

## PERTH AND KINROSS COUNCIL

16 December 2015

## REVENUE BUDGET 2016/17 TO 2018/19 – REPORT NO.1

Report by the Head of Finance

**PURPOSE OF REPORT**

This report provides an update in relation to the Revenue Budget for 2016/17, 2017/18 and 2018/19 in light of the information contained in the UK Spending Review and Autumn Statement that was announced on Wednesday 25 November 2015.

**1. BACKGROUND**

- 1.1. The Council's Medium Term Financial Plan was last approved on 1 July 2015 (Report No. 15/276 refers). Elements of the Plan were subsequently updated in a report to the Strategic Policy and Resources Committee on 23 September 2015 (Report No. 15/395 refers).
- 1.2. On 1 July 2015 the Council approved the proposal to commence development of a three year Revenue Budget for 2016/17, 2017/18 and 2018/19.
- 1.3. On 23 September 2015 the Strategic Policy and Resources Committee approved revisions to the Medium Term Financial Plan assumptions which resulted in a revised mid-range scenario for the estimated total savings required each year as follows:

16/17	17/18	18/19	19/20	20/21	Total
£'000	£'000	£'000	£'000	£'000	£'000
7,269	7,371	7,751	7,597	6,271	36,259

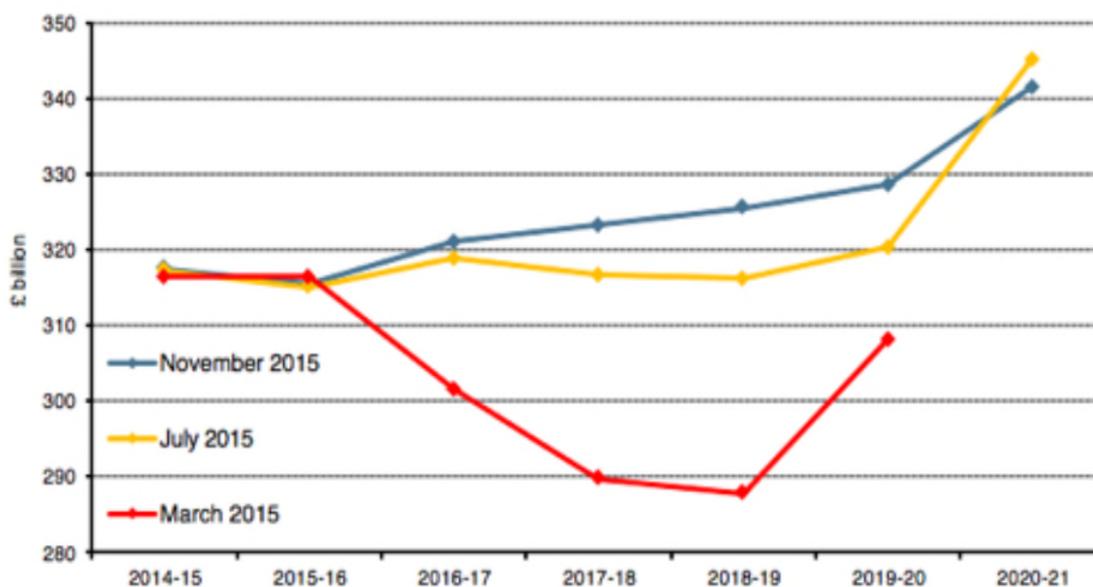
- 1.4. Elected Members are reminded that these estimated savings figures are after the assumed use of Revenue Budget "Headroom" of £5,131,000 in 2016/17 and are predicated on a 2% increase in Council Tax rates in 2017/18 and 2018/19.

**2. UNITED KINGDOM FISCAL OUTLOOK**

- 2.1 The United Kingdom's fiscal outlook has changed significantly, even in the four months since the last UK Budget in July, which itself was much changed from the previous (March) Budget.

- 2.2 Overall, since the March Budget, around £110 billion of extra funds have been added to the UK Resource DEL (Departmental Expenditure Limits) total spend in the years 2016/17 to 2019/20. This has been sourced from a mixture of tax increases, cuts to welfare, more borrowing and forecasting changes by the Office of Budget Responsibility.

Chart 1: UK Resource DEL in cash terms, changes in forecasts during 2015



Source: Fiscal Affairs Scotland derived from Office of Budget Responsibility

- 2.3 Despite this improvement over time in the Resource DEL budget, most of the upcoming cuts (in real terms only) to public services still involve Resource (day to day) spending.

### 3. UNITED KINGDOM SPENDING REVIEW

- 3.1 The United Kingdom Spending Review was published on 25 November 2015. The Spending Review is a process that determines how the UK Government will spend public money over the course of the Parliament. In the Spending Review the UK Government decides budgets for each department called departmental settlements. Departmental settlements can be spent on the running of the services they oversee such as schools and hospitals, and the everyday cost of resources such as staff.
- 3.2 The Spending Review sets out how £4 trillion of UK Government money will be allocated over the next five years over twenty four departments – Scotland is one of those departments.
- 3.3 Changes to specific departmental budgets mean that, via the workings of the Barnett formula, there is a knock on impact on the Scottish Budget, amounting to an extra £1 billion of cash funding by 2019-20. However, this is equivalent to a real terms (i.e. inflation adjusted) fall of over £1.2 billion or around 4%.

Table 1: Changes to the Scottish Budget

Measure	2015-16	2016-17	2017-18	2018-19	2019-20	2015-16 to 2019-20
<i>(CASH terms)</i>						
<b>Budget (£ mn)</b>	30,167	30,667	30,867	30,967	31,167	1,000
<b>Change (cash)</b>		500	200	100	200	-
<b>Change (%)</b>		1.7%	0.7%	0.3%	0.6%	3.3%
<i>(REAL terms)</i>						
<b>Budget (£mn)</b>	29,583	29,583	29,258	28,789	28,358	-1,225
<b>Change (real)</b>		0	-325	-468	-432	-
<b>Change (%)</b>		0.0%	-1.1%	-1.6%	-1.5%	-4.1%

Source: Fiscal Affairs Scotland based on Scottish Draft Budget 2015/16 & HM Treasury Spending Review and Autumn Statement 2015

Note: the change in percentage terms, in 2016-17 is less certain than in other years as the base year figure may ultimately differ from that published at the time of the last Scottish Draft Budget.

- 3.4 The position outlined in Table 1 is different than that outlined in previous estimates made by independent commentators. This is due to the large additions to UK DEL Resource spending shown in Chart 1 above that have taken place since the time of the March Budget. The level of Scottish DEL is greater than that anticipated in the Medium Term Financial Plan. However the real terms reductions in funding will present significant challenges for the Council in maintaining service delivery.
- 3.5 Within the overall, real terms, fall of 4.1%, the UK Treasury estimate that the Scottish Resource (revenue) budget will fall by 5%, equivalent to an average of -1.3% a year. (Note: the Scottish government have estimated the fall to be 5.7%. The difference is likely to be due to variations in estimates of the 2015-16 Scottish budget level.) In contrast the Capital budget is expected to rise by around 17% (to 2020-21).
- 3.6 The impact of the Spending Review on Scottish Local Government will not be known until 16 December when the Scottish Budget is announced.
- 3.7 There are considerable uncertainties that will impact on the final allocations to local government which makes forecasting funding levels for individual Councils very problematic. These include –
- Borrowing
  - New tax powers
  - NHS protection
  - Public sector pay policy
  - Council Tax freeze
  - Non Domestic Rates
  - Distributional Changes

- 3.8 Fiscal Affairs Scotland have produced further analysis on the Spending Review funding changes when the Scottish Budget is split between the main area of protection (NHS Resource Budget) and all other budgets. This analysis is based on the assumption that the Barnett consequential in respect of Health are passed to the NHS in full.

Table 2: Changes to the Scottish Budget, Cash Terms – Protected versus Non-Protected Scottish Budgets

Measure	2015-16	2016-17	2017-18	2018-19	2019-20	2015-16 to 2019-20
<b>Total Budget (£ mn)</b>	30,167	30,667	30,867	30,967	31,167	1,000
<b>Change (Barnett)</b>		500	200	100	200	
<b>Change (%)</b>		1.7%	0.7%	0.3%	0.6%	3.3%
<b>- NHS Resource</b>	9,626	10,168	10,503	10,749	11,054	1,428
<b>Change (Barnett)</b>		542	335	246	305	
<b>Change (%)</b>		5.6%	3.3%	2.3%	2.8%	14.8%
<b>- Unprotected</b>	20,541	20,499	20,364	20,218	20,113	-428
<b>Change (implied)</b>		-42	-135	-146	-105	
<b>Change (%)</b>		-0.2%	-0.7%	-0.7%	-0.5%	-2.1%

Source: Fiscal Affairs Scotland

- 3.9 The overall (2015/16 to 2019/20) fall of 2.1% in the unprotected budget is equivalent to a cut of nearly 10% in real terms.
- 3.10 The above analysis includes both revenue and capital resources available to the Scottish Government. However after the impact of increases in capital resources is eliminated the picture presented in the above table is broadly in line with the revenue funding reductions assumed in the Council's Medium Term Financial Plan.
- 3.11 As previously stated no detail of the Scottish Local Government finance settlement is currently available. However, there is considerable speculation in the press and other quarters that the actual revenue resources available to Scottish councils in 2016/17 will be dramatically worse than would be expected on the basis of the above analysis. There could be a number of reasons for this including different interpretations of the comparable budget for 2015/16; the Scottish Government's previous assumptions about growth in Non-Domestic Rates Income; differences in the resources allocated to the NHS and other parts of the public sector and unfunded commitments from previous years.

- 3.12 Given this risk officers are currently reviewing options for managing the budget in the event that the settlement is significantly worse than anticipated in 2016/17. These options will initially be presented to all Budget Review Groups and subsequently to the Council in the event that the 2016/17 settlement is materially worse than was assumed in the Medium Term Financial Plan.
- 3.13 There is currently little focus on the settlement beyond 2016/17 at a Scottish level. It remains critical, however, that the Council continues to plan over the medium term to allow sufficient lead in time to deliver the savings that are likely to be necessary in future years. The delivery of the transformation programme and savings options in financial years 2017/18 and 2018/19 requires a longer term planning horizon. It is therefore recommended that the Council sets a Final Revenue Budget for 2016/17 and Provisional Revenue Budgets for 2017/18 and 2018/19 at the special meeting of the Council on 11 February 2016.
- 3.14 **ACTION:** The Council is asked to approve the setting of a Final Revenue Budget for 2016/17 and Provisional Revenue Budgets for 2017/18 and 2018/19 at the special meeting of the Council on 11 February 2016.
- 3.15 In addition the Spending Review included an announcement on the introduction of an Apprenticeship Levy from April 2017 for larger employers. It will be set at a rate of 0.5% of an employer's paybill. Employers who are committed to apprentice ship will be able to access this funding. It is anticipated that significant elements of the Council's current expenditure will qualify but details of eligible expenditure are still to be announced. At this stage the exact implications for the Council are not yet quantifiable and no provision has been included in the budget but it may impact on the 2017/18 Revenue Budget.

#### 4. PROVISIONAL REVENUE BUDGET 2016/17 TO 2018/19

- 4.1 In line with the Council decision of 1 July 2015 Services have been developing detailed revenue budget submissions for financial years 2016/17, 2017/18 and 2018/19.
- 4.2 The submissions are summarised in the following table –

	2016/17	2017/18	2018/19	Total
	£'000	£'000	£'000	£'000
Expenditure Pressures	16,517	8,180	7,193	31,890
Savings Proposals	(11,912)	(10,501)	(11,059)	(33,472)
Gap / (Excess)	4,605	(2,321)	(3,866)	(1,582)

- 4.3 The table above shows a particular issue in relation to financial year 2016/17 in that expenditure pressures exceed savings proposals by £4,605,000. There two main reasons for this. Firstly in 2016/17 the level of corporate pressures is greater than any other individual years due to the inclusion of the

projected additional costs of the removal of the National Insurance rebate (c£3,500,000); the further implementation of Welfare Reform (£1,500,000) and the assumed continuation of the Council Tax freeze in that year . Secondly there are lead in times for a number of savings proposals, particularly in relation to the Transformation Programme, that mean many savings are not deliverable until 2017/18 or beyond.

- 4.4 Officers are currently reviewing options for managing the budget over three years to ensure that a balanced budget can be presented for each year. This work is being done in conjunction with the development of options for managing a potentially significantly worse than anticipated settlement in 2016/17. Inevitably developing such options will prove challenging and could restrict the choices available to members in setting the Revenue Budget. These options will initially be presented to all Budget Review Groups and subsequently to the Council.

## **5. NEXT STEPS**

- 5.1 Details on the local government finance settlement for 2016/17 are expected to be included in a Scottish Government Finance Circular that is expected to be issued on 16 December 2015. This circular will set out details of the Scottish Government funding package that the Council will receive for 2016/17 only. It is unlikely that the information will be received in advance of this Council meeting but Budget Review Groups will be provided with updates on the position after the figures have been analysed.
- 5.2 As highlighted in paragraph 3.11 above there is real uncertainty about the level of potential cash reductions facing Councils in 2016/17. The Medium Term Financial Plan assumed a cash reduction of 1.25% in General Revenue Grant and a £1,000,000 increase in Non-Domestic Rates Income in 2016/17. However it is now possible that the levels of cuts will be significantly greater than this level and that the available “headroom” will not be sufficient, especially in 2016/17. In anticipation of a further reduction in the level of Scottish Government funding and the existing imbalance in the 2016/17 Provisional Revenue Budget Council officers are developing scenarios to deliver a balanced budget for the next three years. With the anticipated release date of the Settlement not being until 16 December the implications and potential solutions will be reported to all Budget Review Groups prior to inclusion in the 2016/17 Provisional Revenue Budget that will be considered by Council on 11 February 2016.

## **6. CAPITAL BUDGET**

- 6.1 The Council has in place a Capital Budget which was last updated at the Strategic Policy and Resources Committee on 2 December 2015 (Report No. 15/552 refers).
- 6.2 The Council would normally update its Capital Budget on an annual basis in February each year. Given the magnitude of the challenges presented by the financial environment and the delivery of the Transformation Programme it is

proposed that the Capital Budget is considered on 22 June 2016. This will allow officers to present an updated Capital Budget for the seven years through to 2022/23.

- 6.3 **ACTION:** The Council is asked to endorse the proposal to present a Capital Budget to 2022/23 to the Council meeting on 22 June 2016.

## **7. GENERAL FUND RESERVES STRATEGY**

- 7.1 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 commitments and unforeseen events. The latest update of the Reserves Strategy was approved by the Council on 12 February 2015 (Report No. 15/38 refers).
- 7.2 The Reserves Strategy will be updated and presented to the Council on 11 February 2016. This update will include further options on how Reserves might be utilised over the medium term.

## **8. VOLUNTARY SEVERANCE SCHEME**

- 8.1 On 1 July 2015 the Council approved proposals in relation to Workforce Management (Report No. 15/276 refers) which specifically approved the promotion of a Voluntary Severance Scheme.
- 8.2 As at 3 December 2015 the Council had received 191 formal applications for staff to access the Voluntary Severance Scheme.
- 8.3 The Executive Officer Team will make recommendations to Members in February 2016 for approval of applications where appropriate, in advance of advising employees that their requests for voluntary severance have been granted. Member scrutiny is consistent with the good practice outlined in the Accounts Commission report Managing Early Departures from the Scottish Public Sector. Members will also receive information on the Voluntary Severance Scheme via the annual reports on Savings Arising from Early Retirement Decisions.

## **9. CONCLUSION AND RECOMMENDATIONS**

- 9.1. 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.
- 9.2. There is considerable uncertainty as to the level of funding that the Council will receive over the next three years.

9.3. Updates will be provided to Budget Review Groups following analysis of the Local Government Finance Settlement which is anticipated to be received on 16 December 2015.

9.4. It is recommended that the Council:

- (i) Notes the contents of this report.
- (ii) Approve the setting of a Final Revenue Budget for 2016/17 and Provisional Revenue Budgets for 2017/18 and 2018/19 at the special meeting of the Council on 11 February 2016 – see paragraph 3.14.
- (iii) Endorse the proposal to present a Capital Budget through to 2022/23 to the Council meeting on 22 June 2016 – see paragraph 6.3.

**Author**

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<b>Approved</b>		
John Symon	Head of Finance	7 December 2015

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Council Text Phone Number 01738 442573

## 1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

<b>Strategic Implications</b>	<b>Yes / None</b>
Community Plan / Single Outcome Agreement	None
Corporate Plan	Yes
<b>Resource Implications</b>	
Financial	Yes
Workforce	Yes
Asset Management (land, property, IST)	Yes
<b>Assessments</b>	
Equality Impact Assessment	Yes
Strategic Environmental Assessment	Yes
Sustainability (community, economic, environmental)	Yes
Legal and Governance	None
Risk	None
<b>Consultation</b>	
Internal	Yes
External	None
<b>Communication</b>	
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, Depute Chief Executives and all Directors have been consulted in the preparation of this report.

#### **2. BACKGROUND PAPERS**

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

#### **3. APPENDICES**

None.

