifically earmarked schemes at Comrie, Milnathort, South Kinross and Scone – previously this funding was assumed to be received in 2020/21.
- General Capital Grant – reduction of £71,000;
- Flood Allocations – increase of £44,000;
- Ring Fenced Allocation (Cycling, Walking, Safer Streets) – increase of £5,000.

4.18 These adjustments will be included in the Capital Budget report which will be considered by the special meeting of the Council on 20 February 2019.

Non-Domestic Rates

4.19 The draft Scottish Budget sets out a provisional Non Domestic Rates poundage for 2019/20 at 49.0p (48.0p in 2018/19), an increase of 2.1%. The draft Budget also states that the Small Business Bonus Scheme will be “maintained”.

Local Government Pay Update

4.20 The Local Government Pay Negotiations for 2018/19 have still to reach a conclusion. An improved offer of a 3% pay uplift on salaries up to £80,000 and a fixed uplift of £1,600 on salaries above £80,000 was offered by the employer's side with a view to resolving the pay dispute. However, recent consultative ballots by the Teachers Trade Unions (EIS and SSTA) and Scottish Joint Council Trade Unions (Unison, Unite and GMB) indicate strength of feeling across the local government workforce for rejection of this current one-year pay offer.

- 4.21 These trade unions are now taking steps to proceed to conduct statutory ballots to seek mandates for strike action unless their pay demands are met. Talks between Cosla and the trade unions, and separately also with the Scottish Government who are directly involved in the negotiations for teachers, are ongoing with a view to finding a settlement which will balance cost and affordability and avoid disruption to services through industrial action.
- 4.22 Going forward the draft Scottish Budget for 2019/20 includes the Scottish Government's 2019/20 Pay Policy of a 3% pay rise for all earning less than £36,500; caps the pay bill at 2% for all those between £36,500 and £80,000; and limits the maximum pay uplift for those earning over £80,000 to £1,600.

Teachers' Pension Valuation

- 4.23 The most recent valuation of unfunded public sector pension schemes in the UK has meant that a number of schemes, including the Teachers' Pension Scheme will be subject to increases in Employers contributions from April 2019, with a 22.4% employer's rate applying from 1 April 2019. For Perth & Kinross Council this will result in additional contributions of approximately £3,000,000 in 2019/20.
- 4.24 There may be Barnett consequentials from this increase that will flow to the Scottish Government following this change. However, this will not be known until publication of the Spring Statement in 2019. The allocation of consequentials is a devolved matter for the Scottish Government and in a letter to COSLA dated 11 December 2018, the Cabinet Secretary for Finance, Economy and Fair Work advised that "the Scottish Government does recognise that there is an argument for passing on consequentials to assist with their planning". This will be kept under review and reported as more information becomes available.

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

- 5.1 In line with the recommendations included in the Medium Term Financial Plan approved by Council on 3 October 2018 (Report No. 18/326 refers), Services have been developing updated Revenue Budget submissions for 2019/20 & 2020/21 and new detailed submissions for 2021/22.
- 5.2 For 2019/20 & 2020/21 the submissions include updated corporate savings targets which reflect revised assumptions in relation to funding reductions and pay awards as well as Service specific updated expenditure pressures and savings proposals. For 2021/22, the submissions include new corporate savings targets and Service expenditure pressures and savings proposals.
- 5.3 On the basis of the revised assumptions for 2019/20 and 2020/21 and new assumptions for 2021/22, Revenue Budget submissions from Services as at December 2018 are summarised in the following table. For the avoidance of doubt the information in Table 6 below only includes the **movements** in the 2019/20 and 2020/21 Provisional Revenue Budgets. Decisions approved by

Council in February 2018 in relation to 2019/20 and 2020/21 are **excluded**. The Service Provisional Revenue Budget submissions have been subject to scrutiny by Elected Member Budget Review Groups during November and December 2018.

Table 6: Summary of Service Provisional Revenue Budget Submissions (as at 12 December 2018)

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

- 5.4 Table 6 shows that, currently, in 2019/20, 2020/21 and 2021/22, expenditure pressures exceed savings proposals by £7,324,000, £2,350,000 and £2,556,000 respectively. Cumulatively there is a funding gap of £12,230,000 over the three years. The position set out in Table 6 above, does not include the provisional additional funding reductions of £1,989,000 that are described in paragraph 4.11 above.
- 5.5 The Scottish Government have provided funding information for 2019/20 only. It remains critical, however, that the Council continues to plan over the medium term to allow sufficient lead in times to deliver the savings that are likely to be necessary in future years. The delivery of the transformation programme and savings options in financial years 2020/21 and 2021/22 require a longer term planning horizon.
- 5.6 Members are also reminded that there are significant savings included in the Provisional Revenue Budgets for 2019/20 and 2020/21 (approved by Council in February 2018 which are summarised in Table 7 below).

Table 7: Summary of Provisional Budget Decisions

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

- 5.7 The larger than projected reduction in funding set out at Table 4 and the funding gap set out at Table 6 present a significant challenge to the Council. The Executive Officer Team will continue to work towards the delivery of a balanced three year Revenue Budget. However, in both January 2017 and 2018 Councils received notification of significant additional funding towards the 2017/18 and 2018/19 Revenue Budgets respectively following the Scottish

budget negotiations. Officers will be monitoring the progress of the negotiations process and will provide regular updates to Budget Review Groups.

Application of Revenue Budget Headroom

- 5.8 At this time there is **no Revenue Budget Headroom available** to the Council. If any Headroom becomes available, the Council is advised to consider a **prudent approach** in applying it towards recurring expenditure proposals in the 2019/20, 2020/21 and 2021/22 Provisional Revenue Budgets. The protection of recurring headroom does allow the Council to **reject** Service savings proposal. In recent years headroom has also been committed, on a non-recurring basis, to amongst other areas, economic development and employability.

6. NEXT STEPS

- 6.1 As set out above, the Local Government Finance Circular was issued by the Scottish Government on 17 December 2018. The information contained within this circular is provisional. If any significant movements are identified or advised in the intervening period, a verbal update will be provided at the Council meeting. Furthermore, over the coming weeks it is likely that additional information will be received which will allow further analysis to be undertaken on the impact on Perth & Kinross Council. This will include a review of all existing savings proposals to ensure that they are compatible with any conditions of the funding settlement from the Scottish Government.
- 6.2 This analysis will also be undertaken in advance of the Scottish Government finalising its budget in January and February 2019. All additional information and any adjustments will be considered and analysed with updates being provided to Budget Review Groups as they become available in advance of the special meeting of Council on 20 February 2019.

7. CONCLUSIONS AND RECOMMENDATIONS

- 7.1. In common with all Scottish local authorities and the wider public sector, Perth & Kinross Council continues to anticipate a period of continued financial constraint and growing demand for Council Services. The Council continues to take proactive measures to enable it to address this challenge.
- 7.2. It is recommended that the Council notes the contents of this report.

Author(s)

Name	Designation	Contact Details
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Approved

Name	Designation	Date
Stewart Mackenzie	Head of Finance	17 December 2018
Jim Valentine	Depute Chief Executive and Chief Operating Officer	

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1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

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

1. Strategic Implications

1.1. Corporate Plan

- 1.1.1. The Council's Corporate Plan 2018 – 2023 lays out five outcome focussed strategic objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:

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

- 1.1.2 This report relates to all of these objectives.

2. Resource Implications

2.1. Financial

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

2.2. Workforce

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

2.3. Asset Management (land, property, IT)

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

3. **Assessments**

3.1. Equality Impact Assessment

- 3.1.1. Under the Equality Act 2010, the Council is required to eliminate discrimination, advance equality of opportunity, and foster good relations between equality groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties.
- 3.1.2. The 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, and all Executive Directors have been consulted in the preparation of this report.

2. BACKGROUND PAPERS

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

3. APPENDICES

None

