8

13/475

PERTH AND KINROSS COUNCIL

2 October 2013

UPDATE OF MEDIUM TERM FINANCIAL PLAN

Report by the Head of Finance

PURPOSE OF REPORT
This report updates the Medium Term Financial Plan approved by Council on 19 December 2013 (Report No. 12/585 refers). The report also summarises the implications of the latest projections on future Council funding over the short to medium 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 19 December 2012 (Report No. 12/585 refers).

1.2. This report sets out forecasts of the Council's anticipated funding over the medium term and the resultant implications for its financial planning during a period when it is widely expected that there will be significant constraints on public sector expenditure.

1.3. The Council has approved the following key elements of its financial strategy:

	Report Reference
Medium Term Financial Plan	12/585
Revenue Budget 2013/14 and 2014/15	13/53
Capital Budget 2017/18 to 2019/20	13/54
Reserves Strategy	13/55
Housing Revenue Account Strategic Financial Plan	13/56
Revenue Budget 2012/13 – Monitoring Report No. 4	13/150
Composite Capital Budget and Housing Improvement Programme 2012/17 – Monitoring Report No. 4	13/151
Composite Capital Budget 2013/20 and Housing Improvement Programme 2013/18 – Monitoring Report No. 1	13/444
Revenue Budget 2013/14 – Monitoring Report No. 1	13/445

1.4. Additionally on the agenda for today's Council meeting is the Annual Treasury Strategy & Prudential and Treasury Management Indicators 2013/14 (Report No. 13/476 refers); the Annual Treasury Investment Strategy (Report No. 13/477 refers) and the Council's Annual Audited Statement of Accounts for 2012/13 (Report No. 13/474 refers)

2. SCOTTISH GOVERNMENT BUDGET

2.1 Before considering the appropriate approach to preparing the Council's Revenue and Capital Budget over the current planning periods it is necessary to consider the outlook for Scotland's public finances as a whole. Much of the information below is derived from independent commentary commissioned by the Directors of Finance Section.

2.2 The total amount that the UK Government spends is known as Total Managed Expenditure (TME) which is split between:

- Departmental Expenditure Limits (DEL) which is the amount allocated to Government Departments to spend on the running of their services including staff and operating costs;

- Annually Managed Expenditure (AME) which is the amount spent on areas not controlled by Government Departments and includes welfare, tax credits, pensions and debt interest payments.

2.3 The Centre for Public Policy for Regions (CPPR) is an academic research centre based in the University of Glasgow's College of Social Science. It provides 'Quality academic research for better public policies' and has developed a unique role in Scotland providing research and commentary on Scotland's public finances, the Scottish economy and wider public policy issues.

2.4 The CPPR commentary concentrates on Departmental Expenditure Limits (DEL) and the information in this report is based upon their analysis published on 7 August 2013.

2.5 The CPPR has looked at the impact on Scotland's Budget of the UK Government's latest spending review to predict how Scotland's public finances will look up until 2017/18.

2.6 The CPPR suggest that by financial year 2013/14 only 40% of the required reductions in revenue budgets had been "undertaken" with the remaining 60% being "required" by 2017/18 with the heaviest reductions likely to take place in financial years 2016/17 and 2017/18.

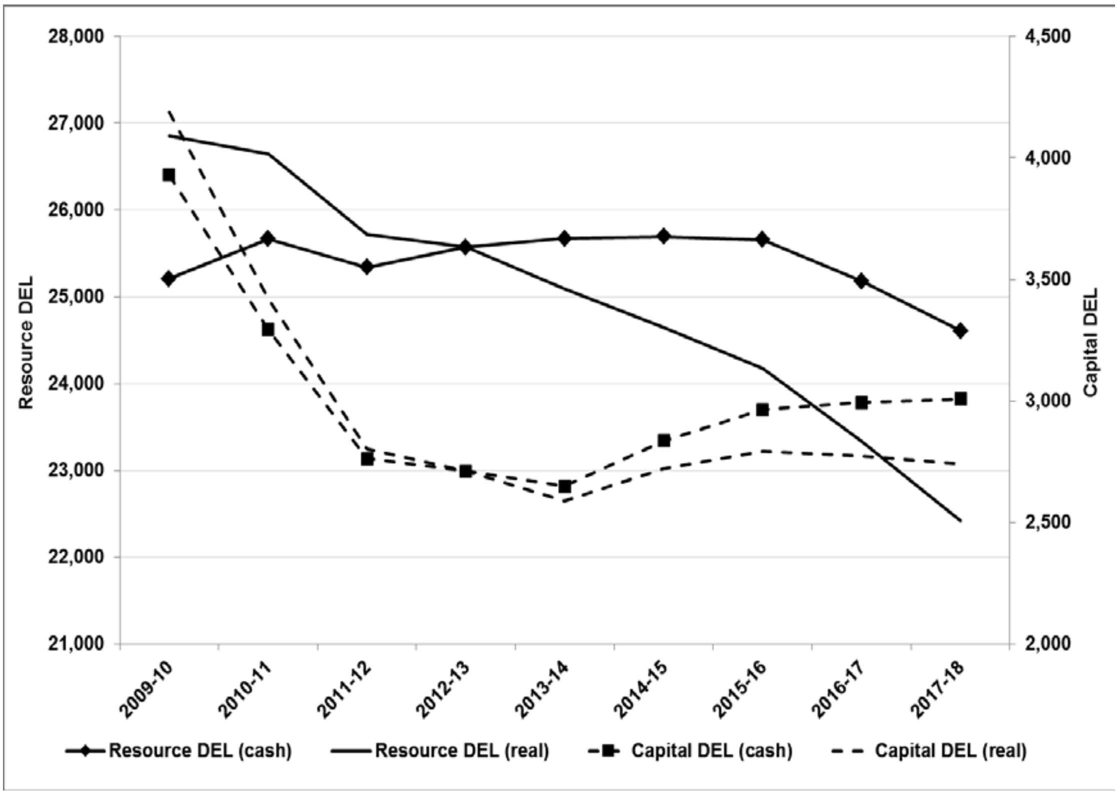
2.7 The next UK Spending Review, which is likely to take place in 2015, will require "big decisions" on which areas accommodate "deeper than average" future cuts. This will have a knock on effect on the Scottish Budget due to the method used to calculate its share of the funding including the Barnett formula.

2.8 The CPPR analysis suggests that "the revenue reductions implied by the current UK Government plans for 2016/17 and 2017/18 are bigger than we will see in any of the years up to then".

2.9 Real terms reductions in funding may even continue beyond financial year 2017/18, the period set for fiscal consolidation, particularly if economic growth remains at recent low levels.

2.10 The following graph illustrates both actual and projected Revenue and Capital funding from the "Scottish Block" including Health, Local Government and other relevant parts of the public sector over the medium term in both real and cash terms. Real terms means the projected level of funding has been adjusted to recognise the impact of inflation.

Figure 1: "Scottish Block" - Revenue and Capital DEL Projections, £million, cash and real terms (2012/13) prices.



Source: Figures for 2009/10 to 2015/16, Scottish Government; 2016/17 and 2017/18, CPPR Calculations

2.11 The information displayed in the graph above only shows Scottish Government expenditure at an aggregate level. The trends illustrated in the graph do not automatically reflect the funding for local authorities as a whole or Councils on an individual basis.

2.12 In addition, between 2013/14 and 2015/16 it is anticipated that the elements making up the local government share of the Scottish Government Budget are set to switch. Specifically it is anticipated that revenue grant funding will reduce in 2014/15 and 2015/16 with these reductions being offset by planned increases in Non Domestic Rates Income primarily from a combination of inflation and economic activity.

2.13 The 2013 UK Spending Review confirmed firstly that fiscal consolidation is set to be at least 8 years (compared to 6 in early predictions), and secondly, that revenue cuts still to come may include some of the most significant annual reductions seen to date.

2.14 It is projected that £2.7 billion real terms reduction in Revenue DEL is still required through to 2017/18 which is in addition to the £1.8 billion already experienced since 2009/10.

2.15 Whilst the commentary above provides an updated projection for the "Scottish Block" as a whole up to 2017/18, more detail in respect of local government has been made available for the earlier part of this period and this information informs the following sections.

3. REVENUE BUDGET

3.1 Scottish Government Announcement – 11 September 2013

3.1.1 On 11 September 2013 the Scottish Government provided information in relation to financial years 2014/15 and 2015/16. This information confirmed the inclusion of resources for a number of areas including the Council Tax Reduction Scheme, Children and Young People Bill and Free Personal and Nursing Care. Further details of the information received from the Scottish Government are set out in Appendix A.

3.1.2 The indicative figures indicate a settlement in line with previous expectations for 2014/15 and a "flat cash" settlement for local government in 2015/16. The settlement continues to be focussed on the delivery of the joint priorities of growing the economy together with protecting front line services and the most vulnerable in society.

3.1.3 The settlement is predicated on the delivery of specific commitments for both years as follows:

- A Council Tax freeze.
- Maintaining teacher numbers in line with pupil numbers and securing places for all probationers who require one under the teacher induction scheme.

3.1.4 Failure to deliver on the commitments will result in Councils not receiving their share of the £109 million withheld by the Scottish Government to deliver on the Council Tax freeze and teacher commitments.

3.1.5 Failure to deliver sufficient FTE teachers in 2014/15 as reported in the annual census may invoke collective and/or individual sanctions in the shape of corresponding reductions in the local government settlement for future years. For 2015/16, the Scottish Government's priority is to continue to maintain teacher numbers in line with pupil numbers. However, in recognition of the on-going concerns from Local Government around this input measure, the

Scottish Government have agreed that the Government will have a dialogue with COSLA, and engage with other partners, on the possibility of adopting outcome measures using existing resources to improve attainment for children and young people.

3.1.6 In line with previous years it will not be possible for Councils to select elements of the package. The Council will have to agree to the full terms of the package to access the funding.

3.1.7 The Scottish Government also confirm that in 2015/16 the Older People's Services Change Fund will be replaced by the Reshaping Care Change Fund with funding allocated by the Scottish Government to Health Boards. This will be "a partnership resource accessible to local authorities, working in partnership with Health Boards and the third and independent sector".

3.1.8 Funding from the Scottish Government for the Early Years Change Fund and Reducing Reoffending Change Fund will continue in 2015/16.

3.2 Financial Years 2013/14 and 2014/15

3.2.1 The Council has in place a Final Revenue Budget for 2013/14 and Provisional Revenue Budget for 2014/15, both of which were approved by Council on 14 February 2013 (Report No. 13/53 refers).

3.2.2 The Provisional Revenue Budget for 2014/15 is based upon information on Scottish Government grant funding levels contained in Finance Circular 5/2012 issued on 27 November 2012. The level of funding for 2014/15 will be updated in November / December 2013 with the issue of the Local Government Finance Circular for 2014/15.

3.2.3 The Provisional Revenue Budget for 2014/15 contains a number of assumptions. These assumptions will be reviewed and updated and included within the 2014/15 Final Revenue Budget that will be considered by Council in February 2014. One of the most significant assumptions is in relation to the level of pay award for staff in 2014/15. The Provisional Revenue Budget for 2014/15 currently includes an assumed pay award for all staff of 2%. Pay restraint has been a significant factor in controlling costs in recent years and there is increasing evidence that this level of provision may be too high. The final inflationary uplift for pay awards may, therefore, be subject to revision, probably downwards, as national pay negotiations are progressed. Any reduction in the level of pay award will augment the level of recurring headroom available in 2014/15 and beyond. The term "headroom" is used to mean the excess of income over expenditure in the Revenue Budget.

3.2.4 In line with previous years it is proposed that the starting point for setting a Final Revenue Budget for 2014/15 will be the Provisional 2014/15 Revenue Budget approved in February 2013 (Report No. 13/53 refers). On this basis, in February 2014, Members will only be considering movements to the 2014/15 Provisional Revenue Budget approved in February 2013.

3.3 Financial Year 2015/16

3.3.1 As set out in section 3.1 above the Scottish Government has provided further information for 2015/16 which allows the Council to refine its financial planning assumptions.

3.3.2 In terms of funding the Scottish Government have announced a "flat cash" settlement for local authorities assuming they agree to the specific commitments set out at paragraph 3.1.3.

3.3.3 This position is significantly better than previously anticipated. It is not yet clear what the longer term consequences, if any, of a better than anticipated settlement for 2015/16 will be.

3.3.4 It should also be understood that "flat cash" funding represents a real terms reduction in funding (after inflation is factored in).

3.3.5 Despite there being an announcement of "flat cash" funding for local authorities it is likely that Perth and Kinross Council will see an increase (on a cash basis) in the level of grant funding. It is anticipated that the increase will be derived from two sources. Firstly the inclusion of additional funding for specific new legislation e.g. the Children and Young Persons Bill and secondly the impact of the increasing population and changing demographics in Perth and Kinross on the distribution of resources between Councils. It is anticipated that the detail of the Council's individual settlement will be made available by the Scottish Government in December 2014.

3.3.6 Within the settlement Councils will be required to fund a number of pressures. The most significant of these pressures will probably be in relation to staff costs (pay awards and increments). As in previous years it is proposed that these pressures are funded corporately by the identification of savings identified by Services towards a "corporate savings target".

	2015/16 **£'000**
Estimated Pay Award: 2%	3,600
Estimated Increments	500
Additional Headroom	900
Proposed Corporate Savings Target	5,000

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

- Provide Elected Members with flexibility in choosing between different budget options.

- Create capacity within the budget to carry forward recurring resources into future years to offset future budget pressures or to allow for adverse movements in the Council's overall financial position.

- In the year in which the savings are approved, create a non-recurring resource which may be used to meet non- recurring expenditure such as investment in regeneration projects; transformational change or severance costs.

3.3.8 With the information contained in the above table it is proposed that a corporate savings target of £5 million be set for 2015/16 with the balance in excess of the required amount augmenting headroom.

3.3.9 **ACTION:** The Council is asked to instruct Executive Directors to prepare Revenue Budget submissions on the basis of a corporate savings target of £5million for financial year 2015/16.

3.3.10 Council Services have recently commenced the preparation of Revenue Budget submissions for 2015/16. These submissions will be subject to scrutiny by individual Service Management Teams and the Executive Officer Team before being released for political consideration.

3.3.11 A number of principles and assumptions, recommended by the Executive Officer Team, will be used in determining the proposed approach to setting the Provisional Revenue Budget for 2015/16. These are set out below:

- The starting point for all budget submissions is the Provisional Revenue Budget for 2014/15 approved in February 2013 (Report No. 13/53 refers).

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

- For 2015/16, and subject to the recommendation at 3.3.9 above, Services have been requested to contribute towards a Corporate Savings Target of £5 million.

3.3.12 **ACTION:** The Council is requested to approve the setting of a two year Revenue Budget by updating the previously approved Provisional Revenue Budget for 2014/15 and setting a Provisional Revenue Budget for 2015/16.

3.3.13 It should be noted that the operation of a Voluntary Severance Scheme (VSS) as described in Section 4 below may influence the Revenue Budget submissions from Services. There is a possibility that the options considered prior to Christmas 2013 may be amended prior to the special Council meeting in February 2014 based upon VSS applications received.

3.4 Change Fund / Investment in Improvement Fund Four

3.4.1 The Medium Term Financial Plan approved by Council on 14 December 2011 approved the allocation of £1 million from Revenue Budget headroom as the Council's contribution towards the Change Funds (Report No.11/654 refers). The updated Medium Term Financial Plan that was approved on 19 December 2012 approved the allocation of a further £1 million towards the establishment of Investment in Improvement Fund Four to create capacity to support further Service redesign (Report No.12/585 refers).

3.4.2 When these amounts were allocated it was on the assumption that the Change Fund monies would be for three years and the Investment in Improvement Fund Four (IIIF4) funding for two years. This meant that the funding would no longer be required for 2015/16.

3.4.3 As set out in paragraph 3.1.5 the Scottish Government has announced that the Older People's Services Change Fund has been replaced by funding provided to Health Boards but accessible by Councils. To the extent that the Council is able to discontinue its own budgeted contributions to Change Funds and IIIF4, the amount of recurring revenue budget headroom (£4.237 million) available to the Council would be augmented by up to a further £2 million for 2015/16 onwards. A recommendation in respect of the Change Fund and IIIF4 resources will be made to the Council in February 2014.

3.5 Revenue Budget Headroom

3.5.1 Revenue budget "headroom" is generated when the Council sets a revenue budget where income exceeds expenditure.

3.5.2 In recent years the Council has been extremely prudent in preparing for the financial challenges ahead. This theme has continued in the 2014/15 Provisional Revenue Budget where the Council has maintained recurring revenue budget headroom of £4.237million which is available from 2015/16 onwards.

3.5.3 The protection of recurring headroom does allow the Council to invest additional expenditure, on a non-recurring basis, on priority areas for the Council. In recent years significant non-recurring expenditure has been committed to amongst other areas, economic development and employability.

3.5.4 The table below sets out the potential recurring headroom that will be available to the Council from 2015/16 and beyond

	£'000
Headroom carried forward from 2014/15	4,237
Reversal of Change Fund / IIIF4 – Provisional – see 3.4.3	2,000
2015/16 Corporate Savings Target – see 3.3.6	900
Potential Updated Revenue Budget Headroom	**7,137**

3.5.5 The level of recurring Revenue Budget headroom may be augmented further depending upon the outcome of pay negotiations for 2014/15 – a 1% reduction results in savings of approximately £1.85million

3.5.6 One of the challenges for the Council will be to determine when to utilise this headroom either in full or in part on a recurring basis. Previous forecasts suggested that financial year 2015/16 would be the toughest financial settlement with settlements beyond then improving. However, the information contained in Section 2 and 3.2 above suggests that this may no longer be the case and the Council may be minded to retain these recurring resources either in full or in part until 2016/17 and 2017/18.

4. WORKFORCE PLANNING MEASURES

4.1 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).

4.2 The purpose of the report was to set out the proposed approach to workforce management over the medium term. This will allow 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.

4.3 Specifically the Sub-Committee approved the launch of a Voluntary Severance Scheme.

4.4 The Final Revenue Budget for 2013/14 includes £4 million towards the costs of workforce planning measures in the short term (Report No. 13/53 refers). The Reserves Strategy, approved by Council in February 2013, includes a further £4 million towards workforce planning measures over the medium term.

4.5 The Executive Officer Team will make recommendations to Members in February 2014 for approval 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 recent 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 and Securing the Future through Our People.

5. CAPITAL BUDGET

5.1 The Council has an approved Composite Capital Programme for 2013/14 to 2019/20 which was most recently updated by the Strategic Policy and Resources Committee on 18 September 2013 (Report No. 13/444 refers). It is now proposed to update the Programme to include a further year i.e. 2020/21.

5.2 The Council has recently approved additional borrowing for priority capital infrastructure projects (Report No's 12/586 and 13/336 refer) which will require the approach to funding the Programme to be reconsidered in the course of updating the Revenue and Capital Budgets. Options may include removing or deferring projects already included in the Programme; restricting future years' borrowing or augmenting the Revenue Budget for Capital Financing Costs "Loan Charges".

5.3 Early analysis of the level of capital grant for local authorities indicates that the Council may receive additional grant in 2015/16. Any additional funding will be factored in to the assumptions underpinning the revised Composite Capital Programme that will be considered by Council in February 2014.

5.4 It is recommended that options for determining the revised Composite Capital Programme for 2014/15 to 2020/21 are submitted to the Council in February 2014.

5.5 **ACTION:** The Council are asked to endorse the proposal to consider the Composite Capital Programme for 2014/15 to 2020/21 in February 2014.

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 flow 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 14 February 2013 (Report No. 13/55 refers).

6.2 The Reserves projections have been updated to reflect the position in the Unaudited Statement of Accounts for 2012/13 that was submitted to the Controller of Audit on 28 June 2013. The information on Reserves is set out in Appendix 1 to the report.

6.3 The Unaudited Statement of Accounts for 2012/13 show that the Council had a General Fund Balance of £41.719 million as at 31 March 2013 with £29.487 million earkmarked. This results in uncommitted General Fund Reserves of £12.232 million which is in line with the Reserves Strategy approved by Council in February 2013 (Report No. 13/55 refers).

6.4 Since 31 March 2013 a number of further commitments have been approved by the Strategic Policy and Resources Committee which, on 18 September 2013, agreed to support Ryder Cup initiatives (£500,000) and Kinross Curling Trust (£125,000) (Report No. 13/455 refers).

6.5 It is recommended that the updated Reserves Strategy be submitted to Council in February 2014.

6.6 **ACTION:** The Council are asked to endorse the proposal to consider the Reserves Strategy in February 2014.

7. HOUSING REVENUE ACCOUNT

7.1 The Housing Revenue Account (HRA) Business Plan is designed to deliver sufficient investment in modernising the Council's housing stock to ensure that all its housing meets the Scottish Housing Quality Standard by 2015.

7.2 In agreement with Tenants' representative groups, the Council will continue to develop a medium / long term funding strategy for this investment based upon linking annual reviews of rents to movements in the Consumer Price Index (CPI), the state of the local economy generally 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' representative groups and the wider tenant body.

7.3 The Housing and Health Committee will determine the Housing Revenue Account (HRA) Budget and rent levels for 2014/15 at its meeting in January / February 2014. 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.

7.4 **ACTION:** The Council is asked to endorse the proposals to determine the Housing Revenue Account (HRA) Budget and rent levels for 2014/15 and five year Housing Investment Programme at their meeting in January / February 2014.

8. RISK ASSESSMENT

8.1 Determining 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. 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.

8.2 Funding Levels in Future Years

As outlined in previous updates and in section 2 above, the potential for cash and real terms reductions in future funding is considered to represent a significant risk in the management of the budget. In view of this, the Council is advised to consider maintaining a prudent approach in applying revenue budget headroom when determining the 2014/15 Final Revenue Budget and 2015/16 Provisional Revenue Budget.

8.3 Current Economic Climate

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 economic climate.

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.

The economic climate may also increase demand for and expenditure on Council services, potentially most immediately in areas such as Housing and Council Tax Benefits and support for homeless clients. This risk will require to be managed within the Council's available resources. There is also a risk that the changes at a national level in Benefits legislation may impact on Council Services.

8.4 Welfare Reform

The 2013/14 Final Revenue Budget and 2014/15 Provisional Revenue Budget include amounts in relation to the impact of Welfare Reform. However, there is still significant uncertainty as to the potential total financial impact on Council Services and budgets.

8.5 Pay Award / Employer's Costs

The Council has made assumptions in relation to the 2013/14, 2014/15 and 2015/16 pay awards. If the outcome of national pay negotiations differs from these assumptions this could have a financial impact upon the Council.

8.6 Inflation

There is a risk that levels of Service specific inflation exceed budgeted provisions and that levels of general inflation cannot be contained within existing resources as is currently assumed within the Provisional Revenue Budgets.

8.7 Severe Weather

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

9. OTHER FUNDS

9.1 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.

9.2 The balances on these funds at 31 March 2013 were as follows:

	£'000
Capital Fund	12,799
Renewal and Repair Fund	483
Insurance Fund	2,034
Capital Receipts Reserve	2,132
Capital Grants Unapplied	685

9.3 Further information in relation to these Reserves will be included in the updated Capital Budget and Reserves Strategy that will be considered by Council in February 2014.

10. CONCLUSION AND RECOMMENDATIONS

10.1. 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.

10.2. To prepare for the predicted financial challenges over the short to medium term the Council has in place Revenue Budgets for 2013/14 and 2014/15 and it is proposed to update the Provisional 2014/15 Revenue Budget and to commence the preparation of the 2015/16 Provisional Revenue Budget

10.3. 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 sets out 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.

10.4. It is recommended that the Council:

10.4.1. Instruct Executive Directors to prepare Revenue Budget submissions on the basis of a corporate savings target of £5million for financial year 2015/16 – see paragraph 3.3.9

10.4.2. Approve the setting of a two year revenue budget by updating the previously approved Provisional Revenue Budget for 2014/15 and setting a Provisional Revenue Budget for 2015/16 – see paragraph 3.3.12

10.4.3. Endorse the proposal to consider the Composite Capital Programme for 2014/15 to 2020/21 in February 2014 – see paragraph 5.4

10.4.4. Endorse the proposal to consider the Reserves Strategy in February 2014 – see paragraph 6.6.

10.4.5. Endorse the proposals to determine the Housing Revenue Account (HRA) Budget and rent levels for 2014/15 and five year Housing Investment Programme at their meeting in January / February 2014 – see paragraph 7.4.

Authors

Name	**Designation**	**Contact Details**
Scott Walker	Chief Accountant	swwalker@pkc.gov.uk 01738 475515
John Symon	Head of Finance	jasymon@pkc.gov.uk 01738 475504

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

ANNEX

1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

The undernoted table should be completed for all reports. Where the answer is 'yes', the relevant section(s) should also be completed

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. <u>Corporate Plan</u>

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 –	Correspondence from the Scottish Government – 11 September 2013
Appendix B –	General Fund Reserves as at 31 March 2013

Cabinet Secretary for Finance, Employment and Sustainable Growth
John Swinney MSP

T: 0845 774 1741
E: scottish.ministers@scotland.gsi.gov.uk

The Scottish Government
Riaghaltas na h-Alba

LEGACY 2014
XX COMMONWEALTH GAMES
SCOTLAND

Councillor David O'Neill
President
COSLA
Verity House
19 Haymarket Yards
EDINBURGH
EH12 5BH

Copy to: The Leaders of all Scottish local authorities

11 September 2013

D Davie,

This letter confirms a number of changes to the local government finance settlement allocations that we have agreed since the figures for 2014-15 were previously announced and provides the terms of the indicative settlement allocations to be provided to local government for 2015-16 as part of our continuing partnership negotiations.

This settlement is set against the significant challenges presented by the recent outcome of the UK Budget and the June UK Spending round and the further cuts imposed on the Scottish Budget for 2014-15 which have been baselined for 2015-16. Against that background, the funding package on offer to local government represents a very fair settlement and the strongest possible outcome that can be achieved in the circumstances. It continues to be focussed on delivery of our joint priorities of growing the economy together with protecting front-line services and the most vulnerable in our society. COSLA is invited to agree the terms of the settlement set out below on behalf of local authorities.

This settlement remains firmly anchored in the ongoing relationship between the Scottish Government and local government and our commitment to working together in pursuit of our joint priorities, including delivery of the Government's programme as set out in the First Minister's statement to Parliament on 3 September and the Government Economic Strategy.

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

Maintain a council tax freeze.

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

INVESTOR IN PEOPLE
POSITIVE ABOUT DISABLED PEOPLE

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

In line with the agreement reached in previous settlements, it will not be possible for local authorities to select elements of the package, including elements of the funding on offer. As in previous years, the Scottish Government will hold back £70m from the Local Government Finance Order put to Parliament in early February, representing the amount that is included in the settlement to deliver the Council Tax Freeze and in addition will take steps to recover £39m for the Teacher commitments in 2014-15 from any local authority not agreeing to the terms of the full package. Parliamentary approval to pay out the remaining amount will be sought in March 2014 once all councils have set their budgets and their council tax rates for the year ahead.

Failure to deliver sufficient FTE teachers in 2014-15 as reported in the annual census may invoke collective and/or individual sanctions in the shape of corresponding reductions in the local government settlement for future years. Scottish Government and COSLA will agree these numbers in the context of on-going discussions on the effective delivery of school education. For 2015-16, our priority is to continue to maintain teacher numbers in line with pupil numbers. However, in recognition of the on-going concerns from Local Government around this input measure, I have agreed that the Government will have a dialogue with COSLA, and engage with other partners, on the possibility of adopting outcome measures using existing resources to improve attainment for children and young people.

I can confirm that for 2014-15 I will only require those Council Leaders who **do not** intend to take up the offer and agree the full package of measures to write to me setting out the reasons why they do not wish to comply. Any Leader not intending to take up the offer should write to me confirming their Council's decision by no later than 11 March, but preferably by the end of February, (and ideally as soon as possible after they have set their budgets and announced their council tax rates for 2014-15). Any Council not taking up the offer will not receive their share of the monies held back to be distributed later in March 2014 for the Council Tax freeze and steps will be taken to recover £39m for the Teacher commitments in 2014-15 (£109 million in total).

The total funding as set out in the Draft Budget 2014-15 document, including provision for the council tax freeze and the support for teacher employment, which the Scottish Government will provide to local government is as follows:

Year	£m
2014-15	10,531.4
2015-16	10,608.2

This total includes the Government's estimate of non domestic rate income over the period. The sums include a further £80.7m in 2014-15 and £111.9m in 2015-16 to deliver on the Scottish Government's commitment to fully fund the additional costs of the early learning and childcare provisions; £4.5m in 2014-15 and £6m for 2015-16 for Free Personal and Nursing Care in return for uprating of these fees in line with inflation, £2.5m in both 2014-15 and 2015-16 to baseline the funding provided in 2013-14 for the National Care Home Contract fee uplift; £0.4m in both 2014-15 and 2015-16 to adjust the Police transfer total and £0.8m in both years for the transfer of responsibility for Oban Airport.

Other changes included are the transfer of £320 million from DWP following the abolition of Council Tax Benefit which is being passed on in full for both 2014-15 and 2015-16, and in order to maintain funding for the Council Tax Reduction scheme, the Scottish Government are rolling forward our contribution of £23 million to fill the gap left by the UK Government for the Council Tax Reduction Scheme, with an expectation that local authorities will again contribute £17 million.

These sums do not include a number of other agreed, or still to be finally agreed, sums that will be included in the final local government finance settlements for both 2014-15 and 2015-16. These include:

- A further £12 million which will be added in-year to these sums for both 2014-15 and 2015-16 following a transfer from the Enterprise budget to meet the anticipated costs of the Enterprise Areas business rates relief scheme.

- Subject to formal approval of the proposed pay agreement, which I am aware the Scottish Negotiating Committee for Teachers (SNCT) is considering, a contribution from the Scottish Government of £1.5m per annum will be baselined into the local government settlement to reduce the shortfall arising from the application of the new supply teacher pay rates.

- Early Years (£1.5m/£1.5m); Early Years Task Force (£3m/£3m); and the Blue Badge Scheme (£0.72m/£0.72m); £0.15m/£0.15m for Fresh Talent and the Scottish Welfare Fund (tbc).

Within the total funding package, revenue funding will amount to £9,758.2m/£9,790.9m, including the funding to deliver a council tax freeze, and capital £773.2m/£817.3m over the period. The capital allocation takes into account the re-profiling of the LG capital budgets and I can confirm that £94.2m has been added and Local Government's capital share (net of the police and fire component) has been maintained for 2015-16.

The partnership working between the Scottish Government and local government remains a hallmark of our approach to public service reform and will ensure that a preventative approach to the delivery of outcomes is embedded in the new Single Outcome Agreements (SOAs). The Agreement on Joint Working, which forms part of the Budget announcement, places clear expectations on the public sector to share their budget and resource planning assumptions at an early stage and to work together, through Community Planning Partnerships (CPPs) to deploy resources towards the jointly agreed priorities set out in each CPP's SOA. Local Government, NHS Boards and other partners will be expected to show a demonstrable commitment to the Agreement on Joint Working.

That preventative approach is also demonstrated by the actions we have taken with COSLA for the integration of adult health and social care planning and provision. To support the integrated funding arrangements for health and social care additional resource of £100 million will be available to be allocated via Health Boards in 2015-16 to help drive the shift towards prevention, and a further £20 million which will be held centrally within Health to support national initiatives. This additional resource replaces the Change Fund for older people's services and will be a partnership resource accessible to local authorities, working in partnership with Health Boards and the third and independent sectors, in 2015-16 to support investment in health and social care services as arrangements for integration of health and social care are implemented under the Public Bodies (Joint Working) Bill.

This settlement package for 2014-15 and 2015-16 remains the strongest possible outcome that can be achieved in the continuing challenging financial circumstances. The package is focussed on delivery of our joint priorities of growing the Scottish economy and protecting front line services and the most vulnerable in our society, and supported by continued investment in prevention and wider reform actions.

[redacted]

JOHN SWINNEY

APPENDIX B

General Fund Reserves as at 31 March 2013

	£'000	£'000
General Fund Balance as at 31 March 2013 (Unaudited)		41,719
Earmarked Amounts		
Devolved School Management Scheme (DSM)	(1,230)	
Car Parking	(1,997)	
Budget Flexibility	(5,307)	
Equal Pay Strategy	(1,000)	
Council Tax Income on 2nd homes/long term empty properties	(1,992)	
Developers Contributions: Commuted Sums & Infrastructure	(1,701)	
Developers Contributions: Affordable Housing	(794)	
Energy Efficiency Fund	(227)	
Financial Assistance (Mod)	(140)	
Zero Waste Fund Resources contribution to Loan Charges	(93)	
Investment in Improvement Funds	(1,022)	
Investment in Learning Programme	(135)	
Contaminated Land	(123)	
Perth Theatre & City Centre Projects	(1,800)	
Insurance Fund	(1,000)	
Revenue Grants	(630)	
Microsoft Migration Project	(190)	
Minibus Replacement Strategy	(283)	
Workforce Management Strategy	(4,000)	
Community Safety / Wellbeing Initiatives	(353)	
Planning Appeals and Public Inquiries	(177)	
Crematorium Abatement Levy	(100)	
Essential Maintenance & Compliance Works	(860)	
Funding of Additional Capital Expenditure	(3,000)	
Flood Fund	(220)	
Scottish Government Funding	(1,113)	
		29,487
Uncommitted General Fund Balances as at 31 March 2013 (Unaudited)		12,232