

PERTH & KINROSS COUNCIL

28 SEPTEMBER 2022

MEDIUM TERM FINANCIAL PLAN 2023–29

Contact Officer: Scott Walker, Chief Accountant
(Report No. 22/249)

1. PURPOSE

- 1.1 This report updates the Medium-Term Financial Plan (MTFP) approved by Council on 15 November 2021 (Report No. 21/212 refers). The report summarises the implications of the latest projections on future Council General Fund Revenue Budgets over the medium term and provides an update on the Council's Capital Budget, Housing Revenue Account and Reserves position. The report also sets out a proposed approach to the development of the Revenue and Capital Budgets over the short and medium term.

2. RECOMMENDATIONS

- 2.1. It is recommended that the Council:
- i) requests the Head of Finance maintain the Medium-Term Financial Plan and further refine the assumptions which underpin it – see paragraph 4.45.
 - ii) approve the setting of the 2023/24 Final Revenue Budget and 2024/25 & 2025/26 Provisional Revenue Budgets on 22 February 2023 – see paragraph 7.6.
 - iii) approve the setting of the Capital Budget on 22 February 2023 – see paragraph 8.10.
 - iv) approve the submission of the updated Reserves Strategy to Council on 22 February 2023 – see paragraph 9.8
 - v) endorses the proposals to determine the Housing Revenue Account (HRA) Budget and rent levels for 2022/23 and the five-year Housing Investment Programme at the meeting of the Housing and Communities Committee on 18 January 2023 – see paragraph 10.3.

3. BACKGROUND

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

3.2 For the purposes of this update, the medium term is broadly defined as the six years to financial year 2028/29.

3.3 On 22 June 2022, the Council approved the Financial Strategy and Transformation and Change Strategy (Report Nos 22/141 and 22/142 refer). Over the last year, the Council has also approved the following key elements of its Financial Strategy as follows:

	<u>Report Reference</u>
Investment Blueprint	21/180
Medium Term Financial Plan 2022 – 2028	21/212
Housing Revenue Account Strategic Financial Plan	22/15
Revenue Budget 2022/23 and Reserves Strategy	22/35
Capital Budget	22/36
Treasury & Investment Strategy and Prudential Indicators	22/47
Unaudited Annual Accounts 2021/22	22/157
Draft Audited Annual Account 2021/22	22/241

3.4 The Audited Annual Accounts for 2021/22 and the Annual Audit Report to the Members of Perth & Kinross Council and the Controller of Audit for the Year Ended 31 March 2022 were considered by the Audit & Risk Committee on 27 September 2022 (Report No. 22/241 refers). In their final report, KPMG state that “the Council has a robust revenue budget setting process” and that they “consider that the approach to financial management, including budget setting and monitoring is appropriate with clear supporting governance arrangements”, and that “the Council demonstrates good practice, in a local authority context, through regular financial reporting”.

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

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

3.7 Many of the assumptions set out in this report will change over time in response to external factors including the ongoing impact of Covid-19, future spending reviews and the macro-economic outlook.

3.8 The Council’s financial management and budgetary process is also developing to support the Perth and Kinross Offer. Budget proposals and decisions will continue to be aligned with the Council’s Strategic objectives. This builds on the move to developing outcome-based approaches to the Council’s budget where the relationship between how the Council allocates its resources and the outcomes realised through this allocation are more evident.

4. ECONOMIC AND FISCAL OUTLOOK

- 4.1 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.
- 4.2 The United Kingdom economy and public finances are currently experiencing the impact of the global Covid-19 pandemic, a global security crisis following the invasion of Ukraine and a global energy crisis. The impact of the UK's decision to leave the European Union has also led to further uncertainty.
- 4.3 In July 2022, the Office of Budget Responsibility (OBR) published its Fiscal Risks and Sustainability report. This OBR report sets out how rising geopolitical tensions, higher energy prices and long-term fiscal pressures, along with inflation, potential recessions, climate change, Covid-19 cases and the UK's trading relationship with the EU all continue to impact on the fiscal outlook. Together these contribute to a challenging outlook for Governments as they steer public finances through future shocks whilst managing slow building pressures.
- 4.4 The OBR's long-term projections show debt rising to over 100% of Gross Domestic Product (GDP) by 2052/53 and reaching 267% of GDP in 50 years if upward pressures on health, pensions and social care spending, and the loss of motoring taxes, are accommodated. Bringing debt back to 75% of GDP – the level at which it stabilised in the Government's pre-pandemic March 2020 Budget – would need taxes to rise, spending to fall, or a combination of both, amounting to a 1.5 per cent of GDP additional tightening (£37 billion a year in today's terms) at the beginning of each decade over the next 50 years. These scenarios are set out in the following chart.
- 4.5 In August 2022, the Bank of England published its latest Monetary Policy Report. This latest report advised that the Bank of England's Monetary Policy Committee had voted to increase the Bank Interest Rate to 1.75%. It also advised that Consumer Price Inflation (CPI) was now forecast to reach over 13% in quarter four of 2022, and to remain at very elevated levels throughout much of 2023, before falling to the 2% target in two years' time.
- 4.6 The Bank of England also advised that GDP growth in the United Kingdom is slowing. The latest rise in gas prices has led to another significant deterioration in the outlook for activity in the United Kingdom and the rest of Europe. The United Kingdom is now projected to enter recession from the fourth quarter of this year. Real household post-tax income is projected to fall sharply in 2022 and 2023, while consumption growth turns negative.
- 4.7 On 30 June the Fraser of Allander Institute published their 2022 quarter 2 economic commentary. In their publication they advise that the Scottish economy had shown healthy growth before contracting in April, but the cost of living crisis means that consumers are spending less on non-essentials. Scotland's economic growth forecast for 2023 has been revised down due to the impact of increases on consumers and businesses, and the likelihood that these will persist for longer than previously thought.

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

5. SCOTTISH GOVERNMENT’S – FISCAL PUBLICATIONS

5.1 On 31 May 2022, the Scottish Government published several fiscal publications including the Medium-Term Financial Strategy, Resource Spending Review and an update to the Capital Spending Review.

5.2 The **Medium-Term Financial Strategy** provides a medium-term perspective on public finances and provides the fiscal context for the Resource and Capital Spending Reviews. It also sets out the medium-term fiscal outlook and provides the context for the Scottish Government’s spending decisions.

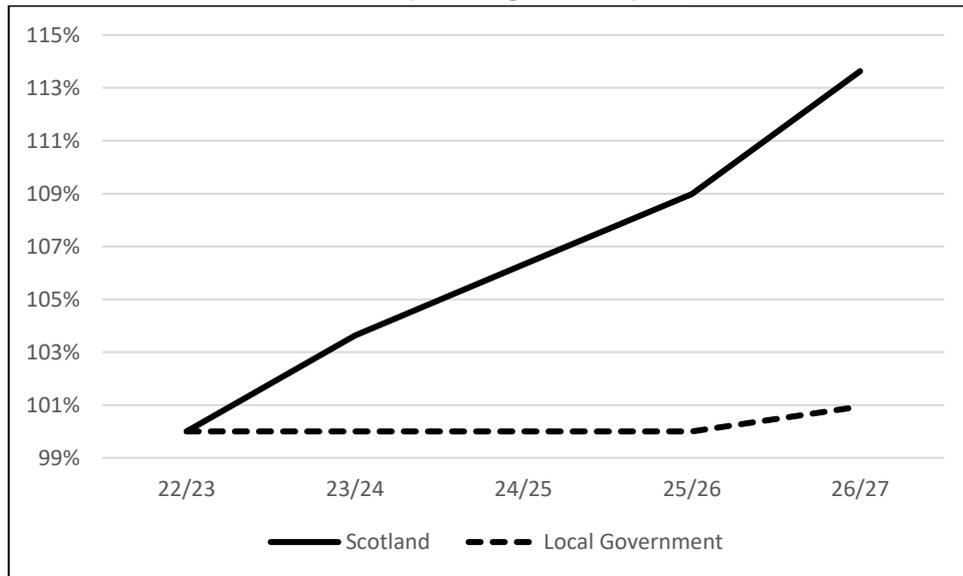
5.3 The **Resource Spending Review** sets out the high-level parameters for revenue spend within future Scottish Budgets through to 2026/27. It aims to provide a strategic funding framework for the Scottish Government and their partners to plan for the future.

5.4 The Resource Spending Review sets out funding envelopes which are intended to guide financial planning across the public sector in advance of future Scottish Budget setting processes. The following table and chart set out the Scotland wide and local government spending plans. By 2026/27 national spending is projected to rise by around 14% whereas local government funding only increases by 1% (and only in the final year of this spending review).

Table 1: Resource Spending Envelopes

	22/23 £billion	23/24 £billion	24/25 £billion	25/26 £billion	26/27 £billion
Scotland	41.802	43.322	44.440	45.599	47.500
Local Government	10.616	10.616	10.616	10.616	10.717

Chart 2: Increases in Resource Spending Envelopes



- 5.5 In a period where Councils are experiencing significant inflationary pressures the spending envelopes included in the Resource Spending Review will represent significant real terms reductions in funding.
- 5.6 The targeted **Capital Spending Review** updates the Infrastructure Investment Plan that was published in February 2021 and reflects the implications of the UK Government’s Autumn 2021 Spending Review, an increased commitment to climate change and the wider economic outlook including inflation projections.
- 5.7 The allocations to local government explicit in the Capital Spending Review are set out in the following table (nb there are other funding streams that may also support Council functions).

21/22 Budget £m	22/23 Budget £m	23/24 £m	24/25 £m	25/26 £m
629.0	649.6	626.0	653.5	660.5

- 5.8 It is currently anticipated that the Scottish Government will publish its budget in December 2022 and that this will include a provisional allocation for 2023/24 and may include indicative allocations for future years.
- 5.9 Overall, the future funding outlook for local government remains highly uncertain. The outlook for the Scottish Government’s block grant, together with the Scottish Government’s stated spending commitments; the ongoing impact of Covid-19, wider economic outlook and increasing demand pressures on public expenditure indicate that the local government settlement in 2023/24 and beyond will continue to be challenging.

6. ANALYSIS OF MEDIUM TERM – PERTH & KINROSS COUNCIL

- 6.1 The purpose of this section is to highlight the potential financial implications of changes in key areas affecting the Council’s need to spend and to compare

these to the projected level of available resources. The continued development of the Medium-Term Financial Plan (MTFP) into future years will further establish the Plan as the foundation of the Council's financial management. The Plan recognises the combined impact of increasing need / demand for Council services, particularly because of demographic trends, inflationary pressures (including cost of living) and anticipated pressures on funding. This approach allows the consideration of options and the refinement of strategies to manage these pressures over the medium to longer term.

- 6.2 Expenditure pressures classified as “demographic” or “inflation” related are normally identified in detailed submissions considered by Council in setting Revenue Budgets each year. The MTFP, however, makes global assumptions about these variables in advance of detailed submissions to inform the Council's financial planning process over the medium term. The Plan also assumes that any additional costs in relation to new legislation will be funded by the Scottish Government.
- 6.3 The MTFP is, however, an evolving model, which will require refinement and updating on a regular basis as new information becomes available. The following section of this report focusses on the key areas to be considered in developing future years' budget strategies and sets out the assumptions made in respect of each area. The financial impact of these assumptions is summarised in the table at paragraph 4.41.
- 6.4 For financial planning purpose this update to the Medium-Term Financial Plan includes the following three scenarios –
- Optimistic – Appendix A(i)
 - Mid-Range – Appendix A(ii)
 - Pessimistic – Appendix A(iii)
- 6.5 The detailed assumptions underpinning each of the scenarios are set out in Appendix B with supporting narrative provided under each category below.

Structural Deficit

- 6.6 The Council has a structural deficit **£10.015 million** brought forward from 2022/23. In the current year this is funded from Reserves, but this is unsustainable and will require to be addressed from 2023/24. This sum is included in all three scenarios.

Employee Pay Inflation

- 6.7 Discussions on 2022/23 pay settlements are currently ongoing, and at the time of writing this report, these have not yet concluded for all staff groups. The 2022/23 Final Revenue Budget includes a budgeted increase of 2.5%. It is anticipated that, based on the latest offers, the Council's wage bill will increase by approximately £14 million. The final pay award, less the Council's existing provision, less the anticipated share of national funding for pay awards being provided by the Scottish Government will result in an additional

expenditure pressure in the current year and increase the costs from 2023/24 by approximately **£1.6 million**. If the final pay awards exceed the latest offers then the size of the additional expenditure pressure will increase.

- 6.8 Looking beyond the current year there are several scenarios which could emerge for pay settlements ranging from increases below or in line with recent rises to awards more than this level. Although COSLA maintain a position of seeking parity in settlements for all local government employee groups, recent settlements have included differential pay awards for different staff groups. For the purposes of this update of the MTFP, the mid-range scenario assumes an increase of 3% in each year for all staff groups with 2% and 4% for the optimistic and pessimistic scenarios respectively.
- 6.9 There is a risk that the assumptions set out in this MTFP and in Appendix B underestimate future pay inflation and vice versa. A 1% movement on pay award assumptions equates to **£2.25 million** for all staff groups. There is a further risk that differentiated pay settlements impact on the sustainability of the current pay and grading structure.

Increments

- 6.10 Local authority pay is negotiated nationally and applies to all employees. Most local government employees (Single Status and Teaching staff) are placed on nationally agreed grades which contain several scale points. Each year employees are incrementally moved up to the next scale point on their grade until the maximum point is reached. Increments are an annual cost that the Council is contractually required to pay.
- 6.11 In terms of the cost of incremental progression, for the purposes of this update, **£750,000** 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

- 6.12 Employees (and elected members) in Perth & Kinross Council are automatically admitted to either the Scottish Public Pensions Agency (SPPA) (teachers) or the Local Government Pension Schemes (LGPS) (non-teaching staff) upon entry to the Council. Both schemes are statutory and ensure that the Council complies with its legislative 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.
- 6.13 The most recent triennial review of Tayside Pension Fund was carried out at 31 March 2020 with the recommendations from this review determining the level of employer contributions from 1 April 2021 to 31 March 2024. The Council was formally advised that there would be no change to the LGPS rates in Spring 2021 for that period, with the employer's contribution remaining at 17%.

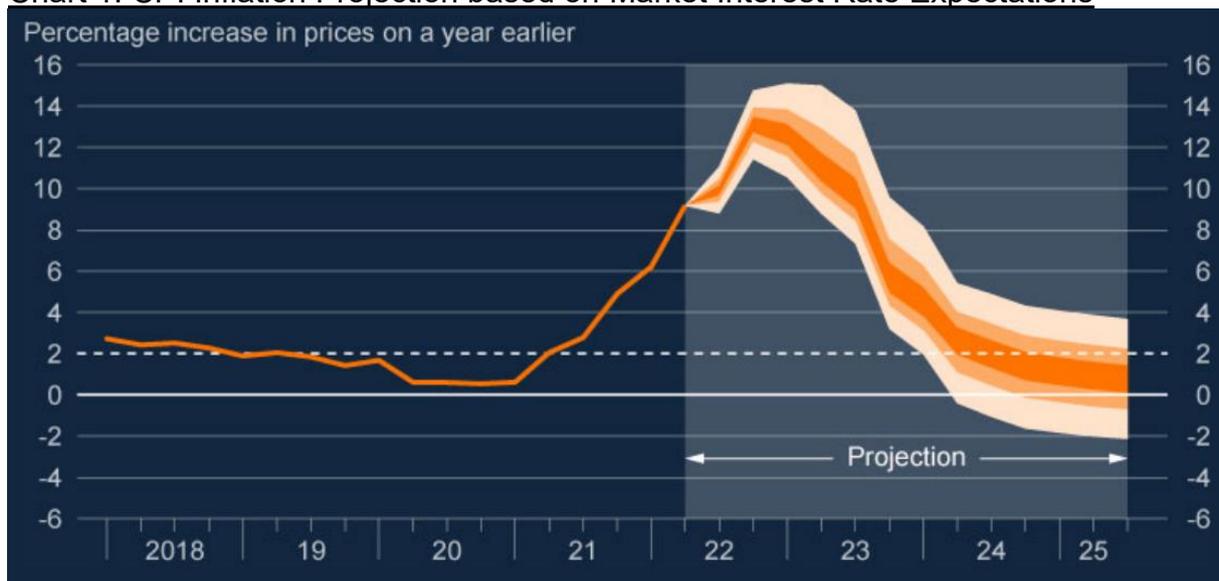
- 6.14 This update of the MTFP covers the period of the next two triennial review as at 31 March 2023 and 31 March 2026 which may impact on financial years 2024/25 and 2027/28. A 1% increase represents a cost pressure of around £1.027 million per annum in respect of non-teaching employees.
- 6.15 The teacher's scheme is administered separately by the Scottish Public Pensions Agency (SPPA) which is an Executive Agency of the Scottish Government. The employer's contributions for this scheme are set by the UK Treasury. There was a significant increase in employers' contributions (from 17.2% to 23%) which took effect from 1 September 2019 to 31 March 2023. There is no information on employer contributions beyond this date. The UK Treasury have advised that changes to the employer contribution rates resulting from the 2020 valuations will take effect from April 2024. A 1% increase represents a cost pressure of around **£679,000** per annum in respect of teaching employees.
- 6.16 For the purposes of this update, the following assumptions have been made in relation to increases in the employer's contribution rates for both schemes.

	2024/25	2027/28
Optimistic	0%	0%
Mid-range	0%	+1%
Pessimistic	+1%	+2%

Inflation

- 6.17 The most recent Monetary Policy Report was published by the Bank of England on 4 August 2022. This report set out inflation projections through to 2025 which are set out in the following chart.

Chart 1: CPI Inflation Projection based on Market Interest Rate Expectations



- 6.18 In August 2022, the Bank of England were projecting that inflation would peak at 13.1% in quarter 4 of 2022 before dropping to around 5% by quarter 4 of 2023 and not reaching the 2% target until the end of quarter 2 in 2024. Other

external commentators have suggested that these projections may be exceeded.

- 6.19 Under the mid-range scenario, it is assumed that the average level of general inflation for 2023/24 is 6% reducing to 2% by 2026/27. Under the optimistic and pessimistic scenarios, it is assumed that inflation rates reduce from 5% and 7% to 1% and 3% respectively.
- 6.20 However, there are also several areas of Council activity where annual cost increases may be significantly more than the level of general inflation. These include energy and fuel where significantly higher increases have been assumed in earlier years.
- 6.21 As the Council also acts as a commissioner 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

- 6.22 The MTFP attempts to reflect the potential additional costs to the Council of demographic changes in the population within the area. This includes the number of both young and older people with extremely complex care needs.
- 6.23 This update of the MTFP makes use of the most up to date projections available from the National Records of Scotland and are based on 2018 data (the 2018 data is the most up to date information available).
- 6.24 This area is extremely complex with the changing profile of the local population in terms of need and age. For the purposes of modelling the MTFP, a range of scenarios have been assumed based on information from the National Records of Scotland. This update of the MTFP assumes an increase of around 0.1% for general population growth every year of the Medium-Term Financial Plan.
- 6.25 Beyond this, the MTFP uses projections for different age groups to further refine the potential impact of demographics on the Council. Consistent with previous years, the most significant demographic pressure is around older people with a projected increase of over 22% in the number of local residents aged 80+ over the six-year period of this Plan. This is anticipated to lead to increasing need for access to care services over time from an ageing population compounded by the frailty of individuals with complex care needs requiring more expensive care packages.
- 6.26 The Council continues to support the work of the Health & Social Care Partnership to implement measures to mitigate these pressures. However, in the short-term, additional costs to reflect demand growth have been factored in to the MTFP to inform the Council's financial planning.

Learning Estate

- 6.27 Over the period of this update of the Medium-Term Financial Plan, there will be further significant investment in the learning estate which is reflected in the Composite Capital Budget. The operating costs for the replacement of existing schools such as Perth High School and Riverside primary school will largely be met from existing budgets. In terms of the impact on the Revenue Budget, the most significant development is, therefore, the provision of a new primary school at Bertha Park. The anticipated additional recurring running costs of the school estate facilities are included in this update of the MTFP.

Perth City Hall

- 6.28 The Council has approved the development of Perth City Hall which is anticipated to open in Spring 2024. The 2017/18 Revenue Budget commenced provision for this new expenditure and for the purposes of the MTFP, it is assumed that the running costs will be phased in for the opening of the new facilities.

Implications of Capital Investment Decisions

- 6.29 The 2022/23 Revenue Budget and Reserves Strategy that was approved by Council on 22 February 2022 included an uplift in the loan's charges budget of £450,000 each and every year (Report No. 22/35 refers). This increase, along with the Capital Fund will support the Capital Budget over the medium term. On this basis all three scenarios assume the increase of **£450,000**.

Funding and Income

- 6.30 There are several funding / income streams that can 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

- 6.31 Previously, the MTFP has made separate assumptions in relation to General Revenue Grant (GRG) and Non-Domestic Rates Income (NDRI). Over the last few years, this income has been aggregated and any reductions have been based on a total package of funding. On that basis, these projections are based on the current total package of funding of £298 million (which is the total of GRG and NDRI in 2022/23).
- 6.32 There is currently limited information on levels of funding for Scottish local authorities and the mid -range assumptions, set out in the table below are, therefore, based on no overall increase or a "flat cash" scenario. This reflects both experience in recent years of relatively small movements in funding together with the likely prioritisation of public expenditure on education and health and social care in light of the Scottish Government priorities. This is also supported by the high level analysis included in the Scottish Government's Resource Spending Review. It is stressed that these assumptions are for financial planning purposes only and will be updated upon confirmation of the Local Government Settlement.

2023/24	2024/25	2025/26	2026/27	2027/28	2028/29
0%	0%	0%	+0%	+1%	+1%
£0m	£0m	£0m	£0m	£2.980m	£3.010m

- 6.33 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, Carers 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.
- 6.34 Beyond this, it is assumed that the Scottish Government funding is increased on a recurring basis for the contributions to 2022/23 pay awards by **£6.75 million** in 2023/24.

Demographics (Impact on Funding)

- 6.35 In line with the demographic pressures discussed above, an estimate of the impact of demographic changes on the General Revenue Grant has been included. This update of the MTFP assumes an increase of approximately 0.1% in funding for general population growth every year of the Medium-Term Financial Plan (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 several 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

- 6.36 For Council Tax, there are potentially two sources of additional income. Firstly, in relation to the projected growth in the number of Band D equivalent properties. Scenarios have been modelled around the impact of population growth on the Council Tax base in line with the demographic assumptions outlined above.
- 6.37 Second is the capacity for the Council to increase the level of Council Tax charges. 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, however, will be determined by Council each year in approving the final Revenue Budget.

Fees and Charges

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

Utilisation of Reserves

- 6.39 The Council could consider the utilisation of Reserves on a non-recurring basis 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.

- 6.40 All the forecasts discussed in sections 4.3 to 4.38 are extremely uncertain. Actual income and expenditure will depend on several factors which are set out within the Risk Assessment (section 10) commentary in this report.

Medium Term Financial Plan – Estimated Reductions

- 6.41 The estimated levels of budget reductions required under each scenario are summarised in the following table and set out in detail in Appendix A.

	23/24	24/25	25/26	26/27	27/28	28/29	Total
	£m						
Optimistic	17.4	5.3	1.0	0.0	(0.1)	(2.0)	21.6
Mid- Range	30.0	19.0	14.4	13.3	15.5	11.3	103.5
Pessimistic	42.1	34.1	28.7	28.5	33.1	27.1	193.6

- 6.42 The table above sets out scenarios with cumulative potential savings targets of up to **£193.6 million**. While the level of savings identified will undoubtedly change as work progresses on the Revenue Budget, this provides an indication of the scale of the financial challenge potentially facing the Council over the six-year period 2023/24 to 2028/29. These scenarios include the expenditure pressures that will be brought forward as part of the detailed consideration of future years' Revenue Budgets.
- 6.43 There are significant variations between the scenarios due to the sensitivities around the financial modelling. For example, over the six years there is around £33 million of a difference between the optimistic and pessimistic scenarios on pay inflation. Non staff inflation varies by around £48 million and projected levels of Scottish Government funding by around £36 million.
- 6.44 It is important to note that the budget reductions identified in the above table are in addition to the significant reductions that have been delivered in previous financial years.
- 6.45 ACTION: The Council is asked to request the Head of Finance to maintain the Medium-Term Financial Plan and further refine the assumptions that underpin it.**

7. REVENUE BUDGET – PROPOSED APPROACH

- 7.1 The MTFP is designed to inform the direction of travel of the Council for financial planning purposes. As detailed budget proposals are developed the broad assumptions included in the MTFP will be superseded by more detailed analysis of individual cost pressures and the identification of potential budget reductions.

- 7.2 The Council does not have an approved Revenue Budget beyond the current financial year.
- 7.3 The Executive Leadership Team are developing detailed budget pressures for individual financial years through to 2025/26 which will include specific assumptions in relation to energy, inflation and increasing demand / need. These pressures will supersede the high-level assumptions included in section four of the Medium-Term Financial Plan.
- 7.4 The Executive Leadership Team are identifying pressures and developing proposals for funding these pressures in line with the approved Financial Strategy and Principles and strategic objective in the Corporate Plan as follows -
- Tackling poverty
 - Tackling climate change and supporting sustainable places
 - Growing a sustainable and inclusive local economy
 - Enabling our children and young people to achieve their full potential
 - Protecting and caring for our most vulnerable people
 - Supporting and promoting physical and mental wellbeing
 - Placing communities at the heart of how we work
- 7.5 In line with the agreed financial principles, the Executive Leadership Team are preparing budget submissions for 2023/24, 2024/25 and 2025/26 for formal consideration at the special meeting of the Council on 22 February 2023.
- 7.6 **ACTION: The Council is asked to approve the setting of the 2023/24 Final Revenue Budget and 2024/25 & 2025/26 Provisional Revenue Budgets on 23 February 2023.**
- 7.7 Budget submissions will be shared with elected members from late October 2022 to allow for scrutiny of proposals. To streamline the process for both elected members and officers, briefings will be provided when there have been significant changes or material developments impacting on the Council. These will include when budget submissions are available for elected member consideration, and the publication of the Scottish Budget / Local Government Finance Circular later in the year.

Perth & Kinross Integration Joint Board

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

- 7.9 Furthermore, in recent times, there has been an increase in the level of directly awarded funding from the Scottish Government which adds a further layer of complexity.
- 7.10 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 in the context of the overall level of resources available to the Council in arriving at a recommendation on funding for the IJB in 2023/24 and beyond.

Arm's Length External Organisations (ALEOs)

- 7.11 Council officers are currently supporting the Council's three Arm's Length External Organisations (ALEOs): Live Active Leisure; Horsecross Arts Limited and Culture Perth & Kinross as they review their business models in light of increasing financial pressures on their operation; their recovery from the impact of the Covid pandemic and the opportunities presented by the opening of new facilities.
- 7.12 The budgets for the Council's ALEOs are considered and determined by their respective Boards. In the context of constrained financial resources, the approach adopted to the Council's future funding of their operations will, however, be based on the same focus on reviewing and reducing expenditure as is being applied to Council Services.

8. COMPOSITE CAPITAL BUDGET – PROPOSED APPROACH

- 8.1 On 6 October 2021 the Council approved the Investment Blueprint which supports a more transparent and flexible approach to investment decision making and support the long-term vision of the Council (Report No. 21/180 refers).
- 8.2 The Investment Blueprint set out five overarching principles to inform decision making and ensure that investment of public money is directed to where it is most needed. The principles are that investment decisions must:
- mitigate against the impact of climate change
 - promote inclusive economic growth and a vibrant economy
 - promote equality and fairness
 - support the delivery of sustainable public services through effective management of assets
 - promote and enhance digital inclusion
- 8.3 The Blueprint is intended to help shape and inform a rolling 30 Year unfunded Investment Plan together with a 6-year rolling delivery plan which will detail the delivery of costed and funded projects and programmes developed from proposals within the 30 Year Plan.
- 8.4 Proposals set out within the 30-year investment plan will be subject to the Council's project governance framework, building in further opportunity to review, respond and adapt the Plan to respond to changing needs,

circumstances and priorities as they emerge. The Plan will be reviewed annually by elected members to ensure that proposals continue to meet the strategic priorities of the Council.

- 8.5 The Council also agreed that investment proposals would be subject to the 5 Case Model (HM Treasury Green Book approach).
- 8.6 It is anticipated that elected members will be asked to take decisions on several key projects in the coming months in the form of full business cases that will take account of the latest factors including the latest cost estimates and supply issues.
- 8.7 In line with the Investment Blueprint this will be extended to all future programmes in the form of an Impact Analysis Report which will profile the impact of investment proposals on assets.
- 8.8 However, it is highly likely that the Council will experience further cost pressures on the Capital Budget. In February 2022 the Council approved a strategy that identified additional capacity to support these pressures, and the Finance and Resources Committee approved the application of approximately **£33 million** at its meeting on 7 September 2022 (Report No. 22/209 refers).
- 8.9 It is anticipated that the Capital Budget will be updated in February 2023.
- 8.10 **ACTION: The Council is asked to approve the setting of the Capital Budget on 22 February 2023.**

9. RESERVES UPDATE

- 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 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 23 February 2022 (Report No. 22/35 refers).
- 9.2 The Reserves projections have been further updated to reflect the position in the Audited Annual Accounts for 2021/22 which were approved by the Audit Committee on 27 September 2022 (Report No. 22/164 refers). Further information on Reserves is set out in Appendix C to this report.
- 9.3 The draft Audited Annual Accounts for 2021/22 show that the Council had a General Fund Balance (excluding the Housing Revenue Account) of **£85.900 million** at 31 March 2022 with **£69.322 million** earmarked for known commitments. This results in uncommitted General Fund Reserves of **£16.578 million** at 31 March 2022 which is in line with the Reserves Strategy approved by Council on 23 February 2022 (Report No. 22/35 refers).
- 9.4 The Council's Useable Reserves as at 31 March 2022 are summarised as follows:

Total Useable Reserve as at 31 March 2022	£118.008m
Less:	
General Fund Earmarked Reserves (see Appendix C)	£69.322m
Housing Revenue Account <i>These balances are earmarked for use on Housing Revenue Account activities <u>only</u>.</i>	£3.282m
Capital Fund <i>The Fund can be <u>only</u> used to meet the principal element of loan repayments or to defray capital expenditure</i>	£24.817m
Insurance Fund <i>The fund is used to meet the future liabilities of the Council self-insuring for certain categories of insurance.</i>	£1.366m
Capital Receipts Reserve <i>This Reserve holds proceeds from capital receipts for future investment.</i>	£2.556m
Capital Grants Unapplied <i>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.</i>	£0.087m
General Fund Uncommitted Balance at 31 March 2022	£16.578m

- 9.5 The level of uncommitted Reserves of **£16.578 million** represents around **3.8%** of the 2022/23 Net Revenue Budget. This is in line with the approved Reserves Strategy of holding between 2% - 4% of the Net Revenue Budget as uncommitted.
- 9.6 In recent years uncommitted Reserves have been required to meet significant additional expenditure responding to both severe weather events and winter maintenance. In addition, the Perth & Kinross Integration Scheme adds a further risk in relation to potential health and social care over spends (as was the case in 2018/19 and 2019/20). The following table sets out the levels of over and under spends in winter maintenance over the last ten years.

Winter Maintenance Final Over / Under Spends	
2021/22	Over spend of £225,000
2020/21	Over spend of £1.024 million
2019/20	Over spend of £648,000
2018/19	Under spend of £143,000
2017/18	Over spend of £1.300 million
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 million

9.7 The updated Reserves Strategy will be presented to Council on 22 February 2023 and will include options on how Reserves might be utilised over the medium term.

9.8 ACTION: The Council is asked to approve the submission of the updated Reserves Strategy to Council on 22 February 2023.

10. HOUSING REVENUE ACCOUNT

10.1 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.

10.2 It is anticipated that the Housing & Communities Committee will determine the Housing Revenue Account (HRA) Budget and rent levels for 2022/23 at its meeting on 18 January 2023. It is also anticipated that the five-year Housing Investment Programme will be submitted for consideration by the Committee based on the requirements of the Housing Delivery Plan.

10.3 ACTION: The Council is asked to endorse the proposals to determine the Housing Revenue Account (HRA) Budget and rent levels for 2023/24 and the five-year Housing Investment Programme at the meeting of the Housing & Communities Committee on 18 January 2023.

11. WORKFORCE PLANNING MEASURES

11.1 The Council values its employees, their skills, dedication and passion to ensure it delivers essential services to the people, businesses and communities of Perth and Kinross. Its people continue to be the Council's most important asset and remain at the heart of everything it does. The Corporate Workforce Plan (2021-2023), together with the Medium-Term Financial Plan, Organisational Development Plan, Digital Strategy and Health and Wellbeing Plan set the direction for the Council's internal recovery from the pandemic and highlight how its workforce needs to develop, within available resources, to ensure people are prepared and resilient to deliver its future goals and aspirations.

11.2 Investment in building the capability and capacity in the workforce through learning and development opportunities, boosting productivity, encouraging innovation and creativity, embracing agility, digital technology and promoting wellbeing and resilience continue to be key to future plans.

11.3 Financial pressures, changing priorities and demand for Council services continue to inform the Council with a focus on multi-disciplinary teams, integrated working and more locality-based decision-making. The Council in recognition of the inter-connectedness of workforce, digital and use of property are taking a proactive approach in working with communities, its partners and other stakeholders to deliver and prepare for new influences to

ensure our workforce supports the delivery of the Perth and Kinross Offer. Some of the enabling project underway is to work smarter, being more flexible about when we work, where we work and how we use space and technology to find new and more effective ways of doing things.

- 11.4 The Council's workforce management strategy provides a strong basis for developing the workforce of the future helping us create the conditions to meet the future workforce, financial and demographic challenges and requirements of the organisation. Adopting a more effective and consistent approach to workforce management, leadership development and talent management will enable us to provide versatile people solutions to support the future strategic direction of the organisation. The Council continues to invest in training and development opportunities for young people via Apprenticeship and Graduate Programmes. A focus on health and wellbeing and resilience are key to sustaining a healthy working environment and positive wellbeing culture and we continue to offer a wide range of health and wellbeing initiatives and support to our workforce. The Council is proud to be a Fair Work employer and continues to consult and engage with employees and their trade union representatives on improvements in our employment practices and arrangements. Equalities and fairness will continue to be core principles in its workforce strategy. This will ensure the Council has the right skills in the right place when it needs them and will contribute to building an even better Perth and Kinross working together to ensure everyone can live life well.

12. TRANSFORMATION & CHANGE STRATEGY

- 12.1 In its Covid-19 Recovery Strategy - for a fairer future, the Scottish Government sets out its vision for recovery and the actions it will take to address systemic inequalities made worse by Covid-19, make progress towards a wellbeing economy, and accelerate inclusive person-centred public services. The Scottish Government's strategy highlights the need to re-build public services and sets out how it will work differently with partners to deliver change.
- 12.2 As well as the financial challenges the Council faces in delivering a lawful, balanced budget, there are several other reasons why change is necessary:
- new and emerging priorities, including social, economic, health & wellbeing and climate change;
 - a growing, ageing population and increasing demand for services;
 - delivery of the Perth and Kinross Offer will require a new way of working with communities and a rethink of how the Council is organised to deliver.
- 12.3 The Transformation & Change Strategy, which was approved by Council on 22 June 2022, is a 5-year strategy that sets out our next phase of transformation and sits within the Council's wider strategic framework and acts as an enabler to deliver on our corporate objectives.
- 12.4 The revised Corporate Plan 2022/23 - 2027/28 will set our vision and corporate objectives, aligned with our values, and will be designed to address, or mitigate, the impact of the many challenges our organisation and our

communities are facing. These objectives will be underpinned by themes including the cost of living crisis including poverty/child poverty, economic wellbeing, climate change, affordable/rural housing and the Perth and Kinross Offer.

- 12.5 The Financial Strategy details the financial challenges we face, the extent of the structural deficit and measures we must take now and over the next 5 years to identify savings, reduce our budgets and support the Council to become financially sustainable.
- 12.6 The Local Outcomes Improvement Plan will detail new priorities and the actions that the Community Planning Partnership will take in the coming years to focus on inequalities which are stubborn and require new collaborative approaches.
- 12.7 The Perth and Kinross Offer Framework details the actions that we will take over the next 5 years to deliver and embed the Perth and Kinross Offer and the programme of cultural change that will transform how we work with colleagues, communities and our partners.

13. RISK ASSESSMENT

- 13.1 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 issues, which are of relevance in determining the Revenue Budget, are outlined below.

Structural Deficit

- 13.2 The Council has a known structural deficit of **£10.015 million** that, in order to deliver a legal, balanced budget will have to be addressed 2023/24. To the extent that recurring solutions to addressing this gap are not identified, then this remains a risk in future years. The size of the structural deficit will also be influenced by the effect of current year pay awards that exceed budgeted levels and any shortfall in the identification of recurring budget reductions to fund expenditure pressures.

Local Government Funding

- 13.3 It is anticipated that the Council will receive the 2023/24 financial settlement in December 2022. It is assumed that individual Council allocations will be provided for 2023/24 but there is no information on whether further financial years will be included or at what level of detail.
- 13.4 Future funding settlements will be influenced by many aspects of the wider economic climate and UK and Scottish Government policies. The global economic situation, the impact of the UK leaving the European Union as well as the UK and Scottish Government's response to Covid-19 may result in significant additional uncertainty over future funding levels.

- 13.5 The potential for cash and real terms reductions in funding beyond financial year 2022/23 is considered to represent a significant risk in the management of the budget over the medium term.
- 13.6 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.
- 13.7 At this time, there is also no information on any conditions which may be attached to the local government finance settlement in 2023/24 and beyond, or indeed opportunities.
- 13.8 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.

Final Pay Awards

- 13.9 The 2022/23 pay negotiations have not yet concluded. At the time of writing, Trade Unions are undertaking consultative ballots.
- 13.10 It is likely that in 2022/23, the Council will have to contribute additional resources to the final pay award, after the application of the budgeted amount and Scottish Government funding there will be a shortfall. In 2022/23 the Council has budgeted for a 2.5% increase in the pay bill for all staff groups. It is now highly likely that this will be insufficient to meet the final pay award for 2022/23. The Scottish Government has allocated additional recurring resources to fund the final pay award. However, to the extent that the final pay award exceeds the additional funding and the budgeted provision, this will lead to additional costs in 2022/23 and add to the structural deficit for 2023/24.
- 13.11 Beyond the current year, there is also a further risk that future years' pay settlements are more than budgeted assumptions resulting in further financial pressures.

Expenditure Pressures

- 13.12 Elected members have previously been briefed on the current challenges in the construction sector and as widely reported, supply chain pressures are emerging across all sectors of the economy. There is accordingly a risk in expenditure pressures within both the Revenue and Capital Budgets increase over the short and medium term.

Implications of Capital Budget

- 13.13 The Council has an established policy of drawing down the Capital Fund to support capital expenditure. As the Capital Fund reduces, resources will have to be redirected from the Revenue Budget to support the loan repayments over the short to medium term.

Council Tax

- 13.14 The Medium Term Financial Plan and Capital Budget funding strategy 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

- 13.15 The Integration Joint Board has received significant additional Scottish Government funding, linked to national policy initiatives, over the last three years either directly or channelled through the NHS and there is an assumption that this will both continue and increase in future years in line with Scottish Government announcements. There is a risk that Scottish Government funding for health and social care does not fully reflect anticipated increases in costs including demand and inflationary pressures.
- 13.16 As set out in the Council's response to the Scottish Government consultation on a National Care Service (Report No. 21/185 refers), there is the potential for the creation of a National Care Service to have a significant impact upon the Council's future budget assuming that resources and funding is transferred to the proposed new Boards.

Inflation

- 13.17 There is a risk that levels of Service specific inflation further exceed budgeted provisions and that levels of general inflation cannot be contained within existing resources. This may lead to further reductions in levels of service in order to contain these inflationary pressures. 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

- 13.18 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.
- 13.19 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.
- 13.20 The economic climate and increases in the cost of living may also increase need for and expenditure on Council services – particularly around poverty. As far as possible, this risk will be managed within the Council's available resources.

Demographics

- 13.21 The overall population of Perth and Kinross is anticipated to reduce by around 1.0% over the next 25 years based upon National Registrars of Scotland forecasts. This may lead to reduced funding from Scottish Government.
- 13.22 However, within these overall projections the population aged over 65 is projected to grow significantly. This may place an additional financial pressure on both the Council and the Integration Joint Board into future years' Revenue Budgets and financial plans.
- 13.23 The level and components of growth will be largely dependent on complex net migration patterns which are difficult to forecast with any certainty.
- 13.24 The needs of the population are also changing with more complex intervention measures required to protect young and old people alike.

Climate Change

- 13.25 On 19 June 2019, Council passed a Motion that committed it to leading by example in accelerating the transformational change required to address the Climate Emergency, which had been declared by both the UK and Scottish Parliaments earlier that year. On 18 December 2019, the Council approved an Interim Climate Emergency Report and Action Plan (Report No. 19/362 refers) and on 30 August 2021, the Council agreed to the establishment of a Climate Change Commission (Report No. 21/142 refers) which will provide scrutiny and oversight to Perth and Kinross's Climate Change Plan.
- 13.26 Legislation has been introduced by the Scottish Government that will aim to ensure Scotland reaches net zero greenhouse gas emissions by 2045. There are also a range of challenging intermediate targets and a further possibility that these targets will be accelerated by legislation.
- 13.27 As the Council strives to decarbonise, this will undoubtedly mean significant additional investment will be required. However, it must also be noted that there are major, current and proposed, national funding sources available and the Council must ensure it is in a position to fully capitalise on these.

Response to Covid-19

- 13.28 The long-term impacts of Covid-19 on society remain unknown at this stage. In terms of expenditure, there will be a requirement for the Council to invest in economic regeneration, to further support communities and to respond to emerging developments / health & wellbeing. In addition, there may be further pressures on household incomes leading to increases in poverty that may require a Council response. Similarly, there is likely to be an impact on income streams, both in terms of Council Tax and fees & charges. For this update of the Medium-Term Financial Plan, it is assumed that the initial cost will be incurred in early years with the impact reducing as the Covid-19 virus is managed and / or resources are redirected across the Council.

Arm's Length External Organisations

- 13.29 There is an ongoing risk to the financial sustainability of the Council's three Arm's Length External Organisations. All three ALEOs may experience reduced income and additional costs as they adjust their offer to respond to the consequences of Covid-19 and the pressures arising from wider economic pressures.

Severe Weather

- 13.30 There is a risk that the Council incurs further significant levels of expenditure responding to severe weather as has been the case in previous years.

14. CONCLUSION AND RECOMMENDATIONS

- 14.1 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.
- 14.2 Responding to the Covid-19 epidemic has given rise to significant financial pressure on the Council's Revenue Budget and the long-term impact upon service demand; service delivery and the Council's ability to generate and collect income will take some time to establish.
- 14.3 The wider economic situation and consequential impact on the cost of living will further exacerbate the financial and wider challenges the Council will experience over the short and medium term.
- 14.4 The Council continues to take proactive measures to enable it to address these challenges from a robust financial position and continues to develop and strengthen its arrangements for financial and resource management.
- 14.5 The implementation of the Transformation and Change Strategy will further support the Council's response. The Perth and Kinross Offer will underpin all that the Council does, based on an approach where it works together with its communities. Linked to this, is the approach to recovery and renewal, as well as ongoing response arrangements, because of the pandemic.
- 14.6 The Council remains committed to modernising and improving the efficiency of functions. This update of the Medium-Term Financial Plan reinforces the Council's commitment to the delivery of excellent services in the context of meeting challenging savings targets which requires the engagement of the Council's workforce; Elected Members; Community Planning Partners and the communities which it serves.

Author

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Approved

Name	Designation	Date
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Karen Donaldson	Chief Operating Officer	21 September 2022

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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

Corporate Plan

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

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

1.2 This report relates to all these objectives.

2. Resource Implications

Financial

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

Workforce

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

Asset Management (land, property, IT)

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

3 Assessments

Equality Impact Assessment

- 3.1 Under the Equality Act 2010, the Council is required to eliminate discrimination, advance equality of opportunity, and foster good relations between equality groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties.
- 3.2 The information contained within this report has been considered under the Corporate Equalities Impact Assessment process (EqIA) and has been assessed as **not relevant** for the purposes of EqIA.

Strategic Environmental Assessment

- 3.3 The Environmental Assessment (Scotland) Act 2005 places a duty on the Council to identify and assess the environmental consequences of its proposals.
- 3.4 The information contained within this report has been considered under the Act. However, no action is required as the Act does not apply to the matters presented in this report.

Sustainability

- 3.5 Under the provisions of the Local Government in Scotland Act 2003 the Council has to discharge its duties in a way which contributes to the achievement of sustainable development. In terms of the Climate Change Act, the Council has a general duty to demonstrate its commitment to sustainability and the community, environmental and economic impacts of its actions.
- 3.6 The information contained within this report has been considered under the Act. However, no action is required as the Act does not apply to the matters presented in this report.

4. Consultation

Internal

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

2. BACKGROUND PAPERS

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 2022