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14/433

PERTH AND KINROSS COUNCIL

8 October 2014

UPDATE OF MEDIUM TERM FINANCIAL PLAN

Report by the Head of Finance

PURPOSE OF REPORT

This report updates the Medium Term Financial Plan (MTFP) approved by Council on 2 October 2013 (Report No. 13/475 refers). The report summarises the implications of the latest projections on future Council funding over the short to medium term, how the Council intends to update the 2015/16 Provisional Revenue Budget and how the Council intends develop the revenue budget beyond 2015/16. The report also provides an update on the Council's Capital Budget, Housing Revenue Account and Reserves position.

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 2 October 2013 (Report No. 13/475 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. For the purposes of this update the medium term is broadly defined as the five years to financial year 2019/20. Some elements of the plan cover the seven year period to 2021/22.

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

	Report Reference
Medium Term Financial Plan	13/475
Housing Revenue Account Strategic Financial Plan	14/18
Revenue Budget 2014/15 and 2015/16	14/44
Capital Budget 2020/21	14/45
Reserves Strategy	14/46
Annual Treasury Investment Strategy	14/77
Revenue Budget 2013/14 – Monitoring Report No. 4	14/169

Composite Capital Budget and Housing Improvement Programme 2012/17 – Monitoring Report No. 4	14/170
Annual Treasury Strategy & Prudential and Treasury Management Indicators	14/300
Revenue Budget 2014/15 – Monitoring Report No. 1	14/407
Composite Capital Budget 2014/21 and Housing Improvement Programme 2014/19 – Monitoring Report No. 1	14/408

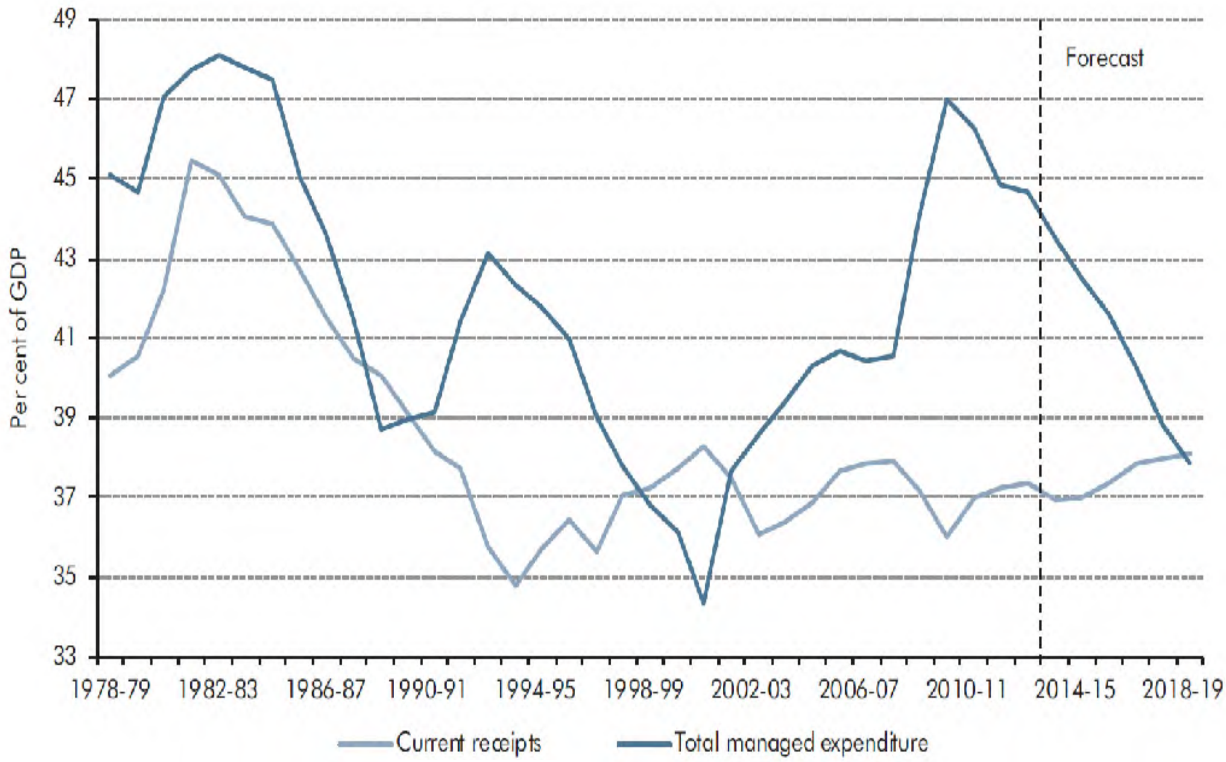
1.5. Additionally on the agenda for today's Council meeting is the Council's Annual Audited Statement of Accounts for 2013/14 (Report No. 14/434 refers)

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 United Kingdom and Scotland's public finances as a whole. Much of the information below is derived from independent commentary provided by the Office for Budget Responsibility (OBR) and the Institute of Fiscal Studies (IFS).

2.2 The United Kingdom economy continues to recover with the latest data suggesting that growth slightly exceeded earlier forecasts. The latest OBR forecasts imply that by 2018/19 public finances will move into surplus for the first time in 18 years, largely as a consequence of reductions in spending as shown below.

Total Public Sector Spending and Receipts (Income)



(Income)

Source: Office for Budget Responsibility – Economic and Fiscal Outlook – March 2014

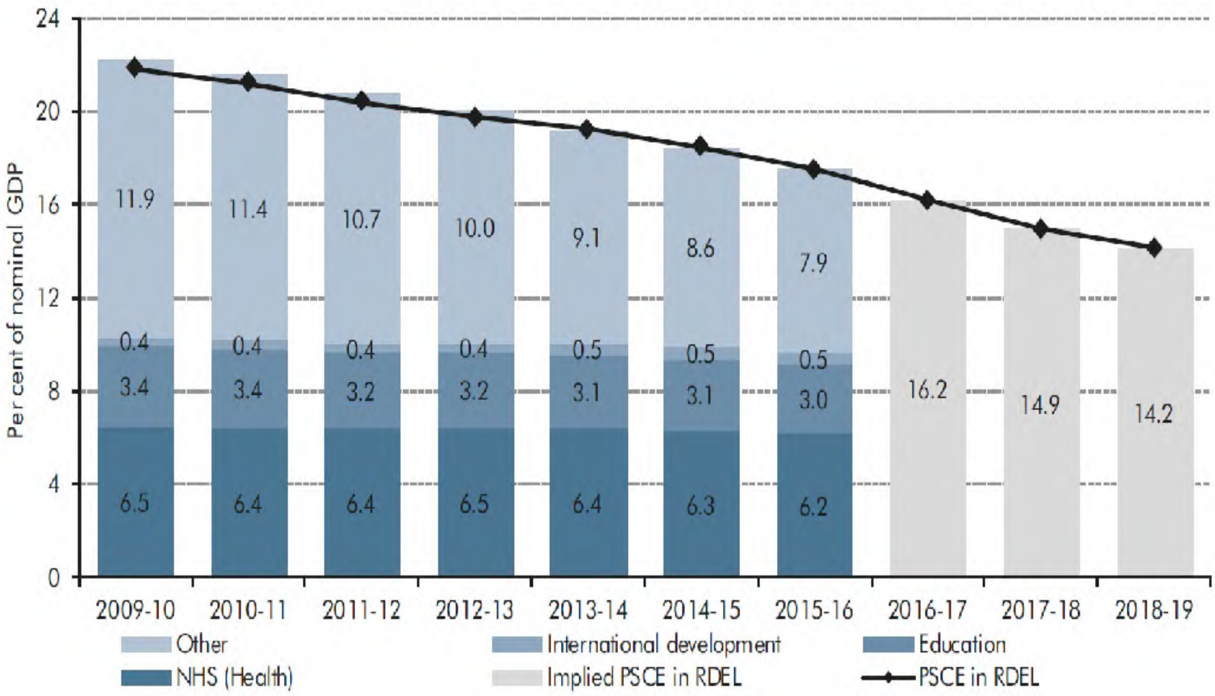
2.3 The IFS estimate that between 2010/11 and 2018/19, and after adjusting for economy wide inflation, that total spending cuts will be in the region of 4.4% of Gross Domestic Product. However, this is in the context of significant increases in debt interest spending, social security spending, particularly in relation to pensioners and other non-departmental spending.

2.4 The IFS predicts that by financial year 2018/19 departmental spending on public services will have been cut by 19.9% since 2010/11.

2.5 The OBR further forecast that by 2018/19 the UK's budget will have fallen by 11.2% of GDP from its post war peak in 2009/10. Around 80% of the reduction is accounted for by lower public spending. This will result in government consumption on goods and services – a rough proxy for day to day spending on public services and administration – falling to its smallest share of national income since 1948.

2.6 The following table demonstrates the historic and projected reduction in spending on public services in the UK as a percentage of Gross Domestic Product. The graph demonstrates that between 2009/10 and 2015/16 spending on Health and Education has been largely protected. This is advantageous in terms of Scotland's funding in terms of the Barnett consequentials. PSCE represents Public Sector Current Expenditure and RDEL represents Resource (or revenue) Departmental Expenditure Limits.

Current Spending on Public Services and Administration



Source: Office for Budget Responsibility – Economic and Fiscal Outlook – March 2014

2.7 The information presented in this section relates to the United Kingdom as a whole. Extrapolating the impact of this information on Scotland is extremely difficult. The projected impact on Scotland is based on information provided by the Improvement Service in December 2013. The Scotland position is further complicated by the change in the proportion of funding from Annually Managed Expenditure (AME) (which includes Non Domestic Rates Income) to Departmental Expenditure Limits (DEL) (which is broadly General Revenue Grant).

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. Developing the Medium Term Financial Plan into future years will establish the Plan as the foundation of the Council's financial planning recognising the combined impact of increasing demand for Council services, particularly as a result of demographic trends, and anticipated real terms reductions in funding. This approach allows the consideration of options and the development 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.

3.2 The Plan is, however, an evolving model, which will require to be regularly reviewed and updated 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", "Mid-Range" and "High" which have been modelled in relation to the potential impact on the Council and the services it provides.

3.3 Employee Related Costs:

- Provision for pay awards for all staff groups.

  There are a number of scenarios that could emerge for pay award ranging from continued pay restraint with increases of around 1% to awards in excess of inflation at perhaps as much as 3% as factors such as previous years' pay restraint and higher national insurance contributions are factored in to negotiations. For this update of the Medium Term Financial Plan (MTFP) the mid-range position is assumed to be 2% in 2015/16 and 2.5% thereafter.

- Provision for 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.

- Anticipated loss of the existing employer's National Insurance rebate upon creation of a single-tier state pension.

  The removal of the National Insurance rebate in 2016/17 will cost the Council an estimated £3.5 million per year. At this point there is no information on whether this change would be funded or not by the UK or Scottish Government. The best case scenario is that funding would be provided with the worst case assuming no funding. It should be noted that the loss of this rebate is also likely to impact on staff and have a bearing on pay negotiations as described above.

- Possible change in employer's superannuation contributions in respect of the three yearly actuarial review and / or a switch to ethical investments.

  The triennial review of Tayside Pension Fund is due to be available shortly. Information from Dundee City Council, the administering authority for Tayside Pension Fund, suggests that for the three years to 2018/19 there should be no increase. Beyond that into 2019/20 there is no information. For the purposes of this update the "high" scenario assumes an increase in 2019/20 with the other scenarios assuming no increase.

  The position emerging in relation to ethical investments is that some employing authorities would prefer to disinvest in tobacco investments, but only where an investment with a similar return can be identified. No additional costs have been assumed in any scenario. Dundee City Council, as the administering authority, will take a decision on this later in the year.

- Following recent court cases there may be a requirement for holiday pay on overtime and some other employee benefits.

  An additional £250,000 from 2015/16 has been assumed in all scenarios.

- Roll Out of Auto Enrolment

  No costs have been assumed under any scenario based on experience to date. This is included in the MTFP due to the continuing uncertainty as to any potential cost.

3.4 Non-Staff Cost Inflation:

- Increases in property running costs including business rates, energy and water charges.
- Other purchasing related inflation across all Services – this may become more significant as the Council moves to an enabler of services rather than direct provider.

A range of scenarios for non- staff cost inflation have been modelled between 2% and 3%.

3.5 Demographics:

- Population growth
- Ageing population
- More complex care needs

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 Registers of Scotland.

3.6 Income:

- Level of Scottish Government General Revenue Funding

Various scenarios have been modelled ranging from an optimistic assumption of flat cash (real terms reduction), a mid-range assumption based on information from the Improvement Service (reductions of 0.9%, 2% and 0.9% in 2015/16, 2016/17 and 2017/18 respectively) through to a worst case scenario which is 1% greater than the Improvement Service per year.

- Non Domestic Rates Income (NDRI)

Over a number of years there has been a shift in Council funding from General Revenue Grant to Non Domestic Rates Income (NDRI). In 2015/16 NDRI is projected to rise across Scotland by c9% through a combination in increases in the poundage and growth in the valuation roll. The uncertainty about NDRI levels and the shift from General Revenue Grant to NDRI remains a significant risk both locally and nationally. Scenarios have been modelled showing growth of between 0% and 4%.

- Impact of demographic changes on grant funding

An estimate of the impact of demographic changes on the General Revenue Grant has been modelled in line with the demographic assumptions above.

- Council Tax

  - ❖ 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.

- ❖ Ability to increase Council Tax charge

  No additional income has been assumed in 2015/16 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 Council Tax levels.

- Fees and charges – capacity to raise further income

  Scenarios have been modelled whereby the Council raises its charges for goods and services between 1% and 3% per annum.

3.7 Other Pressures:

- Borrowing costs to fund investment in infrastructure

  An additional £750k per annum pressure on the Loan Charges budget from 2016/17 has been modelled to fund the additional investment in infrastructure that the Council has been previously advised of. More details of this pressure are included in section 5 below. This additional cost has been factored in for financial planning purposes only and will be refined as the Capital Programme is developed further.

- Welfare Reform – implementation of Universal Credit

  There remains uncertainty in terms of the impact of the implementation of the Universal Credit on the Council both in terms of timing and the financial impact on the Council. For this update of the MTFP an additional £1.5m has been included from 2016/17 under all scenarios.

- New secondary school running costs

  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 requirement of the Scottish Future's Trust to have the school operational by April 2018 and is included in all scenarios.

3.8 More detail around specific assumptions is included in Appendix A.

3.9 In addition the Provisional Revenue Budget for 2015/16 has been constructed on the basis that c£4.5 million of recurring revenue budget "headroom" (recurring income in excess of recurring expenditure) becomes available from 2016/17 onwards. 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.

3.10 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.

3.11 All of the issues identified in section 3.3 to 3.10 are variable and will depend on a number of factors. For illustration purposes within this report a broadly “mid-range” position has been illustrated below. The following table sets out the implications in more detail. More information on a number of these areas is set out within the Risk Assessment (section 9) commentary in this report.

	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Staff Costs					
Pay Award (2%in15/16 then 2.5% p.a)	3,500	4,500	4,600	4,700	4,800
Increments	500	500	550	550	550
National Insurance		3,500			
Superannuation Contributions					
Superannuation: Ethical Inv.					
Holiday Pay	300				
Auto Enrolment					
	4,300	8,500	5,150	5,250	5,350
Non-Staff Cost Inflation (2.5% p.a.)	4,700	4,900	5,000	5,100	5,200
Demographics (0.5% p.a then 1% p.a)	1,600	3,100	3,200	3,200	3,200
Other Pressures					
Capital Financing Costs		750	750	750	750
Welfare Reform – Impact of Universal Credit		1,500			
New Secondary School-running costs				2,000	100
Settlement					
Settlement: General Revenue Funding (reduction)	5,600	1,600	3,500	1,600	
Settlement: NDRI (increase)	(5,600)	(1,500)	(1,600)	(1,600)	(1,700)
Demographics (impact on Settlement)	(750)	(1,000)	(1,000)	(1,000)	(1,000)
Council Tax (2% increase from 17/18)			(1,400)	(1,500)	(1,500)
Council Tax Base	(300)	(1,100)	(1,100)	(1,100)	(1,100)
Fees & Charges	(700)	(700)	(700)	(700)	(700)

Use of Headroom		(4,500)			
Use of Reserves					
Total	8,850	11,550	11,800	12,000	8,600
Cumulative	8,850	20,400	32,200	44,200	52,800
% Net Revenue Budget	2.67%	3.59%	3.80%	4.02%	3.00%
% Cumulative	2.67%	6.16%	9.73%	13.35%	15.95%
% Gross Revenue Budget	2.09%	2.79%	2.93%	3.07%	2.27%
% Cumulative	2.09%	4.82%	7.61%	10.45%	12.49%

3.12 The column for financial year 2015/16 is included for illustrative purposes and is not the same as the 2015/16 Provisional Revenue Budget that was approved in February 2014. This reflects the fact that the Provisional Revenue Budget for 2015/16 is subject to further review.

3.13 The above table demonstrates that under a “mid-range” scenario, based on gross revenue budgets, cumulative savings of c£53m may be required between 2015/16 and 2019/20. During this time period the savings target vary rise from 2.09% of the Gross Revenue Budget in 2015/16 to 3.07% in 2018/19 before reducing to 2.27% in 2019/20. Cumulatively this means savings of c12.5% of the Gross Revenue Budget during this five year period.

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

	Low		Mid-Range		High	
	% of gross revenue budget	£’000	% of gross revenue budget	£’000	% of gross revenue budget	£’000
2015/16	0.91	3,850	2.08	8,850	3.44	14,550
2016/17	0.33	1,400	2.79	11,550	4.26	17,400
2017/18	0.35	1,450	2.93	11,800	5.10	19.950
2018/19	1.00	4,150	3.07	12,000	6.00	22,250
2019/20	0.55	2,250	2.27	8,600	5.03	17,550
TOTAL	**3.10**	**13,100**	**12.49**	**52,800**	**21.68**	**91,700**

3.15 The levels of saving identified in the above table will undoubtedly change but do provide an order of magnitude as to the levels of financial saving that may be required over the medium term.

3.16 For illustrative purposes and in order to put these projected levels of anticipated potential savings into context the following table sets out the levels of reductions in previous years’ revenue budgets after adjusting for revenue budget flexibility, new funding and rejected savings.

2010/11	2011/12	2012/13	2013/14	2014/15	Total
£000	£000	£000	£000	£000	£000
9,932	13,576	8,847	12,402	11,559	56,316

3.17 **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.

3.18 The following section sets out the proposed approach to updating the 2015/16 Provisional Revenue Budget given the uncertainties listed above and the lack of information on likely financial settlements beyond 2015/16.

4. PROPOSED APPROACH TO UPDATING THE 2015/16 PROVISIONAL REVENUE BUDGET AND BUDGET PREPARATION BEYOND 2015/16

4.1 On 16 July 2014 the Scottish Government provided information in relation to financial year 2015/16 which included indicative funding levels for each Council and will allow the Council to further refine its financial planning assumptions. The indicative figures indicate a settlement in line with previous expectations for 2015/16. A number of areas have still to be distributed including the Council Tax Reduction Scheme, the Scottish Welfare Fund and elements of the Teachers' Induction Scheme.

4.2 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.

4.3 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.

4.4 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. 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 ongoing 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.

4.5 In the last few years the Council has tended to set detailed revenue budgets in line with information available from the Scottish Government on levels of funding. However, it is highly unlikely that the Scottish Government will issue any information beyond 2015/16 prior to the Council setting the 2015/16 Final Revenue Budget on 12 February 2015. Information received from COSLA on 6 June 2014 confirmed this position as follows - “There has been no spending review beyond 2015/16 so there will be no figures to announce”.

4.6 Council Services have commenced the preparation of final 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 made available for political consideration.

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

- The starting point for all budget submissions is the Provisional Revenue Budget for 2015/16 approved in February 2014 (Report No. 14/44).

- 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.

- At this time there is no proposal to change the corporate savings target for 2015/16.

4.8 Given the level of uncertainty both in terms of future years’ funding and the volatility of the pressures that the Council may experience over the medium term it is not considered appropriate to set a revenue budget beyond 2015/16. It is not considered appropriate to make long term decisions on future levels of service delivery based on uncertain estimates that will change and, as has been the case in the past, it is proposed that the Council sets revenue budgets in line with notified financial settlements.

4.9 **ACTION:** In light of the information from COSLA it is recommended that the Council set a Final Revenue Budget for 2015/16 in February 2015 by updating the previously approved Provisional Revenue Budget for 2015/16 that was set in February 2014. It is further recommended that no detailed provisional revenue budgets are set for the period beyond 2015/16 given the significant levels of uncertainty over the financial environment over the medium term.

4.10 Subject to approval at 4.9 above, the Council will update the 2015/16 Provisional Revenue Budget in February 2015. This provides an opportunity to carry out a detailed examination of all revenue budgets across the Council in advance of setting the revenue budgets for 2016/17 and beyond. The Executive Officer Team is currently examining a more innovative approach to the medium term financial planning process.

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 1 October 2014 (Report No. 14/408 refers).

5.2 Since the Composite Capital Budget was approved in February 2014, several potential additional expenditure pressures have also been identified. These are outlined below and were reported in more detail to the Executive Officer Team on 29 April 2014. Detailed business cases for each project have been prepared.

- A9/A85 Road Junction Improvement (Report No. 13/336 refers)
- Possible Inclusion of New Borrowing for 2020/21
- Arts Strategy – Perth Theatre Redevelopment (Report No. 14/170 refers)
- Perth Office Programme – 2 High Street
- Mill Street, Perth
- Additional Primary School Provision, North/West Perth
- Secondary Schools Modernisation Programme
- Cross Tay Link Road (CTLR)

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 3.10 above it has been assumed that £750,000 is added to the Loan Charges budget each and every year from 2016/17 onwards. This means that by 2019/20 the Loan Charges budget would be increased by £3 million on a recurring basis.

5.5 It is recommended that options for determining the revised Composite Capital Programme for 2015/16 to 2021/22 which include the projects listed at 5.2 above, where appropriate, are submitted to the Council in February 2015.

5.6 **ACTION:** The Council are asked to endorse the proposal to consider the Updated Composite Capital Programme for 2015/16 to 2021/22 in February 2015.

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 13 February 2014 (Report No. 14/46 refers).

6.2 The Reserves projections have been updated to reflect the position in the Audited Statement of Accounts for 2013/14 which is a separate item on the agenda for this meeting of the Council (Report No. 14/434 refers). The information on Reserves is set out in Appendix 1 to the report.

6.3 The Statement of Accounts for 2013/14 show that the Council had a General Fund Balance (excluding the Housing Revenue Account) of £48.041 million as at 31 March 2014 with £34.801 million earmarked. The earmarked Reserves are shown at Appendix B below. This results in uncommitted General Fund Reserves of £13.240 million at 31 March 2014 which is in line with the Reserves Strategy approved by Council in February 2014 (Report No. 14/46 refers).

6.4 However, within the headline figures in the Reserves Strategy there are a number of issues that require to be considered.

6.5 The level of General Fund Reserves at 31 March 2014 is £5.124 million greater than the position projected in February 2014. The main reasons for this variance are improved Council Tax collection figures (£1.5m), savings on winter maintenance (£0.5m), Service under spends in excess of earlier projections (£2.2m) and other miscellaneous areas (£0.9m) including income from Tayside Contracts and a reduced contribution to Horsecross.

6.6 In line with the approved Reserves Strategy this resulted in the earmarked Reserve for implementing the Workforce Management Strategy being increased to £9.183m.

6.7 It is proposed that the updated Reserves Strategy is presented to the Executive Officer Team in December 2014 and Council in February 2015. This update will include further options on how Reserves might be utilised over the medium term.

6.8 **ACTION:** The Council is asked to endorse the proposal to present the updated Reserves Strategy to EOT in December 2014 and Council in February 2015.

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); 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' 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 2015/16 at its meeting on 28 January 2015. 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 2015/16 and five year Housing Investment Programme at their meeting on 28 January 2015.

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 would 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.

8.3 Specifically the Sub-Committee approved the launch of a Voluntary Severance Scheme which culminated on 13 February 2014 when the Council approved 105 applications to leave the Council (including seven applications from the Housing Revenue Account) over a two year period.

8.4 Within the 2013/14 Unaudited Statement of Accounts there is an earmarked Reserve of £9.183 million to fund the Workforce Management Strategy. This could be applied to the funding of voluntary severance requests but could also be utilised for other initiatives aimed at reshaping and reducing the workforce.

8.5 At the present time it is considered that there is no requirement to promote a voluntary severance scheme across the Council. Instead it is proposed that the Council's approved Retirement Policy continues to be applied and promoted to employees. On receipt of an application and following the normal scrutiny of individual business cases Executive Directors will be able to support retirement requests through the Establishment Approval Process. Any retirement application with costs will require approval by the Executive Officer Team. Should the application be successful it is proposed that any severance costs are funded centrally from the earmarked Reserve for Workforce Management with the saving being removed from the Service's revenue budget and reported as a corporate voluntary severance scheme saving to the Council at the appropriate time. As has been the case in previous years the outcome of this ongoing process will be reported to the Strategic Policy and Resources Committee on an annual basis.

8.6 **ACTION:** The EOT / Council are asked to endorse the proposals in relation to workforce planning set out in section 7 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.

9.3 Funding Levels in Future Years

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.

In addition there is speculation that the Barnett formula will be revisited in the medium term. A review of this could have an impact on the level of funding available.

9.4 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 potentially volatile 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.

9.5 Welfare Reform

The further roll out of Welfare Reform, particularly around the implementation of the 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 is still no information as to when and how Universal Credit might be rolled out within Perth and Kinross.

9.6 Pay Award / Employer's Costs

For 2014/15 there still remains a risk that pay negotiations may be reopened as Unison have rejected the pay award of 1% and have lodged a formal dispute with employers.

In terms of 2015/16 the Council has assumed a pay award of 2%. At this stage there is no information on the likely outcome of negotiations. If the outcome of national pay negotiations differs from this assumption this could have a financial impact upon the Council.

Beyond 2015/16 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. The scenario set out in section 3 assumes a 2% award but the range considered in Appendix A is up to 2.5%.

Informal information from Dundee City Council suggests that employer's superannuation contributions for the three years from 2015/16 are unlikely to increase. There remains uncertainty about the likely levels of contributions beyond that period.

There is still no information on whether or not there is likely to be any government funding to support the additional costs of the removal of the National Insurance rebate.

9.7 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.

9.8 Demographics

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 component of growth will be largely dependent on complex net migration patterns which are very difficult to forecast with any certainty.

9.9 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.

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 2014 were as follows:

	£'000
Capital Fund	15,832
Renewal and Repair Fund	412
Insurance Fund	3,410
Capital Receipts Reserve	1,833
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 2015.

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 a Final Revenue Budget for 2014/15 and Provisional Revenue Budget for 2015/16.

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 3.16.

11.4.2. Set a Final Revenue Budget for 2015/16 in February 2015 by updating the previously approved Provisional Revenue Budget for 2015/16 that was set in February 2014 – see paragraph 4.9.

11.4.3. Agree that no detailed provisional revenue budgets are set for the period beyond 2015/16 given the significant levels of uncertainty over the financial environment over the medium term – see paragraph 4.9.

11.4.4. Endorse the proposal to consider the Updated Composite Capital Programme for 2015/16 to 2021/22 in February 2015 – see paragraph 5.6.

11.4.5. Endorse the proposal to present the updated Reserves Strategy to EOT in December 2014 and Council in February 2015 – see paragraph 6.8.

11.4.6. Endorse the proposals to determine the Housing Revenue Account (HRA) Budget and rent levels for 2015/16 and five year Housing Investment Programme at their meeting on 28 January 2015 – see paragraph 7.4.

11.4.7. Endorse the proposals in relation to workforce planning set out in section 8 above.

Author

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Approved		
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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 –	Medium Term Financial Plan Assumptions
Appendix B –	“Low” Scenario
Appendix C –	“High” Scenario
Appendix D –	General Fund Reserves as at 31 March 2014

APPENDIX A

Medium Term Financial Plan Assumptions

Pay Award Assumptions

	2015/16	2016/17	2017/18	2018/19	2019/20
Low	1%	1%	1%	1.5%	1.5%
Mid-Range	2%	2.5%	2.5%	2.5%	2.5%
High	3%	3%	3.5%	3.5%	3.5%

Note: OBR March 2014 Average Earnings Forecasts: 2014-2.5%; 2015-3.2%; 2016-3.6%; 2017-3.7%; 2018-3.8%.
Increase 0.25% p.a.

Employer's Superannuation

	2015/16	2016/17	2017/18	2018/19	2019/20
Low	-1%	0%	0%	0%	0%
Mid-Range	0%	0%	0%	0%	0%
High	0%	0%	0%	1%	0%

Non Staff Cost Inflation

	2015/16	2016/17	2017/18	2018/19	2019/20
Low	2%	2%	2%	2%	2%
Mid-Range	2.5%	2.5%	2.5%	2.5%	2.5%
High	3%	3%	3%	3%	3%

Note: OBR March 2014 CPI Forecasts: 2015 to 2018 2% p.a. PKC includes significant costs driven by wage inflation, legislation (e.g. landfill); RPI (e.g. unitary charges) and volatile items e.g. energy and may therefore be higher.

Demographics

	2015/16	2016/17	2017/18	2018/19	2019/20
Low	0.5%	0.75%	0.75%	0.75%	0.75%
Mid-Range	0.5%	1%	1%	1%	1%
High	0.5%	1.25%	1.25%	1.25%	1.25%

Assumes that costs of change in the population mix (particularly number of older people) will be offset by overall economies of scale. Based on GROS 2010.

Local Government Settlement Assumptions: General Revenue Funding					
	2015/16	2016/17	2017/18	2018/19	2019/20
Low	”flat” -£5.6m	0%	0%	0%	0%
Mid-Range	”flat” -£5.6m	-0.9%	-2%	-0.9%	0%
High	”flat” -£5.6m	-1.9%	-3%	-1.9%	-1%

Note: Mid-Range is Improvement Service assumption in December 2013. Some items still to be distributed for 2015/16

Local Government Settlement Assumptions: Non Domestic Rates Income					
	2015/16	2016/17	2017/18	2018/19	2019/20
Low	+£5.6m	0%	0%	0%	0%
Mid-Range	+£5.6m	2.5%	2.5%	2.5%	2.5%
High	+£5.6m	4%	4%	4%	4%

Council Tax – Increase in Level					
	2015/16	2016/17	2017/18	2018/19	2019/20
Low	0%	0%	0%	0%	0%
Mid-Range	0%	0%	2%	2%	2%
High	0%	0%	4%	4%	4%

Council Tax – Increase in Base					
	2015/16	2016/17	2017/18	2018/19	2019/20
Low	0.35%	1%	1%	1%	1%
Mid-Range	0.35%	1.5%	1.5%	1.5%	1.5%
High	0.35%	2%	2%	2%	2%

Note: Assumes growth in Band D is approximately 1.5 times growth in population based on GROS household projections 2010.

Fees and Charges					
	2015/16	2016/17	2017/18	2018/19	2019/20
Low	1%	1%	1%	1%	1%
Mid-Range	2%	2%	2%	2%	2%
High	3%	3%	3%	3%	3%

APPENDIX B

"Low" Scenario

	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Staff Costs					
Pay Award	1,800	1,800	1,800	2,700	2,800
Increments	500	500	550	550	550
National Insurance					
Superannuation Contributions	(1,800)				
Superannuation: Ethical Inv.					
Holiday Pay					
Auto Enrolment					
	500	2,300	2,350	3,250	3,350
Non-Staff Cost Inflation (2% p.a.)	3,800	3,900	3,900	4,000	4,100
Demographics (0.5% p.a then 1% p.a)	1,600	2,400	2,400	2,400	2,400
Other Pressures					
Capital Financing Costs		750	750	750	750
Welfare Reform – Impact of Universal Credit		1,500			
New Secondary School- running costs				2,000	100
Settlement					
Settlement: General Revenue Funding (reduction)	5,600				
Settlement: NDRI (increase)	(5,600)	(2,500)	(2,600)	(2,700)	(2,800)
Demographics (impact on Settlement)	(750)	(750)	(750)	(750)	(750)
Council Tax					
Council Tax (4% from 17/18)			(2,900)	(3,000)	(3,100)
Council Tax Base	(300)	(700)	(700)	(700)	(700)
Fees & Charges	(1,000)	(1,000)	(1,000)	(1,000)	(1,000)
Use of Headroom		(4,500)			

	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Use of Reserves					
Total	3,850	1,400	1,450	4,150	2,250
Cumulative	3,850	5,250	6,700	10,850	13,100
% Net Revenue Budget	1.16%	0.43%	0.45%	1.28%	0.70%
% Cumulative	1.16%	1.59%	2.02%	3.28%	3.96%
% Gross Revenue Budget	0.91%	0.33%	0.35%	1.00%	0.55%
% Cumulative	0.91%	1.24%	1.58%	2.57%	3.10%

APPENDIX C

"<u>High" Scenario</u>

	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Staff Costs					
Pay Award	5,300	5,400	6,500	6,700	7,000
Increments	500	500	550	550	550
National Insurance		3,500			
Superannuation Contributions (1% from 18/19)				1,900	
Superannuation: Ethical Inv.	2,500				
Holiday Pay	300				
Auto Enrolment					
	8,600	9,400	7,050	9,150	7,550
Non-Staff Cost Inflation (3% p.a.)	5,700	5,900	6,000	6,200	6,400
Demographics (0.5% p.a then 1.25% p.a)	1,600	3,900	4,000	4,000	4,100
Other Pressures					
Capital Financing Costs		750	750	750	750
Welfare Reform – Impact of Universal Credit		1,500			
New Secondary School- running costs				2,000	100
Settlement					
Settlement: General Revenue Funding (reduction)	5,600	3,400	5,200	3,200	1,700
Settlement: NDRI (increase)	(5,600)				
Demographics (impact on Settlement)	(750)	(1,250)	(1,250)	(1,250)	(1,250)
Council Tax					
Council Tax – assumed freeze					
Council Tax Base	(300)	(1,400)	(1,500)	(1,500)	(1,500)
Fees & Charges	(300)	(300)	(300)	(300)	(300)
Use of Headroom		(4,500)			

	2015/16 £'000	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000
Use of Reserves					
Total	14,550	17,400	19,950	22,250	17,550
Cumulative	14,550	31,950	51,900	74,150	91,700
% Net Revenue Budget	4.40%	5.50%	6.67%	7.97%	6.83%
% Cumulative	4.40%	9.65%	15.68%	22.40%	27.70%
% Gross Revenue Budget	3.44%	4.26%	5.10%	6.00%	5.03%
% Cumulative	3.44%	7.56%	12.27%	17.53%	21.68%

APPENDIX D

General Fund Reserves as at 31 March 2014

	£'000	£'000
General Fund Balance as at 31 March 2014		48,041
Earmarked Amounts		
Devolved School Management Scheme (DSM)	(1,261)	
Car Parking	(2,101)	
Budget Flexibility	(4,413)	
Equal Pay Strategy	(500)	
Council Tax Income on 2nd homes/long term empty properties	(2,625)	
Developers Contributions: Commuted Sums & Infrastructure	(2,196)	
Developers Contributions: Affordable Housing	(943)	
Energy Efficiency Fund	(231)	
Financial Assistance (Mod)	(160)	
Zero Waste Fund Resources contribution to Loan Charges	(39)	
Investment in Improvement Funds	(1,076)	
Investment in Learning Programme	(135)	
Contaminated Land	(162)	
City Centre Projects	(1,200)	
Revenue Grants	(944)	
Minibus Replacement Strategy	(283)	
Workforce Management Strategy	(9,183)	
Community Safety / Wellbeing Initiatives	(219)	
Planning Appeals and Public Inquiries	(277)	
Crematorium Abatement Levy	(200)	
Essential Maintenance & Compliance Works	(860)	
Funding of Additional Capital Expenditure	(3,400)	
Flood Fund	(220)	
Ryder Cup	(500)	
Kinross Curling Trust	(125)	
Perth Office Programme	(710)	
Public Service Network	(700)	
Local Government Elections	(53)	
Letham Community Sports Club	(85)	
		34,801
Uncommitted General Fund Balances as at 31 March 2014		13,240