

PERTH AND KINROSS COUNCIL

1 July 2015

MEDIUM TERM FINANCIAL PLAN 2016 - 2021

Report by the Head of Finance

PURPOSE OF REPORT

This report updates the Medium Term Financial Plan (MTFP) approved by Council on 8 October 2014 (Report No. 14/433 refers). The report summarises the implications of the latest projections on future Council General Fund Revenue Budgets over the medium term, provides an update on the Council's Capital Budget, Housing Revenue Account and Reserves position and also makes recommendations on how the Council develops the Revenue Budget over the shorter term.

1. BACKGROUND / MAIN ISSUES

- 1.1. The Council's Medium Term Financial Plan is subject to (at least) an annual update with the latest revision being approved by Council on 8 October 2014 (Report No. 14/433 refers).
- 1.2. This report sets out forecasts of the Council's anticipated cost pressures and changes to funding over the medium term and the resultant implications for financial planning during a period when it is widely expected that there will continue to be significant constraints on public sector expenditure.
- 1.3. The MTFP is intended to outline the broad "direction of travel" for the Council's financial management with further detail and options for managing the various challenges being developed as part of the Revenue Budget process.
- 1.4. For the purposes of this update the medium term is broadly defined as the five years to financial year 2020/21. Some elements of the plan cover the seven year period to 2022/23.
- 1.5. The Council has approved the following key elements of its financial strategy:

	<u>Report Reference</u>
Medium Term Financial Plan	14/433
Housing Revenue Account Strategic Financial Plan	15/50
Revenue Budget 2015/16	15/36
Composite Capital Budget 2015 – 2023	15/37
Reserves Strategy	15/38
Annual Treasury Strategy & Prudential and Treasury Management Indicators	15/92
Revenue Budget 2014/15 – Monitoring Report No. 4	15/167
Composite Capital Budget 2014/21 and Housing Improvement Programme 2014/19 – Monitoring Report No. 4	15/168

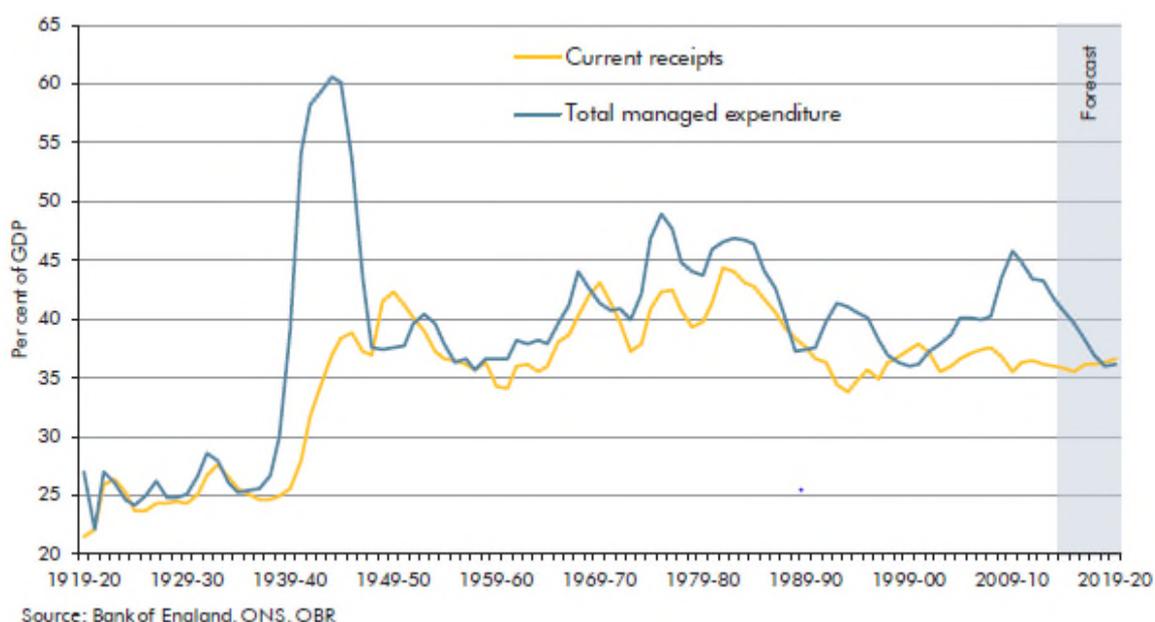
- 1.6. Additionally, on the agenda for today's Council meeting, is the Council's Unaudited Annual Accounts for 2014/15 (Report No. 15/277 refers).
- 1.7. This report seeks to provide a range of scenarios for key variables that are used in long-term budgeting and financial planning. There is no one definitive source for such data and so the projections have been taken from a range of statistics, in particular:
- Office for Budget Responsibility (OBR) Economic and Fiscal Outlook
 - HM Treasury monthly outside forecasts publication
 - Bank of England publications
 - Scottish forecasts (Fraser of Allander Institute (FAI) and E&Y Scottish ITEM Club)
 - Fiscal Affairs Scotland (FAS)
 - The Improvement Service (IS)
- 1.8. The report considers, firstly, the wider economic and fiscal outlook, how this might impact on the Council over the medium term and how the Council intends to develop the Revenue Budget over the shorter term. The report also provides an update on the Council's Capital Budget, Housing Revenue Account and Reserves position.
- 1.9. Many of the assumptions included in this report may change in response to external factors such as the "emergency" budget that is to be held on 8 July, the impending spending review that is anticipated to conclude in the Autumn and a plethora of other variables.
- 1.10. In addition, on 8 June 2015, the UK Chancellor announced £3 billion of savings to UK departmental budgets in 2015/16. It is anticipated that the impact of this on the Scottish budget will be a reduction of c£107million. At this stage the full impact of this reduction is not yet known but there is an option for the Scottish Government to defer the impact of the budget reduction to 2016/17.
- 1.11. COSLA has initiated a Strategic Funding Review Group which will examine funding scenarios that should inform the medium term financial plan. As this and other information becomes available the impact will be reported to future meetings of the Council.

2. ECONOMIC AND FISCAL OUTLOOK

- 2.1 Before considering the appropriate approach to preparing the Council's Revenue and Capital Budgets over the current planning periods it is necessary to consider the outlook for the United Kingdom and Scotland's public finances as a whole. Much of the information below is derived from the sources listed in 1.7 above.

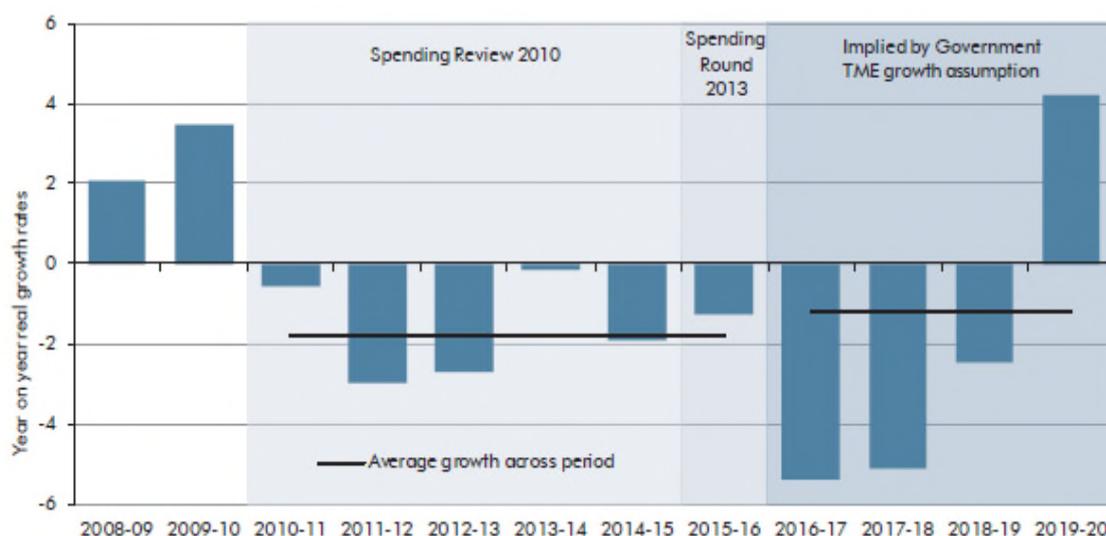
- 2.2 Since the last update of the Medium Term Financial Plan (MTFP) there have been a number of developments affecting prospects for the UK economy and public finances both positively and negatively.
- 2.3 In the March 2015 Budget the Coalition Government announced plans to tighten the assumed squeeze on total spending to 2018/19, dropped the cut in spending as a share of Gross Domestic Product (GDP) it had pencilled in for 2019/20 and announced the sale of an additional £20 billion in financial assets in 2015/16. This leaves a highly volatile profile for implied public services spending through the next Parliament: a much sharper squeeze on real spending in 2016/17 and 2017/18 than anything seen over the past five years followed by the biggest increase in real spending for a decade in 2019/20.
- 2.4 The following chart shows current receipts and total managed expenditure as a share of GDP since 1919/20 using Bank of England and Office of National Statistics data. The Government's decision to assume that spending rises in line with nominal GDP in 2019/20 means that it no longer falls to its lowest share of national income in a full year since before the war, as was the case in previous forecasts. Instead, total spending falls to 36.0% of GDP, which is fractionally higher than the previous post-war lows of 35.8% in 1957/58 and 35.9% in 1999/2000. Current receipts as a share of GDP are forecast to remain at similar levels to those seen over the last few decades.

Total Public Sector Spending and Receipts (Income)



- 2.5 Another implication of the Government's spending policy assumptions is a sharp acceleration in the pace of implied real cuts to day-to-day spending on public services and administration in 2016/17 and 2017/18, followed by a sharp turnaround in 2019/20 as shown in the following graph.

Year-on-year growth in real resource DEL spending



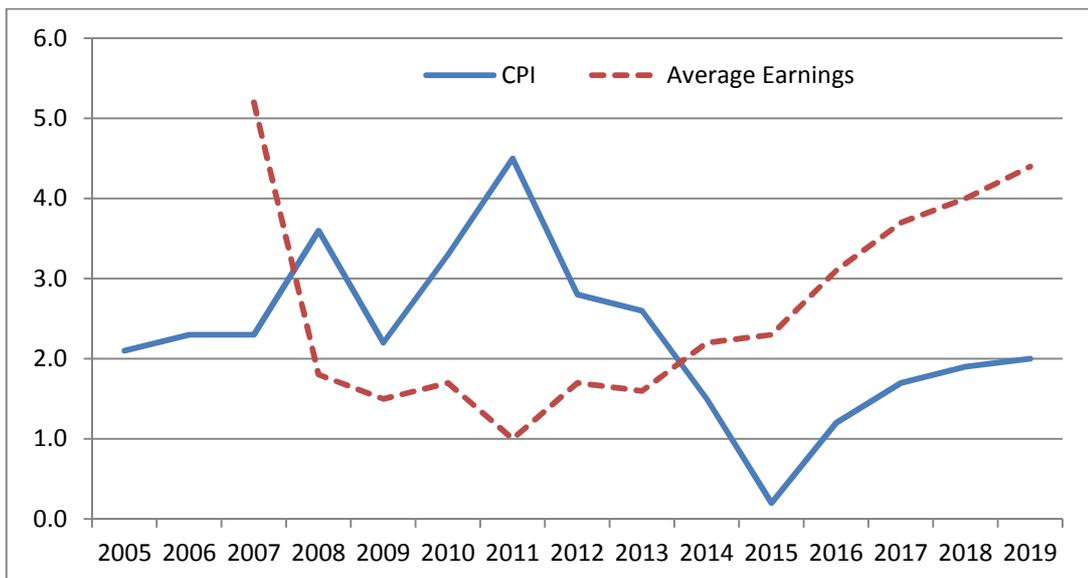
Source: OBR – March 2015

3. ANALYSIS OF MEDIUM TERM – PERTH AND KINROSS COUNCIL

- 3.1 The purpose of this section is to capture the financial implications of changes in key areas affecting the Council's need to spend and to compare these to the projected level of available resources. The continued development of the Medium Term Financial Plan into future years will further establish the Plan as the foundation of the Council's financial planning. The Plan recognises the combined impact of increasing demand for Council services, particularly as a result of demographic trends, inflationary pressures and anticipated real terms reductions in funding. This approach allows the consideration of options and the refinement of strategies to manage these pressures over the medium to longer term. For the avoidance of doubt, expenditure pressures classified as "demographic" or "inflation" are normally identified in Service submissions considered by Council in setting Revenue Budgets each year. The Plan also assumes that any additional costs in relation to new legislation will be funded by the Scottish Government.
- 3.2 The Plan 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. In the main there are three scenarios, "Low" (most optimistic), "Mid-Range" and "High" (most pessimistic) which have been modelled in relation to the potential impact on the Council and the services it provides.
- 3.3 The individual detail surrounding each scenario is set out more fully in Appendix A to this report.

Pay Award

- 3.4 There are a number of scenarios that could emerge for pay awards ranging from continued pay restraint to awards in excess of inflation at perhaps as much as 3.7% as factors such as previous years' pay restraint and higher national insurance contributions are factored into negotiations. For this update of the Medium Term Financial Plan the mid-range position is assumed to vary between 1% and 3.2% between 2016/17 and 2020/21.
- 3.5 The following chart illustrates OBR projections for average earnings over the next five years and demonstrates the probability of a shift from a period of reductions in real wages to one of increases.



Source: OBR – March 2015

Increments

- 3.6 In terms of incremental progression for staff, this is an estimate based on current staff numbers and their position on pay tables. For the purposes of this update £500,000 has been assumed in earlier years rising to £550,000 in later years as pay awards and staff turnover impact on this.

Employer's National Insurance

- 3.7 It is estimated that the removal of the National Insurance rebate in 2016/17 will cost the Council an additional £3.5 million per year. There is no information on whether this change will be funded or not by the UK or Scottish Government. The "low" scenario assumes that funding will be provided; the "mid-range" and "high" scenarios assume that this is a cost to the Council. It should be noted that the loss of this rebate is also likely to impact on staff and have a bearing on future pay negotiations as described above.

Employer's Superannuation Contributions

- 3.8 The next triennial review of Tayside Pension Fund is due to be carried out as at 31 March 2017 and set contributions from 1 April 2018 to 31 March 2021. For the purposes of this update the "low" scenario assume, a 1% reduction in employer's costs, the "mid-range" scenario assumes no additional cost and the "high" scenario assume, a 1% increase in costs.
- 3.9 In addition the Council is required to recognise the full year effect of the increase in employer's superannuation costs for teachers of £517,000 from 2016/17. The initial additional costs have already been recognised in the 2015/16 Revenue Budget approved by Council in February 2015.

Inflation

- 3.10 Non-employee cost inflation has been split into two categories. Firstly the general running costs of the Council have been inflated based on OBR projections through to 2020/21. Secondly, as the Council acts as an enabler of services rather than direct provider in many circumstances e.g. social care, this element of the Revenue Budget has been inflated in line with the pay awards above rather than general inflation to reflect the pressure on other organisations employees' costs.

Demographics

- 3.11 The MTFP attempts to reflect the additional costs to the Council of the changes in demographics within the area. Specifically reflecting population growth, an ageing population and a population with more complex care needs.
- 3.12 This area of pressure 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 has been assumed based on information from the National Records of Scotland.

Capital Financing Costs

- 3.13 The Council has previously approved significant investment in infrastructure across Perth and Kinross. The MTFP includes assumptions of an increase in the Loans Fund budget of between £1million and £1.25million each and every year to support this investment. Further details of this pressure are included in section 5 below. This additional cost has been factored in for strategic financial planning purposes only and will be refined as the Capital Programme is developed further.

Annuity Versus Equal Loan Repayments

- 3.14 A potential change in the accounting treatment of capital financing costs ("loan charges") from an annuity basis to an equal instalments basis may have an adverse impact on the Council of an estimated £1.7 million from

2017/18. This possible change in treatment would result in higher upfront borrowing costs. This issue has only recently emerged and negotiations are continuing with the Scottish Government. On this basis this impact has only been modelled in the “high” scenario.

Welfare Reform

- 3.15 There remains uncertainty in terms of the impact of the implementation of Universal Credit on the Council both in terms of timing and the financial consequences. For this update of the MTFP an additional £1.5million has been included. The major variable in this area is in terms of the implementation date and this has been reflected with different dates of either 1 April 2016 or 1 April 2017 in different scenarios.

New Secondary / Primary School

- 3.16 An additional £2million has been included in 2018/19 towards the running costs of the new secondary school in North West Perth – this is in line with the proposal to have the school operational by August 2018 and is included in all scenarios. In addition an additional £500,000 has been assumed from 2020/21 towards the running costs of an enhanced primary school estate.

Funding and Income

- 3.17 There are a number of funding / income streams that will have significant impact on the financial position of the Council over the medium term which are set out in further detail below.

General Revenue Funding

- 3.18 There is no consensus across Scotland on levels of future Scottish Government funding. For the purposes of this update of the MTFP various Scottish Government General Revenue funding scenarios have been modelled ranging from an optimistic assumption of flat cash (real terms reductions), a “mid-range” assumption based on information from the Improvement Service (cash reductions of 1.25% each year through to 2018/19 followed by flat cash), through to a scenario which is based on the OBR projections and would see significant reductions between 2016/17 and 2018/19 followed by a significant increase of 5% in 2019/20.

Non-Domestic Rates Income

- 3.19 Over a number of years there has been a significant shift in Council funding from General Revenue Grant to Non Domestic Rates Income (NDRI). The uncertainty about NDRI levels and further shifts from General Revenue Grant to NDRI remains a significant risk both locally and nationally. The “low” and “mid-range” scenario assumes continued growth in NDRI of 1.2% per annum whereas the “high” scenario shows no growth as the OBR forecasts discussed above roll up general revenue grant and NDRI funding.

Demographics (Impact on Funding)

- 3.20 In line with the demographic pressures discussed above at paragraphs 3.11 and 3.12, an estimate of the impact of demographic changes on the General Revenue Grant has been included.

Council Tax Income

- 3.21 For Council Tax there are potentially two sources of additional income. Firstly in relation to the projected growth in number of Band D Equivalent properties. Scenarios have been modelled around the impact of population growth on the Council Tax base in line with the demographic assumptions outlined above. Secondly the ability of the Council to increase the level of Council Tax charges. No additional income has been assumed in the short term in line with the agreement with the Scottish Government. However, a number of scenarios have been developed over the medium term whereby the Council might be able to raise additional income by raising levels of Council Tax.

Fees and Charges

- 3.22 Finally, scenarios have been modelled whereby the Council raises its charges for goods and services between 2% and 4% per annum.
- 3.23 More detail around specific assumptions is included in Appendix A.

Revenue Budget "Headroom"

- 3.24 In addition the Provisional Revenue Budget for 2015/16 has been constructed on the basis that c£4.4 million of recurring Revenue Budget "headroom" (recurring income in excess of recurring expenditure) becomes available from 2016/17 onwards. Depending upon the outcome of current year pay awards the level of headroom may be increased. To the extent that the pay award for 2015/16 is less than the budgeted level of 2%, after allowing for additional costs in relation to holiday pay and the living wage, this will potentially increase the headroom available going into 2016/17.
- 3.25 The Council will need to consider the optimum time to apply these resources to the Revenue Budget. The MTFP has been modelled on the assumption that the Revenue Budget headroom is utilised in 2016/17 in the "mid-range" and "high" scenario and in 2017/18 in the "low" scenario.
- 3.26 The Council might also wish to consider the utilisation of Reserves on a non-recurring basis in order to manage the pressures facing the Council. Using Reserves in this way is not sustainable and would have to be addressed at a point where the level of pressures had stabilised.

3.27 All of the forecasts discussed in sections 3.4 to 3.24 are uncertain and actual income and expenditure will depend on a number of factors. For illustration purposes within this report a broadly “mid-range” position has been illustrated below. More information on a number of these areas is set out within the Risk Assessment (section 9) commentary in this report. The implications of using the assumptions under the “low” and “high” scenarios are set out in Appendices B and C.

"MID-RANGE" SCENARIO	16/17	17/18	18/19	19/20	20/21	Total
	£'000	£'000	£'000	£'000	£'000	£'000
STAFF RELATED PRESSURES						
Pay Award	1,734	5,166	5,769	5,954	6,144	24,767
Increments	500	550	550	550	550	2,700
National Insurance	3,500					3,500
Teachers' Superannuation	517					517
NON STAFF RELATED PRESSURES						
Non Staff Inflation	2,322	4,242	4,849	4,970	5,095	21,478
Demographics	3,301	3,367	3,428	3,480	3,553	17,129
Capital Financing Costs	1,000	1,000	1,000	1,000	1,000	5,000
Welfare Reform	1,500					1,500
New Secondary School			2,000	100	100	2,200
New Primary School					500	500
INCOME ASSUMPTIONS						
General Revenue Funding	2,276	2,247	2,219			6,742
NDRI	-1,000	-1,000	-1,000	-1,000	-1,000	-5,000
Demographics (Grant Impact)	-1,619	-1,651	-1,681	-1,707	-1,743	-8,401
COUNCIL TAX						
Increase in charge		-1,445	-1,474	-1,503	-1,533	-5,955
Increase in base	-642	-655	-667	-677	-692	-3,333
FEES AND CHARGES	-989	-1,019	-1,050	-1,081	-1,114	-5,253
USE OF HEADROOM	-4,386					-4,386
"Spare" 15/16 Pay Award	-745					-745
ESTIMATED TOTAL SAVINGS REQUIRED PER YEAR	7,269	10,802	13,943	10,086	10,860	52,960

3.28 The above table demonstrates that under a “mid-range” scenario, based on gross Revenue Budgets, cumulative savings of c£53.0m may be required between 2016/17 and 2020/21. During this time period the savings targets vary between 1.8% of the Gross Revenue Budget in 2016/17 to 3.4% in 2018/19 before reducing in future years. Cumulatively this means savings of c13.1% of the Gross Revenue Budget during this five year period.

3.29 The following table sets out the range and value of likely savings targets over the medium term.

	16/17		17/18		18/19		19/20		20/21		Total	
	%	£000	%	£000	%	£000	%	£000	%	£000	%	£000
Low	0.9%	3,870	-0.1%	-585	1.6%	6,375	0.2%	800	0.8%	3,104	3.2%	13,564
Mid-Range	1.8%	7,269	2.7%	10,802	3.4%	13,943	2.5%	10,086	2.7%	10,860	13.1%	52,960
High	4.5%	18,405	5.2%	21,165	5.0%	20,094	2.2%	8,969	4.0%	16,228	20.9%	84,861

3.30 The levels of savings identified in the above table will undoubtedly change but do provide an indication of the levels of financial saving that may be required over the medium term.

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

4. PROPOSED APPROACH FOR FINANCIAL YEARS 2016/17 TO 2018/19

4.1 As set out earlier in this report there is significant uncertainty as we move beyond financial year 2015/16. At this point there is also limited detail on the timescales for when information on future years’ financial settlements will be available and for how many years into the future.

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

4.3 At this stage it is proposed that the Council commences the development of a three year Revenue Budget for financial years 2016/17, 2017/18 and 2018/19. The Council does not have any detailed Revenue Budgets in place beyond the current financial year and therefore Services will be required to develop proposals for consideration by the Council. Given that there are also a number of factors outwith the Council’s control that will impact on the period 2016/17 to 2018/19, the timeframe for the Revenue Budget into the future will be kept under review with any changes to this proposal being reported back to a future meeting of the Council for approval.

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

4.5 **ACTION:** The Council is asked to approve the proposal to commence development of a three year Revenue Budget for 2016/17, 2017/18 and 2018/19.

4.6 Subject to Council approval, Services will develop the traditional Revenue Budget documents setting out expenditure pressures and compensating savings proposals for approval by the Council in February 2016. In addition, Services will be required to identify savings towards the Corporate Savings target.

Corporate Savings Target

4.7 In line with previous years' Revenue Budgets, Services will be required to identify savings proposals towards a corporate savings target. The proposed target for 2016/17 to 2018/19 includes expenditure pressures relating to:

• Pay Award	• Increments
• Employer's National Insurance	• Capital Financing Costs
• Teachers' Superannuation	• New Secondary School
• Movements in Grant funding	• Welfare Reform
• Movements in Council Tax income	

4.8 The corporate savings targets on a Service by Service basis are set out in the following table.

	16/17	17/18	18/19		
	£'000	£'000	£'000		
Education and Children's Services	5,227	3,266	4,678		
Housing and Community Care	2,047	1,279	1,832		
The Environment Service	1,818	1,136	1,627		
Chief Executive's Service	292	182	261		
	<u>9,384</u>	<u>5,863</u>	<u>8,398</u>		

4.9 **ACTION:** The Council is asked to approve the corporate savings targets set out in 4.8 above and the methodology supporting them as the basis for the preparation of the Revenue Budget for 2016/17 to 2018/19.

4.10 On 25 February 2015 the Council approved the Fifth Scrutiny Review: Charging for Services (Report No. 15/65 refers). In response to the recommendations of the Scrutiny Committee it is proposed that from financial year 2016/17 Services will submit their proposed list of charges to themed Committees in January / February of each year in advance of setting the budget in February. This will provide Committees with an opportunity to examine Service proposals and approve charges subject to final approval by the Council in setting the Revenue Budget.

4.11 **ACTION:** The Council is asked to endorse the proposal in relation to Council charges set out in paragraph 4.10.

5. CAPITAL BUDGET

5.1 The Council has an approved Composite Capital Programme for 2014/15 to 2020/21 which was most recently updated by the Strategic Policy and Resources Committee on 22 April 2015 (Report No. 15/168 refers). In addition, the Council approved proposals in relation to financial years 2021/22 and 2022/23 at its meeting of 12 February 2015 (Report No. 15/37 refers).

5.2 As set out in paragraph 3.13 above the Council will be undertaking significant capital infrastructure investment during the timescales of this MTFP. This includes:

- A9/A85 Road Junction Improvement (Report No. 13/336 refers)
- Arts Strategy – Perth Theatre Redevelopment (Report No. 14/170 refers)
- Perth Office Programme – 2 High Street
- Mill Street, Perth
- Additional Primary & Secondary School Provision
- Secondary Schools Modernisation Programme
- Cross Tay Link Road (CTRL)

5.3 Whilst there may be scope for Developer Contributions to support this investment there will still be a requirement to augment the Loan Charges Budget by a significant amount each year to fund this borrowing.

5.4 For the purposes of this report, and the scenario set out in section 3.13 above, it has been assumed that in the “mid-range” scenario that £1 million is added to the Loan Charges budget each and every year from 2016/17 onwards. This means that by 2020/21 the Loan Charges budget would be increased by £5 million on a recurring basis.

5.5 Further updates of the 2015/16 – 2020/21 Capital Budget will be provided to future meetings of the Strategic Policy and Resources Committee with financial years 2020/21 to 2022/23 being considered by the Council in February 2016.

5.6 **ACTION:** The Council is requested to note the proposal to consider the Updated Composite Capital Programme for 2016/17 to 2022/23 in February 2016.

6. RESERVES UPDATE

6.1 The Council's Reserves Strategy is subject to an annual review to ensure that recommendations on the use of Reserves take due cognisance of the Council's anticipated cash flows and make reasonable provision, within available resources, for both predicted liabilities and unforeseen events. The latest update of the Reserves Strategy was approved by the Council on 12 February 2015 (Report No. 15/38 refers).

- 6.2 The Reserves projections have been updated to reflect the position in the Unaudited Annual Accounts for 2014/15 which is a separate item on the agenda for this meeting of the Council (Report No. 15/277 refers). The information on Reserves is set out in Appendix D to this report.
- 6.3 The Unaudited Annual Accounts for 2014/15 show that the Council had a General Fund Balance (excluding the Housing Revenue Account) of £52.670 million as at 31 March 2015 with £39.360 million earmarked. This results in uncommitted General Fund Reserves of £13.310 million at 31 March 2015 which is in line with the Reserves Strategy approved by Council in February 2015 (Report No. 15/38 refers). The amount earmarked for implementing the Transformation Programme (including Workforce Management) is now £12.963 million.
- 6.4 It is proposed that the updated Reserves Strategy is presented to the Council in February 2016. This update will include further options on how Reserves might be utilised over the medium term.
- 6.5 **ACTION:** The Council is asked to endorse the proposal to present the updated Reserves Strategy to the Council in February 2016.

7. HOUSING REVENUE ACCOUNT

- 7.1 In agreement with Tenants, the Council will continue to develop a medium / long term funding strategy for investment based upon linking annual reviews of rents to both the Tenants' and Council priorities; consideration of the state of the local economy and creating more efficient services in the future. Any revisions to the Council's Housing Investment Programme, Housing Repairs, Neighbourhood Services and the rental strategy will be subject to consultation with the Tenants.
- 7.2 The Housing and Health Committee will determine the Housing Revenue Account (HRA) Budget and rent levels for 2016/17 at its meeting on 27 January 2016. 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.
- 7.3 **ACTION:** The Council is asked to endorse the proposals to determine the Housing Revenue Account (HRA) Budget and rent levels for 2016/17 and five year Housing Investment Programme at the meeting of the Housing and Health Committee on 27 January 2016.

8. WORKFORCE PLANNING MEASURES

- 8.1 On 17 July 2013 the Executive Sub-Committee of the Strategic Policy and Resources Committee approved proposals in relation to Workforce Management (Report No. 13/359 refers).

- 8.2 The purpose of the report was to set out the proposed approach to workforce management over the medium term. This allows a reshaping of the workforce to meet the predicted medium term financial challenges and facilitate service redesign, transformation and efficiencies. The proposals build on existing workforce management measures which were approved by the Council in February 2010. The additional measures reflect a desire to maximise the opportunities for workforce change over the medium term while, as far as possible, safeguarding jobs; the need to manage change in a consensual way in partnership with employees and trade unions and the importance of giving greater choice and support to employees.
- 8.3 Within the 2014/15 Unaudited Annual Accounts there is an earmarked Reserve of £12.963 million to fund Transformation (including Workforce Management). This could be applied in part to the funding of voluntary severance requests and could also be utilised for other initiatives aimed at reshaping and reducing the workforce.
- 8.4 Given the anticipated financial challenges ahead it is recommended that the Council promotes a voluntary severance scheme in line with the Council's approved Retirement Policy and on a similar basis to that adopted in February 2013. Elected Members will have oversight of Services proposals in the Revenue Budget report that will be considered by the Council in February 2016. In addition, and as has been the case in previous years, all retirements approved by 31 March 2016 will be reported to the Strategic Policy and Resources Committee in Autumn 2016.
- 8.5 **ACTION:** The Council is asked to endorse the proposals in relation to workforce planning set out in section 8 above.

9. RISK ASSESSMENT

- 9.1 Determining the Medium Term Financial Plan requires consideration of the strategic, operational and financial risks facing the Council. Both the uncertainty of future events and resource constraints make it impractical to mitigate against all potential risks. Indeed, the further forward the projection, the greater the risk of uncertainty.
- 9.2 In developing the Medium Term Financial Plan, the Council must also be aware of the sustainability of its expenditure proposals. The Medium Term Financial Plan is integral to supporting the Council's approach to the management of financial risk. Significant risks, which are of relevance, are outlined below.

Funding Levels in Future Years

- 9.3 As outlined in previous updates and in section 3 above, the potential for significant cash and real terms reductions in future funding is considered to represent a major factor in the management of the budget. However, it is very difficult to estimate the probability of various levels of reduction with any certainty. The magnitude of the reduction will be influenced by many aspects

of the wider economic climate and UK and Scottish Government policies. In view of this, the Council is advised to consider maintaining a prudent approach in applying Revenue Budget headroom when determining future years' Revenue Budgets.

- 9.4 In addition there is speculation that the Barnett formula will be revisited in the medium term. A review of this could have a significant impact on the level of funding available. There is also further uncertainty in relation to the impact of the Smith Commission recommendations, Scottish income tax and the Commission on Local Tax Reform.

Economic Climate

- 9.5 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 potentially volatile economic climate.
- 9.6 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 affected.

Welfare Reform

- 9.7 The further roll out of Welfare Reform, particularly around the implementation of Universal Credit, presents a significant risk to the Council. The roll out within selected pilot areas has recently been expanded to cover different types of claim. However, at this stage there remains limited information as to when and how Universal Credit might be rolled out within Perth and Kinross.

Pay Award / Employer's Costs

- 9.8 There is still uncertainty as to the final pay award for 2015/16. In setting the 2015/16 Final Revenue Budget the Council assumed a pay award of 2%. At this stage there is no definitive information on the outcome of negotiations. If the outcome of national pay negotiations differs from this assumption this could have a financial impact upon the Council.
- 9.9 Beyond 2016/17 (depending upon the outcome of current pay negotiations) it is anticipated that there may be significant pressure on pay inflation as a consequence of other factors including many years of pay restraint and changes to national insurance charges.
- 9.10 There is still no information on whether or not there will be any government funding to support the additional costs of the removal of the National Insurance rebate.

Inflation

- 9.11 There is a general risk that levels of Service specific inflation exceed budgeted projections and that levels of general inflation cannot be contained within existing resources.

Demographics

- 9.12 The population of Perth and Kinross is anticipated to grow by c24% over the next 25 years based on National Registers of Scotland forecasts. This level of growth will result in additional costs to the Council which will have to be factored into future years' Revenue Budgets and financial plans. However, the level and components of growth will be largely dependent on complex net migration patterns which are very difficult to forecast with any certainty.

Severe Weather

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

10. OTHER FUNDS

- 10.1 The Council also operates a number of other cash backed Reserves including the Capital Fund, Renewal and Repair Fund, Insurance Fund, Capital Receipts Reserve and Capital Grants Unapplied.

- 10.2 The balances on these funds at 31 March 2015 were as follows (Unaudited Annual Accounts):

	£'000
Capital Fund	19,316
Renewal and Repair Fund	1,426
Insurance Fund	3,802
Capital Receipts Reserve	1,832
Capital Grants Unapplied	102

- 10.3 Further information and recommendations in relation to these Reserves will be included in the updated Capital Budget and Reserves Strategy that will be considered by Council in February 2016.
- 10.4 **ACTION:** The Council is requested to endorse the proposal to update other funds in February 2016 when the updated Capital Budget and Reserves Strategy are considered.

11. CONCLUSION AND RECOMMENDATIONS

- 11.1. In common with all Scottish local authorities and the wider public sector, Perth and Kinross Council continues to anticipate a period of severe financial constraint and growing demand for Council Services. The Council continues to take proactive measures to enable it to address this challenge from a robust financial position and continues to develop and strengthen its arrangements for financial and resource management.

- 11.2. To prepare for the predicted financial challenges over the short to medium term the Council has in place Revenue Budget “headroom” that is available from 2016/17 and an ambitious Transformation Strategy and Programme which is subject of a separate report to this Council meeting.
- 11.3. The Council remains committed to modernising and improving the efficiency of its services, with the service review programme forming the latest phase of this strategy. This up-date of the medium term financial plan reinforces the Council’s commitment to the delivery of excellent services in the context of meeting challenging savings targets across all Services which requires the engagement of the Council’s workforce; Elected Members; Community Planning Partners and the communities which it serves.
- 11.4. It is recommended that the Council:
- 11.4.1. Instruct the Head of Finance to maintain the Medium Term Financial Plan and further refine the assumptions that underpin it – see paragraph 3.31.
 - 11.4.2. Approve the proposal to commence development of a three year Revenue Budget for 2016/17, 2017/18 and 2018/19 – see paragraph 4.5.
 - 11.4.3. Approve the corporate savings targets set out in 4.8 above and the methodology supporting them as the basis for the preparation of the Revenue Budget for 2016/17 to 2018/19.
 - 11.4.4. Endorse the proposal in relation to Council charges – see paragraph 4.11.
 - 11.4.5. Note the proposal to consider the Updated Composite Capital Programme for 2016/17 to 2022/23 in February 2016 – see paragraph 5.6.
 - 11.4.6. Endorse the proposal to present the updated Reserves Strategy to the Council in February 2016 – see paragraph 6.5.
 - 11.4.7. Endorse the proposals to determine the Housing Revenue Account (HRA) Budget and rent levels for 2016/17 and five-year Housing Investment Programme at the meeting of the Housing and Health Committee on 27 January 2016 – see paragraph 7.3.
 - 11.4.8. Endorse the proposals in relation to workforce planning set out in section 8 above.
 - 11.4.9. Endorse the proposal to update other funds in February 2016 when the updated Capital Budget and Reserves Strategy are considered – see paragraph 10.4.

Author

Name	Designation	Contact Details
Scott Walker	Chief Accountant	swwalker@pkc.gov.uk 01738 475515

Approved	Designation	Date
John Symon	Head of Finance	10 June 2015

If you or someone you know would like a copy of this document in another language or format, (on occasion only, a summary of the document will be provided in translation), this can be arranged by contacting (*Scott Walker – 01738 475515*)



Council Text Phone Number 01738 442573

1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

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

1. Strategic Implications

1.1. Corporate Plan

1.1.1. The Council's Corporate Plan 2013 – 2018 lays out five outcome focussed strategic objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:

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

1.1.2 This report relates to all of these objectives.

2. Resource Implications

2.1. Financial

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

2.2. Workforce

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

2.3. Asset Management (land, property, IT)

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

3. **Assessments**

3.1. Equality Impact Assessment

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

3.1.2. The information contained within this report has been considered under the Corporate Equalities Impact Assessment process (EqIA) and has been assessed as **not relevant** for the purposes of EqIA.

3.2. Strategic Environmental Assessment

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

3.2.2 The information contained within this report has been considered under the Act. However, no action is required as the Act does not apply to the matters presented in this report.

3.3. Sustainability

3.3.1 Under the provisions of the Local Government in Scotland Act 2003 the Council has to discharge its duties in a way which contributes to the achievement of sustainable development. In terms of the Climate Change Act, the Council has a general duty to demonstrate its commitment to sustainability and the community, environmental and economic impacts of its actions.

3.3.2 The information contained within this report has been considered under the Act. However, no action is required as the Act does not apply to the matters presented in this report.

4. **Consultation**

4.1. Internal

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

2. **BACKGROUND PAPERS**

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

3. APPENDICES

- Appendix A – Medium Term Financial Plan Assumptions
- Appendix B – Medium Term Financial Plan 2016/17 to 2020/21 – Low (Optimistic) Scenario
- Appendix C – Medium Term Financial Plan 2016/17 to 2020/21 – High (Pessimistic) Scenario
- Appendix D – General Fund Reserves as at 31 March 2015 (Unaudited)

Medium Term Financial Plan Assumptions

<u>Pay Award Assumptions</u>						
	<u>2015/16</u>	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>
Low	1.25%	1.25%	2.25%	2.45%	2.45%	2.45%
Mid-Range	1.50%	1.00%	2.95%	3.20%	3.20%	3.20%
High	1.50%	2.00%	3.45%	3.70%	3.70%	3.70%

<u>Employer's Superannuation</u>						
	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>	
Low				-1%		
Mid-Range						
High				1%		

<u>Increments</u>						
	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>	
All Scenarios	£500,000	£550,000	£550,000	£550,000	£550,000	

<u>Employer's National Insurance Contributions</u>						
	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>	
Low						
Mid-Range	£3,500,000					
High	£3,500,000					

<u>Teachers' Superannuation</u>						
	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>	
All Scenarios	£517,000					

<u>Non-Staff Cost Inflation</u>						
	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>	
Low	1.00%	1.50%	1.75%	1.75%	1.75%	
Mid-Range	1.25%	1.75%	2.00%	2.00%	2.00%	
High	1.50%	2.00%	2.25%	2.25%	2.25%	

<u>Capital Financing Costs</u>						
	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>	
Low	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	
Mid-Range	£1,000,000	£1,000,000	£1,000,000	£1,000,000	£1,000,000	
High	£1,250,000	£1,250,000	£1,250,000	£1,250,000	£1,250,000	

<u>Annuity Versus Equal Loan Repayments</u>					
	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>
Low					
Mid-Range					
High		£1,700,000			

<u>Welfare Reform</u>					
	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>
Low		£1,500,000			
Mid-Range		£1,500,000			
High	£1,500,000				

<u>New Secondary School</u>					
	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>
All Scenarios			£2,000,000	£100,000	£100,000

<u>New Primary School</u>					
	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>
All Scenarios					£500,000

<u>General Revenue Funding</u>					
	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>
Low	0.00%	0.00%	0.00%	1.00%	1.00%
Mid-Range	-1.25%	-1.25%	-1.25%		
High	-4.50%	-3.50%	-2.00%	5.00%	

<u>Non-Domestic Rates Income</u>					
	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>
Low	1.20%	1.20%	1.20%	1.20%	1.20%
Mid-Range	1.20%	1.20%	1.20%	1.20%	1.20%
High					

<u>Demographics</u>					
	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>
Low	0.75%	0.77%	0.75%	0.69%	0.70%
Mid-Range	0.89%	0.91%	0.92%	0.94%	0.96%
High	0.99%	1.05%	1.10%	1.15%	1.17%

<u>Council Tax – Increase in Charge</u>					
	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>
Low		4.00%	4.00%	4.00%	4.00%
Mid-Range		2.00%	2.00%	2.00%	2.00%
High					

<u>Council Tax – Increase in Base</u>					
	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>
Low	0.75%	0.77%	0.75%	0.69%	0.70%
Mid-Range	0.89%	0.91%	0.92%	0.94%	0.96%
High	0.99%	1.05%	1.10%	1.15%	1.17%

<u>Fees and Charges</u>					
	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>
Low	4.00%	4.00%	4.00%	4.00%	4.00%
Mid-Range	3.00%	3.00%	3.00%	3.00%	3.00%
High	2.00%	2.00%	2.00%	2.00%	2.00%

<u>Use of Headroom</u>					
	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>
Low		£4,386,000			
Mid-Range	£4,386,000				
High	£4,386,000				

<u>“Spare” 2015/16 Pay Award</u>					
	<u>2016/17</u>	<u>2017/18</u>	<u>2018/19</u>	<u>2019/20</u>	<u>2020/21</u>
Low		£1,171,000			
Mid-Range	£745,000				
High	£745,000				

APPENDIX B

MEDIUM TERM FINANCIAL PLAN 2016/17 TO 2020/21 – LOW (OPTIMISTIC) SCENARIO

	16/17	17/18	18/19	19/20	20/21	Total
	£'000	£'000	£'000	£'000	£'000	£'000
STAFF RELATED PRESSURES						
Pay Award	2,162	3,853	4,385	4,492	4,602	19,494
Increments	500	550	550	550	550	2,700
Employers Superannuation Rates				-1,800		-1,800
Teachers' Superannuation	517					517
NON STAFF RELATED PRESSURES						
Non Staff Inflation	2,130	3,429	3,998	4,079	4,161	17,797
Demographics	2,795	2,866	2,779	2,570	2,616	13,626
Capital Financing Costs	1,000	1,000	1,000	1,000	1,000	5,000
Welfare Reform		1,500				1,500
New Secondary School			2,000	100	100	2,200
New Primary School					500	500
INCOME ASSUMPTIONS						
General Revenue Funding				-1,821	-1,839	-3,660
NDRI	-2,000	-2,000	-2,000	-2,000	-2,000	-10,000
Demographics (Grant Impact)	-1,371	-1,406	-1,363	-1,260	-1,283	-6,683
COUNCIL TAX						
Increase in charge		-2,890	-3,006	-3,126	-3,251	-12,273
Increase in base	-544	-558	-541	-500	-509	-2,652
FEES & CHARGES	-1,319	-1,372	-1,427	-1,484	-1,543	-7,145
USE OF HEADROOM		-4,386				-4,386
"Spare" 15/16 Pay Award		-1,171				-1,171
ESTIMATED TOTAL SAVINGS REQUIRED PER YEAR	3,870	-585	6,375	800	3,104	13,564

APPENDIX C

MEDIUM TERM FINANCIAL PLAN 2016/17 TO 2020/21 – HIGH (PESSIMISTIC) SCENARIO

	16/17	17/18	18/19	19/20	20/21	Total
	£'000	£'000	£'000	£'000	£'000	£'000
STAFF RELATED PRESSURES						
Pay Award	3,468	6,102	6,770	7,020	7,280	30,640
Increments	500	550	550	550	550	2,700
National Insurance	3,500					3,500
Employers Superannuation Rates				1,900		1,900
Teachers' Superannuation	517					517
NON STAFF RELATED PRESSURES						
Non Staff Inflation	4,110	4,924	5,569	5,729	5,893	26,225
Demographics	3,678	3,894	4,080	4,259	4,347	20,258
Capital Financing Costs	1,250	1,250	1,250	1,250	1,250	6,250
Annuity versus Equal Repayments		1,700				1,700
Welfare Reform	1,500					1,500
New Secondary School			2,000	100	100	2,200
New Primary School					500	500
INCOME ASSUMPTIONS						
General Revenue Funding	8,193	6,086	3,356	-8,222		9,413
Demographics (Grant Impact)	-1,804	-1,910	-2,001	-2,088	-2,132	-9,935
COUNCIL TAX						
Increase in base	-716	-758	-794	-829	-846	-3,943
FEES AND CHARGES						
	-660	-673	-686	-700	-714	-3,433
USE OF HEADROOM						
"Spare" 15/16 Pay Award	-745					-745
ESTIMATED TOTAL SAVINGS REQUIRED PER YEAR						
	18,405	21,165	20,094	8,969	16,228	84,861

APPENDIX D

General Fund Reserves as at 31 March 2015

	£'000	£'000
General Fund Balance at 31 March 2015		52,670
<u>Less Commitments Against Balances</u>		
Workforce Management Strategy	(12,963)	
Approved Budget Flexibility	(5,143)	
Funding of Additional Capital Expenditure	(3,202)	
Council Tax on Second Homes/Long Term Empty Properties	(3,168)	
Car Parking	(2,204)	
Developer Contributions: Education	(1,827)	
Devolved School Management Balances	(1,284)	
Revenue Grants	(1,254)	
City Centre Projects	(1,200)	
Developer Contributions: Affordable Housing	(1,097)	
Developer Contributions: Commuted Sums & Infrastructure	(905)	
Essential Maintenance & Compliance Works	(860)	
Investment in Improvement Funds	(684)	
Perth Office Programme	(610)	
Local Integration Reserve Fund	(500)	
Public Service Network	(390)	
Planning Appeals & Public Inquiries	(344)	
Employability Initiatives	(329)	
Crematorium Abatement Levy	(300)	
Flood Fund	(220)	
Financial Assistance (Mod)	(180)	
Energy Efficiency Fund	(179)	
Investment in Learning Programme	(135)	
Contaminated Land	(109)	
Local Government Elections	(106)	
Events	(100)	
Community Safety/ Wellbeing Initiatives	(67)	
		(39,360)
Uncommitted Balance at 31 March 2015		13,310

