

PERTH & KINROSS COUNCIL

1 March 2023

STRATEGIC PLANNING UPDATE AND 2023-26 GENERAL FUND REVENUE BUDGET

Report by the Chief Executive and Head of Finance

(Report No. 23/72)

1. PURPOSE

1.1 The purpose of this report is to:

- provide an update on the Council's approach to organisational transformation and our budget planning works to mitigate, as far as possible, the impact of the financial challenges facing the Council.
- present the 2023/24, 2024/25 and 2025/26 Provisional General Fund Revenue Budgets.
- seek the Council's approval to set the annual Council Tax for 2023/24 and indicative levels for 2024/25 and 2025/26, in line with the Medium-Term Financial Plan approved by Council on 28 September 2022 (Report No. 22/249 refers).
- provide an update on and seek approval of the Council's Reserves Strategy.
- update on the financial risks facing the Council over the medium term, including deficits in 2024/25 and 2025/26, significant inflationary and pay pressures, uncertainty over future funding levels and potential challenges for our partners.

2. RECOMMENDATIONS

2.1 It is recommended that Council:

- A. notes the update on transformation activities and agree that bi-annual updates on the delivery of the Transformation and Change Programme be reported to the Finance and Resources Committee along with progress briefings to Elected Members – see paragraph 5.30
- B. approves the application of funding arising from the Service Concession Arrangements as set out in **Table 8** and **paragraph 7.13** – see paragraph 7.13

- C. agrees a Council Tax collection rate of 98% in 2023/24, 2024/25 and 2025/26 – see paragraph 7.18.
- D. approves the Council Tax bases set out in **Table 9** – see paragraph 7.21.
- E. sets the final Council Tax for 2023/24 and an indicative Council Tax for 2024/25 and 2025/26 – see paragraph 7.24.
- F. approves the contribution of £79.532 million to Perth & Kinross Integration Joint Board in the 2023/24 Provisional Revenue Budget – see paragraph 7.31.
- G. approves the 2023/24, 2024/25 and 2025/26 Provisional Revenue Budgets as set out in **Appendix A** – see paragraph 7.42.
- H. maintain a prudent approach to the application of reserves and earmark the General Fund Balances identified in **Table 13** and **Appendix G** – see paragraph 8.11.
- I. approves that uncommitted Reserves are maintained at a minimum of 2% of the 2023/24 Net Revenue Budget which equates to £8.921 million – see paragraph 8.18.
- J. determines the 2023/24 Final Revenue Budget and Council Tax.
- K. determines the 2024/25 Updated Provisional Revenue Budget and Indicative Council Tax.
- L. determines the 2025/26 Updated Provisional Revenue Budget and Indicative Council Tax.

3. STRUCTURE

1.1 This report is structured as follows:

- 4. Background – Strategic Context**
- 5. Organisational Change - Transformation & Change**
- 6. Scottish Government Budget**
- 7. 2023/24, 2024/25 & 2025/26 Provisional Revenue Budgets**
- 8. Reserves Strategy**
- 9. Risk Assessment**
- 10. Conclusions**

4. BACKGROUND - STRATEGIC CONTEXT

4.1 Like all councils, the pandemic, its impact on the needs of our citizens and the current cost of living crisis have only added to the increasingly complex challenges the Council faces. The medium to long term implications of Covid 19 remain uncertain, the continuing war in Ukraine, increases in inflation and

energy costs and the ongoing cost of living crisis are all placing significant pressure on the workforce and the budget we have available to deliver services to our communities.

- 4.2 This means the Council is facing the most testing organisational pressures and financial circumstances it has ever experienced. To make best use of available resources, the Council will need to make decisions on what it will stop doing, do less of, do more efficiently or do differently through redesign and working as collaboratively as possible with partners and communities.
- 4.3 As the Council faces these challenges, there are several key drivers which require it to transform its services and the way it works with partners and communities to deliver improved outcomes. These include:
- new and emerging priorities – social, economic and climate – that require the Council to review what, how and where it delivers services to meet these challenges
 - a growing ageing population and increasing complexity of need and demand for services
 - delivery of the promise made to our communities in the [Perth and Kinross Offer](#) to balance the relationship between the people who design and deliver services and those who ultimately use them.
- 4.4 Through transforming how the Council works, driving efficiencies and reviewing service delivery, it will help address these challenges and respond to these drivers. The purpose of bringing together the Council's budget and change plans is to make greater links between how it allocates its resources, mitigate the impact of budget cuts whilst continuing to make best use of available resources to meet its priorities.
- 4.5 In bringing forward the budget proposals within this paper, officers have sought to find a balance between delivering the required level of unavoidable service reductions whilst protecting services for the most vulnerable people and communities. To do this, officers have followed the principles set out within the Council's policy framework as described below.

Our Policy Frameworks for Change

- 4.6 The Council's policy framework provides parameters as to how it will make difficult decisions to deliver its agreed priorities by taking an evidence-based approach and placing a focus on need, not simply demand.
- 4.7 The new [Corporate Plan 2022-27](#) approved in December 2022 (Report No. 22/311) sets our vision for **“a Perth and Kinross where everyone can live life well, free from poverty and inequality”**.
- 4.8 The seven key priorities included in the plan show how the Council will address the challenges it faces and focus its work where it is needed most to support the delivery of that vision. The priorities are:

- **Working in partnership with communities**
- **Tackling poverty**
- **Tackling climate change and supporting sustainable places**
- **Developing a resilient, stronger and greener local economy**
- **Enabling our children and young people to achieve their full potential**
- **Protecting and caring for our most vulnerable people**
- **Supporting and promoting physical and mental wellbeing**

4.9 In recognition of the challenges the Council faces and to ensure that it continues to deliver on its priorities, a [Financial Strategy](#) was approved in June 2022.

4.10 The Financial Strategy is the link between the Council's long-term priorities and its financial capacity. Its aim is to build resilience and ensure that the Council has an affordable and sustainable Medium Term Financial Plan, which directs its resources to where they are most needed in line with Council agreed priorities and strategic outcomes. The set of financial principles agreed within that strategy have been applied to the budget proposals:

- **Direct resources where they are most needed**
- **Prioritise the delivery of services we must provide by law**
- **Prioritise upfront investment in early intervention and prevention**
- **Not fund recurring activity from general fund reserves**
- **Minimise unnecessary expenditure and maximise income**
- **Take a planned and sustainable approach to capital investment**
- **Protect the most vulnerable in our community**
- **Deliver services in the most cost-effective manner**
- **Prioritise transformation investment on cost mitigation measures**
- **Contain spending within approved budgets**
- **Over plan for the delivery of savings**
- **Reflect the full cost of capital investments in future budgets**
- **Agree indicative budgets for a minimum of two further financial years when setting revenue budgets**

4.11 The budgetary strategy was further developed on 28 September 2022 when the Council approved the latest [Medium-Term Financial Plan](#) (MTFP) (Report No. 22/249) which included agreement to set Revenue Budgets for 2023/24, 2024/25 and 2025/26. The update of the MTFP considered future funding levels, increasing costs and rising need / demand over the short to medium term, insofar as they may impact on Perth & Kinross Council.

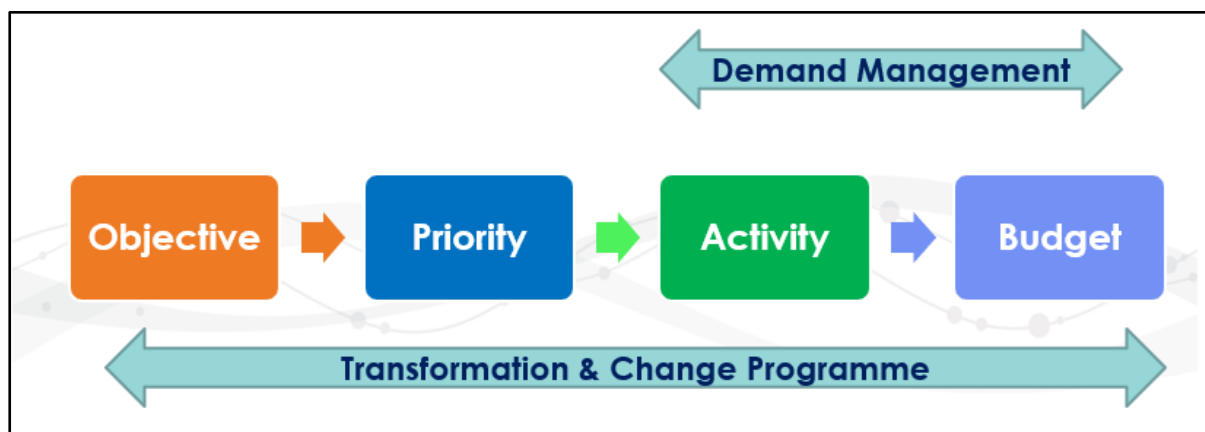
4.12 The MTFP places the development of budgetary strategy in the context of delivering the Council's key outcomes and considers the financial and process risks considered in the management of the Council's finances. The MTFP is designed to inform the direction of travel of the Council for financial planning purposes. As detailed budget proposals are developed, the broad assumptions included within the MTFP are superseded by more detailed analysis of individual cost pressures and the identification of budget

reductions options. The refinement of these assumptions is included in the 2023/24, 2024/25 and 2025/26 Provisional Revenue Budgets.

- 4.13 The final [Housing Revenue Account \(HRA\) Revenue Budget for 2023/24 and Five-Year Capital Investment Programme and Rent Strategy to 2027/28](#) were approved by the Housing and Social Wellbeing Committee on 25 January 2023 (Report No. 23/9 refers). The Committee approved the recommendation of an average weekly rent increase for 2023/24 of 2.2% or £1.62 per week in accordance with the requirements of the Council's approved Housing Business Plan including supporting investment in new council housing.
- 4.14 In June 2022, Council agreed a five-year [Transformation & Change Strategy](#) (Report No. 22/142 refers). This recognised that the shape and structure of the organisation, as well as the way it operates, needs to change.
- 4.15 Transformation alone will not address the structural deficit; budget cuts and service reductions that will be required. Some transformation will reduce overspends, mitigate costs, or enable a shift of expenditure to new and emerging priorities. A combination of measures and approaches will therefore lead to the removal of the structural deficit, with the aim of delivering a balanced budget and removing the need to draw on Reserves.

Demand management

- 4.16 One of the enabling tools is the Council's approach to demand management. Demand can be classed as: excess provision; preventable; a result of failure and/or avoidable. Demand analysis provides a better understanding of the issues which in turn facilitates improvement actions. Service design will ensure that the right services reach the right people where and when they are needed leading to better use of available resources. The sustainability of priority services is inextricably linked to the Council's ability and willingness to make difficult decisions on reducing its response to non-priority demand and a commitment to focus on key priorities and need.



5. ORGANISATIONAL CHANGE

- 5.1 This section sets out the main activities undertaken over the last year in developing the Transformation & Change Strategy and its focus on a programme of consolidation workstreams; workforce engagement and planning; engagement with communities and consideration of our property asset base.
- 5.2 The Transformation & Change Strategy recognises that due to the size and complexity of the organisation a range of approaches to change will be required:
- i. transforming our customer's experience**
 - ii. transforming the shape and structure of our organisation**
 - iii. transforming our systems and processes**
 - iv. transforming our spending and response to demand**

- 5.3 The Transformation and Change Programme will continue to be iterative in its approach and will continue to be developed and delivered over a 5-year period. When Council approved the strategy (Report No. 22/142 refers), it set out a commitment to identify and progress key projects that will deliver the greatest impact with an initial focus on a programme of consolidation and a review of our leadership structure. The strategy also set out a commitment to build support within the organisation by involving its staff in helping to inform, shape and deliver change within the organisation and in how we deliver services to communities.

Workforce engagement and planning

- 5.4 During 2022, a series of staff engagement sessions and workshops were initiated across the Council. Discussions focussed on transformation and change, seeking staff's views on what's working and what needs to be improved to develop our culture and empower staff to engage more widely in transformation, change and improvement. Lots of positive feedback was received, particularly around organisational culture, customer focus and team working, however some key areas were highlighted for improvement. These included:
- i. the need for a more collaborative focus on organisational priorities,**
 - ii. an appetite for staff at all levels to take more accountability, be risk aware and take greater responsibility and ownership of their own areas of work**
 - iii. a need to be a more accessible organisation with the right information at the right time for staff to be able to assist and support people more effectively**
 - iv. an ask of staff for managers to adopt more of an enabling and empowering leadership style**

- 5.5 Staff also made a wide range of suggestions about how the Council can improve its organisational culture, relationship with communities, better manage demand to focus on need and transform systems, structures, and processes.
- 5.6 Throughout 2022, there has also been a far greater level of community engagement with the Chief Executive and the Senior Leadership team, through monthly locality meetings. There has also been an enhancement to approaches to engagement to inform the Corporate Plan and budget decisions, demonstrating the Council's commitment to involve communities earlier in strategic planning discussions.
- 5.7 This valuable feedback continues to be reviewed and considered and fed into services, teams, and transformation projects to progress improvement.

Leadership Review

- 5.8 The Transformation and Change Strategy also set out a commitment to review the Council's leadership structure. This review will ensure that the Council continues to have the professional skills and leadership capacity in place to lead services and deliver transformation across the organisation.
- 5.9 Led by the Chief Executive, the initial phase of the leadership review will focus on the Council's:
- **Leadership culture**
 - **Leadership engagement across the Council, with partners and communities**
 - **Leadership and management competence and performance**
 - **Leadership structures and capacity across the whole organisation**
- 5.10 The scope of the review will underpin a future operating model. All four elements of the scope of the review have been ongoing over the last year, with a focus on leadership engagement, the development of new competences and performance systems and continuing work on organisational culture built upon the cultural change programme linked to the Perth and Kinross Offer. The Executive Leadership Team has been involved in developing the leadership structure proposals and the team and Extended Executive Leadership Teams has been engaged in discussions re the future leadership structure. Implementation of all elements of the scope will continue during the coming year with the aim of implementing all elements, including a revised senior leadership structure the new senior leadership structure by April 2024.
- 5.11 A further and ongoing review of all leadership and management roles and structures across the Council will be linked to the programme of consolidation activities and wider service redesign work.

- 5.12 A Leadership Competency Framework has been developed, setting out the actions and behaviours expected of all managers to deliver the organisational vision and strategic priorities collectively and effectively.
- 5.13 In April 2023, a new Performance & Development Framework will be launched across the Council designed to support a more formal evaluation of performance and development needs of those in leadership positions.

Consolidation Projects

- 5.14 Over the last six months, good progress has been made in the nine consolidation workstreams which were identified in the Transformation & Change Strategy approved by Council in June 2022. These projects have identified opportunities to consolidate currently disaggregated functions and activities which address gaps and areas of duplication. These new arrangements when fully implemented will improve their efficiency and effectiveness within single points of management within the Council's structures and in most areas will contribute to reductions in costs.
- 5.15 **Table 1** provides a high-level description of the consolidation projects.

Table 1: Consolidation Projects

Customer Services	Consolidation of the many dispersed customer service functions including workforce, customer service centres and systems
Press and Comms	A centrally managed communications, design and marketing provision working to a single workplan incorporating consistent service level agreements for each service
Finance	A consolidated model which brings together corporate and service teams under one management business model with service business partnering arrangements. The legislative and business requirements for integrated finance functions serving the Integrated Joint Board were acknowledged
Professional and Business Support	Consolidated Professional and Business Support Services under one management model, with staff operating in a business partner model for each Service
Strategic Planning and Performance	A strategic planning, performance, and risk function under one business management model that will support continuous improvement evidence-based decision making and delivery on our priorities
HR and OD	Consolidated Organisational Development and Human Resources activity under one management business model with business partnering arrangements for each Service
Community Engagement	Activity is integrated at a locality level. Streamlining of local decision making, local community action plans and community grant schemes

Property	Consolidation of all property related activity into a single service in a corporate landlord model, (includes property development programmes, including housing new builds and improvements and facilities management)
Strategic Commissioning and Procurement	Work is ongoing to develop a cohesive commissioning strategy aligned to priorities, supported by an effective procurement function to ensure spend is directed to where it is most needed.

Transformation Savings

- 5.16 In preparing this budget submission, transformation / consolidation leads have worked closely with finance colleagues to ensure:
- i. close alignment with the budget process
 - ii. any savings proposals identified from transformation are incorporated within budget savings proposals, and
 - iii. where possible cuts are considered and incorporated to transformation and change reviews
- 5.17 Due to the significant financial challenges faced, this process has been complex. Project leads have, as far as possible:
- i. assessed the financial details of each activity within scope
 - ii. mapped savings already identified within the budget process related to their workstream
- 5.18 Whilst transformation will not mitigate the full impact of cuts, it will make best use of remaining resources to ensure the Council continues to meet statutory responsibilities, service priorities and external and internal customer needs where possible. Initial consolidation activities will see a reduction in some areas on the overall resourcing to support a specific function and over time will see further work to revise operating models to reflect the reductions in capacity which consolidation will bring.
- 5.19 Detailed within the proposals contained within the Executive Summaries at **Appendix B** are service reductions and cuts associated with the consolidation workstreams described above of **£6.088 million**. The Executive Summaries include proposed reductions in leadership capacity and savings totalling **£1.184 million**. The near 20% of proposals which are focused on reductions in management and leadership capacity reflect the commitment made to creating the most efficient management structures, whilst, as far as possible, seeking to protect frontline posts. Further updates on the Leadership Review will be reported to elected members later in 2023 as part of the commitment to provide updates on the wider transformation and change programme. An extract and summary of these reductions and savings are detailed in **Table 2**.

Table 2: Transformation and Change Budget Reductions

	2023/24 £m	2024/25 £m	2025/26 £m	Total £m
Leadership	0.363	0.296	0.525	1.184
Consolidation Reviews	1.724	1.385	2.979	6.088

Supporting our workforce

- 5.20 The Council recognises the impact that the budget and change proposals will have on its employees. The Council is an organisation of people delivering services to, for and with people. The Council's staff are its most important asset and for the vast majority are also Perth and Kinross residents, who along with their families, friends and neighbours not only deliver but rely on a range of Council services. Engaging with, supporting, and developing the workforce is a key priority for the organisation in reflecting the Council's values, maintaining and growing the organisational culture and shaping the programme of change.
- 5.21 The Council's Corporate Workforce Plan (2021 – 2023) (Report No. 21/84 refers), the Organisational Development Plan, Health & Wellbeing Plan, and Cultural Change Programme along with a programme of training and development collectively set the direction for how the Council develops its workforce for the future and support colleagues through the change process.
- 5.22 The Council will continue to build its cultural change programme over the next year, further embedding the organisational values and behaviours through initiatives such as a refreshed induction process and specific manager induction event, team building and interpersonal support, leadership development and detailed employee engagement projects.
- 5.23 The [Framework for Managing Workforce Change](#) has been reviewed (Report No. 23/33 refers) to ensure that the terms effectively support the Transformation & Change agenda in terms of pace and scale. The framework continues to ensure that the Council promotes fair, consistent, and equitable treatment of employees.
- 5.24 The framework enables organisational change in any workforce change scenario and is one of several tools that support transformation. It also supports a culture of innovation, our ongoing commitment to employability as well as supporting learning opportunities for all employees affected by transformation and change.

Next Steps

- 5.25 A number of wider projects are already underway and more recently additional projects have been identified for inclusion in the programme. The table below provides a high-level overview of projects within the next phase. **Appendix B** includes some functions that may fall within these reviews.

Project	Overview
Locality Multi-Disciplinary Teams	Enhanced multi-disciplinary working with and within communities
ALEO's	A review of ALEO's to ensure the most effective model of operation
Corporate Asset Management and One Public Estate	Development of corporate asset management strategy and a full review to deliver reductions in the estate and opportunities for co-location
Public Transport	Review of public and community transport arrangements.
Children and Young people	Focus on adopting a whole family wellbeing approach as well as transforming services for children and young people with complex additional support needs
Climate Change – Waste Management	A review of waste strategy and waste management arrangements as well as supporting the decarbonisation actions outlined within the delivery of the Council's Climate Action Plan
Working Smarter	Review ways of working to operate in a more connected integrated way
Digital Transformation	Making the connections with the Transformation & Change Programme and the delivery of the Digital Strategy

- 5.26 The new [Digital Strategy 2023-2027](#) approved in February (Report No. 23/34 refers) sets out our ambitions for how the Council will utilise digital in the delivery of services. The Council will continue to develop digital leadership, digital skills and review systems as it transforms and modernises services.
- 5.27 The Strategic Investment & Capital Budget Update 2023/24 – 2027/28 report details a timeline for asset management strategies to be reviewed. It also details how officers will continue to engage with communities and partners to help inform the Council's commitment to a One Public Estate, exploring opportunities to better utilise all our assets to meet the needs of communities, reduce the number of buildings to deliver efficiencies and identify opportunities for co-location with partner organisations. This will build on The Council's experience and successes to date. As part of this officers will

review how the learning estate could be further utilised to better meet the needs of our communities as well as looking to maximise appropriate opportunities for communities to take on assets through asset transfer requests.

- 5.28 The Council will also continue to consider a range of other possibilities and opportunities for greater partnership working and commercialisation.
- 5.29 Once final budget decisions have been made, all proposals will be reviewed alongside transformation and change projects and service delivery arrangements. This will fully align the Council's budget and change plans to ensure the best use of remaining resources to deliver on our agreed priorities. This model of linking organisational change and budget considerations will be further embedded over the coming year and reflected in updates via Finance and Resources Committee and future Strategic Planning and Budget reports.
- 5.30 **ACTION: Note the update on transformation activities and agree that bi-annual updates on progress with the delivery of the Transformation and Change Programme be reported to the Finance and Resources Committee along with progress briefings to Elected Members - RECOMMENDATION A**

6. SCOTTISH GOVERNMENT BUDGET

- 6.1 The principles and approach set out in the previous section have been applied within the context of the budget available to the Council for this year. This is largely informed by the decisions made in the Scottish Government Budget.
- 6.2 The Scottish Government budget for 2023/24 was published on 15 December 2022. This was followed by Local Government Finance Circular 11/2022 on 21 December 2022 which was reissued on 10 January 2023.

Local Government Finance Circular 11/2022

- 6.3 Local Government Finance Circular 11/2022 includes the provisional financial settlement for 2023/24 at an individual Council level. As anticipated, the Settlement included information for 2023/24 only.
- 6.4 The Circular provides details of the provisional total Revenue and Capital funding allocations for 2023/24, as well as the latest information on funding redeterminations for 2022/23. The Circular also provides details on a range of business rates measures, including the 2023/24 Non-Domestic Rates poundage.
- 6.5 The provisional total funding allocations form the basis for the annual consultation between the Scottish Government and COSLA ahead of the Local Government Finance (Scotland) Order 2023 being presented to the Scottish Parliament. This is currently scheduled for February 2023.

6.6 The Circular sets out a national funding package of **£13.2 billion** and includes:

- **£260 million** towards the local government pay deal and SSSC fees.
- **£72.5 million** increase to the General Revenue Grant.
- **£105 million** to support the devolution of Non-Domestic Rates Empty Property Relief.
- Maintained in-year transfers worth over **£1 billion** and added a further net £102 million of resource to protect key shared priorities particularly around education and social care.
- **£50 million** capital to help with the expansion of the Free School Meals policy.
- Additional funding of **£100 million** to deliver a £10.90 minimum pay settlement for adult social care workers in commissioned services: and
- Consolidation of **£30.5 million** for the homelessness prevention fund.

6.7 As has been the case in previous years, Finance Circular 11/2022 also contained information on revenue funding which has still to be distributed. The undistributed national funding is set out below.

- Teachers Induction Scheme - **£37.6 million**
- Discretionary Housing Payments - **£85.9 million**
- Gaelic – **£0.103 million**
- Educational Psychology Trainees - **£0.450 million**
- Real Living Wage - **£100 million**

6.8 Based on Finance Circular 11/2022, the total Revenue funding being made available by the Scottish Government to Perth & Kinross Council in 2023/24 is **£318.106 million** (see **Table 3** below).

Table 3: Scottish Government Grant Funding – Perth & Kinross Council

	2023/24	2022/23
	£m	£m
General Revenue Funding	239.627	231.418
Non-Domestic Rates	60.754	46.141
Ring-Fenced Grants	17.725	17.194
TOTAL REVENUE FUNDING	318.106	294.753

Source: Finance Circular 11/2022 – 10 January 2023
Finance Circular 9/2021 – 20 December 2021

- 6.9 The 2023/24 Scottish Government provisional funding allocation of £318.106 million represents a **£23.353 million** increase in absolute cash terms from the allocation for 2022/23 (or 7.9%).
- 6.10 However, the 2023/24 provisional funding allocation includes **£17.344 million** which is either ring-fenced by the Scottish Government towards meeting specific initiatives, or where there is an expectation or requirement for the Council to apply funding for a stated purpose (most notably 2022/23 pay awards, free school meals and social care).
- 6.11 Therefore, on a like for like basis, the provisional Scottish Government funding allocation for 2023/24, represents a **£6.009 million** increase (or 2.03%) over the equivalent position for 2022/23 as set out in Finance Circular 9/2021.
- 6.12 **Table 4** below summarises the movements in the total funding package from the Scottish Government to facilitate a comparison of the 2023/24 provisional allocation with 2022/23 on a comparable basis.

Table 4: Cash Movements between 2022/23 & 2023/24 (on a comparable basis)

	£m
2022/23 – Finance Circular 9/2021	294.753
2023/24 – Finance Circular 11/2022	318.106
Year on year cash increase in funding	23.353
Year on year % increase in cash funding	+7.9%
Less:	
- funding directed to service delivery	(17.344)
£ Increase (on a comparable basis)	6.009
% Increase	2.03%

- 6.13 The increase set out in **Table 4** above does not take account of the additional impact of inflation, which is significant, or increasing demand for Council services.

Implications for the 2023/24 Capital Budget

- 6.14 Finance Circular 11/2022 also includes provisional Capital Grant allocations for 2023/24. The impact of these allocations is included within the Capital Budget report which is on the agenda for this special meeting of the Council.

Non-Domestic Rates

- 6.15 Finance Circular 11/2022 also includes the Non-Domestic Basic Rate poundage for 2023/24 of 49.8p, no change from 2022/23. Two additional rates

are levied on properties with rateable values over £51,000 (51.1 pence) and £95,000 (52.4 pence) respectively.

- 6.16 The Scottish Budget for 2023/24 also included changes to several existing reliefs and introduced several transitional reliefs relating to the 2023 revaluation.

7. 2023/24, 2024/25 & 2025/26 PROVISIONAL REVENUE BUDGETS

- 7.1 The process for developing the 2023/24, 2024/25 and 2025/26 Provisional Revenue Budgets commenced in September 2022 with the preparation of Revenue Budget submissions (or Executive Summaries).

Council Wide Pressures & Executive Summaries

- 7.2 The Executive Summaries include an assessment of the potential impact of expenditure pressures and budget reductions against the following criteria:
- **Fairness** – including the potential socio-economic impact on vulnerable individuals and groups.
 - **Workforce** – including information on numbers of employees affected, vacancies, staff turnover and fixed term contracts.
 - **Customers** – including information on the effect on all customers /stakeholders (both external and internal).
 - **Equalities/Diversity** – ensuring that any statutory equalities issues are considered.
 - **Outcome & Performance** – identifying any significant impact on the Local Outcomes Improvement Plan and/or Service Business Management and Improvement Plans.
 - **Climate Change** – including positive and negative impact
- 7.3 The potential workforce implications identified within the Executive Summaries include vacant posts and will be influenced by turnover. The Council's positive and proactive approach to workforce management is designed to mitigate the impact on its people, including investment in skills for the future, retraining, support to take on new job roles, career coaching and building resilience.
- 7.4 Equality and Fairness Impact Assessments for individual expenditure pressures and reductions were prepared and considered by the Strategic Equalities Forum in February 2023. This facilitated the preparation of a cumulative impact assessment which was distributed to all Elected Members in advance of this special meeting of the Council.
- 7.5 The Executive Summaries have been subject to scrutiny by Elected Member Budget Review Groups which commenced in November 2022. The detailed analysis of these expenditure pressures and reduction proposals are set out in **Appendix B**.

- 7.6 The Executive Summaries, which are attached at **Appendix B**, have identified total expenditure pressures of **£25.331 million** and total budget reductions of **£21.207 million** which are summarised in **Table 5** below.

Table 5: Expenditure Pressures & Budget Reductions (see Appendix B)

	23/24 £m	24/25 £m	25/26 £m	Total £m
Expenditure Pressures	14.540	7.162	3.629	25.331
Budget Reductions	(8.233)	(7.136)	(5.838)	(21.207)
Net Position – Appendix B	6.307	0.026	(2.209)	4.124

- 7.7 On 21 December 2022, the Council was also advised of Council wide pressures totalling **£31.665 million** which are set out in **Table 6** below.

Table 6: Council Wide Expenditure Pressures

	23/24 £m	24/25 £m	25/26 £m	Total £m
Structural Deficit	10.015	-	-	10.015
2022/23 Pay Award	1.400	-	-	1.400
Future Pay Awards	7.250	7.250	7.250	21.750
E'er National Insurance	(1.500)	-	-	(1.500)
Total	17.165	7.250	7.250	31.665

- 7.8 The total cumulative impact of the Council wide pressures set out in **Table 5** and the net position set out in **Table 6** are **£35.789 million** through to 2025/26. This position is summarised in **Table 7** below.

Table 7: Cumulative Revenue Budget Gap

	23/24 £m	24/25 £m	25/26 £m	Total £m
Net Position – Appendix C	6.307	0.026	(2.209)	4.124
Council Wide Pressures	17.165	7.250	7.250	31.665
Gap	23.472	7.276	5.041	35.789

- 7.9 The Council has a statutory requirement to approve a balanced final Revenue Budget. Therefore, to meet this requirement several measures have been developed as follows.

Service Concession Arrangements

- 7.10 On 8 February 2023, the Council approved a change in accounting policy in relation to Service Concession arrangements (Report No. 23/43 refers). This change creates recurring capacity of approximately **£3 million** and non-recurring contribution from revenue balances of **£31.2 million**.
- 7.11 In terms of the non-recurring capacity, **Table 8** below sets out a basis of allocation that support the delivery of the 2023/24, 2024/25 and 2025/26 Revenue Budgets.

Table 8: Application of Non-Recurring Service Concession Arrangement Funding

23/24 £m	24/25 £m	25/26 £m	26/27 £m	27/28 £m	28/29 £m	Total £m
10.0	-	-	-	-	-	10.0
4.0	4.0	4.0	4.0	4.0	1.2	21.2
14.0	4.0	4.0	4.0	4.0	1.2	31.2

- 7.12 Furthermore, the recurring capacity of **£3 million** will be applied from 2023/24 onwards through to 2041/42. When the recurring and non-recurring capacity is combined, the Service Concession Arrangement will contribute **£17 million** to the 2023/24 Provisional Revenue Budget.
- 7.13 **ACTION: The Council is asked to approve the application of funding arising from the Service Concession Arrangements as set out in Table 8 and paragraph 7.12 – RECOMMENDATION B**

Council Tax Collection Rate

- 7.14 In previous financial years, the Council has budgeted for a Council Tax collection rate of 98%. This target, whilst challenging, was supported by the Council's collection performance over recent years and represents a realistic budgeted collection rate in "normal" times.
- 7.15 Elected members receive regular updates on Council Tax collection through reporting to the Finance & Resources Committee.
- 7.16 Despite the challenges facing households, Council Tax collection is holding up. It is therefore proposed that the collection rate of 98% is maintained for 2023/24, 2024/25 and 2025/26. It should, however, also be noted that there remains a risk to collection levels due to the economic environment, changes in legislation in relation to debt recovery and welfare reform. The cost-of-living crisis along with Covid-19 and its impact on household incomes may also continue to have a significant impact.

7.17 It usually takes on average around six years to reach or exceed a collection level of 98%. The Council remains committed to sustaining and improving performance in respect of all its income recovery activities.

7.18 ACTION: The Council is asked to agree a Council Tax collection rate of 98% in 2023/24, 2024/25 and 2025/26 – RECOMMENDATION C.

Council Tax Base

7.19 The number of chargeable band D equivalent dwellings for Council Tax purposes, the Council Tax base (after adjusting for assumed non-collection of 2%), is estimated to be as follows:

TABLE 9: COUNCIL TAX – NUMBER OF BAND D EQUIVALENT PROPERTIES

2023/24	74,384
2024/25	75,018
2025/26	75,654

7.20 The Council's tax base is regularly reviewed, based upon an analysis of recent trends, and adjusted for anticipated growth in the number of dwellings as well as increases in the number of discounts and exempt dwellings.

7.21 ACTION: The Council is asked to approve the Council Tax bases set out in Table 9 above – RECOMMENDATION D.

Council Tax Levels

7.22 On 28 September 2022, the Council approved the updated Medium Term Financial Plan (MTFP) (Report No. 22/249 refers). This included a Council Tax increase of **3%** for 2023/24, 2024/25 and 2025/26 as a planning assumption. On that basis this increase has been included in the Provisional Revenue Budgets set out in **Appendix A**. It is anticipated that these increases will generate additional income of **£2.955 million, £3.094 million and £3.240 million** in 2023/24, 2024,25 and 2025/26 respectively.

7.23 For illustrative purposes, a 3% increase in Council Tax means an annual increase of £40.53 which represents a weekly increase of 78p or monthly increase of £3.38.

7.24 ACTION: In line with the previously approved Medium Term Financial Plan (Report No. 22/249, 28 September 2022) set the annual Council Tax for 2023/24 and an indicative Council Tax for 2024/25 and 2025/26 – RECOMMENDATION E.

Fees and Charges

- 7.25 The proposals set out in **Appendix B** contain details of proposed increases to existing levels of charges in 2023/24. Full details of recommended charges for 2023/24 are set out in **Appendix C**.
- 7.26 The annual review of charges considers several factors including an assessment of previous year's income levels, trends in user demand, inflationary pressures, savings targets, alternative charging structures and the potential impact on vulnerable groups.
- 7.27 All fees and charges should be set in line with the approved individual charging policy and fall into one of the following categories set out in **Table 10** below.

Table 10: Charging Categories

Charging Strategy	Objective
Commercial Charges	The Council aims to cover the cost of providing the service and make a surplus.
Full Cost Recovery	The Council aims to cover the cost of providing the service from those who use it.
Subsidised	The Council wishes users of the service to contribute to the costs of providing it. This might meet a service objective or allow competition with other providers.
Free	The Council chooses to make the service available at no charge to meet a service objective.
Statutory	Charges are determined in line with legal requirements.

Perth and Kinross Integration Joint Board

- 7.28 The Perth and Kinross Integrated Joint Board (IJB) has an approved Strategic Commissioning Plan for 2020-25 and several Strategic Delivery Plans to deliver on its objectives for our vulnerable adults who rely upon community health and social care for daily living. The IJB has issued directions to the Council to deliver integrated health and social care, and, to support transformation in key priority areas such as older people services including care at home; expansion of support and independent living for people with a learning disability service and securing better outcomes in community mental health. The IJB has agreed to revise its Strategic Commissioning Plan and to update its Strategic Needs Assessment in 2023 (mid-term).
- 7.29 The Executive Leadership Team has continued to work with the Health & Social Care Partnership to support the development of a range of

transformational approaches to service provision aimed at building on best practice in health & social care provision.

- 7.30 The 2023/24 Provisional Revenue Budget assumes that the uplift in Scottish Government for adult social care of **£7.798m million** is applied in full, with £7.693 million applied to devolved functions and £105,000 to non-devolved functions. In addition, the Council has applied **£920,000** towards the cost of the 2022/23 pay award.
- 7.31 **ACTION: The Council is requested to approve the contribution of £79.532 million to Perth & Kinross Integration Joint Board in the 2023/24 Provisional Revenue Budget – RECOMMENDATION F.**
- 7.32 In addition, the Scottish Government has still to allocate £100 million of funding nationally towards the Real Living Wage. It is anticipated that the Council's share of this national funding will be £3.035 million which will also be applied to staff working within the Health & Social Care Partnership.

Composite Capital Budget

- 7.33 The agenda for this special meeting of the Council includes a report on the Composite Capital Budget (Report No. 23/73 refers). Within that report, is an update on several immediate inflationary pressures facing the Capital Budget as well as projections on the Capital Fund, which is being utilised to smooth the impact on the Revenue Budget of the significant capital expenditure in the short term.
- 7.34 To that end, the 2023/24 Provisional Revenue Budget includes a recurring increase in the loan charges budget of **£600,000** to support the Capital Budget in the medium term.

2023/24, 2024/25 & 2025/26 Provisional Revenue Budgets

- 7.35 The implications of the issues identified earlier in **Section 7** are summarised in **Table 11** below.

Table 11: Summary

	23/24 £m	24/25 £m	25/26 £m
Recurring Gap – see Table 7	23.472	7.276	5.041
Service Concessions – see Table 8	(17.000)	-	-
Scottish Govt Funding – see Table 4	(6.009)	-	-
Band D Growth	(0.300)	(0.300)	(0.300)
Loan Charges – see Para 7.33	0.600	-	-
Council Tax Increase – see Para 7.24	(2.955)	(3.094)	(3.240)
Update Gap / (Capacity)	(2.192)	3.882	1.501

- 7.36 **Table 11** indicates that capacity of **£2.192 million** in 2023/24 and gaps of **£3.822 million** and **£1.501 million** in 2024/25 and 2025/26 respectively. Over the three years, there is a gap of **£3.191 million**. This figure is based on acceptance of all measure set out within this report and subject to the current known funding available from Government. It is important for officers to stress the continuing uncertainty in funding available over the 3-year period and the significant pressures from inflation and potential future pay settlements.
- 7.37 Council is reminded that the Provisional Revenue Budgets, as set out in **Appendix A**, and Gap / Capacity identified in **Table 11** above are based upon the assumption that all expenditure pressures and all reductions within the Executive Summaries attached as **Appendix B** are approved.
- 7.38 As outlined in **Section 4** above, the Council is undertaking an ambitious transformation & change programme which needs to be resourced. This will include additional capacity as well as investment in service redesign, systems, and data analytics. To that end the 2023/24 Provisional Revenue Budget includes **£500,000** to take forward this work, which is funded by the earmarked Reserve for Transformation and Workforce Management.
- 7.39 In addition, the Council has previously invested significant resources in Anti-Poverty initiatives. The 2023/24 Provisional Revenue Budget includes **£300,000** of further investment. Specifically, this investment will allow for enhanced locality working, taking a one council, whole family, whole community approach to connecting children and families to the help and support they need to mitigate and move beyond poverty. This funding will enable the Anti-Poverty Task Force to function more effectively as an oversight and scrutiny group for all poverty related activity and delivering a joined-up approach across all member organisations of the Community Planning Partnership, local businesses and the third sector.
- 7.40 The 2023/24, 2024/25 & 2025/26 Provisional Revenue Budgets have been prepared based upon the information currently available, both in terms of

financial resources and anticipated service delivery pressures. The analysis reflects the judgement of Council officers and has been reviewed by the Executive Leadership Team. There is, however, a significant risk that these assumptions may require to be revised as part of the ongoing monitoring of Council expenditure and income.

7.41 Finally, the Council is recognised by external auditors for its prudent approach to financial management. Given the level of uncertainty over the short to medium term in relation to additional expenditure and reduced income, the previous approval of Reserves, and the unknown impact of Covid-19 / cost of living on local communities and the local economy, Council is encouraged to adopt a cautious and prudent approach towards the application of Reserves.

7.42 ACTION: The Council is asked to approve the 2023/24, 2024/25 and 2025/26 Provisional Revenue Budgets as set out in Appendix A – RECOMMENDATION G.

7.43 Council is also advised that there may be delays in the implementation of any additional expenditure proposals as arrangements are put in place and some of the activity may slip into future financial years. Any additional projects introduced through the Revenue Budget Motion / Amendments, which would in link with policy, be expected to reflect the Council's priorities and a focus on need rather than demand, may require a commensurate increase in staffing capacity to deliver them and that it may take time to recruit the appropriately skilled officers.

Budget Consultation Exercise

7.44 During October to December 2022, the Council's consultation and engagement activity combined both the budget and Corporate Plan for 2022-27. Overall, there were **1,092** responses submitted to the on-line survey as a whole and **1,084** of these visited the budget sections of the survey, a considerable increase on the previous two years (**739** in 2022/23, **642** in 2021/22, **484** in 2020/21). **Appendix D** provides details on the 1,084 responses to the budget sections of the survey and a report that was shared with Budget Review Groups.

7.45 The responses received in the budget consultation exercise have been taken by officers into consideration when developing the budget proposals contained within the report. Almost all the service areas which participants indicated were of lowest priority for investment and subsequently highest for reducing the standard, frequency, or stopping altogether, have been included as savings proposals, including Council-run events, Customer Service Centre efficiencies, and Council-owned buildings. While the proposals do include reductions in some areas which were most favoured by respondents for maintenance or investment, such as winter maintenance and public transport, the levels of proposed reductions have been limited to minimise the impact on these areas which residents have set out what is most important to them.

7.46 For each budget line, officers have also detailed the climate change and societal impact so that this can be taken into account to reflect that

consultation respondents identified the cost of living and climate change as the issues of most importance to them.

Scottish Water Charges

- 7.47 The Council has received notification from Scottish Water that domestic water and wastewater charges for 2023/24 will increase by **5%**. This results in a band D equivalent charge for water and wastewater from Scottish Water of £502.29, an increase of £19.26 (£478.44 in 2022/23). The split between water and wastewater is set out in **Table 12** below.

TABLE 12: BAND D WATER & WASTEWATER CHARGES FOR 2023/24

	Water	Wastewater	Total
Band D	£232.47	£269.82	£502.29

7.48 Scottish Water charges for water and wastewater continue to be charged using the Council Tax multiplier that was in place prior to 1 April 2017.

8. RESERVES STRATEGY

8.1 In accordance with the existing statutory and regulatory framework, the Head of Finance, as Responsible Financial Officer (or “Proper Officer”), is responsible for advising the Council on the level of Reserves it should hold.

8.2 In determining medium term financial plans and preparing budgets, the Council needs to consider the establishment and maintenance of Reserves in accordance with its statutory powers. Reserves can be held for three main purposes:

- Working balances to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of General Reserves.
- A contingency to cushion the impact of unexpected events or emergencies – this also forms part of General Reserves.
- A means of building up funds often referred to as Earmarked Reserves, to meet known or predicted liabilities.

8.3 LAAP Bulletin 99 also provided guidance on the further categories of Earmarked Reserve that the Council is permitted to hold including insurance, unspent grants and school balances.

8.4 The 2021/22 Audited Annual Accounts included **£85.900 million** of General Fund Reserves. More details on the levels of cash backed Reserves are set out in **Appendix E**. When the earmarked Reserves of **£69.322 million** are removed, there was an uncommitted balance of **£16.578 million** which equates to 3.8%.

Proposals to Earmark Reserves

8.5 Revenue Budget 2022/23 Update No 3, which was considered by the Finance & Resources Committee on 1 February 2023 (Report No. 23/31 refers), included the projected outturn for the Council’s 2022/23 General Fund Revenue Budget. These projections have been further refined to recognise several adjustments which are required in closing the Council’s 2022/23 Annual Accounts and represent material changes to the projected outturn.

8.6 The impact of these projections on the level of balances is summarised at **Appendix F** to this report, which indicates a projected General Fund (excluding HRA) balance of **£53.676 million** at 31 March 2023. Of the projected balance as at 31 March 2023, £38.768 million is earmarked for the

specific purposes set out in **Table 13** below at paragraph 8.9 with a projected uncommitted balance of **£14.908 million**.

- 8.7 There remain some areas of uncertainty in relation to the projected level of balances at 31 March 2023 including the final impact of weather-related events or additional grant income.
- 8.8 Based on the Council's existing financial and policy commitments and the work undertaken in preparing the Provisional Revenue Budgets, it is proposed that the amounts included in **Table 13** be earmarked against the projected General Fund balance.
- 8.9 The earmarked Reserves included in **Table 13** include the following proposals. The creation of an earmarked Reserve to support the work of the Children, Young People and Families Service in managing the impact of Covid-19 on higher levels of need and to reduce the number of residential care placements. Furthermore, recognising the costs of change that the Council is likely to incur over the short to medium term, the earmarked Reserve for Transformation has been further bolstered with a redesignation of funds from the Covid-19 earmarked Reserve.

Table 13: Earmarked General Fund Balances

	31.3.23 £'000	31.3.22 £'000
Projected General Fund Balance at 31 March 2023 (Per Appendix F)	53,676	85,900
Less: Proposed Amounts Earmarked Against Balances:		
Transformation and Workforce Management	(7,800)	(4,114)
Revenue Grants	(7,041)	(19,531)
Developer Contributions	(5,549)	(4,966)
Affordable Housing	(4,277)	(4,281)
Children & Young People's Residential Care	(2,025)	0
Non-Recurring Pressures c/f from 2022/23	(1,627)	(5,242)
Car Parking	(1,529)	(1,579)
COVID-19	(1,504)	(18,343)
Culture	(1,195)	(934)
Perth High School	(1,105)	(1,555)
Devolved School Management Balances	(777)	(1,191)
Decant Schools	(700)	(700)
School Counsellors	(681)	(681)
Financial Insecurity	(650)	(638)
Modern Apprentices / Graduate Trainees	(434)	(434)
Bertha Park High School	(274)	(454)
Primary School at Bertha Park	(270)	(270)
Property Maintenance	(228)	(305)
PH2O	(212)	(212)
Works Maintenance	(200)	(300)
Perth & Kinross Offer	(192)	(477)
World Cycling Championships	(180)	0
Salix	(113)	(92)
Local Action Partnerships	(107)	(107)
Grounds Maintenance	(60)	(135)
Community Investment Fund	(38)	(38)
Insurance Fund	0	(1,000)
REACH Project	0	(743)
Ventilation Measures	0	(437)
Local Government Elections	0	(212)
Financial Assistance	0	(196)
North Inch Golf Course	0	(155)
Total earmarked reserves	(38,768)	(69,322)
Revised Projected Uncommitted Balance at 31 March 2023	14,908	16,578

8.10 The balances identified in **Table 13** above and described in more detail in **Appendix G** will be monitored as part of the revenue monitoring process. Any proposals to make use of the balances will be subject to approval by either the Finance & Resources Committee or Council.

8.11 **ACTION: The Council is asked to maintain a prudent approach to the application of reserves and earmark the General Fund Balances identified in Table 13 above and Appendix G – RECOMMENDATION H.**

Proposed Approach to Managing Unearmarked General Fund Reserves

8.12 To assess the adequacy of unearmarked General Fund Reserves, it is necessary to take account of the strategic, operational and financial risks facing the Council, which are set out in **Section 9** of this report.

8.13 In addition, Councils are expected to retain the equivalent of 0.2% of their annual Net Revenue Budget to deal with unforeseen emergencies (**£732,322** in 2022/23 for Perth & Kinross Council) before being eligible for support through the Bellwin Scheme.

8.14 Taking account of all the risks and historical experience in Perth and Kinross since 1996, it is recommended that the targeted level of uncommitted non-HRA General Fund Reserves continues to be in the range of 2% to 4% of the Council's Net Revenue Budget in the medium term.

8.15 Based on the Net Provisional Revenue Budget for 2023/24 of **£446.045 million** (including the application of capacity) as detailed in **Appendix A**, this would mean a level of uncommitted Reserves of between approximately **£8.921 million** and **£17.842 million** for 2023/24.

8.16 The Council has targeted a level of uncommitted Reserves between 2% and 4% range for several years. Whilst this range is still considered to be appropriate, it should be noted that the level of risk involved in managing the Council's Revenue Budget is significant. There is currently no confirmation of the Council's Scottish Government funding beyond 2023/24 and it is anticipated that Council services will continue to operate in a challenging financial environment in future years.

8.17 Based on the level of earmarked Reserves set out in **Table 13** above, the level of unearmarked Reserves is **£14.908 million** which equates to **3.3%**

8.18 **ACTION: The Council is asked to approve that uncommitted Reserves are maintained at a minimum of 2% of the 2023/24 Net Revenue Budget which equates to £8.921 million – RECOMMENDATION I.**

8.19 In the event that any use of General Fund Reserves is made in determining the 2023/24, 2024/25 or 2025/26 Revenue Budgets, this should only be done on the basis of a sustainable strategy, which ensures that future years' Revenue Budgets are not dependent upon the continuing use of Reserves.

8.20 **Appendix H** to the report shows the contributions to and from Reserves recommended in setting the Provisional Revenue Budget for 2023/24 and anticipated in 2024/25 and 2025/26.

8.21 The Council holds several other cash backed Reserves including the Capital Statutory Fund, Insurance Fund, Capital Fund and Capital Grants Unapplied Fund which are further detailed in **Appendix E**.

9. RISK ASSESSMENT

9.1 Determining the Revenue Budget and Reserves Strategy requires consideration of the strategic, operational and financial risks potentially facing the Council. The General Fund Reserves Strategy is integral to supporting the Council's approach to the management of financial risk. Both the uncertainty of future events and resource constraints make it impractical to mitigate against all potential risks. In developing its medium-term financial plan, the Council must also be aware of the sustainability of its expenditure proposals. Significant risks, which are of relevance are outlined below.

9.2 Council will be kept up to date on the impact of these risks through revenue monitoring reports to the Finance & Resources Committee and budget updates to Council.

Local Government Funding Beyond 2023/24

9.3 The Council received a one-year financial settlement for 2023/24 in January 2023. It is very difficult to estimate Scottish Government future funding scenarios. The magnitude of any potential future funding reduction will be influenced by many aspects of the wider economic climate and UK and Scottish Government policies. The Resource Spending Review published by the Scottish Government in May 2022 indicated a flat cash funding settlement for local government through to 2026/27.

9.4 Given the levels of inflation being experienced, the potential for further real terms reductions in funding beyond financial year 2023/24 is considered to represent a significant risk in the management of the budget over the medium term.

9.5 The potential for real terms reductions in funding is compounded over the medium term at a time of rising need and demand for Council services.

9.6 At this time, there is also no information on any conditions which may be attached to future local government finance settlements. For 2023/24, Councils have been advised of financial penalties if they fail to maintain teacher and school support staff numbers. The Executive Summaries set out in **Appendix B** comply with this requirement.

9.7 Following the devolvement of a number of taxes to the Scottish Government, under the terms of the Scotland Acts, the actual level of funding available to the public sector is more directly linked to the performance of the Scottish

economy. Income from devolved taxation will be dependent upon the relative performance of the Scottish economy.

- 9.8 Whilst the Scottish Government has provided funding information for 2023/24 only, it remains critical that the Council continues to plan over the medium term, to allow sufficient lead in time to identify and deliver the savings that are likely to be necessary in future years. By continuing to plan for the medium term, the Council provides authority for officers to roll out the programme of significant change encompassed within the Perth and Kinross Offer.
- 9.9 Finally, as set out in the Council's response to the Scottish Government consultation on a National Care Service (Report No. 21/185 refers), there is the potential for the creation of a National Care Service to have a significant impact upon the Council's future budget assuming that resources and funding is transferred to the proposed new Boards.

Pay Award Assumptions

- 9.10 The negotiations for the 2022/23 pay awards have not yet concluded for all staff groups. This represents a risk to the base budget for all financial years going forward.
- 9.11 The 2023/24, 2024/25 and 2025/26 Provisional Revenue Budgets include a budgeted pay award of **3%** for all staff groups. Given that the average pay award for 2022/23 for non-teaching staff equated to around 7%, there is a significant risk that this is insufficient. Each movement of 1% on pay award results in an approximately **£2.250 million** increase or reduction in the cost to the Council.
- 9.12 The pay claim from the SJC Trade Unions for 2023/24 was received on 26 January 2023 and includes an increase of 12% or £4,000 which is significantly in excess of budgeted assumptions.
- 9.13 On 21 February 2023, the Deputy First Minister and Cabinet Secretary for Covid Recovery wrote to COSLA advising of an additional £100 million of national funding. This funding is a "contribution to support councils to make a meaningful 2023-24 pay offer for non-teaching local government staff, recognising the critical role that those staff play in delivering front line services". When the allocation to the Council is known, this will be reported to the Finance & Resources Committee. Should this additional funding not be applied to the cost of the final 2023/24 pay award (once known), the Council may be required to find additional savings in year.

Service Concession Scheme

- 9.14 As per the approach to the Service Concession Scheme agreed by Council (Report No. 23/43 refers) the 2023/24, 2024/25 and 2025/26 Provisional Revenue Budgets assume the application of **£31.2 million** of non-recurring resources through to 2027/28 and **£3 million** on a recurring basis through to 2041/42.

- 9.15 Of the non-recurring resources applied in 2023/24, it is assumed that **£10 million** is funding inflation that is transitory in nature. If this is not that case, there is a risk that the Council will be required to identify further reductions in future years in order to produce a balanced Revenue Budget.

Inflation

- 9.16 There is a risk that levels of Service specific inflation exceed budgeted provisions including energy and construction and that levels of general inflation cannot be contained within existing resources as is currently assumed within the Provisional Revenue Budgets. Future increases in the National Living Wage, pressure to enhance wage rates paid by service providers and suppliers and the impact of the leaving the European Union and global uncertainty on the value of Sterling may also create inflationary pressures. Inflation is currently running at its highest levels since April 1991.

Cost of Living

- 9.17 Undoubtedly, the cost of living will have a significant impact on Council resources over the medium term. It is likely that the Council will continue to incur additional expenditure as the cost-of-living response continues as well as seeing further pressure on income streams from both Council Tax and fees & charges due to the impact local citizens and businesses.

Arms-Length External Organisations

- 9.18 All three of the Council's Arms-Length External Organisations, Live Active Leisure, Culture Perth and Kinross and Horsecross Arts Ltd, have been impacted by the Covid-19 pandemic.
- 9.19 There is a risk that numbers returning to these facilities do not return to pre-pandemic levels and that consumer nervousness impacts on future usage leading to continued pressure on customer generated income and further financial challenges. There is also an ongoing risk to the financial sustainability of the ALEOs due to the additional costs they are likely to face as adjust their offer to respond to the consequences of Covid-19 and the inflationary pressures related to service delivery.
- 9.20 A review of ALEOs is being undertaken within the Transformation and Change Programme – **see paragraph 5.25.**

Tayside Contracts

- 9.21 There is a risk that levels of inflation exceed budgeted provisions for Tayside Contracts covering construction, janitorial, catering and cleaning activities. In recent months there have been significant price increases in supply chain costs for key commodities including material costs for construction and food supplies in catering which if sustained will put further pressure on client budgets to accommodate these price increases. Furthermore, with Tayside Contracts bound by national pay award negotiations there is a risk that, similar to 2022/23, future pay offers are 'bottom loaded' which have a

disproportionately high effect on lower paid employees and therefore significantly increased costs in relative percentage terms (92% of Tayside Contracts staff earn below £25k per annum compared to the Scottish Council's average of 55%). In addition, there is a risk that school meal uptake numbers remain low relative to pre-Covid-19 levels, impacting on income generated.

- 9.22 Tayside Contracts continue to seek ways to improve efficiency and effectiveness in their day-to-day operations to mitigate the impact of cost increases with a Change Plan and programme of Transformation being developed over the short to medium term. There is a risk, however, that these interventions alone will not be sufficient to accommodate all cost increases and as such service reductions may be required going forward.

Number of Band D Properties

- 9.23 The 2023/24, 2024/25 & 2025/26 Provisional Revenue Budgets assume growth in the number of Band D equivalent properties consistent with the Medium-Term Financial Plan and is based on levels of growth currently being experienced. If the levels of growth in the number of properties do not continue, there is a risk to the budgeted level of Council Tax income.

Current Economic Climate

- 9.24 There is a risk that both the Council's capacity to generate income, and the expenditure it incurs in meeting demand for its Services, may be less predictable in the current volatile economic climate.
- 9.25 In terms of income generation, there is a continued risk that Council Tax collection levels, commercial rental income and other areas of income generated by the Council may be further affected.
- 9.26 The economic climate may also increase demand for, and expenditure on Council services. This risk will require to be managed within the Council's available resources.
- 9.27 The economy has also been impacted on an unprecedented level by Covid-19 and this will undoubtedly put further pressure on public finances as tax revenues are reduced and expenditure rises.

Climate Change

- 9.28 On 15 December 2021, the Council approved its Climate Change Strategy and Action Plan (Report No. 21/245 refers).
- 9.29 Legislation has been introduced by the Scottish Government that will aim to ensure Scotland reaches net zero greenhouse gas emissions by 2045. There are also a range of challenging intermediate targets and a further possibility that these targets will be accelerated by legislation. These requirements will have implications for both revenue costs and capital expenditure.

- 9.30 As the Council strives to decarbonise, this will undoubtedly mean significant additional investment will be required. However, it must also be noted that there are major, current and proposed, national funding sources available, and the Council must ensure it is in a position to fully capitalise on these.

2023/24, 2024/25 & 2025/26 Revenue Budgets

- 9.31 Council has previously been briefed on the current challenges in the construction sector and as widely reported, supply chain pressures are emerging across all sectors of the economy. There is accordingly a risk that the assumptions supporting expenditure pressures within future year Revenue Budgets vary significantly with a consequential impact upon the budget.
- 9.32 Furthermore, the 2023/24, 2024/25 and 2025/26 Revenue Budgets are constructed on the basis that approved savings are delivered. There remains a risk that due to capacity issues or changes in demand for services, these savings require to be further delayed or may no longer be deliverable.
- 9.33 There is also a risk that the delivery of services continues to be impacted by the ability of the Council to recruit and retain staff with the skills required to maintain high standards of performance. Recruitment challenges continue to be an ongoing issue in many service areas with the pressures of continuing demands on the workforce and competition from other employers contributing to this challenge.

Implications of Capital Budget

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

Severe Weather

- 9.35 There is a risk that, as has been the case in previous years, the Council incurs further significant levels of expenditure on severe weather. **Table 14** sets out projected or final outturns on Winter Maintenance over the last ten years. The total net contribution from Reserves over the last decade is **£3.552 million**.

Table 14: Winter Maintenance Final Over / Under Spend

2022/23	Projected over spend of £1.200 million
2021/22	Over spend of £225,000
2020/21	Over spend £1.024 million
2019/20	Overspend £648,000
2018/19	Underspend £143,000
2017/18	Over spend of £1.350 million
2016/17	Underspend £540,000
2015/16	Over spend £59,000
2014/15	Over spend £260,000
2013/14	Under spend £531,000

- 9.36 Council will be kept up to date with developments through the revenue and capital monitoring updates to Finance and Resources Committee, which will be provided throughout the coming financial year.

10. CONCLUSIONS

- 10.1 Despite the challenges the Council faces, its workforce continues to deliver high quality services to the people of Perth and Kinross on a daily basis and make a real difference to the lives of our residents. In common with all Scottish local authorities and the wider public sector, Perth & Kinross Council continues to anticipate a period of financial constraint due to growing costs at the same time as increased demand for services.
- 10.2 The cost-of-living crisis has given rise to significant financial pressure on the Council's Revenue Budget and the long-term impact upon service demand; service delivery and the Council's ability to generate and collect income will take some time to establish.
- 10.3 The wider economic situation and consequential impact on the cost of living will further exacerbate the financial and wider challenges the Council will experience over the short and medium term.
- 10.4 The Council continues to take proactive measures to enable it to address these challenges from a robust financial position and continues to develop and strengthen its arrangements for financial and resource management.
- 10.5 The implementation of the Transformation & Change Strategy will further support the Council's response. The Perth and Kinross Offer will underpin all that the Council does, based on an approach where it works together with its communities. Linked to this, is the approach to recovery and renewal, as well as ongoing response arrangements, because of the pandemic.
- 10.6 The Council remains committed to modernising and improving the efficiency of functions. This report reinforces the Council's commitment to the delivering the best possible services in the context of meeting challenging savings

targets which requires the engagement of the Council's workforce; Elected Members; Community Planning Partners and the communities which it serves.

Author(s)

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Approved

Name	Designation	Date
Thomas Glen	Chief Executive	22 February 2023
Karen Donaldson	Chief Operating Officer	
Stewart Mackenzie	Head of Finance	

1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

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

1. Strategic Implications

Corporate Plan

1.1 The Council's Corporate Plan 2022 – 2028 lays out seven 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:

- Tackling poverty
- Tackling climate change and supporting sustainable places
- Developing a resilient, stronger and greener local economy
- Enabling our children and young people to achieve their full potential
- Protecting and caring for our most vulnerable people
- Supporting and promoting physical and mental wellbeing
- Working in partnership with communities

1.2 This report relates to all these objectives.

2. Resource Implications

Financial

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

Workforce

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

Asset Management (land, property, IT)

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

3. Assessments

Equality Impact Assessment

- 2.4 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.
- 2.5 The information contained within this report has been considered under the Corporate Equalities Impact Assessment process (EqIA) and has been assessed as **not relevant** for the purposes of EqIA.

Strategic Environmental Assessment

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

Sustainability

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

4. Consultation

Internal

- 4.1 The Executive Leadership Team has 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 – 2023/24, 2024/25 & 2025/26 Provisional Revenue Budgets
- Appendix B – Executive Summaries
- Appendix C – 2023/24 Fees & Charges
- Appendix D – Budget Consultation Summary Report
- Appendix E – Summary of Council Cash Backed Reserves 31 March 2022 and Projected to 31 March 2023
- Appendix F – Projected General Fund Balance at 31 March 2023 (excl HRA)
- Appendix G – Summary of Earmarked Reserves at 31 March 2023
- Appendix H – Summary of the Projected Use of General Fund Revenue Balances 2023/24, 2024/25 & 2025/26