

## PERTH AND KINROSS COUNCIL

Council Meeting – 19 December 2012

## UPDATE OF MEDIUM TERM FINANCIAL PLAN

## Report by the Head of Finance

**ABSTRACT:**

This report updates the Medium Term Financial Plan approved by Council on 14 December 2011 (Report No. 11/654 refers) in light of the most up to date commentary on the economic climate and information contained in Finance Circular No. 5/12 – the Local Government Finance Settlement 2013/14 for Perth & Kinross Council. The report also contains proposals in relation to the establishment of Investment in Improvement Fund Four.

**1. RECOMMENDATIONS**

The Council is requested to:

- 1.1 Note the contents of the report;
- 1.2 Consider and agree in full to the terms of the Settlement Offer for 2013/14 as set out in section 4.3 of this report and detailed in the Cabinet Secretary for Finance, Employment and Sustainable Growth's letter of 20 September 2012;
- 1.3 Approve the setting of a two year revenue budget by updating the previously approved Provisional Revenue Budget for 2013/14 and setting a new Provisional Revenue Budget for 2014/15 as set out in section 6.2.6;.
- 1.4 Approve a contribution of £3 million from Reserves and headroom to support the significant investment in capital infrastructure across Perth and Kinross as set out in section 7.4 with the exact combination of funding sources being reported to the special meeting of the Council on 14 February 2013;
- 1.5 Approve the preparation of an up-dated seven year Composite Capital budget for the period 2013-2020 for submission to the Council meeting on 14 February 2013 as set out in section 7.10 of this report;
- 1.6 Approve the establishment of the Investment in Improvement Fund Four with up to £1 million being provided from revenue budget headroom to create capacity to support further service redesign to mitigate against future expenditure pressures as set out in section 11.4.

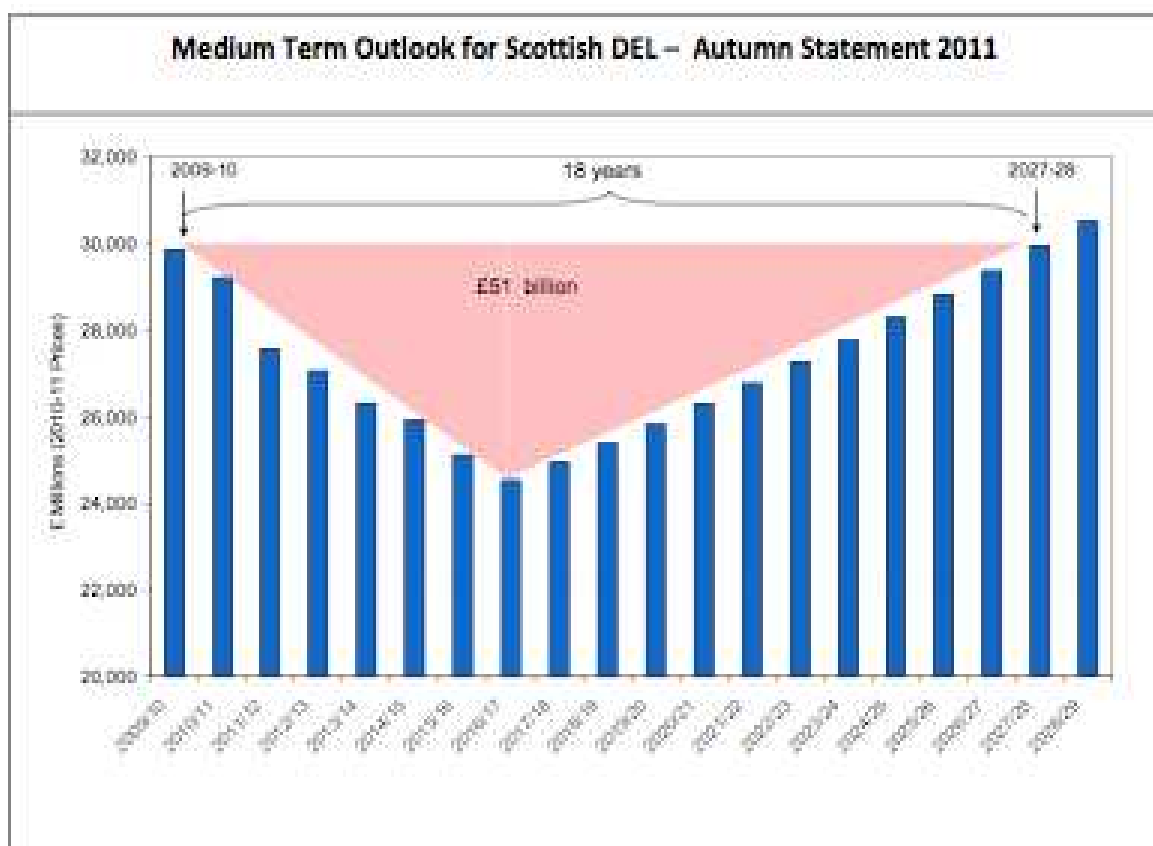
## 2. BACKGROUND

### 2.1 Provisional Revenue Budgets

- 2.1.1 On 17 February 2011 Perth and Kinross Council considered the Revenue Budget 2011/12 to 2013/14, Budget Update Report No. 2 (Report No. 11/56 refers). The Council also set the Final Revenue Budget for 2011/12 and Provisional Revenue Budgets for 2012/13 and 2013/14.
- 2.1.2 The Provisional Revenue Budget for 2012/13 was subsequently updated on 9 February 2012 when the Council set the Final Revenue Budget for 2012/13 (Report No. 12/52 refers).

### 3. SCOTTISH BUDGET TO 2016/17

- 3.1 The table below indicates that (based on the 2011 Autumn Statement) between financial years 2009/10 and 2016/17 the projected real terms reduction in Scottish Government funding is in the order of 18% of £5.5 Billion. This position has deteriorated further, but the full implications of the 2012 Autumn Statement have yet to be analysed.
- 3.2 The table indicates that financial year 2016/17 will be the trough in terms of the Scottish Departmental Expenditure Limit (DEL) Budget.



Source: Scottish Government – State of the Economy (March 2012)

- 3.3 The Office of Budget Responsibility's 2012 Long Term Report acknowledged that "future governments are likely to have to undertake some additional fiscal

tightening beyond the current consolidation plan for the next five years in order to address the fiscal costs for an ageing population”.

3.4 The Head of the UK Civil Service also recently acknowledged that “we are 25 per cent through the fiscal adjustment. Spending cuts could last seven, eight, ten years”.

3.5 The Improvement Service has also recently suggested that:

- There will be at least 3% to 4% real reductions in funding to Scottish Local Authorities for next two years.
- A prudent assumption is for £1 Billion cash reductions to Scottish Block in the 2014 Spending Review which would translate into approximately a £340m million reduction in funding for Scottish local authorities
- There is an expectation from the Scottish Government that health, social care and education will be protected from reductions.
- No real growth is predicted until 2018/19

3.6 Extrapolations of Council funding beyond 2014/15 indicate that significant cash cuts are likely in 2015/16 and 2016/17. The impact of these potential reductions will be compounded by increasing pressures in relation to demand and demographic changes in Perth and Kinross.

3.7 The above analysis highlights a landscape of continuing financial challenges. Indeed it could be argued that such challenges will intensify as the scope for efficiency savings and the redesign of service provision is reduced. Given this, it is currently predicted that 2015/16 and 2016/17 may be two of the most challenging years in terms of managing the Council's Revenue Budget.

3.8 With this in mind it would be prudent for the Council to maintain as much recurring headroom as possible for 2015/16 and beyond to assist with the potential cash reductions in Government funding and the demand growth facing the Council in the medium term.

## **4. SCOTTISH BUDGET 2013/14**

### **4.1 Scottish Budget Announcement**

4.1.1 The Cabinet Secretary for Finance and Sustainable Growth presented the Draft Budget for 2013/14 to the Scottish Parliament on 20 September 2012. The budget statement covered financial year 2013/14 with the total Scottish Government budget set at £34.2 billion. The overall cash increase in the Scottish Government's is c£0.3 billion (0.9%) in comparison to 2012/13.

4.1.2 The fundamental priorities for the Scottish Government for the 2013/14 Budget are:

- To accelerate economic recovery, to create jobs and to secure new opportunities through the low carbon economy;

- To continue the decisive shift to more preventative approaches to public service delivery and deliver a wider public service reform programme; and
- To maintain a commitment to a Social Wage for the people of Scotland at a time of acute pressures on household incomes.

## 4.2 Total Funding for Scottish Local Government

4.2.1 The Cabinet Secretary and the Leadership of the Convention of Scottish Local Authorities (COSLA) have agreed a “financial package” with local authorities.

4.2.2 The proposed financial package for Scottish local government in 2013-15 is summarised below:

Proposed Local Government Financial Package			
<i>Source: Finance Circular 5/2012</i>			
	2012-13 £million	2013-14 £million	2014-15 £million
Revenue	10,915	9,397	9,382
Support for Capital	570	507	743
Total Funding	<u>11,485</u>	<u>9,904</u>	<u>10,125</u>

4.2.3 There are two significant issues which impact on the above table:

- The revenue allocation reflects the removal of police and fire funding in 2013/14
- A further £100 million of capital grants will be paid in 2015/16 (outwith the period of this current financial settlement).

## 4.3 Settlement Offer for Local Government in Scotland 2013/14 and 2014/15

4.3.1 The provisional total funding allocations, contained within Finance Circular No. 5/2012 issued on 27 November 2012, form the basis for the annual consultation between the Scottish Government and COSLA ahead of the Local Government Finance (Scotland) Order 2013 which will be presented to the Scottish Parliament in February 2013.

4.3.2 The Cabinet Secretary for Finance, Employment and Sustainable Growth wrote to COSLA on 20 September 2012 setting out the terms of the settlement to be provided to local government in return for the provisional funding allocations set out in this Circular (see Appendix 1). The letter of 20 September 2012 also confirmed that if any council does not agree to the full package available then it will have its allocation reduced by its needs based share of a package of resources worth in total £109 million for 2013/14 across

the whole of local government. This package of resources to be removed is made up of each council's needs based share of:

- £70 million to deliver a Council Tax freeze; and
- £39 million for the teacher commitments – maintaining teacher numbers in line with pupil numbers and secure places for all probationers who require one under the teacher induction scheme.

4.3.3 The 2013/14 provisional allocations set out in the Circular assume that all councils will sign up to the package and therefore that the full amount will be issued.

4.3.4 In a departure from the two stage sign-off arrangements agreed for previous settlements, for 2013/14 only those councils who do not intend to take up the offer and agree the full package of measures set out in the 20 September 2012 letter are required to write to the Cabinet Secretary for Finance, Employment and Sustainable Growth setting out the reasons why they do not wish to comply by no later than 11 March 2013.

4.3.5 If any Council does not so agree, the full amount of the Council's needs based share of the £109 million sanction (c£2.8 million for Perth and Kinross Council) will be withdrawn from the overall local government settlement and redeployed by Scottish Ministers.

4.3.6 **ACTION:** the Council is requested to agree to the terms of the letter from the Cabinet Secretary for Finance, Employment and Sustainable Growth dated 20 September 2012.

## 5. LOCAL GOVERNMENT FINANCE SETTLEMENT 2013-14 – PERTH AND KINROSS COUNCIL

5.1 The provisional outcome for Perth & Kinross Council for financial years 2013/14 and 2014/15 is summarised in the tables below:

<b>Perth &amp; Kinross Council</b>			
<b>Scottish Government Grant Funding</b>			
<i>Source: Finance Circular 5/2012</i>	2012/13 *	2013/14	2014/15
	£'000	£'000	£'000
General Revenue Funding	185,935	184,902	181,176
Ring-Fenced Revenue Grants	80	415	415
Grants - Previously AME	335	0	0
Non Domestic Rate Income	47,331	50,928	55,718
<b>Total Revenue Funding</b>	<b>233,681</b>	<b>236,245</b>	<b>237,309</b>
* Adjusted for Police and Fire			

5.2 The overall increase in the Council's Revenue Grant funding on a cash basis between 2012/13 and 2013/14 is £2.899 million (1.2%) and a further £1.064 million (0.5%) between 2013/14 and 2014/15.

- 5.3 In real terms this financial settlement means approximately a 1.3% and 2% real terms reduction in funding in financial years 2013/14 and 2014/15 respectively (based on an inflation rate of 2.5%).
- 5.4 The movements are analysed in the following table.

<b>Perth &amp; Kinross Council</b>		
<b>Movement in Scottish Government Grant Funding</b>		
<i>Source: Finance Circular 5/2012</i>	2013/14	2014/15
	£'000	£'000
Blue Badge Scheme	19	0
Looked After Children	26	0
Free Personal and Nursing Care	187	94
Council Tax Support	350	(350)
Family Support	94	0
Police and Fire - On Going Costs	200	0
Finance Circular 12/2011	1,799	1,257
Updated Service Provision - December 2012	224	63
<b>Total Revenue Funding</b>	<b>2,899</b>	<b>1,064</b>

- 5.5 There is a continued change in the distribution methodology for Non Domestic Rate Income (NDRI). Prior to 1 April 2012 NDRI was distributed on the basis of population. The Scottish Government now bases the distribution upon estimates of the amount of Non Domestic Rate Income that each authority will raise and has adjusted General Revenue Grant to provide a guaranteed package of funding. This change is intended to provide greater transparency and to facilitate the Business Rates Incentivisation Scheme (BRIS).
- 5.6 Finance Circular 5/2015 also provided an update on the BRIS for financial year 2012/13. The 2012/13 BRIS targets are currently under review following receipt of mid-year returns. It is clear that there has been a delay in the settling of appeal cases caused by the need to await the outcome of the Mercat/Overgate Shopping Centre appeal cases. This appears to have had the effect of artificially increasing the income councils are collecting in 2012/13. This may be treated as a "significant event" and the BRIS targets reviewed. This announcement puts the £1million additional income from BRIS reported in Revenue Monitoring Report No 3 (Report No. 12/526) at risk.

## **6. NEXT STEPS IN THE REVENUE BUDGET PROCESS**

### **6.1 Future Uncertainty**

- 6.1.1 There is considerable uncertainty in relation to financial planning over the medium term. This uncertainty is due to a number of factors including;
- Scottish Government grant figures that only cover the period to 2014/15;

- No consensus amongst councils for 2015/16 and beyond;
- The potential impact of health and social care integration;
- Future pay strategy;
- Inflation
- Legislative impacts including:
  - Welfare Reform
  - Children and Young Peoples Bill

6.1.2 With this degree of uncertainty it is proposed that on 14 February 2013 the Council set a Final Revenue Budget for 2013/14 and Provisional Revenue Budget for 2014/15.

## **6.2 Preparation of the 2013/14 General Fund Final Revenue Budget and 2014/15 Provisional Revenue Budget**

6.2.1 Work has already commenced on updating the previously approved Provisional Revenue Budget for 2013/14 and producing a Provisional Revenue Budget for 2014/15.

6.2.2 The Executive Officer Team reviewed Service budget submissions in October, in advance of scrutiny by Council Members, to ensure that they remain consistent with the Single Outcome Agreement and the Council's Corporate Plan Objectives.

### **6.2.3 Revenue Budget Principles and Assumptions**

6.2.4 A number of principles and assumptions, recommended by the Executive Officer Team, have been used in determining the proposed approach to updating the Provisional Revenue Budget submissions. These are set out below:

- The starting point for all budget submissions is the Provisional Revenue Budget for 2013/14 approved in February 2011 (Report No. 11/56 refers) – updated for the impact of decisions taken in setting the Final Revenue Budget for 2012/13 in February 2012 (Report No. 12/52 refers).
- Services have been 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.
- For 2014/15 Services have been requested to contribute towards a Corporate Savings Target of 3.5%. The Executive Officer Team (EOT) has proposed this target to fund pressures in relation to pay inflation, increments, employers' superannuation and welfare reform (in so far as it

impacts on Council Tax income collection levels and changes to Council Tax Benefit) and to provide sufficient headroom to reinstate some savings options. The term “headroom” is used to mean the excess of income over expenditure in the Revenue Budget.

6.2.5 The established policy of setting savings targets in excess of the level strictly required to balance the Council’s budget is intended to:

- Provide Elected Members with flexibility in choosing between different budget options.
- Create capacity within the budget to carry forward recurring resources into future years to offset future budget pressures or to allow for adverse movements in the Council’s overall financial position.
- In the year in which the savings are approved, create a non-recurring resource which may be used to meet non- recurring expenditure such as investment in regeneration projects; transformational change or severance costs.

6.2.6 **ACTION:** The Council is requested to approve the setting of a two year revenue budget by updating the previously approved Provisional Revenue Budget for 2013/14 and setting a Provisional Revenue Budget for 2014/15.

### **6.3 Revenue Budget Headroom**

6.3.1 The Final Revenue Budget for 2012/13 and Provisional Revenue Budget for 2013/14 (approved in February 2012 and February 2011 respectively), intentionally included headroom to assist the Council in managing significant uncertainty in its medium term financial planning. Carrying forward recurring headroom allows the Council to address budgetary pressures in future years which may arise from the many uncertainties facing it. These include the impact of Welfare Reform, demographic changes, reducing income and increasing demand for Council services.

6.3.2 As at December 2012 the available budget headroom to be included in the provisional budget to be considered by the Council on 14 February 2013 is estimated as follows:



	<b><u>2013/14</u></b>	<b><u>2014/15</u></b>
	<b><u>£000</u></b>	<b><u>£000</u></b>
Pay Award (1%, 2%)	1,850	3,700
Increments and Other	1,222	460
Welfare Reform - Corporate Pressure (Council Tax Benefit & Collection)	-	2,000
Service Expenditure Pressures	11,213	9,220
Corporate Savings Targets	-4,049	-10,233
Service Savings Options - Service	-12,492	-7,702
Settlement Adjustments	-1,799	-1,257
IIIF4 (Provisional)	380	620
Movement on Corporate Budgets	-800	-250
Headroom from 2012/13	-4,173	-
Finance Circular 5/2012	-295	-63
Miscellaneous	200	-25
Contribution to Reserves (in year)	<u>-8,743</u>	<u>-3,530</u>
Available Recurring Headroom	<u><u>-8,743</u></u>	<u><u>-12,273</u></u>

6.3.3 As set out in section 3 above, the amount of recurring headroom carried forward should be managed to mitigate against the projected reductions in funding and the demand pressures that the Council will face in the medium term.

## **6.4 Further Consideration of Budget Proposals**

### **6.4.1 Distribution of Budget Submissions to Elected Members**

6.4.2 Revenue Budget Executive Summaries have been distributed to all Elected Members for consideration in developing their budget proposals.

6.4.3 Elected Members are requested to note that the papers presented only show:

- (1) Movements to the previously approved Provisional Revenue Budget for 2013/14 approved in February 2011 (Report No. 11/56 refers), and
- (2) New proposals in relation to 2014/15 (both expenditure pressures and savings proposals).

6.4.4 It should be noted that the Revenue Budget Executive Summaries may be subject to further review and amendment in the run up to setting the Council's Revenue Budget on 14 February 2013

## **6.5 Assumptions in Updating the Medium Term Financial Plan**

6.5.1 The up-date of the Medium Term Financial Plan is based around a five year planning framework. It is proposed that the Council's capital investment is managed over a rolling seven year period in respect of the Composite Capital

Budget and is modelled over a thirty year period in respect of the Housing Standard Delivery Plan.

- 6.5.2 The planning of Revenue expenditure over the medium term is more challenging given the uncertainties over future grant funding levels and the range of variables influencing Service spending, including the impact of the current economic downturn; reducing income and increasing demand for Council Services. It is, therefore, proposed to focus, at present, upon updating the 2013/14 Provisional Revenue Budget and setting a Provisional Revenue Budget for 2014/15.
- 6.5.3 The funding position for Scottish local authorities over the medium term will be influenced not only by the UK budget but also by any change to the Barnett formula and by the relative spending priorities of the Scottish Government. In light of population projections for Perth & Kinross, the Council should continue to benefit, over time, from distributional changes in grant funding linked to population growth.

## **7. NEXT STEPS IN THE CAPITAL BUDGET PROCESS**

- 7.1 The Council has approved a long term and sustainable funding strategy for the Composite Capital Budget based upon augmenting the existing budget for borrowing costs through the managed use of resources held within the Capital Fund (report 12/53 refers).
- 7.2 This strategy is currently projected to support new borrowing of between £12-£25 million each year to fund new capital projects.
- 7.3 This funding is separate to the additional investment of around £25 million that will be considered in a separate report to this meeting entitled Composite Capital Budget – Additional Expenditure. The report seeks approval to incur additional capital expenditure on significant infrastructure investment. The funding of this additional capital expenditure relies on an estimated contribution of £3 million from Reserves and the headroom identified in section 6.2 of this report. The exact level of contribution will be refined in the reports on the Revenue Budget 2013/14 & 2014/15 and Reserves Strategy that will be presented to the special meeting of the Council on 14 February 2013.
- 7.4 **ACTION:** The Council is asked to approve a contribution of £3 million from Reserves and headroom in 2013/14 to support the significant investment in capital infrastructure across Perth and Kinross - the exact combination of funding sources to be reported to the special meeting of the Council on 14 February 2013.
- 7.5 The existing five year Composite Capital Budget is being monitored on an on-going basis. It is proposed to update the monitoring position and re-phase the existing five year budget, taking account of slippage on individual projects, for consideration by the Strategic Policy and Resources Committee on 13 February 2013.

- 7.6 Based on Finance Circular 5/2012, the Council's provisional capital grant funding for 2013/14 is £12.628 million, comprising £10.170 million of general capital grant, £0.158 million of ring-fenced grant for cycling, walking and safer streets programmes and £2.3 million in relation to funding for Invergowrie Primary School. Capital grant funding for 2014/15 has been provisionally notified as £16.065 million comprising £15.833 million of general capital grant and £0.232 million of ring-fenced grant for cycling, walking and safer streets programmes. In addition amounts for Schools Funding and Digital Infrastructure have yet to be allocated.
- 7.7 As previously agreed with COSLA, all Scottish Government support for local authority Capital expenditure will continue to be provided direct to Councils as capital grant.
- 7.8 The EOT have proposed that the timeframe for the Capital Budget be extended from five years to seven to identify investment priorities further into future and provide greater lead in times to ensure the continued delivery of key strategic projects and infrastructure.
- 7.9 Services have been developing a prioritised list of new Capital programmes for 2017-20, based upon the estimated resources available and the following four key strategic themes aimed at unlocking future potential across Perth and Kinross:
- Regeneration
  - Schools
  - Housing / Social and Community Care
  - Infrastructure
- 7.10 **ACTION:** The Council is requested to approve the preparation of an up-dated seven year Composite Capital budget for the period 2013-20 for submission to the Council meeting on 14 February 2013.

## **8. HOUSING REVENUE ACCOUNT (HRA)**

- 8.1 The HRA Business Plan is designed to deliver sufficient investment in modernising the Council's housing stock to ensure that all of its housing meets the Scottish Housing Quality Standard by 2015.
- 8.2 In agreement with Perth & Kinross Tenants' Federation, the Council has developed a medium / long term funding strategy for this investment based upon linking annual up-lifts in rent to movements in the Consumer Price Index (CPI) and creating more efficient services in the future. Any revisions to the Council's Housing Investment Programme, Housing Repairs, Neighbourhood Services and the rental strategy will be subject to consultation with the Tenants' and Residents' Federation and the wider tenant body.
- 8.3 In support of the HRA Business Plan, the Housing & Health Committee approved a five year investment programme in the Council's housing stock of

£12,549,000 (2012/13); £13,248,000 (2013/14); £12,786,000 (2014/15); £12,096,000 (2015/16) and £9,437,000 (2016/17) (Report No. 12/42 refers).

- 8.4 Perth & Kinross Council has made a successful bid to secure £1.170 million under a national Scottish Government scheme which, together with funding from Council Tax discounts on second homes and rental income from the properties concerned, will finance development totalling £4.719 million to deliver 39 new family homes on four sites; 6 in Lower Oakfield; 17 in Blairgowrie; 10 in Scone and a further 6 in Dalchampaig, Pitlochry (Report No's 11/249 and 12/43 refer).
- 8.5 The Housing and Health Committee will determine the Housing Revenue Account (HRA) Budget and rent levels for 2013/14 at their meeting on 6 February 2013. It is also proposed to submit a five year Housing Investment Programme for consideration by the Committee based on the requirements of the Housing Delivery Plan.

## **9. RESERVES STRATEGY**

- 9.1 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 flow and make reasonable provision, within available resources, for both predicted liabilities and unforeseen events.
- 9.2 The planned use of Reserves also facilitates the budget flexibility scheme which allows Services to manage expenditure over more than one financial year and enables the Council to manage significant expenditure pressures, such as the cost of implementing Single Status, over a period of time.
- 9.3 The uncommitted General Fund balance at 31 March 2012 was £14.763 million. This represented approximately 4.4% of the Net Revenue Budget for 2012/13 and is compliant with the Reserves Strategy target of holding a minimum level of uncommitted Reserves of between 2% to 5% of Net Revenue expenditure over the medium term (Report No. 12/54 refers).

## **10. OTHER FACTORS**

- 10.1 At this time there is still a significant amount of uncertainty in relation to the potential financial impact of Welfare Reform on Council Services and budgets. It is likely that there will be a number of budget pressures, both in terms of reduced income and increased demand. In terms of the Provisional Revenue Budgets for 2013/14 and 2014/15, Housing and Community Care have identified an expenditure pressure of £2.175 million in relation to direct impact on the Service and a further pressure of £2 million has been identified in relation to the potential impact on Council Tax income targets and the cost of administering Council Tax Benefit. There is also significant uncertainty in relation to the timescales for the implementation of Welfare Reform.
- 10.2 The continued impact of the economic downturn requires to be factored into the Council's Medium Term Financial Plan projections, both in respect of Service expenditure pressures (increasing demand and demographics) and also in relation to the Council's capacity to generate income.

- 10.3 In terms of pay inflation, it is currently assumed that pay increases for 2013/14 and 2014/15 will be 1% and 2% respectively. Clearly any pay settlement in excess of these assumptions would create a significant additional financial pressure. Continued dialogue at a national level with the trade unions over realistic and affordable pay awards is likely to form a key element in managing expenditure constraints across the public sector over the medium term. Adjustments to terms and conditions may go some way to contributing to this additional pressure but these negotiations will also take place at a national level.
- 10.4 No provision for general inflation has been made within the Revenue Budget planning totals for 2013/14 and 2014/15. As has been the case in previous years, Services are required to absorb the cost of Service specific inflation through identifying compensating savings.

## **11. ESTABLISHMENT OF INVESTMENT IN IMPROVEMENT FUND FOUR**

- 11.1 The Council has previously allocated resources towards Investment in Improvement Funds One, Two and Three. These Funds have supported a number of projects including:
- Organisational Development;
  - Sustainable Development;
  - Introduction of the Kerbside Recycling Service;
  - Corporate Asset Management;
  - Integrated Human Resources and Payroll System; and
  - Redesign of services for children, young people and adults with learning disabilities and/or autistic spectrum disorders.
- 11.2 In line with previous proposals, the following set of criteria will be applied to all projects which may attract funding from Investment in Improvement Fund Four:
- The Fund will be used to support change and improvement and associated capacity requirements.
  - The Fund will support the successful transition of staff and activities into new ways of working (service redesign).
  - The Fund will be used to 'pump prime' improvement activity or initiatives, but cannot be used to fund permanent staffing, without a clear sustainable model.
  - The Fund will **not** be used to meet the costs of on-going or front line service delivery (including current service strategic/operational support) or to provide any service developments or enhancements.
- 11.3 Approval is sought for the establishment of Investment in Improvement Fund Four with up to £1 million from Headroom which will provide additional capacity within Services to take forward further service redesign in order to mitigate future expenditure pressures.

- 11.4 **ACTION:** The Council is asked to approve the establishment of Investment in Improvement Fund Four to provide additional capacity to support further service redesign and mitigate against future expenditure pressures.

## **12. CONSULTATION**

- 12.1 The Chief Executive and all Executive Directors have been consulted in the preparation of this report.

## **13. RESOURCE IMPLICATIONS**

- 13.1 There are no resource implications directly arising from this report.

## **14. COUNCIL CORPORATE PLAN OBJECTIVES 2009 - 2012**

- 14.1 The Council's Corporate Plan 2009-2012 lays out five Objectives which provide clear strategic direction, informs decisions at a corporate and service level and shape resources allocation. They are as follows:-

- (i) A Safe, Secure and Welcoming Environment
- (ii) Healthy, Caring Communities
- (iii) A Prosperous, Sustainable and Inclusive Economy
- (iv) Educated, Responsible and Informed Citizens
- (v) Confident, Active and Inclusive Communities

- 14.2 The Chief Executive's Service provides a range of functions for internal and front-line customers alike. Those functions support the work of the whole Council by assisting them in the delivery of the Council's Corporate Objectives. As a consequence, this report does not specifically relate to one of the objectives, but assists with the delivery of all five.

## **15. EQUALITIES ASSESSMENT**

- 15.1 The Council's Corporate Equalities Assessment Framework requires an assessment of functions, policies, procedures or strategies in relation to race, gender and disability and other relevant equality categories. This supports the Council's legal requirement to comply with the duty to assess and consult on relevant new policies to ensure there is no adverse impact on any community group or employees.

- 15.2 The information presented in this report was considered under the Corporate Equalities Assessment Framework and the determination was made that the items summarised in this report do not require further assessment as they do not have a direct impact on people's wellbeing.

## **16. STRATEGIC ENVIRONMENTAL ASSESSMENT**

- 16.1 Strategic Environmental Assessment (SEA) is a legal requirement under the Environmental Assessment (Scotland) Act 2005 that applies to all qualifying plans, programmes and strategies (PPS), including policies.

- 16.2 The matters presented in this report were considered under the Environmental Assessment (Scotland) Act 2005 and no further action is required as it does not qualify as a PPS as defined by the Act and is therefore exempt.

## **17. CONCLUSION**

- 17.1 This report updates the Council on the outcome for Perth & Kinross Council of the Draft Scottish Budget and the subsequent issue of the local government finance settlement for 2013/14.
- 17.2 With the significant uncertainty into the medium term it would be prudent to maintain as much headroom into financial year 2015/16 as possible.
- 17.3 The report recommends that the Council sets a two year Revenue budget at the Special Council meeting on 14 February 2013 updating the previously approved Provisional Budget for 2013/14.
- 17.4 Recommendations are also made on committing Reserves and headroom of £3 million towards the significant capital expenditure on infrastructure across Perth and Kinross.
- 17.5 The report also seeks approval to earmark up to £1 million towards the creation of Investment in Improvement Fund Four to create capacity to support further service redesign to mitigate against future expenditure pressures.
- 17.6 The Medium Term Financial Plan, complemented by the Workforce Management Plan and the Corporate Asset Management Plan are key components in how the Council will manage the challenging environment it faces over the medium term in terms of increasing costs, increasing demands for Council services and reducing income levels

**J Symon**  
**Head of Finance**

**Note:** 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.

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Copy to: The Leaders of all Scottish local authorities

20 September 2012

Dear Councillor O'Neill

This letter confirms the terms of the settlement to be provided to local government for 2013-14 as part of the 2011 Spending Review and confirms a number of changes to the settlement that we have agreed since then as part of our continuing partnership negotiations. Against the background of the tightest financial constraints for a generation, the settlement package represents a fair settlement in the circumstances and is focussed on delivery of our joint priorities of growing the economy together with protecting front-line services and the most vulnerable in our society. COSLA is invited to agree the terms of the settlement set out below on behalf of local authorities.

Following the local government elections, we have reaffirmed our commitment to our partnership and are clear about the benefits which have flowed from it in the form of more effective delivery of the outcomes that matter to the people of Scotland. I am therefore delighted to confirm that this settlement remains firmly anchored in the ongoing relationship between the Scottish Government and local government and our commitment to working together on our joint priorities.

The detail of the settlement remains as set out in my letter of 21 September 2011 to Councillor Keenan and the changes we have agreed since then are described below.

Under the settlement, all local authorities will continue to work in partnership with Scottish Government in pursuit of our joint priorities, including delivery of the Government's programme as set out in the First Minister's statement to Parliament on 4 September and the *Government Economic Strategy*. As part of this, local authorities, together with their community planning partners, continue to be encouraged to increase their focus on prevention in making decisions about the use of resources.

Investment is a shared priority across the public sector and maximising capital expenditure is critical to economic recovery. I welcome your support in writing jointly with the First Minister to Council Leaders encouraging them to do all that they can to continue to invest, including accelerating investment where possible and to explore to what extent the ability of local government to borrow can sensibly be used to maximise capital expenditure, whilst recognising that decisions to borrow are a matter for individual local authorities.

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In addition to the pursuit of our joint priorities, individual local authorities will, in return for this settlement, deliver certain specific commitments.

Maintain a council tax freeze in each of the three years of the Spending Review.

Maintain teacher numbers in line with pupil numbers and secure places for all probationers who require one under the teacher induction scheme.

Delivery of these commitments will be monitored and in the event of a failure to deliver, appropriate adjustments made to distributable resources as described below.

In line with the agreement reached in the Spending Review, it will not be possible for local authorities to select elements of the package, including elements of the funding on offer. As in previous years, the Scottish Government will hold back £70m representing the amount that is included in the settlement to deliver the Council Tax Freeze and £39m for the Teacher commitments in 2013-14 from the Local Government Finance Order put to Parliament in early February. Parliamentary approval to pay out the remaining amount will be sought in March 2013 once all councils have set their budgets and their council tax rates for the year ahead.

Failure to deliver sufficient FTE teachers as reported in the annual census may invoke collective and/or individual sanctions in the shape of corresponding reductions in the local government settlement for future years. Scottish Government and COSLA will agree these numbers in the context of on-going discussions on the effective delivery of school education.

In a departure from the two stage sign-off arrangements agreed for previous settlements, I can confirm that for 2013-14 I will only require those Council Leaders who do not intend to take up the offer and agree the full package of measures to write to me setting out the reasons why they do not wish to comply. Any Leader not intending to take up the offer should write to me confirming their Council's decision by no later than 11 March, but preferably by the end of February, (and ideally as soon as possible after they have set their budgets and announced their council tax rates for 2013-14). Any Council not taking up the offer will not receive their share of the monies held back to be distributed later in March 2013.

The total funding as set out in the 2013-14 Draft Budget document, including provision for the council tax freeze, the support for teacher employment, which the Scottish Government will provide to local government is as follows:

Year	£m
2013-14	9,911.2
2014-15	10,131.7

This total includes the Government's estimate of non domestic rate income over the period but does not include a number of other agreed, or still to be finally agreed, sums that will be included in the final local government finance settlements for both 2013-14 and 2014-15 over and above the figures set out in the Local Government Finance Circular 3/2012. These include Early Years (£1.5m/£1.5m); Early Years Task Force (£3m/£3m); and the Blue Badge Scheme (£0.72m/£0.72m); and the Social Fund (tbc).

In addition a further £3m for 2013-14 has been added for Free Personal and Nursing Care and I can confirm that £4.5m will be added at a later date to the budget for 2014-15. In return for this COSLA has agreed to the uprating of these fees in line with inflation.

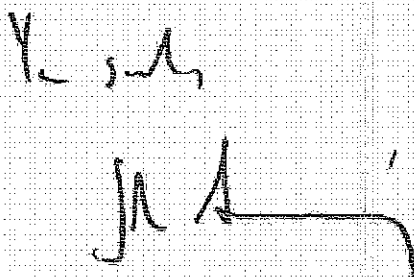
Within this total, revenue funding will amount to £9,389.1m/£9,368.3m, including the funding to deliver a council tax freeze, and capital £522.1m/£763.4m over the period. This takes into account the re-profiling of -£100m/+£120m/+£100m in capital budgets and comes with a commitment that £100m will be added to Local Government's capital share in the next Spending Review for 2015-16.

The changes included in the total funding package that have been made to our spending plans since publication of Scottish Spending Review 2011 and Draft Budget 2012-13 in respect of local government revenue funding are as follows: a net reduction of £954.7m following the transfer of responsibility for policing from local government to the new Scottish Police Authority (SPA); a net reduction of £274.8m following the transfer of responsibility for the fire service from local government to the new Scottish Fire and Rescue Service. The net sums reflect £4m added for ongoing police and fire costs to local government post reform. Other changes include an increase of £23m as a result of the DWP transfer of the Council Tax Reduction Scheme and an £8m reclassification of the Hostels Grant and Housing Support Grant former AME grants to DEL.

The establishment of the new Scottish Police Authority and Scottish Fire and Rescue Services will also result in a reduction of Capital funding of £14.8m and £15.1m respectively. The Capital funding will however be increased by £34.7m and £47.6m respectively as a result of consequentials resulting from the UK Government.

In partnership with COSLA, a review of the community planning and SOAs framework has been undertaken. Implementing the conclusions from the review will build on progress to date and ensure community planning and SOAs drive forward the focus on outcomes, integration and strong collaboration and preventative approach that is at the heart of ensuring a successful local response to the Christie Commission report

This settlement package for 2013-14 remains the best outcome that can be achieved in the continuing challenging financial circumstances. The package is focussed on delivery of our joint priorities of growing the Scottish economy and protecting front line services and the most vulnerable in our society, including through a greater focus on prevention. It also provides a robust platform for building on the successes achieved to date under our partnership to continue to deliver better outcomes to the people of Scotland.



JOHN SWINNEY

