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Council Building
2 High Street
Perth
PH1 5PH

13/09/2021

A virtual meeting of **Audit Committee** will be held on **Monday, 20 September 2021** at **09:30**.

If you have any queries please contact Committee Services on (01738) 475000 or email Committee@pkc.gov.uk.

BARBARA RENTON
Interim Chief Executive

Those attending the meeting are requested to ensure that all notifications are silent on their device and other devices are in silent mode.

Please note that the meeting will be broadcast online and recorded. The recording will be publicly available on the Council's website following the meeting.

Members:

Councillor Eric Drysdale (Convener)
Councillor Stewart Donaldson (Vice-Convener)
Councillor Liz Barrett
Councillor Harry Coates
Councillor David Illingworth
Councillor Roz McCall
Councillor Xander McDade

Audit Committee

Monday, 20 September 2021

AGENDA

MEMBERS ARE REMINDED OF THEIR OBLIGATION TO DECLARE ANY FINANCIAL OR NON-FINANCIAL INTEREST WHICH THEY MAY HAVE IN ANY ITEM ON THIS AGENDA IN ACCORDANCE WITH THE COUNCILLORS' CODE OF CONDUCT.

- 1 WELCOME AND APOLOGIES**
- 2 DECLARATIONS OF INTEREST**
- 3 MINUTE OF SPECIAL MEETING OF AUDIT COMMITTEE OF 30 JUNE 2021 FOR APPROVAL** **5 - 10**
(copy herewith)
- 4 DRAFT AUDITED ANNUAL ACCOUNTS 2021/22 AND DRAFT ANNUAL AUDIT REPORT TO THE MEMBERS OF PERTH AND KINROSS COUNCIL AND THE CONTROLLER OF AUDIT FOR THE YEAR ENDED 31 MARCH 2021** **11 - 182**
Report by Head of Finance (copy herewith 21/164)
- 5 INTERNAL AUDIT ANNUAL REPORT & CHIEF INTERNAL AUDITOR'S OPINION 2020/21** **183 - 188**
Report by Chief Internal Auditor (copy herewith 21/165)
- 6 INTERNAL AUDIT FOLLOW UP** **189 - 194**
Report by Chief Internal Auditor (copy herewith 21/167)
- 7 INTERNAL AUDIT UPDATE** **195 - 200**
Report by Chief Internal Auditor (copy herewith 21/168)
- 8 PERTH AND KINROSS HEALTH AND SOCIAL CARE PARTNERSHIP**
- 8(i)(a) 20-03 - PROVIDERS SUSTAINABILITY PAYMENTS** **201 - 214**
(copy herewith G/21/78)

IT IS RECOMMENDED THAT THE PUBLIC AND PRESS SHOULD BE EXCLUDED DURING CONSIDERATION OF THE FOLLOWING ITEM(S) IN ORDER TO AVOID THE DISCLOSURE OF INFORMATION WHICH IS EXEMPT IN TERMS OF SCHEDULE 7A TO THE LOCAL GOVERNMENT (SCOTLAND) ACT 1973

- P1 MINUTE OF SPECIAL MEETING OF AUDIT COMMITTEE OF 30 JUNE 2021 FOR APPROVAL (P1 - PRIVATE ITEM)**

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AUDIT COMMITTEE

Minute of Special Meeting of the Audit Committee held virtually via Microsoft Teams on Wednesday 30 June 2021 at 09.00am.

Present: Councillors E Drysdale, S Donaldson, L Barrett, A Forbes (substituting for Councillor H Coates), D Illingworth and X McDade (from item 5).

In Attendance: L Simpson, S Mackenzie, J Beveridge, J Clark, S Crawford, S Walker, A O'Brien, L Ferguson, K Molley, A Brown, M Pasternak, L McGuigan and B Parker (all Corporate and Democratic Services); F Crofts (Housing and Environment); and J Cockburn (Education and Children's Services).

Also in Attendance: M Wilkie and C Windeatt (KPMG)

Apologies: Councillors H Coates and R McCall.

Councillor E Drysdale, Convener, Presiding.

The Convener led discussion on items 1-3, 5-6 and P1 and Vice-Convener on item 4 and 7.

1. WELCOME AND APOLOGIES/SUBSTITUTIONS

The Convener welcomed everyone to the meeting and apologies were noted above.

2. DECLARATIONS OF INTEREST

Councillor Donaldson declared a non-financial interest in the relevant business of the meeting in his capacity as a Director of Horsecross Arts Ltd.

3. MINUTE OF MEETING OF THE AUDIT COMMITTEE OF 21 JUNE 2021 FOR APPROVAL

The minute of meeting of the Audit Committee of 21 June 2021 was submitted and approved as a correct record.

4. PERTH AND KINROSS COUNCIL INTERIM MANAGEMENT REPORT AND AUDIT STATUS SUMMARY YEAR ENDING 31 MARCH 2021

There was submitted a report by the External Auditor, KPMG (20/119) presenting the Perth and Kinross Council Interim Management Report and Audit Status Summary for the year ending 31 March 2021.

M Wilkie, KPMG, gave a detailed summary of the report.

In response to a question from Councillor Illingworth regarding pensions managed from Dundee, value of assessments and value strategy, M Wilkie advised that this is not considered by Dundee because it focuses on liability within PKC's balance sheet and other assumptions that are specific to PKC.

These assumptions may be different to other employers, for example salary inflation or discount rates.

With regard to pensions, Councillor Donaldson suggested that it would be beneficial to get more information from Audit Scotland and actions taken by PWC, as there is a need for consistency across all local authorities. M Wilkie confirmed that the recommendation KPMG makes would enhance the Council's control environment, but it is unlikely that this would change the cost of our audit.

In response to a question from Councillor Forbes regarding the review of cost-of-service expenditure, C Windeatt advised that under normal circumstances, the Council have a process for reviewing every invoice over £75,000 but due to social restrictions that were introduced in March 2020, this control was temporarily paused. To ensure total assurance, KPMG tested the controls beneath this, and each invoice was monitored throughout this period instead. There were no issues raised that highlighted significant concern.

Councillor Donaldson thanked M Wilkie and C Windeatt for their attendance.

Resolved:

The Interim Management Report and the Audit Status Summary Year Ending 31 March 2020, be noted.

5. STRATEGIC RISK REGISTER

There was submitted a report by Head of Legal and Governance Services (21/110) providing assurance that the Council's Risk Management Framework is adequate and effective and to advise the Committee of the current key strategic risks facing the organisation and how those will be managed.

COUCILLOR MCDADE ENTERED THE MEETING DURING THIS ITEM.

In response to a question from Councillor Illingworth regarding PESTLE and SWOT exercises, L Simpson advised that PESTLE looks at the various subcategories of risk – political, economic, social, technological, legal, and environmental; and SWOT analysis focuses on strength, weaknesses, opportunities, and threats. These are both standard risk management tools.

In response to a question from Councillor Donaldson regarding if our risk register could be used to compare risks with other local authorities and the use of benchmarking, L Simpson advised that the Risk Management Strategy is compliant with good risk management practice and in line with ISO standards. L Simpson added that she would expect areas of commonality across local authorities in terms of key risks such as public protection, climate change, financial risk etc. The assessment and analysis of risks is however particular to the circumstances within each authority, their risk appetite so how they manage and mitigate risks will vary. Accordingly it would be difficult to benchmark in any meaningful way simply comparing risk registers. L Ferguson advised that in preparing the risk register we reviewed 16 out of 32

local authority risk registers and the strategic risks identified by PKC were similar to others.

In response to a question from Councillor Drysdale regarding the nature of 'increased' risk appetite and engagement with elected members, L Simpson advised that our tolerance and appetite for risk will vary depending upon the nature of the risk. She added that if the Council is to rethink how it designs and delivers its services and potentially devolves more control and responsibility to communities, then we will need to be prepared to tolerate greater risk; innovation by its very nature involves a degree of risk taking. She advised officers plan to do workshops with elected members to assess risk the appetite going forward.

In response to a question from Councillor Forbes regarding additional funding and if this could resolve the different areas of risk outlined in Appendix 1, L Simpson advised that additional funding and resources could help mitigate and manage some risks better, in some cases the cause of the risk is outwith the direct control or that effective management /mitigation is dependent upon change in behaviour/ culture etc. She added that if additional resource would better help us mitigate and manage any particular strategic risk, this could be considered as part of the budget process. Solutions to mitigate risk are constantly being assessed and reviewed.

In response to a question from Councillor L Barrett regarding the economic wellbeing strategic risk and the progress of the Economic Wellbeing Plan, L Simpson advised that the Strategic Risk Register is very high level and focuses on how the Economic Wellbeing Plan will be implemented. She added that there will be a risk register attached to the Economic Wellbeing Plan and there will be numerous detailed risk registers under several key strategic risks, which have been identified. These different registers will capture risks at various levels, where officers can control and mitigate. There will be operational, service, workstream and project risks that will feed into the strategic risk register.

In response to a question from Councillor Donaldson regarding the availability of the Strategic Risk Register and other service level registers, L Simpson advised that the Strategic Risk Register will be uploaded to the public portal and officers are looking at a new system which will allow for more accessible reporting and let the public see where different levels of risk are managed. She added that even if a risk is not identified on the Strategic Risk Register, it may still be actioned at Service Level. In response to a question from Councillor Donaldson regarding the event of Flooding in Perth and Kinross and where this would sit, F Crofts advised that there are well established procedures in place to deal with all types of weather events including flooding and other emergencies. These are listed in the Strategic Risk Register as well as the Communities Service Register.

Resolved:

- (i) Contents of Report 21/110, be considered and scrutinised.
- (ii) The current key strategic risks which have been identified through the application of the approved risk management process, be noted.

6. INTERNAL AUDIT STRATEGY & PLAN 2021/22

There was submitted a report by Chief Internal Auditor (21/111) presenting the strategy for the delivery of Internal Audit and the proposed approach for the direction of planned Internal Audit work for 2021/22.

In response to a question from Councillor L Barrett regarding recruitment and 60% time left for Audit planned activity, J Clark advised that the 2021/22 plan considers anticipated recourses for the year. This plan should meet the necessary deadlines, if staff are recruited to the necessary posts as planned. The figure of 60% considers training, mentoring and support, along with other planned activity which takes away from resources to individual assignments.

Members thanked J Clark and her team for all their efforts and hard work.

Resolved:

The strategy and plan for 2021/22 outlined in Report 21/222, be approved.

7. UNAUDITED DRAFT ANNUAL ACCOUNTS 2020/21

There was submitted a report by Head of Finance (21/112) presenting the Council's draft Unaudited Annual Accounts for the financial year 2020/21 in accordance with the Local Authority Accounts (Scotland) Regulations 2014.

In response to a question from Councillor L Barrett regarding a change in opinion by the Chief Internal Auditor since last year's accounts, J Clark confirmed that there has been no substantial change in opinion through recent years and there is reasonable reliance on the set arrangements.

In response to another question from Councillor L Barrett regarding a reduction in government grants and contributions in income and the impact of this, A O'Brien advised that last year £22.8m of housing benefit subsidy was included. Unfortunately, this figure had been missed for year 2020/21 and that's why a reduction is showing. The figure this year is £21.6m of housing benefit subsidy and the accounts will be rectified to show this. Therefore, the total government grants result to £49.6m, with creates around a £5m increase. She added that we have received additional funding from the Scottish Government regarding Early Learning and Childcare Expansion.

In response to a question from Councillor Donaldson regarding Public Private Partnerships and the contract at Pullar House which concludes at the end of 2025, S MacKenzie advised that the assets return to the owners at the end of the contract and therefore the Council will have three options in moving forward; to cease occupation of office accommodation and car park, negotiate the purchase, or renegotiate the lease. A decision will be made based on Council funding and future service delivery. In response to another question from Councillor Donaldson regarding material uncertainty under PFI on valuations, S Walker advised that Finance are working with colleagues in

property around valuations and internal reviews are ongoing. KPMG will be helping and scrutinising the work, to make sure balance sheets are up to date with the correct information.

S Walker advised that there are a couple of presentational changes to be made to the Unaudited Draft Annual Accounts 2020/21. An extra section on management commentary will be added regarding the treatment of grants, which is in line with best practice and gives the user more information. A slightly different version of the accounts will go to KPMG for audit and for signing, but no material changes have been made which effect the core financial statements.

Members thanked colleagues in Finance for the work and preparation of the draft annual accounts throughout these difficult circumstances.

Resolved:

- (i) The Head of Finance be authorised to sign the Unaudited Annual Accounts.
- (ii) It be noted that the unsigned Audited Annual Accounts will be considered by the Audit Committee on 20 September 2021.

IT WAS AGREED THAT THE PUBLIC AND PRESS SHOULD BE EXCLUDED DURING CONSIDERATION OF THE FOLLOWING ITEMS IN ORDER TO AVOID THE DISCLOSURE OF INFORMATION WHICH IS EXEMPT IN TERMS OF SCHEDULE 7A TO THE LOCAL GOVERNMENT (SCOTLAND) ACT 1973

P1. PROPERTY SERVICES

(a) Internal Audit Whistleblowing Report

There was submitted a report on a review undertaken by the Chief Internal Auditor (21/113) regarding a protected disclosure made by an employee to the Head of Legal and Governance Services/Monitoring Officer under the Public Interest Disclosure Act 1998. This review is in accordance with the Council's Whistleblowing Policy.

Resolved:

The contents of report 21/113, be noted.

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# **PERTH & KINROSS COUNCIL**

## **Audit Committee**

**20 September 2021**

### **DRAFT AUDITED ANNUAL ACCOUNTS 2020/21 AND DRAFT ANNUAL AUDIT REPORT TO THE MEMBERS OF PERTH & KINROSS COUNCIL AND THE CONTROLLER OF AUDIT FOR THE YEAR ENDED 31 MARCH 2021**

**Report by the Head of Finance (Report No. 21/164)**

#### **PURPOSE OF REPORT**

This report presents the Council's Draft Audited Annual Accounts for financial year 2020/21 in accordance with the Local Authority Accounts (Scotland) Regulations 2014. It also includes the Draft Annual Audit Report to the Members of Perth & Kinross Council and the Controller of Audit for the Year Ended 31 March 2021.

#### **1. BACKGROUND**

- 1.1. In line with legislative requirements, the Audit Committee considered the 2020/21 Unaudited Annual Accounts on 30 June 2021 (Report No. 21/112 refers).
- 1.2. The Unaudited Annual Accounts for 2020/21 were then submitted to KPMG, the Council's external auditors on 30 June 2021.
- 1.3. The Annual Accounts are prepared in accordance with the 2020/21 CIPFA Code of Practice on Local Authority Accounting ("the Code").
- 1.4. These accounts also comply with the Local Authority Accounts (Scotland) Regulations 2014 which revoked the Local Authority Accounts (Scotland) Regulations 1985.
- 1.5. The Unaudited Annual Accounts were available for public inspection between 1 July and 21 July 2021 (inclusive). During this period, KPMG received no objections to the draft Unaudited Annual Accounts.

#### **2. ANNUAL ACCOUNTS 2020/21**

- 2.1 The audit of the 2020/21 Annual Accounts took place between July and early September 2021. The audit considered not only the financial statements but also areas such as financial performance and corporate governance.
- 2.2 Three differences were identified during the audit, two have been adjusted (see page 38 of the External Audit report) and one was not (see page 39 of the External Audit report). All the adjustments were contained within either

the Income and Expenditure Account or the Balance Sheet and therefore had no impact on the level of resources available to the Council. In addition, there were a few presentational adjustments.

- 2.3 At this time, the 2020/21 Audited Annual Accounts remain unsigned. Approval of the Accounts at today's meeting will provide authorisation for the Leader of the Council, the Interim Chief Executive and the Head of Finance to sign them. The Draft Audited Accounts (unsigned) are attached to this report at Appendix A.
- 2.4 The Head of Finance will also sign the Letter of Representation included at Appendix B. Once signed, the Accounts and Letter of Representation will be passed to KPMG so that they may issue their opinion in the form of an audit certificate.
- 2.5 All signatures will be provided electronically using a system recognised by Audit Scotland that ensure the signings comply with the legislative requirements.

### **3. Draft Annual Audit Report to the Members of Perth & Kinross Council and the Controller of Audit for the Year Ended 31 March 2021**

- 3.1 The Draft Annual Audit Report to the Members of Perth & Kinross Council and the Controller of Audit for the year ended 31 March 2021 is set out at Appendix C (the Draft Audit Report). The Draft Audit Report sets out KPMG's opinions and conclusions on the overall audit and their findings to be reported under ISA260: Report to those Charged with Governance. The Draft Audit Report also includes the findings in relation to Perth & Kinross Charitable Trusts which were distributed separately to Trustees.
- 3.2 At the time of submission of this report, the audit work on the "Revaluation of Property, Plant and Equipment and Investment Property" was outstanding. It is anticipated that this work will be completed imminently, and KPMG will provide a verbal update at the meeting of the Audit Committee. This section is shown in italics on pages 9 and 10 of the External Audit Report.
- 3.3 The key messages from the 2020/21 audit are set out in the Audit Conclusions on page 5 of Appendix C and are summarised as follows:

#### **Audit Opinion**

- KPMG expect to issue an unqualified opinion on the truth and fairness of the state of the Council's affairs as at 31 March 2021.

#### **Financial Reporting Framework, Legislation and Other Reporting Requirements**

- The Annual Accounts have been prepared in accordance with the CIPFA Code and relevant legislation.

## Annual Accounts Preparation and Audit Readiness

- The Accounts were provided to KPMG on 30 June 2021. The Council's finance team continued to perform well in its delivery of high-quality annual accounts, particularly considering the operational impact of Covid-19.

## Statutory Reports

- There are no circumstances to notify the Controller of Audit that indicate a statutory report may be required.

## Other Communications

- There were no significant difficulties during the audit. There were no other significant matters that were discussed, or subject to correspondence with management that have not been included in the report.

## Audit Misstatements

- There were three misstatements identified through the audit (see paragraph 2.2 above), two were corrected and one was uncorrected.

## Written Representations

- The letter of representation will be amended to include additional representations on the treatment of Heritage Assets. There were no further representations to those that are standard as part of the audit.

- 3.4 It is anticipated that the final 2020/21 Annual Audit Report to the Members of Perth & Kinross Council and the Controller of Audit for the year ended 31 March 2021 will be issued by KPMG following completion of the final accounts process. It is further anticipated that the final Report and the signed Audited Annual Accounts for 2020/21 will be considered by the Council on 6 October 2021.

## **4. CONCLUSION AND RECOMMENDATIONS**

- 4.1 KPMG's findings on the 2020/21 Audit are set out in the Draft Annual Audit Report to the Members of Perth & Kinross Council and the Controller of Audit for the year ended 31 March 2021 which is attached Appendix C to this report.
- 4.2 It is recommended that the Committee:
- i. notes the contents of KPMG's Draft Annual Audit Report to the Members of Perth & Kinross Council and the Controller of Audit for the year ended 31 March 2021.

- ii. approves the 2020/21 Audited Annual Accounts and authorise the Leader of the Council, the Interim Chief Executive and the Head of Finance to sign them and also authorise the Head of Finance to sign the Letter of Representation.

**Author(s)**

| <b>Name</b>    | <b>Designation</b>           | <b>Contact Details</b>                                         |
|----------------|------------------------------|----------------------------------------------------------------|
| Scott Walker   | Chief Accountant             | <a href="mailto:chfinance@pkc.gov.uk">chfinance@pkc.gov.uk</a> |
| Alison O'Brien | Corporate Accounting Manager |                                                                |

**Approved**

| <b>Name</b>       | <b>Designation</b>      | <b>Date</b>       |
|-------------------|-------------------------|-------------------|
| Stewart Mackenzie | Head of Finance         | 10 September 2021 |
| Barbara Renton    | Interim Chief Executive | 10 September 2021 |

## ANNEX

### 1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

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

#### 1. Strategic Implications

##### 1.1. Corporate Plan

- 1.1.1. The Council's Corporate Plan 2018 – 2023 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 Interim Chief Executive and Executive Officer Team 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 – 2020/21 Audited Annual Accounts (unsigned)

Appendix B – Draft letter of representation (unsigned)

Appendix C – Draft Annual Audit Report to the Members of Perth & Kinross Council and the Controller of Audit for the year ended 31 March 2021







## **PERTH & KINROSS COUNCIL**

### **ANNUAL ACCOUNTS**

**2020/21**

**AUDITED**

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## MANAGEMENT COMMENTARY

### 1. Introduction

This publication contains the financial statements of Perth & Kinross Council and its group for the year ended 31 March 2021.

This management commentary outlines the key messages in relation to financial planning and performance for the year 2020/21 and how this has supported delivery of the Council's strategic objectives. This commentary also looks forward, outlining the future financial plans for the organisation and the challenges and risks which it will face as it strives to meet the needs of the people of Perth and Kinross.

A glossary of terms is set out from page 103.

### 2. Our Vision and Strategic Objectives

The Council is situated in a central location in Scotland. It covers a geographical area of around 5,286 km<sup>2</sup> and has an estimated population of 151,950. Over the 10 years (2009-2019), the area has experienced a 5.3% increase in its population. During the same time period the Scottish population experienced an increase of 4.4%. The latest population projections over the next 10 years show a 1% increase compared to 1.9% across Scotland.

The Council's vision is to *create a confident, ambitious and fairer Perth and Kinross, for all those who live and work here*. Through its five strategic objectives, set out within the Community Plan (Local Outcomes Improvement Plan) 2017-27 and Corporate Plan 2018-2022, the Council aims to maximise the opportunities available to our citizens to achieve their potential. At the heart of the vision is a desire to see investment in early intervention and prevention focused on building success and reducing the costs of failure.

The five Strategic Objectives which support the delivery of the Council's vision are:

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

The Corporate Plan does not stand alone. Rather, it forms part of a robust strategic framework that connects the vision of the Council and its partners to the detailed plans that guide the delivery of our services.

This framework ensures that all Council plans and strategies are driven by and focused towards the delivery of a single shared vision for the area and our services connecting everything we do by a "golden thread" leading from the Community Plan, to individual Services' Business Management and Improvement Plans, through to day to day service delivery by our people.



The recommendations of the Perth and Kinross Fairness Commission, which were endorsed by the Council in 2017, created a specific and collective focus on tackling the causes and consequences of poverty and inequality across the area and are still being progressed. The Council's commitment remains with the allocation of funding in the 2021/22 Revenue Budget approved in March 2021.

### 3. Covid-19

At the start of 2020/21, no-one could have imagined that Perth and Kinross would be at the start of a global pandemic that would impact so widely on the way that citizens live and work indefinitely. The economic and social impacts of Covid-19 and the pandemic response have undoubtedly been immense. The threat to lives and general health along with the restrictions and measures that have been taken to minimise transmission have been unprecedented.

The impact of Covid-19 on Perth and Kinross has been significant, and this will continue to be the case for some time to come. The Council has worked alongside communities and partners to support those affected and moving forward it needs to strengthen these relationships and ensure effective working is maintained. This will support and guide the Council as it builds on the Perth and Kinross Offer and the delivery of the 4 'E' workstreams of Equality, Education, Environment and Economy.

While this has been a uniquely difficult time, the Council recognised the need to support its residents and businesses across Perth and Kinross. It is a testament to the character and spirit of the people across the communities of Perth and Kinross that there are many positive stories and new ways of working together.

- an ability to come together in times of crisis.
- the willingness of volunteers to step up and help their communities.
- the flexibility of people to adapt to new and challenging environments.
- the kindness and understanding shown in personal sacrifices for the sake of community safety.



- the determination shown by front line staff, individuals and organisations to adapt and overcome the incredible challenges they faced in delivering vital support and services to people in need of help.

The following is a very brief snapshot of the Council's response in 2020/21 which was provided in addition to the continued delivery of essential services.

- Up to 4,937 vulnerable people were shielding across Perth and Kinross for a period of 18 weeks ranging from April to July 2020
- Approximately 3,500 food parcels were made up over the 18 week period, at a rate of approximately 195 a week and at an approximate cost of £87,000
- In the first lockdown period from March to August 2020, a total of 113 vulnerable children and 564 children of key workers attended hubs and other providers. From January to mid-February around 1,500 children attended school-based hubs, with all P1-P3 returning from 22 February 2021
- Free school meals were provided to over 3,700 children on a weekly basis throughout Perth and Kinross during the periods of remote learning
- Services for Children, Young People and Families continued to have contact with our most vulnerable children and young people throughout the pandemic
- Approximately 1,200 digital devices and data packages were provided to those children and young people who did not have access to one at home
- As of March 2021, the Council had also supported over 6,200 local businesses to receive grants totalling over £55.7 million
- With all construction sites closed and most architects furloughing their staff during lockdown there was a 30% reduction in the number of building warrant applications and an 80% reduction in the value of building works contracted, falling from £73.96 million to £14.73 million
- The closure of many recycling and waste processing facilities throughout Perth and Kinross, had an impact on community cleanliness, as fly-tipping emerged as an environmental concern
- Working with partners, 3 Community Vaccination Centres (CVCs) were established and set up, a month earlier than expected, with around 350 Council staff volunteering to support the programme
- There were 500+ shifts filled in CVCs in the first 2 week period, using Council and Live Active Leisure staff and volunteers
- Across Tayside, NHS Tayside's vaccination teams have now delivered more than 350,000 vaccines – with almost two thirds of Tayside adults having their first dose and more than a third completing the course with both jabs
- A Carer Sitting Service was established, with a team of re-tasked staff providing support to carers and the people they cared for
- A Carers Connect Online Event connected with over 80 Carers and delivered interactive workshops to improve wellbeing and resilience
- An Enhanced Outreach Model is enabling the Council to support over 30 individuals virtually and it is holding on average 17 interactive online sessions per week
- During our response, 563 employees were re-tasked away from their substantive Service to help essential frontline services support our community. Many hundreds more employees were moved within their own service to undertake new roles, again to provide essential services that supported the people of Perth & Kinross.

The Council received in the region of £100 million of additional funding from the Scottish Government to address the challenges of Covid-19. Much of this additional funding was for onward distribution to businesses and individuals.

In terms of the Council's Financial Statements these resources have either been treated as agent or principal. As an agent, the Council acts as an intermediary and therefore excludes these transactions from the Comprehensive Income and Expenditure Statement. Details are included in Note 15 with the main agency expenditure being in respect of business grants.

Where the Council acts as a principal, it is acting on its own behalf and therefore the transactions are included within the Comprehensive Income and Expenditure Statement. The Council received approximately £30 million through the Scottish Government Revenue Support Grant including around £15 million for general Covid-19 issues and loss of income. Further funding was provided for areas such as education recovery and school meals. There is significant funding carried forward for future commitments within the Council's earmarked Reserves to address ongoing challenges faced from the pandemic.

#### **4. The Annual Accounts 2020/21**

The Annual Accounts report the financial performance of the Council. Their main purpose is to demonstrate the stewardship of public funds which have been entrusted to it for the delivery of the Council's vision and strategic objectives. The requirements governing the format and content of the Council's Annual Accounts are contained in the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the 2020 Code). The 2020/21 Annual Accounts have been prepared in accordance with this Code.

#### **5. The Financial Plan**

To support the delivery of the strategic objectives during 2020/21, Perth & Kinross Council approved a balanced gross revenue budget of £471.235 million for the General Fund (March 2020). In addition, the Housing and Health Committee approved a gross revenue budget of £31.053 million for the Housing Revenue Account (January 2020). As part of its consistent approach to longer term financial planning, the Council has in place a Medium Term Financial Plan through to 2026/27, a Final Revenue Budget for 2021/22 and a Provisional Revenue Budget for 2022/23. The HRA Budget was also updated in February 2021.



Councils need to account for their spending and income in a way which complies with our legislative requirements. Most day to day spending and income is recorded within the General Fund and the costs and income in relation to the management of our housing stock are recorded within the Housing Revenue Account.

Key to the delivery of Council Services is investment in the assets which are used to deliver these services (including schools, houses and infrastructure) and the utilisation of capital funding to stimulate development and regeneration in local areas. In 2020/21, the Council originally budgeted Capital investment of £98.301 million on General Fund activities and £23.019 million in respect of the Housing Revenue Account. This expenditure is funded from prudential borrowing, government grants, external funding, capital receipts, revenue contributions and earmarked reserves. It is anticipated that the Council will consider an Investment Blueprint for Capital investment and updated Capital Budget at its meeting in October 2021.

## 6. Performance Management

In the year 2020/21 the Council has been operating in an extremely challenging environment as a result of the global Covid-19 pandemic; seeking to maintain key essential service provision at the same time as undertaking vital new operational tasks to support the management of the public health crisis. The requirement for the majority of staff and all elected members to work remotely from home has brought resources, systems, processes, tools and technology being deployed differently and innovatively to ensure that democratic decision-making has continued in an open and transparent manner, and that we have continued to provide and support the services that our communities need during this difficult year.

In light of the Covid-19 pandemic, the Council implemented effective and appropriate civil contingencies arrangements. These have ensured:

- a clear decision-making framework utilising emergency powers in accordance with the Council's Scheme of Administration;
- appropriate political oversight through an Elected Member Sounding Board comprising the leaders of all political groups, during the initial period of lockdown and through the operation virtually of Council and Committees; monthly meetings of the Council were put in place at the earliest opportunity to ensure wider elected member oversight;
- an effective operational command structure to deliver essential services and key activities to protect the health and wellbeing of our communities during this time;
- adequate and effective risk management at both a strategic and operational level of existing, new and emerging risks; and
- openness and transparency by the recording and public reporting of decisions taken by the Chief Executive in exercise of her emergency powers under the provisions of Section 15.5 of the Council's Scheme of Administration.

Through the provision of high quality professional and technical advice and expertise we have supported the organisation to make the best informed, risk based decisions and to develop and equip our workforce with the skills needed to design and deliver essential public services now and in the future. We provide the core services which maintain the Council's governance framework and make sure that we have an effective system of internal control.

Some examples of how we supported staff to adapt and continue to deliver services include:

- A re-tasking process was created along with Covid Responders with willing volunteers to retrain staff and manage deployment to areas with reduced staffing and service delivery demand during the pandemic;
- Rolled out hardware and software systems to an additional c3,000 staff to facilitate home working;
- Introduced 'How to recruit remotely' during 2020 and this has been operating effectively across the Council;
- Developed and rolled out guidance on how to manage remote teams in 2020 which will be further developed going forward to support hybrid working arrangements and new ways of working;
- Expanded wellbeing support for staff;
- Developed a Covid staff web site to communicate changes implemented to support the delivery of services during the pandemic; and
- Video messaging and best practice has been widely communicated to maintain awareness of practices and safe systems of work. A Health & Safety hotline was set up to manage escalation of issues.

### 2020/21 Performance Summary

It is anticipated that the Council's Annual Performance Report will be considered in due course providing comprehensive information on the Council's performance for 2020/21. The full range of performance information for 2020/21 will be available online. This includes the Council's Annual Performance Report, the online performance dashboard "PK Performs", Service level performance reports, benchmarking and links to further information. The website is updated with performance reports and data as it becomes available.

For 2020/21 a selection of performance outcomes are set out in the following table:

| Objective                                        | Outcome                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|--------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Giving every child the best start in life</b> | <ul style="list-style-type: none"> <li>• Staff adapted quickly to using new technology to ensure that statutory social work functions such as looked after reviews and child protection case conferences continued uninterrupted and that children, young people and families most at risk were prioritised, supported and cared for. Social workers have continued to see families face to face ensuring that 95-100% of children whose names were on the Child Protection Register were visited every week.</li> </ul> |



|                                                                  | <ul style="list-style-type: none"> <li>Delivered critical childcare for essential workers and vulnerable children throughout the year, and remote learning for all children and young people from March to June 2020. Managed the full time return to Early Learning &amp; Childcare (ELC), registered childcare and schools from August to December 2020, and the phased return to ELC, registered childcare and schools from 7th January 2021.</li> <li>Delivered 1200+ devices to children and young people at risk of digital exclusion when learning from home.</li> <li>Continued the expansion of Early Learning and Childcare provision to 1140 hours.</li> <li>Arranging the first ever virtual recruitment process for children's panel members across Tayside.</li> <li>During 2020/21, a total of 83 families with children presented as homeless to the Council. This represents a 40% reduction from the 139 applicants in 2019/20. The reduction in presentations from families is much larger than the overall reduction in presentations. This is likely to be due to the pandemic and in particular the restrictions around evictions from the private and social-rented sectors.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
|------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Objective                                                        | Outcome                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>Developing educated, responsible and informed citizens</b>    | <ul style="list-style-type: none"> <li>Maintained all Education and Children's Services functions and supported operational requirements for a safe and successful reopening of schools and other establishments through each phase of restrictions.</li> <li>Developed and implemented plans to support Home Learning and support a shift to digital learning approaches.</li> <li>Implemented the Alternative Certification Model for Scottish Qualification Authority qualifications, using a well-considered and planned approach and a robust quality assurance process.</li> <li>Educational attainment is generally good and steadily improving in line with Scotland. However challenges remain in narrowing poverty-related gaps, which is a key priority of the council's Raising Attainment Strategy.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           |
| Objective                                                        | Outcome                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |
| <b>Promoting a prosperous, sustainable and inclusive economy</b> | <ul style="list-style-type: none"> <li>The Council provided significant financial support, specifically, <ul style="list-style-type: none"> <li>Welfare Grants - £600,000</li> <li>Business Grants - £62.5 million (under agency arrangements)</li> <li>Financial Insecurity Fund - £250,000</li> <li>Free School Meals - £1.1 million</li> </ul> </li> <li>Over 1,000 local businesses responded to a Business Barometer survey in May 2020, and 80% reported a loss of income due to the pandemic. This is reflected in the fact that business owners accessed support available through a number of different agencies and support schemes, 63% of businesses accessed the Small Business Support Grant that we administered on behalf of the Scottish Government to over 6,200 local businesses.</li> <li>The Council approved its economic wellbeing plan, as a partnership approach, to support the recovery from the pandemic.</li> <li>As of December 2020, Perth City footfall, a key indicator for understanding economic activity in our main city centre, was down 19.4% upon the previous year.</li> <li>The Council provided guidance to premises licence holders with regard to the opening up of outside drinking areas and dealing with the many occasional licences being submitted to permit these outdoor areas.</li> <li>Government support schemes have so far prevented a substantial rise in unemployment. For Perth and Kinross, the cumulative number of claims for the UK Job Retention (furlough scheme) stands at 26,700 based on all claims received by HMRC between day one of the scheme and 15 March 2021. The number of people currently furloughed as of February 2021 was 12,100 which corresponds to an 18% take-up rate. At the peak of the furlough scheme last summer in August 2020, the take-up rate was 34% in Perth &amp; Kinross. This higher reliance on the Job Retention Scheme is primarily due to the level of exposure we have to the current crisis (tourism/hospitality and retail-dominant economy).</li> </ul> |

|                                                                        | <ul style="list-style-type: none"> <li>• The Creative Exchange was awarded regeneration project of the year (Scottish Property Awards).</li> <li>• The refurbishment of work in and around St Paul's Church was substantially completed in April 2021, creating a new public space for events and markets to increase footfall and support the economy, when Covid restrictions allow.</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
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| Objective                                                              | Outcome                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <b>Supporting people to lead independent, healthy and active lives</b> | <ul style="list-style-type: none"> <li>• The Council investigated 100% of all communicable diseases within 24 hours and responded to 88% of high level Covid restriction violations within 24 hours.</li> <li>• Provided the front-line contact centre service for public enquiries on Covid-19, shielding, self-isolation, test and protect, food and pharmacy referrals to partners.</li> <li>• Developed and worked collaboratively on the community support response including food distribution and welfare support for those in the greatest need.</li> <li>• Supported the set up and operation of community vaccination centres.</li> <li>• Gross Rent Arrears reduced by 2.38% in the year. We have invested in new software to support staff with targeted arrears monitoring and hope that the combined use of this software, along with a review of procedures will result in significant improvement in 2021/2022.</li> <li>• The Service User Review and Evaluation (SURE) team won a National Participation Award from the Tenant Participation Advisory Service for their work.</li> <li>• Housing completions across the affordable and private sectors are the highest recorded since 2008 meaning the 5-year housing target by 2021 has already been reached a year earlier than anticipated.</li> <li>• For information about the Health and Social Care Partnership, please see the Perth and Kinross Integration Joint Board Annual Accounts 2020/21 (Un-audited)</li> </ul>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
| Objective                                                              | Outcome                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
| <b>Creating a safe and sustainable place for future generations</b>    | <ul style="list-style-type: none"> <li>• The impact of Covid-19 saw a reduction in emissions from Council properties during 2020/21. The outturn saw a reduction of almost 2,000 tonnes of CO2 from Council properties reporting 10,129 tonnes.</li> <li>• 248 tonnes of waste material were diverted from landfill to reuse.</li> <li>• 85% of all Greenspace projects planned for the financial year of 2020/21 were completed and 100% of projects involved community engagement.</li> <li>• 93% of all faults on the traffic network were rectified within the target time which is an improvement from the previous year's performance by 11%.</li> <li>• During 2020/21 there has been an increase in the number of communities with local resilience plans to 35 across Perth and Kinross.</li> <li>• During the coronavirus outbreak Local Action Partnerships gave over £150,000 in grants to community groups responding to the hardships people faced.</li> <li>• During the period of lockdown over 1,000 people registered as volunteers with Perth and Kinross Council.</li> <li>• Public protection arrangements were strengthened to ensure that partners were able to work together to identify and manage new risks associated with Covid-19 restrictions.</li> <li>• Many organisations in Perth worked together to provide support for the most vulnerable during the lockdown period. Groups worked in partnership to set up places to access food throughout Perth city and provided a delivery and check-in service. Examples of specific activities include: <ul style="list-style-type: none"> <li>○ Letham4All received funding for a Community Fridge Project. The funding was used to purchase a larger refrigeration unit to store donated food from local businesses to support families in need of free or discounted food.</li> <li>○ National Christian Outreach Centre delivered 500 hot meals to elderly and vulnerable people living in the Perth area each week for 10 weeks.</li> <li>○ Perth Welfare Society received a grant to buy IT and telephone equipment to support people who were self-isolating or shielding. They supported people mostly from South</li> </ul> </li> </ul> |



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|  | <p>Asian backgrounds and were able to support people using Zoom in Urdu and Punjabi to apply for financial support, such as Universal credit.</p> <ul style="list-style-type: none"> <li>Logos received a small grant to fund a Zoom account so they could deliver their youth activity sessions virtually. This small grant has had a big impact on young people using the service in the Strathearn area and helped tackle social isolation during lockdown.</li> <li>FeldyRoo received funding initially to deliver hot meals to vulnerable people who were socially isolated in the Aberfeldy area. The service grew to deliver lunches, newspapers and evening meals to isolated members of the community during lockdown. The group delivered over 40,000 meals during this period.</li> </ul> |
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## 7. Financial Performance

Financial performance is part of the Council's performance management culture with regular reporting to elected members at both Council and the Strategic Policy & Resources Committee as well as regular briefings. This section summarises the main elements for 2020/21.

The Expenditure and Funding Analysis brings local authority performance reported on the basis of expenditure measured under proper accounting practices together with statutorily defined charges to the General Fund and Housing Revenue Account. Both the Comprehensive Income and Expenditure Statement and the Expenditure and Funding Analysis include a segmental analysis which requires Councils to report performance on the basis of how they are structured and how they operate, monitor and manage financial performance.

The 2020 Code requires that Councils present the segmental analysis on the basis of the organisational structure under which they operate. Additionally, the Code requires that if a local authority changes the presentation or classification of items in its financial statements, the authority shall reclassify comparative amounts unless reclassification is impracticable. The prior year figures in the Comprehensive Income and Expenditure Statement, Expenditure and Funding Analysis and Group Comprehensive Income and Expenditure Statement have been restated to reflect the transfer of the planning function in 2020/21 from Communities to Corporate and Democratic Services.

Although the Expenditure and Funding Analysis reflects the main variances, for operational reporting the Council's Comprehensive Income and Expenditure reflects proper accounting practice. The Comprehensive Income and Expenditure Statement movements are not directly comparable with the movements in the Expenditure and Funding analysis.

### a) *General Fund Revenue Expenditure for 2020/21*

In 2020/21 the Council incurred actual net expenditure on Services of £369.294 million (which is the Cost of Services disclosed in the Comprehensive Income and Expenditure Statement on page 25). When Taxation and Non-Specific Grant Income, Financing and Investment Income and Expenditure and Other Operating Income and Expenditure are included there was a net Surplus on the Provision of Services of £4.843 million.

The Expenditure and Funding Analysis information on pages 41 and 42 sets out adjustments between the net Surplus on the Provision of Services of £4.843 million included in the Comprehensive Income and Expenditure Statement and the net expenditure (surplus) charged to the General Fund & HRA in the table below of £21.336 million. The adjustments of £16.076 million represent the difference between the net expenditure of the Council that is chargeable to taxation and rents and the figures reported in the Comprehensive Income and Expenditure Account. The surplus in the Expenditure and Funding Analysis is set out in the way in which the Council organises itself and manages and reports on financial performance.

The following table sets out adjustments to the most recently approved Revenue Budget to ensure that budget and actual figures are comparable. These include the Public Finance Initiative, external income and capital accounting adjustments. On a comparable basis the table shows a net under spend of £25.193 million which is explained in further detail.

|                                                                                         | Updated<br>Budget Per<br>Revenue<br>Monitoring<br>Report No.4 | Virements       | Capital<br>Accounting<br>Adjustments | Revised<br>Budget | Net Expend. Charged<br>to the General Fund &<br>HRA Balances per<br>Expend. & Funding<br>Analysis | Variance        |
|-----------------------------------------------------------------------------------------|---------------------------------------------------------------|-----------------|--------------------------------------|-------------------|---------------------------------------------------------------------------------------------------|-----------------|
|                                                                                         | £ '000                                                        | £ '000          | £ '000                               | £ '000            | £ '000                                                                                            | £ '000          |
| <b>SERVICES</b>                                                                         |                                                               |                 |                                      |                   |                                                                                                   |                 |
| Education & Children's Services                                                         | 197,094                                                       | (14,393)        | (12,594)                             | 170,107           | 161,025                                                                                           | (9,082)         |
| Health & Social Care                                                                    | 60,622                                                        | 74              | 0                                    | 60,696            | 60,475                                                                                            | (221)           |
| Communities                                                                             | 71,184                                                        | (5,672)         | (2,637)                              | 62,875            | 61,578                                                                                            | (1,297)         |
| Corporate & Democratic Services                                                         | 47,651                                                        | 2,725           | 0                                    | 50,376            | 39,016                                                                                            | (11,360)        |
| Housing Revenue Account                                                                 | 0                                                             | (9,452)         | 0                                    | (9,452)           | (9,452)                                                                                           | 0               |
| Valuation Joint Board                                                                   | 1,297                                                         | 0               | 0                                    | 1,297             | 1,308                                                                                             | 11              |
| Non Distributed Costs                                                                   | 1,595                                                         | 0               | 0                                    | 1,595             | 1,561                                                                                             | (34)            |
| <b>NET COST OF SERVICES</b>                                                             | <b>379,443</b>                                                | <b>(26,718)</b> | <b>(15,231)</b>                      | <b>337,494</b>    | <b>315,511</b>                                                                                    | <b>(21,983)</b> |
| Taxation & Non-Specific Grant                                                           | (390,667)                                                     | 16,642          | 0                                    | (374,025)         | (373,046)                                                                                         | 979             |
| Finance / Investment / Other                                                            | 7,167                                                         | 10,076          | 15,231                               | 32,474            | 36,616                                                                                            | 4,142           |
| <b>Use of General Fund per<br/>Comprehensive Income &amp; Expenditure<br/>Statement</b> | <b>(4,057)</b>                                                | <b>0</b>        | <b>0</b>                             | <b>(4,057)</b>    | <b>(20,919)</b>                                                                                   | <b>(16,862)</b> |
| Contributions from other Reserves                                                       | 200                                                           | 0               | 0                                    | 200               | (4,274)                                                                                           | (4,474)         |
| <b>Use of General Fund Balances</b>                                                     | <b>(3,857)</b>                                                | <b>0</b>        | <b>0</b>                             | <b>(3,857)</b>    | <b>(25,193)</b>                                                                                   | <b>(21,336)</b> |

The contribution to the general fund of £25.193 million which is made up of additional income and service underspends, is comparable with the revenue monitoring positions that have regularly been presented to the Strategic Policy and Resources Committee throughout the financial year. The Contribution to the General Fund is larger than previous years due to the receipt of significant funding from the Scottish Government in late March 2021. This additional income will be carried forward in earmarked Reserves to support the Council's ongoing response to Covid-19. The following section provides a more detailed explanation of the final year end outturns.

**Education & Children's Services** delivered net under spends / additional income of **£9.1m**. The main reasons for this are -

- In respect of the Devolved School Management (DSM) Scheme there was an under spend (**£1.5m**) reflecting savings on staff costs (teachers and support staff) (£900,000), property costs, supplies & services (educational materials), transport costs (£600,000). These resources will be carried forward by schools into 2021/22.
- In 2020/21 schools were awarded Pupil Equity Funding direct from the Scottish Government to contribute towards raising attainment (£1.7m). Expenditure from this Fund is incurred by academic year rather than financial year. On that basis the under spend (**£800,000**) has been earmarked within Reserves to be utilised by schools in 2021/22.
- In terms of non-DSM budgets there were further over and under spends as follows:
  - Staff under spends were delivered across the whole Service (**£2.6m**) which reflects ongoing recruitment issues in certain professions.
  - There was a net under spend on property costs (**£400,000**). A non-domestic rates refund (£400,000), property works (£200,000) and miscellaneous other costs (£100,000) were partially offset by increased cleaning in response to Covid-19.
  - The Council received funding towards the expansion of early years in advance of when the expenditure would be incurred (**£2.0m**). The majority of this funding will be carried forward in an earmarked Reserve and drawn down when required.
  - Significant grant funding to support education recovery was also received in 2020/21 (**£4.4m**).
  - Due to restrictions, there was a significant under recovery on income across a range of chargeable services (**£2.5m**) including school lets, kids' clubs, music tuition and school meals.
  - Other net over and under spends across the Service provided further net costs (**£100,000**) including third party payments and home to school transport.

**Health and Social Care** delivered an under spend of **£200,000** from within the non-delegated areas of social care in 2020/21. The Strategic Policy & Resources Committee had previously agreed that any under spends on delegated social care functions would be carried forward by Perth and Kinross Integration Joint Board to support activity in 2021/22. Full details of this can be found in the Perth and Kinross Integration Joint Board 2020/21 Unaudited Annual Accounts.

**Communities** delivered an under spend of **£1.3m**, which is made up of over and under spends as follows:

- Within Roads there was an over spend (**£500,000**). This was due, in the main, to an over spend on winter maintenance, partially offset by under spends across the rest of the function.
- Property delivered a net under spend (**£2.0m**) due to savings across energy and utilities, property maintenance and the unitary charge.
- Across the remainder of the Service, there was a further net over spend (**£200,000**).

**Corporate & Democratic Services** contributed additional income of **£11.4m** as follows.

- The Council received £7 million of non-specific grant funding from the Scottish Government to support the Council's response to Covid-19. This additional income either supported activity in 2020/21 or will be carried forward to future financial years.
- Around £4 million of additional grant funding was provided by the Scottish Government to support activities administered by Corporate & Democratic Services. This additional funding included grants for local businesses, taxi driver support as well as financial insecurity. Much of this additional funding will be carried forward in Reserves to provide further support in 2021/22 and beyond.

In addition, **Taxation and Non-Specific Grant** achieved additional income (**£0.8m**), primarily in relation to second homes / long term empty properties.

**Finance / Investment & Other** delivered a planned and approved under spend (**£4.1m**) which was primarily the consequence of Council approved decisions to adjust budgets to support the Covid-19 response in future years.

General Fund and Housing Revenue Account Balances increased by £25.193 million to £75.489 million in line with the budget adjustments approved throughout the year by the Strategic Policy and Resources Committee, the receipt of significant additional funding from the Scottish Government and following the application of final outturns. When the Housing Revenue Account Balance of £3.006 million and the earmarked Reserves of £64.283 million that are set out on page 44 are excluded this leaves an uncommitted General Fund Balance of £8.200 million or 2% of the net 2021/22 Revenue Budget.

#### **b) Composite Capital Budget and Housing Revenue Account Investment Programme 2020/21**

A summary of the Council's capital expenditure is reflected within Note 35 to the Core Financial Statements on page 68. Total gross capital expenditure in 2020/21 was £57.737 million, comprising £19.850 million on the Council's Housing Revenue Account (HRA) and £37.887 million on the Council's Composite (General Fund) Programme. As a result of the Covid-19 pandemic and lock down measures, many projects were impacted, particularly construction works, in the first half of the financial year. The Council's gross expenditure includes:

- £10.775 million on school upgrades, including various new projects under the Early Learning & Childcare programme, and a further £993,000 on the development of the replacement of Perth High School.
- £11.856 million on Roads & Transport projects, including structural maintenance, road safety measures and the further development of the Perth Transport Futures project.
- £15.256 million on other works, including cultural attractions (£1.811 million); flood protection measures (£853,000); placemaking projects (£755,000); planning schemes (£849,000); and property & infrastructure upgrades (£3.923 million). The balance of £7.065 million relates to expenditure on various waste initiatives, greenspace, property, equipment, vehicles, and IT related works.
- £19.850 million on the HRA including affordable housing new builds & buy backs (£16.377 million), central heating and rewiring (£1.560 million), and energy efficiency schemes (£554,000).

Capital expenditure is funded by borrowing, asset sales, grants, other capital receipts, and Revenue Budget contributions. The Capital Financing Requirement (CFR, i.e., the underlying requirement to borrow for capital purposes) as at 31 March 2021 was £596.919 million. Actual capital debt was £665.913 million, comprising long-term borrowing (£533.700 million) and a PPP liability (£132.213 million). The ratio of borrowing to the CFR for 2020/21 has reduced to 111.6% (2019/20 116.2%). During the year the CFR increased by £13.257 million, reflecting the capital expenditure above, less capital receipts, grants and contributions and principal loan repayments whilst the ratio to borrowing reduced as a consequence of no new borrowing being undertaken in the year.

#### **c) General Fund Reserves**

As at 31 March 2021 the Council had uncommitted General Fund balances of £8.200 million which represented 2% of the Council's 2021/22 Revenue Budget approved in March 2021. Council policy, as set out in the Reserves Strategy approved by Council on 10 March 2021, is to retain uncommitted reserves of between 2% and 4% of net revenue expenditure over the medium term. However, as part of the response to Covid-19, in approving the Reserves Strategy in

March 2021, the Council agreed to divert all unearmarked Reserves in excess of 2% to an earmarked Reserve to support the Covid-19 recovery. The earmarked Reserves at 31 March 2021 also include additional funding from the Scottish Government that was provided during 2020/21, including significant amounts that were provided in late March 2021. The Council's Reserves Strategy will continue to be reviewed and updates will be considered by Council as part of revenue monitoring. Full details of the Council's General Fund Reserves are shown on page 24 and page 65 of the Financial Statements, along with information on future commitments.

The Reserves position is summarised as follows:

|                              | £'000            |                                          | £'000            |
|------------------------------|------------------|------------------------------------------|------------------|
| General Fund                 | (72,483)         | Revaluation Reserve                      | (317,769)        |
| Housing Revenue Account      | (3,006)          | Capital Adjustments Account              | (353,777)        |
| Capital Fund                 | (27,944)         | Financial Instruments Adjustment Account | 18,376           |
| Insurance Fund               | (2,392)          | Pensions Reserve                         | 105,334          |
| Capital Statutory Funds      | (2,529)          | Employee Statutory Adjustment Account    | 7,813            |
| Capital Grants Unapplied     | (2,730)          |                                          |                  |
| <b>TOTAL USABLE RESERVES</b> | <b>(111,084)</b> | <b>TOTAL UNUSABLE RESERVES</b>           | <b>(540,023)</b> |
|                              |                  |                                          |                  |
|                              |                  | <b>TOTAL RESERVES</b>                    | <b>(651,107)</b> |

### *The Balance Sheet*

The Balance Sheet on page 26 summarises the Council's assets and liabilities as at 31 March 2021 and explanatory notes are provided from page 29. Total net assets have increased by £93.432 million to £651.107 million. Long Term Assets increased by £112.040 million, current assets decreased by £4.408 million, current liabilities increased by £47.923 million and long term liabilities decreased by £33.723 million. The major changes in the Council's Balance Sheet between 31 March 2020 and 31 March 2021 are explained in more detail in the following paragraphs.

#### *Long Term Assets*

The value of Property, Plant and Equipment increased by £44.187 million primarily due to the continuation of the major capital investment being undertaken by the Council described above. Long term investments of £45.115 million were held at the year end (2019/20 nil) in order to maximise returns at a time of positive cashflows and in a low interest environment. There was also an increase in the value of Heritage Assets of £24.007 million following a revaluation of assets held.

#### *Current Assets*

The level of Short Term Investments increased by £22.182 million whilst there was a decrease of £40.390 million in the level of Cash or Cash Equivalents. This was as a result of a large proportion cash being moved into Short and Long Term Investments according to liquidity requirements. Short term debtors increased during the year by £13.745 million due to an increase in the receivables from the Scottish Government, Central Government, Council Tax, Trade Debtors and Other Entities; this being slightly offset by a decrease in receivables from NHS Bodies.

#### *Current Liabilities*

Short Term Borrowing increased by £38.960 million as a result of anticipated increased cashflow requirements arising over the year end period at favourable interest rates. Short Term Creditors increased by £9.725 million primarily due to higher amounts payable to the Scottish Government, Central Government and Other Local Authorities.

#### *Long Term Liabilities*

Other Long Term Liabilities decreased by £21.118 million primarily due to a decrease in the net pension liability of £16.098 million and a decrease in the liability for public private partnerships of £4.974 million in line with the contract remaining. Also within Long Term Liabilities is a decrease in Long Term Borrowing of £12.515 million due to repayment of existing liabilities at maturity and with no additional long term borrowing undertaken during the year.

The Council's annual Treasury Management Strategy outlines the Council's policy in relation to borrowing and investment. This is prepared in accordance with the Code of Practice on Treasury Management in Local Authorities. The majority of the Council's borrowing comes from the Public Works Loan Board and market loans. Further details are provided at Note 39.

#### *Pensions Reserve*

International Accounting Standard 19 Revised (IAS19R) requires the disclosure of the Council's share of Tayside Pension Fund's assets and liabilities, both current and future. The information disclosed in the accounts is provided to the Council by the Pension Fund's actuaries following the tri-annual valuation of the Fund. The position at 31 March 2021 indicates a net liability of £105.334 million compared to a net pension liability of £121.432 million on 31 March 2020 due to changes in the assumptions. This liability is based on a snapshot valuation at 31 March 2021 and is a result of prevailing market conditions at that date. Triennial valuations of the Fund are carried out with the last valuation having taken place at 31 March 2020. Employer's contributions are currently 17% of pensionable pay. For more information see Note 18.



### Provisions, Contingencies and Write Offs

The Council made provision for a number of eventualities which may have an effect on the financial position of the Council. The reasons for the provisions are outlined in Note 30 on page 64.

There were a number of write-offs of debt and stock during the year which were approved by the Strategic Policy & Resources Committee on 2 June 2021 – Authority to Write Off Debts and Obsolete Stock.

### d) Accounting Ratios

The following financial indicators have been developed to provide an indication of the sustainability and affordability of the Council's financial plans.

| FINANCIAL INDICATOR                                                                 | 2020/21   | 2019/20   | PURPOSE                                                                                                                            |
|-------------------------------------------------------------------------------------|-----------|-----------|------------------------------------------------------------------------------------------------------------------------------------|
| Uncommitted General Fund Reserve as a proportion of Annual Budgeted Net Expenditure | 2.0%      | 3.7%      | Reflects the level of funding available to manage financial risk / unplanned expenditure.                                          |
| Movement in the Uncommitted General Fund Balance                                    | £25.193m  | £1.855m   | Reflects the extent to which the Council has increased its Uncommitted General Fund Reserve including unspent covid grant funding. |
| Council Tax – In Year Collection Rate                                               | 96.6%     | 97.1%     | Demonstrates the Council's effectiveness in collecting council tax debt.                                                           |
| Ratio of Council Tax Income to Overall Level of Funding                             | 22.0%     | 23.4%     | This reflects the Council's capacity to vary expenditure by raising Council Tax Income.                                            |
| Capital Financing Requirement                                                       | £596.919m | £583.662m | Measurement of requirement to borrow for capital purposes.                                                                         |
| External Debt Levels                                                                | £665.913m | £678.415m | Actual borrowing for capital investment purposes.                                                                                  |
| Capital Financing Requirement Ratio                                                 | 111.6%    | 116.2%    | Measurement of prudence in relation to borrowing levels – borrowing only to invest in capital.                                     |
| Ratio of Financing Costs to Net Revenue Stream                                      | 6.2%      | 6.1%      | Measurement of the Council's ability to fund borrowing costs.                                                                      |

### e) Financial Statements

The primary financial statements presented within the Annual Accounts are as follows:

- The **Movement in Reserves Statement** reports movements on the different Reserves held by the Council analysed into Usable Reserves (i.e. those that can be applied to fund expenditure or reduce local taxation) and Unusable Reserves.
- The **Comprehensive Income and Expenditure Statement** reports the accounting cost of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Councils raise taxation to cover expenditure in accordance with regulations which may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.
- The **Balance Sheet** brings together all the assets and liabilities of the Council. It is a statement of the resources of the Council and the means by which they have been financed. It is also a report on the Council's financial position at a particular point in time and represents a snapshot of its financial affairs at the close of the year expressed in accounting terms.
- The **Cash Flow Statement** summarises the inflows and outflows of cash and cash equivalents arising from transactions with third parties on both day to day revenue transactions and capital activities. Cash is defined for the purpose of this statement as cash in hand and deposits repayable on demand less overdrafts repayable on demand. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with an insignificant risk of change in value.

The Code also requires the following to be included within the Annual Accounts:

- The **Statement of Responsibilities for the Annual Accounts** explains the responsibilities of the Council and of the Head of Finance as they relate to the Annual Accounts.
- The **Notes to the Financial Statements** provide further information on the above financial statements.

- The Notes include an **Expenditure and Funding Analysis** which compares the net expenditure that is chargeable to taxation and rents and reconciles it to the Comprehensive Income and Expenditure Account. The service analysis for both the Expenditure and Funding Analysis and the Comprehensive Income and Expenditure Statement are now both provided in the way in which the Council organises itself and manages financial performance.
- The **Annual Governance Statement** explains how the Council has complied with the Chartered Institute of Public Finance and Accountancy (CIPFA) / Society of Local Authority Chief Executives (SOLACE) standard for good corporate governance and meets the requirements of relevant legislation and current good practice.
- The **Remuneration Report** provides details of the Council's remuneration of its senior councillors and senior officers with regard to salary, taxable expenses and pension benefits and states how remuneration arrangements are managed. The report also provides information on exit packages agreed by the Council during the financial year.

#### Supplementary Financial Statements

The supplementary financial statements are as follows:

- The **Housing Revenue Account** shows the major elements of housing revenue account expenditure and how these are funded by rents and other income.
- The **Council Tax Income Account** reports the gross and net income from Council Tax, together with details of the number of properties on which Council Tax is levied, and the charge per property.
- The **Non-Domestic Rates Income Account** shows the gross and net income from non-domestic rates and details the amount payable to the national non domestic pool, and resulting net income for the financial year to the Council that is shown in the Comprehensive Income and Expenditure Statement.
- The **Charitable Trusts** statement includes the summary Income and Expenditure Account and Balance Sheet of those Charitable Trusts and Endowments administered by the Council.
- The **Common Good** statement includes the summary Income and Expenditure Account and Balance Sheet for the Common Good Funds administered by the Council.
- The **Group Accounts** incorporate the share of the Council's Managed Funds, Subsidiaries and Associates into the Group Movement in Reserves Statement, Group Comprehensive Income and Expenditure Statement, Group Balance Sheet, Group Cash Flow Statement and include the Reconciliation of the Single Entity (Council) Surplus or Deficit for the year to the Group Surplus or Deficit.

#### **8. Financial Outlook, Risks and Plans for the Future**

Covid-19 is a worldwide pandemic, which has affected every single person in one way or another. The Scottish and UK Governments' guidance with regard to responding to the Pandemic, including the imposed lockdown measures has also had an impact on all citizens, whether they are a business owner, an employee, a consumer, a carer, a parent or a child.

More than a year on from its start, the Covid-19 pandemic continues to exact a heavy toll in lives and livelihoods. Around the world, more than 100 million people have had the virus and around 2½ million have died from it, and world Gross Domestic Product (GDP) fell by 3½ per cent in 2020 as governments imposed public health restrictions in an attempt to control the virus. The UK has been hit particularly hard. Following a resurgence of infections over the winter, around 1 in 5 people have so far contracted the virus, 1 in 150 have been hospitalised, and 1 in 550 have died, the fourth highest mortality rate in the world. And GDP fell 9.9 per cent in 2020, the largest decline in the G7. While output partially recovered in the second half of last year – and somewhat more strongly than previously thought – the latest lockdown and temporary disruption to EU-UK trade at the turn of the year is expected to result in output falling again in the first quarter of this year.

The collapse in economic activity was very sudden and economies will take time to recover. Recent commentary has suggested that Scotland's economy may not return to pre Covid-19 levels until early 2024.

As well as the impact of Covid-19 there also remains ongoing uncertainty on the impact of Brexit. These factors make it very difficult to forecast the financial outlook for the public sector.

This uncertainty further exacerbates the pressures which continue to face public sector expenditure at a UK and Scottish level with further reductions in government funding predicted over the medium term as well as increasing demand for Council services. The impact of this on the Council will be considered in the updates of the Medium-Term Financial Plan and Revenue & Capital Budgets and factored into future projections.

The Council approved its latest Medium Term Financial Plan 2021 - 2027 in September 2020. This Plan provided an update on the latest projections for the Council across a number of variables including reductions in funding, population growth and an increase in the number of clients (both young and old people) with more complex care needs. In February 2021 the Scottish Government announced a one year financial settlement for local government that was more favourable than the planning assumptions used in the Medium Term Financial Plan due to the provision of extra revenue funding. The Medium Term Financial Plan reflects sound financial planning by the Council and is critical for the sustainability of key services and the financial stability of the Council. The Council's Reserves Strategy is another key element of its financial planning. It is anticipated that the updated Medium Term Financial Plan will be considered by the Council in Autumn 2021.

The Council continues to take appropriate action to address the challenging financial climate and the reductions in funding that are anticipated to continue over the next few years. These reductions may be further exacerbated as the UK and Scottish Governments reign in spending following Covid-19. This is underpinned by the regular updating of the Medium Term Financial Plan and by the availability of good quality financial information.

In March 2021 the Council approved a two-year Revenue Budget – final for 2021/22 and provisional for 2022/23. There is still significant uncertainty around the level and conditions associated with the funding that the Council will receive beyond 2021/22 and this may have a significant impact on the final Revenue Budgets for future years.

The Council plans to ensure that it has robust governance measures and strong financial management to evidence its ability to continue as a going concern.

### ***Transformation***

The Council continues to work in an environment of reducing revenue funding and increasing demand for services which requires an ongoing commitment to working in new and innovative ways. Into the future, the population of Perth and Kinross is expected to increase bringing additional pressures for the Council to meet the changing requirements, as will the repercussions of the Covid-19 pandemic.

The Council welcomes new ways of working together with its Community Planning partners, with its communities and with the business and voluntary sectors in its area. It will jointly face the challenges whilst remaining focussed on building a better place to live, work and visit, and protecting the most vulnerable in our communities. This is especially relevant as the Council commences the renewal and recovery phases of its response to Covid-19. Going forward, transformation will continue to be embedded into the day to day operation of Council services.

### ***Perth & Kinross Offer***

The Perth & Kinross Offer was launched in 2019 and was based around the premise that it believes “everyone has something to offer”. The Council has been engaging with partners, communities, employees, businesses and people to understand how it can create more equal partnerships, redefine relationships and form new ways of working throughout Perth and Kinross.

Since the Covid-19 pandemic began in March 2020, there have been very real examples of the offer in action as the Council came together with local communities, and public, private and third sector organisations to respond to the ever-changing landscape and the impact of the virus on its communities and people has been the Council's priority. Responding more flexibly and efficiently than ever before to ensure that essential services continued and working with its community groups, volunteers, businesses and partners to ensure the most vulnerable in society are protected and safe has been paramount. All of the support, commitment and partnership working has allowed the stakeholders to see the Offer already in place.

As the Council continues with the Recovery & Renewal process, it now has an unprecedented opportunity to build an even better Perth and Kinross, moving into the future. The Perth & Kinross Offer is key to this approach and recovery is very much focused on those parts of the community that are hardest hit and will be based around four priority areas of Equalities, Empowerment and Fairness, Education & Learning, Economy and Environment and to support this, a working smarter project.

The Council will continue to engage with everyone who lives, works, visits and invests in Perth and Kinross to understand what matters to them and how the pandemic has impacted upon them. This will allow the Council to co-create the conditions and opportunities for everyone in Perth and Kinross to move forward positively and Live Life Well.

### ***Capital***

The Council approved a revised 9-year Composite Capital Budget for 2020/21 – 2028/29 on 31 March 2021. The Housing & Communities Committee approved the HRA Capital Budget for 2021/20 - 2025/26 on 3 February 2021, which was also updated by the Council on 31 March 2021. The Council will consider a new Composite (General Fund) Capital Budget later this year.

The Council's Composite Capital Budget includes major transport infrastructure improvements, including the Perth Transport Futures project to create a third crossing over the River Tay. Significant investment in improvements to existing infrastructure is also included within the Capital Budget, particularly within annual rolling programmes and road network improvements. Also included is the completion of various school refurbishments under the Early Learning & Childcare programme, along with the replacement of the existing Perth High School and North Muirton and Balhousie Primary Schools. There is further investment included in relation to new technologies such as a replacement for the existing SWIFT social work database and significant investment in the Microsoft Estate, as well as the upgrading and replacement of school audio visual equipment. Other expenditure is planned in relation to various flood protection schemes, the development of Perth City Centre cultural attractions, parks and public spaces improvements, waste reduction and recycling and property improvements.

The HRA Investment Programme 2021/22 to 2025/26 continues to focus upon the provision of new affordable housing and the enhancement of the existing housing stock, including energy efficiency and external fabric maintenance.

The Capital Financing Requirement is estimated to peak at £935,970,000 in 2028/29 under current approved plans. The annual cost of servicing the borrowing and PPP liabilities is being managed through the Capital Fund Strategy within the Medium-Term Financial Plan. This ensures the Council's plan remains affordable, prudent, and sustainable.



## **Risk Management**

Effective risk management is an essential element of good governance and integral to the Council's ability to deliver positive outcomes for its communities.

The Council undertook a wholesale review of its approach to risk and developed and approved a new risk Management Framework in 2017. Since then it has been reviewed and further refined to ensure that it remains fit for purpose and reflects the complex risk landscape of local government in these changing and challenging times.

The risk management framework has been developed based on best practice industry standards including the International Standard in Risk Management – ISO: 31000 and the Office of Governance & Commerce (OGC) Management of Risk Guidance (MoR) and guidance from the Association of Local Authority Risk Managers, (ALARM) and comprises:

- Risk Management Policy - statement of the Council's commitment to effective risk management;
- Risk Management Strategy – articulates our overall approach to risk and provides a detailed risk hierarchy;
- Risk Management Appetite Statement – describes the levels of risk the Council is prepared to tolerate in pursuit of our objectives; and
- Risk Management Process Guide - provides a toolkit of techniques and processes to ensure that risk is managed effectively and that our approach to risk management is consistent across the organisation.

Within the Council there is a cross Service cohort of trained risk practitioners who provide technical guidance and support to ensure that a consistent approach to risk management is taken across the whole organisation. Extensive work has been further undertaken throughout 2020/21 to embed the risk management framework to ensure that risk management activities are integrated with key business process and aligned to the delivery of the Council's objectives and defined outcomes. Strategic and operational risks are regularly monitored and reported in accordance with the principles of the framework.

The framework has also been implemented effectively to manage the Council's response to the Covid-19 pandemic.

## **Workforce Management**

The Council values its employees, their skills, dedication and passion to ensure it delivers essential services to the people, businesses and communities of Perth and Kinross. Our people continue to be our most important asset and remain at the heart of everything we do. The Corporate Workforce Plan (2021-2023), together with the Medium-Term Financial Plan, Organisational Development Plan, Digital Strategy and Health and Wellbeing Plan set the direction for our internal recovery from the pandemic and highlight how our workforce needs to develop, within available resources, to ensure our people are prepared and resilient to deliver our future goals and aspirations.

The Council's purpose, values, culture and ethos to transform services and deliver efficiencies to prepare for the future are pivotal. Investment in building the capability and capacity in the workforce through learning and development opportunities, boosting productivity, encouraging innovation and creativity, embracing agility, digital technology and promoting wellbeing and resilience continue to be key to our future plans. These commitments will enable it to match its ambition for transforming services, growing the economy, reducing inequalities, protecting vulnerable people and supporting young people to be all they can be.

Financial pressures, changing priorities and demand for Council services continue to inform the Council with a focus on multi-disciplinary teams, integrated working and more locality-based decision-making. The Council in recognition of the inter-connectedness of workforce, digital and use of property are taking a proactive approach in working with communities, its partners and other stakeholders to deliver and prepare for new influences to ensure our workforce supports the delivery of the Perth and Kinross Offer. Some of the enabling project underway is to work smarter, being more flexible about when we work, where we work and how we use space and technology to find new and more effective ways of doing things.

The Council's workforce management strategy gives a strong basis for developing the workforce of the future helping us create the conditions to meet the future workforce, financial and demographic challenges and requirements of the organisation. Adopting a more effective and consistent approach to workforce management, leadership development, talent management will enable us to provide versatile people solutions to support the future strategic direction of the organisation. We continue to invest in training and development opportunities for young people via Apprenticeship and Graduate Programmes. A focus on health and wellbeing and resilience are key to sustaining a healthy working environment and positive wellbeing culture and we continue to offer a wide range of health and wellbeing initiatives and support to our workforce. The Council is proud to be a Fair Work employer and continues to consult and engage with employees and their trade union representatives on improvements in our employment practices and arrangements. Equalities and fairness will continue to be core principles in its workforce strategy. This will ensure we have the right skills in the right place when we need them and will contribute to building an even better Perth and Kinross working together to ensure everyone can live life well.

## **9. Supplementary Information**

### **(a) Group Accounts**

The Code of Practice on Local Authority Accounting in the United Kingdom requires the Council to produce group financial statements where it has an interest in entities that meet the definition of subsidiary, associate or joint venture.



The Group results are presented alongside the results for the Council in the Annual Accounts. Further details of the associated entities that have been incorporated into the financial statements can be found on page 93.

The Council has an interest in six organisations (detailed on page 93) that do not form part of the main Accounts. The Council includes the results of these organisations in its Group Accounts due to the significant influence it has over their financial and operating practices. The Council also includes Charitable Trusts administered and controlled by the Council and Common Good Funds as managed funds within the Group Accounts.

In accordance with the Code, the 2020/21 Group Accounts Statements are included on pages 88 to 92. The basis for consolidation is set out in the Notes to the Group Accounts Statements on pages 93 to 95. The effect of consolidation is to increase the Council's net assets by £15.483 million resulting in a Group Balance Sheet showing net assets of £666.590 million at 31 March 2021 as set out on page 90. This position reflects the Council's share of the pension liabilities of the Associate included within the Group Balance Sheet.

#### **(b) Common Good and Charitable Trust Funds**

Common Good Funds are administered by the local authority for the general benefit of the relevant communities. Overall, the Common Good Funds recorded an in-year surplus of £127,000 which, when applied to the surplus brought forward, results in an accumulated revenue surplus as at 31 March 2021 of £1.952 million.

Details of income and expenditure accounts and balance sheets can be found on pages 86 and 87 of the Annual Accounts. These funds are subject to similar accounting policies and procedures to those that are applied to the Council's main accounts. The main source of income to Common Good Funds is rent.

The Council also administers several Charitable Trust Funds. Details of income and expenditure accounts and balance sheets can be found on page 85 of these Annual Accounts. Overall, the Trust Funds recorded an in-year surplus of £435,000 which, when applied to the surplus brought forward, results in an accumulated surplus as at 31 March 2021 of £2.942 million.

Perth & Kinross Council's Trust Funds, for which the Council is the sole trustee, also have to prepare their own Trustees' Annual Report and this is separately available on the Council website.

#### **(c) Public Private Partnerships / Design Build Finance Maintain**

In September 2000 the Council entered into a 25-year PPP contract for the construction, maintenance and operation of office accommodation and a car park. In 2020/21 the Council paid £2.768 million to the contractor under the terms of the contract.

Between 2009 and 2012 six school campuses were also brought into operation at Blairgowrie, Glenearn, Loch Leven, Strathearn, North Inch and Breadalbane. The contractor's obligation was to construct the schools and is to maintain them to a pre agreed standard. In 2020/21 the Council paid £17.445 million to the contractor under the terms of the contract. In addition, in 2020/21, the Council paid £3.056 million in relation to Bertha Park High School.

### **10. Conclusion**

The Council has continued to demonstrate sound financial management in 2020/21 by delivering services and responding to Covid-19 with the resources which are available to it. The pressures being experienced by Services in relation to demand are known and plans are in place to mitigate them. They have also been reflected in the medium and long term financial plans.

The Council will face many challenges in the future from the combined effect of reduced resources; increasing demands and expectations for our services. It is confident that by working more creatively with all its residents and partners, it will not only embrace these challenges but will maintain its performance and service delivery.

### **11. Acknowledgements**

As in previous years, we would like to acknowledge the significant work of the finance teams in producing the Annual Accounts and thank colleagues across the Council for their continuing support.

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Barbara Renton  
Interim Chief Executive  
Perth & Kinross Council

Date:

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Councillor Murray Lyle  
Leader of the Council  
Perth & Kinross Council

Date:

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Stewart MacKenzie  
Head of Finance  
Perth & Kinross Council

Date:

## **ANNUAL GOVERNANCE STATEMENT 2020/21**

### **1 Introduction**

- 1.1 Good governance is key to the success of Perth & Kinross Council. It supports better informed decision-making, the efficient use and management of our resources, high quality performance, greater scrutiny and accountability, resulting in better outcomes for the communities we serve.
- 1.2 The purpose of the Annual Governance Statement is to give assurance to the people of Perth & Kinross, our elected members, staff, partner agencies and other stakeholders that our governance arrangements are effective, and our system of internal control is robust.
- 1.3 In the year 2020/21 the Council has been operating in an extremely challenging environment due to the global Covid-19 pandemic; seeking to maintain key essential service provision at the same time as undertaking vital new operational tasks to support the management of the public health crisis. The requirement for most staff and all elected members to work remotely from home has brought with it both risks and opportunities in terms of governance with resources, systems, processes, tools and technology being deployed differently and innovatively. This is to ensure that democratic decision-making has continued in an open and transparent manner and that we have continued to provide the services that our communities need during this difficult year.

### **2 Scope of Responsibility**

- 2.1 As a public body, the Council must always act in the public interest. It must behave with integrity, conduct its business in accordance with the rule of the law and demonstrate a strong commitment to ethical values. We must demonstrate and ensure that public money is used economically, efficiently, and effectively to deliver sustainable outcomes for the people of Perth & Kinross.
- 2.2 The Local Government in Scotland Act 2003 also places a specific duty on the Council to make arrangements to secure best value and ensure continuous improvement in terms of the services it delivers to our communities.
- 2.3 A comprehensive and robust governance framework is integral to the Council's ability to discharge these responsibilities and deliver good outcomes. The Annual Governance Statement seeks to provide assurance that our governance framework is appropriate, adequate and effective in enabling the Council to deliver good outcomes and manage risk.
- 2.4 As well as providing assurance as to the effectiveness of the governance arrangements in place for the Council, this Annual Governance Statement also covers the six organisations that are included in the Council's Group Accounts.
- Live Active Leisure Limited (subsidiary)
  - Horsecross Arts Limited (subsidiary)
  - Culture Perth & Kinross Limited (subsidiary)
  - Tayside Valuation Joint Board (associate)
  - Tayside Contracts (associate)
  - Perth & Kinross Integration Joint Board (joint venture)

### **3 The purpose of the Governance Framework**

- 3.1 Our governance framework comprises our culture and values and the rules, resources, systems and processes designed to help us achieve our strategic objectives and provide good quality services in the most cost-effective way possible. A crucial part of the framework is the system of internal control which is designed to manage and mitigate risk in relation to the achievement of our intended outcomes.
- 3.2 The Council manages risk through a continuous process of identification, assessment, evaluation, prioritisation, and mitigation. We evaluate risk based on likelihood and impact in both financial and non-financial terms. We do however need to mitigate and manage risk proportionately; recognising that risk can never be eliminated completely and that only reasonable assurance can ever be given.
- 3.3 The purpose of the governance framework, therefore, is to ensure that we are using our resources effectively to deliver good outcomes for our communities and to provide assurance that we are indeed doing the right things, for the right people, at the right time, in an open, ethical and accountable way.

### **4 Our Governance Framework**

- 4.1 We recognise that the following are fundamental elements of good governance within public sector organisations: -
- Leadership, Culture & Values
  - Vision, Direction & Purpose
  - Stakeholder Engagement
  - Organisational Development
  - Effective Decision Making
  - Internal Controls

- Scrutiny & Accountability

4.2 These fundamental elements of our governance framework reflect and seek to embed the principles of good governance within the International Framework: Delivering Good Governance in the Public Sector developed by CIPFA and the International Federation of Accountants, now incorporated into the 2016 CIPFA Framework for Delivering Good Governance in Local Government, namely:

- Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law
- Defining outcomes in terms of sustainable economic, social and environmental benefits
- Ensuring openness and comprehensive stakeholder engagement
- Developing the entity's capacity, including the capability of its leadership and the individuals within it
- Determining the interventions necessary to optimise the achievement of the intended outcomes
- Managing risks and performance through robust internal control and strong public financial management
- Implementing good practices in transparency, reporting and audit to deliver effective accountability

4.3 Our governance arrangements are underpinned by the fundamental principles and the requirements of legislation and legislative best practice. They can be summarised as follows:

- Our vision is the achievement of the shared priorities and intended outcomes for the citizens of Perth & Kinross defined in our Local Outcome Improvement Plan and our Corporate Plan. This together with the work being done in developing the Perth & Kinross Offer, our Revenue Budget for 2020/21, our Capital Programme and the work being undertaken on our Strategic Investment Blueprint, our Housing Investment Programme, and other strategic documents; provide the necessary direction to the organisation to enable it to deliver on its vision and achieve its purpose.
- There is effective communication between Members and Senior Management through Leaders Meetings, Convenors meetings, Member Officer Working Groups and all-member briefings where appropriate. There are also regular pre-agenda discussions in respect of each scheduled Council and Committee meeting.
- There are effective arrangements in place for the discharge of the following functions:
  - Head of Paid Service
  - Monitoring Officer
  - Chief Finance Officer
  - Chief Social Work Officer
  - Data Protection Officer
- Our culture and values are reflected in everything we do as an organisation. They are determined by our decision-making and behaviours and are reflected in our key corporate and community documents and strategies, our governance documents, Elected Member and Employee Codes of Conduct, Whistleblowing and anti-fraud and corruption policies, Elected Member Register of Interests, Gifts & Hospitality Policy and in our processes and procedures. These ensure that as a Council we respect the rule of law, behave with integrity, promote a culture of good governance and demonstrate a strong commitment to ethical values.
- We recognise the importance of good stakeholder engagement in redesigning and reshaping public services and we will continue to actively engage and work in partnership with our communities, partners and other stakeholders as part of the Perth & Kinross Offer to ensure that we design and deliver the public services that our communities need and value. The Council has a strategy for engaging with communities and has agreed a Statement of Intent with its Community Planning Partners to support a co-ordinated approach to community engagement. Our approach to consultations is based on the National Standards for Community Engagement and we have established a wide range of consultation processes and procedures. The Community Empowerment (S) Act 2015 provides a framework for improving the quality of engagement and participation which will be reflected in our Local Outcome Improvement Plan.
- We recognise that in an increasingly complex and financially challenging public sector landscape we must be able to adapt and evolve our services and workforce to continue delivering cost efficient, high quality services. Our people remain our most valuable asset and as an organisation we will secure the best outcomes for our communities by investing in the development of our workforce and of our leaders to ensure that they have the right skills and have sufficient capacity to deliver. Our approach is outlined in our Corporate Workforce Plan – Developing Talent and our “Learn, Innovate Grow” philosophy is embedded across the organisation to create a highly motivated, skilled and agile workforce. There is a programme of leadership development in place for our managers and an induction programme for elected members. An ongoing training programme will be developed in consultation with members to ensure that it meets their needs going forward.
- The Council's Scheme of Administration sets out the role of committees in decision-making and the delegated decision-making powers of individual officers. The committees, boards, and panels we have established ensure proper democratic engagement and provide an appropriate mechanism for effective decision making and accountability. As a local authority, the extent of our decision-making powers is determined by statute and regulation. Our report template is designed to ensure that legal and financial checks are carried out before a report is presented for decision. It also provides that appropriate internal and external consultations and where relevant, options appraisals, ensure that decision makers are appropriately informed to determine the best course of action in the circumstances.

- The Council has developed and implemented a suite of policies, procedures and management processes to ensure that there are appropriate internal controls in place in respect of: -
  - Workforce Management
  - Financial management
  - Officer/Member relations
  - Performance Management
  - Change & Improvement
  - Workforce Planning
  - Risk Management
  - Procurement
  - Major Investment Project Management
  - Health & Safety
  - Information Management
  - Information Security
  - Civil Contingencies & Business Continuity
  - Anti- Fraud & Corruption
  - Conflicts of interests
  - Gifts & Hospitality
  - Whistleblowing and reporting concerns
  - Complaints handling
  - Funding External bodies/Arm's Length External Organisations
- As a public body we must be open, transparent and accountable for our decisions, actions and performance. Our management and democratic structures and processes are designed to facilitate effective decision making and the proper scrutiny of those decisions and their impact in terms of performance and the achievement of our intended outcomes.
- Given the high level of uncertainty, the Council has set a budget for the year 2021/22 with a provisional budget for 2022/23 (which was part of the three-year budget set in 2020). Each budget is allocated to a named budget holder. Budgets are monitored regularly by Service Management Teams and overall financial performance is monitored regularly by the Executive Officer Team. The Council has received additional financial reporting during the year to help manage the uncertainty and additional financial pressures faced by the Council in responding to the Covid-19 pandemic. The Strategic Policy & Resources Committee receives regular financial monitoring information as part of the budgetary control framework and provides the required political scrutiny of our financial management and performance.
- Capital expenditure is monitored by Senior Management through the Strategic Investment & Improvement Board and reported regularly to the Executive Officer Team and the Strategic Policy & Resources Committee as part of the budgetary control framework. The Capital Programme Office monitors project milestones.
- The service planning process ensures that Services meet the needs of customers, and that targets for quality improvements are set and monitored. Individual Business Management & Improvement Plans set out detailed actions and outcomes for each Service and include performance indicators. Service performance is reported regularly to the Executive Officer Team and publicly through the Council's themed committees and the Scrutiny Committee. Financial performance is publicly reported through the Strategic Policy & Resources Committee and relevant service committees.
- The Council publishes an Annual Performance Report on its performance against the objectives set out within the Corporate Plan and Local Outcome Improvement Plan.
- The Council has a published process for dealing with the following and annually reports on performance in this respect of these areas: -
  - complaints from members of the public
  - requests for access information under the Freedom of Information legislation
  - access information under the Data Protection legislation

## 5 Covid-19 Pandemic Governance Arrangements

- 5.1 In light of the Covid-19 pandemic, the Council implemented effective and appropriate civil contingencies arrangements. These have ensured: -
- a clear decision-making framework utilising emergency powers in accordance with the Council's Scheme of Administration
  - appropriate political oversight through an Elected Member Sounding Board comprising the leaders of all political groups, during the initial period of lockdown, and through the operation, virtually, of Council and Committees
  - an effective operational command structure to deliver essential services and key activities to protect the health and wellbeing of our communities during this time



- adequate and effective risk management at both a strategic and operational level of existing, new and emerging risks
  - openness and transparency by the recording and public reporting of decisions taken by the Chief Executive in exercise of her emergency powers under the provisions of Section 15.5 of the Council's Scheme of Administration
- 5.2 Opportunities to further enhance and improve the internal controls to support the delivery of better outcomes for our communities have been recognised during this period. It is understood, however, that whilst improvement actions can be identified, the focus of the Council has been on maintaining essential services and managing the response and the recovery work that have been required to minimise the impact of Covid-19 on the communities of Perth and Kinross.
- 5.3 Planning has continued for recovery and renewal in line with the published Scottish Government framework and a key part of this will be ensuring appropriate governance arrangements are in place. These have been flexible to respond to the changing environment during the year to ensure a proportionate response to the impact of the pandemic on our communities and our workforce.

## **6 Governance Assurance Process**

- 6.1 The Council utilises a robust process of gathering assurance information from Service Management Teams which concludes with Certificates of Assurance being signed by each Director and the Chief Operating Officer.
- 6.2 In keeping with advice from CIPFA, assurance has been gained from Service Management Teams that governance during the implementation and operation of these contingency measures was subject to adequate and effective controls.
- 6.3 Corporate assurance has also been provided as regards the adequacy of the internal controls from the following Officers:
- Chief Finance Officer (Section 95 Officer)
  - Head of Legal & Governance Services/Monitoring Officer
  - Chief Internal Auditor
  - Corporate Procurement Manager
  - Information Compliance Manager
  - Senior Human Resources Manager
  - Corporate Strategic Policy & Organisational Development Manager
- 6.4 For Arm's Length External Organisations, reliance has been placed upon:
- unaudited financial statements of the companies (audited accounts will be scrutinised when available)
  - assurance self-assessment evaluations
  - terms and conditions of Service Level Agreements
  - contract monitoring meetings with Services
  - performance information and financial monitoring reports to Services
  - presentations to the Scrutiny Committee
- 6.5 For Tayside Contracts Joint Committee and Tayside Valuation Joint Board, reliance has been placed upon each organisation's own Annual Governance Statement.
- 6.6 For Perth & Kinross Integration Joint Board, reliance has been placed on their own Annual Governance Statement.
- 6.7 The draft Annual Governance Statement is considered by the Executive Officer Team and the Council's Scrutiny Committee prior to inclusion within the final draft Annual Accounts.
- 6.8 The Annual Governance Statement is considered by the Audit Committee as part of the Annual Accounts.

## **7 Prior Years' Governance Statements: Improvement update**

- 7.1 The following areas have been identified for further review and/or improvement: -
- Communication and engagement
  - Performance management
  - Community empowerment
  - Information governance
  - Workforce planning
  - Arm's Length External Organisations
  - Integration Joint Board – relationship governance
- 7.2 Given that services have and continue to be focussed on the response to the Covid-19 pandemic, improvement activity has been delayed and progress in these areas will continue to be scrutinised by Service Management Teams and the appropriate Council Committees as and when possible.

## 8 Effectiveness of Governance Arrangements for 2020/21

- 8.1 Based on the assurance process outlined above, in terms of effectiveness, the Council's governance arrangements continue to be regarded as fit for purpose in accordance with the governance framework, subject to the areas identified for review or improvement set out in sections 7 and 10.
- 8.2 Our financial management arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2015). Financial risks arising from the continuing response to the Covid-19 pandemic are highlighted and managed through our effective processes, with regular reporting to elected members.
- 8.3 Our assurance arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010).
- 8.4 The Council has designated the Head of Legal & Governance Services as the Senior Information Risk Owner with the Head of Corporate IT and Revenues as Depute. Our information security measures have been reviewed in 2020/21 to ensure continuing compliance with the Public Service Network (PSN) requirements.
- 8.5 The Chief Internal Auditor is the Council's nominated Money Laundering Reporting Officer. There has been no relevant activity in respect of the Council and its group during the year.
- 8.6 We have structures in place which support constructive challenge and effective scrutiny to our system of internal control and our broader governance arrangements. In particular: -
- Scrutiny Committee
  - Strategic Policy & Resources Committee
  - Audit Committee
  - Themed Committees
  - Executive Officer Team
  - Corporate Management Group
  - Strategic Improvement & Investment Board
  - Policy & Governance Group
  - External Audit (presently KPMG)
- 8.7 Where it has been necessary to suspend Committees, any urgent business has been considered by more frequent meetings of Perth & Kinross Council.
- 8.8 In addition, the Council has implemented and reviewed temporary arrangements for the Covid-19 pandemic with appropriate governance arrangements throughout the year.

## 9 Opinion of the Chief Internal Auditor

- 9.1 Audit activity and performance will be detailed in the Annual Report by the Chief Internal Auditor for the year 2020/21 when it is presented to the Council's Audit Committee. The draft report contains the Chief Internal Auditor's opinion in respect of the effectiveness of the governance arrangements in place, as follows: -

***"In the Chief Internal Auditor's opinion, reasonable reliance can be placed on the Council's risk management and governance arrangements, and systems of internal control for 2020/21, subject to management implementation of the agreed actions detailed in Internal Audit reports."***

## 10 Areas for review/continued improvement action

- 10.1 The Council's identified priorities for the foreseeable future are on recovery and renewal from, and any further response necessary to, the Covid-19 pandemic and its consequences for the people, communities, organisations and businesses in the area. This will include the adoption of sound governance arrangements appropriate to the circumstances.
- 10.2 The last year has demonstrated our reliance on technology and the way in which technology can shape and influence how we deliver services and work as an organisation in the future. It is essential therefore that we continue to monitor, review and improve our cyber resilience and data management as part of recovery and renewal activity in the coming year.
- 10.3 Areas previously identified as requiring ongoing monitoring/review or further improvement action will continue to be scrutinised by Service Management Teams and the relevant Council Committees as and when appropriate.
- 10.4 In addition to these areas, there are some specific areas which will be held under review:
- Leadership capacity within Perth & Kinross because of changes within the management structure
  - Ongoing development of the Perth & Kinross Offer
  - Resourcing risks and opportunities arising from recovery from the Covid-19 pandemic
  - Working with the Integration Joint Board to ensure that there is appropriate leadership capacity and corporate support to ensure the delivery of the Board's strategic objectives.

## **STATEMENT**

The Council is legally required to review the effectiveness of its governance arrangements and to publish an Annual Governance Statement, with its Annual Accounts. The Council's Governance Framework is considered robust and effective. During 2020/21 arrangements were implemented to take account of the Covid-19 pandemic. These contingency arrangements continue to operate and therefore it has not been possible to undertake the usual comprehensive review of our corporate governance arrangements. In accordance with guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA) however, the Council has reviewed the effectiveness of the existing governance framework and in particular, the internal controls.

The review of the effectiveness of the Council's system of internal control and overall governance framework has been informed by different sources assessing risk and providing assurance: -

- Executive Officer Team
- Service Management Teams
- Chief Finance Officer
- Monitoring Officer
- Chief Internal Auditor / Internal Audit
- Policy & Governance Group
- External Audit
- External Agencies and Inspectorates.

The Chief Internal Auditor has provided assurance for the year 2020/21 and an Internal Audit plan will be developed for 2021/22 that will focus on areas which have been identified as corporate or service specific risks in relation to core business and any additional risks which have arisen as a result of the Covid-19 pandemic.

Each Director, who has responsibility within the Scheme of Delegation for the development and maintenance of the system of internal control, has reviewed the current governance arrangements and internal controls within their service area and provided assurance that these are effective.

The Chief Finance Officer has provided assurance that the financial arrangements in place conform to the relevant CIPFA requirements and that our expenditure is lawful. The Monitoring Officer has provided assurance that our governance arrangements ensure compliance with relevant laws, regulations, internal policies and procedures.

We are satisfied that our governance arrangements and in particular, our system of internal control, continue to be regarded as fit for purpose in accordance with the governance framework; any identified improvement actions will continue to be delivered through existing improvement plans and change programmes to avoid duplication of effort.

We have been reassured by the way in which this Council has adapted to the challenges presented by the Covid-19 pandemic. Our governance framework and understanding of key risks have not only ensured that essential services have been maintained but that innovative arrangements could be implemented to meet new and emerging needs as these arose. As we move from emergency response measures to supporting our communities to recover from the impact of Covid-19, our governance framework will continue to be reviewed and adapted where necessary to ensure that it remains robust and effective.

Signed:

Signed:

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Barbara Renton  
Interim Chief Executive  
Date:

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Councillor Murray Lyle  
Leader of the Council  
Date:

# **Independent auditor's report to the members of Perth and Kinross Council and the Accounts Commission**

## **Reporting on the audit of the financial statements**

### **Opinion on financial statements**

We certify that we have audited the financial statements in the annual accounts of Perth and Kinross Council and its group for the year ended 31 March 2021 under Part VII of the Local Government (Scotland) Act 1973. The financial statements comprise the group and council-only Comprehensive Income and Expenditure Statements, Movement in Reserves Statements, Balance Sheets, and Cash Flow Statements, the council-only Housing Revenue Account Income and Expenditure Statement, the Statement of Movements on the Housing Revenue Account Balance, the Council Tax Income Account, and the Non Domestic Rate Account, the Charitable Trusts Income and Expenditure Account, the Charitable Trusts Balance Sheet, the Common Good Income and Expenditure Account, the Common Good Balance Sheet and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and International Financial Reporting Standards (IFRSs) as adopted by the European Union, and as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 (the 2020/21 Code).

In our opinion the accompanying financial statements:

- give a true and fair view in accordance with applicable law and the 2020/21 Code of the state of affairs of the council and its group as at 31 March 2021 and of the income and expenditure of the council and its group for the year then ended;
- have been properly prepared in accordance with IFRSs as adopted by the European Union, as interpreted and adapted by the 2020/21 Code; and
- have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

### **Basis for opinion**

We conducted our audit in accordance with applicable law and International Standards on Auditing (UK) (ISAs (UK)), as required by the Code of Audit Practice approved by the Accounts Commission for Scotland. Our responsibilities under those standards are further described in the auditor's responsibilities for the audit of the financial statements section of our report. We were appointed by the Accounts Commission on 31 May 2016. The period of total uninterrupted appointment is five years. We are independent of the council and its group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK including the Financial Reporting Council's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. Non-audit services prohibited by the Ethical Standard were not provided to the council. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Conclusions relating to going concern basis of accounting**

We have concluded that the use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the council's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from when the financial statements are authorised for issue.

### **Risks of material misstatement**

We report in a separate Annual Audit Report, available from the Audit Scotland website, the most significant assessed risks of material misstatement that we identified and our judgements thereon.

### **Responsibilities of the Head of Finance and Perth and Kinross Council for the financial statements**

As explained more fully in the Statement of Responsibilities, the Head of Finance is responsible for the preparation of financial statements that give a true and fair view in accordance with the financial reporting framework, and for such internal control as the Head of Finance determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.



## **Independent auditor's report to the members of Perth and Kinross Council and the Accounts Commission (continued)**

In preparing the financial statements, the Head of Finance is responsible for assessing the council's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless deemed inappropriate.

The council is responsible for overseeing the financial reporting process.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities outlined above to detect material misstatements in respect of irregularities, including fraud. Procedures include:

- obtaining an understanding of the applicable legal and regulatory framework and how the council is complying with that framework;
- identifying which laws and regulations are significant in the context of the council;
- assessing the susceptibility of the financial statements to material misstatement, including how fraud might occur; and
- considering whether the audit team collectively has the appropriate competence and capabilities to identify or recognise non-compliance with laws and regulations.

The extent to which our procedures are capable of detecting irregularities, including fraud, is affected by the inherent difficulty in detecting irregularities, the effectiveness of the council's controls, and the nature, timing and extent of the audit procedures performed.

Irregularities that result from fraud are inherently more difficult to detect than irregularities that result from error as fraud may involve collusion, intentional omissions, misrepresentations, or the override of internal control. The capability of the audit to detect fraud and other irregularities depends on factors such as the skilfulness of the perpetrator, the frequency and extent of manipulation, the degree of collusion involved, the relative size of individual amounts manipulated, and the seniority of those individuals involved.

A further description of the auditor's responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Reporting on other requirements**

#### **Opinion prescribed by the Accounts Commission on the audited part of the Remuneration Report**

We have audited the part of the Remuneration Report described as audited. In our opinion, the audited part of the Remuneration Report has been properly prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.

### **Statutory other information**

The Head of Finance is responsible for the statutory other information in the annual accounts. The statutory other information comprises the Management Commentary, Annual Governance Statement, Statement of Responsibilities, and the unaudited part of the Remuneration Report.

Our responsibility is to read all the statutory other information and, in doing so, consider whether the statutory other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, We are required to determine whether this gives rise to a material misstatement in the financial statements themselves. If, based on the work we have performed, we conclude that there is a material misstatement of this statutory other information, we are required to report that fact. We have nothing to report in this regard.

## **Independent auditor's report to the members of Perth and Kinross Council and the Accounts Commission (continued)**

Our opinion on the financial statements does not cover the statutory other information and we do not express any form of assurance conclusion thereon except on the Management Commentary and Annual Governance Statement to the extent explicitly stated in the following opinions prescribed by the Accounts Commission.

### **Opinions prescribed by the Accounts Commission on Management Commentary and Annual Governance Statement**

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with statutory guidance issued under the Local Government in Scotland Act 2003; and
- the information given in the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements and that report has been prepared in accordance with the Delivering Good Governance in Local Government: Framework (2016).

### **Matters on which we are required to report by exception**

We are required by the Accounts Commission to report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the audited part of the Remuneration Report are not in agreement with the accounting records; or
- we have not received all the information and explanations we require for our audit; or
- there has been a failure to achieve a prescribed financial objective.

We have nothing to report in respect of these matters.

### **Conclusions on wider scope responsibilities**

In addition to our responsibilities for the annual accounts, our conclusions on the wider scope responsibilities specified in the Code of Audit Practice, including those in respect of Best Value, are set out in our Annual Audit Report.

### **Use of our report**

This report is made solely to the parties to whom it is addressed in accordance with Part VII of the Local Government (Scotland) Act 1973 and for no other purpose. In accordance with paragraph 120 of the Code of Audit Practice, we do not undertake to have responsibilities to members or officers, in their individual capacities, or to third parties.

Michael Wilkie, (for and on behalf of KPMG LLP)  
319 St Vincent Street  
Glasgow  
G2 5AS

## MOVEMENT IN RESERVES STATEMENT

|                                                                                                        | General<br>Fund<br>Balance<br>£'000 | Housing<br>Revenue<br>Account<br>£'000 | Capital<br>Fund<br>£'000 | Renewal<br>& Repair<br>Fund<br>£'000 | Insurance<br>Fund<br>£'000 | Capital<br>statutory<br>funds<br>£'000 | Capital<br>Grants<br>Unapplied<br>£'000 | Total<br>Usable<br>Reserves<br>£'000 | Unusable<br>Reserves<br>(Note 32)<br>£'000 | Total<br>Authority<br>Reserves<br>£'000 |
|--------------------------------------------------------------------------------------------------------|-------------------------------------|----------------------------------------|--------------------------|--------------------------------------|----------------------------|----------------------------------------|-----------------------------------------|--------------------------------------|--------------------------------------------|-----------------------------------------|
| <b>Balance at 1 April 2019</b>                                                                         | (47,441)                            | (1,000)                                | (30,366)                 | (20)                                 | (3,193)                    | (2,581)                                | (3,580)                                 | (88,181)                             | (456,586)                                  | (544,767)                               |
| <b><u>Movement in reserves during 2019/20</u></b>                                                      |                                     |                                        |                          |                                      |                            |                                        |                                         |                                      |                                            |                                         |
| Total Comprehensive Income and Expenditure                                                             | 6,407                               | (3,203)                                | 0                        | 0                                    | 0                          | 0                                      | 0                                       | 3,204                                | (16,112)                                   | (12,908)                                |
| Adjustments from income & expenditure charged under the accounting basis to the funding basis (Note 5) | (9,493)                             | 3,403                                  | 0                        | 0                                    | 0                          | (67)                                   | 1,391                                   | (4,766)                              | 4,766                                      | 0                                       |
| <b>(Increase)/ Decrease in 2019/20</b>                                                                 | (3,086)                             | 200                                    | 0                        | 0                                    | 0                          | (67)                                   | 1,391                                   | (1,562)                              | (11,346)                                   | (12,908)                                |
| Transfers to/(from) Other Statutory Reserves                                                           | 1,231                               | (200)                                  | (1,274)                  | 20                                   | 223                        | 0                                      | 0                                       | 0                                    | 0                                          | 0                                       |
| <b>Balance at 31 March 2020 carried forward</b>                                                        | (49,296)                            | (1,000)                                | (31,640)                 | 0                                    | (2,970)                    | (2,648)                                | (2,189)                                 | (89,743)                             | (467,932)                                  | (557,675)                               |
| <b><u>Movement in reserves during 2020/21</u></b>                                                      |                                     |                                        |                          |                                      |                            |                                        |                                         |                                      |                                            |                                         |
| Total Comprehensive Income and Expenditure                                                             | (6,582)                             | 1,739                                  | 0                        | 0                                    | 0                          | 0                                      | 0                                       | (4,843)                              | (88,589)                                   | (93,432)                                |
| Adjustments from income & expenditure charged under the accounting basis to the funding basis (Note 5) | (15,431)                            | (645)                                  | 0                        | 0                                    | 0                          | 119                                    | (541)                                   | (16,498)                             | 16,498                                     | 0                                       |
| <b>(Increase) or Decrease in 2020/21</b>                                                               | (22,013)                            | 1,094                                  | 0                        | 0                                    | 0                          | 119                                    | (541)                                   | (21,341)                             | (72,091)                                   | (93,432)                                |
| Transfers to/(from) Other Statutory Reserves                                                           | (1,174)                             | (3,100)                                | 3,696                    | 0                                    | 578                        | 0                                      | 0                                       | 0                                    | 0                                          | 0                                       |
| <b>Balance at 31 March 2021 carried forward</b>                                                        | (72,483)                            | (3,006)                                | (27,944)                 | 0                                    | (2,392)                    | (2,529)                                | (2,730)                                 | (111,084)                            | (540,023)                                  | (651,107)                               |

## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

| <i>Restated</i>    | <i>Restated</i> | <i>Restated</i>    |                                                   |       | 2020/21            |               |                    |  |
|--------------------|-----------------|--------------------|---------------------------------------------------|-------|--------------------|---------------|--------------------|--|
| <i>2019/20</i>     |                 |                    |                                                   |       |                    |               |                    |  |
| <i>Gross</i>       | <i>Income</i>   | <i>Net</i>         |                                                   | Notes | <i>Gross</i>       | <i>Income</i> | <i>Net</i>         |  |
| <i>Expenditure</i> | <i>£'000</i>    | <i>Expenditure</i> |                                                   |       | <i>Expenditure</i> | <i>£'000</i>  | <i>Expenditure</i> |  |
| <i>£'000</i>       | <i>£'000</i>    | <i>£'000</i>       |                                                   |       | <i>£'000</i>       | <i>£'000</i>  | <i>£'000</i>       |  |
|                    |                 |                    | <b>COUNCIL SERVICES</b>                           |       |                    |               |                    |  |
| 200,187            | (20,813)        | 179,374            | Education & Children's Services                   |       | 205,009            | (26,313)      | 178,696            |  |
| 139,621            | (79,028)        | 60,593             | Health & Social Care                              |       | 152,534            | (88,343)      | 64,191             |  |
| 91,545             | (14,187)        | 77,358             | Communities                                       |       | 93,994             | (14,140)      | 79,854             |  |
| 79,900             | (40,388)        | 39,512             | Corporate and Democratic Services                 |       | 80,970             | (36,628)      | 44,342             |  |
| 31,899             | (28,029)        | 3,870              | Housing Revenue Account                           |       | 30,209             | (29,306)      | 903                |  |
| 1,248              | 0               | 1,248              | Valuation Joint Board                             |       | 1,308              | 0             | 1,308              |  |
| 544,400            | (182,445)       | 361,955            | <b>COST OF SERVICES</b>                           |       | 564,024            | (194,730)     | 369,294            |  |
| 0                  | (845)           | (845)              | Other Operating Income and Expenditure            | 8     | 0                  | (925)         | (925)              |  |
| 25,693             | (2,424)         | 23,269             | Financing and Investment Income and               |       |                    |               |                    |  |
| 0                  | (381,175)       | (381,175)          | Expenditure                                       | 9     | 27,431             | (2,595)       | 24,836             |  |
|                    |                 |                    | Taxation and Non-Specific Grant Income            | 10    | 0                  | (398,048)     | (398,048)          |  |
| 570,093            | (566,889)       | 3,204              | <b>(Surplus)/Deficit on Provision of Services</b> |       | 591,455            | (596,298)     | (4,843)            |  |
|                    |                 |                    | (Surplus)/Deficit on revaluation of non           |       |                    |               |                    |  |
|                    |                 | 1,459              | current assets                                    |       |                    |               | (56,181)           |  |
|                    |                 | (17,571)           | Remeasurement of the net defined benefit          |       |                    |               | (32,408)           |  |
|                    |                 |                    | liability                                         |       |                    |               |                    |  |
|                    |                 |                    | Other Comprehensive Income and                    |       |                    |               |                    |  |
|                    |                 | (16,112)           | Expenditure                                       |       |                    |               | (88,589)           |  |
|                    |                 | (12,908)           | <b>Total Comprehensive Income and</b>             |       |                    |               | (93,432)           |  |
|                    |                 |                    | <b>Expenditure</b>                                |       |                    |               |                    |  |

## BALANCE SHEET

| <u>31 March 2020</u> |                              | Notes | <u>31 March 2021</u> |
|----------------------|------------------------------|-------|----------------------|
| £'000                |                              |       | £'000                |
| 1,158,353            | Property, Plant & Equipment  | 21    | 1,202,540            |
| 27,781               | Heritage Assets              | 22    | 51,788               |
| 13,290               | Investment Property          | 23    | 13,140               |
| 979                  | Intangible Assets            | 24    | 321                  |
| 719                  | Assets Held for Sale         | 25    | 550                  |
| 0                    | Long Term Investments        |       | 45,115               |
| 981                  | Long Term Debtors            | 26    | 689                  |
| <b>1,202,103</b>     | <b>Long Term Assets</b>      |       | <b>1,314,143</b>     |
| 139,395              | Short Term Investments       |       | 161,577              |
| 126                  | Assets Held for Sale         | 25    | 126                  |
| 470                  | Inventories                  | 27    | 525                  |
| 27,854               | Short Term Debtors           | 28    | 41,599               |
| 67,611               | Cash and Cash Equivalents    | 44    | 27,221               |
| <b>235,456</b>       | <b>Current Assets</b>        |       | <b>231,048</b>       |
| (28,786)             | Short Term Borrowing         | 39    | (67,746)             |
| (59,141)             | Short Term Creditors         | 29    | (68,866)             |
| (1,034)              | Provisions                   | 30    | (272)                |
| <b>(88,961)</b>      | <b>Current Liabilities</b>   |       | <b>(136,884)</b>     |
| (2,239)              | Provisions                   | 30    | (2,149)              |
| (535,038)            | Long Term Borrowing          | 39    | (522,523)            |
| (253,646)            | Other Long Term Liabilities  | 18,36 | (232,528)            |
| <b>(790,923)</b>     | <b>Long Term Liabilities</b> |       | <b>(757,200)</b>     |
| <b>557,675</b>       | <b>NET ASSETS</b>            |       | <b>651,107</b>       |
| 89,743               | Usable Reserves              |       | 111,084              |
| 467,932              | Unusable Reserves            | 32    | 540,023              |
| <b>557,675</b>       | <b>TOTAL RESERVES</b>        |       | <b>651,107</b>       |

The Unaudited Annual Accounts were issued on 30 June 2021 and the Audited Annual Accounts were authorised for issue on 20 September 2021.

The accompanying notes form an integral part of these financial statements.

Stewart MacKenzie CPFA  
Head of Finance

## CASH FLOW STATEMENT

| <u>2019/20</u>       |                                                                                                                                       | Notes | <u>2020/21</u>       |
|----------------------|---------------------------------------------------------------------------------------------------------------------------------------|-------|----------------------|
| £'000                |                                                                                                                                       |       | £'000                |
| (3,204)              | <b>(Surplus)/Deficit on the provision of services</b>                                                                                 |       | 4,843                |
| 75,411               | Adjustments to net surplus or deficit on the provision of services for non cash movements                                             |       | 60,104               |
| (47,590)             | Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities |       | (26,750)             |
| <u>24,617</u>        | Net cash flows from Operating Activities                                                                                              |       | <u>38,197</u>        |
| (147,487)            | Investing Activities                                                                                                                  | 42    | (100,509)            |
| 167,978              | Financing Activities                                                                                                                  | 43    | 21,922               |
| <u>45,108</u>        | Net increase/(decrease) in cash and cash equivalents                                                                                  |       | <u>(40,390)</u>      |
| 22,503               | Cash and cash equivalents at the beginning of the reporting period                                                                    |       | 67,611               |
| <u><u>67,611</u></u> | Cash and cash equivalents at the end of the reporting period                                                                          | 44    | <u><u>27,221</u></u> |

## STATEMENT OF RESPONSIBILITIES FOR THE ANNUAL ACCOUNTS

### The Council's Responsibilities

The Council is required:

- to make arrangements for the proper administration of its financial affairs and to ensure that one of its officers has the responsibility for those affairs under Section 95 of the Local Government (Scotland) Act 1975. In this Council that officer is the Head of Finance.
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- ensure the Annual Accounts are prepared in accordance with legislation (The Local Authority Accounts (Scotland) Regulations 2014), and so far as is compatible with that legislation, in accordance with proper accounting practices (section 12 of the Local Government in Scotland Act 2003).
- approve the Annual Accounts for signature.

I confirm that the Annual Accounts were approved for signature by those charged with governance at the meeting of the Audit Committee on 20 September 2021.

Councillor Murray Lyle  
Leader of the Council

Date:

### The Responsibilities of the Head of Finance

The Head of Finance is responsible for the preparation of the Council's Annual Accounts, which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, is required to present a true and fair view of the financial position of the Council at the accounting date and its income and expenditure for the year.

In preparing these Annual Accounts, the Head of Finance has:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with legislation and the Local Authority Accounting Code of Practice.

The Head of Finance has also:

- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.
- used the going concern basis of accounting on the assumption that the Council will continue in operational existence for the twelve months following the approval of the Annual Accounts.

I certify that the Annual Accounts give a true and fair view of the financial position of the Council and its group at the reporting date and the transactions of the Council and its Group for the year ended 31 March 2021.

Stewart MacKenzie CPFA  
Head of Finance  
Date:

# NOTES TO THE FINANCIAL STATEMENTS

## 1. Accounting Policies

### General

The Statement of Accounts have been prepared in accordance with International Financial Reporting Standards (IFRS) and adapted to the Code of Practice as required by the Local Authority Accounts (Scotland) Regulations 2014 and section 12 of the Local Government in Scotland Act 2003. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and supported by International Financial Reporting Standards. The Statement of Accounts are intended to present a true and fair view of the financial position and transactions of the authority and have been prepared in accordance with the fundamental accounting principles of relevance, reliability, comparability, understandability and materiality.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

### Accruals of Income and Expenditure

Activity is accounted for in the year that it takes place, or when the Council is entitled to the income, not simply when cash payments are made or received.

In particular:

- Revenue from contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods and services are transferred to the service recipient in accordance with the performance obligations in the contract.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including those rendered by the Council's officers) are recorded as expenditure when the services are received, rather than when payments are made.
- Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where there is evidence that debts are unlikely to be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Where the Council is acting as an agent for another party (e.g. in the collection of Non Domestic Rates and Water & Wastewater), income and expenditure are recognised only to the extent that commission is receivable by the Council for the agency services rendered or the Council incurs expenses directly on its own behalf in rendering the services.

### Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Council's cash management.

### Changes in Accounting Policies and Estimates and Errors

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events or conditions on the Council's financial position or financial performance. Where a change is made, it is applied retrospectively by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Changes in accounting estimates are accounted for prospectively, i.e., in the current and future years affected by the change. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

### Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service;
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off;
- amortisation of intangible fixed assets attributable to the service.

The Council is not required to raise council tax to cover depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Council in accordance with the Statutory Repayment of Loans Fund Advances. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by revenue provision in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.



## Contingent Assets and Liabilities

A contingent asset arises where an event has taken place that gives the Council a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. A contingent liability arises where an event has taken place that gives the Council a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Council. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent Assets and Liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

## Employee Benefits

### Benefits Payable During Employment

Short-term employee benefits (those that fall due wholly within 12 months of the year-end), such as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees, are recognised as an expense in the year in which employees render service to the Council. An accrual is made against services in the Surplus or Deficit on the Provision of Services for the cost of holiday entitlements and other forms of leave earned by employees but not taken before the year-end and which employees can carry forward into the next financial year. Any accrual made is required under statute to be reversed out of the General Fund Balance by a credit to the Employee Statutory Absences Adjustment Account in the Movement in Reserves Statement.

### Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Council to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged in the Comprehensive Income and Expenditure Statement when the Council is demonstrably committed to terminate the employment of an officer.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for termination benefits related to pensions enhancements and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

### Post-Employment Benefits

Employees of the Council are members of two separate pension schemes: The Scottish Teachers' Superannuation Scheme and the Local Government Pension Scheme.

The Scottish Teachers' Superannuation Scheme is a statutory unfunded defined final benefit salary scheme administered nationally by the Scottish Public Pensions Agency on behalf of the Scottish Government. There are no investment assets built up under the scheme to meet pension liabilities. The contributions paid into the scheme by the Council and teaching employees are determined nationally and member's pension benefits are prescribed under the Teachers' Superannuation (Scotland) Regulations 2005 with the Scottish Government being responsible for meeting the scheme's liabilities.

Other employees, subject to certain qualifying criteria, are eligible to join the Local Government Pension Scheme (LGPS). The LGPS is a statutory funded defined final benefit salary scheme operated through local pension funds. Perth & Kinross Council and its employees pay contributions into the Tayside Pension Fund administered by Dundee City Council calculated at a level to balance the pension liabilities with investment assets. The contributions paid into the scheme by employees and member pension benefits are prescribed, for the period to which the accounts relate, by the Local Government Pensions Scheme (Scotland) Regulations 1998 as amended. Perth & Kinross Council's contributions, as employer, into the Tayside Pension Fund are subject to the advice of the Fund actuary.

Both schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Council. However, the arrangements for the teachers' scheme mean that liabilities for these benefits cannot be attributed specifically to the Council. The scheme is therefore accounted for as if it were a defined contributions scheme – no liability for future payments of benefits is recognised in the Balance Sheet and the Education Service line in the Comprehensive Income and Expenditure Statements is charged with the employer's contributions payable to Teachers' Pensions in the year.

The Local Government Scheme is accounted for as a defined benefits scheme. The liabilities of the Tayside Pension Fund attributable to the Council are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc., and projections of projected earnings for current employees. Liabilities are discounted to their value at current prices, using a discount rate of 2.00% which is based on the indicative rate of return on the high quality corporate bond index (i Boxx AA).

The assets of the Tayside Pension Fund attributable to the Council are included in the Balance Sheet at their fair value:

- quoted securities – current bid price;
- unquoted securities – professional estimate;
- unlisted securities – current bid price;
- property – market value.

The change in the net pension's liability is analysed into the following components:

- Service cost comprising:
  - current service cost – the increase in liabilities as result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
  - past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs;
  - net interest on the net defined liability / (asset), i.e. net interest expense for the authority – the change during the period in the net defined benefit liability / (asset) that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability / (asset) at the end of the period – taking into account any changes in the net defined benefit liability / (asset) during the period as a result of contribution and benefit payments;
- Remeasurements comprising:
  - the return on plan assets - excluding amounts included in net interest on the net defined benefit liability / (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;
  - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;
- Contributions paid to the Tayside Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Council to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact on the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

#### Discretionary Benefits

The Council also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff (including teachers) are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

#### Career Average Revalued Earnings Scheme (CARE)

The Local Government Pension Scheme changed from Final Salary to Career Average Revalued Earnings (CARE) on 1 April 2015, with a change of accrual rate from 1/60<sup>th</sup> to 1/49<sup>th</sup>. Employees who were previously paying into the Final Salary scheme were automatically transferred into the new CARE scheme on 1 April 2015.

#### **Events after the Reporting Period**

Events after the reporting period are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts are adjusted to reflect such events;
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts are not adjusted to reflect such events, but where a category of events would have a material effect disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

#### **Fair Value Measurement**

The Council measures some of its non-financial assets such as surplus assets and investment properties at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a) in the principal market for the asset or liability, or
- b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The Council measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Council takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Council uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the Council's financial statements are categorised within the fair value hierarchy, as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities that the authority can access at the measurement date
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
- Level 3: unobservable inputs for the asset or liability.

### **Financial Liabilities**

Financial liabilities are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Council has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest) and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

Gains and losses on the repurchase or early settlement of borrowing are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount respectively is deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Council has a policy of spreading the gain/loss over the term of the replacement loan. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

### **Financial Assets**

Financial assets are classified based upon a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. There are three main classes of financial assets measured at:-

- amortised cost
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The Council's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where cash flows do not take the form of a basic debt instrument).

Loans and receivables are recognised on the Balance Sheet when the Council becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For deposits that the Council has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the agreement.

However, the Council has made loans to various organisations at less than market rates (soft loans). When a soft loan is made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. In subsequent years interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a higher effective rate of interest than the rate receivable from the voluntary organisations, with the difference serving to increase the amortised cost of the loan in the Balance Sheet.



Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the de-recognition of an asset are credited/debited to the Financing and Investment Income and Expenditure line in the year they incur in the Comprehensive Income and Expenditure Statement.

### **Foreign Currency**

Where the Council enters into a transaction in foreign currency the transaction is converted into sterling at the exchange rate applicable on the date the transaction is effective.

### **Going Concern**

The Head of Finance is responsible for making an annual assessment of whether it is appropriate to prepare the accounts on a going concern basis. In accordance with the Code of Practice on Local Authority Accounting in the United Kingdom, an authority's financial statements shall be prepared on a going concern basis; that is, the accounts should be prepared on the assumption that the functions of the authority will continue in operational existence for at least twelve months from the date of approval of the financial statements and it can only be discontinued under statutory prescription. The Council has significant net assets, investments and cash and a track record of preparing a balanced budget which incorporates significant savings that are subsequently achieved. The Covid pandemic has had a significant impact on the finance and operations of the Council. Through early assessment and governance the Council has put in place robust measures to ensure the continuing strong financial management of its activities which demonstrates its ability to continue as a going concern. Work continues to assess the impacts of the pandemic and the mitigating actions taken to return to a balanced budget; details of the Council's response can be found within section three of the Management Commentary. Taken together, the Head of Finance has determined that it remains appropriate to prepare the financial statements on a going concern basis.

### **Government Grants and Contributions**

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Council when there is reasonable assurance that:

- the Council will comply with the conditions attached to the payments; and
- the grants or contributions will be received.

Amounts recognised as due to the Council are not credited to the Comprehensive Income and Expenditure Statement until conditions attaching to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants/contributions) or Taxation and Non-Specific Grant Income (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied Account. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Account are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

### **Heritage Assets**

Heritage Assets are those assets that are intended to be preserved in trust for future generations because of their cultural, environmental or historical associations. Heritage Assets include museum and gallery collections and works of art. These assets are held by the Council in pursuit of its overall objectives in relation to the maintenance of the heritage. Since 1 April 2016 Culture Perth & Kinross has responsibility for the delivery and development of museum and library services in Perth & Kinross. The Trust manages the museum and gallery collections on behalf of the Council, however the Council will continue to be custodian of the collections.

#### Tangible Heritage Assets

The Council's Heritage Assets are held in the Perth Museum & Gallery, Fergusson Gallery and Alyth Museum. The collections include Art, History and Natural History and are held in support of Council objectives i.e. to increase knowledge, understanding and appreciation of the local area and its history. Heritage Assets are recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Council's accounting policies on property, plant and equipment.

However, some of the measurement rules are relaxed in relation to heritage assets as detailed below. The Council has embarked upon a revaluation programme for all collection items deemed to have significant value, these being mainly items within Fine and Applied Art collections. In recognition of the key qualitative characteristics of the financial statements, i.e. understandability, relevance, reliability and comparability, the Council has chosen to apply a £10,000 de-minimis level for which items will be recognised within the balance sheet. The exclusion of individual items having a value of less than £10,000 does not impact upon the characteristics of the financial statements and a summary of the main collections and applicable accounting treatment is as follows.

### Art Collection

The Fine Art collection includes paintings and sketches in various mediums, and although international in scope, its greatest strength is in the holding of Scottish pictures. The collection seeks to retain a balance between the historical and the contemporary whilst continuing to develop the holdings of works of specifically local interest. The Applied Art collection has been acquired since 1785 through purchase, gift or bequest. It covers a wide variety of objects and materials, within which the collections of Perth silver and Perthshire glass are unsurpassed in terms of national importance.

Subject to the de-minimis noted above, items donated or acquired are valued by the curators at point of acquisition; in addition, there is a five year rolling programme of valuation to ensure all significant items in the Art collection are valued. All valuations are undertaken by the curators having relevant knowledge and experience and with reference to appropriate commercial markets.

Art collection items are held in the Council balance sheet at market value and are tested annually for impairment, e.g. where an item has suffered physical deterioration or breakage or where doubts arise as to its authenticity. Any impairment is recognised and measured in accordance with the Council's general policies on impairment.

As the assets within the art collection are deemed to have indeterminate lives and a high residual value, the Council does not consider it appropriate to charge depreciation.

### History Collection

The History collection includes social history, archaeology, arms & armour, costume, archives, coins, medals & stamps, photography and world cultures collections. These items cannot be readily and/or reliably valued due to their diverse nature. The cost of valuation would be disproportionate in terms of any benefit derived to the user of the financial statements and the History collection is consequently excluded from the Council Balance Sheet.

### Natural History Collection

The Natural History collection includes zoology, botany and geology collections. No market exists for these items and collections and there is no comparable data to form the basis of valuation. The cost of obtaining valuations would be disproportionate in terms of any benefit derived to the user of the financial statements and Natural History collections are consequently excluded from the Council Balance Sheet.

### Heritage Assets – General

The Council may dispose of heritage assets which have a doubtful provenance or are unsuitable for public display. The proceeds of such items are accounted for in accordance with the Council's general provisions relating to the disposal of property, plant and equipment. Disposal proceeds are disclosed separately in the notes to the financial statements and are accounted for in accordance with statutory accounting requirements relating to capital expenditure and capital receipts.

The promotion of other cultural events and programmes during the year makes it difficult to reliably estimate the percentage of the Art Collection on display for public viewing. All items not on display are held in secure storage and access is permitted to scholars and others for research purposes.

The Culture Perth & Kinross Collections Management Framework provides guidance on the collection, disposal or lending of heritage assets.

### **Intangible Assets**

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Council as a result of past events (e.g. software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Council. Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the Council will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and restricted to that incurred during the development phase (research expenditure is not capitalised). Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Council's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Council can be determined by reference to an active market. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital statutory funds reserve.



### **Interests in Companies and Other Entities**

The Council has material interests in companies and other entities that have the nature of subsidiaries, associates and jointly controlled entities and require it to prepare group accounts. In the Council's own single-entity accounts, the interests in companies and other entities are recorded as financial assets at cost, less any provision for losses.

### **Inventories**

Inventories are included in the Balance Sheet at the lower of cost and net realisable value. Work in progress is valued at the cost of direct materials and labour plus attributable overheads based on the normal level of activity less any attributable losses.

### **Investment Properties**

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale. Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital statutory funds reserve.

### **Leases**

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases. Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification. Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

#### The Council as Lessee

Operating Leases - Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

#### The Council as Lessor

Operating Leases - Where the Council grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

### **Overheads and Support Services**

The costs of overheads and support services are only charged to the HRA and charities in accordance with the total absorption costing principle.

### **Property, Plant and Equipment**

Assets that have physical substance and are held for use in the production or supply of goods or services, for rental to others or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

#### Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Council and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (e.g. repairs and maintenance) is charged as an expense when it is incurred.

#### Measurement

Assets are initially measured at cost, comprising:

- the purchase price;
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management;
- the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located where there is a legal or constructive obligation to do so.

The Council does not capitalise borrowing costs incurred whilst assets are under construction. The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition will not increase the cash flows of the Council. In the latter case, the cost of the acquisition is the carrying amount of the asset given up by the Council.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the Balance Sheet using the following measurement bases:

- infrastructure and community assets – depreciated historical cost;
- assets under construction – historical cost
- dwellings – current value, determined using the basis of existing use value for social housing (EUV-SH). The Council values these assets using the Beacon approach (Adjusted Vacant Possession)
- other land and buildings – current value based on existing use value (EUV) for operational assets where there is an active market, or if there is no market based evidence of current value because of the specialist nature of the asset and/or the asset is rarely sold, depreciated replacement cost (DRC) using the instant build approach;
- surplus assets – the current value measurement base is fair value, estimated at highest and best use from a market participant's perspective;
- all other assets – current value, determined by the amount that would be paid for the asset in its existing use (existing use value – EUV).

Assets included in the Balance Sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the surplus or deficit on the provision of services where they arise from the reversal of a loss previously charged to a service.

Where decreases in value are identified, the revaluation loss is accounted for as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);
- where there is no balance in the Revaluation Reserve or insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

#### Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);
- where there is no balance in the Revaluation Reserve or insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

#### Disposals and Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously recognised losses. Depreciation is not charged on Assets Held for Sale. Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal.

Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Amounts received for a disposal are categorised as capital receipts. The balance of receipts is required to be credited to the Capital statutory funds reserve, and can then only be used for new capital investment or set aside to reduce the Council's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement. The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

#### Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land and certain Community Assets) and assets that are not yet available for use (i.e. assets under construction).

|                               |                      |
|-------------------------------|----------------------|
| Leasehold properties          | over period of lease |
| Roads and bridges             | 15-30 years          |
| Other infrastructure assets   | 10-30 years          |
| Vehicles, plant and equipment | 3-15 years           |
| Council Buildings             | up to 50 years       |
| Council Dwellings             | 10-30 years          |
| Intangible Fixed Assets       | 3-5 years            |

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

#### **Private Finance Initiative (PFI) and Similar Contracts**

PFI and similar contracts are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Council is deemed to control the services that are provided under its PFI schemes the Council carries the assets used under the contracts on its Balance Sheet as part of Property, Plant and Equipment.

The original recognition of these assets at fair value (based on the cost to purchase the property, plant and equipment) was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment. Non-current assets recognised on the Balance Sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Council.

The amounts payable to the PFI operators each year are analysed into five elements:

- fair value of the services received during the year – debited to the relevant service in the Comprehensive Income and Expenditure Statement;
- finance cost – an interest charge on the outstanding Balance Sheet liability, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- payment towards liability – applied to write down the Balance Sheet liability towards the PFI operator (the profile of write-downs is calculated using the same principles as for a finance lease);
- lifecycle replacement costs – debited to the relevant service in the Comprehensive Income and Expenditure Statement.

#### **Provisions**

The Council is required to make provisions where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. Provision has been made for bad and doubtful debts in respect of Council Tax, Housing Rents and other items of income, where appropriate. In all cases the level of provision is based on experience and an assessment of the prospects of recovering the related debt.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the council becomes aware of the obligation, and measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the council settles the obligation.

#### **Reserves**

Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure



Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure. Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments and retirement benefits and that do not represent usable resources for the Council – these reserves are explained in the relevant notes.

#### **Revenue Expenditure Funded from Capital under Statute**

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non-current asset may be charged as expenditure to the relevant Service in the Comprehensive Income and Expenditure Statement in the year. Where the Council has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the General Fund Balance to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

#### **VAT**

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

### **2. Accounting Standards that have been issued but have not yet been adopted**

At the balance sheet date, the following new standards and amendments to existing standards have been published but not yet adopted by The Code:

- Definition of a Business: Amendments to IFRS 3 Business Combinations aims to resolve the difficulties that arise when an entity determines whether it has acquired a business or a group of assets.
- Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7 address the hedge accounting issues arising before the interbank offered rate (IBOR) is replaced with an alternative risk free rate (RFR).
- Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39, IFRS 7, IFRS 4 and IFRS 16 address issues that might affect financial reporting when an existing interest rate benchmark is replaced with an alternative benchmark interest rate, i.e. replacement issues.

### **3. Critical Judgements in Applying Accounting Policies**

In applying the accounting policies set out in Note 1, the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

#### **Public Sector Funding**

There is a high degree of uncertainty about future levels of funding for local government. However, the Council has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Council might be impaired as a result of a need to close facilities and reduce levels of service provision.

#### **Public Private Partnership (PPP)**

The Council is deemed to control the services provided under the agreement for the provision of educational establishments. The accounting policies for PPP schemes and similar arrangements have been applied and the assets under the contract are included within Property, Plant and Equipment on the Council's Balance Sheet. Note 36 provides further details.

### **4. Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty**

The Statement of Accounts contains estimated figures that are based on assumptions made by the Council about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the Council's Balance Sheet at 31 March 2021 for which there is a significant risk of material adjustment in the forthcoming financial year are in respect of the Council's Net Pensions Liability, and the estimated useful lives and valuation of Property, Plant and Equipment.

#### **Net Pensions Liability**

##### Uncertainty

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. This is further detailed in Note 18 to the Accounts which includes a table setting out the potential sensitivity of change in assumptions on the Pension Liability. A firm of consulting actuaries is engaged to provide the Council with expert advice about the assumptions to be applied.

##### Effect if Actual Results Differ from Assumptions

The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a reduction in the pension liability of £21.201 million. However, the assumptions interact in complex ways. During 2020/21, the Council's actuaries advised that the net pension liability had reduced by £16.098 million following an updating of assumptions.

## **Property, Plant & Equipment – Estimated Useful Lives**

### Uncertainty

Property, Plant and Equipment assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Council will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.

### Effect if Actual Results Differ from Assumptions

If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £752,000 for every year that useful lives had to be reduced.

## **Property, Plant & Equipment - Valuations**

### Uncertainty

In applying the Royal Institution of Chartered Surveyors (RICS) Valuation Global Standards ('Red Book'), the valuation reports include an explanatory note which removes the material uncertainty previously declared in the 2019/20 valuation reports. However, market uncertainties caused by Covid-19 do remain albeit some markets have started to function again and transaction volumes are at levels where there is sufficient evidence on which to base opinions on value.

The valuation reports have been used to inform the measurement of non-current assets in these financial statements. The valuers have continued to exercise professional judgement in preparing the valuation and, therefore, this is the best information available to Council as at 31 March 2021 and can be relied upon.

Of the £618,360,000 net book value of Other Land & Buildings at 31 March 2021 and subject to valuation on a five year cycle, £487,753,000 relates to specialised assets valued on a depreciated replacement cost basis. Here the valuer bases their assessment on the cost to the Council of replacing the service potential of the assets; the uncertainty relates to the estimated costs of, rather than the extent of, service potential to be replaced. Covid-19 may also have a further impact of the value of assets subsequent to the balance sheet date. There is to date, limited market evidence to indicate the impact on particular categories of non-current asset.

The valuer has provided estimates for the range of uncertainty attached to the valuation of Council dwellings. The valuation of Council dwellings requires the use of an Adjustment Factor which is applied to the vacant possession value of the housing stock to arrive at the reported Existing Use Value – Social Housing (EUV-SH). The Adjustment Factor is based on the ratio of private and public sector rents and yields. Rental ratios are established from data provided by the Council and from Local Housing Allowances, HM Rent Service, RICS, and using information on private sector rents from research including local letting agents. Information on yields is derived from the RICS, Building Society and Chartered Surveyor firm publications, and government publications.

In addition, the valuers have provided estimates for uncertainty which may apply to Investment property yields, however, there is limited market evidence to suggest that the yields used for valuation purposes may change.

### Effect if Actual Results Differ from Assumptions

A sensitivity analysis has been undertaken by the valuer to examine the potential impact if the Adjustment Factor was increased or decreased by 5%, this being the tolerance listed within the valuation guidance published by the Ministry for Housing Communities and Local Government (MHCLG). The EUV-SH for the Council housing stock at 30 September 2019 is £294,573,740. A 5% increase or decrease to the Adjustment Factor would result in an increase or decrease of £34,893,830 (11.85%) to the value of the Council housing stock.

The sensitivity analysis for Investment property yields assumes a +/- 0.5% potential movement for the average yield across the total investment property portfolio. A 0.5% decrease in the average yield would result in an increase of £939,000 in the value of Investment property. If the average yield was to increase by 0.5%, the value of investment property would reduce by £821,000.



## 5. Adjustments between Accounting Basis and Funding Basis under Regulations

|                                                                                                                                                                                                                         | Usable Reserves            |                               |                                |                                |                 |                |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------|-------------------------------|--------------------------------|--------------------------------|-----------------|----------------|
|                                                                                                                                                                                                                         | General<br>Fund<br>Balance | Housing<br>Revenue<br>Account | Capital<br>Receipts<br>Reserve | Capital<br>Grants<br>Unapplied | Total           | 2019/20        |
|                                                                                                                                                                                                                         | £'000                      | £'000                         | £'000                          | £'000                          | £'000           | £'000          |
| <u>Adjustments involving the Capital Adjustment Account</u>                                                                                                                                                             |                            |                               |                                |                                |                 |                |
| Depreciation and impairment on non-current assets                                                                                                                                                                       | (39,657)                   | (11,510)                      | 0                              | 0                              | (51,167)        | (49,663)       |
| Revaluation Losses on Property, Plant & Equipment                                                                                                                                                                       | (486)                      | (67)                          | 0                              | 0                              | (553)           | (2,287)        |
| Reversal revaluation gains                                                                                                                                                                                              | 6,643                      | 2                             | 0                              | 0                              | 6,645           | 808            |
| Movements in Fair Value of Investment Properties                                                                                                                                                                        | (75)                       | 0                             | 0                              | 0                              | (75)            | 195            |
| Amortisation of Intangible Assets                                                                                                                                                                                       | (675)                      | 0                             | 0                              | 0                              | (675)           | (859)          |
| Capital grants and contributions credited to the Comprehensive Income & Expenditure Statement                                                                                                                           | 22,227                     | 3,055                         | 0                              | 0                              | 25,282          | 46,262         |
| Amounts of non current assets written off on disposal as part of the gain/loss                                                                                                                                          | (697)                      | (180)                         | 0                              | 0                              | (877)           | (1,065)        |
| <u>Items not debited or credited to the Comprehensive Income &amp; Expenditure Statement</u>                                                                                                                            |                            |                               |                                |                                |                 |                |
| Statutory provision for repayment of debt                                                                                                                                                                               | 11,068                     | 3,485                         | 0                              | 0                              | 14,553          | 16,181         |
| Capital expenditure charged to the General Fund and HRA balances                                                                                                                                                        | 1,575                      | 5,194                         | 0                              | 0                              | 6,769           | 3,641          |
| <u>Adjustments involving the Capital Receipts Reserve</u>                                                                                                                                                               |                            |                               |                                |                                |                 |                |
| Transfer of sale proceeds credited as part of the gain/loss on disposal                                                                                                                                                 | 759                        | 258                           | (1,017)                        | 0                              | 0               | 0              |
| Use of the Capital Receipts Reserve to finance new capital expenditure                                                                                                                                                  | 0                          | 0                             | 1,136                          | 0                              | 1,136           | 1,255          |
| <u>Adjustments involving the Capital Grants Unapplied Account</u>                                                                                                                                                       |                            |                               |                                |                                |                 |                |
|                                                                                                                                                                                                                         | 0                          | 0                             | 0                              | (541)                          | (541)           | 1,391          |
| <u>Adjustments involving the Financial Instruments Adjustment Account</u>                                                                                                                                               |                            |                               |                                |                                |                 |                |
|                                                                                                                                                                                                                         | 542                        | 183                           | 0                              | 0                              | 725             | 724            |
| <u>Adjustments involving the Pensions Reserve</u>                                                                                                                                                                       |                            |                               |                                |                                |                 |                |
| Employer's pensions contributions and direct payments to pensioners payable in the year                                                                                                                                 | 17,804                     | 1,307                         | 0                              | 0                              | 19,111          | 18,188         |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement                                                                                             | (33,106)                   | (2,315)                       | 0                              | 0                              | (35,421)        | (38,649)       |
| <u>Adjustments involving Short Term Accumulated Absences Account</u>                                                                                                                                                    |                            |                               |                                |                                |                 |                |
| Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | (1,353)                    | (57)                          | 0                              | 0                              | (1,410)         | (888)          |
| <b>Total Adjustments</b>                                                                                                                                                                                                | <b>(15,431)</b>            | <b>(645)</b>                  | <b>119</b>                     | <b>(541)</b>                   | <b>(16,498)</b> | <b>(4,766)</b> |

## 6. Expenditure and Funding Analysis - 2020/21

|                                                              | Net<br>Expenditure<br>charged to<br>the General<br>Fund and HRA<br>Balances<br>£000 | Adjustments<br>between the<br>Funding and<br>Accounting<br>Basis<br>£000 | Net<br>Expenditure<br>in the<br>Comprehensive<br>Income and<br>Expenditure<br>Statement<br>£000 |
|--------------------------------------------------------------|-------------------------------------------------------------------------------------|--------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------|
| Education & Children's Services                              | 161,025                                                                             | 17,671                                                                   | 178,696                                                                                         |
| Health & Social Care                                         | 60,475                                                                              | 3,716                                                                    | 64,191                                                                                          |
| Communities                                                  | 61,578                                                                              | 18,276                                                                   | 79,854                                                                                          |
| Corporate and Democratic Services                            | 39,016                                                                              | 5,326                                                                    | 44,342                                                                                          |
| Housing Revenue Account                                      | (9,452)                                                                             | 10,355                                                                   | 903                                                                                             |
| Valuation Joint Board                                        | 1,308                                                                               | 0                                                                        | 1,308                                                                                           |
| Non Distributed Costs                                        | 1,561                                                                               | (1,561)                                                                  | 0                                                                                               |
| <b>Cost of Services</b>                                      | <b>315,511</b>                                                                      | <b>53,783</b>                                                            | <b>369,294</b>                                                                                  |
| Other Income and Expenditure                                 | (336,430)                                                                           | (37,707)                                                                 | (374,137)                                                                                       |
| <b>(Surplus) or Deficit on Provision of Services</b>         | <b>(20,919)</b>                                                                     | <b>16,076</b>                                                            | <b>(4,843)</b>                                                                                  |
| Opening General Fund and HRA Balance                         | (50,296)                                                                            |                                                                          |                                                                                                 |
| Surplus on General Fund and HRA Balance in Year              | (20,919)                                                                            |                                                                          |                                                                                                 |
| Transfers from other Statutory Reserves                      | (4,274)                                                                             |                                                                          |                                                                                                 |
| <b>Closing General Fund and HRA Balance at 31 March 2021</b> | <b>(75,489)</b>                                                                     |                                                                          |                                                                                                 |

This note provides a reconciliation of the main adjustments to Net Expenditure Chargeable to the General Fund and HRA Balances to arrive at the amounts in the Comprehensive Income and Expenditure Statement. The relevant transfers between Reserves are explained in the Movement in Reserves Statement.

### Notes to the Expenditure and Funding Analysis - adjustments between funding and accounting basis

|                                                                                                                                                                      | Adjustments for<br>Capital Purposes<br>Note A<br>£ '000 | Net change for the<br>Pensions<br>Adjustments<br>Note B<br>£ '000 | Other Differences<br>Note C<br>£ '000 | Total Adjustments<br>£ '000 |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------|-------------------------------------------------------------------|---------------------------------------|-----------------------------|
| Adjustments from General Fund to arrive at the Comprehensive<br>Income and Expenditure Statement amounts                                                             |                                                         |                                                                   |                                       |                             |
| <b>COUNCIL SERVICES</b>                                                                                                                                              |                                                         |                                                                   |                                       |                             |
| Education & Children's Services                                                                                                                                      | 11,676                                                  | 5,215                                                             | 780                                   | 17,671                      |
| Health & Social Care                                                                                                                                                 | 920                                                     | 2,632                                                             | 164                                   | 3,716                       |
| Communities                                                                                                                                                          | 14,672                                                  | 3,474                                                             | 130                                   | 18,276                      |
| Corporate and Democratic Services                                                                                                                                    | 2,232                                                   | 2,815                                                             | 279                                   | 5,326                       |
| Housing Revenue Account                                                                                                                                              | 9,481                                                   | 817                                                               | 57                                    | 10,355                      |
| Non Distributed Costs                                                                                                                                                | 0                                                       | (1,561)                                                           | 0                                     | (1,561)                     |
| <b>Cost of Services</b>                                                                                                                                              | <b>38,981</b>                                           | <b>13,392</b>                                                     | <b>1,410</b>                          | <b>53,783</b>               |
| Other Operating Expenditure and Income                                                                                                                               | (121)                                                   | 0                                                                 | 0                                     | (121)                       |
| Financing and Investment Income and Expenditure                                                                                                                      | (14,497)                                                | 2,918                                                             | (725)                                 | (12,304)                    |
| Taxation and Non-Specific Grant Income                                                                                                                               | (25,282)                                                | 0                                                                 | 0                                     | (25,282)                    |
| <b>Other income and expenditure from the Expenditure and Funding<br/>Analysis</b>                                                                                    | <b>(39,900)</b>                                         | <b>2,918</b>                                                      | <b>(725)</b>                          | <b>(37,707)</b>             |
| <b>Difference between General Fund surplus or deficit and<br/>Comprehensive Income and Expenditure Statement Surplus or<br/>Deficit on the Provision of Services</b> | <b>(919)</b>                                            | <b>16,310</b>                                                     | <b>685</b>                            | <b>16,076</b>               |

## Expenditure and Funding Analysis - 2019/20

|                                                              | Net<br>Expenditure<br>charged to<br>the General<br>Fund and HRA<br>Balances<br>£000 | Adjustments<br>between the<br>Funding and<br>Accounting<br>Basis<br>£000 | Restated<br>Net<br>Expenditure<br>in the<br>Comprehensive<br>Income and<br>Expenditure<br>Statement<br>£000 |
|--------------------------------------------------------------|-------------------------------------------------------------------------------------|--------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------|
| Education & Children's Services                              | 157,763                                                                             | 21,611                                                                   | 179,374                                                                                                     |
| Health & Social Care                                         | 56,611                                                                              | 3,982                                                                    | 60,593                                                                                                      |
| Housing & Environment                                        | 53,803                                                                              | 23,555                                                                   | 77,358                                                                                                      |
| Corporate and Democratic Services                            | 32,241                                                                              | 7,271                                                                    | 39,512                                                                                                      |
| Housing Revenue Account                                      | (8,072)                                                                             | 11,942                                                                   | 3,870                                                                                                       |
| Valuation Joint Board                                        | 1,248                                                                               | 0                                                                        | 1,248                                                                                                       |
| Non Distributed Costs                                        | 1,553                                                                               | (1,553)                                                                  | 0                                                                                                           |
| <b>Cost of Services</b>                                      | <b>295,147</b>                                                                      | <b>66,808</b>                                                            | <b>361,955</b>                                                                                              |
| Other Income and Expenditure                                 | (298,033)                                                                           | (60,718)                                                                 | (358,751)                                                                                                   |
| <b>(Surplus) or Deficit on Provision of Services</b>         | <b>(2,886)</b>                                                                      | <b>6,090</b>                                                             | <b>3,204</b>                                                                                                |
| Opening General Fund and HRA Balance                         | (48,441)                                                                            |                                                                          |                                                                                                             |
| Surplus on General Fund and HRA Balance in Year              | (2,886)                                                                             |                                                                          |                                                                                                             |
| Transfers to other Statutory Reserves                        | 1,031                                                                               |                                                                          |                                                                                                             |
| <b>Closing General Fund and HRA Balance at 31 March 2020</b> | <b>(50,296)</b>                                                                     |                                                                          |                                                                                                             |

This note provides a reconciliation of the main adjustments to Net Expenditure Chargeable to the General Fund and HRA Balances to arrive at the amounts in the Comprehensive Income and Expenditure Statement. The relevant transfers between Reserves are explained in the Movement in Reserves Statement.

### Notes to the Expenditure and Funding Analysis - adjustments between funding and accounting basis

| Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts                                                        | Net change for the                                      |                                             |                                       | Total Adjustments |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------|---------------------------------------------|---------------------------------------|-------------------|
|                                                                                                                                                              | Adjustments for<br>Capital Purposes<br>Note A<br>£ '000 | Pensions<br>Adjustments<br>Note B<br>£ '000 | Other Differences<br>Note C<br>£ '000 |                   |
| <b>COUNCIL SERVICES</b>                                                                                                                                      |                                                         |                                             |                                       |                   |
| Education & Children's Services                                                                                                                              | 14,305                                                  | 6,605                                       | 701                                   | 21,611            |
| Health & Social Care                                                                                                                                         | 855                                                     | 2,966                                       | 161                                   | 3,982             |
| Housing & Environment                                                                                                                                        | 18,224                                                  | 5,412                                       | (81)                                  | 23,555            |
| Corporate and Democratic Services                                                                                                                            | 4,224                                                   | 2,888                                       | 159                                   | 7,271             |
| Housing Revenue Account                                                                                                                                      | 10,752                                                  | 1,242                                       | (52)                                  | 11,942            |
| Non Distributed Costs                                                                                                                                        | 0                                                       | (1,553)                                     | 0                                     | (1,553)           |
| <b>Cost of Services</b>                                                                                                                                      | <b>48,360</b>                                           | <b>17,560</b>                               | <b>888</b>                            | <b>66,808</b>     |
| Other Operating Expenditure and Income                                                                                                                       | (257)                                                   | 0                                           | 0                                     | (257)             |
| Financing and Investment Income and Expenditure                                                                                                              | (16,376)                                                | 2,901                                       | (724)                                 | (14,199)          |
| Taxation and Non-Specific Grant Income                                                                                                                       | (46,262)                                                | 0                                           | 0                                     | (46,262)          |
| <b>Other income and expenditure from the Expenditure and Funding Analysis</b>                                                                                | <b>(62,895)</b>                                         | <b>2,901</b>                                | <b>(724)</b>                          | <b>(60,718)</b>   |
| <b>Difference between General Fund surplus or deficit and Comprehensive Income and Expenditure Statement Surplus or Deficit on the Provision of Services</b> | <b>(14,535)</b>                                         | <b>20,461</b>                               | <b>164</b>                            | <b>6,090</b>      |

## Explanation to the Expenditure and Funding Analysis

### Adjustments for Capital Purposes

Note A Adjustments for Capital Purposes adds in depreciation and impairment and revaluation gains and losses in the services line, and for:

- **Other operating expenditure** – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets.
- **Financing and investment income and expenditure** – the statutory charges for capital financing and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices.
- **Taxation and non-specific grant income and expenditure** – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The Taxation and Non Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for conditions which were satisfied in the year.

### Net Change for the Pensions Adjustments

Note B Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

- **For services** this represents the removal of the employer pension contributions made by the authority as allowed by statute and the replacement with current service costs and past service costs.
- **For Financing and investment income and expenditure** – the net interest on the defined benefit liability is charged to the Comprehensive Income and Expenditure Statement

### Other Differences

Note C Other differences between the amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute:

- **For Financing and investment income and expenditure** the other differences column recognises adjustments to the General Fund for the timing differences for premiums and discounts and stepped interest rate loans
- **For services** this represents the removal of the increase or decrease in the employee statutory adjustment account.

## 7. Transfer (to)/from General Fund Reserves

The Reserves Strategy that the Council approved in March 2021 earmarked funding towards specific or known future commitments. The following table sets out the updated balances as at 31 March 2021 for these Earmarked Reserves taking cognisance of the final year-end position.

|                                                                                | Balance as at<br>1 April 2020<br>£'000 | Transfers<br>(In)/Out<br>£'000 | Balance as at<br>31 March 2021<br>£'000 |
|--------------------------------------------------------------------------------|----------------------------------------|--------------------------------|-----------------------------------------|
| Covid-19                                                                       | 0                                      | (25,727)                       | (25,727)                                |
| Revenue Grants                                                                 | (6,044)                                | (9,162)                        | (15,206)                                |
| Developer Contributions: Commuted Sums & Infrastructure and Affordable Housing | (6,278)                                | 800                            | (5,478)                                 |
| Workforce Management (including transformation programme)                      | (5,322)                                | 1,047                          | (4,275)                                 |
| Affordable Housing (Resources accrued from reduced Council Tax Discounts)      | (5,822)                                | 2,406                          | (3,416)                                 |
| Perth High School                                                              | (1,608)                                | 43                             | (1,565)                                 |
| Devolved School Management (DSM)                                               | (1,224)                                | (312)                          | (1,536)                                 |
| Remodelling of Residential Care (Children & Young People)                      | (1,506)                                | 251                            | (1,255)                                 |
| Car Parking                                                                    | (1,183)                                | 0                              | (1,183)                                 |
| Secondary Schools                                                              | (1,013)                                | 200                            | (813)                                   |
| Culture                                                                        | (418)                                  | (241)                          | (659)                                   |
| School Counsellors                                                             | 0                                      | (628)                          | (628)                                   |
| Perth & Kinross Offer                                                          | (499)                                  | 0                              | (499)                                   |
| Modern Apprentices/Graduate Trainees                                           | (309)                                  | (94)                           | (403)                                   |
| Community Improvement Fund                                                     | (4)                                    | (300)                          | (304)                                   |
| PH2O                                                                           | (407)                                  | 140                            | (267)                                   |
| Grounds Maintenance                                                            | (225)                                  | 15                             | (210)                                   |
| Works Maintenance                                                              | (400)                                  | 200                            | (200)                                   |
| Financial Assistance                                                           | (156)                                  | (20)                           | (176)                                   |
| Local Government Elections                                                     | (106)                                  | (53)                           | (159)                                   |
| Community Action Partnerships                                                  | (230)                                  | 103                            | (127)                                   |
| Revenue Budget Flexibility                                                     | (2,407)                                | 2,282                          | (125)                                   |
| Salix Fund                                                                     | (174)                                  | 102                            | (72)                                    |
| Planning Appeals and Public Inquiries                                          | (211)                                  | 211                            | 0                                       |
| Contaminated Land                                                              | (203)                                  | 203                            | 0                                       |
| Health and Social Care Partnership                                             | (180)                                  | 180                            | 0                                       |
| Events and Rural Communities                                                   | (120)                                  | 120                            | 0                                       |
| Bridge Feasibility Studies                                                     | (132)                                  | 132                            | 0                                       |
| Investment in North Inch Golf Course                                           | (117)                                  | 117                            | 0                                       |
| Micro Loans Fund                                                               | (60)                                   | 60                             | 0                                       |
| Public Service Network                                                         | (17)                                   | 17                             | 0                                       |
| Earmarked Balances at 31 March 2021                                            | (36,375)                               | (27,908)                       | (64,283)                                |

### Purpose of Earmarked General Fund Balances

**Covid-19** – the Council approved the creation of the Covid-19 earmarked Reserve on 27 January 2021 (report 21/8 refers) to address the ongoing impact of Covid-19. The Council approved savings from the Capital Fund and loan charges, the final 2020/21 under spend and Scottish government Covid funding would be earmarked within this Reserve. This will be utilised in 2021/22 and future years to fund non recurring expenditure pressures arising as a result of the pandemic.

**Revenue Grants** - these grants are being carried forward in reserves as the grant conditions have been met but the expenditure has not been fully incurred.

**Developer Contributions: Commuted Sums & Infrastructure and Affordable Housing** - the Enterprise & Infrastructure Committee approved supplementary guidance on 3 September 2014 for developer contributions covering community greenspace, primary education, Auchterarder A9 junction improvements, affordable housing and transport infrastructure. These sums are held in the Council's Reserves until they are applied to relevant schemes. The application of these resources will be reported to the Strategic Policy & Resources Committee through the revenue and capital monitoring process.

**Workforce Management (including transformation programme)** – the majority of these resources are earmarked for workforce management and cultural change measures required to respond to future financial challenges. There continues to be a small amount earmarked for projects which are still operational under the transformation programme. The application of these resources will be reported to the Strategic Policy & Resources Committee through the revenue monitoring process.

**Affordable Housing (Resources accrued from reduced Council Tax Discounts)** - these reserves have been generated as a result of the Council's policy on varying the level of council tax charged for long term empty properties and second homes. These resources can only be used for the provision of affordable housing. The application of these resources will be reported to the Strategic Policy & Resources Committee through the revenue monitoring process.

**Perth High School** - these resources were earmarked as part of 2016/17 Revenue Monitoring Report 1 to the Strategic Policy and Resources Committee (Report No. 16/400 refers) for future maintenance works at Perth High School and is being phased over a number of years.

**Devolved School Management (DSM)** – the amount shown is the accumulated sum available to be carried forward at 31 March 2021 under the approved scheme for managing these budgets. The purposes for which the earmarked amount can be used and the procedures for its management and control are detailed in the Council's approved DSM scheme.

**Remodelling of Residential Care (Children & Young People)** – The Council meeting of 16 August 2017 approved the review and remodelling of residential care (children and young people) and the financial resources to fund this transformation project (Report No.17/262 refers). The Council approved £500,000 from transformation funding and £500,000 from uncommitted Reserves and up to £700,000 from the Education and Children Services budget. 2017/18 Revenue Monitoring Report 3 to the Strategic Policy & Resources Committee approved £300,000 to be transferred from



Education and Children Services to this earmarked balance (Report No.18/41 refers) and a further £400,000 as part of the year end position. These resources are being phased over a number of years.

**Car Parking** – this balance is the accumulated surplus at 31 March 2021 which is restricted in its application under the Road Traffic Regulation Act 1984. Any proposals to utilise these resources will require approval by the Strategic Policy and Resources Committee.

**Secondary Schools** – £649,000 of these resources were earmarked as part of the 2015/16 Revenue Monitoring Report 1 to the Strategic Policy & Resources Committee (report 15/395 refers) to equip the new secondary school at Bertha Park. A further £650,000 was approved as part of the 2016/17 and 2017/18 Revenue Budget processes as budget flexibility and £100,000 transferred from the amount earmarked for Investment and Learning. The 2017/18 Revenue Monitoring Report 3 (report 18/41 refers) approved a further £400,000 from the Education and Children's Services budget towards this project. The remaining £813,000 will be phased over a number of years.

**Culture** – there was £363,000 approved for developing the cultural offer from the final under spend in the 2018/19 Revenue Budget and reported to Strategic Policy & Resources Committee during the year. This was further increased by £55,000 during 2019/20 and £241,000 during 2020/21. The application of these resources will be reported to the Strategic Policy & Resources Committee through the revenue monitoring process.

**School Counsellors** – Revenue Budget 2020/21 Update No 2 to the Strategic Policy & Resources Committee approved the earmarking of resources received from the Scottish Government in respect of counselling in schools which are anticipated to be spent during 2023/24 due to the awarding of a 3 year contract (Report 20/225).

**Perth & Kinross Offer** – The Strategic Policy and Resources Committee approved the transfer of £262,000 as part of Revenue Monitoring Report 3 to fund future expenditure on Perth & Kinross Offer (Report No 20/22). This was augmented by further underspends in Report 4 of £200,000 and a final year end underspend of £37,000. The application of these resources will be applied in future years.

**Modern Apprentices/Graduate Trainees** - the Strategic Policy and Resources Committee approved the transfer of the final under spend on modern apprentices and graduate trainees during 2020/21 to fund future expenditure in this area.

**Community Improvement Fund** – The Council earmarked £600,000 as part of the 2018/19 Revenue Budget and a further £600,000 was approved to be earmarked during 2019/20. These resources will be reported to the Strategic Policy & Resources Committee. The remaining balance of £304,000 continues to be earmarked.

**PH2O** – The Strategic Policy and Resources Committee approved the transfer of £350,000 from a budget of £500,000 as part of 2019/20 Revenue Monitoring Report 3 to the Strategic Policy & Resources Committee to fund the future design and business operating model of the PH2O project (Report No 20/22 refers). This was augmented by a further underspend of £57,000. The balance of resources will be utilised in future years.

**Grounds Maintenance** – The Strategic Policy and Resources Committee approved the transfer of £225,000 as part of 2018/19 Revenue Monitoring Report 4 to fund road safety measures around the A9/A85 project. (Report No 19/110 refers). This will be utilised over the next 3 financial years.

**Works Maintenance** - The Council continues to earmark a remaining £200,000 for future works maintenance approved as part of the 2018/19 – 2020/21 revenue budget. The application of these resources will be reported to the Strategic Policy & Resources Committee through the revenue monitoring process.

**Financial Assistance** – at its meeting on 9 February 2006 the Council approved the creation of a recurring budget to fund its anticipated contribution to the Mod and other events across Perth and Kinross.

**Local Government Elections** – these resources are earmarked in reserves as a contribution to local elections. The application of these resources will be reported to the Strategic Policy & Resources Committee through the revenue monitoring process.

**Community Action Partnership** – £232,000 was approved for earmarking for Communities in the 2017/18 Revenue Monitoring Report 3 by the Strategic Policy & Resources Committee (Report No.18/41 refers), with a further £70,000 approved in Revenue Monitoring Report 4 (Report 18/133 refers), and a further increase of £10,000 as part of the year end position. During 2019-20 a further £95,000 increased the amount to be earmarked. The application of the balance of these resources will be reported to the Strategic Policy & Resources Committee through the revenue monitoring process.

**Revenue Budget Flexibility** – to assist in the management of the Revenue Budget, the Council's approved budget flexibility scheme permits Services to carry forward under or over spends from one financial year into future financial years within set limits and with the prior approval of Council. The amount carried forward can only be utilised for purposes approved by Council.

**Salix Fund** – this fund is a means of pooling resources together with savings achieved from the implementation of energy conservation and efficiency schemes to fund expenditure on further schemes of the same type. The application of these resources will be reported to the Strategic Policy & Resources Committee through the revenue monitoring process.

**Planning Appeals and Public Inquiries** – in setting the revenue budget for 2021/22 the Council approved to no longer earmark these resources.

**Contaminated Land** – in setting the revenue budget for 2021/22 the Council approved to no longer earmark these resources.

**Health and Social Care Partnership** – in setting the Revenue Budget for 2021/22 the Council approved the un-earmarking of these resources.

**Events and Rural Communities** – The Strategic Policy and Resources Committee approved the transfer of £120,000 as part of 2019/20 Revenue Monitoring Report 1 to fund future expenditure on events and rural communities (Report No 19/246 refers). These resources were utilised in 2020/21.

**Bridge Feasibility Studies** - the Council originally earmarked £808,000 for testing and assessment of the Queens Bridge, Perth and Old Perth Bridge (Report No. 17/60 refers) with the remaining balance utilised in 2020/21.

**Investment in North Inch Golf Course**– The Strategic Policy & Resources Committee approved the transfer of £117,000 as part of Revenue Monitoring Report 2 to fund future investment in North Inch Golf Course (Report No 19/340 refers). This was utilised in 2020/21.

**Micro Loans Fund** – these resources were allocated during the revenue budget process for 2019/20, and were utilised in 2020/21.

**Public Service Network** – these resources were earmarked in reserves to fund ongoing work required beyond initial accreditation and were utilised in 2020/21.



## 8. Other Operating Expenditure / Income

|                                             | 2020/21<br>£'000 | 2019/20<br>£'000 |
|---------------------------------------------|------------------|------------------|
| Gains on the Disposal of Non Current Assets | (121)            | (257)            |
| Share of Tayside Contracts surplus          | (804)            | (588)            |
| Total                                       | <u>(925)</u>     | <u>(845)</u>     |

## 9. Financing and Investment Income and Expenditure

|                                                                             | 2020/21<br>£'000 | 2019/20<br>£'000 |
|-----------------------------------------------------------------------------|------------------|------------------|
| Interest payable and similar charges                                        | 24,350           | 22,906           |
| Pensions interest cost and expected return on pensions assets               | 2,918            | 2,901            |
| Interest receivable and similar income                                      | (1,618)          | (1,426)          |
| Income in relation to investment properties and changes in their fair value | (814)            | (1,112)          |
| Total                                                                       | <u>24,836</u>    | <u>23,269</u>    |

## 10. Taxation and Non Specific Grant Incomes

|                                  | 2020/21<br>£'000 | 2019/20<br>£'000 |
|----------------------------------|------------------|------------------|
| Council Tax Income               | (87,424)         | (83,548)         |
| Non Domestic Rates               | (37,670)         | (56,387)         |
| Non Ringfenced Government Grants | (247,672)        | (194,978)        |
| Capital Grants and Contributions | (25,282)         | (46,262)         |
| Total                            | <u>(398,048)</u> | <u>(381,175)</u> |

## 11. Material Items of Income and Expense

In 2020/21 the Council received additional grant funding of £60.757 million from the Scottish Government in relation to the Covid-19 pandemic which was treated as agency income and expenditure and does not impact upon the figures in the Comprehensive Income and Expenditure Statement (see note 15 for further details). The Council also received £30.0m from the Scottish Government in relation to the Covid-19 pandemic which was treated as principal and received as part of Non Ringfenced Government Grants.

## 12. Premiums and Discounts on Debt Rescheduling Written Down

The Code requires that any premiums or discounts arising from debt rescheduling should be written off in the year they were incurred, except in limited circumstances where they would qualify as a 'modification' of debt. During 2020/21, there were no such debt modifications.

The net amount of premium and discount debited to the General Fund and HRA, including for transactions prior to 1 April 2007 (as permitted by statutory guidance), from the Financial Instruments Adjustment Account was £707,000 (2019/20 £707,000).

### 13. General Grants, Bequests and Donations

Perth & Kinross Council is represented on, exercises influence over and provides grants to a large number of outside bodies which provide services to the public, consistent with the Council's statutory responsibilities.

During 2020/21 a total of £15,456,000 (2019/20 £14,619,000) was paid out in support of these organisations ranging from remission of hall rents of a few pounds to the contribution towards the operational and other costs of Live Active Leisure Limited of £4,709,000 (2019/20 £4,686,000). Details of grants are shown below.

|                                                     | 2020/21<br>£'000 | 2019/20<br>£'000 |
|-----------------------------------------------------|------------------|------------------|
| Service Level Agreements with Outside Organisations | 4,179            | 3,380            |
| Live Active Leisure Limited                         | 4,709            | 4,686            |
| Culture Perth & Kinross                             | 3,079            | 3,256            |
| Horsecross Arts Ltd                                 | 1,176            | 1,280            |
| Perth Money Advice Service                          | 414              | 409              |
| Churches Action for the Homeless                    | 258              | 254              |
| Pitlochry Festival Theatre                          | 220              | 220              |
| Commercial Property Regeneration Grants             | 330              | 0                |
| Micro Business Grants                               | 60               | 152              |
| Perthshire Women's Aid                              | 78               | 78               |
| Perth & Kinross Heritage Trust                      | 97               | 94               |
| Perth & Kinross Countryside Trust                   | 30               | 30               |
| Vacant Property Grants                              | 49               | 25               |
| Perth & Kinross Sports Council                      | 11               | 11               |
| Other Miscellaneous Grants                          | 766              | 744              |
|                                                     | <u>15,456</u>    | <u>14,619</u>    |

### 14. Expenditure and Income Analysed by Nature

The Council's expenditure and income is analysed as follows:

| Expenditure/Income                                    | 2020/21<br>£'000 | 2019/20<br>£'000 |
|-------------------------------------------------------|------------------|------------------|
| <b>Expenditure</b>                                    |                  |                  |
| Employee benefits expenses                            | 228,025          | 220,391          |
| Other services expenses                               | 234,454          | 218,824          |
| Net Contribution to Integration Joint Board           | 56,743           | 54,077           |
| Support service recharges                             | 2,077            | 2,089            |
| Depreciation, amortisation, impairment                | 45,806           | 51,806           |
| Interest payments                                     | 24,350           | 22,906           |
| <b>Total Expenditure</b>                              | <u>591,455</u>   | <u>570,093</u>   |
| <b>Income</b>                                         |                  |                  |
| Fees, charges and other service income                | 141,489          | 139,186          |
| Interest and investment income                        | 2,595            | 2,424            |
| Taxation and Non-Specific Grant Income                | 398,048          | 381,175          |
| Government grants and contributions                   | 54,045           | 43,847           |
| Gain on the disposal of assets                        | 121              | 257              |
| <b>Total Income</b>                                   | <u>596,298</u>   | <u>566,889</u>   |
| <b>(Surplus)/Deficit on the Provision of Services</b> | <u>(4,843)</u>   | <u>3,204</u>     |

## 15. Agency Services

Agency arrangements operate in some Services where the Council undertakes work on behalf of other local authorities; Scottish Water; government; and other public bodies. The main items of income and related expenditure are shown below.

|                                                                       | 2020/21<br>Income<br>£'000 | 2020/21<br>Expenditure<br>£'000 | 2019/20<br>Income<br>£'000 | 2019/20<br>Expenditure<br>£'000 |
|-----------------------------------------------------------------------|----------------------------|---------------------------------|----------------------------|---------------------------------|
| <u>Education &amp; Children's Services</u>                            |                            |                                 |                            |                                 |
| Provision of Pupil Support Assistants to other local authorities      | 211                        | 211                             | 113                        | 113                             |
| <u>Communities</u>                                                    |                            |                                 |                            |                                 |
| Receipts from other local authorities for cross boundary bus services | 17                         | 17                              | 17                         | 17                              |
| <u>Corporate and Democratic Services</u>                              |                            |                                 |                            |                                 |
| Income from Scottish Water                                            | 445                        | 445                             | 444                        | 444                             |
| <b>Totals</b>                                                         | <b>673</b>                 | <b>673</b>                      | <b>574</b>                 | <b>574</b>                      |

The Council issued Covid-related grants on behalf of the Scottish Government during 2020/21 to the value of £60.757m. No Covid grants were paid out during 2019/20.

|                                                                            | 2020/21<br>Income<br>£'000 | 2020/21<br>Expenditure<br>£'000 | 2019/20<br>Income<br>£'000 | 2019/20<br>Expenditure<br>£'000 |
|----------------------------------------------------------------------------|----------------------------|---------------------------------|----------------------------|---------------------------------|
| <u>Education &amp; Children's Services</u>                                 |                            |                                 |                            |                                 |
| Covid-related Grants to Partner Providers on behalf of Scottish Government | 353                        | 353                             | 0                          | 0                               |
| <u>Corporate and Democratic Services</u>                                   |                            |                                 |                            |                                 |
| Covid-related Grants to Businesses on behalf of Scottish Government:       |                            |                                 |                            |                                 |
| Business Support Fund Grant                                                | 37,024                     | 37,024                          |                            |                                 |
| Strategic Framework Business Support Fund                                  | 13,270                     | 13,270                          |                            |                                 |
| Strategic Framework Business Support Fund Top Up                           | 8,020                      | 8,020                           |                            |                                 |
| Other                                                                      | 1,128                      | 1,128                           |                            |                                 |
| Covid-related Grants to Individuals on behalf of Scottish Government       | 962                        | 962                             |                            |                                 |
|                                                                            |                            |                                 | 0                          | 0                               |
|                                                                            | <b>60,757</b>              | <b>60,757</b>                   | <b>0</b>                   | <b>0</b>                        |

## 16. External Audit Costs

In 2020/21 Perth and Kinross Council incurred the following fees relating to external audit services provided in accordance with the Code of Audit Practice:

|                     | 2020/21<br>£'000 | 2019/20<br>£'000 |
|---------------------|------------------|------------------|
| External Audit Fees | 290              | 284              |

This includes £4,000 in respect of the audit of charitable trusts where the Council is the sole trustee (2019/20 £3,500).

## 17. Termination Benefits

The Council terminated the contracts of a number of employees in 2020/21, incurring liabilities of £5,000 (£407,000 in 2019/20). These were in relation to 58 officers (78 in 2019/20) from all Services across the Council throughout 2020/21 and will deliver full year recurring savings.

## 18. Post-Employment Benefits

International Accounting Standard 19 'Employee Benefits' (IAS 19) prescribes how pension costs and liabilities are to be disclosed in the financial statements. The standard requires employing organisations to account for post-employment benefits in the period in which they are committed to give them, even if the actual payment of these benefits will be many years in the future. The following notes are prepared in accordance with the code guidance on disclosure requirements in respect of IAS 19.

Perth & Kinross Council participates in two different pension schemes, one for teaching staff and a separate scheme for all other employees.

### **Pensions Schemes Accounted for as Defined Contribution Schemes**

#### ***Teachers***

Teachers employed by the Council are members of the Teachers' Pension Scheme, administered by the Scottish Government. The Scheme provides teachers with specified benefits upon their retirement, and the Council contributes towards the costs by making contributions based on a percentage of members' pensionable salaries.

The scheme is technically a defined benefit scheme. However, the Scheme is unfunded and the Scottish Government uses a notional fund as the basis for calculating the employers' contribution rate paid by local authorities. The Council is not able to identify its share of the underlying financial position and performance of the scheme with sufficient reliability for accounting purposes. For the purposes of the Statement of Accounts, it is therefore accounted for on the same basis as a defined contribution scheme.

In 2020/21, the Council paid £14.552 million to the Teachers' Pensions scheme in respect of teachers' retirement benefits, representing 23% of pensionable pay. The figures for 2019/20 were £12,590,572 and 23%. There were no contributions remaining payable at the year-end. Additional payments relating to added year's benefits, which the Council has inherited from predecessor authorities or awarded itself, together with related increases, amounted to £197,797 (2019/20 £208,184).

### **Pension Schemes Accounted for as Defined Benefit Pension Schemes**

#### ***Local Government Pension Scheme***

The post-employment scheme for other employees, subject to certain qualifying criteria, is the Local Government Pension Scheme (LGPS) which is administered in this area by Dundee City Council in respect of all local authorities and admitted bodies in the former Tayside area. This is a multi-employer scheme in which it is possible for an employer to identify its share of the assets and liabilities on a consistent and reasonable basis. Employer's liabilities can be evaluated directly by the Actuary at any time on membership data.

#### **Benefits**

- It is a Career Average Revalued Earnings scheme, meaning that the Council and employees pay contributions into a fund, calculated at a level to balance the pension's liability with investment assets.
- The pension's accrual rate guarantees a pension based on 1/49th of career average revalued earnings and years of pensionable service. There is no automatic entitlement to a lump sum. Members may opt to give up (commute) pension for lump sum up to the limit set by the Finance Act 2004. Pensions are increased annually in line with changes to the Pensions (Increases) Act 1971 and Section 59 of the Social Security Pensions Act 1975.

#### **Governance**

- The Tayside Pension Fund is operated under the regulatory framework for the LGPS in Scotland and the governance of the scheme is the responsibility of the Tayside Pension Fund Committee. This Committee is comprised solely of elected members of Dundee City Council. Employing authorities (including Perth & Kinross Council) are represented at the Tayside Pension Fund Representative Forum.
- Policy is determined in accordance with the Local Government Pension Scheme (Scotland) Regulations. Management of the Fund's investments is carried out by the Fund's Investment Advisory Panel which selects and appoints a number of external investment managers/partners and monitors their investment performance.
- Under the Regulations, employers fall into three categories, scheme employers (also known as scheduled bodies) such as Perth & Kinross Council, community admission bodies and transferee admission bodies. Admission agreements are generally assumed to be open-ended. However, either party can voluntarily terminate the admission agreement by giving an appropriate period of notice to the other parties. Any deficit arising from the cessation valuation will usually be levied on the departing admission body as a capital payment.

#### **Principal Risks**

- The principal risks to the scheme are the longevity assumptions, statutory changes to the scheme, changes to inflation, bond yields and the performance of the investments held by the scheme. These are mitigated to a certain extent by the statutory requirements to charge the General Fund the amount due by statute as described in the accounting policy note.

## Discretionary Post-employment Benefits

- Discretionary post-retirement benefits on early retirements are an unfunded defined benefit arrangement, under which liabilities are recognised when an award is made. There are no plan assets built up to meet these pension liabilities.

The contributions paid into the scheme by employees and member pension benefits are prescribed, for the period to which the accounts relate, by the Local Government Pensions Scheme (Scotland) Regulations 1998 as amended. Perth & Kinross Council's contributions, as an employer, into the Tayside Pension Fund are subject to the advice of the Fund actuary.

The Local Government Pension Scheme allows for the award of discretionary post-employment benefits upon early retirement. This is an unfunded defined benefit final arrangement, under which liabilities are recognised when awards are made. However, there are no investment assets built up to meet the pension's liabilities, and cash has to be generated to meet actual pension's payments as they eventually fall due.

## Guaranteed Minimum Pension (GMP) Equalisation

As a result of the High Court's recent Lloyds ruling on the equalisation of GMPs between genders, a number of pension schemes have made adjustments to accounting disclosures to reflect the effect this ruling has on the value of pension liabilities. It is our understanding that HM Treasury has confirmed that the judgement "does not impact on the current method used to achieve equalisation and indexation in public service pension schemes".

On 22 January 2018, the Government published the outcome to its Indexation and equalisation of GMP in public service pension schemes consultation, concluding that the requirement for public service pension schemes to fully price protect the GMP element of individuals' public service pension would be extended to those individuals reaching State Pension Age (SPA) before 6 April 2021. HM Treasury published a Ministerial Direction on 4 December 2018 to implement this outcome, with effect from 6 April 2016.

The Council's valuation assumption for GMP is that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, the Council has assumed that the Fund will be required to pay the entire inflationary increase. Therefore, the Council has not made any adjustments to the value placed on the liabilities as a result of the above outcome.

## McCloud Judgement

On 20 December 2018 the Court of Appeal ruled that transitional arrangements offered to some public sector pension scheme members amounted to unlawful discrimination. This related to new schemes set up in 2015 which typically meant older workers could stay in the existing, more generous schemes, while younger workers had to transfer to the new schemes. In June 2019, the Supreme Court upheld the ruling.

## Career Average Revalued Earnings Scheme (CARE)

The Local Government Pension Scheme changed from Final Salary to Career Average Revalued Earnings (CARE) on 1 April 2015, with a change of accrual rate from 1/60<sup>th</sup> to 1/49<sup>th</sup>. Employees who were previously paying into the Final Salary scheme were automatically transferred into the new CARE scheme on 1 April 2015.

## **Transactions Relating to Post-Employment Benefits**

The Council recognises the cost of retirement benefits in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the Council is required to make against Council Tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement.

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year.

## Local Government Pension Scheme

|                                                                                                                                                | 2020/21<br>£'000 | 2019/20<br>£'000 |
|------------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| Comprehensive Income and Expenditure Statement                                                                                                 |                  |                  |
| Cost of Services                                                                                                                               |                  |                  |
| - Service Cost                                                                                                                                 | 32,503           | 35,748           |
| Financing and Investment Income and Expenditure                                                                                                |                  |                  |
| - Net Interest on the Defined Liability                                                                                                        | 2,645            | 2,636            |
| Administration Expenses                                                                                                                        | 273              | 265              |
| Total Post Employment Benefit Charged to the Surplus or Deficit on the Provision of Services                                                   | <u>35,421</u>    | <u>38,649</u>    |
| Remeasurement of the net defined benefit liability comprising:                                                                                 |                  |                  |
| Expected return on pension fund assets in excess of interest                                                                                   | (224,110)        | 61,465           |
| Other actuarial (gains)/losses on assets                                                                                                       | (48,885)         | 0                |
| Changes in demographic assumptions                                                                                                             | (19,288)         | 0                |
| Changes in financial assumptions                                                                                                               | 236,850          | (79,036)         |
| Experience Gain on defined benefit obligation                                                                                                  | 23,025           | 0                |
| Total Post Employment Benefit Credited to the Comprehensive Income & Expenditure Statement                                                     | <u>(32,408)</u>  | <u>(17,571)</u>  |
| Movement in Reserves Statement                                                                                                                 |                  |                  |
| - Reversal or net charges made to the surplus or deficit on the Provision of Services for post-employment benefits in accordance with the code | <u>(35,421)</u>  | <u>(38,649)</u>  |
| Actual amount charged against the General Fund Balance for pensions in the year:                                                               |                  |                  |
| Employers' contributions and direct payments payable to Tayside Pension Fund                                                                   | <u>19,111</u>    | <u>18,188</u>    |

## Pensions Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the Council's obligation in respect of its defined benefit scheme is as follows:

|                                                 | 31 March<br>2021<br>£'000 | 31 March<br>2020<br>£'000 |
|-------------------------------------------------|---------------------------|---------------------------|
| Present Value of the Defined Benefit Obligation | 1,105,952                 | 840,283                   |
| Present Value of Unfunded Obligation            | <u>27,100</u>             | <u>21,940</u>             |
| Closing Defined Benefit Obligation              | 1,133,052                 | 862,223                   |
| Fair Value of Pension Fund Assets (Bid Value)   | <u>(1,027,718)</u>        | <u>(740,791)</u>          |
| <b>Net Liability in Balance Sheet</b>           | <u>105,334</u>            | <u>121,432</u>            |

A reconciliation of Perth & Kinross Council's share of the present value of Tayside Pension Fund's defined benefit obligation (liabilities) is as follows:

|                                               | 31 March<br>2021<br>£'000 | 31 March<br>2020<br>£'000 |
|-----------------------------------------------|---------------------------|---------------------------|
| Opening Defined Benefit Obligation            | 862,223                   | 905,540                   |
| Current Service Cost                          | 31,866                    | 35,346                    |
| Interest Cost                                 | 20,017                    | 21,484                    |
| Change in Financial Assumptions               | 236,850                   | (79,036)                  |
| Change in demographic assumptions             | (19,288)                  | 0                         |
| Experience Gain on Defined Benefit Obligation | 23,025                    | 0                         |
| Estimated Benefits Paid Net of Transfers In   | (26,331)                  | (25,718)                  |
| Past Service Costs (including Curtailments)   | 637                       | 402                       |
| Contributions by Scheme Participants          | 6,104                     | 6,082                     |
| Unfunded Pension Payments                     | <u>(2,051)</u>            | <u>(1,877)</u>            |
| Closing Defined Benefit Obligation            | <u>1,133,052</u>          | <u>862,223</u>            |

A reconciliation of the movements in Perth & Kinross Council's share of the fair value of Tayside Pension Fund's assets is as follows:

|                                                                 | 31 March<br>2021<br>£'000 | 31 March<br>2020<br>£'000 |
|-----------------------------------------------------------------|---------------------------|---------------------------|
| Opening Fair Value of Scheme Assets                             | 740,791                   | 786,998                   |
| Interest on Assets                                              | 17,372                    | 18,848                    |
| Return on Assets Less Interest                                  | 224,110                   | (61,465)                  |
| Other actuarial gains/ (losses)                                 | 48,885                    | 0                         |
| Administration Expenses                                         | (273)                     | (265)                     |
| Contributions by Employer Including Unfunded                    | 19,111                    | 18,188                    |
| Contributions by Scheme Participants                            | 6,104                     | 6,082                     |
| Estimated Benefits Paid Plus Unfunded Net of Transfers (Out)/In | <u>(28,382)</u>           | <u>(27,595)</u>           |
| Closing Fair Value of Scheme Assets                             | <u>1,027,718</u>          | <u>740,791</u>            |



Perth & Kinross Council's share of Tayside Pension Fund's assets at 31 March 2021 comprised:

|              | 31 March 2021 |      | 31 March 2020 |      |
|--------------|---------------|------|---------------|------|
|              | £'000         | %    | £'000         | %    |
| Equities     | 735,891       | 72%  | 489,766       | 66%  |
| Gilts        | 40,638        | 4%   | 10,276        | 1%   |
| Other Bonds  | 134,143       | 13%  | 130,895       | 18%  |
| Property     | 93,932        | 9%   | 91,116        | 13%  |
| Cash         | 21,648        | 2%   | 18,738        | 2%   |
| Alternatives | 1,466         | 0%   | 0             | 0%   |
| Total        | 1,027,718     | 100% | 740,791       | 100% |

A further breakdown of the assets is as follows:

|                             | 28 February 2021 | 29 February 2020 |
|-----------------------------|------------------|------------------|
| Equities                    |                  |                  |
| Consumer                    | 8%               | 7%               |
| Manufacturing               | 3%               | 2%               |
| Energy and Utilities        | 2%               | 2%               |
| Financial Institutions      | 9%               | 10%              |
| Health and Care             | 5%               | 5%               |
| Information Technology      | 9%               | 7%               |
| Others                      | 12%              | 11%              |
| Industrials                 | n/a              | n/a              |
|                             | 48%              | 44%              |
| Debt Securities             |                  |                  |
| Corporate Bonds             | 12%              | 14%              |
| UK Government Bonds         | 1%               | 1%               |
| Others                      | 1%               | 1%               |
|                             | 14%              | 16%              |
| Property                    |                  |                  |
| UK Property                 | 10%              | 11%              |
|                             | 10%              | 11%              |
| Investment Fund Unit Trusts |                  |                  |
| Equities                    | 24%              | 23%              |
| Bonds                       | 2%               | 3%               |
|                             | 26%              | 26%              |
| Cash & Cash Equivalents     | 2%               | 3%               |
| Total                       | 100%             | 100%             |

### Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Local Government Pension Scheme and Discretionary Benefits liabilities have been assessed by Barnett Waddingham Public Sector Consulting, an independent firm of actuaries. Estimates for the Tayside Pension Fund are based on the latest full valuation of the scheme as at 31 March 2021.

#### The principal assumptions used by the actuary have been:

|                                         | 2020/21 | 2019/20 |
|-----------------------------------------|---------|---------|
| Mortality Assumptions:                  |         |         |
| Longevity at 65 for Current Pensioners: |         |         |
| - Men                                   | 18.9    | 19.7    |
| - Women                                 | 22.2    | 21.7    |
| Longevity at 65 for Future Pensioners:  |         |         |
| - Men                                   | 20.4    | 21.4    |
| - Women                                 | 23.8    | 23.5    |
| Rate of Inflation CPI                   | 2.8%    | 1.9%    |
| Rate of Inflation RPI                   | 3.2%    | 2.4%    |
| Rate of Increase in Salaries            | 3.8%    | 2.9%    |
| Rate of Increase in Pensions            | 2.8%    | 1.9%    |
| Rate for Discounting Scheme Liabilities | 2.0%    | 2.4%    |

The liabilities show the underlying commitments that the Council has in the long run to pay post-employment (retirement) benefits. The net liability of £105,334,000 has a substantial impact on the net worth of the Council as recorded in the Balance Sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Council remains sound.

- The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due) as assessed by the scheme actuary.
- Finance is only required to be raised to cover discretionary benefits when the pensions are actually paid.

The total contribution expected to be made to the Local Government Pension Scheme by the Council in the year to 31 March 2022 is £16,545,000.

### Change in Accounting Estimate

The derivation of the CPI assumption has changed at 31 March 2021. A long term gap between RPI and CPI of 40 basis points has been proposed, compared to 80 basis points at the prior year end. The update reflects the anticipated reform of RPI inflation following the UK Statistics Authority's proposal to change how RPI is calculated and subsequent announcements from the Chancellor suggesting this reform is now likely to take effect from 2030. This results in an estimated increase in the defined benefit obligation of £81,504,000 compared to the approach taken the previous year.

An Inflation Risk Premium (IRP) adjustment has been included in the valuation of the scheme at 31 March 2021. The Bank of England (BoE) implied inflation curve may suggest a higher rate of inflation, over longer terms, than actually expected by market participants due to a willingness to accept a lower return on investments to ensure inflation linked returns. The assumed level of future annual RPI increase is 0.25% p.a. lower than the Single Equivalent Inflation Rate (SEIR) calculated using the BoE inflation curve alone. This is a change from the approach taken the previous year and results in an estimated gain in the defined benefit obligation of £50,179,000.

A weighting has been applied to the Continuous Mortality Investigation (CMI) Model for the valuation at 31 March 2021. The adjustment allows the exceptional mortality experienced as a result of the coronavirus pandemic to be incorporated into life expectancy modelling without having a disproportionate impact on results. The update results in an estimated gain in the defined benefit obligation of £11,819,000.

### Sensitivity Analysis

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the tables above. The sensitivity analysis below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

| Adjustment to discount rate                              | +0.1%          | 0.0%           | -0.1%          |
|----------------------------------------------------------|----------------|----------------|----------------|
| - Present value of total obligation                      | £1,111,851,000 | £1,133,052,000 | £1,143,679,000 |
| - Projected Service cost                                 | £46,312,000    | £47,812,000    | £49,357,000    |
| Adjustment to long term salary increase                  | +0.1%          | 0.0%           | -0.1%          |
| - Present value of total obligation                      | £1,136,138,000 | £1,133,052,000 | £1,129,992,000 |
| - Projected Service cost                                 | £47,838,000    | £47,812,000    | £47,786,000    |
| Adjustment to pension increases and deferred revaluation | +0.1%          | 0.0%           | -0.1%          |
| - Present value of total obligation                      | £1,151,403,000 | £1,133,052,000 | £1,115,055,000 |
| - Projected Service cost                                 | £49,341,000    | £47,812,000    | £30,240,000    |
| Adjustment to mortality age rating assumption            | + 1 year       | None           | -1 year        |
| - Present value of total obligation                      | £1,191,433,000 | £1,133,052,000 | £1,077,692,000 |
| - Projected Service cost                                 | £50,077,000    | £47,812,000    | £45,639,000    |

### Inflation Assumptions

The Fund Actuary proposed a change to the standard approach to setting the CPI assumption, to take account of RPI reform which has been accounted for in the tables above. The method for calculating the RPI assumption (on which the CPI assumption is based) has been updated, resulting in a reduction in gross liability of £50.2 million. In addition, the difference between CPI and RPI (the RPI-CPI wedge) has been updated, resulting in an increase in liability of £81.5 million. These changes are linked, and are based on pre- 2030 and post-2030 rates. As a result of this change, the gross liability is £31.3 million larger than under the previous approach and will ultimately unwind over the life of the pension fund.

## 19. Related Parties

The Council is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Council or to be controlled or influenced by the Council. Disclosure of these transactions allows readers to assess the extent to which the Council might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Council.

### Scottish Government

The Scottish Government has effective control over the general operations of the Council – it is responsible for providing the statutory framework within which the Council operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Council has with other parties (e.g. Council Tax bills). Grants received from government departments are set out in the subjective analysis in Note 14 on expenditure and income analysed by nature.

### Tayside Valuation Joint Board

The Tayside Valuation Joint Board provides services on behalf of Perth & Kinross, Angus and Dundee Councils. The Council does not have any direct control or influence over the board and the amount payable to this body for valuation services and electoral registration services was £1,596,000 (2019/20 £1,528,000). £1,308,000 is disclosed in the Comprehensive Income and Expenditure Statement under Valuation Joint Board and £288,000 under Corporate and Democratic Services for electoral and registration services.

### Members

Members of the Council have direct control over the Council's financial and operating policies. The total of members' allowances paid in 2020/21 is shown in the Remuneration Report. During 2020/21, two councillors had an interest in businesses from which the Council commissioned works and services to the value of £1,470 and £1,224 respectively. Contracts were entered into in full compliance with the Council's standing orders and the Councillors' Code of Conduct.

In addition the Council makes revenue and capital payments to a large number of organisations on which Council members are represented.

### Chief Officers

There are no significant related party transactions with Chief Officers of the Council.

### Live Active Leisure Ltd

This organisation provides leisure services within the area served by the Council. A grant was provided in 2020/21 amounting to £4,709,000 (2019/20 £4,686,000). It is a sole member Company with the Council as that member.

### Horsecross Arts Ltd

This organisation operates Perth Concert Hall and Perth Theatre. A grant was provided in 2020/21 amounting to £1,176,000 (2019/20 £1,280,000). It is a sole member Company with the Council as that member.

### Culture Perth & Kinross Ltd

This organisation has operated libraries, museums and arts galleries in Perth & Kinross since 1 April 2016. A grant was provided in 2020/21 amounting to £3,079,000 (2019/20 £3,256,000). It is a sole member Company with the Council as that member.

### Tayside Contracts Joint Committee

This organisation provides roads maintenance; catering and cleaning services to the Council. Payments to Tayside Contracts in 2020/21 amounted to £28,086,000 (2019/20 £30,166,000). The Joint Committee is administered and controlled by Dundee City, Angus and Perth & Kinross Councils.

### Health and Social Care Partnership

This organisation is a joint venture between Perth & Kinross Council and Tayside Health Board and has since 1 April 2016 provided an integrated Health and Social Care service. Payments to the Health & Social Care Partnership in 2020/21 amounted to £78,831,000 (2019/20 £72,368,000) and receipts amounted to £22,088,000 (2019/20 £18,291,000).

## 20. Leases

### Council as Lessee

The Council operates a Lease Car Scheme which is available to eligible employees and lease rental payments are recovered from employees. The car leasing agreements are due to expire during the financial years 2021/22 to 2023/24.

The Council has also acquired the use of a number of properties by entering into leasing arrangements. The majority of such properties are used for office accommodation and any capital works undertaken within these premises are written down over the shorter of the lease term or the useful life of the property.

The future minimum lease payments due under non-cancellable leases in future years are:

|                                                   | 2020/21      | 2019/20      |
|---------------------------------------------------|--------------|--------------|
|                                                   | £'000        | £'000        |
| Not later than one year                           | 153          | 162          |
| Later than one year and not later than five years | 348          | 428          |
| Later than five years                             | 601          | 613          |
|                                                   | <u>1,102</u> | <u>1,203</u> |

The expenditure charged to the Services lines in the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

|                              | 2020/21    | 2019/20    |
|------------------------------|------------|------------|
|                              | £'000      | £'000      |
| Minimum lease payments       | 167        | 167        |
| Sublease payments receivable | (13)       | (13)       |
|                              | <u>154</u> | <u>154</u> |

#### Council as Lessor

The Council leases out property under operating leases at normal market rents with the following purpose:

Land for the generation of rental income arising from its use; land and buildings, which include offices and shops, for the supply of suitable business accommodation to promote economic development or satisfy social needs, or to solely generate rental income for the Council.

The total future minimum lease payments receivable under non-cancellable leases in future years are:

|                                                   | 2020/21       | 2019/20       |
|---------------------------------------------------|---------------|---------------|
|                                                   | £'000         | £'000         |
| Not later than one year                           | 1,272         | 1,302         |
| Later than one year and not later than five years | 4,384         | 4,471         |
| Later than five years                             | 48,721        | 49,843        |
|                                                   | <u>54,377</u> | <u>55,616</u> |

The minimum lease payments receivable do not include rents that are contingent on events taking place after the lease was entered into, such as adjustments following rent reviews. There were no material adjustments in respect of contingent rents during the years 2019/20 and 2020/21.

## 21. Property, Plant and Equipment

Movements on Fixed Assets 2020/21 in respect of Property, Plant & Equipment are shown below:

### Movements in 2020/21

|                                                                                                    | Council<br>Dwellings<br>£'000 | Other<br>Land &<br>Buildings<br>£'000 | Vehicles<br>Plant &<br>Equipment<br>£'000 | Infrastructure<br>Assets<br>£'000 | Community<br>Assets<br>£'000 | Sub<br>Total<br>c/fwd<br>£'000 |
|----------------------------------------------------------------------------------------------------|-------------------------------|---------------------------------------|-------------------------------------------|-----------------------------------|------------------------------|--------------------------------|
| <u>Gross Book Value</u>                                                                            |                               |                                       |                                           |                                   |                              |                                |
| As at 1 April 2020                                                                                 | 304,598                       | 647,950                               | 51,275                                    | 360,167                           | 22,753                       | 1,386,743                      |
| Additions                                                                                          | 7,075                         | 13,973                                | 8,193                                     | 12,880                            | 814                          | 42,935                         |
| Revaluation increases recognised in the<br>Revaluation Reserve                                     | 0                             | 11,164                                | 0                                         | 0                                 | 0                            | 11,164                         |
| Revaluation decreases recognised in the<br>Revaluation Reserve                                     | 0                             | (3,489)                               | 0                                         | 0                                 | 0                            | (3,489)                        |
| Revaluation increases recognised in the<br>Surplus/Deficit on the Provision of Services            | 0                             | 4,344                                 | 0                                         | 0                                 | 0                            | 4,344                          |
| Revaluation decreases recognised in the<br>Surplus/Deficit on the Provision of Services            | 0                             | (474)                                 | 0                                         | 0                                 | 0                            | (474)                          |
| Derecognition - disposals                                                                          | (403)                         | (160)                                 | (6,170)                                   | 0                                 | 0                            | (6,733)                        |
| Asset reclassifications                                                                            | 8,746                         | (545)                                 | 0                                         | 0                                 | 0                            | 8,201                          |
| Other Movements                                                                                    | 0                             | 0                                     | 0                                         | 0                                 | 0                            | 0                              |
| As at 31 March 2021                                                                                | 320,016                       | 672,763                               | 53,298                                    | 373,047                           | 23,567                       | 1,442,691                      |
| <u>Depreciation</u>                                                                                |                               |                                       |                                           |                                   |                              |                                |
| As at 1 April 2020                                                                                 | (4,983)                       | (61,377)                              | (34,576)                                  | (131,366)                         | (11,531)                     | (243,833)                      |
| Depreciation charge for 2020/21                                                                    | (11,377)                      | (20,020)                              | (6,400)                                   | (12,155)                          | (1,215)                      | (51,167)                       |
| Depreciation written out to the Revaluation<br>Reserve - revaluation gain                          | 0                             | 24,357                                | 0                                         | 0                                 | 0                            | 24,357                         |
| Depreciation written out to the Revaluation<br>Reserve - revaluation loss                          | 0                             | 147                                   | 0                                         | 0                                 | 0                            | 147                            |
| Depreciation written out to the Surplus/Deficit<br>on the Provision of Services - revaluation gain | 0                             | 2,279                                 | 0                                         | 0                                 | 0                            | 2,279                          |
| Depreciation written out to the Surplus/Deficit<br>on the Provision of Services - revaluation loss | 0                             | 154                                   | 0                                         | 0                                 | 0                            | 154                            |
| Derecognition - disposals                                                                          | 403                           | 0                                     | 5,959                                     | 0                                 | 0                            | 6,362                          |
| Asset reclassifications                                                                            | 0                             | 57                                    | 0                                         | 0                                 | 0                            | 57                             |
| As at 31 March 2021                                                                                | (15,957)                      | (54,403)                              | (35,017)                                  | (143,521)                         | (12,746)                     | (261,644)                      |
| Net Book Value at 31 March 2021                                                                    | 304,059                       | 618,360                               | 18,281                                    | 229,526                           | 10,821                       | 1,181,047                      |



**Property, Plant and Equipment cont'd**
**Movements in 2020/21**

|                                                                                                 | Sub<br>total<br>b/fwd<br>£'000 | Surplus<br>Assets<br>£'000 | Assets<br>Under<br>Construction<br>£'000 | Total<br>PPE<br>£'000 | PFI & DBFM<br>Assets Included<br>in PPE<br>£'000 |
|-------------------------------------------------------------------------------------------------|--------------------------------|----------------------------|------------------------------------------|-----------------------|--------------------------------------------------|
| <b>Gross Book Value</b>                                                                         |                                |                            |                                          |                       |                                                  |
| As at 1 April 2020                                                                              | 1,386,743                      | 1,735                      | 13,708                                   | 1,402,186             | 171,315                                          |
| Additions                                                                                       | 42,935                         | 13                         | 14,761                                   | 57,709                | 300                                              |
| Revaluation increases recognised in the Revaluation Reserve                                     | 11,164                         | 15                         | 0                                        | 11,179                | 3,984                                            |
| Revaluation decreases recognised in the Revaluation Reserve                                     | (3,489)                        | (20)                       | 0                                        | (3,509)               | (3,210)                                          |
| Revaluation increases recognised in the Surplus/Deficit on the Provision of Services            | 4,344                          | (10)                       | 0                                        | 4,334                 | 1,683                                            |
| Revaluation decreases recognised in the Surplus/Deficit on the Provision of Services            | (474)                          | (258)                      | 0                                        | (732)                 | (45)                                             |
| Derecognition - disposals                                                                       | (6,733)                        | (250)                      | 0                                        | (6,983)               | 0                                                |
| Asset reclassifications                                                                         | 8,201                          | 545                        | (8,746)                                  | 0                     | 0                                                |
| Other Movements                                                                                 | 0                              | 0                          | 0                                        | 0                     | 0                                                |
| As at 31 March 2021                                                                             | <u>1,442,691</u>               | <u>1,770</u>               | <u>19,723</u>                            | <u>1,464,184</u>      | <u>174,027</u>                                   |
| <b>Depreciation</b>                                                                             |                                |                            |                                          |                       |                                                  |
| As at 1 April 2020                                                                              | (243,833)                      | 0                          | 0                                        | (243,833)             | (23,779)                                         |
| Depreciation charge for 2020/21                                                                 | (51,167)                       | 0                          | 0                                        | (51,167)              | (4,799)                                          |
| Depreciation written out to the Revaluation Reserve - revaluation gain                          | 24,357                         | 0                          | 0                                        | 24,357                | 21,436                                           |
| Depreciation written out to the Revaluation Reserve - revaluation loss                          | 147                            | 0                          | 0                                        | 147                   | 0                                                |
| Depreciation written out to the Surplus/Deficit on the Provision of Services - revaluation gain | 2,279                          | 33                         | 0                                        | 2,312                 | 2,166                                            |
| Depreciation written out to the Surplus/Deficit on the Provision of Services - revaluation loss | 154                            | 24                         | 0                                        | 178                   | 0                                                |
| Derecognition - disposals                                                                       | 6,362                          | 0                          | 0                                        | 6,362                 | 0                                                |
| Asset reclassifications                                                                         | 57                             | (57)                       | 0                                        | 0                     | 0                                                |
| As at 31 March 2021                                                                             | <u>(261,644)</u>               | <u>0</u>                   | <u>0</u>                                 | <u>(261,644)</u>      | <u>(4,976)</u>                                   |
| Net Book Value at 31 March 2021                                                                 | <u>1,181,047</u>               | <u>1,770</u>               | <u>19,723</u>                            | <u>1,202,540</u>      | <u>169,051</u>                                   |

## Property, Plant and Equipment cont'd

### Comparative Movements in 2019/20

|                                                                                                    | Council<br>Dwellings<br>£'000 | Other<br>Land &<br>Buildings<br>£'000 | Vehicles<br>Plant &<br>Equipment<br>£'000 | Infrastructure<br>Assets<br>£'000 | Community<br>Assets<br>£'000 | Sub<br>Total<br>c/fwd<br>£'000 |
|----------------------------------------------------------------------------------------------------|-------------------------------|---------------------------------------|-------------------------------------------|-----------------------------------|------------------------------|--------------------------------|
| <u>Gross Book Value</u>                                                                            |                               |                                       |                                           |                                   |                              |                                |
| As at 1 April 2019                                                                                 | 362,208                       | 589,572                               | 48,205                                    | 338,850                           | 20,529                       | 1,359,364                      |
| Additions                                                                                          | 14,718                        | 54,392                                | 6,705                                     | 21,317                            | 2,224                        | 99,356                         |
| Revaluation increases recognised in the<br>Revaluation Reserve                                     | 0                             | 3,961                                 | 0                                         | 0                                 | 0                            | 3,961                          |
| Revaluation decreases recognised in the<br>Revaluation Reserve                                     | (72,820)                      | (352)                                 | 0                                         | 0                                 | 0                            | (73,172)                       |
| Revaluation increases recognised in the<br>Surplus/Deficit on the Provision of Services            | 0                             | 420                                   | 0                                         | 0                                 | 0                            | 420                            |
| Revaluation decreases recognised in the<br>Surplus/Deficit on the Provision of Services            | 0                             | (1,772)                               | 0                                         | 0                                 | 0                            | (1,772)                        |
| Derecognition - disposals                                                                          | (909)                         | (467)                                 | (3,635)                                   | 0                                 | 0                            | (5,011)                        |
| Asset reclassifications                                                                            | 1,401                         | 2,195                                 | 0                                         | 0                                 | 0                            | 3,596                          |
| Other Movements                                                                                    | 0                             | 1                                     | 0                                         | 0                                 | 0                            | 1                              |
| As at 31 March 2020                                                                                | 304,598                       | 647,950                               | 51,275                                    | 360,167                           | 22,753                       | 1,386,743                      |
| <u>Depreciation</u>                                                                                |                               |                                       |                                           |                                   |                              |                                |
| As at 1 April 2019                                                                                 | (60,527)                      | (43,786)                              | (31,985)                                  | (119,666)                         | (10,318)                     | (266,282)                      |
| Depreciation charge for 2019/20                                                                    | (12,541)                      | (18,039)                              | (6,170)                                   | (11,700)                          | (1,213)                      | (49,663)                       |
| Depreciation written out to the Revaluation<br>Reserve - revaluation gain                          | 0                             | 56                                    | 0                                         | 0                                 | 0                            | 56                             |
| Depreciation written out to the Revaluation<br>Reserve - revaluation loss                          | 67,176                        | 96                                    | 0                                         | 0                                 | 0                            | 67,272                         |
| Depreciation written out to the Surplus/Deficit<br>on the Provision of Services - revaluation gain | 0                             | 158                                   | 0                                         | 0                                 | 0                            | 158                            |
| Depreciation written out to the Surplus/Deficit<br>on the Provision of Services - revaluation loss | 0                             | 47                                    | 0                                         | 0                                 | 0                            | 47                             |
| Derecognition - disposals                                                                          | 909                           | 4                                     | 3,579                                     | 0                                 | 0                            | 4,492                          |
| Asset reclassifications                                                                            | 0                             | 87                                    | 0                                         | 0                                 | 0                            | 87                             |
| As at 31 March 2020                                                                                | (4,983)                       | (61,377)                              | (34,576)                                  | (131,366)                         | (11,531)                     | (243,833)                      |
| Net Book Value at 31 March 2020                                                                    | 299,615                       | 586,573                               | 16,699                                    | 228,801                           | 11,222                       | 1,142,910                      |

## Property, Plant and Equipment cont'd

### Comparative Movements in 2019/20

|                                                                                                    | Sub<br>total<br>b/fwd<br>£'000 | Surplus<br>Assets<br>£'000 | Assets<br>Under<br>Construction<br>£'000 | Total<br>PPE<br>£'000 | PFI Assets<br>Included<br>in PPE<br>£'000 |
|----------------------------------------------------------------------------------------------------|--------------------------------|----------------------------|------------------------------------------|-----------------------|-------------------------------------------|
| <u>Gross Book Value</u>                                                                            |                                |                            |                                          |                       |                                           |
| As at 1 April 2019                                                                                 | 1,359,364                      | 110                        | 7,701                                    | 1,367,175             | 134,183                                   |
| Additions                                                                                          | 99,356                         | 18                         | 11,205                                   | 110,579               | 33,137                                    |
| Revaluation increases recognised in the<br>Revaluation Reserve                                     | 3,961                          | 455                        | 0                                        | 4,416                 | 3,440                                     |
| Revaluation decreases recognised in the<br>Revaluation Reserve                                     | (73,172)                       | (62)                       | 0                                        | (73,234)              | 0                                         |
| Revaluation increases recognised in the<br>Surplus/Deficit on the Provision of Services            | 420                            | 230                        | 0                                        | 650                   | 0                                         |
| Revaluation decreases recognised in the<br>Surplus/Deficit on the Provision of Services            | (1,772)                        | (506)                      | (112)                                    | (2,390)               | 0                                         |
| Derecognition - disposals                                                                          | (5,011)                        | 0                          | 0                                        | (5,011)               | 0                                         |
| Asset reclassifications                                                                            | 3,596                          | 1,490                      | (5,086)                                  | 0                     | 555                                       |
| Other Movements                                                                                    | 1                              | 0                          | 0                                        | 1                     | 0                                         |
| As at 31 March 2019                                                                                | <u>1,386,743</u>               | <u>1,735</u>               | <u>13,708</u>                            | <u>1,402,186</u>      | <u>171,315</u>                            |
| <u>Depreciation</u>                                                                                |                                |                            |                                          |                       |                                           |
| As at 1 April 2019                                                                                 | (266,282)                      | 0                          | 0                                        | (266,282)             | (17,818)                                  |
| Depreciation charge for 2019/20                                                                    | (49,663)                       | 0                          | 0                                        | (49,663)              | (5,961)                                   |
| Depreciation written out to the Revaluation<br>Reserve - revaluation gain                          | 56                             | 0                          | 0                                        | 56                    | 0                                         |
| Depreciation written out to the Revaluation<br>Reserve - revaluation loss                          | 67,272                         | 31                         | 0                                        | 67,303                | 0                                         |
| Depreciation written out to the Surplus/Deficit<br>on the Provision of Services - revaluation gain | 158                            | 0                          | 0                                        | 158                   | 0                                         |
| Depreciation written out to the Surplus/Deficit<br>on the Provision of Services - revaluation loss | 47                             | 56                         | 0                                        | 103                   | 0                                         |
| Derecognition - disposals                                                                          | 4,492                          | 0                          | 0                                        | 4,492                 | 0                                         |
| Asset reclassifications                                                                            | 87                             | (87)                       | 0                                        | 0                     | 0                                         |
| As at 31 March 2020                                                                                | <u>(243,833)</u>               | <u>0</u>                   | <u>0</u>                                 | <u>(243,833)</u>      | <u>(23,779)</u>                           |
| Net Book Value at 31 March 2020                                                                    | <u>1,142,910</u>               | <u>1,735</u>               | <u>13,708</u>                            | <u>1,158,353</u>      | <u>147,536</u>                            |

### Capital Commitments

At 31 March 2021, the Council has entered into a number of contracts for the construction or enhancement of Property, Plant and Equipment in 2020/21 and future years budgeted to cost £37.975m. Similar commitments at 31 March 2020 were £30.572m. The total commitment is made up of the following:

|                                     | 2020/21<br>£'000 | 2019/20<br>£'000 |
|-------------------------------------|------------------|------------------|
| Cultural Attractions                | 22,381           | 0                |
| Education Projects                  | 11,270           | 9,058            |
| Roads & Bridges Improvement Schemes | 1,569            | 3,353            |
| Flood Protection                    | 361              | 364              |
| Council Dwellings                   | 1,714            | 13,404           |
| Other Capital Projects              | 680              | 4,393            |
|                                     | <u>37,975</u>    | <u>30,572</u>    |

## Valuation of Assets

### Revaluations

The Council carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at its current value is revalued at least every five years.

The Council commissioned a valuation for a selection of PFI Campuses which was performed during the last quarter of financial year 2020/21. In addition, the Council's internal valuers performed valuations for a number of assets, including Investment properties, other PFI Campuses and properties requiring revaluation due to redevelopment or a change of use, during the last quarter of financial year 2020/21. In applying the Royal Institution of Chartered Surveyors (RICS) Valuation Global Standards ('Red Book'), the valuation reports include an explanatory note which provides an update on market conditions and confirms that some markets have started to function again and there is adequate evidence on which to base an opinion of value. However, uncertainties do remain and there is the potential for markets to move rapidly in response to future changes in the control or spread of Covid-19.

The valuation reports have been used to inform the measurement of non-current assets in these financial statements. The valuers have continued to exercise professional judgement in preparing the valuations and, therefore, this is the best information available to Council as at 31 March 2021 and can be relied upon.

Note 4 – Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty provides additional information.

Surplus Assets are valued annually on a fair value basis. In terms of the fair value hierarchy, all Surplus Assets are valued at Level 2 and there were no transfers between Levels during the year.

|                                | Council<br>Dwellings<br>£'000 | Other<br>Land and<br>Buildings<br>£'000 | Surplus<br>Assets<br>£'000 | Total<br>£'000 |
|--------------------------------|-------------------------------|-----------------------------------------|----------------------------|----------------|
| Carried at historical cost     | 25,662                        | 46,425                                  | 34                         | 72,121         |
| Values at current value as at: |                               |                                         |                            |                |
| 31 March 2021                  | 0                             | 214,338                                 | 620                        | 214,958        |
| 31 March 2020                  | 294,354                       | 9,302                                   | 1,060                      | 304,716        |
| 31 March 2019                  | 0                             | 88,872                                  | 0                          | 88,872         |
| 31 March 2018                  | 0                             | 77,573                                  | 0                          | 77,573         |
| 31 March 2017                  | 0                             | 236,253                                 | 56                         | 236,309        |
| Total Cost or Valuation        | 320,016                       | 672,763                                 | 1,770                      | 994,549        |

### Changes in Estimates

The Council has made no material changes to accounting estimates for Property, Plant and Equipment in 2020/21.

## 22. Heritage Assets

### Reconciliation of the carrying value of Heritage Assets held by the Council

|                     | 2020/21<br>Art<br>Collection<br>£'000 | 2020/21<br>War<br>Memorials<br>£'000 | 2020/21<br>Total<br>£'000 | 2019/20<br>Art<br>Collection<br>£'000 | 2019/20<br>War<br>Memorials<br>£'000 | 2019/20<br>Total<br>£'000 |
|---------------------|---------------------------------------|--------------------------------------|---------------------------|---------------------------------------|--------------------------------------|---------------------------|
| Cost or Valuation   |                                       |                                      |                           |                                       |                                      |                           |
| Balance at 1 April  | 27,733                                | 48                                   | 27,781                    | 27,733                                | 48                                   | 27,781                    |
| Additions           | 0                                     | 0                                    | 0                         | 0                                     | 0                                    | 0                         |
| Revaluations        | 24,007                                | 0                                    | 24,007                    | 0                                     | 0                                    | 0                         |
| Balance at 31 March | 51,740                                | 48                                   | 51,788                    | 27,733                                | 48                                   | 27,781                    |

### Art Collection

The collection of Fine Art maintained and preserved by Culture Perth and Kinross, on behalf of Perth & Kinross Council is varied and includes oil paintings (approx 1,225 items), watercolours (900), drawings (4,000), prints (1,500), and sculptures (150). The Fine Art collection also includes J D Fergusson and Margaret Morris archives which number approximately 30,000 items and include a number of significant works.

The Art Collection also includes silver, glass, ceramics, furniture, Oriental materials, horology and metalwork; these are collectively identified as Applied Art.

Curators within Culture Perth & Kinross, commenced in 2011/12, a rolling programme of valuation for items and collections having significant value. The valuation programme is complete and the curators review, on an annual basis, the value of items within the collection which may be influenced by market trends.

There were no significant additions to Heritage Assets in 2019/20 or 2020/21. In 2020/21, the existing collection of oils, sketchbooks and works on paper by both JD Fergusson and Margaret Morris were revalued, resulting in £24.007m being added to the value of Heritage Assets.

#### *Additions and Disposals of Heritage Assets*

There has been no significant addition, either by purchase or donation, to the Fine and Applied Art collection during the current and previous five financial years. The majority of the collections are held in perpetuity, or have disposal conditions attached, and consequently no Fine and Applied Art disposals have occurred during the current and previous five financial years.

### **Further Information on the Museum and Art Gallery Collection**

#### **Art Collection**

##### **Fine and Applied Art**

The Fine Art collection owes its existence largely to the 1,926 bequests of local patrons Robert Hay Robertson and Robert Brough, although the first painting entered the collection as early as 1785.

The collection is international in its scope and numbers over 4,000 items. It includes an interesting group of Italian 'Old Masters', a small but important group of 19th Century French works, a good group of 17th century Dutch and Flemish paintings and work by English artists including a small but highly important collection of natural history watercolours by Beatrix Potter.

Its greatest strength however lies in its holding of Scottish pictures. These span the 16th to the 21st century and include such important works as Loch Katrine by Horatio McCulloch and D Y Cameron's The Wilds of Assynt, as well as pictures with strong local connections. Amongst these are pictures by local artists, local topographical views and portraits of local individuals. The collection seeks to retain a balance between the historical and the contemporary aspects whilst continuing to develop the holdings of works of specifically local interest.

In 1991 the collection was effectively doubled in size with the gifting of the J D Fergusson Art Foundation's collection of artworks by the Scottish 'Colourist' John Duncan Fergusson (1874-1961) and its associated archive. This collection is housed at the Fergusson Gallery in Perth.

The Applied Art collection has been acquired since 1785 through purchase, gift or bequest. It covers a wide variety of objects and materials, within which the collections of Perth silver and Perthshire glass are unsurpassed in terms of national importance. The ceramics collection contains significant collections of Staffordshire flat-back figures and Martinware studio pottery as well as a collection of studio pottery produced by potters native to or resident in the Perth & Kinross area. Other smaller collections include furniture, timepieces, oriental and other items.

The promotion of other cultural events and programmes during the year makes it difficult to reliably estimate the percentage of the Art Collection on display for public viewing. However, all items are held in secure storage and access is permitted to scholars and others for research purposes.

The museum collection also includes History and Natural History collections for which an amount of insurance cover has been obtained. These objects and collections, in most instances, are rare and irreplaceable and there is insufficient evidence on which to place a reliable estimate of value. There are in excess of 289,000 items within the History and Natural History collections and the cost of obtaining valuations would be disproportionate in terms of any benefit derived to the user of the financial statements. On this basis, the History and Natural History collections are, therefore, excluded from the carrying value of Heritage Assets held by the Council.

The Culture Perth & Kinross Limited Collections Management Framework provides guidance on the collection, disposal or lending of heritage assets.

### **23. Investment Properties**

|                                                            | 2020/21<br>£'000 | 2019/20<br>£'000 |
|------------------------------------------------------------|------------------|------------------|
| Rental income from investment property                     | (977)            | (998)            |
| Direct operating expenses arising from investment property | 107              | 81               |
| Balance at end of year                                     | <u>(870)</u>     | <u>(917)</u>     |



The following table summarises the movement in the fair value of investment properties over the year:

|                                                | 2020/21<br>£'000 | 2019/20<br>£'000 |
|------------------------------------------------|------------------|------------------|
| Balance at start of year                       | 13,290           | 13,095           |
| Disposals                                      | (75)             | 0                |
| Net gains/(losses) from fair value adjustments | (75)             | 195              |
| Balance at end of year                         | <u>13,140</u>    | <u>13,290</u>    |

All of the Authority's investment properties are valued at Level 2 on the fair value hierarchy. Values as at 31 March 2020 and 31 March 2021 are as follows:

|                                          | Other Significant Observable<br>Inputs (Level 2) |                  |
|------------------------------------------|--------------------------------------------------|------------------|
|                                          | 2020/21<br>£'000                                 | 2019/20<br>£'000 |
| Recurring fair value measurements using: |                                                  |                  |
| Industrial and Commercial Land           | 11,895                                           | 11,805           |
| Shops and Offices                        | 895                                              | 1,035            |
| Other Investment Properties              | 350                                              | 450              |
| Total Fair Value                         | <u>13,140</u>                                    | <u>13,290</u>    |

### Valuation Techniques used to Determine Level 2 and 3 Fair Values for Investment Properties

#### Significant Observable Inputs – Level 2

The majority of the value of Industrial and Commercial Land relates to sites leased out on ground leases. Market data is available at national and local levels from sector specialists to provide the valuers with information, such as trends and rent yields, for the commercial and industrial markets. Local market activity for ground leases tends to follow national trends and valuations are undertaken using a discounted income approach. Ground leases are longer term arrangements and sites of this nature enjoy 100% occupancy levels; the rental income stream is known and market data for rent yields is available, all of which are observable input. As a result of the conditions of the ground lease agreement, there is no unobservable input. The valuation of investment land leased out on a ground lease therefore requires the use of observable market data and minimal, if any, unobservable data and is regarded as Level 2.

Market data providing information on trends and rent yield is available from sector specialists for leased Shops and Offices. Local market data is used to assist the valuation process, and valuations are undertaken using the income approach, discounted using market rates to arrive at a net present value for the income stream. The valuer will also consider other factors, such as the age and condition of the property, when arriving at the final valuation. This requires judgement; however any unobservable input is not considered to be significant in terms of any adjustment to the fair value of the property. The valuation of the shops and offices is mainly representative of the available market data, and the valuation input is primarily based on observable data. Therefore the properties are categorised as Level 2.

Other Investment Properties primarily relate to land held for development by the private sector, which will generate a receipt to the Council on disposal. Sites held for redevelopment are valued on the basis of the highest and best use of the site, taking into account adjacent and surrounding property, recent market activity, and development plan restrictions. The valuation of these sites is therefore based upon observable input, i.e. local market data, and as such will be regarded as Level 2.

#### Highest and Best Use of Investment Properties

In estimating the fair value of the authority's investment properties, the highest and best use of the properties is their current use.

#### Valuation Techniques

There has been no change in the valuation techniques used during the year for investment properties.

#### Valuation Process for Investment Properties

The fair value of the Council's investment property is measured annually at each reporting date. All valuations are carried out internally, in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. The Council's valuation experts work closely with finance officers reporting directly to the Head of Finance on a regular basis regarding all valuation matters.

In applying the Royal Institution of Chartered Surveyors (RICS) Valuation Global Standards ('Red Book'), the valuation reports include an explanatory note which provides an update on market conditions and confirms that some markets have started to function again and there is adequate evidence on which to base an opinion of value. However, uncertainties do remain and there is the potential for markets to move rapidly in response to future changes in the control or spread of Covid-19.

The valuation reports have been used to inform the measurement of Investment properties in these financial statements. The valuers have continued to exercise professional judgement in preparing the valuation and, therefore, this is the best information available to Council as at 31 March 2020 and can be relied upon.

Note 4 – Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty provides additional information.

## 24. Intangible Assets

The movement on Intangible Asset balances during the year is as follows:

|                                      | 2020/21<br>Assets<br>£'000 | 2019/20<br>Assets<br>£'000 |
|--------------------------------------|----------------------------|----------------------------|
| Balance at start of year             |                            |                            |
| Gross carrying amount                | 2,948                      | 2,867                      |
| Accumulated amortisation             | (1,969)                    | (1,110)                    |
| Net carrying amount at start of year | <u>979</u>                 | <u>1,757</u>               |
| Additions: Purchases                 | 17                         | 81                         |
| Amortisation for the period          | (675)                      | (859)                      |
| Net carrying amount at end of year   | <u>321</u>                 | <u>979</u>                 |
| Comprising:                          |                            |                            |
| Gross carrying amounts               | 2,965                      | 2,948                      |
| Accumulated amortisation             | (2,644)                    | (1,969)                    |
|                                      | <u>321</u>                 | <u>979</u>                 |

Intangible Assets include the cost of software licences and bespoke software solutions deemed to provide future benefit to the Council. These items have been included and amortised over their perceived useful life.

## 25. Assets Held for Sale

|                                      | Current          |                  | Non Current      |                  |
|--------------------------------------|------------------|------------------|------------------|------------------|
|                                      | 2020/21<br>£'000 | 2019/20<br>£'000 | 2020/21<br>£'000 | 2020/19<br>£'000 |
| Balance outstanding at start of year | 126              | 511              | 719              | 798              |
| Assets sold                          | 0                | (400)            | (181)            | (146)            |
| Other movements                      | 0                | 15               | 12               | 67               |
| Balance outstanding at year end      | <u>126</u>       | <u>126</u>       | <u>550</u>       | <u>719</u>       |

## 26. Long Term Debtors

|                              | 2020/21<br>£'000 | 2019/20<br>£'000 |
|------------------------------|------------------|------------------|
| Other Entities & Individuals | 689              | 981              |
| Total                        | <u>689</u>       | <u>981</u>       |

## 27. Inventories

|                                      | Consumables & Maintenance<br>Materials |                  |
|--------------------------------------|----------------------------------------|------------------|
|                                      | 2020/21<br>£'000                       | 2019/20<br>£'000 |
| Balance outstanding at start of year | 470                                    | 432              |
| Purchases                            | 2,857                                  | 3,089            |
| Recognised as an expense in the year | (2,802)                                | (3,052)          |
| Written off balances                 | 0                                      | 1                |
| Balance outstanding at end of year   | <u>525</u>                             | <u>470</u>       |

## 28. Debtors

|                              | 2020/21         | 2020/21       | 2019/20         | 2019/20       |
|------------------------------|-----------------|---------------|-----------------|---------------|
|                              | £'000           | £'000         | £'000           | £'000         |
|                              | Gross           | Net           | Gross           | Net           |
| Scottish Government          |                 | 11,707        |                 | 7,804         |
| Central Government           |                 | 9,175         |                 | 3,739         |
| Other Local Authorities      |                 | 374           |                 | 364           |
| NHS Bodies                   |                 | 918           |                 | 1,628         |
| Public Corps & Trading funds |                 | 0             |                 | 376           |
| Other Entities & Individuals | 17,524          |               | 13,887          |               |
| less Impairment              | <u>(8,870)</u>  |               | <u>(8,280)</u>  |               |
|                              |                 | 8,654         |                 | 5,607         |
| Trade                        | 7,186           |               | 5,592           |               |
| less Impairment              | <u>(1,162)</u>  |               | <u>(1,022)</u>  |               |
|                              |                 | 6,024         |                 | 4,570         |
| Council Tax                  | 19,596          |               | 17,026          |               |
| less Impairment              | <u>(14,849)</u> |               | <u>(13,260)</u> |               |
|                              |                 | 4,747         |                 | 3,766         |
| Total                        |                 | <u>41,599</u> |                 | <u>27,854</u> |

## 29. Creditors

|                                       | 2020/21         | 2019/20         |
|---------------------------------------|-----------------|-----------------|
|                                       | £'000           | £'000           |
| Scottish Government                   | (8,621)         | (2,168)         |
| Central Government                    | (6,040)         | (5,446)         |
| Other Local Authorities               | (3,205)         | (450)           |
| NHS Bodies                            | (275)           | (204)           |
| Public Corporations and Trading Funds | (587)           | (487)           |
| Other Entities and Individuals        | (23,979)        | (24,063)        |
| Trade Creditors                       | (26,159)        | (26,323)        |
| Total                                 | <u>(68,866)</u> | <u>(59,141)</u> |

## 30. Provisions Other than Bad and Doubtful Debts

### Self-Insured/Uninsured Losses

The Insurance Fund makes provision for losses arising from Property, Employers' Liability, Public Liability, Motor, Fidelity Guarantee, Computer, Engineering and Travel/Personal Accident claims.

The provision provides for an estimate of all liabilities likely to be incurred by the Council in respect of self-insured and uninsured losses in respect of incidents that have arisen prior to 1 April 2020.

### Compensation Payments

The Council has made provision for a number of potential compensation claims arising from significant capital projects within the Council's capital programme.

### Commercial Rent

The Council manages the rental leases for a number of commercial properties. The Council had previously made provision for rent refunds due to the downturn in the economic climate affecting retail trading performance. The provision at 31 March 2021 is to meet any potential liability for the years 2019/20 and 2020/21.

|                                       | Self Insured/<br>Uninsured<br>Losses<br>£'000 | Compensation<br>Payments<br>£'000 | Commercial<br>Rent<br>£'000 | Total<br>£'000 |
|---------------------------------------|-----------------------------------------------|-----------------------------------|-----------------------------|----------------|
| Balance as at 1 April 2020            | 1,367                                         | 1,866                             | 40                          | 3,273          |
| Additional provisions made in 2020/21 | 806                                           | 81                                | 20                          | 907            |
| Amounts used in 2020/21               | (483)                                         | (1,256)                           | (20)                        | (1,759)        |
| Balance as at 31 March 2021           | <u>1,690</u>                                  | <u>691</u>                        | <u>40</u>                   | <u>2,421</u>   |
| Balance Sheet Disclosure:             |                                               |                                   |                             |                |
| Less than 12 months                   | 252                                           | 0                                 | 20                          | 272            |
| Over 12 months                        | 1,438                                         | 691                               | 20                          | 2,149          |
|                                       | <u>1,690</u>                                  | <u>691</u>                        | <u>40</u>                   | <u>2,421</u>   |

### 31. Usable Reserves

Movements in the Council's Usable Reserves are detailed in the Movement in Reserves Statement and notes 5 and 6.

### 32. Unusable Reserves

|                                          | 2020/21<br>£'000 | 2019/20<br>£'000 |
|------------------------------------------|------------------|------------------|
| Revaluation Reserve                      | (317,769)        | (267,918)        |
| Capital Adjustments Account              | (353,777)        | (346,950)        |
| Financial Instruments Adjustment Account | 18,376           | 19,101           |
| Pensions Reserve                         | 105,334          | 121,432          |
| Employee Statutory Adjustment Account    | 7,813            | 6,403            |
| Total Unusable Reserves                  | <u>(540,023)</u> | <u>(467,932)</u> |

#### Revaluation Reserve

The Revaluation Reserve contains the gains made by the Council arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

- re-valued downwards or impaired and the gains are lost;
- used in the provision of services and the gains are consumed through depreciation; or
- disposed of and the gains are realised.

The Reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

|                                                                                                                        | 2020/21<br>£'000 | 2019/20<br>£'000 |
|------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| Balance at 1 April                                                                                                     | (267,918)        | (276,144)        |
| Upward revaluation of assets                                                                                           | (63,829)         | (4,472)          |
| Downward revaluation of assets and impairment losses not charged to the (Surplus)/Deficit on the Provision of Services | 7,648            | 5,931            |
|                                                                                                                        | <u>(324,099)</u> | <u>(274,685)</u> |
| Difference between fair value depreciation and historical cost depreciation                                            | 6,065            | 6,634            |
| Accumulated gains on assets sold or scrapped                                                                           | 265              | 133              |
| Amount written off to the Capital Adjustment Account                                                                   | <u>6,330</u>     | <u>6,767</u>     |
| Balance at 31 March                                                                                                    | <u>(317,769)</u> | <u>(267,918)</u> |

#### Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Council as finance for the costs of acquisition, construction and enhancement.

The Account contains accumulated gains and losses on Investment Properties and gains recognised on donated assets that have yet to be consumed by the Council.

The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

Note 5 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

|                                                                                                                             | 2020/21<br>£'000 | 2019/20<br>£'000 |
|-----------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| Balance at 1 April                                                                                                          | (346,950)        | (324,324)        |
| Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement |                  |                  |
| Charges for depreciation and impairment of non current assets                                                               | 51,167           | 49,663           |
| Revaluation losses on Property, Plant and Equipment                                                                         | (6,092)          | 1,479            |
| Amortisation of intangible assets                                                                                           | 675              | 859              |
| Amounts of non current assets written off on disposal as part of the gain/loss                                              | 877              | 1,065            |
|                                                                                                                             | <u>(300,323)</u> | <u>(271,258)</u> |
| Adjusting amounts written out of the Revaluation Reserve                                                                    | <u>(6,330)</u>   | <u>(6,767)</u>   |
|                                                                                                                             | <u>(306,653)</u> | <u>(278,025)</u> |
| Capital financing applied in the year:                                                                                      |                  |                  |
| Use of the Capital Receipts Reserve to finance new capital expenditure                                                      | (1,136)          | (1,255)          |
| Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement                             | (22,639)         | (44,160)         |
| Application of grants to capital financing from the Capital Grants Unapplied Account                                        | (2,102)          | (3,493)          |
| Statutory provision for the financing of capital investment charged against the General Fund and HRA balances               | (14,553)         | (16,181)         |
| Capital expenditure charged against the general fund and HRA balances                                                       | <u>(6,769)</u>   | <u>(3,641)</u>   |
|                                                                                                                             | <u>(353,852)</u> | <u>(346,755)</u> |
| Movements in the fair value of the Investment Properties                                                                    | 75               | (195)            |
| Balance at 31 March                                                                                                         | <u>(353,777)</u> | <u>(346,950)</u> |

#### Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account (FIAA) is used to hold the losses or gains arising on the early redemption of loans per statutory provisions, as well as the historic timing differences arising from the different arrangements for accounting for income and expenses relating to certain financial instruments. These statutory provisions allow for annual charges to be made in accordance with the original amortisation schedules which existed at the time the provisions were introduced.

The Council uses the Account to manage the balance of premiums and discounts which existed at 31 March 2007 which arose on the early redemption of loans. Any premiums or discounts incurred or received after this date are also held in this Account. These are subsequently charged to the General Fund and Housing Revenue Account (HRA) in accordance with statutory provisions, and so spreading the burden on Council Tax and Housing Rents.

The Council also uses the FIAA to hold the difference in interest charges which arose on stepped interest rate loans. These had low interest rates in the early years before "stepping up" to a higher interest rate. Interest on such loans is now required to be charged consistently over the life of the loan using the Effective Interest Rate Method. The difference in the cumulative charges to 31 March 2007 under this new method was debited to the FIAA and will be charged to the General Fund and the HRA over the life of the loans under the statutory provisions.

Accordingly, the balance on the FIAA as at 31 March 2021 in respect of the above provisions will be charged to the General Fund and HRA over the next 47 years. The movements on the FIAA during the year are shown below:

|                                                                                                                                                                    | 2020/21<br>£'000 | 2019/20<br>£'000 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| Balance at 1 April                                                                                                                                                 | 19,101           | 19,825           |
| Proportion of discounts incurred in previous financial years credited against the General Fund & HRA Balance in accordance with statutory requirements in the year | 4                | 4                |
| Proportion of premiums incurred in previous financial years charged against the General Fund & HRA Balance in accordance with statutory requirements in the year   | (711)            | (711)            |
| Difference on restatement of Stepped Interest Rate Loans                                                                                                           | (18)             | (17)             |
| Balance at 31 March                                                                                                                                                | <u>18,376</u>    | <u>19,101</u>    |

#### Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Council accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Council makes employer's contributions to pensions funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall between the benefits earned by past and current employees and the resources the Council has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.



|                                                                                                                                                                                    | 2020/21<br>£'000 | 2019/20<br>£'000 |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| Balance at 1 April                                                                                                                                                                 | 121,432          | 118,542          |
| Actuarial Losses on Pensions Assets and Liabilities                                                                                                                                | (32,408)         | (17,571)         |
| Reversal of Items Relating to Retirement Benefits Debited or Credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement | 35,421           | 38,649           |
| Employer's Pensions Contributions and Direct Payments to Pensioners Payable in the Year                                                                                            | (19,111)         | (18,188)         |
| Balance at 31 March                                                                                                                                                                | <u>105,334</u>   | <u>121,432</u>   |

#### Employee Statutory Adjustment Account

The Employee Statutory Adjustment Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

|                                                               | 2020/21<br>£'000 | 2019/20<br>£'000 |
|---------------------------------------------------------------|------------------|------------------|
| Balance at 1 April                                            | 6,403            | 5,515            |
| Cancellation of accrual made at the end of the preceding year | (6,403)          | (5,515)          |
| Amounts accrued at the end of the current year                | 7,813            | 6,403            |
| Balance at 31 March                                           | <u>7,813</u>     | <u>6,403</u>     |

### 33. Impairment Losses

Movements in the value of properties during the year were mainly due to the revaluation of sites held on PFI / DBFM agreements, Council Offices, and various individual operational buildings such as Industrial Units, Shops and specialist education sites. Investment properties were also revalued during 2020/21. Two losses from revaluation totalling £82,500 have been treated as impairment losses due to a change of use of the properties. Any other losses arising have been assessed as a revaluation loss rather than a loss attributed to deterioration in the anticipated level of the performance of the properties.

### 34. Grants

The Council credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2020/21.

|                                                                | 2020/21<br>£'000 | 2019/20<br>£'000 |
|----------------------------------------------------------------|------------------|------------------|
| <b>Credited to Taxation and Non Specific Grant Income</b>      |                  |                  |
| Scottish Government                                            | 18,701           | 42,451           |
| Scottish Government Bodies & Directorates                      | 2,946            | 312              |
| Developer Contributions                                        | 2,451            | 1,402            |
| Other Third Party Contributions                                | 1,184            | 2,097            |
|                                                                | <u>25,282</u>    | <u>46,262</u>    |
| <b>Credited to Services</b>                                    |                  |                  |
| Scottish Government                                            | 30,588           | 18,842           |
| Scottish Government Directorates (incl Historic Scotland, NHS) | 24               | 156              |
| Sport Scotland                                                 | 380              | 398              |
| Other Scottish Government Bodies                               | 208              | 240              |
| Other Third Party Contributions                                | 2,076            | 1,367            |
|                                                                | <u>33,276</u>    | <u>21,003</u>    |

The Council has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned. The funding includes Covid-19 specific grant received from the Scottish Government in 2020/21 for distribution to businesses impacted by the pandemic. The Covid-19 grant underspend has been treated as a liability pending confirmation that the funding may be distributed by the Council in 2021/22 to provide further pandemic support to businesses. The balance at the year-end is as follows:

|                                                       | 2020/21<br>£'000 | 2019/20<br>£'000 |
|-------------------------------------------------------|------------------|------------------|
| Revenue Grants - Received in Advance                  |                  |                  |
| Scottish Government - Covid-19 funding for businesses | 4,788            | 0                |
| Scottish Government - Town Centre Fund                | 2,234            | 1,807            |
| Other grants and contributions                        | 113              | 185              |
| Balance at 31 March                                   | <u>7,135</u>     | <u>1,992</u>     |

### 35. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below (including the value of assets acquired under PFI/PPP/DBFM contracts), together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Council, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Council that has yet to be financed. The CFR is analysed below.

|                                             | 2020/21<br>£'000 | 2019/20<br>£'000 |
|---------------------------------------------|------------------|------------------|
| Capital Financing Requirements b/fwd        | 583,662          | 540,265          |
| <u>Capital Expenditure</u>                  |                  |                  |
| Property, Plant & Equipment                 | 57,720           | 110,661          |
| Intangible Assets                           | 17               | 81               |
| Revenue Expenditure funded from Capital     | 1,531            | 1,709            |
| CAA Historic adjustment                     | 2,720            | 0                |
|                                             | <u>61,988</u>    | <u>112,451</u>   |
|                                             | <u>645,650</u>   | <u>652,716</u>   |
| <u>Sources of Finance</u>                   |                  |                  |
| Capital Receipts                            | (1,137)          | (1,260)          |
| Government Grants and Contributions         | (26,272)         | (47,971)         |
| Revenue Contributions                       | (6,769)          | (3,641)          |
| Loans Fund Principal Repayments             | (14,553)         | (16,182)         |
|                                             | <u>(48,731)</u>  | <u>(69,054)</u>  |
| Closing Capital Financing Requirement c/fwd | <u>596,919</u>   | <u>583,662</u>   |
| Movement                                    | 13,257           | 43,397           |
| <u>Analysed as:</u>                         |                  |                  |
| Increase in need to borrow                  | 18,231           | 15,437           |
| Net assets acquired under PPP contract      | (4,974)          | 27,960           |
|                                             | <u>13,257</u>    | <u>43,397</u>    |

### 36. Public Finance Initiatives and Similar Contracts

The Council has an obligation for 25 years commencing September 2000 in respect of a unitary charge payment to be made for office accommodation and a car park.

The unitary charge for 2020/21 for the office accommodation was £2,426,000 (2019/20 £2,415,000).

The unitary charge for 2020/21 for the car park was £342,000 (2019/20 £380,000).

Future agreed payments will increase in line with inflation. The unitary charge payments for 2021/22 for the office accommodation will be £2,510,000 and for the car park is £363,000.

The project agreement for provision of the facilities included the transfer of four Council properties to the operator in exchange for reduced annual payments over the life of the agreement. At the end of this project these assets do not revert back to the Council.

The Council has an obligation for six school campuses in a Public Private Partnership with Axiom Education (Perth and Kinross) Ltd. North Inch Primary was brought into operation in 2011/12. Breadalbane Campus at Aberfeldy was completed in 2010/11 and the campuses at Blairgowrie, Perth South, Kinross, Crieff and the Roman Catholic School Campus were brought into operation during 2009/10. The Council will make unitary charge payments until the contract

ends in 2042, at which time the campuses will be handed back to the Council at no cost. The estimated capital value of the scheme is £127,687,000.

The unitary charge for 2020/21 for the campuses operating in the year was £17,445,000 (2019/20 £16,984,000).

Future agreed payments will increase in line with inflation. The unitary charge payments for 2021/22 for all school campuses will be £17,775,000.

During 2019/20 the Council incurred an obligation for Bertha Park High School with the asset and liability recognised in the Statement of Accounts. The unitary charge for 2020/21 was £3,056,000 (2019/20 for the part year was £2,169,000).

Future agreed payments will increase in line with inflation. The unitary charge for 2021/22 for Bertha Park will be £3,065,000.

Movements in Fixed Assets under Public Private Partnerships during the year were:

|                                 | 2020/21        | 2019/20        |
|---------------------------------|----------------|----------------|
|                                 | £'000          | £'000          |
| Net Book Value at 1 April 2020  | 147,536        | 116,365        |
| Additions                       | 300            | 33,137         |
| Reclassification                | 0              | 555            |
| Revaluations                    | 2,412          | 3,440          |
| Depreciation                    | (4,799)        | (5,961)        |
| Depreciation write back         | 23,602         | 0              |
| Net Book Value at 31 March 2021 | <u>169,051</u> | <u>147,536</u> |

Movements in Public Private Partnership Liabilities during the year were:

|                              | 2020/21        | 2019/20        |
|------------------------------|----------------|----------------|
|                              | £'000          | £'000          |
| Liabilities at 1 April 2020  | 137,187        | 109,225        |
| Additional liabilities       | 0              | 33,047         |
| Amounts repaid in year       | (4,974)        | (5,085)        |
| Liabilities at 31 March 2021 | <u>132,213</u> | <u>137,187</u> |

Disclosed in the Balance Sheet as:

|                              | 2020/21        | 2019/20        |
|------------------------------|----------------|----------------|
|                              | £'000          | £'000          |
| Long Term Liabilities        | 127,194        | 132,214        |
| Creditors                    | 5,019          | 4,973          |
| Liabilities at 31 March 2021 | <u>132,213</u> | <u>137,187</u> |

Future Public Private Partnership liabilities due to be met:

|                       | Repayment<br>of liability<br>£'000 | Interest<br>£'000 | Service<br>Charges<br>£'000 | Lifecycle<br>Maintenance<br>£'000 | Contingent<br>Rentals<br>£'000 | TOTAL<br>£'000 |
|-----------------------|------------------------------------|-------------------|-----------------------------|-----------------------------------|--------------------------------|----------------|
| Due within one year   | 5,019                              | 6,746             | 6,854                       | 2,809                             | 2,369                          | 23,797         |
| Due in 2 to 5 years   | 23,850                             | 22,958            | 29,176                      | 10,365                            | 12,188                         | 98,537         |
| Due in 6 to 10 years  | 22,086                             | 22,013            | 38,374                      | 20,486                            | 19,069                         | 122,028        |
| Due in 11 to 15 years | 31,033                             | 15,994            | 43,769                      | 17,442                            | 28,404                         | 136,642        |
| Due in 16 to 20 years | 39,070                             | 7,862             | 49,932                      | 19,447                            | 7,125                          | 123,436        |
| Due in 21 to 25 years | 11,155                             | 835               | 7,075                       | 2,747                             | 5,382                          | 27,194         |
| Total                 | <u>132,213</u>                     | <u>76,408</u>     | <u>175,180</u>              | <u>73,296</u>                     | <u>74,537</u>                  | <u>531,634</u> |

These figures are based on the actual cash amount estimated to be payable and not on prices at 31 March 2021.

### 37. Authorisation of Annual Accounts

The Unaudited Annual Accounts were authorised for issue by the Head of Finance on 30 June 2021 and the Audited Annual Statements were authorised for issue on 20 September 2021. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2021, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

### 38. Contingent Liabilities

The Council has made provision for insurance claims where appropriate and has an Insurance Fund to manage insurable risks. There is also a contingent liability in respect of potential insurance claims incurred but not reported which cannot be forecast with any certainty.

There is a contingent liability relating to Municipal Mutual Insurance (MMI), who were the insurers for Tayside Regional Council (TRC). Following a Supreme Court judgement in November 2012 a scheme of arrangement has been put in place where MMI will seek to recover, from the scheme members or successors, 25% (and increase from 15% applied after April 2016) of all claims paid out since 1993 on policies taken out by TRC (less an overall total reduction of £50,000). Perth and Kinross Council is one of the successor bodies of TRC. There remains uncertainty as to whether the remaining assets of the TRC Insurance Fund will be sufficient to meet all future liabilities due to the long time horizon for certain types of claims.

The Limitation (Childhood Abuse) (Scotland) Act 2017 came into force on 4 October 2017 and removed the time limit on raising civil court actions relating to childhood abuse. The Council has received a small number of claims, however, it is not possible to determine with any certainty whether there is any liability at this time until the claims are fully investigated. In addition, it is not possible to estimate the potential financial effect in respect of future claims the Council may receive due to a number of uncertainties. This includes the number of claims which may arise and the extent of compensation which could arise. Additionally the extent of re-imbursement which might arise from historic or current insurance policies cannot currently be assessed. The Council may also receive claims in respect of Educational provision. There is a national historic abuse redress scheme which will launch in 2022 and may impact upon the financial risk.

The Council has a number of contracts for the upgrade and redevelopment of buildings and infrastructure. Claims relating to compensation for works and land purchases for several schemes are currently being negotiated or refuted, however, no reliable estimate can be made at this time in respect of any potential amount to be paid by or to be received by the Council.

The Council previously identified a potential issue in terms of fixed assets included in the Council Balance Sheet which should, potentially, be included in the Balance Sheet of the Common Good Funds instead. The Community Empowerment (Scotland) Act 2015 requires the Council to establish and maintain a list of property which is held as part of the Common Good. The review of property titles to facilitate the eventual publication of the list has commenced, however, until the review is complete property titles are being reviewed when land and/or buildings are declared surplus to operational needs. Until all property titles for all former burghs are reviewed, there remains the possibility that some assets may require to be transferred between the Council and Common Good balance sheets.

The Council operates services from a number of properties that it does not own. In the future there may be a liability in respect of property costs to reinstate buildings to their original specification and design.

The Council has a potential liability in respect of financial guarantees for the Tayside Pension Fund in respect of Scheduled Bodies and Admitted Bodies should they cease to exist, withdraw from the Pension Scheme or otherwise become unable to continue covering any unfunded liabilities. These bodies include Tayside and Central Scotland Transport Partnership, Live Active Leisure Ltd, Horsecross Arts Limited, Perth & Kinross Countryside Trust, Perth & Kinross Society for the Blind, Perth Citizens' Advice Bureau and Culture Perth & Kinross. In addition the Council has a potential liability in respect of pensions for the Convention of Scottish Local Authorities (COSLA) should the organisation cease to exist.

There has been considerable interruption to Council business due to the restrictions arising from Covid-19, with impact upon all Council services. The increased level of uncertainty remains, and it is not possible to predict the potential consequences of actions taken by the Council which may arise from the Covid-19 restrictions. In addition, claims may be received which relate to works being halted due to the Covid-19 imposed restrictions on construction site movement. No reliable estimate can be made at this time in respect of any potential amount to be paid by the Council.

### 39. Financial Instruments

Accounting regulations require the 'financial instruments' (investment, lending and borrowing of the Council) shown on the balance sheet to be further analysed into various defined categories. The investments, lending and borrowing disclosed in the balance sheet are made up of the following categories of 'financial instruments'.

|                                         | Long-Term        |                  | Current          |                  | Total            |                  |
|-----------------------------------------|------------------|------------------|------------------|------------------|------------------|------------------|
|                                         | 31 March<br>2021 | 31 March<br>2020 | 31 March<br>2021 | 31 March<br>2020 | 31 March<br>2021 | 31 March<br>2020 |
|                                         | £'000            | £'000            | £'000            | £'000            | £'000            | £'000            |
| <b>Borrowings</b>                       |                  |                  |                  |                  |                  |                  |
| Financial liabilities at amortised cost | 522,523          | 535,038          | 67,746           | 28,786           | 590,269          | 563,824          |
| Total borrowings                        | 522,523          | 535,038          | 67,746           | 28,786           | 590,269          | 563,824          |
| <b>Investments</b>                      |                  |                  |                  |                  |                  |                  |
| Loans and receivables                   | 45,766           | 922              | 189,303          | 207,243          | 235,069          | 208,165          |
| Total investments                       | 45,766           | 922              | 189,303          | 207,243          | 235,069          | 208,165          |

Lender Option Borrower Option (LOBO) borrowings of £44.39m have been included in long term borrowing as at 31 March 2021 but have a call date in the next 12 months.

The above long term figures are based on the 2016 Code which requires that in undertaking Effective Interest Rate (EIR) calculations, the maturity period for a LOBO is taken as being the contractual period to maturity.

#### Financial Instruments Gains / Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Account in relation to financial instruments are as follows:

|                                                    | Financial<br>Liabilities                        | Financial<br>Assets      |                  |                  |
|----------------------------------------------------|-------------------------------------------------|--------------------------|------------------|------------------|
|                                                    | Liabilities<br>measured at<br>amortised<br>cost | Loans and<br>receivables | Total<br>2020/21 | Total<br>2019/20 |
|                                                    | £'000                                           | £'000                    | £'000            | £'000            |
| Interest expense                                   | 15,323                                          | 0                        | 15,323           | 14,326           |
| Interest payable and similar charges               | 15,323                                          | 0                        | 15,323           | 14,326           |
| Interest income                                    | 0                                               | (1,665)                  | (1,665)          | (1,517)          |
| Interest and investment income                     | 0                                               | (1,665)                  | (1,665)          | (1,517)          |
| Losses on revaluation                              | 11                                              | (5)                      | 6                | 33               |
| Surplus arising on revaluation of financial assets | 11                                              | (5)                      | 6                | 33               |
| Net loss/(gain) for the year                       | 15,334                                          | (1,670)                  | 13,664           | 12,842           |

#### Fair Value of Liabilities Carried at Amortised Cost

The fair value of each class of financial assets and liabilities which are carried in the balance sheet as at 31 March 2021 at amortised cost is disclosed below.

#### Methods and Assumptions in valuation technique:

The fair value of an instrument is determined by calculating the Net Present Value (NPV) of future cash flows, which provides an estimate of the value of payments in the future in today's terms.

The discount rate used in the NPV calculation is the rate applicable in the market on the date of valuation for an instrument with the same structure, terms and remaining duration. For debt, this will be the new borrowing rate since premature repayment rates include a margin which represents the lender's profit as a result of rescheduling the loan; this is not included in the fair value calculation since any motivation other than securing a fair price should be ignored. In addition, lenders do not have the ability to force the Council to repay debt early.

The rates quoted in this valuation were obtained by the Council's treasury management consultants from the market on 31 March 2021, using bid prices where applicable.



The calculations are made with the following assumptions:

- For Public Works Loans Board (PWLB) debt, the discount rates used are the rates for new borrowing as per rate sheet number 127/21.
- For other market debt and investments the discount rates used are the rates available for an instrument with the same terms from a comparable lender.
- Interpolation techniques have been used between available rates where the exact maturity period was not available.
- No early repayment or impairment is recognised.
- Fair values have been calculated for all instruments in the portfolio, but only those which are materially different from the carrying value have been disclosed.

The fair values are calculated as follows:

|                                      | 31 March 2021            |                     | 31 March 2020            |                     |
|--------------------------------------|--------------------------|---------------------|--------------------------|---------------------|
|                                      | Carrying amount<br>£'000 | Fair value<br>£'000 | Carrying amount<br>£'000 | Fair value<br>£'000 |
| Public Works Loans Board (PWLB)      | 492,782                  | 560,437             | 500,316                  | 518,866             |
| Lender Option Borrower Option (LOBO) | 44,390                   | 68,235              | 44,784                   | 63,280              |
| Short term borrowing                 | 50,798                   | 50,800              | 16,433                   | 16,434              |
| Other (Special Loans)                | 2,169                    | 2,167               | 154                      | 159                 |
| Other Market Loans                   | 130                      | 136                 | 2,138                    | 2,137               |
| Financial Liabilities                | 590,269                  | 681,775             | 563,825                  | 600,876             |

Fair value is more than the carrying amount because the Council's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans at the balance sheet date. The difference between the carrying amount and the fair value therefore represents the premium the Council would need to pay to the lender in the event these loans were to be repaid at that date.

For comparison, if the Council were to have repaid all the loans to the PWLB on the balance sheet date, a total of £711.5m would have been payable after applying the PWLB's premature redemption rates applicable on that date. This is higher than the Fair Value shown in the table above, as the PWLB premature redemption rates include an additional profit margin over their comparative new borrowing rates.

#### Fair Value of Assets Carried at Amortised Cost

|                                            | 31 March 2021            |                     | 31 March 2020            |                     |
|--------------------------------------------|--------------------------|---------------------|--------------------------|---------------------|
|                                            | Carrying amount<br>£'000 | Fair value<br>£'000 | Carrying amount<br>£'000 | Fair value<br>£'000 |
| Cash (including petty cash)                | 27,221                   | 27,223              | 67,611                   | 67,611              |
| Deposits with Banks and Building Societies | 206,692                  | 207,382             | 139,395                  | 139,395             |
| Mortgages                                  | 334                      | 362                 | 287                      | 287                 |
| Loans to Others                            | 822                      | 821                 | 872                      | 872                 |
| Financial Assets                           | 235,069                  | 235,788             | 208,165                  | 208,165             |

#### Nature and Extent of Risks Arising from Financial Instruments

The Council's management of treasury risks is intended to minimise the Council's exposure to the unpredictability of financial markets and to protect the financial resources available to fund services. The Council has fully adopted CIPFA's Code of Treasury Management Practices and has written principles for overall risk management as well as written policies and procedures covering specific areas such as credit risk, liquidity risk and market risk.

##### (i) Credit Risk

Credit risk arises from the short-term lending of surplus funds to banks, building societies, Money Market Funds and other local authorities as well as credit exposures to the Council's customers. It is the policy of the Council to place deposits only with a limited number of high quality banks, building societies and Money Market Funds whose credit rating, together with other market information, is independently assessed as sufficiently secure by the Council's treasury advisers and to restrict lending to a prudent maximum amount and duration for each institution.

Under the terms of the Council's approved Treasury policy, only the highest rated banks and financial institutions are used. Accordingly, the expected credit loss on such deposits is deemed negligible, and no expected credit loss provision has been provided in the Income & Expenditure account for 2020/21 (2019/20 nil) on the grounds of immateriality. Applying historic default rates for the counterparties used by the Council as at 31 March 2021 shows the expected credit loss to be

less than 0.02% of the principal sums deposited, whilst the actual historic default experienced by the Council is nil. Further, there is no information to indicate that this position has changed since the balance sheet date.

The following analysis summarises the Council's potential maximum exposure to credit risk, based on past experience and current market conditions.

|                                                      | Amounts at 31<br>March 2021 | Historical<br>experience of<br>default | Historical<br>experience<br>adjusted for<br>market conditions<br>as at 31 March<br>2021 | Estimated maximum<br>exposure to default and<br>uncollectability |
|------------------------------------------------------|-----------------------------|----------------------------------------|-----------------------------------------------------------------------------------------|------------------------------------------------------------------|
|                                                      | £'000                       | %                                      | %                                                                                       | £'000                                                            |
| Deposits with banks and other financial institutions | 237,359                     | 0                                      | 0                                                                                       | 0                                                                |
| Loans to Others                                      | 1,156                       | 0                                      | 0                                                                                       | 0                                                                |
| Debtors                                              | 14,950                      | 7.2                                    | 7.2                                                                                     | 1,076                                                            |
| <b>Total</b>                                         | <b>253,465</b>              | <b>-</b>                               | <b>-</b>                                                                                | <b>1,076</b>                                                     |

The Council's overall exposure to credit risk in relation to its deposits in banks and other financial institutions of £237.4m above cannot be assessed generally, as the risk of non-payment of the principle sums or interest is specific to each individual institution. Most of the deposits are with other local authorities, whilst all financial institutions in which the Council deposit funds have passed the most recent Bank of England stress-testing under current market conditions. Experience indicates that any such non-payment is rare, and there is no evidence that any risk of default existed at 31 March 2021. The repayment profile of these deposits, including loans to others, is shown below:

|                        | 31 March 2021<br>£'000 | 31 March 2020<br>£'000 |
|------------------------|------------------------|------------------------|
| Less than three months | 85,953                 | 75,853                 |
| Three to six months    | 81,249                 | 106,990                |
| Six months to one year | 25,042                 | 24,069                 |
| More than one year     | 45,115                 | -                      |
| <b>Total</b>           | <b>237,359</b>         | <b>206,912</b>         |

#### Loans to Others

The Council initiates a legal charge on property where, for example, clients require assistance with payment of care fees, but cannot pay immediately until such time as their property is sold. The total amount outstanding as at 31 March 2021 in this category is £822,000 and experience of default is minimal. The Council has granted mortgages for essential property repairs in shared ownership properties as well as secured loans to property owners to bring their properties back into use for affordable rent under the Empty Home Loans Fund (EHLF) scheme. The total amount outstanding as at 31 March 2021 is £334,000 with no experience of default. The total amount of Loans to Others of £1,156,000 can be analysed as follows:

|                        | 31 March 2021<br>£'000 | 31 March 2020<br>£'000 |
|------------------------|------------------------|------------------------|
| Less than three months | 127                    | 59                     |
| Three to six months    | 128                    | 59                     |
| Six months to one year | 250                    | 119                    |
| More than one year     | 651                    | 922                    |
| <b>Total</b>           | <b>1,156</b>           | <b>1,159</b>           |

#### Debtors

The Council does not generally allow credit for customers, such that £13.076m of the £14.950m balance is past its due date for payment.

|                        | 31 March 2021<br>£'000 | 31 March 2020<br>£'000 |
|------------------------|------------------------|------------------------|
| Less than three months | 8,259                  | 2,673                  |
| Three to six months    | 462                    | 373                    |
| Six months to one year | 1,486                  | 1,944                  |
| More than one year     | 2,869                  | 2,767                  |
| <b>Total</b>           | <b>13,076</b>          | <b>7,757</b>           |

#### (ii) Liquidity Risk

The Council has access to borrowings from the money markets to cover day to day cashflow needs, as well as borrowing from the Public Works Loans Board or money markets for longer term funding requirements. As a result there is no significant risk that the Council will be unable to raise finance to meet its commitments under financial instruments. The Council manages its portfolio in conjunction with interest rate forecasts to reduce the risk of a large proportion of its borrowing maturing at a time of higher interest rates, and so reduce the financial impact of re-financing at an

unfavourable time. In addition, the monitoring of interest rate movements for the identification of debt rescheduling opportunities to amend the maturity profile, as well as achieving savings in interest charges, is undertaken on a continuous basis to further mitigate any refinancing risks.

The maturity structure of financial liabilities is as follows (at nominal value):

| <b>Loans outstanding</b> | <b>On 31 March 2021</b> | <b>On 31 March 2020</b> |
|--------------------------|-------------------------|-------------------------|
|                          | <b>£'000</b>            | <b>£'000</b>            |
| Public Works Loans Board | 490,500                 | 498,000                 |
| Market debt              | 43,340                  | 43,368                  |
| Temporary borrowing      | 50,794                  | 16,433                  |
| Local bonds              | 2,169                   | 2,124                   |
| Bank Overdraft           | 3,494                   | 0                       |
| <b>Total</b>             | <b>590,297</b>          | <b>559,925</b>          |
| Less than 1 year         | 68,957                  | 26,085                  |
| Between 1 and 2 years    | 8,000                   | 12,500                  |
| Between 2 and 5 years    | 23,140                  | 26,140                  |
| Between 5 and 10 years   | 32,500                  | 37,500                  |
| Between 10 and 15 years  | 0                       | 0                       |
| More than 15 years       | 457,700                 | 457,700                 |
| <b>Total</b>             | <b>590,297</b>          | <b>559,925</b>          |

In the more than 15 years category there are £43.2m of LOBO borrowings which have a call date in the next 12 months.

### (iii) Market Risk

#### Interest rate risk

The Council is exposed to interest rate risk in two different ways: the first being the uncertainty of interest paid/received on variable rate instruments and the second being the effect of fluctuations in interest rates on the fair value of an instrument.

The current interest rate risk for the council is summarised below:

- Reductions in interest rates will affect interest earned on variable rate investments, and reduces income credited to the Comprehensive Income and Expenditure Statement. There would only be a small reduction in the interest payable on variable rate borrowing.
- Increases in interest rates will affect interest paid on variable rate borrowings, and increases interest expense charged to the Comprehensive Income and Expenditure Statement, but offset by increased investment returns.
- The fair value of fixed rate financial assets will fall if interest rates rise. This will not impact on the balance sheet for assets held at amortised cost, but will impact on the disclosure note for fair value. It would have a negative effect on the balance sheet for any assets held at fair value in the balance sheet, which would also be reflected in the Comprehensive Income & Expenditure Statement. However, no such assets at fair value were held by the Council as at 31 March 2021.
- The fair value of fixed rate financial liabilities will rise if interest rates fall. This will not impact on the balance sheet for liabilities held at amortised cost, but will impact on the disclosure note for fair value.

The Council has a number of strategies for managing interest rate risk. The policy is to keep a maximum of 35% of its borrowings in variable rate loans. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans may be repaid early to limit exposure to higher costs, whilst fixed deposits may be undertaken for longer periods (within policy and counterparty limits).

The treasury management team has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget throughout the year. This allows any favourable or adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out is fixed or variable.

According to this assessment strategy, at 31 March 2021, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

|                                                              |         |
|--------------------------------------------------------------|---------|
|                                                              | £'000   |
| Increase in interest payable on variable rate borrowings     | 997     |
| Increase in interest receivable on variable rate investments | (2,833) |
| Impact on Comprehensive Income and Expenditure Statement     | (1,836) |
| Share of overall impact credited to the HRA                  | (466)   |

The impact of a 1% fall in interest rates would have been an estimated cost of £1,662,000 to the Council as a result of a reduction in investment income, whilst it would be unlikely that the lenders of the market loans borrowed would pass on the reduction in rates payable. However, there would be a reduction of £565,000 payable on other loans. Therefore, the net cost of a 1% fall in interest rates would be £1,097,000, of which £279,000 would be debited to the HRA.

#### Foreign Exchange Risk

The Council has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

#### Price Risk

The Council does not invest in equities, however, does invest in other tradable instruments but with the intention of holding them until their maturity date. Therefore, the Council does not actively trade in such instruments, and is therefore not exposed to gains or losses on movements in their price.

### **40. Devolved School Management (DSM) Schools**

The accumulated balance on the General Fund at 31 March 2021 includes surplus funds of £1,536,000 (31 March 2020 £1,224,000) in respect of schools participating in the Devolved School Management scheme. There are no schools carrying forward deficits. These surpluses are earmarked in 2020/21 for the individual schools concerned.

There is Pupil Equity Funding from the Scottish Government of £791,000 which is being carried forward to 2021/22 for schools within the Council's earmarked general fund balances.

### **41. Operating Activities**

The cash flows for operating activities include the following items:

|                   | 2020/21<br>£'000 | 2019/20<br>£'000 |
|-------------------|------------------|------------------|
| Interest received | (1,882)          | (696)            |
| Interest paid     | 25,233           | 22,692           |
|                   | <u>23,351</u>    | <u>21,996</u>    |

### **42. Investing Activities**

|                                                                                                    | 2020/21<br>£'000 | 2019/20<br>£'000 |
|----------------------------------------------------------------------------------------------------|------------------|------------------|
| Purchase of property, plant and equipment, investment property and intangible assets               | (59,511)         | (80,993)         |
| Purchase of short-term and long-term investments                                                   | (221,692)        | (180,412)        |
| Proceeds from the sale of property, plant and equipment, investment property and intangible assets | 1,017            | 1,322            |
| Proceeds of short-term and long-term investments                                                   | 154,395          | 66,334           |
| Other receipts for investing activities                                                            | 25,282           | 46,262           |
|                                                                                                    | <u>(100,509)</u> | <u>(147,487)</u> |

### **43. Financing Activities**

|                                                                                                                              | 2020/21<br>£'000 | 2019/20<br>£'000 |
|------------------------------------------------------------------------------------------------------------------------------|------------------|------------------|
| Cash receipts of short and long-term borrowing                                                                               | 212,709          | 217,564          |
| Cash payments for the reduction of the outstanding liabilities relating to finance leases and on balance sheet PFI contracts | (4,974)          | (5,086)          |
| Repayments of short and long-term borrowing                                                                                  | (185,813)        | (44,500)         |
| Net cash flows from financing activities                                                                                     | <u>21,922</u>    | <u>167,978</u>   |

#### 44. Cash and Cash Equivalents

The balance of Cash and Cash equivalents is made up of the following elements:

|                                                       | 2020/21<br>£'000 | 2019/20<br>£'000 |
|-------------------------------------------------------|------------------|------------------|
| Cash held                                             | 48               | 47               |
| Bank current accounts                                 | (3,494)          | 47               |
| Short-term deposits with banks and building societies | 18,167           | 40,007           |
| Short-term deposits with Local Authorities            | 7,500            | 27,510           |
| Short-term deposits with other organisations          | 5,000            | 0                |
| Total cash and cash equivalents                       | <u>27,221</u>    | <u>67,611</u>    |

#### 45. Trust Funds

Perth & Kinross Council administers a number of Charitable Funds of varying sizes. The Income and Expenditure Account and Balance Sheet are detailed on page 83.

These funds include Educational Trusts and other trusts which are primarily for the residents of Perth & Kinross. An exercise is currently being undertaken to amalgamate many of the non-educational trusts in order for the funds to be more readily accessible.

The Perth & Kinross Educational Trust gives financial assistance towards scholarships, second or subsequent degrees, mature students and further education. Assistance is also provided to schools for sports facilities and special equipment, promoting visual arts and education in music and drama. There are also preferences for certain beneficiaries usually named schools for prizes etc. Also, within the Perth & Kinross Educational Trust there are eight individual endowments for maintaining, furnishing and equipping school buildings.

The other charitable trusts purposes include providing financial assistance in different areas of Perth & Kinross.

|                                                                            | 31 March 2021<br>£'000 | 31 March 2020<br>£'000 |
|----------------------------------------------------------------------------|------------------------|------------------------|
| Educational Trust - Financial Assistance                                   |                        |                        |
| Net assets                                                                 | 991                    | 829                    |
| Net Incoming/(Outgoing) Resources before other recognised gains and losses | 1                      | 1                      |
| Educational Trust - Endowments                                             |                        |                        |
| Net assets                                                                 | 51                     | 45                     |
| Net Incoming/(Outgoing) Resources before other recognised gains and losses | 0                      | 0                      |
| Other Charitable Trusts                                                    |                        |                        |
| Net assets                                                                 | 1,900                  | 1,633                  |
| Net Incoming Resources before other recognised gains and losses            | 4                      | 31                     |
| TOTAL Net Assets                                                           | <b>2,942</b>           | <b>2,507</b>           |
| TOTAL Net Incoming Resources before other recognised gains and losses      | <b>5</b>               | <b>32</b>              |

Detailed Accounts for the Charities are available from the Head of Finance, 2 High Street, Perth, PH1 5PH by contacting [chxfinance@pkc.gov.uk](mailto:chxfinance@pkc.gov.uk) or phoning 01738 475000.

#### 46. The Statutory Loans Fund

Loans Fund accounting is governed by The Local Authority (Capital Financing and Accounting) (Scotland) Regulations 2016, which came into force on 1 April 2016. These regulations outline the way the Loans Fund is operated in relation to the repayment period and method that capital advances (expenditure) are repaid (charged) on an annual basis.

The Loans Fund is an internal fund operated by the Council to manage the amortisation of capital expenditure (capital advances) over the life of the various assets being funded by borrowing, and also to manage the external borrowing raised to finance the capital expenditure. Whilst both elements of the Loans Fund operate independently of each other, because they are based on the same capital plans, they will broadly be consistent to each other over the long term. However, significant differences may arise over the short-term. This may include, for example, delaying external borrowing due to unfavourable prevailing interest rates, where the Council's daily cashflow remains positive, or where the Council has significant levels of Reserves.



The annuity repayment method is used for all internal capital advances through the Loans Fund. The Council also defers the repayment of Loans Fund advances until the asset being funded is completed and operational. The Council repays/amortises the capital advances over the life of the asset being funded, up to a maximum of 50 years. Therefore, the total number of years may exceed 50 years from the year the capital expenditure was incurred where the total expenditure on an asset is spread over two or more years before the asset becomes operational.

The value of Loans Fund advances outstanding at 31 March 2021 is £462,132,000. This is made up as follows:

|                      | Advances<br>1 April 2020<br>£'000 | Repaid<br>2020/21<br>£'000 | New Advances<br>2020/21<br>£'000 | Advances<br>31 March 2021<br>£'000 |
|----------------------|-----------------------------------|----------------------------|----------------------------------|------------------------------------|
| General Fund         | 291,049                           | (3,432)                    | 10,062                           | 297,679                            |
| Prudential Borrowing | 44,567                            | (2,660)                    | 3,142                            | 45,049                             |
| Sub Total            | 335,616                           | (6,092)                    | 13,204                           | 342,728                            |
| HRA                  | 111,547                           | (3,486)                    | 11,343                           | 119,404                            |
| Total                | 447,163                           | (9,578)                    | 24,547                           | 462,132                            |

The estimated future repayments of these advances is summarised in the table below:

|                         | General<br>Fund<br>£'000 | Prudential<br>Borrowing<br>£'000 | Sub Total:<br>General<br>Fund<br>£'000 | Housing<br>Revenue<br>Account<br>£'000 | Total<br>£'000 |
|-------------------------|--------------------------|----------------------------------|----------------------------------------|----------------------------------------|----------------|
| Within 1 Year           | 2,780                    | 2,584                            | 5,364                                  | 3,652                                  | 9,016          |
| Between 1 and 2 Years   | 2,530                    | 2,620                            | 5,150                                  | 3,789                                  | 8,939          |
| Between 2 and 5 Years   | 5,631                    | 6,283                            | 11,914                                 | 11,165                                 | 23,079         |
| Between 5 and 10 Years  | (1,266)                  | 5,028                            | 3,762                                  | 17,742                                 | 21,504         |
| Between 10 and 15 Years | (3,083)                  | 3,788                            | 705                                    | 22,738                                 | 23,443         |
| Between 15 and 20 Years | 25,581                   | 3,353                            | 28,934                                 | 12,491                                 | 41,425         |
| Between 20 and 25 Years | 31,946                   | 3,294                            | 35,240                                 | 2,863                                  | 38,103         |
| More than 25 Years      | 233,560                  | 18,099                           | 251,659                                | 44,964                                 | 296,623        |
| Total                   | 297,679                  | 45,049                           | 342,728                                | 119,404                                | 462,132        |

Comparison of the capital advances above with capital debt of £533.7m shows that the Council's borrowing is around £71.6m higher than immediate requirements as at 31 March 2021. This reflects the strategy adopted of undertaking new borrowing at historic low rates in order to fund the large Capital Financing Requirement over the next few years. This strategy reduces the risks of funding this requirement in future years as interest rates rise and provides budget certainty for future interest rates at a low level.

The latest approved General Fund (Composite) Capital Budget and Housing Investment Programme includes the amount of capital expenditure to be funded by borrowing (i.e. new Loans Fund advances) in each of the next 8 years as follows:

|         | General<br>Fund<br>£'000 | Housing<br>Investment<br>Programme<br>£'000 | Total<br>£'000 |
|---------|--------------------------|---------------------------------------------|----------------|
| 2021/22 | 74,721                   | 8,559                                       | 83,280         |
| 2022/23 | 109,803                  | 7,757                                       | 117,560        |
| 2023/24 | 106,411                  | 9,908                                       | 116,319        |
| 2024/25 | 32,996                   | 9,124                                       | 42,120         |
| 2025/26 | 14,573                   | 13,963                                      | 28,536         |
| 2026/27 | 11,728                   | 0                                           | 11,728         |
| 2027/28 | 9,087                    | 0                                           | 9,087          |
| 2028/29 | 10,255                   | 0                                           | 10,255         |
| Total   | 369,574                  | 49,311                                      | 418,885        |

All the above Loans Fund repayments have been included in the Loan Charge estimates within the approved Medium-Term Financial Plans, and therefore remain affordable under the current Loan Charge Budget strategy. It is anticipated that the Council will consider a new Capital Budget later this year.

## HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE STATEMENT

The Housing Revenue Account (HRA) Income and Expenditure Statement shows the economic cost in the year of providing housing services in accordance with generally accepted accounting practices, rather than the amount to be funded from rents and government grants. Councils charge rents to cover expenditure in accordance with the legislative framework which may be different from the accounting cost. The increase or decrease in the year, on the basis on which rents are raised, is shown in the Statement of Movements on the Housing Revenue Account Balance.

| <u>2019/20</u> |                                                                                                                   | <u>2020/21</u> |          |
|----------------|-------------------------------------------------------------------------------------------------------------------|----------------|----------|
| £'000          |                                                                                                                   | £'000          | £'000    |
|                | <b>Income</b>                                                                                                     |                |          |
| (27,205)       | Dwelling Rents                                                                                                    | (28,266)       |          |
| 387            | less Voids                                                                                                        | 513            |          |
|                |                                                                                                                   |                | (27,753) |
| (567)          | Non-Dwelling Rents                                                                                                | (585)          |          |
| 39             | less Voids                                                                                                        | 49             |          |
|                |                                                                                                                   |                | (536)    |
| (683)          | Other Income                                                                                                      | (1,017)        |          |
| (28,029)       | <b>Total Income</b>                                                                                               |                | (29,306) |
|                | <b>Expenditure</b>                                                                                                |                |          |
| 6,358          | Repairs & Maintenance                                                                                             | 5,229          |          |
| 12,479         | Supervision & Management                                                                                          | 12,601         |          |
| 12,641         | Depreciation, impairment and revaluation losses on non current assets                                             | 11,575         |          |
| 173            | Movement in the Impairment of Debtors                                                                             | 515            |          |
| 248            | Other expenditure                                                                                                 | 289            |          |
| 31,899         | <b>Total Expenditure</b>                                                                                          |                | 30,209   |
| 3,870          | <b>Net Expenditure for HRA Services as included in the Comprehensive Income and Expenditure Statement</b>         |                | 903      |
| 325            | HRA services' share of Corporate and Democratic Core                                                              |                | 315      |
| 4,195          | <b>Net Expenditure for HRA Services</b>                                                                           |                | 1,218    |
|                | HRA share of the operating income and expenditure included in the Comprehensive Income and Expenditure Statement: |                |          |
| (124)          | Gain on sale of HRA Non-Current Assets                                                                            |                | (78)     |
| 3,148          | Interest payable and similar charges                                                                              |                | 3,471    |
| (13)           | Interest and investment income                                                                                    |                | (8)      |
| 195            | Net Interest on the net defined benefit liability                                                                 |                | 191      |
| (10,604)       | Capital Grants and Contributions Receivable                                                                       |                | (3,055)  |
| (3,203)        | <b>(Surplus)/Deficit for the year on HRA services</b>                                                             |                | 1,739    |

## STATEMENT OF MOVEMENTS ON THE HOUSING REVENUE ACCOUNT BALANCE

The Statement of Movement on the Housing Revenue Account balance reconciles the Housing Revenue Account to the HRA balance, an earmarked element of the Council's General Fund Balance.

| <u>2019/20</u><br><u>£'000</u> |                                                                          | <u>2020/21</u><br><u>£'000</u> | <u>2020/21</u><br><u>£'000</u> |
|--------------------------------|--------------------------------------------------------------------------|--------------------------------|--------------------------------|
| (1,000)                        | Balance on the HRA at the end of the Previous Year                       |                                | (1,000)                        |
| (3,203)                        | Deficit/(Surplus) for the year on the HRA Income and Expenditure Account | 1,739                          |                                |
| <u>3,403</u>                   | Adjustments between Accounting Basis and Funding Basis Under Statute     | <u>(645)</u>                   |                                |
| <u>200</u>                     | Net Decrease before Transfers to or from Reserves                        | 1,094                          |                                |
| (200)                          | Transfer from Reserves                                                   | <u>(3,100)</u>                 |                                |
| 0                              | Movement in Year on the HRA                                              |                                | (2,006)                        |
| <u>(1,000)</u>                 | Balance on the HRA at the end of the Current Year                        |                                | <u>(3,006)</u>                 |

### Note to the Statement of Movement on the HRA Balance

| <u>2019/20</u><br><u>£'000</u> |                                                                                                                              | <u>2020/21</u><br><u>£'000</u> | <u>2020/21</u><br><u>£'000</u> |
|--------------------------------|------------------------------------------------------------------------------------------------------------------------------|--------------------------------|--------------------------------|
|                                | <b>Items included in the HRA Income and Expenditure Account but excluded from the movement on HRA Balance for the year</b>   |                                |                                |
| 124                            | Gain on sale of HRA Non-current assets                                                                                       | 78                             |                                |
| (12,641)                       | Depreciation and impairment of non current assets                                                                            | (11,575)                       |                                |
|                                | Capital Grants and Contributions credited to the Comprehensive Income and Expenditure Statement                              | 3,055                          |                                |
| 10,604                         | Adjustments involving Short Term Accumulated Absences Account                                                                | (57)                           |                                |
| 51                             | Reversal of items relating to retirement benefits credited to the Comprehensive Income and Expenditure Statement             | (2,315)                        |                                |
| <u>(2,600)</u>                 |                                                                                                                              |                                |                                |
| (4,462)                        |                                                                                                                              |                                | (10,814)                       |
|                                | <b>Items not included in the HRA Income and Expenditure Account but included in the movement on HRA Balance for the year</b> |                                |                                |
| 1,163                          | Employer's pension contributions and direct payments to pensioners payable in the year                                       | 1,307                          |                                |
| 177                            | Adjustments involving the Financial Instruments Adjustment Account                                                           | 183                            |                                |
| 4,436                          | Statutory provision for the repayment of debt                                                                                | 3,485                          |                                |
| 2,089                          | Capital expenditure charged to the HRA balances                                                                              | 5,194                          |                                |
| <u>7,865</u>                   |                                                                                                                              |                                | 10,169                         |
| <u>3,403</u>                   | <b>Net additional amount required by statute to be (credited)/debited to the HRA Balance for the year</b>                    |                                | <u>(645)</u>                   |

## THE ACCOMPANYING NOTES TO THE HOUSING REVENUE ACCOUNT INCOME AND EXPENDITURE STATEMENT

### 1. Housing Stock at 31 March 2021

|                                        | No. of Dwellings<br>31 March 2021 | No. of Dwellings<br>31 March 2020 |
|----------------------------------------|-----------------------------------|-----------------------------------|
| Sheltered accommodation                | 285                               | 285                               |
| Detached/Semi-Detached/Terraced        | 3,653                             | 3,671                             |
| High Rise Flats                        | 138                               | 136                               |
| Tenement Flats/Other Flats/Maisonettes | 3,684                             | 3,587                             |
| Total                                  | <u>7,760</u>                      | <u>7,679</u>                      |

### 2. Rent Arrears at 31 March 2021

|                | Gross Arrears<br>31 March 2021 |                | Gross Arrears<br>31 March 2020 |                |
|----------------|--------------------------------|----------------|--------------------------------|----------------|
|                | £'000                          | % of<br>Income | £'000                          | % of<br>Income |
| Houses         | 2,700                          | 9.6            | 1,982                          | 7.3            |
| Other Subjects | 60                             | 10.2           | 27                             | 4.7            |
| Totals         | <u>2,760</u>                   | <u>9.6</u>     | <u>2,009</u>                   | <u>7.2</u>     |

### 3. Impairment of Debtors

In 2020/21 an impairment of £1,880,727 has been provided in the Balance Sheet, an increase of £515,229 from the impairment in 2019/20.

## COUNCIL TAX INCOME ACCOUNT

The Council Tax Income Account shows the gross income raised from Council Taxes levied and deductions made under statute. The resultant net income is transferred to the Comprehensive Income and Expenditure Statement of the Council.

| <u>2019/20</u> |                                                                                       | <u>2020/21</u> |         |
|----------------|---------------------------------------------------------------------------------------|----------------|---------|
| <i>£'000</i>   |                                                                                       | £'000          | £'000   |
| 102,678        | <b>Gross Charge</b>                                                                   |                | 108,074 |
| (3,594)        | Deduct - Exemptions                                                                   |                | (3,605) |
| (163)          | Disabled Relief                                                                       |                | (173)   |
| (7,401)        | Discounts and Reductions                                                              |                | (7,824) |
| (6,157)        | Council Tax Reduction Scheme                                                          |                | (6,821) |
| 85,363         | <b>Net Council Tax</b>                                                                |                | 89,651  |
|                | Deduct -                                                                              |                |         |
| (7)            | Ministry Of Defence Properties                                                        | (7)            |         |
| 7              | Contribution Received                                                                 | 7              | 0       |
| (1,456)        | Provision for Bad and Doubtful Debts                                                  |                | (1,880) |
| 83,907         | <b>Total Council Tax Income</b>                                                       |                | 87,771  |
| (359)          | Adjustments for prior years for Council Tax and Community Charge                      |                | (347)   |
| 83,548         | <b>Total Council Tax / Community Charge Income to Comprehensive I&amp;E Statement</b> |                | 87,424  |



## THE ACCOMPANYING NOTES TO THE COUNCIL TAX INCOME ACCOUNT

### 1. CALCULATION OF THE COUNCIL TAX BASE AT 31 MARCH 2021

|                                                  | A       | B       | C       | D       | E       | F       | G       | H       | 2020/21<br>TOTAL | 2019/20<br>TOTAL |
|--------------------------------------------------|---------|---------|---------|---------|---------|---------|---------|---------|------------------|------------------|
| No. of Properties                                | 8,753   | 14,941  | 12,566  | 11,168  | 11,856  | 7,890   | 6,360   | 687     | 74,221           | 73,660           |
| Exemptions                                       | (750)   | (646)   | (497)   | (312)   | (236)   | (103)   | (87)    | (20)    | (2,651)          | (2,870)          |
| Disabled Relief                                  | 80      | (7)     | 4       | 36      | (25)    | 8       | (91)    | (5)     | 0                | 0                |
| Discounts                                        | (1,388) | (1,978) | (1,399) | (1,119) | (922)   | (461)   | (303)   | (56)    | (7,626)          | (7,550)          |
| Effective No. of Properties                      | 6,695   | 12,310  | 10,674  | 9,773   | 10,673  | 7,334   | 5,879   | 606     | 63,944           | 63,240           |
| Ratio                                            | 240/360 | 280/360 | 320/360 | 360/360 | 473/360 | 585/360 | 705/360 | 882/360 |                  |                  |
| Band D Equivalents                               | 4,460   | 9,574   | 9,488   | 9,773   | 14,023  | 11,918  | 11,513  | 1,484   | 72,233           | 71,373           |
| Contributions in lieu                            |         |         |         |         |         |         |         |         | 7                | 7                |
| TOTAL                                            |         |         |         |         |         |         |         |         | 72,240           | 71,380           |
| Provision for non-payment at 2.0% (2019/20 2.0%) |         |         |         |         |         |         |         |         | (1,445)          | (1,428)          |
| COUNCIL TAX BASE                                 |         |         |         |         |         |         |         |         | 70,795           | 69,952           |

### 2. THE COUNCIL TAX CHARGE

The Council Tax is based on the value of a domestic property together with a personal element which takes into account the number and circumstances of that property's occupants.

Each property is placed in one of eight valuation bands (A-H) in accordance with their value as at 1 April 1991. The Council Tax charge levied for each property is calculated in proportion to the Council Tax charge for a band D property by applying fractions. A discount of 25% is given where there are fewer than two residents of a property. Discounts of 10% are awarded for second homes and long term empty dwellings. Some unoccupied dwellings may receive discount of 50%. Persons in detention, students, mentally handicapped people and certain others are disregarded for Council Tax purposes. Reductions in Council Tax are also granted for disabled people.

The valuation bands, the fractions used in calculating the Council Tax payable for each valuation band and the actual charges determined for 2020/21 are set out below:

| Valuation Band | Property Valuation Range | Fraction of band D | 2020/21 Actual Charge | 2019/20 Actual Charge |
|----------------|--------------------------|--------------------|-----------------------|-----------------------|
| A              | £0 - £27,000             | 240/360            | £878.67               | £842.67               |
| B              | £27,001 - £35,000        | 280/360            | £1,025.11             | £983.11               |
| C              | £35,001 - £45,000        | 320/360            | £1,171.56             | £1,123.56             |
| D              | £45,001 - £58,000        | 360/360            | £1,318.00             | £1,264.00             |
| E              | £58,001 - £80,000        | 473/360            | £1,731.71             | £1,660.76             |
| F              | £80,001 - £106,000       | 585/360            | £2,141.75             | £2,054.00             |
| G              | £106,001 - £212,000      | 705/360            | £2,581.08             | £2,475.33             |
| H              | Over £212,000            | 882/360            | £3,229.10             | £3,096.80             |

## NON DOMESTIC RATE INCOME ACCOUNT

The Non-Domestic Rate Account is an agent's statement that reflects the statutory obligation for billing authorities to maintain a separate Non-Domestic Rate Account. The statement shows the gross income from the rates and deductions made under statute. The net income is paid to the Scottish Government as a contribution to the national Non-Domestic Rate pool.

| 2019/20       |                                                                                         | 2020/21       |                 |
|---------------|-----------------------------------------------------------------------------------------|---------------|-----------------|
| £'000         |                                                                                         | £'000         | £'000           |
| 81,886        | <b>Gross Rate Levied</b>                                                                |               | 82,055          |
| (138)         | Transitional Relief                                                                     |               | 0               |
|               |                                                                                         |               | <u>82,055</u>   |
|               | Deduct:                                                                                 |               |                 |
| (2,617)       | Rate Rebates                                                                            | (2,631)       |                 |
| (21,133)      | Reliefs, Charities etc.                                                                 | (47,223)      |                 |
| (366)         | Provision for Bad and Doubtful Debts                                                    | (251)         |                 |
|               |                                                                                         |               | <u>(50,105)</u> |
|               | Adjustments to Previous Years:                                                          |               |                 |
| (1,305)       | Gross Rate Levied                                                                       | (4,390)       |                 |
| 256           | Transitional Surcharge/Relief                                                           | 37            |                 |
| (604)         | Reliefs, Charities etc.                                                                 | (397)         |                 |
| (166)         | Impairment for Bad and Doubtful Debts and Abatements                                    | 81            |                 |
|               |                                                                                         |               | <u>(4,669)</u>  |
| <u>55,813</u> | <b>Net Non Domestic Rate Income</b>                                                     |               | <u>27,281</u>   |
| (56,016)      | Contribution to National Non Domestic Rate Pool                                         | (27,487)      |                 |
| <u>56,590</u> | Contribution from National Non Domestic Rate Pool                                       | <u>37,876</u> |                 |
| 574           | Net contribution from/(to) National Non Domestic Rate Pool                              |               | 10,389          |
| 56,387        | <b>Total Non Domestic Rate Income (before Council retentions)</b>                       |               | <u>37,670</u>   |
| 0             | Non-Domestic Rate Income Retained by Council (Business Rates Incentivisation Scheme)    |               | 0               |
| <u>56,387</u> | <b>Total Non Domestic Rate Income to Comprehensive Income and Expenditure Statement</b> |               | <u>37,670</u>   |
| <u>202</u>    | Discretionary Relief funded by the Council                                              |               | <u>206</u>      |

## THE ACCOMPANYING NOTES TO THE NON DOMESTIC RATE INCOME ACCOUNT

### 1. NON DOMESTIC RATES

All non domestic rate income collected by Scottish local authorities is paid into a national pool. It is redistributed to authorities in proportion to the resident population in each authority's area and therefore bears no direct relationship to the amount collected by those authorities. The rate poundage set by the Scottish Government for 2020/21 was 49.8p (2019/20 49.0p).

However the Scottish Government subsequently introduced a general 1.6% rates relief for all properties to effectively reverse the impact of the planned increase. This 1.6% general relief was part of a package of measures under the Scottish Government's Coronavirus Rates Relief scheme, which saw more than £25 million of relief being awarded to businesses in the Retail, Leisure and Hospitality sectors within the Perth and Kinross area.

The Small Business Bonus Scheme, introduced from 1 April 2008, provides relief to businesses based on their combined rateable value. From 1 April 2014 the combined rateable value threshold has been set at £35,000 with relief available on all individual properties with a rateable value of £18,000 or less. Subject to eligibility, this provides relief of either 25% or 100%. This scheme replaced the Small Business Rates Relief Scheme.

### 2. RATEABLE SUBJECTS AND VALUES

| <i>No. of<br/>Subjects<br/>at 1 April 2019</i> | <i>Rateable<br/>Value<br/>£'000<br/>at 1 April 2019</i> |                                       | <i>No. of<br/>Subjects<br/>at 1 April 2020</i> | <i>Rateable<br/>Value<br/>£'000<br/>at 1 April 2020</i> |
|------------------------------------------------|---------------------------------------------------------|---------------------------------------|------------------------------------------------|---------------------------------------------------------|
| 1,686                                          | 36,772                                                  | Shops                                 | 1,684                                          | 36,289                                                  |
| 86                                             | 1,799                                                   | Public Houses                         | 85                                             | 1,735                                                   |
| 1,057                                          | 14,051                                                  | Offices (including banks)             | 1,061                                          | 13,866                                                  |
| 234                                            | 13,917                                                  | Hotels etc.                           | 234                                            | 13,675                                                  |
| 1,692                                          | 23,390                                                  | Industrial Subjects etc.              | 1,721                                          | 23,784                                                  |
| 1,789                                          | 11,662                                                  | Leisure, Entertainment, Caravans etc. | 1,861                                          | 11,681                                                  |
| 154                                            | 4,937                                                   | Garages and Petrol Stations           | 154                                            | 4,951                                                   |
| 58                                             | 1,361                                                   | Cultural                              | 59                                             | 1,373                                                   |
| 1,396                                          | 2,984                                                   | Sporting Subjects                     | 1,374                                          | 2,846                                                   |
| 118                                            | 15,117                                                  | Education and Training                | 117                                            | 15,777                                                  |
| 412                                            | 8,071                                                   | Public Service Subjects               | 416                                            | 8,024                                                   |
| 1                                              | 0                                                       | Communications                        | 1                                              | 0                                                       |
| 21                                             | 406                                                     | Quarries, Mines etc.                  | 21                                             | 406                                                     |
| 2                                              | 3,597                                                   | Petrochemical                         | 2                                              | 3,597                                                   |
| 246                                            | 1,690                                                   | Religious                             | 246                                            | 1,690                                                   |
| 112                                            | 6,664                                                   | Health, Medical                       | 112                                            | 6,668                                                   |
| 717                                            | 1,883                                                   | Other                                 | 736                                            | 1,991                                                   |
| 66                                             | 3,209                                                   | Care Facilities                       | 65                                             | 3,206                                                   |
| 35                                             | 118                                                     | Advertising                           | 35                                             | 118                                                     |
| 86                                             | 11,062                                                  | Undertaking                           | 89                                             | 11,465                                                  |
| <u>9,968</u>                                   | <u>162,690</u>                                          | Total                                 | <u>10,073</u>                                  | <u>163,142</u>                                          |

## CHARITABLE TRUSTS

The Council administers Perth & Kinross Educational Trust and various other Charitable Trusts and Endowments. The figures below summarise the aggregate income and expenditure for the year and the assets and liabilities at 31 March 2021.

### INCOME AND EXPENDITURE ACCOUNT FOR YEAR TO 31 MARCH 2021

|                                                                          | 2020/21<br>£'000 | 2020/21<br>£'000 | 2019/20<br>£'000 |
|--------------------------------------------------------------------------|------------------|------------------|------------------|
| <b>INCOMING RESOURCES</b>                                                |                  |                  |                  |
| Incoming resources from generated funds:                                 |                  |                  |                  |
| Investment Income                                                        | 104              |                  | 116              |
| <b>Total Incoming Resources</b>                                          |                  | 104              | 116              |
| <b>RESOURCES EXPENDED</b>                                                |                  |                  |                  |
| Costs of generating funds:                                               |                  |                  |                  |
| Investment management costs                                              | 13               |                  | 9                |
| Charitable activities                                                    | 72               |                  | 61               |
| Governance costs                                                         | 14               |                  | 9                |
| Reorganisation of trusts                                                 | 0                |                  | 5                |
| <b>Total Resources Expended</b>                                          |                  | 99               | 84               |
| <b>Net Incoming Resources Before Other Recognised Gains &amp; Losses</b> |                  | 5                | 32               |
| <b>OTHER RECOGNISED GAINS</b>                                            |                  |                  |                  |
| Gain/(Losses) on Investment assets                                       |                  | 430              | (237)            |
| <b>Net Movement in Funds for the Year</b>                                |                  | 435              | (205)            |
| <b>RECONCILIATION OF FUNDS</b>                                           |                  |                  |                  |
| Total Funds Brought Forward                                              |                  | 2,507            | 2,712            |
| <b>TOTAL FUNDS CARRIED FORWARD</b>                                       |                  | 2,942            | 2,507            |

### BALANCE SHEET AS AT 31 MARCH 2021

|                                                                 | 31 March 2021<br>£'000 | 31 March 2021<br>£'000 | 31 March 2020<br>£'000 |
|-----------------------------------------------------------------|------------------------|------------------------|------------------------|
| <b>FIXED ASSETS</b>                                             |                        |                        |                        |
| Tangible Assets                                                 |                        | 90                     | 90                     |
| Investments                                                     |                        | 2,611                  | 2,203                  |
| <b>CURRENT ASSETS</b>                                           |                        |                        |                        |
| Debtors                                                         | 28                     |                        | 4                      |
| Investments - Amounts due by Perth & Kinross Council Loans Fund | 222                    |                        | 216                    |
|                                                                 | 250                    |                        | 220                    |
| <b>LIABILITIES</b>                                              |                        |                        |                        |
| Creditors: amounts falling due within one year                  | (9)                    |                        | (6)                    |
| <b>NET CURRENT ASSETS</b>                                       |                        | 241                    | 214                    |
| <b>NET ASSETS</b>                                               |                        | 2,942                  | 2,507                  |
| <b>TOTAL FUNDS</b>                                              |                        | 2,942                  | 2,507                  |

#### Notes to Charitable Trusts

- The market value of Investments at 31 March 2021 was £2,611,000 (31 March 2020 £2,203,000).
- The unaudited accounts were issued on 30 June 2021 and the audited accounts were authorised for issue on 20 September 2021.

Stewart MacKenzie CPFA  
Head of Finance

## COMMON GOOD

The Council administers the Common Good Accounts for ten former burghs within Perth & Kinross. The figures below summarise the aggregate income and expenditure for the year and detail the Assets and Liabilities at 31 March 2021.

### INCOME AND EXPENDITURE ACCOUNT FOR YEAR TO 31 MARCH 2021

|                                       | 2020/21<br>£'000 | 2020/21<br>£'000 | 2019/20<br>£'000 |
|---------------------------------------|------------------|------------------|------------------|
| <b>EXPENDITURE</b>                    |                  |                  |                  |
| Grants to Voluntary Organisations     | 73               |                  | 139              |
| Christmas Lighting                    | 27               |                  | 62               |
| Property Costs                        | 0                |                  | 63               |
| Supplies & Services                   | 26               |                  | 20               |
|                                       | <u>126</u>       |                  | <u>284</u>       |
| <b>INCOME</b>                         |                  |                  |                  |
| Rents, Fees, Charges etc.             | 242              |                  | 258              |
| Interest on Loans                     | 10               |                  | 22               |
| Other                                 | 1                |                  | 28               |
|                                       | <u>253</u>       |                  | <u>308</u>       |
| <b>SURPLUS/(DEFICIT) FOR THE YEAR</b> |                  | 127              | 24               |
| Revenue Balance Brought Forward       |                  | 1,825            | 1,801            |
| Revenue Balance Carried Forward       |                  | <u>1,952</u>     | <u>1,825</u>     |

### BALANCE SHEET AS AT 31 MARCH 2021

|                                                        | 31 March 2021<br>£'000 | 31 March 2021<br>£'000 | 31 March 2020<br>£'000 |
|--------------------------------------------------------|------------------------|------------------------|------------------------|
| <b>FIXED ASSETS</b>                                    |                        | 4,634                  | 4,761                  |
| <b>CURRENT ASSETS</b>                                  |                        |                        |                        |
| Debtors                                                | 0                      |                        | 13                     |
| Investments                                            | 2,057                  |                        | 2,003                  |
| Revenue Advances to Perth & Kinross Council Loans Fund | 305                    |                        | 179                    |
|                                                        | <u>2,362</u>           |                        | <u>2,195</u>           |
| <b>CURRENT LIABILITIES</b>                             |                        |                        |                        |
| Creditors and Accruals                                 | (127)                  |                        | (95)                   |
| <b>NET CURRENT ASSETS</b>                              |                        | 2,235                  | 2,100                  |
| <b>TOTAL NET ASSETS</b>                                |                        | <u>6,869</u>           | <u>6,861</u>           |
| <b>RESERVES</b>                                        |                        |                        |                        |
| Revenue                                                |                        | 1,952                  | 1,825                  |
| Capital                                                |                        | 386                    | 386                    |
| Capital Adjustment Account                             |                        | 91                     | 91                     |
| Revaluation Reserve                                    |                        | 4,440                  | 4,559                  |
|                                                        |                        | <u>6,869</u>           | <u>6,861</u>           |

The unaudited accounts were issued on 30 June 2021 and the audited accounts were authorised for issue on 20 September 2021.

Stewart MacKenzie CPFA  
Head of Finance



## THE ACCOMPANYING NOTES TO THE COMMON GOOD ACCOUNTS

1. Depreciation on Common Good Funds is charged on buildings, based on current value less residual value over the remaining useful life of the property. The buildings have a life expectancy of over 50 years and depreciation has been charged on a straight line basis over that period.

### 2. Common Good Reserve Funds

The movements in the individual Common Good Funds Revenue Reserves are summarised below:

| FUND         | Balance at<br>1 April 20 | Income<br>2020/21 | Expenditure<br>2020/21 | Balance at<br>31 March 21 |
|--------------|--------------------------|-------------------|------------------------|---------------------------|
|              | £'000                    | £'000             | £'000                  | £'000                     |
| Perth City   | 1,191                    | 227               | 91                     | 1,327                     |
| Aberfeldy    | 123                      | 0                 | 0                      | 123                       |
| Abernethy    | 1                        | 0                 | 0                      | 1                         |
| Alyth        | 20                       | 0                 | 0                      | 20                        |
| Auchterarder | 293                      | 23                | 33                     | 283                       |
| Blairgowrie  | 20                       | 0                 | 0                      | 20                        |
| Crieff       | 12                       | 2                 | 1                      | 13                        |
| Kinross      | 158                      | 1                 | 1                      | 158                       |
| Pitlochry    | 7                        | 0                 | 0                      | 7                         |
| <b>TOTAL</b> | <b>1,825</b>             | <b>253</b>        | <b>126</b>             | <b>1,952</b>              |

### 3. Common Good Fixed Assets

Some of the fixed assets included in the Council Balance Sheet should potentially be included in the Balance Sheet of the Common Good Funds instead.

The Community Empowerment (Scotland) Act 2015 requires the Council to establish and maintain a list of property which is held as part of the Common Good. The review of property titles to facilitate the eventual publication of the list has commenced, however, until the review is complete property titles are being reviewed when land and/or buildings are declared surplus to operational needs. Until all property titles for all former burghs are reviewed, there remains the possibility that some assets may require to be transferred between the Council and Common Good balance sheets.

The review of titles for the former Burghs, other than Perth, is complete and it is anticipated that the findings will be reported to the relevant Common Good Fund Committees and Community Councils as the Council progresses with the programme of Recovery and Renewal, prior to publication of the review on the Perth & Kinross Council website. The review of Perth is underway but has been delayed due to restrictions on the workplace from Covid-19.

# GROUP MOVEMENT IN RESERVES STATEMENT

|                                                                                               | General<br>Fund<br>Balance | Housing<br>Revenue<br>Account | Capital<br>Fund | Renewal<br>& Repair<br>Fund | Insurance<br>Fund | Capital<br>statutory<br>funds | Capital<br>Grants<br>Unapplied | Total<br>Usable<br>Reserves | Unusable<br>Reserves | TOTAL<br>Authority<br>Reserves | Authority's<br>share of<br>subsidiaries | Authority's<br>share of<br>associates<br>& joint<br>ventures | TOTAL<br>Reserves |
|-----------------------------------------------------------------------------------------------|----------------------------|-------------------------------|-----------------|-----------------------------|-------------------|-------------------------------|--------------------------------|-----------------------------|----------------------|--------------------------------|-----------------------------------------|--------------------------------------------------------------|-------------------|
|                                                                                               | £'000                      | £'000                         | £'000           | £'000                       | £'000             | £'000                         | £'000                          | £'000                       | £'000                | £'000                          | £'000                                   | £'000                                                        | £'000             |
| <b>Balance at 1 April 2019</b>                                                                | (47,441)                   | (1,000)                       | (30,366)        | (20)                        | (3,193)           | (2,581)                       | (3,580)                        | (88,181)                    | (456,586)            | (544,767)                      | (10,610)                                | (2,058)                                                      | (557,435)         |
| <u>Movement in reserves during 2019/20</u>                                                    |                            |                               |                 |                             |                   |                               |                                |                             |                      |                                |                                         |                                                              |                   |
| Total Comprehensive Income and Expenditure                                                    | 6,407                      | (3,203)                       | 0               | 0                           | 0                 | 0                             | 0                              | 3,204                       | (16,112)             | (12,908)                       | (58)                                    | 1,953                                                        | (11,013)          |
| Adjustments from income & expenditure charged under the accounting basis to the funding basis | (9,493)                    | 3,403                         | 0               | 0                           | 0                 | (67)                          | 1,391                          | (4,766)                     | 4,766                | 0                              | 0                                       | 0                                                            | 0                 |
| <b>Decrease in 2019/20</b>                                                                    | (3,086)                    | 200                           | 0               | 0                           | 0                 | (67)                          | 1,391                          | (1,562)                     | (11,346)             | (12,908)                       | (58)                                    | 1,953                                                        | (11,013)          |
| Transfers to/(from) Other Statutory Reserves                                                  | 1,231                      | (200)                         | (1,274)         | 20                          | 223               | 0                             | 0                              | 0                           | 0                    | 0                              | 0                                       | 0                                                            | 0                 |
| <b>Balance at 31 March 2020 carried forward</b>                                               | (49,296)                   | (1,000)                       | (31,640)        | 0                           | (2,970)           | (2,648)                       | (2,189)                        | (89,743)                    | (467,932)            | (557,675)                      | (10,668)                                | (105)                                                        | (568,448)         |
| <u>Movement in reserves during 2020/21</u>                                                    |                            |                               |                 |                             |                   |                               |                                |                             |                      |                                |                                         |                                                              |                   |
| Total Comprehensive Income and Expenditure                                                    | (6,582)                    | 1,739                         | 0               | 0                           | 0                 | 0                             | 0                              | (4,843)                     | (88,589)             | (93,432)                       | 4,120                                   | (8,830)                                                      | (98,142)          |
| Adjustments from income & expenditure charged under the accounting basis to the funding basis | (15,431)                   | (645)                         | 0               | 0                           | 0                 | 119                           | (541)                          | (16,498)                    | 16,498               | 0                              | 0                                       | 0                                                            | 0                 |
| <b>(Increase) or Decrease in 2020/21</b>                                                      | (22,013)                   | 1,094                         | 0               | 0                           | 0                 | 119                           | (541)                          | (21,341)                    | (72,091)             | (93,432)                       | 4,120                                   | (8,830)                                                      | (98,142)          |
| Transfers to/(from) Other Statutory Reserves                                                  | (1,174)                    | (3,100)                       | 3,696           | 0                           | 578               | 0                             | 0                              | 0                           | 0                    | 0                              | 0                                       | 0                                                            | 0                 |
| <b>Balance at 31 March 2021 carried forward</b>                                               | (72,483)                   | (3,006)                       | (27,944)        | 0                           | (2,392)           | (2,529)                       | (2,730)                        | (111,084)                   | (540,023)            | (651,107)                      | (6,548)                                 | (8,935)                                                      | (666,590)         |

# GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

| Restated<br>2019/20<br>Net<br>Expenditure<br>£'000 |                                                                                          | Note | 2020/21                       |                 |                             |
|----------------------------------------------------|------------------------------------------------------------------------------------------|------|-------------------------------|-----------------|-----------------------------|
|                                                    |                                                                                          |      | Gross<br>Expenditure<br>£'000 | Income<br>£'000 | Net<br>Expenditure<br>£'000 |
|                                                    | <b>SERVICES</b>                                                                          |      |                               |                 |                             |
| 179,374                                            | Education & Children's Services                                                          |      | 205,009                       | (26,313)        | 178,696                     |
| 60,593                                             | Health & Social Care                                                                     |      | 152,534                       | (88,343)        | 64,191                      |
| 77,358                                             | Communities                                                                              |      | 93,994                        | (14,140)        | 79,854                      |
| 41,694                                             | Corporate and Democratic Services                                                        |      | 86,392                        | (43,709)        | 42,683                      |
| 3,870                                              | Housing Revenue Account                                                                  |      | 30,209                        | (29,306)        | 903                         |
| 1,248                                              | Valuation Joint Board                                                                    |      | 1,308                         | 0               | 1,308                       |
| 84                                                 | Charitable Trusts                                                                        |      | 99                            | 0               | 99                          |
| (2)                                                | Common Good                                                                              |      | 126                           | (243)           | (117)                       |
| 364,219                                            | <b>COST OF SERVICES</b>                                                                  |      | 569,671                       | (202,054)       | 367,617                     |
| (845)                                              | Other Operating Expenditure / Income                                                     |      | 0                             | (925)           | (925)                       |
| 23,303                                             | Financing and Investment Income and Expenditure                                          | 4    | 27,431                        | (3,176)         | 24,255                      |
| (381,175)                                          | Taxation and Non-Specific Grant Income                                                   |      | 0                             | (398,048)       | (398,048)                   |
| 5,502                                              | <b>Deficit/(Surplus) on Provision of Services</b>                                        |      | 597,102                       | (604,203)       | (7,101)                     |
| 3,113                                              | Share of the Deficit on the provision of services by Associates and Joint Ventures       |      |                               |                 | (3,151)                     |
| 8,615                                              | <b>Group Deficit/(Surplus)</b>                                                           |      |                               |                 | (10,252)                    |
| 1,439                                              | (Surplus)/Deficit on revaluation of non current assets                                   |      |                               |                 | (56,062)                    |
| (20,037)                                           | Remeasurement of the net defined benefit liability                                       |      |                               |                 | (26,873)                    |
| 289                                                | Other gains                                                                              |      |                               |                 | 280                         |
| (1,319)                                            | Share of the other comprehensive income and expenditure of Associates and Joint Ventures |      |                               |                 | (5,235)                     |
| (19,628)                                           | Other Comprehensive Income and Expenditure                                               |      |                               |                 | (87,890)                    |
| (11,013)                                           | <b>Total Comprehensive Income and Expenditure</b>                                        |      |                               |                 | (98,142)                    |

## GROUP BALANCE SHEET

| 31 March 2020    |                                              | Notes | 31 March 2021    |
|------------------|----------------------------------------------|-------|------------------|
| £'000            |                                              |       | £'000            |
| 1,174,113        | Property, Plant & Equipment                  |       | 1,218,139        |
| 27,781           | Heritage Assets                              |       | 51,788           |
| 13,290           | Investment Property                          |       | 13,140           |
| 979              | Intangible Assets                            |       | 321              |
| 719              | Assets Held for Sale                         |       | 550              |
| 0                | Long Term Investments                        |       | 45,115           |
| 580              | Investment in Joint Venture                  |       | 6,950            |
| 981              | Long Term Debtors                            |       | 689              |
| <b>1,218,443</b> | <b>Long Term Assets</b>                      |       | <b>1,336,692</b> |
| 143,601          | Short Term Investments                       | 5     | 166,245          |
| 126              | Assets Held for Sale                         |       | 126              |
| 529              | Inventories                                  |       | 575              |
| 28,604           | Short Term Debtors                           | 6     | 43,297           |
| 77,663           | Cash and Cash Equivalents                    |       | 37,573           |
| <b>250,523</b>   | <b>Current Assets</b>                        |       | <b>247,816</b>   |
| (28,786)         | Short Term Borrowing                         |       | (67,746)         |
| (62,046)         | Short Term Creditors                         | 7     | (71,896)         |
| (1,034)          | Provisions                                   |       | (272)            |
| <b>(91,866)</b>  | <b>Current Liabilities</b>                   |       | <b>(139,914)</b> |
| (2,239)          | Provisions                                   |       | (2,149)          |
| (535,038)        | Long Term Borrowing                          |       | (522,523)        |
| (9,843)          | Liabilities in associates and joint ventures |       | (7,826)          |
| (261,532)        | Other Long Term Liabilities                  |       | (245,506)        |
| <b>(808,652)</b> | <b>Long Term Liabilities</b>                 |       | <b>(778,004)</b> |
| <b>568,448</b>   | <b>NET ASSETS</b>                            |       | <b>666,590</b>   |
| 89,743           | Usable Reserves                              |       | 111,084          |
| 467,932          | Unusable Reserves                            |       | 540,023          |
| 1,405            | Group Reserves                               |       | 5,672            |
| 9,368            | Charitable and Common Good Reserves          |       | 9,811            |
| <b>568,448</b>   | <b>TOTAL RESERVES</b>                        |       | <b>666,590</b>   |

The unaudited Accounts were issued on 30 June 2021 and the Audited Annual Accounts were authorised for issue on 20 September 2021.

The accompanying notes form an integral part of these financial statements.

Stewart MacKenzie CPFA  
Head of Finance

## GROUP CASH FLOW STATEMENT

| <u>2019/20</u>       |                                                                                                                                       | <u>Notes</u> | <u>2020/21</u>       |
|----------------------|---------------------------------------------------------------------------------------------------------------------------------------|--------------|----------------------|
| £'000                |                                                                                                                                       |              | £'000                |
| (5,502)              | <b>(Surplus)/Deficit on the provision of services</b>                                                                                 |              | 7,101                |
| 77,939               | Adjustments to net surplus or deficit on the provision of services for non cash movements                                             |              | 59,543               |
| (47,590)             | Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities |              | (26,750)             |
| <u>24,847</u>        | Net cash flows from Operating Activities                                                                                              |              | <u>39,894</u>        |
| (147,248)            | Investing Activities                                                                                                                  | 10           | (101,906)            |
| 167,978              | Financing Activities                                                                                                                  | 11           | 21,922               |
| <u>45,577</u>        | Net increase/(decrease) in cash and cash equivalents                                                                                  |              | <u>(40,090)</u>      |
| 32,086               | Cash and cash equivalents at the beginning of the reporting period                                                                    |              | 77,663               |
| <u><u>77,663</u></u> | Cash and cash equivalents at the end of the reporting period                                                                          |              | <u><u>37,573</u></u> |

# RECONCILIATION OF THE SINGLE ENTITY DEFICIT/(SURPLUS) FOR THE YEAR TO THE GROUP SURPLUS

| <u>2019/20</u> |                                                                                                  | <u>2020/21</u>  |
|----------------|--------------------------------------------------------------------------------------------------|-----------------|
| <u>£'000</u>   |                                                                                                  | <u>£'000</u>    |
| 3,204          | Deficit/(Surplus) on the single entity Comprehensive Income & Expenditure Statement for the year | (4,843)         |
|                | Add:                                                                                             |                 |
| 181            | • Managed Funds - Charitable Trusts & Common Good                                                | (562)           |
| 655            | • Joint Venture                                                                                  | (6,370)         |
| 2,457          | • Associates                                                                                     | 3,221           |
| 2,118          | • Subsidiaries                                                                                   | (1,698)         |
| <u>8,615</u>   | Deficit/(Surplus) for the year on the Group Comprehensive Income & Expenditure Statement         | <u>(10,252)</u> |



## NOTES TO THE GROUP ACCOUNTS

### 1. Combining Entities

The results of Tayside Valuation Board which is jointly administered with Dundee City and Angus Councils have been included in the Group Accounts. The Council is exempt from including the Board as a subsidiary under the "rebuttable presumption" which recognises that the Scottish Government exercises a dominant influence on the Board evidenced particularly by its ability to reconstitute or abolish statutory bodies or otherwise influence their operating and financial policies.

A number of Councillors have voting rights on the Board. The Council has an obligation to contribute to the Joint Board losses or deficits and the ability to exercise significant influence over it. The Joint Board has therefore been incorporated in the Group Accounts under the equity method of Accounting for Associates.

For the purpose of consolidation and incorporation within the Group Accounts recognition has been made of the Council's interest which is based on its share of the contributions made to the Tayside Valuation Board, which in 2020/21 was 42.48% (2019/20 42.08%). The accounting period for the Board is the year to 31 March 2021 and the Board Statements of Accounts presents fairly its individual financial position.

The individual accounts relating to Tayside Valuation Joint Board are published separately, and can be obtained from the Director of Corporate Services, Dundee City Council, Dundee House, 50 North Lindsay Street, Dundee, DD1 1QE.

In addition, the Council has also included Live Active Leisure Ltd., Horsecross Arts Ltd. and Culture Perth & Kinross Ltd. as Subsidiaries within its Group Accounts in accordance with IAS 27 Consolidated and Separate Financial Statements, and in particular SIC 12 Consolidation – Special Purpose Entities. These organisations deliver services on behalf of the Council and the Council therefore obtains benefit from their operations. In addition, service delivery is managed through Service Level Agreements specific to the service provision required from the organisations by the Council. Live Active Leisure Ltd., Horsecross Arts Ltd. and Culture Perth & Kinross Ltd. are governed by company and charitable trust regulation. For the purpose of consolidation and incorporation within the Group Accounts it has been assumed that the Council's interest in these organisations is 100% due to the nature of Council control and direction over their operations.

Live Active Leisure Ltd., Horsecross Arts Ltd. and Culture Perth & Kinross Ltd. are arm's length companies with sole member status with the Council being the sole member in each company.

The individual accounts relating to these organisations are published separately, and can be obtained from the following addresses:-

|                              |                                                  |
|------------------------------|--------------------------------------------------|
| Live Active Leisure Ltd.     | Caledonia House, Hay Street, Perth, PH1 5HS.     |
| Horsecross Arts Ltd.         | Perth Concert Hall, Mill Street, Perth, PH1 5HZ. |
| Culture Perth & Kinross Ltd. | A K Bell Library, 2-8 York Place, Perth, PH2 8EP |

The income, expenditure, assets and liabilities of the Charitable Trusts which are administered and controlled by the Council have also been included as a managed fund. The nature of the assets of the managed fund are heritable property, investments and debtors. The assets are not the property of Perth & Kinross Council and are subject to charitable trust regulations. The Income and Expenditure Account of the Charitable Trusts is detailed on page 83 of the Annual Accounts.

The income, expenditure, assets and liabilities of the Common Good Accounts which are administered and controlled by the Council have also been included as a managed fund. The nature of the assets of the managed fund are heritable property, investments and debtors. The assets are the property of Perth & Kinross Council and are subject to the Accounting Code of Practice. The Income and Expenditure Account of the Common Good is detailed on page 84 of the Annual Accounts.

Perth & Kinross Council's share of the assets and liabilities of Tayside Contracts Joint Committee which is jointly administered and controlled with Dundee City Council and Angus Council has been included in the Group Accounts using the equity method for an associate due to the Council having significant influence rather than joint control over the entity. The Council's investment in Tayside Contracts for 2020/21 is 42.3% (2019/20 35.6%). Copies of Tayside Contracts Joint Committee's individual accounts are published separately, and can be obtained from Head of Financial Services, Tayside Contracts, 1 Soutar Street, Dundee, DD3 8SS.

Perth and Kinross Integration Joint Board (IJB) is the statutory body established to integrate health and social care services between the Council and NHS Tayside. The IJB Board consists of eight voting members, four of whom are Perth & Kinross Council councillors. The Council can therefore exercise joint control over the arrangement and the IJB has been consolidated into the Council Group accounts as a joint venture using the equity method and a percentage share of 50%. Copies of the Perth & Kinross Integration Joint Board individual accounts are published separately and can be obtained from the Chief Financial Officer, Perth & Kinross Integration Joint Board, 2 High Street, Perth, PH1 5PH.

In addition the CIPFA Code requires the realignment of accounting policies for entities included within the Group Accounts. The pension liability at 31 March 2021 for Horsecross Arts Ltd of £1,138,000 has been included within the Group Reserves balance at 31 March 2021.

Tayside and Central Scotland Transport Partnership (TACTRAN) is a statutory body established under the Transport (Scotland) Act 2005. The partnership covers Angus, Dundee City, Perth & Kinross and Stirling Council areas. The results of TACTRAN have been excluded from Perth & Kinross Council's Group accounts on the grounds of materiality.

## 2. Nature of Combination

The Council inherited its interest in the Tayside Valuation Board following the reorganisation of local government in 1996. It is considered that the Council's interest was obtained on an acquisition basis. However, as no consideration was given, no goodwill requires to be accounted for.

## 3. Financial Impact of Consolidation and Going Concern

The effect of inclusion of the Subsidiaries and Associates listed above in the Group Balance Sheet is to increase both reserves and net assets by £15,483,000 (2019/20 £10,773,000 increase).

All Subsidiaries and the Associate have prepared their accounts on a 'going concern' basis. The Council's Group Accounts have been prepared on a 'going concern' basis as there is no reason to suggest that future funding will not continue. Apart from the disclosures made in the Notes to the Group Accounts there were no material amounts or details in relation to associates or managed funds.

## 4. Group Comprehensive Income & Expenditure Statement – Financing and Investment Income & Expenditure

|                                                                 | 2020/21<br>£'000 | 2019/20<br>£'000 |
|-----------------------------------------------------------------|------------------|------------------|
| Council Financing and Investment Income & Expenditure           | 24,836           | 23,269           |
| Subsidiaries                                                    | (37)             | (65)             |
| Charitable Trusts                                               | (534)            | 121              |
| Common Good                                                     | (10)             | (22)             |
| Total Group CI&ES Financing and Investment Income & Expenditure | <u>24,255</u>    | <u>23,303</u>    |

## 5. Group Balance Sheet - Investments

|                               | 2020/21<br>£'000 | 2019/20<br>£'000 |
|-------------------------------|------------------|------------------|
| Council Investments           | 161,577          | 139,395          |
| Charitable Trusts Investments | 2,611            | 2,203            |
| Common Good Investments       | 2,057            | 2,003            |
| Total Group Investments       | <u>166,245</u>   | <u>143,601</u>   |

## 6. Group Balance Sheet – Short term Debtors (net of provisions)

|                                                           | 2020/21<br>£'000 | 2019/20<br>£'000 |
|-----------------------------------------------------------|------------------|------------------|
| Net Debtors Balance - Note 28 to the Financial Statements | 41,599           | 27,854           |
| Subsidiary Debtors                                        | 1,670            | 733              |
| Charitable Trust                                          |                  |                  |
| Debtors                                                   | 250              | 220              |
| Inter-company elimination                                 | (222)            | (216)            |
| Common Good                                               |                  |                  |
| Debtors                                                   | 305              | 192              |
| Inter-company elimination                                 | (305)            | (179)            |
| Total Group Debtors                                       | <u>43,297</u>    | <u>28,604</u>    |

## 7. Group Balance Sheet – Short term Creditors

|                                                             | 2020/21<br>£'000       | 2019/20<br>£'000       |
|-------------------------------------------------------------|------------------------|------------------------|
| Net Creditors Balance - Note 29 to the Financial Statements | (68,866)               | (59,141)               |
| Charitable Trust                                            |                        |                        |
| Creditors                                                   | (9)                    | (6)                    |
| Inter-company elimination                                   | 222                    | 216                    |
| Common Good                                                 |                        |                        |
| Creditors                                                   | (127)                  | (95)                   |
| Inter-company elimination                                   | 305                    | 179                    |
|                                                             | <u>(68,475)</u>        | <u>(58,847)</u>        |
| Subsidiary Creditors                                        | <u>(3,421)</u>         | <u>(3,199)</u>         |
| Total Group Creditors                                       | <u><u>(71,896)</u></u> | <u><u>(62,046)</u></u> |

## 8. Group Balance Sheet - Pension Liability

|                                                                          | 2020/21<br>£'000        | 2019/20<br>£'000        |
|--------------------------------------------------------------------------|-------------------------|-------------------------|
| Net Pensions Liability at 31 March - Note 18 to the Financial Statements | (105,334)               | (121,432)               |
| Subsidiaries                                                             | <u>(12,978)</u>         | <u>(7,887)</u>          |
| Group Pension Liability at 31 March                                      | <u><u>(118,312)</u></u> | <u><u>(129,319)</u></u> |

## 9. Group Cash Flow Statement

There has been no impact on the Group Cash Flow Statement from the inclusion of the Tayside Valuation Joint Board, Tayside Contracts Joint Committee, or the Perth & Kinross Integration Joint Board. Cash transactions between the Joint Boards and the Council are already included within the Council's Cash Flow Statement and there were no dividend transactions.

The impact of the inclusion of Live Active Leisure Ltd., Horsecross Arts Ltd. and Culture Perth & Kinross Ltd. within the Group Cash Flow Statement is to increase the movement in the net cash position by £10,352,000 (2019/20, increase of £10,052,000). A cash increase of £7,690,000 represents the Council's 100% share of Live Active Leisure Ltd., a cash increase of £853,000 represents the Council's 100% share of Horsecross Arts Ltd and a cash increase of £1,809,000 represents the Council's 100% share of Culture Perth & Kinross Ltd.

## 10. Group Cash Flow – Investing Activities

|                              | 2020/21<br>£'000        | 2019/20<br>£'000        |
|------------------------------|-------------------------|-------------------------|
| Council Investing Activities | (100,509)               | (147,487)               |
| Subsidiaries                 | <u>(1,397)</u>          | <u>239</u>              |
|                              | <u><u>(101,906)</u></u> | <u><u>(147,248)</u></u> |

## 11. Group Cash Flow – Financing Activities

|                              | 2020/21<br>£'000     | 2019/20<br>£'000      |
|------------------------------|----------------------|-----------------------|
| Council Financing Activities | 21,922               | 167,978               |
| Subsidiaries                 | <u>0</u>             | <u>0</u>              |
|                              | <u><u>21,922</u></u> | <u><u>167,978</u></u> |

## 12. Related Party Transactions

The under noted balances, which all relate to the supply of goods and services, existed between the Tayside Valuation Joint Board and the Council at the year-end:

|                               | Balance Due              |                        | Balance Due              |                        |
|-------------------------------|--------------------------|------------------------|--------------------------|------------------------|
|                               | From<br>31.3.21<br>£'000 | To<br>31.3.21<br>£'000 | From<br>31.3.20<br>£'000 | To<br>31.3.20<br>£'000 |
| Tayside Valuation Joint Board | 18                       | 0                      | 8                        | 0                      |

# **REMUNERATION REPORT FOR FINANCIAL YEAR 2020/21**

## **1. Introduction**

The Local Authority Accounts (Scotland) Amendment Regulations 2011 (SSI No. 2011/64) require local authorities in Scotland to prepare a Remuneration Report as part of their annual statutory accounts. The disclosures within this report have been prepared in accordance with guidance issued by the Scottish Government on 13 May 2011 in Local Government Finance Circular No 8/2011 (subsequently updated). This guidance prescribes the content and format of the information presented within the Remuneration Report and specifies that remuneration disclosures are to be based upon taxable expenses and benefits. The disclosures are set out in accordance with proper accounting practice as prescribed by the Code of Practice on Local Authority Accounting in the UK and include prior year comparative figures.

## **2. Audit of Remuneration Report**

The Remuneration Report is a statement in its own right rather than a note to the accounts and certain disclosures within the report are subject to audit.

All information disclosed in Tables 1 to 7 in this Remuneration Report will be audited by the Council's appointed auditor KPMG. The other sections of the Remuneration Report will be reviewed by KPMG to ensure that they are consistent with the financial statements.

## **3. Remuneration of Senior Councillors**

- 3.1 The remuneration of Councillors is regulated by the Local Governance (Scotland) Act 2004 (Remuneration) Regulations 2007 (SSI No. 2007/183). The Regulations provide for the grading of Councillors for the purposes of remuneration arrangements, as either, the Leader of the Council, the Civic Head (Provost), Senior Councillors or Councillors. The Leader of the Council and the Civic Head cannot be the same person for the purposes of payment of remuneration. A Senior Councillor is a Councillor who holds a significant position of responsibility in the Council's political management structure.
- 3.2 When determining the level of remuneration for Councillors the Scottish Ministers considered the recommendations of the former Scottish Local Authority Remuneration Committee (SLARC). SLARC was an advisory Non-Departmental Public Body set up in 2005 to advise Scottish Ministers on the remuneration, allowances and expenses incurred by local authority councillors. The Committee was stood down in February 2013.
- 3.3 The Regulations set out the salary that is to be paid to the Leader of the Council in accordance with bandings also set out in the Regulations. The Regulations also permit the Council to remunerate one Civic Head, which in the case of Perth & Kinross Council is the Provost and set out the maximum salary that may be paid to that Civic Head. For 2020/21 the maximum salary for the Leader of Perth & Kinross Council is £35,713 and the Council has agreed that the Civic Head be paid 75% of the salary of the Leader, which for 2020/21 is a maximum of £26,785. Please refer to Table 1.
- 3.4 In addition to the Leader of the Council and Civic Head, Regulations also set out the maximum number of Senior Councillors the Council may have; the maximum yearly amount that may be paid to a Senior Councillor (75% of the total yearly amount payable to the Leader of the Council) and the maximum yearly amount payable by the Council for all Senior Councillors. Perth & Kinross Council may have a maximum of 14 Senior Councillors with a maximum salary of £26,785 and a maximum yearly amount payable for all Senior Councillors of £312,471 in 2020/21 (excluding the Council Leader, Civic Head, Conveners and Vice Conveners of Joint Boards). The Council is able to exercise local flexibility in the determination of the precise number of Senior Councillors and their salary within these maximum limits. Perth & Kinross Council's policy in 2020/21 was to pay Senior Councillors up to 90% of the maximum of £26,785 as prescribed by SLARC.
- 3.5 The Regulations also set out the remuneration payable to Councillors with the responsibility of a Convener or a Vice-Convener of a Joint Board such as Tayside Valuation Joint Board. The Regulations require the remuneration to be paid by the Council of which the Convener or Vice-Convener is a member. Joint Board Conveners and Vice-Conveners are considered to be Senior Councillors for remuneration disclosure purposes. In financial year 2020/21, no Councillors from Perth & Kinross Council served as Convener or Vice Convener of a Joint Board.
- 3.6 During 2020/21 Perth & Kinross Council had a maximum of 10 Senior Councillors at any one time and a total of 11 Senior Councillors during the year for the purposes of the Remuneration Report. Details are provided in Table 1. Together with the Leader of the Council and the Provost, the total remuneration including taxable expenses paid to these Councillors was £300,756. The individual amounts payable to the Leader of the Council, the Provost and the Senior Councillors of Perth & Kinross Council in 2020/21 are set out in Table 1. The Regulations also permit the Council to pay contributions or other payments as required to the Local Government Pension Scheme in respect of those Councillors who elect to become Councillor Members of the pension scheme.

**Table 1: Remuneration of Senior Councillors, Conveners and Vice-Conveners of Joint Boards for Financial Year 2020/21**

| Name and Post Title                                                              | Salary, Fees & Allowances 2020/21<br>£ | Taxable Expenses 2020/21 (Note 1)<br>£ | Total Remuneration 2020/21<br>£ | Total Remuneration 2019/20<br>£ |
|----------------------------------------------------------------------------------|----------------------------------------|----------------------------------------|---------------------------------|---------------------------------|
| D Murray Lyle<br>Council Leader, Convener Strategic Policy & Resources Committee | 35,713                                 | 7                                      | 35,720                          | 35,005                          |
| Dennis Melloy<br>Provost (Civic Head)                                            | 26,785                                 | 7                                      | 26,792                          | 26,245                          |
| Chris Ahern<br>Convener Licensing Committee                                      | 23,985                                 | 7                                      | 23,992                          | 23,525                          |
| Henry Anderson<br>Convener Local Review Body (to 27/12/2020)                     | 17,989                                 | 11                                     | 18,000                          | 12,207                          |
| Kathleen Baird<br>Convener Licensing Board                                       | 23,985                                 | 7                                      | 23,992                          | 23,475                          |
| Peter Barrett<br>Convener Housing & Communities Committee (to 24/09/19)          | n/a                                    | n/a                                    | n/a                             | 11,400                          |
| Bob Brawn<br>Convener Housing & Communities Committee                            | 23,985                                 | 7                                      | 23,992                          | 12,172                          |
| Dave Doogan<br>Leader of the Opposition (to 19/02/20)                            | n/a                                    | n/a                                    | n/a                             | 17,669                          |
| Eric Drysdale<br>Convener Audit Committee                                        | 23,985                                 | 7                                      | 23,992                          | 23,546                          |
| Angus Forbes<br>Convener Environment & Infrastructure Committee                  | 23,985                                 | 0                                      | 23,985                          | 23,468                          |
| Grant Laing<br>Leader of the Opposition                                          | 23,985                                 | 11                                     | 23,996                          | 23,562                          |
| Rosalind McCall<br>Convener Planning & Development Management Committee          | 23,985                                 | 7                                      | 23,992                          | 23,481                          |
| Sheila McCole<br>Convener Scrutiny Committee                                     | 23,985                                 | 7                                      | 23,992                          | 2,656                           |
| Caroline Shiers<br>Convener Lifelong Learning Committee                          | 23,985                                 | 0                                      | 23,985                          | 23,468                          |
| Lewis Simpson<br>Convener Local Review Body (from 27/01/2021)                    | 4,326                                  | 0                                      | 4,326                           | 11,393                          |
| <b>TOTAL (Note 2)</b>                                                            | <b>300,678</b>                         | <b>78</b>                              | <b>300,756</b>                  | <b>293,272</b>                  |

Notes:

- (1) Taxable Expenses relate to meals provided by the Council. Only those expenses incurred whilst undertaking a Senior Councillor role are included.
- (2) After adjusting for the salaries of the Leader of the Council and the Civic Head (Provost), the total salaries paid to Senior Councillors in 2020/21 was £238,180 which compares with the maximum under Regulations of £312,471.

- 3.7 The arrangements for political decision-making structures within Perth & Kinross Council as at 31 March 2021, which encompassed the salaries of all Elected Members including the Council Leader, Civic Head and Senior Councillors, were agreed at the meeting of the full Council on 17 May 2017 (Report No. 17/81 refers) and are available on the Council's website.
- 3.8 The Council paid the following salaries and expenses to all Councillors (including those listed in Table 1 above) in financial year 2020/21:

**Table 2: Remuneration Paid to Councillors 1 April 2020 to 31 March 2021**

| Type of Remuneration | 2020/21<br>£   | 2019/20<br>£   |
|----------------------|----------------|----------------|
| Salaries             | 774,276        | 779,644        |
| Taxable Expenses     | 185            | 1,546          |
| <b>Total</b>         | <b>774,461</b> | <b>781,190</b> |



- 3.9 The annual return of Councillors' salaries and expenses for 2020/21 is available for any member of the public to view at Perth & Kinross Council, 2 High Street, Perth; libraries and local area offices during normal working hours when these buildings re-open to the public. It is also available on the Council's website at Councillors Expenses and members of the public can request a copy from the Council's Communication's Team.
- 3.10 The information in the annual return of Councillors' salaries and expenses for 2020/21 differs from the information presented within the Remuneration Report as the Remuneration Report excludes the payment of expenses which are not subject to taxation such as receipted car mileage expenses; expenditure on public transport and subsistence expenses.

#### 4. Remuneration of Senior Employees

- 4.1 The Council is required to publish the remuneration of Senior Employees as defined by the disclosure regulations. Senior Employees are defined with reference to their management authority; to the political restriction placed upon their post under section 2(1) (a), (b) or (c) of the Local Government Housing Act 1989 and with reference to their reporting relationship to the Council's 'Head of Paid Service' or Chief Executive. The disclosure requirements also include any employee whose annual remuneration is £150,000 or more. No employee of Perth & Kinross Council was remunerated at this level in 2020/21.
- 4.2 The application of the disclosure regulations in relation to the management structure of Perth & Kinross Council defines the following post-holders as Senior Employees in 2020/21:
- The Chief Executive as the statutory head of paid service.
  - The Depute Chief Executive (post removed November 2020) as the officer responsible for the management of the authority to the extent that they may direct or control the major activities of the authority either solely or collectively.
  - The Executive Director (Education & Children's Services) as the Council's chief education officer, the Head of Legal and Governance Services as the Council's statutory monitoring officer; the Head of Finance as the Council's proper officer for financial administration and the Council's statutory Chief Social Work Officer.
  - The Executive Director (Communities), the Chief Operating Officer and the Chief Officer of the Perth & Kinross Health & Social Care Partnership, that are officers who are directly accountable to the Council's head of paid service and/or are directly accountable to the Council or any committee or sub-committee.
- 4.3 The Scottish Joint Negotiating Committee (SJNC) for Local Authority Services sets the salaries for the Chief Executives of Scottish local authorities.
- 4.4 The remuneration of Senior Employees of Perth & Kinross Council and its Subsidiaries for 2020/21 is detailed in table 3 below:

**Table 3: Remuneration of Senior Employees of the Council and its Subsidiaries for Financial Year 2020/21  
(Job titles as at 31 March 2021)**

| <b>Name and Post Title</b>                                                                              | <b>Salary, Fees &amp; Allowances<br/>2020/21<br/>£</b> | <b>Compensation<br/>for Loss of<br/>Office<br/>£</b> | <b>Total<br/>Remuneration<br/>2020/21<br/>£</b> | <b>Total<br/>Remuneration<br/>2019/20<br/>£</b> |
|---------------------------------------------------------------------------------------------------------|--------------------------------------------------------|------------------------------------------------------|-------------------------------------------------|-------------------------------------------------|
| Karen Reid<br>Chief Executive (to 31/01/2021) (Notes 1, 2 and 3)                                        | 126,142                                                | n/a                                                  | <b>126,142</b>                                  | 139,042                                         |
| Barbara Renton<br>Executive Director (Communities)<br>and Interim Chief Executive (from 01/02/2021)     | 122,200                                                | n/a                                                  | <b>122,200</b>                                  | 109,459                                         |
| James Valentine<br>Depute Chief Executive (to 31/07/2020) (Note 4)                                      | 50,869                                                 | n/a                                                  | <b>50,869</b>                                   | 123,926                                         |
| Gordon Paterson<br>Chief Officer, Perth & Kinross Health & Social<br>Care Partnership                   | 120,426                                                | n/a                                                  | <b>120,426</b>                                  | 108,024                                         |
| Sheena Devlin<br>Executive Director (Education & Children's<br>Services) and Chief Education Officer    | 120,426                                                | n/a                                                  | <b>120,426</b>                                  | 108,024                                         |
| Karen Donaldson<br>Chief Operating Officer                                                              | 112,921                                                | n/a                                                  | <b>112,921</b>                                  | n/a                                             |
| Jacqueline Pepper<br>Depute Director (Education & Children's Services)<br>and Chief Social Work Officer | 97,796                                                 | n/a                                                  | <b>97,796</b>                                   | 94,948                                          |
| Lisa Simpson<br>Head of Legal & Governance Services                                                     | 95,872                                                 | n/a                                                  | <b>95,872</b>                                   | 93,840                                          |
| Stewart MacKenzie<br>Head of Finance                                                                    | 92,017                                                 | n/a                                                  | <b>92,017</b>                                   | 89,592                                          |
| Nick Williams<br>Horsecross Arts Limited – Chief Executive                                              | 65,845                                                 | n/a                                                  | <b>65,845</b>                                   | 21,667                                          |
| Michael Griffiths<br>Horsecross Arts Limited – Interim Chief Executive<br>(left 30 June 2019)           | n/a                                                    | n/a                                                  | <b>n/a</b>                                      | 15,250                                          |



| Name and Post Title                                              | Salary, Fees & Allowances 2020/21<br>£ | Compensation for Loss of Office<br>£ | Total Remuneration 2020/21<br>£ | Total Remuneration 2019/20<br>£ |
|------------------------------------------------------------------|----------------------------------------|--------------------------------------|---------------------------------|---------------------------------|
| Paul Cromwell<br>Live Active Leisure – Chief Executive           | 78,534                                 | n/a                                  | <b>78,534</b>                   | 75,954                          |
| Helen Smout<br>Culture Perth & Kinross Limited – Chief Executive | 63,200                                 | n/a                                  | <b>63,200</b>                   | 61,360                          |
| <b>TOTAL</b>                                                     | <b>1,146,248</b>                       | 0                                    | <b>1,146,248</b>                | 1,041,086                       |

Notes:

(1) The substantive salary for the Chief Executive is laid down in COSLA Circular CO/150.

(2) Salary, fees and allowances include a Returning Officer fee of £1,366.

(3) Salary, fees and allowances include a sum of £9,737 for pay in lieu of holiday accrued but not taken before leaving.

(4) Salary, fees and allowances include a sum of £9,282 for pay in lieu of holiday accrued but not taken before leaving.

4.5 Election fees are included with senior employee salaries. No other taxable benefits or bonuses were received by the above-named senior employees of Perth & Kinross Council in 2020/21.

## 5. General Disclosure of Remuneration by Pay Band

5.1 In accordance with the disclosure regulations, Table 4 below details the number of Perth & Kinross Council employees (including teachers) whose annual remuneration in 2020/21 was £50,000 or more, including senior employees subject to individual disclosure in section 4 of this report. The information is presented, as required, in bandings of £5,000.

**Table 4: Remuneration of Employees by Pay Band for 2020/21**

| Remuneration Bands | Number of Employees |            |
|--------------------|---------------------|------------|
|                    | 2020/21             | 2019/20    |
| £50,000-£54,999    | 175                 | 143        |
| £55,000-£59,999    | 83                  | 104        |
| £60,000-£64,999    | 43                  | 36         |
| £65,000-£69,999    | 25                  | 18         |
| £70,000-£74,999    | 7                   | 2          |
| £75,000-£79,999    | 1                   | 3          |
| £80,000-£84,999    | 4                   | 4          |
| £85,000-£89,999    | 10                  | 15         |
| £90,000-£94,999    | 5                   | 3          |
| £95,000-£99,999    | 2                   | 0          |
| £100,000-£104,999  | 0                   | 0          |
| £105,000-£109,999  | 0                   | 3          |
| £110,000-£114,999  | 1                   | 0          |
| £115,000-£119,999  | 0                   | 0          |
| £120,000-£124,999  | 3                   | 1          |
| £125,000-£129,999  | 1                   | 0          |
| £130,000-£134,999  | 0                   | 0          |
| £135,000-£139,999  | 0                   | 1          |
| Total              | <u>360</u>          | <u>333</u> |

5.2 There is a large majority of teaching staff in the £50,000 - £54,999 and £55,000 - £59,999 pay bands, 137 and 67 teaching staff respectively. The increase in numbers in the £65,000 - £69,999 pay band and the £70,000 - £74,999 pay band also includes 19 and 4 senior teaching staff respectively. The remainder of the numbers in these bands comprise Single Status employees.

5.3 The reduction in the £85,000 - £89,999 pay band reflects the increase in the next two higher pay bands.

5.4 The movement from the pay band £105,000 – £109,999 to £120,000 - £124,999 mainly reflects Chief Officer regradings and the reduction at £135,000 - £139,999 is due to the departure of the Chief Executive during the year.

**Table 5: The number of Exit Packages with Total Cost per band and Total Cost of Compulsory and Other Redundancies**

| (a)<br>Exit package cost band (including special payments) | (b)<br>Number of compulsory redundancies |         | (c)<br>Number of other departures agreed |         | (d)<br>Total number of exit packages by cost band (b) + (c) |         | (e)<br>Total cost of exit packages in each band |                  |
|------------------------------------------------------------|------------------------------------------|---------|------------------------------------------|---------|-------------------------------------------------------------|---------|-------------------------------------------------|------------------|
|                                                            | 2020/21                                  | 2019/20 | 2020/21                                  | 2019/20 | 2020/21                                                     | 2019/20 | 2020/21<br>£'000                                | 2019/20<br>£'000 |
| £0 - £20,000                                               | 0                                        | 0       | 58                                       | 73      | 58                                                          | 73      | 5                                               | 39               |
| £20,001 - £40,000                                          | 0                                        | 0       | 0                                        | 0       | 0                                                           | 0       | 0                                               | 0                |
| £40,001 - £60,000                                          | 0                                        | 0       | 0                                        | 2       | 0                                                           | 2       | 0                                               | 95               |
| £60,001 - £80,000                                          | 0                                        | 0       | 0                                        | 1       | 0                                                           | 1       | 0                                               | 65               |

| (a)<br>Exit package cost<br>band (including<br>special payments) | (b)<br>Number of<br>compulsory<br>redundancies |          | (c)<br>Number of other<br>departures agreed |           | (d)<br>Total number of exit<br>packages by cost<br>band (b) + (c) |           | (e)<br>Total cost of exit<br>packages in each<br>band |                  |
|------------------------------------------------------------------|------------------------------------------------|----------|---------------------------------------------|-----------|-------------------------------------------------------------------|-----------|-------------------------------------------------------|------------------|
|                                                                  | 2020/21                                        | 2019/20  | 2020/21                                     | 2019/20   | 2020/21                                                           | 2019/20   | 2020/21<br>£'000                                      | 2019/20<br>£'000 |
| £80,001 - £100,000                                               | 0                                              | 0        | 0                                           | 1         | 0                                                                 | 1         | 0                                                     | 95               |
| Over £100,000                                                    | 0                                              | 0        | 0                                           | 1         | 0                                                                 | 1         | 0                                                     | 113              |
| <b>Total</b>                                                     | <b>0</b>                                       | <b>0</b> | <b>58</b>                                   | <b>78</b> | <b>58</b>                                                         | <b>78</b> | <b>5</b>                                              | <b>407</b>       |

5.5 The costs included within Table 5 are all non-recurring and include payments to individual officers and to the relevant Superannuation Fund.

5.6 All of the individual exit packages included within table 5 have been subject to a full business case outlining the implications for the Council. In terms of the financial assessment for each business case, the maximum payback period is up to five years. The departure of the individuals included in the above table has delivered significant recurring savings to the Council and also facilitated the delivery of an ambitious and challenging transformation / modernisation programme.

## 6. Remuneration by Subsidiary Bodies of Perth & Kinross Council

6.1 Councillors and senior employees of Perth & Kinross Council serve as board members; officials and technical advisors to subsidiary bodies of the Council. In 2020/21, the Head of Legal & Governance Services served as a proper officer to the Tayside and Central Scotland Transport Partnership (TACTRAN). No remuneration was paid to Councillors or Senior Employees of Perth & Kinross Council by subsidiary bodies of the Council in 2020/21.

## 7. Disclosure of Pension Benefits

7.1 The disclosure regulations require the separate disclosure of accrued pension benefits for Senior Councillors and Senior Employees of Perth & Kinross Council. Pension Benefits for councillors and local government employees are provided through the Local Government Pension Scheme (LGPS). Councillors have only been eligible to join this scheme since May 2007.

7.2 Councillor's pension benefits are based on career average pay. The councillor's pay for each year or part year ending 31 March (other than the pay in the final year commencing 1 April) is increased by the increase in the cost of living as measured by the appropriate index between the end of that year and the last day of the month in which their membership of the scheme ends. The total of the revalued pay is then divided by the period of membership to calculate the career average pay. This is the value used to calculate the pension benefits.

7.3 From 1 April 2015 a career average scheme was implemented for local government employees. This means that pension is built up based on the pensionable pay for each year. The benefit is added to the employee's pension account plus inflation increases. The scheme's normal retirement age for both councillors and employees will vary dependant on age and length of pensionable service.

7.4 From 1 April 2009 a tiered contribution scheme was introduced with contributions from scheme members being based on how much pay falls into each tier. Prior to 2009 contribution rates were set at 6% for all non-manual employees.

### Tiered Pension Contribution Rates for Local Government Pension Scheme Members in 2020/21

| Actual Pensionable pay                      | Contribution Rate<br>2020/21 |
|---------------------------------------------|------------------------------|
| On earnings up to and including £22,200     | 5.5%                         |
| On earnings above £22,201 and up to £27,100 | 7.25%                        |
| On earnings above £27,101 and up to £37,200 | 8.5%                         |
| On earnings above £37,201 and up to £49,600 | 9.5%                         |
| On earnings above £49,601                   | 12%                          |

7.5 Pensionable Pay includes salary, plus any contractual elements of pay such as shift payment, night working payment, standby and the monetary value of any accommodation or other allowances in kind pertaining to employment.

7.6 Under the scheme there is no automatic entitlement to a lump sum. Members may opt to give up (commute) pension for lump sum up to the limit set by the Finance Act 2004. The pension is built up based on pensionable pay in the year with an accrual rate of 1/49th added to the pension account. (Prior to 2015 the accrual rate was 1/60th of final pensionable salary and years of pensionable service. Prior to 2009 the accrual rate guaranteed a pension based on 1/80th and a lump sum based on 3/80th of final pensionable salary and years of pensionable service).

7.7 The value of accrued benefits has been calculated on the basis of the age at which the person will first become entitled to receive a pension on their retirement without reduction on account of its payment at that age; without exercising any option to commute pension entitlement into a lump sum; and without any adjustment for the effects of future inflation. The pension figures shown relate to the benefits that the person has accrued as a consequence of their local government service, and not just their current appointment.

## 7.8 Pension Entitlements of Senior Councillors

The pension entitlements of Senior Councillors of Perth & Kinross Council for the year to 31 March 2021 are shown in table 6 below, together with the contribution made by the Council to each Senior Councillor's pension during the year.

**Table 6: Pension Entitlements of Senior Councillors for Financial Year 2020/21**

| Name and Post Title                                                            | In-year pension contributions |               | Accrued Pension Benefits |            |         |            |
|--------------------------------------------------------------------------------|-------------------------------|---------------|--------------------------|------------|---------|------------|
|                                                                                | 2020/21                       | 2019/20       |                          | 2020/21    | 2019/20 | Difference |
|                                                                                | £                             | £             |                          | £'000      | £'000   | £'000      |
| Murray Lyle<br>Council Leader, Convener Strategic Policy & Resources Committee | 6,071                         | 5,940         | Pension Lump Sum         | 7<br>2     | 6<br>2  | 1<br>0     |
| Dennis Melloy<br>Provost (Civic Head)                                          | 4,553                         | 4,455         | Pension Lump Sum         | 9<br>2     | 8<br>2  | 1<br>0     |
| Chris Ahern<br>Convener Licensing Committee                                    | 4,077                         | 3,990         | Pension Lump Sum         | 2<br>0     | 1<br>0  | 1<br>0     |
| Henry Anderson<br>Convener Local Review Body (to 27/12/2020)                   | 3,058                         | 3,493         | Pension Lump Sum         | n/a        | 4<br>0  | n/a        |
| Kathleen Baird<br>Convener Licensing Board                                     | 4,077                         | 3,990         | Pension Lump Sum         | 3<br>0     | 2<br>0  | 1<br>0     |
| Peter Barrett<br>Convener Housing & Communities Committee (to 24/09/19)        | n/a                           | 3,458         | Pension Lump Sum         | n/a<br>n/a | 5<br>2  | 0<br>0     |
| Bob Brawn<br>Convener Housing & Communities Committee                          | 4,077                         | 3,493         | Pension Lump Sum         | 2<br>0     | 1<br>0  | 1<br>0     |
| Dave Doogan<br>Leader of the Opposition (to 19/02/20)                          | n/a                           | 2,992         | Pension Lump Sum         | n/a<br>n/a | 3<br>0  | 0<br>0     |
| Eric Drysdale<br>Convener Audit Committee                                      | 4,077                         | 3,990         | Pension Lump Sum         | 2<br>0     | 1<br>0  | 1<br>0     |
| Angus Forbes<br>Convener Environment & Infrastructure Committee                | 4,077                         | 3,990         | Pension Lump Sum         | 2<br>0     | 1<br>0  | 1<br>0     |
| Grant Laing<br>Leader of the Opposition                                        | 4,077                         | 3,990         | Pension Lump Sum         | 3<br>0     | 3<br>0  | 0<br>0     |
| Rosalind McCall<br>Convener Planning & Development Management Committee        | 4,077                         | 3,990         | Pension Lump Sum         | 2<br>0     | 1<br>0  | 1<br>0     |
| Sheila McCole<br>Convener Scrutiny Committee                                   | 4,077                         | 3,074         | Pension Lump Sum         | 2<br>0     | 1<br>0  | 1<br>0     |
| Caroline Shiers<br>Convener Lifelong Learning Committee                        | 4,077                         | 3,990         | Pension Lump Sum         | 5<br>2     | 5<br>1  | 0<br>1     |
| Lewis Simpson<br>Convener Local Review Body (from 27/01/2021)                  | 3,228                         | 3,458         | Pension Lump Sum         | 6<br>2     | 5<br>2  | 1<br>0     |
| <b>TOTAL</b>                                                                   | <b>53,603</b>                 | <b>58,293</b> |                          |            |         |            |

Notes:

- (1) The pension benefits shown relate to the benefits that the individual has accrued because of their total local government service, including any service with a Council subsidiary body, and not just their current appointment. Councillors have only been eligible to join the Local Government Pension Scheme since May 2007.

## 7.9 Pension Entitlements of Senior Employees

The pension entitlements of senior employees of Perth & Kinross Council and its subsidiaries for the year to 31 March 2021 are shown in table 7 below, together with the contribution made by the Council to each Senior Employee's pension during the year.

**Table 7: Pension Entitlements of Senior Employees of the Council and its Subsidiaries for Financial Year 2020/21  
(Post titles as at 31 March 2021)**

| Name and Post Title                                                                                      | In-year pension contributions |                | Accrued Pension Benefits (Note 1) |            |            |            |
|----------------------------------------------------------------------------------------------------------|-------------------------------|----------------|-----------------------------------|------------|------------|------------|
|                                                                                                          | 2020/21                       | 2019/20        |                                   | 2020/21    | 2019/20    | Difference |
|                                                                                                          | £                             | £              |                                   | £'000      | £'000      | £'000      |
| Karen Reid<br>Chief Executive (to 31/01/2021)                                                            | 19,557                        | 22,784         | Pension Lump Sum                  | 29<br>1    | 26<br>1    | 3<br>0     |
| Barbara Renton<br>Executive Director (Communities) and<br>Interim Chief Executive (from 01/02/2021)      | 20,715                        | 18,364         | Pension Lump Sum                  | 28<br>8    | 24<br>7    | 4<br>1     |
| James Valentine<br>Depute Chief Executive (to 31/07/2020)                                                | 7,070                         | 20,876         | Pension Lump Sum                  | 47<br>104  | 58<br>109  | -11<br>-5  |
| Gordon Paterson<br>Chief Officer, Perth & Kinross Health &<br>Social Care Partnership                    | 20,472                        | 18,364         | Pension Lump Sum                  | 56<br>103  | 49<br>92   | 7<br>11    |
| Sheena Devlin<br>Executive Director (Education & Children's<br>Services) and Chief Education Officer     | 20,472                        | 18,364         | Pension Lump Sum                  | 63<br>115  | 55<br>103  | 8<br>12    |
| Karen Donaldson<br>Chief Operating Officer                                                               | 19,197                        | n/a            | Pension Lump Sum                  | 51<br>91   | n/a<br>n/a | n/a<br>n/a |
| Jacqueline Pepper<br>Depute Director of Education & Children's<br>Services and Chief Social Work Officer | 16,625                        | 16,141         | Pension Lump Sum                  | 26<br>25   | 24<br>25   | 2<br>0     |
| Lisa Simpson<br>Head of Legal & Governance Services                                                      | 16,298                        | 15,824         | Pension Lump Sum                  | 11<br>0    | 9<br>0     | 2<br>0     |
| Stewart MacKenzie<br>Head of Finance                                                                     | 15,643                        | 15,187         | Pension Lump Sum                  | 42<br>64   | 39<br>63   | 3<br>1     |
| Nick Williams<br>Horsecross Arts Limited – Chief Executive                                               | 11,194                        | 3,683          | Pension Lump Sum                  | 2<br>0     | 0<br>0     | 2<br>0     |
| Michael Griffiths (Note 2)<br>Horsecross Arts Limited – Interim Chief<br>Executive (left 30 June 2019)   | n/a                           | n/a            | Pension Lump Sum                  | n/a<br>n/a | 0<br>0     | 0<br>0     |
| Paul Cromwell<br>Live Active Leisure – Chief Executive                                                   | 13,351                        | 12,912         | Pension Lump Sum                  | 20<br>12   | 18<br>11   | 2<br>1     |
| Helen Smout<br>Culture Perth & Kinross Limited - Chief<br>Executive                                      | 10,744                        | 10,431         | Pension Lump Sum                  | 21<br>22   | 20<br>22   | 1<br>0     |
| <b>TOTAL</b>                                                                                             | <b>191,338</b>                | <b>172,930</b> |                                   |            |            |            |

Notes:

- (1) Accrued pension benefits include total benefits accumulated during all membership of the Local Government Pension Scheme and not just service in their current role.
- (2) Michael Griffiths opted out of the pension scheme.

Signed:

Barbara Renton  
Interim Chief Executive

Perth & Kinross Council

Councillor Murray Lyle  
Leader of the Council

Perth & Kinross Council

## **GLOSSARY**

### **ACCOUNTING PERIOD**

The period of time covered by the accounts, normally a period of twelve months commencing on 1 April. The end of the accounting period is the Balance Sheet date.

### **ACCRUALS**

Sums included in the final accounts to recognise revenue and capital income and expenditure earned or incurred in the financial year, but for which actual payment had not been received or made as at 31 March.

### **BEACON METHOD (ADJUSTED VACANT POSSESSION METHOD)**

Based on the (vacant possession) market value of the asset which is the adjusted to reflect the assets' use for social housing with a sitting tenant.

### **CAA**

Capital Adjustment Account

### **CAPITAL EXPENDITURE**

Expenditure on the acquisition of a fixed asset, which will be used in providing services beyond the current accounting period, or expenditure which adds to and not merely maintains the value of an existing fixed asset.

### **CAPITAL FINANCING**

Funds raised to pay for capital expenditure. There are various methods of financing capital expenditure including borrowing, leasing, direct revenue financing, usable capital receipts, capital grants, capital contributions, revenue reserves and earmarked reserves.

### **CAPITAL RECEIPT**

The proceeds from the disposal of land or other fixed assets. Proportions of capital receipts can be used to finance new capital expenditure, within rules set down by the Government but they cannot be used to finance revenue expenditure.

### **CONTINGENT LIABILITY**

A contingent liability is either:

- A possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Council's control; or
- A present obligation arising from past events where it is not probable that a transfer of economic benefits will be required, or the amount of the obligation cannot be measured with sufficient reliability.

### **CORPORATE & DEMOCRATIC CORE**

The corporate and democratic core comprises all the activities that local authorities engage in specifically because they are elected, multi-purpose authorities. The cost of these activities are thus over and above those which would be incurred by a series of independent single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to services.

### **CREDITOR**

Amount owed by the Council for work done, goods received or services rendered within the accounting period, but for which payment has not been made by the Council by the end of that accounting period.

### **CRR**

Capital Receipts Reserve

### **CURRENT VALUE**

The measurement of operational assets used for the delivery of Council services. Property, plant and equipment is measured on the basis of service potential using existing use value for assets where an active market exists, existing use value-social housing for operational Council dwellings or depreciated replacement cost for assets where there is no market and/or the asset is specialised.

### **DBFM**

Design Build Finance Maintain - A Non-Profit Distribution (NPD) model to Design, Build, Finance, and Maintain infrastructure which requires the private sector to take a fixed rate of return. The DBFM agreement provides the Council with the right to receive services in return for an annual payment (unitary charge) which comprises the costs of construction, finance, and maintenance, and for the provision of any agreed additional services, for the duration of the agreement.

### **DISCOUNTED CASH FLOW METHOD**

Quantifies the cash-generating potential, stated at present value, of the housing operation taking into account the estimated future income and expenditure streams.

### **DEBTOR**

Amount owed to the Council for works done, goods received or services rendered within the accounting period, but for which payment has not been received by the Council by the end of that period.

**EXISTING USE VALUE FOR SOCIAL HOUSING (EUV-SH)**

Is the estimated amount for which a property should exchange on the date of valuation, between a willing buyer and a willing seller in an arm's length transaction.

**FAIR VALUE**

Fair value is the price that would be received to sell an asset or pay to transfer a liability in an orderly transaction between market participants at the measurement date.

**FIAA**

Financial Instruments Adjustment Account

**IMPAIRMENT**

A reduction in the value of a fixed asset to below its carrying amount on the Balance Sheet.

**MATERIALITY**

The concept that the Statement of Accounts should include all amounts which, if omitted, or mis-stated, could be expected to lead to a distortion of the financial statements and ultimately mislead a user of the accounts.

**NET BOOK VALUE**

The amount at which fixed assets are included in the Balance Sheet, i.e. their historical costs or current value less the cumulative amounts provided for depreciation.

**NON-DISTRIBUTED COSTS**

These are overheads which cannot be directly allocated to a specific area of activity and as such are not apportioned to services.

**PPE**

Property, Plant & Equipment

**PRIOR YEAR ADJUSTMENT**

Material adjustments applicable to previous years arising from changes in accounting policies or from the correction of fundamental errors. This does not include normal recurring corrections or adjustments of accounting estimates made in prior years.

**PROVISION**

An amount put aside in the accounts for future liabilities or losses which are certain or very likely to occur but the amounts or dates of when they will arise are uncertain.

**PUBLIC WORKS LOAN BOARD (PWLb)**

An agency of HM Treasury, which provides loans mainly for capital purposes of one year or more to authorities at interest rates of up to 2% above those at which the UK Government can itself borrow at.

**REVENUE EXPENDITURE**

The day-to-day expenses of providing services.





**Delayed Office Opening  
for Employee Training**

*This office will be closed from  
8.45 am - 11.00 am on the first  
Thursday of each month.*



**Finance Division**

Head of Service **Stewart MacKenzie**

2 High Street, PERTH, PH1 5PH  
Tel 01738 475500

KPMG LLP  
319 St Vincent Street  
Glasgow  
G2 5AS

Contact Mr Stewart MacKenzie  
Email: [smackenzie@pkc.gov.uk](mailto:smackenzie@pkc.gov.uk)  
[www.pkc.gov.uk](http://www.pkc.gov.uk)

Our ref SMACK/KD

Your ref

Date 9 September

Dear Sirs

This representation letter is provided in connection with your audit of the Group and council only financial statements of Perth and Kinross Council ("the Council"), for the year ended 31 March 2021 for the purpose of expressing an opinion:

- i. as to whether these financial statements, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2020-21 give a true and fair view of the state of the Group's and of the Council's affairs as at 31 March 2021 and of the Group's and Council's income and expenditure for the financial year then ended;
- ii. whether the group and council financial statements have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union ("IFRSs"), as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2020-21; and
- iii. whether the financial statements have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

These financial statements comprise the following the Comprehensive Income and Expenditure Statements, Movement in Reserves Statements, and Cash Flow Statements for the year then ended and the notes, comprising a summary of significant accounting policies and other explanatory information.

I confirm that the representations I make in this letter are in accordance with the definitions set out in the Appendix to this letter.

I confirm that, to the best of my knowledge and belief, having made such inquiries as I considered necessary for the purpose of appropriately informing myself:

## **Financial statements**

1. I have fulfilled my responsibilities, as set out in the terms of the audit engagement dated 31 May 2016, for the preparation of financial statements that:
  - i. give a true and fair view of the state of the Group's and of the Council own affairs as at the end of its financial year and of the Group's and Council own income and expenditure for that financial year.
  - ii. have been properly prepared in accordance with International Financial Reporting Standards as adopted by the European Union, as interpreted, and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2020-21; and
  - iii. have been prepared in accordance with the requirements of the Local Government (Scotland) Act 1973, The Local Authority Accounts (Scotland) Regulations 2014, and the Local Government in Scotland Act 2003.

The financial statements have been prepared on a going concern basis.

2. Measurement methods and significant assumptions used by me in making accounting estimates, including those measured at fair value, are reasonable.
3. All events subsequent to the date of the financial statements and for which IAS 10 Events after the reporting period requires adjustment or disclosure have been adjusted or disclosed.
4. The effects of uncorrected misstatements are immaterial, both individually and in aggregate, to the financial statements as a whole. A list of the uncorrected misstatements is attached to this representation letter.

## **Information provided**

5. I have provided you with:
  - access to all information of which I am aware, that is relevant to the preparation of the financial statements, such as records, documentation and other matters.
  - additional information that you have requested from me for the purpose of the audit; and
  - unrestricted access to persons within the Group and the Council from whom you determined it necessary to obtain audit evidence.
6. All transactions have been recorded in the accounting records and are reflected in the financial statements.
7. I confirm the following:

I have disclosed to you the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud.

Included in the Appendix to this letter are the definitions of fraud, including misstatements arising from fraudulent financial reporting and from misappropriation of assets.

8. I have disclosed to you all information in relation to:
- a) Fraud or suspected fraud that it is aware of and that affects the Group and the Council and involves:
    - management.
    - employees who have significant roles in internal control; or
    - others where the fraud could have a material effect on the financial statements; and
  - b) allegations of fraud, or suspected fraud, affecting the Group and the Council's financial statements communicated by employees, former employees, analysts, regulators or others.

In respect of the above, I acknowledge my responsibility for such internal control as I determine necessary for the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In particular, I acknowledge my responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud and error.

9. I have disclosed to you all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing the financial statements.
10. I have disclosed to you and has appropriately accounted for and/or disclosed in the financial statements, in accordance with IAS 37 Provisions, Contingent Liabilities and Contingent Assets, all known actual or possible litigation and claims whose effects should be considered when preparing the financial statements.
11. I have disclosed to you the identity of the Group and the Council's related parties and all the related party relationships and transactions of which I am aware. All related party relationships and transactions have been appropriately accounted for and disclosed in accordance with IAS 24 Related Party Disclosures.

Included in the Appendix to this letter are the definitions of both a related party and a related party transaction as I understand them and as defined in IAS 24.

12. I confirm that:
- The financial statements disclose all of the key risk factors, assumptions made and uncertainties surrounding the Council's and the Group's ability to continue as a going concern as required to provide a true and fair view and to comply with IAS 1 Presentation of Financial Statements.
  - No material events or conditions have been identified that may cast significant doubt on the ability of the Council and the Group to continue as a going concern.

13. On the basis of the process established by me and having made appropriate enquiries, I am satisfied that the actuarial assumptions underlying the valuation of defined benefit obligations are consistent with its knowledge of the business and are in accordance with the requirements of IAS 19 (revised) Employee Benefits.

I further confirm that:

- all significant retirement benefits, including any arrangements that are:
    - statutory, contractual or implicit in the employer's actions;
    - arise in the UK and the Republic of Ireland or overseas;
    - funded or unfunded; and
    - approved or unapproved,have been identified and properly accounted for; and
  - all plan amendments, curtailments and settlements have been identified and properly accounted for.
14. I confirm that I have appropriately recognised heritage assets, completely and accurately, to the extent possible in accordance with FRS 102, Section 34 *Specialised Activities* as interpreted and adapted under the Code of Practice on Local Authority Accounting in the United Kingdom 2020-21, including any revaluation, and confirm that:
- For those assets not recognised on the Group's and Council's Balance Sheet, a relevant and appropriate value cannot be obtained at a cost that is commensurate with the benefits to users of the financial statements, and there is no historic cost information for those assets to otherwise be recognised; and
  - in respect of those assets not recognised on the Group's and Council's Balance Sheet, in some cases for which an insurance cover amount has been obtained, I do not consider the insurance cover amount to be a relevant, reliable or appropriate valuation meeting the requirements for recognition as set out in the Code of Practice on Local Authority Accounting in the United Kingdom 2020-21 and 'LASAAC Guidance on Accounting for Heritage Assets (May 2012)'.

This letter was tabled and agreed at the meeting of the Audit committee on 20 September 2021.

Yours faithfully

**Stewart MacKenzie**  
**Head of Finance**



## **Appendix to the Representation Letter of Perth and Kinross Council: Definitions**

### **Financial Statements**

IAS 1.10 states that “a complete set of financial statements comprises:

- a statement of financial position as at the end of the period;
- a statement of profit or loss and other comprehensive income for the period;
- a statement of changes in equity for the period;
- a statement of cash flows for the period;
- notes, comprising a summary of significant accounting policies and other explanatory information;
- comparative information in respect of the preceding period as specified in paragraphs 38 and 38A; and
- a statement of financial position as at the beginning of the preceding period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements, or when it reclassifies items in its financial statements in accordance with paragraphs 40A-40D.

An entity may use titles for the statements other than those used in this Standard. For example, an entity may use the title ‘statement of comprehensive income’ instead of ‘statement of profit or loss and other comprehensive income’.”

Additionally, the financial statements contain the Council Statement of Financial Position, Statement of Changes in Equity, a Statement of Cash Flows and related notes.

### **Material Matters**

Certain representations in this letter are described as being limited to matters that are material.

IAS 1.7 and IAS 8.5 state that:

“Material omissions or misstatements of items are material if they could, individually or collectively, influence the economic decisions that users make on the basis of the financial statements. Materiality depends on the size and nature of the omission or misstatement judged in the surrounding circumstances. The size or nature of the item, or a combination of both, could be the determining factor.”

### **Fraud**

Fraudulent financial reporting involves intentional misstatements including omissions of amounts or disclosures in financial statements to deceive financial statement users.

Misappropriation of assets involves the theft of an entity’s assets. It is often accompanied by false or misleading records or documents in order to conceal the fact that the assets are missing or have been pledged without proper authorisation.



## **Error**

An error is an unintentional misstatement in financial statements, including the omission of an amount or a disclosure.

Prior period errors are omissions from, and misstatements in, the entity's financial statements for one or more prior periods arising from a failure to use, or misuse of, reliable information that:

- was available when financial statements for those periods were authorised for issue; and
- could reasonably be expected to have been obtained and taken into account in the preparation and presentation of those financial statements.

Such errors include the effects of mathematical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

## **Management**

For the purposes of this letter, references to "management" should be read as "management and, where appropriate, those charged with governance".

## **Related Party and Related Party Transaction**

### **Related party:**

A related party is a person or entity that is related to the entity that is preparing its financial statements (referred to in IAS 24 Related Party Disclosures as the "reporting entity").

1. A person or a close member of that person's family is related to a reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity; or
  - is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
2. An entity is related to a reporting entity if any of the following conditions applies:
  - The entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - Both entities are joint ventures of the same third party.
  - One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - The entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
  - The entity is controlled, or jointly controlled by a person identified in (a).

- A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- The entity, or any member of a group of which it is a part, provides key management personnel services to the reporting entity or to the parent of the reporting entity.

A reporting entity is exempt from the disclosure requirements of IAS 24.18 in relation to related party transactions and outstanding balances, including commitments, with:

- a government that has control or joint control of, or significant influence over the reporting entity; and
- another entity that is a related party because the same government has control or joint control of, or significant influence over, both the reporting entity and the other entity.

**Related party transaction:**

A transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.





# Perth and Kinross Council

Annual audit report to the Members of Perth and Kinross Council and the Controller of Audit for the year ended 31 March 2021

20 September 2021

DRAFT

# Contents

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## About this report

This report has been prepared in accordance with the responsibilities set out within the Audit Scotland's Code of Audit Practice ("the Code").

This report is for the benefit of Perth and Kinross Council and is made available to Audit Scotland and the Controller of Audit (together "the Beneficiaries"). This report has not been designed to be of benefit to anyone except the Beneficiaries. In preparing this report we have not taken into account the interests, needs or circumstances of anyone apart from the Beneficiaries, even though we may have been aware that others might read this report. We have prepared this report for the benefit of the Beneficiaries alone.

Nothing in this report constitutes an opinion on a valuation or legal advice.

We have not verified the reliability or accuracy of any information obtained in the course of our work, other than in the limited circumstances set out in the scoping and purpose section of this report.

This report is not suitable to be relied on by any party wishing to acquire rights against KPMG LLP (other than the Beneficiaries) for any purpose or in any context. Any party other than the Beneficiaries that obtains access to this report or a copy (under the Freedom of Information Act 2000, the Freedom of Information (Scotland) Act 2002, through a Beneficiary's Publication Scheme or otherwise) and chooses to rely on this report (or any part of it) does so at its own risk. To the fullest extent permitted by law, KPMG LLP does not assume any responsibility and will not accept any liability in respect of this report to any party other than the Beneficiaries.

## Complaints

If at any time you would like to discuss with us how our services can be improved or if you have a complaint about them, you are invited to contact Michael Wilkie, who is the engagement leader for our services to Perth and Kinross Council, telephone 0141 300 5890 or email to michael.wilkie@kpmg.co.uk, who will try to resolve your complaint. If your problem is not resolved, you should contact Hugh Harvie, our Head of Audit in Scotland, either by writing to him at Saltire Court, 20 Castle Terrace, Edinburgh, EH1 2EG or by telephoning 0131 527 6682 or by emailing hugh.harvie@kpmg.co.uk. We will investigate any complaint promptly and do what we can to resolve the difficulties. After this, if you are still dissatisfied with how your complaint has been handled you can refer the matter to Diane McGiffen, Audit Scotland, 4th Floor, 102 West Port, Edinburgh, EH3 9DN.

# Executive summary

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## Significant risks

- Management override of controls fraud risk
- Fraud risk from income recognition and expenditure
- Revaluation of property, plant and equipment, and investment property
- Retirement benefits

Pages 7-12

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Page 18

Wider scope areas (*no significant risks identified*)

## Open recommendations

- Significant recommendations
- Other recommendations
- Minor recommendations

Appendix three  
Number

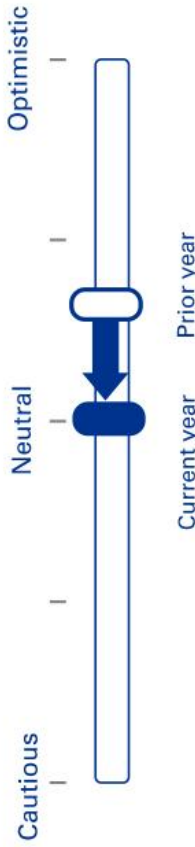
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## Accounting judgements related to estimates

Page 13



Overall we are satisfied with the key accounting judgments taken and that discussion of these matters in the section of the accounting policies appropriately addresses the matters we have communicated to you.

## Going concern

As part of the revised requirements of the Financial Reporting Council, we completed detailed testing of management's assertion that the Council is a going concern. We consider that the Council has sufficient net assets, and sufficient tax raising powers to support this assertion. We also report that legislation ultimately requires the Council and Group accounts to be prepared on a going concern basis, and we were satisfied with this assessment.

Appendix three

## Misstatements

We reported three misstatements, two corrected, and one uncorrected.

Appendix three and four

We do not consider the uncorrected misstatement to be material or further audit procedures to be required in respect of any identified misstatements.



# Introduction

## Scope and responsibilities

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### Purpose of this report

The Accounts Commission has appointed KPMG LLP as auditor of Perth and Kinross Council (the Council) under part VII of the Local Government (Scotland) Act 1973 ("the Act"). The period of appointment is 2016-17 to 2021-22, inclusive. Our engagement has been extended by Audit Scotland to 2021-22 in order to mitigate any potential impact of Covid-19 on the process for the next period of appointment.

Our annual audit report is designed to summarise our opinions and conclusions on significant issues arising from our audit. It is addressed to both those charged with governance at the Council and the Controller of Audit. The scope and nature of our audit are set out in our audit strategy document which was presented to the Perth and Kinross Council on 31 March 2021.

Audit Scotland's Code of Audit Practice ("the Code") sets out the wider dimensions of public sector audit which involves not only the audit of the financial statements but also consideration of wider scope areas. The reports incorporate both aspects of the Code.

### Accountable officer responsibilities

The Code sets out the Council's responsibilities in respect of:

- corporate governance;
- financial statements and related reports;
- standards of conduct for prevention and detection of fraud and error
- financial position; and
- Best Value.

### Auditor responsibilities

This report reflects our overall responsibility to carry out an audit in accordance with our statutory responsibilities under the Act and in accordance with International Standards on Auditing (UK) ("ISA") issued by the Financial Reporting Council ("FRC") and the Code. Appendix seven sets out how we have met each of the responsibilities set out in the Code.

### Scope

An audit of the financial statements is not designed to identify all matters that may be relevant to those charged with governance. Weaknesses or risks identified are only those which have come to our attention during our normal audit work in accordance with the Code, and may not be all that exist.

Communication by auditors of matters arising from the audit of the financial statements or of risks or weaknesses does not absolve management from its responsibility to address the issues raised and to maintain an adequate system of control.

Under the requirements of ISA 260 *Communication with those charged with governance*, we are required to communicate audit matters arising from the audit of financial statements to those charged with governance of an entity. This report to those charged with governance and our presentation to audit committee, together with previous reports to the audit committee throughout the year, discharges the requirements of ISA 260.

### Limitations on work performed

This Report is separate from our audit report in the annual accounts and does not provide an additional opinion on the Council's annual accounts nor does it add to or extend or alter our duties and responsibilities as auditors in accordance with the Code.

We have not designed or performed procedures outside those required of us as auditors for the purpose of identifying or communicating any of the matters covered by this Report.

|                                                                                    |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  |
|------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Audit opinion</b>                                                               | <p>Following approval of the annual accounts by the audit committee, we expect to issue an unqualified opinion on the truth and fairness of the state of the Council's affairs as at 31 March 2021, and of the surplus on the provision of services for the year then ended. We also issued unqualified opinions on the truth and fairness of the state of the Perth and Kinross Council Charitable Trusts' affairs as at 31 March 2021. There are no matters identified on which we are required to report by exception.</p>                                                                                                                                                                                                                                                                                                                                                                                    |
| <b>Financial reporting framework, legislation and other reporting requirements</b> | <p>The Council is required to prepare its annual accounts in accordance with International Financial Reporting Standards ("IFRS"), as interpreted and adapted by the Code of Practice on Local Authority Accounting in the United Kingdom 2020-21 ("the CIPFA Code"), and in accordance with the Local Authority Accounts (Scotland) Regulations 2014. Our audit confirmed that the annual accounts have been prepared in accordance with the CIPFA Code and relevant legislation.</p> <p>The Perth and Kinross Council Charitable Trust's financial statements are prepared in accordance with the Charities SORP (FRS 102), the Charities and Trustee Investment (Scotland) Act 2005 and regulation 8 of the Charities Accounts (Scotland) Regulations 2006 (as amended). Our audits confirmed that the annual accounts have been prepared in accordance with the relevant charity accounting legislation.</p> |
| <b>Annual accounts preparation and audit readiness</b>                             | <p>After being considered by the Audit committee, the signed draft accounts were made available to us on 30 June 2021. The Council's finance team continued to perform well in its delivery of high quality annual accounts, particularly considering the operational impact of Covid-19. We appreciate that management effectively prioritised preparation of the financial statements and worked with KPMG to ensure continued responsiveness to audit.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                    |
| <b>Statutory reports</b>                                                           | <p>We have not identified any circumstances to notify the Controller of Audit that indicate a statutory report may be required.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
| <b>Other communications</b>                                                        | <p>We did not encounter any significant difficulties during the audit. There were no other significant matters arising from the audit that were discussed, or subject to correspondence with management that have not been included within this report. There are no other matters arising from the audit, that, in our professional judgement, are significant to the oversight of the financial reporting process.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                         |
| <b>Audit misstatements</b>                                                         | <p>There were three misstatements identified throughout the audit. Two were corrected, and one was uncorrected. Further details are included on pages 38 and 39.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |
| <b>Written representations</b>                                                     | <p>Our representation letter will be amended to include additional representations on the treatment of Heritage Assets. . There were no further additional representations to those that are standard as required for our audit.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |



## Materiality and summary of risk areas

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### Materiality

We summarised our approach to materiality in our audit strategy document. On receipt of the financial statements and following completion of audit testing we reviewed our materiality levels and concluded that the level of materiality set at planning was still relevant.

We used a materiality of £9.0 million for the Council's standalone financial statements, and £10.0 million for the Group financial statements. The Council's materiality equates to 1.7% of Council gross expenditure on the provision of services, adjusted for revaluation charges recognised in the year, and funding provided to the Perth and Kinross Integration Joint Board ("the IJB"). We designed our procedures to detect errors in specific accounts at a lower level of precision than our materiality. For the standalone accounts our performance materiality was £6.7 million, and for the Group accounts it was £7.5 million. We report all identified misstatements greater than £250,000.

### Forming our opinions and conclusions

In gathering the evidence for the above opinions and conclusions we:

- performed controls testing and substantive procedures to ensure that key risks to the annual accounts have been covered;
- communicated with the Chief Internal Auditor and reviewed internal audit reports as issued to audit committee to ensure all key risk areas which may be viewed to have an impact on the annual accounts had been considered;
- reviewed estimates and accounting judgements made by management and considered these for appropriateness;
- considered the potential effect of fraud on the annual accounts through discussions with senior management and internal audit to gain a better understanding of the work performed in relation to the prevention and detection of fraud; and

- attended audit committee meetings to communicate our findings to those charged with governance, including private sessions with members, and to update our understanding of the key governance processes.

### Significant risks and other focus areas in relation to the audit of the financial statements

We summarise below the risks of material misstatement as reported within the audit strategy document.

Significant risks:

- Management override of controls fraud risk;
- Fraud risk from income recognition and expenditure;
- Revaluation of property, plant and equipment, and investment property; and
- Retirement benefits.

We also report on the previously identified audit focus area in respect of Capital Expenditure.

As described in more detail on page 12, we updated our understanding of the risks relating to retirement benefits as a result of the legal judgements on McCloud and GMP but did not change our assessment of the risk overall. No other changes to significant risks or other matters were identified during the course of our audit.

### Most significant assessed risks of material misstatement

We set out on pages 7 through 12 the significant risks identified in the audit, together with our conclusions. The audit opinion within the annual accounts includes a reference to the most significant assessed risks of material misstatement, which equates to the significant risks included in this annual audit report. This annual audit report does not constitute our audit opinion; the opinion is included within the annual accounts.

# Significant risks

We set out below the significant risk identified in the audit, together with our conclusion. The audit opinion within the annual accounts includes a reference to the most significant assessed material misstatement, which is the significant risk included in this annual audit report. This annual audit report does not constitute our audit opinion; the opinion is included within the annual accounts.

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| SIGNIFICANT RISK                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | OUR RESPONSE                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | AUDIT CONCLUSION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |
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| <p><b>Management override of controls fraud risk</b></p> <p>A presumed risk we are required to consider covers fraud risk from management override of control.</p> <p>Management is typically in a position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk.</p> <p>This is an assumed risk per ISA 240 <i>The Auditor's responsibilities related to fraud in the audit of financial statements</i>.</p> | <p>Our audit methodology incorporates the risk of management override as a default significant risk. We did not identify any specific additional risks of management override relating to the audit of the Council.</p> <p>Strong oversight of finances by management provides additional review of potential material errors caused by management override of controls.</p> <p>Our audit procedures included:</p> <ul style="list-style-type: none"><li>— controls testing and substantive procedures, including over journal entries and accounting estimates (such as over property revaluations and pensions); and</li><li>— review of significant transactions that are outside the Council's normal course of business, or are otherwise unusual.</li></ul> | <p><i>We did not identify any indicators of management bias or management fraud during the audit or as a result of our controls testing as presented on pages 23 and 24.</i></p> <p>Our testing of journal entries was satisfactory and we have obtained sufficient audit evidence as a result of our planned procedures. No issues were identified.</p> <p>We did not identify any significant transactions that are outside the Council's normal course of business, or are otherwise unusual.</p> |



# Financial statements and accounting

## Significant risks (continued)

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| SIGNIFICANT RISK                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                 | OUR RESPONSE                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             | AUDIT CONCLUSION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |
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| <p><b>Fraud risk from income recognition and expenditure</b></p> <p>Under ISA 240 there is a presumed risk that income may be misstated due to improper recognition of income. This requirement is modified by Practice Note 10, issued by the FRC, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>We consider that the Council's significant income streams, which include taxation and non-specific grant income are free of management judgement or estimation. We do not consider recognition of remaining income to represent a significant risk for the Council as there are limited incentives or opportunities to manipulate income recognition, and these are not likely to be materially inappropriate. We rebut this risk and did not incorporate specific work in this area beyond our standard fraud procedures.</p> <p>We consider that there is not a risk of improper recognition of expenditure in respect of payroll costs, financing and investment expenditure, or depreciation. These costs are routine in nature and not at risk of manipulation. We rebutted the risk of fraud over other operating expenditure on the basis of materiality.</p> <p>We did not rebut the assumed risk in respect of the remaining expenditure.</p> | <p>In respect of material income:</p> <ul style="list-style-type: none"> <li>– non-ringfenced government grants are agreed in advance of the year, with any changes requiring government approval. There is no estimation or judgement in recognising this stream of income and we do not regard the risk of fraud to be significant. We agreed significant grants to supporting documentation.</li> <li>– the other major sources of income are from annual local taxes and rental income (council tax, non-domestic rates and housing incomes). These incomes are prescribed by law and other specific regulations, which prescribe the period in which annual local taxes and rental income is recognised as income. We performed tests of detail and substantive analytical procedures in our audit of these sources of income.</li> </ul> <p>We performed procedures in respect of expenditure to:</p> <ul style="list-style-type: none"> <li>– compare the outturn with the in year budget monitoring, considering variances;</li> <li>– test expenditure specifically to confirm correct capital vs revenue allocation;</li> <li>– test expenditure cut-off including a search for unrecorded liabilities and journals posted towards the year end;</li> <li>– test transactions focusing on the areas of greatest risk, including debtors, creditors, accruals, prepayments and provisions to challenge completeness and existence of these balances; and</li> <li>– review and challenge of management in respect of estimates for evidence of bias.</li> </ul> | <p>We have concluded that income and expenditure are appropriately recognised.</p> <p>Our review of variances of actual performance against budget did not highlight any errors.</p> <p>Testing of the operating effectiveness of controls over the procurement process and material invoice approval were performed.</p> <p>Substantive testing was performed in place of the planned control testing over capital vs revenue allocation with no issues noted.</p> <p>We performed testing of expenditure cut-off in the periods immediately preceding and subsequent to the annual accounts year end date. This involved testing transactions and journals either side of the cut-off date to ensure expenditure has been allocated to the appropriate period. We also undertook a detailed search for unrecorded liabilities, as well as testing estimates over accruals. We did not identify any errors in expenditure cut-off as a result of this testing.</p> <p>No exceptions were identified in respect of the specific debtors, creditors, accruals, prepayments, or provisions testing performed.</p> <p>No indications of management bias were identified.</p> |



# Financial statements and accounting

## Significant risks (continued)

Our work over the significant risk below is substantially complete, and remains subject to final review. The wording in italics below reflects the provisional position, and a final conclusion will be reported on 20 September 2021.

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| SIGNIFICANT RISK                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | OUR RESPONSE                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                | AUDIT CONCLUSION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
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| <p><b>Revaluation of property, plant and equipment and investment property</b></p> <p>The CIPFA Code requires that where assets are subject to revaluation, their year-end carrying value should reflect the appropriate fair value at that date. In common with other councils, the Council has adopted a rolling revaluation model which sees all land and buildings revalued over a five year cycle. In 2020-21 Council offices, publicly financed initiative carparks and campuses, industrial and business investment properties, shops, common good properties, other miscellaneous non-operational properties, and assets with significant capital investment were subject to revaluation. The revaluation model also includes revaluation of assets with significant capital investment, and consideration of impairment indicators for all Council assets.</p> <p>The Council uses a valuation date of the 1 April 2020 for the 31 March 2021 year end, and 1 August 2020 for all investment properties. We consider there to be a risk of material movement between these dates.</p> | <p>Our procedures included:</p> <p><b>Assets revalued in the year:</b></p> <p>A number of the Council's assets are revalued on an annual basis, including investment properties and assets held for sale. In relation to those assets which have been revalued during the year we assessed the valuer's qualifications, objectivity and independence to carry out such valuations. We tested the accounting treatment for assets revalued to challenge whether the accounting treatment is appropriate and considered valuation inputs and assumptions used in the approach above.</p> <p>We also assessed the risk of the valuation changing materially during the year, or between the date of valuation and the year end, including sufficient scrutiny to address the impact that Covid-19 has had on the economic and market conditions over that period.</p> <p><b>Assessing methodology choice and benchmarking assumptions:</b></p> <p>We reviewed management's assessment of impairment indicators and assessed for completeness.</p> <p>We utilised our internal specialist to assess the methodology used including testing the underlying data inputs and assessing the assumptions used in comparison to available market information.</p> <p>We selected a sample of six assets to agree calculation inputs to supporting evidence, considered in detail the revaluation calculations, and challenged the underlying assumptions. These assets were considered representative of the asset categories subject to revaluation in the year.</p> | <p>We found the resulting valuation of council offices, publicly financed initiative campuses, industrial and business investment properties, and assets with significant capital investment to be acceptable and valued on an appropriate basis, which resulted in a net increase in the assets revalued.</p> <p>Pullar House Car Park was not revalued in the year due to limited operational information during the Covid-19 pandemic. This valuation was rescheduled for the 2021-22 valuation cycle pending sufficient information being available. The net book value is £782k and we do not consider there to be a risk of material misstatement.</p> <p>We assessed the design and implementation of a control ensuring sufficient segregation of duties and authorisation of valuations. We concluded that the control was sufficiently designed and implemented such that senior colleagues responsible for review and valuation were appropriately qualified.</p> <p>We inspected management's roll forward of valuations from the date of valuation to the year end date and confirmed it was completed appropriately and in compliance with the principles of the CIPFA Code.</p> <p>Our internal valuation specialist, in conjunction with the audit team, concluded that the valuation methodology used by the Council's valuer was appropriate and consistent with the requirements of the CIPFA Code.</p> <p>We challenged the assumptions used in calculating the valuations including Building Cost Information Service ("BCIS") rates, estimated useful lives, and comparable data. The supporting documentation provided for the assumptions was readily available and of sufficient quality.</p> |



# Financial statements and accounting

## Significant risks (continued)

Our work over the significant risk below is substantially complete, and remains subject to final review. The wording in italics below reflects the provisional position, and a final conclusion will be reported on 20 September 2021.

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| SIGNIFICANT RISK                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | OUR RESPONSE                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | AUDIT CONCLUSION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |
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| <p><b>Revaluation of property, plant and equipment and investment property (continued)</b></p> <p>Given the quantum of the asset carrying values and the inherent use of assumptions in their valuation, we consider there to be a significant risk of misstatement.</p> <p>The 2020-21 Code also requires consideration that the carrying amount of assets do not differ materially from the current value at the end of the reporting period. Therefore, we consider there to be a risk in relation to the assets not revalued in the year, as their current value at year end may be materially different.</p> | <p>Continued...</p> <p><b>Assets not revalued in the year:</b></p> <p>We reviewed the approach that the Council has adopted to assess the risk that assets not subject to valuation are materially misstated and consider the robustness of that approach, including any indicators of impairment.</p> <p>We considered and challenged the assumptions and judgements made by the Council in respect of their assessment of property valuations since 1 April 2016.</p> <p>We reviewed and tested the calculations and input data used by the Council to inform them of any indicators of impairment, or conversely property value increases that could represent a material misstatement.</p> | <p>Continued...</p> <p>We assessed the design and implementation of the year end review of non-revalued assets. In addition, this review was substantively tested by way of reperforming the review to ensure it was mathematically accurate and agreed to third party evidence where external rates were used. No issues were noted with this testing and we consider the valuation of assets not revalued in the year remains appropriate.</p> <p>Management and the Council's valuer have performed an impairment review which considers the potential impact on all significant categories of assets. We reviewed this assessment and undertook our own independent analysis to determine whether the non-revalued assets valuation was in compliance with the 2020-21 Code. We did not identify any misstatements non-compliance, or indicators of impairment.</p> |

# Financial statements and accounting

## Significant risks (continued)

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| SIGNIFICANT RISK                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | OUR RESPONSE                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | AUDIT CONCLUSION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            |
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| <p><b>Retirement benefits</b></p> <p>The net pension liability (£105.3 million as at 31 March 2021, including assets of £1.028 million) represents a material element of the Council's Balance Sheet. The Council is an admitted body of Tayside Pension Fund, which had its last triennial valuation completed as at 31 March 2020. The valuation of the Local Government Pension Scheme relies on a number of assumptions, most notably around the actuarial assumptions, and actuarial methodology which results in the Council's overall valuation.</p> <p>There are financial assumptions and demographic assumptions used in the calculation of the pension liability estimate, such as the discount rate, inflation rates, mortality rates etc. The assumptions should also reflect the profile of the Council's employees, and should be based on appropriate data. The basis of the assumptions should be derived on a consistent basis year to year, or updated to reflect any changes.</p> <p>There is a risk that the assumptions and methodology used in the valuation of the Council's pension obligation are not balanced. This could have a material impact to net pension liability accounted for in the financial statements.</p> | <p>Our audit approach included:</p> <p><b>Control design:</b></p> <ul style="list-style-type: none"> <li>Testing the design and operating effectiveness of controls over the provision of membership information to the actuary who uses it, together with management's review of assumptions, to calculate the pension obligation.</li> </ul> <p><b>Benchmarking assumptions:</b></p> <ul style="list-style-type: none"> <li>Challenging, with the support of our own actuarial specialists, the key assumptions used by the actuary (the discount rate, inflation rate and mortality/life expectancy) against externally derived data.</li> <li>Challenging the rate of increase in pensionable salaries assumption, by comparing it to other evidence such as business and transformation plans and our understanding of Government and staff expectations.</li> <li>Considering the consistency of methodology</li> </ul> <p><b>Assessing transparency:</b></p> <ul style="list-style-type: none"> <li>Considering the adequacy of the disclosures in respect of the sensitivity of the deficit to these assumptions</li> <li>Assessing if the disclosures within the financial statements are in accordance with the 2020-21 CIPFA Code's requirements.</li> </ul> | <p>We are satisfied that the retirement benefit obligation:</p> <ul style="list-style-type: none"> <li>is correctly recognised on the balance sheet as at 31 March 2021;</li> <li>has been accounted for and disclosed correctly in line with International Accounting Standard ("IAS") 19 Retirement benefits; and</li> <li>assumptions used in calculating this estimate and management's judgements are appropriate and within a range which we consider to be acceptable (see Appendix nine)</li> </ul> <p>Results of testing of controls in respect of provision of information to the actuary were satisfactory.</p> <p>The disclosures in the annual accounts are in line with the CIPFA Code's requirements, including relevant sensitivity analysis.</p> <p><b>Assumption Change</b></p> <p>Our actuarial specialists identified a change in the methodology of calculating CPI. This change was identified as a result of the UK Chancellor and UK Statistics Authority jointly publishing a change in the calculation of RPI which is linked to CPI. This change in methodology has been observed on a significant number of pension funds in the UK, and our actuarial specialist concluded the change was reasonable, and the CPI assumption remains within our normally acceptable range.</p> |



# Financial statements and accounting

## Significant risks (continued)

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| SIGNIFICANT RISK                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | OUR RESPONSE                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | AUDIT CONCLUSION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   |
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| <p><b>Retirement benefits (continued)</b></p> <p><b>Guaranteed minimum pensions ("GMP") equalisation</b></p> <p>Following a UK High Court judgement on 26 October 2018, the Government published the outcome to its indexation and equalisation of GMP in public service pension schemes consultation, concluding that the requirement for public service pension schemes to fully price protect the GMP element of individuals' public service pension would be extended to those individuals reaching State Pension Age ("SPA") before 6 April 2021.</p> <p><b>McCloud and Goodwin judgements</b></p> <p>During 2019-20, two significant judgements impacting local government pension scheme reported upon. Significant court cases were concluded upon.</p> <p>Both judgements are considered by KPMG to have an impact on the pension liability due to the level of estimation and assumptions used by management and the actuary. We therefore included these areas within our significant risk.</p> <p>In addition, CIPFA issued guidance during the year relating to the Goodwin case, which relates to a male survivor of a female scheme member and is alleging direct sexual orientation discrimination.</p> | <p>Continued...</p> <p><b>GMP:</b></p> <p>We discussed with management any updates regarding this matter, and how these impacted the audit.</p> <p>On 20 November 2020, the High Court handed down a further judgment on the Guaranteed Minimum Pension (GMP) equalisation case in relation to the Lloyds banking group pension schemes. This follows from the original judgment in October 2018 which confirmed that schemes need to equalise pensions for the effect of unequal GMPs between males and females. This latest judgment confirms that Defined Benefit (DB) schemes which provide GMPs need to revisit and where necessary top-up historical Cash Equivalent Transfer Values that were calculated based on unequalised benefits.</p> <p><b>McCloud:</b></p> <p>CIPFA issued a supplement to CIPFA Bulletin 5 to provide an update on the McCloud and Goodwin cases in respect of pension liabilities. It confirmed that the Scottish Government consultation on proposals to provide a remedy to the McCloud and Sargeant cases as an adjusting event.</p> <p>As noted in our previous year's annual audit report, no further changes were made to the calculation of the pension liability, however, we continue to monitor the Scottish Government's consultation to determine whether further changes are required.</p> <p><b>Goodwin, Brewster and Langford:</b></p> <p>For the Goodwin case, although proposals have not yet been published, a statement from the Treasury confirmed that changes will be required that will increase pension liabilities. A contingent liability was disclosed in the 2019-20 annual accounts in respect of the Goodwin case, and we agreed that no disclosure was required in respect of the 2020-21 annual accounts due to the materiality of the impact, but we will continue to consider any guidance or statements from government which may quantify a change in liability.</p> <p>The other two cases apply to a small proportion of member's benefits payable in certain circumstances.</p> | <p>Continued...</p> <p><b>Guaranteed minimum pensions ("GMP") equalisation</b></p> <p>Full allowance for the 2018 GMP equalisation ruling was taken into account by the Council during 2019-20, and we are satisfied no further consideration is required.</p> <p><b>McCloud consultation</b></p> <p>The Employer recognised an additional liability of 0.6% of the DBO for McCloud in 2019, which we assessed for year-end 2019. This adjustment has been carried forward to 31 March 2021. There has been no significant changes to key assumptions, and in our view the Employer's allowance in the DB obligation is appropriate.</p> <p><b>Goodwin, Brewster and Langford cases</b></p> <p>We have discussed such rulings with each of the actuarial firms (including management's actuary), who communicated that they have made no allowance for them on the grounds of materiality.</p> <p>An estimate may be required in future once more is known but we agree with a nil allowance at this time given the difficulty in obtaining appropriate data to produce a credible estimate, and the likelihood that the impact would be immaterial in all but very exceptional circumstances.</p> |

# Financial statements and accounting

## Other areas of audit focus

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| Other area of audit focus                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | OUR RESPONSE                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | AUDIT CONCLUSION                                                                                                                                                                                                |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <p><b>Capital expenditure</b></p> <p>The Council has a nine year £597 million capital plan, which includes the Cross Tay Link Road, Perth High School, and Perth City Hall upgrade projects. The expected spend in 2020-21 was £43.8 million, down from a budgeted spend of £98.3 million. This reduction is largely as a result of social restrictions which impeded on construction and renovation activities.</p> <p>Due to the significance of this capital investment programme and complexity of some of the projects, we consider there to be a risk of misstatement. This is in respect of ensuring that the classification of costs between operating and capital expenditure is appropriate and in respect of capturing all relevant costs and contributions.</p> <p>We also consider that any large capital project inherently brings a fraud risk to an entity, which we consider appropriate for the Council. We note that this was not a fraud risk relating to the financial statements.</p> | <p>Our audit approach included:</p> <p><b>Control design:</b></p> <ul style="list-style-type: none"> <li>Tested the design and implementation of the control ensuring all movements of £50k or above between actual spend and budgeted spend are appropriately explained and reported.</li> </ul> <p><b>Control re-performance:</b></p> <ul style="list-style-type: none"> <li>Comparing the total capital expenditure reported in the financial statements with that reported in reports to those charged with governance.</li> </ul> <p><b>Tests of detail:</b></p> <ul style="list-style-type: none"> <li>Use of substantive sampling methods to evaluate the appropriateness of capital or income accounting classification by reference to supporting documentation.</li> <li>Assessed a sample of items allocated to revenue expenditure to determine whether they are correctly classified.</li> <li>Reviewed and corroborated manual journals to vouch expenditure is correctly allocated.</li> </ul> | <p>We have concluded that the treatment of capital expenditure is satisfactory.</p> <p>No exceptions were identified in the tests of detail, with supporting documentation available for each item sampled.</p> |



### Going concern

Going concern means the ability of the Council to remain solvent for the twelve month period from the accounts being signed.

The Council had net assets of £651.1 million (2019-20 £557.7 million) as at the balance sheet date. Net assets increased on 2020-21 by £93.4 million, reflecting the total comprehensive expenditure for the year and accounting adjustments required by the CIPFA Code (see page 20 for further detail).

Management considers it appropriate to continue to adopt the going concern assumption for the preparation of the annual accounts. The applicable accounting framework as prescribed by law is the Code of Practice on Local Authority Accounting in the United Kingdom. This framework mandates the preparation of the annual accounts on a going concern basis.

The Council is in a net asset position, and it considers that the confirmed Scottish Government funding (which includes non-domestic rates income) of £281.3 million is sufficient to meet debts as they fall due. The council also has reasonable certainty over income sources, such as Council Tax income. Financial assets comprising short term investments, and cash and cash equivalents were £188.8 million (2019-20: £207.0 million) as at 31 March 2021. This is offset by an decrease of £12.5 million in long-term borrowings.

The council has produced and approved its six year medium term financial plan (MTFP) for 2021 – 2027 in September 2020 which supports the ability of the Council to continue as a going concern. The MTFP is expected to be revised at the Council meeting in October 2021.

In recent financial years, there has been managed reduction in the overall cost base and further efficiency savings are incorporated into budgets. The Council endorsed a 2020-21 savings requirement of £4.5 million in the 2020-21 budget. The Council approved a corporate savings target of £3.3 million for 2021-22 in order to achieve a balanced budget.

### Conclusion

The Council has a strong net assets position supported by £8.2 million uncommitted reserves as at 31 March 2021.

The Council has prepared short, medium, and long term financial forecasts which are inherently dependant on a number of assumptions outwith the Council's control. We note that management has identified potential savings and has demonstrated strong leadership in taking action on overspends to ensure tight budgetary control.

Income streams are reasonably certain, with additional funding from the Scottish Government where necessary (see considerations specific to Covid-19 on next page).

We are content that the going concern assumption is appropriate for the Council in light of the above points.



# Financial statements and accounting

## Going concern (continued)

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### Response to Covid-19

The financial implications of the Covid-19 pandemic were assessed by the Council and submitted to the Convention of Scottish Local Authorities (COSLA) as part of a national data collection exercise in June 2020. The findings were also submitted by the Head of Finance in a report at the 24 June 2020 Council meeting. The report provided an update on the financial position of the council, highlighting the additional expenditure pressures and expected reduction in income. It also provided information on the additional funding made available to support the Council in its response. The potential gross financial impact to the Council was estimated to be between £22.4 million and £26.8 million as reported to members on 30 September 2020. Officers continued to provide further updates on Covid-19 pressures throughout the year.

An area of complexity included the accounting for the numerous Covid-19 related grants funded by the Scottish Government through an agency arrangement. To date, the Council has passed on £60.7 million in Covid-related grants, with the most material being £37.0 million in Coronavirus Business Support Grants, and a combined £21.3 million in Strategic Framework Business Fund ('SFBF') Grants and SFBF Top up Grants. In addition, the Scottish Government have supplied the Council with £30.0 million for non-recurring Covid funding in 2020-21, and announced a further £7.2 million of funding for 2021-22 which is treated as principal where the Council is acting on its own behalf, and recognised through the comprehensive income and expenditure statement. We have tested the allocations of material grants and are satisfied that these are appropriately disclosed per LASAAC's Guidance on Accounting for Coronavirus Grants.

Due to the continuing level of uncertainty, the financial impact of the pandemic will continue to require strong financial management in the coming months. Officers continue to report key assumptions and events that may impact Council operations and finances to elected members. This is in addition to the Council's medium term financial plan and budget which continue to factor in Covid-19 related decisions.

This presents an additional challenge to the delivery of a balanced budget and will increase the need to identify and deliver savings. Despite this, we do not believe the impact of Covid-19 brings into question the use of the going concern assumption based on the factors above, and the ongoing funding from the Scottish Government.

### Conclusion

The Council has built Covid-19 into the budgeting process, ensuring future costs and other impacts relating to the pandemic are considered.

Due to the level of uncertainty and lack of control of assumptions made, budgets are subject to change and the Council has shown flexibility in their approach,

The Scottish Government has shown and continues to show commitment to assisting local authorities, businesses, and individuals and this, coupled with the budgeting mentioned above with other reasonably certain income streams, provides us with sufficient comfort that Covid-19 does not alter our conclusion that the Going Concern assumption remains appropriate.

# Management reporting in financial statements

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| REPORT                      | SUMMARY OBSERVATIONS                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | AUDIT CONCLUSION                                                                                                                                                                                                                                                                                                                                                                        |
|-----------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Management commentary       | <p>The Local Authority Accounts (Scotland) Regulations 2014 require the inclusion of a management commentary within the annual accounts, similar to the Companies Act requirements for listed entity financial statements. The requirements are outlined in the Local Government finance circular 5/2015.</p> <p>We are required to read the management commentary and express an opinion as to whether it is consistent with the information provided in the annual accounts. We also review the contents of the management commentary against the guidance contained in the local government finance circular 5/2015.</p> | <p>We are satisfied that the information contained within the management commentary is consistent with the annual accounts.</p> <p>We reviewed the contents of the management commentary against the guidance contained in the local government finance circular 5/2015 and, following some suggested enhancements are content with the proposed report.</p>                            |
| Remuneration report         | <p>The remuneration report was included within the unaudited annual accounts and supporting reports and working papers were provided.</p>                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | <p>We are satisfied that the information contained within the remuneration report is consistent with the underlying records and the annual accounts and all required disclosures have been made.</p> <p>Our independent auditor's report confirms that the part of the remuneration report subject to audit has been properly prepared in accordance with the relevant regulations.</p> |
| Annual governance statement | <p>The statement for 2020-21 outlines the corporate governance and risk management arrangements in operation in the financial year. It provides detail on the Council's governance framework, review of effectiveness, continuous improvement agenda and group entities and analyses the efficiency and effectiveness of these elements of the framework.</p>                                                                                                                                                                                                                                                               | <p>We consider the governance framework and annual governance statement to be appropriate for the Council.</p> <p>The arrangements and disclosures surrounding Covid-19 were sufficient and, following some suggested enhancements, we are content that the annual governance statement complies with guidance and reflects our understanding of the Council.</p>                       |



# Financial statements and accounting

## Group financial statements

**DRAFT**

Our audit appointment of the Council extends to the audit of the Perth and Kinross Council Charitable Trusts and Perth and Kinross Integration Joint Board. Appendix five sets out the group structure. The table below sets out the key audit findings from these entities and also significant matters discussed with the component auditor. There are no findings to report in relation to other group entities.

| ENTITY                                 | WORK PERFORMED                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | AUDIT CONCLUSION                                                                                                        |
|----------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------|
| <b>Charitable Trusts</b>               | <p>We assessed materiality based on our knowledge and understanding of the charities' risk profile and annual accounts balances. Materiality was determined at 3% of total assets.</p> <p>We planned our materiality for the charitable trusts based on the closing 2019-20 total asset position which had fallen to £1.46 million due to Covid-19, resulting in a materiality of £44,000 and a reporting threshold of £2,300. The total assets of the charitable trusts has increased in 2020-21 from £1.46 million to £1.73 million.</p> <p>As required by audit standards, we considered our independence as part of our Council engagement, and confirm our independence of the Charitable Trusts for the year ended 31 March 2021. Our independence confirmation at appendix two applies to the Charitable Funds in addition to the Council. The engagement lead in 2020-21 continued to be Michael Wilkie.</p> | We expect to issue an unqualified audit opinion on the charitable trusts on 21 September 2021.                          |
| <b>Common Good</b>                     | Perth and Kinross Council Common Good does not prepare separate financial statements, and is incorporated as disclosure notes within the Council's financial statements. Common Good holds investment properties as well as other assets.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                            | The Common Good amounts are included within the Group financial statements, for which we issued an unqualified opinion. |
| <b>Integration Joint Board ('IJB')</b> | A separate annual audit report is planned to be presented to the Audit and Performance Committee of the Perth and Kinross Integration Joint Board on 13 September 2021. No significant exceptions were identified during the audit.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                  | We expect to issue an unqualified audit opinion for the IJB on 16 September 2021.                                       |

# Financial statements and accounting

## New accounting standards

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### Future accounting and audit developments

In March 2020, CIPFA/LASAC agreed to delay the implementation of IFRS 16 Leases until the 2021-22 financial year as a result of the COVID-19 pandemic. The standard removes the previous classifications of operating and finance leases for lessees (with exemptions for short-term and low value leases) and requires a right-of-use asset to be recognised, with a corresponding lease liability. It is expected that this standard will now be incorporated in to the 2021-22 CIPFA Code.

The Council planned to perform a detailed review of the impact IFRS 16 will have on its balance sheet during 2020. However, owing to the council prioritising key services as a result of Covid-19, this project has been delayed. We will report on the Council's progress as part of our audit strategy for the 2021-22 audit.

### Qualitative aspects

ISA 260 requires us to report to those charged with governance our views about significant qualitative aspects of the Council's accounting practices, including accounting policies, accounting estimates and financial statement disclosures.

We consider the accounting policies adopted by the Council to be appropriate. There are no significant accounting practices which depart from what is acceptable under IFRS or the CIPFA Code.

Significant accounting estimates relate to the present value of defined benefit obligations and valuation of non-current assets. For defined benefit obligations, the estimate is calculated under IAS 19 (as calculated by the Council's actuary, Barnett Waddingham using agreed financial assumptions). With the assistance of our internal actuarial specialists we found the assumptions and accounting for pensions to be appropriate (page 45). Non-current asset impairment is considered by the Council's valuation team and a 5-year rolling programme of revaluations is in place. We used our internal valuation specialists to assess the assumptions used in these revaluations. We did not identify indications of management bias.

Financial statement disclosures were considered against requirements of the CIPFA Code, relevant legislation and IFRS. No departures from these requirements were identified.



### Audit dimensions introduction

The Code sets out four audit dimensions which, alongside Best Value, set a common framework for all the audit work conducted for the Controller of Audit and for the Accounts Commission. The dimensions are: financial management; financial sustainability; governance and transparency; and value for money.

It remains the responsibility of the audited body to ensure that it makes proper arrangements across each of these audit dimensions. These arrangements should be appropriate to the nature of the audited body and the services and functions that it has been created to deliver. We review and come to a conclusion on these arrangements.

During our work on the audit dimensions we considered work carried out by internal audit and other scrutiny bodies to ensure our work meets the proportionate and integrated principles contained within the Code.

All appointed auditors are also required to consider areas of focus identified by Audit Scotland, we include our view on each area as within the relevant wider scope section.

### Best Value

The Accounts Commission agreed the overall framework for a new approach to auditing best value in June 2016. Best Value is assessed over the five year audit appointment, as part of the annual audit work. There are seven areas considered over the five years. In addition a best value assurance report ("BVAR") for each council will be considered by the Accounts Commission at least once in the five year period.

In 2018-19, a BVAR was prepared for the Council, and was presented to the Accounts Commission in August 2019. A copy of this report can be found on Audit Scotland's website.

### Strategic Audit Priorities

The Accounts Commission agreed five strategic audit priorities as part of the Code:

- the clarity of Council priorities and quality of long-term planning to achieve these;
- how effectively councils are evaluating and implementing options for significant changes in delivering services;
- how effectively councils are ensuring that members and officers have the right knowledge, skills and time to lead and manage delivery of council priorities;
- how effectively councils are involving citizens in decisions about services; and
- the quality of council public performance reporting to help citizens gauge improvements.

We consider the strategic audit priorities when performing the wider scope work over the five year appointment.

### Our approach

In our fifth year of audit work was planned to, and has covered the following areas as set out in our audit strategy:

- Transformation programme (page 24);
- Medium and long term planning (page 23);
- EU withdrawal (page 25); and
- Equalities (page ##)

### Conclusion

We concluded that the council has reasonable procedures and practices in place to support a positive conclusion. We consider that overall, the council is working towards achieving areas of best value where they are recognised, and there is a positive attitude towards maintaining this pace.



# Wider scope and Best Value

## Financial management

DRAFT

Financial management is concerned with financial capacity, sound budgetary processes and whether the control environment and internal controls are operating effectively.

### 2020-21 financial performance

The Comprehensive Income and Expenditure Statement shows a surplus on the provision of services of £4.8 million for the year to 31 March 2021, of which £1.8 million deficit relates to the Housing Revenue Account and £6.6 million surplus on the General Fund. The Council set a net revenue expenditure budget of £375.2 million on the general fund and a gross revenue budget of £31.1 million on the HRA for 2020-21. The core outturn is a surplus of £22.0 million being on the General Fund and HRA in respect of the net cost of services. After minor variances relating to income and finance and investment income and expenditure, the total variance against budget was a £21.3 million underspend, which increased reserves by £25.2 million.

### General Fund

A balanced budget was approved in March 2020 before the Covid-19 pandemic was declared. The £21.3 million General Fund surplus represents a net result of over and underspends and re-profiling of Loans Fund charges. The largest underspends and elements of additional income were:

- Education and Children's services (£9.1 million), reflecting additional funding of £6.4 million for early years and education recovery. Included in this outturn is a total of £2.6 million staff costs underspends due to ongoing recruitment challenges.
- Corporate and Democratic Services contributed additional income of £11.4 million over budget split into £7.0 million from the Scottish Government for the Council's Covid-19 response, and an additional £4.0 million relating to the services general activities.

We continue to highlight the good practice of budget flexibility, which encourages Council services to plan longer term, in which an estimated £0.1 million was carried forward as part of the 2021-22 budget.

### Financial headlines

**Surplus on provision of services**  
£4.8 million  
2019-20: £3.2 million deficit

**Surplus on general fund**  
£22.0 million  
2019-20: £3.0 million surplus

**Total reserves**  
£651.1 million  
2019-20: £557.7 million

**General fund reserve**  
£72.5 million  
2019-20: £49.3 million

**Net pension liability**  
£105.3 million  
2019-20 £121.4 million

**Capital financing requirement**  
£596.9 million  
2019-20 £583.7 million

(Source: unaudited annual accounts)



# Financial management (continued)

DRAFT

## 2020-21 financial performance (continued) Housing Revenue Account ("HRA")

The Council is required by legislation to maintain a separate HRA and to ensure that rents are set to cover the costs of its social housing provision. Rent levels are set in order to achieve a breakeven position based on forecast expenditure. The capital HRA budget was approved in January 2020 by the Housing & Communities Committee, and set a budget of £16.5 million revised to £15.3 million. The decrease in budget was as a result of higher than forecast Council Buy-Backs and an increased investment in Central Heating and Rewiring works. The final outturn was £19.9 million.

### Financial reporting and budgetary control

Regular financial reporting is provided to the Strategic Policy and Resources Committee ("SP&R"), comprising details of budget, a revised budget, and detailed explanations of movements against budget. As a result of Covid-19, and as reported in the 2019-20 annual audit report, the internal reporting mechanism changed resulting in elected members not receiving information via committee for a period of time. This is detailed further on page 28.

A final outturn is included as part of the Management Commentary in the audited annual accounts. We have focused upon utilisation of reserves, as this is the key driver for performance against budget. The General Fund reserve allows the Council to smooth out financial pressures over a number of years.

The forecast outturn for the 2020-21 £337.1 million general fund budget as reported quarterly is presented below, with the full year forecast as reported at each quarter presented to show the changes in expectations over the year.

| Forecast outturn (£000)                                          | Sep-20 | Nov-20 | Jan-21 | Mar-21  | Final    |
|------------------------------------------------------------------|--------|--------|--------|---------|----------|
| Budgeted use of reserves                                         | N/A    | 6,881  | 5,663  | (3,857) | (3,857)  |
| Variance of financed from/ (returned to) reserves against budget | N/A    | N/A    | N/A    | (393)   | (21,336) |

In order to balance the resource pressures on the Council, a decision was made to temporarily adjust the reporting to members, which continued to focus on providing information at a sufficient level for oversight and challenge. The detailed information to populate budget use of reserves table to the bottom left was not available, though management reported the an estimated overspend of £1.7 million to £6.1 million in September 2020, an estimated overspend of £0.3 million to £4.7 million in November 2020, and in January 2021, a projected range of £1.6 million underspend to £0.6 million overspend.

The section 95 officer authorised the changes to budget under the council's emergency powers, which were subsequently considered by council as required. The final outturn was included as part of the financial statements review in June 2021 to the audit committee, and we understand the audited financial statements will be considered by the audit committee in September 2021. Whilst we note an underspend of £22.0 million against budget, there has been an overall increase in usable reserves of £25.2 million.

We conclude that management reported regularly, and in sufficient detail to members in order that timely decisions could be made by the Council.

### Capital budget

The Composite Capital Budget approved in January 2020 for the period 2020-21 set net expenditure of £81.0 million, against a final net budget of £33.0 million reported at year end. The significant slippage is primarily due to restrictions arising as a result of Covid-19, and projects have been deferred to future years.

Significant expenditure was undertaken in respect of the School Modernisation programme of £10.8 million, Roads and Transport projects of £11.9 million including Perth Transport Futures programme, as well as investments of £1.8 million on cultural attractions within the Perth and Kinross Region.

The final outturn of budget against actual was net expenditure of £26.5 million which reflects a late change of social distancing regulations that permitted additional work to be carried out in March.



# Financial management (continued)

DRAFT

Accounts and audit process

Draft annual accounts were authorised for issue on 30 June 2021 through consideration by the audit committee in line with legislation. We received a copy of the signed draft annual accounts on 30 June 2021. We note the return to audit committee consideration prior to our receipt of the draft annual accounts after discussion with elected members.

Owing to Covid-19, the way that Council has operated since 23 March 2020 has changed significantly. We recognise the challenges of producing a complete set of financial statements remotely, and its associated audit. We continue to highlight the achievement of the finance team to complete the audit in line with a regular reporting timetable.

High quality working papers were provided at the start of the audit fieldwork and management responded effectively to our queries. No significant issues arose during the audit and three audit misstatements were identified.

Internal audit review of controls

As part of its annual plan and reporting, internal audit made 9 control objective recommendations, down from 18 in 2019-20. Of these recommendations, 7 were rated as strong, one as moderately strong, and 1 as weak. As noted on page 29, this is despite more focused work by the internal audit function and demonstrates the role that internal audit play in supporting service improvement.

Internal control

We consider that the Council has a robust control environment. We tested the operating effective controls within certain financial processes, where reliance upon them enabled an efficient testing approach. No exceptions were identified from the testing and the controls tested were:

- Review of valuations (relates to a significant risk).
- Review of non-revalued properties (relates to a significant risk)
- Transfer of pensionable data and management review of assumptions and assets (relates to a significant risk).

- Capital and revenue budget monitoring (relates to a significant risk)
- Bank reconciliations.
- Procurement: contract awards.
- BACS authorisations.
- HRA income reconciliation.
- Council tax and non-domestic rates assessor report reconciliation, and council tax and non-domestic rates reliefs.

Our testing and findings over controls operating after our interim fieldwork are summarised on the next page.

In 2019-20 we made a total of four recommendations and a summary of their status is presented below. Our action plan detail is shown on page 37 onwards. We report that one recommendation has been carried forward to 2021-22 subject to further consideration by Officers

| Status of 2019-20 recommendations | Grade one | Grade two | Grade three |
|-----------------------------------|-----------|-----------|-------------|
| Implemented                       |           |           | 3           |
| Ongoing                           |           |           | 1           |

Our view – financial management

We consider that the approach to financial management, including budget setting and monitoring is appropriate with clear supporting governance arrangements. The Council demonstrates good practice, in a local authority context, through regular financial reporting

The controls tested for the purposes of forming an opinion on the annual accounts were found to be effective.

# Financial management (continued)

## System Controls

**DRAFT**

In accordance with ISA 330 *The auditor's response to assessed risks*, we designed and performed tests of controls to obtain sufficient appropriate audit evidence as to the operating effectiveness of relevant controls over the main financial systems. Interim audit testing took place during February 2020 and our findings were reported in March 2021. The below reporting summarises our testing since 31 March. Overall we concluded that the control environment is effective.

| Test                                                      | Description                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Results                                                                                                                                                                                                                                                                                                                                                                                                                                                                              |
|-----------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Authorisation over procurement contracts</b>           | <p>The Council has defined processes for the awarding of contracts, with written procedures to be followed for each contract type and value.</p> <p>Testing of a sample of 15 contracts awarded in the year, split between those which required completion of a quotation and those which required to be tendered was undertaken. Our approach was designed to test whether correct procurement route had been followed based on value and reviewed the evidence of the tender evaluation process.</p>                                                                                                            | <p>Our testing concluded that arrangements over the procurement and tendering process are designed and implemented effectively.</p> <p><b>Satisfactory</b></p>                                                                                                                                                                                                                                                                                                                       |
| <b>Revenue budget monitoring (response to fraud risk)</b> | <p>The Council has a robust revenue budget setting process, with involvement of key members of staff across the Council. Performance against revenue budget is monitored on a regular basis and formally reported to Council via budget monitoring reports in September, November, January and April.</p> <p>The format of these reports has changed during 2020-21 while the Council responds to the Covid-19 pandemic. Reporting has focused on the impact of Covid-19 on the Council's five strategic objectives. We considered whether reporting included the sufficient level of precision and analysis.</p> | <p>Our testing concluded that budget monitoring arrangements over the revenue budget are designed and implemented effectively.</p> <p><b>Satisfactory</b></p>                                                                                                                                                                                                                                                                                                                        |
| <b>Council Tax and Non-Domestic Rates</b>                 | <p>For Non-Domestic Rates reliefs and exemptions, we selected 25 applications from account holders to test whether applications had been reviewed by an appropriate officer within the Local Taxes team and appropriate evidence of entitlement obtained.</p> <p>For each of Non-Domestic Rates and Council Tax, we tested a sample of five reconciliations of the Council's valuation roll against the valuation roll provided by the Tayside Valuation Joint Board and other valuation lists respectively.</p>                                                                                                  | <p>In respect of our sample of 25 relating to non-domestic rates reliefs we are awaiting supporting documentation for some of the items selected for testing earlier in the year. We will provide an update in our annual audit report in September 2021, including any changes in approach that may be required.</p> <p>Our testing concluded that Council Tax and Non-Domestic Rates reconciliations over are designed and implemented effectively.</p> <p><b>Satisfactory</b></p> |



# Financial management (continued)

## System Controls (continued)

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| Test                                                | Description                                                                                                                                                                                              | Results                                                                                                                                                                                                                                                                                                                                                                                                                                                       |
|-----------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Review of valuations (response to significant risk) | <p>We will review management's assessment of impairment indicators and assess for completeness.</p> <p>We walked through with the valuations team to consider whether the review process was robust.</p> | <p>We will report our findings over the operating effectiveness of this control in our annual audit report once management completes its annual review of both movements in valuations from 1 April 20 to 31 March 21, and the review of assets not revalued in year in line with the year end timetable.</p> <p>For in year property valuations, we are satisfied with the design and implementation of the control in place.</p> <p><b>Satisfactory</b></p> |



# Wider scope and Best Value

## Financial sustainability

DRAFT

**Financial sustainability looks forward to the medium and longer term to consider whether the body is planning effectively to continue to deliver its services or the way in which they should be delivered.**

The best value assurance report considered that the Council has robust financial planning and management arrangements, including effective monitoring and reporting and medium-term financial planning. The financial outlook is challenging, but the council is well placed to address projected funding gaps through its transformation programme and savings identified as part of the medium-term financial plan.

### Annual budget presentation

The annual budget for 2020-21 was approved by Council on 6 March 2020 prior to the global Covid-19 pandemic being declared. The budget report set out the general fund revenue budget for 2020-21, together with the provisional general fund revenue budgets for 2021-22 and 2022-23. The capital budget was set for the period 2020-21 to 2029-30.

Management have continued to consider the impact of the pandemic on their financial forecasting, and made several changes in order to meet resourcing needs whilst maintaining financial control of council activities.

Members were provided with sounding board sessions after the suspension of committees in order to discuss decisions made by senior council officers as approved under the decision making arrangements as a result of the pandemic. This allowed management to focus on the immediate activities of the council in order to prioritise service delivery, meaning that there was a reduced level of public transparency over council expenditure. In our opinion however, the change was proportionate to the events and pressures facing the council, and sufficient detail remained public and timely to members to suitably inform stakeholders. We noted that the Council returned to its pre-pandemic level of reporting by March 2021.

The Council is required to set a balanced budget in each financial year, and in 2020-21 proposed budget flexibility of £2.3 million (underspends from the prior year), and utilisation of reserves totalling £5.9 million.

We consider the development of a six year plan is an appropriate response to the recommendation and will support longer term financial planning. However, in light of the global pandemic, the need to develop further long-term financial planning beyond six years is further highlighted.

### Other focus area: Long-term financial plan

As a result of the Best Value Assurance Report recommendation, the full council considered a revised six-year plan for 2021-2027 in September 2020. The council have built on existing strong financial management, and have developed financial models to demonstrate long term planning.

The key long-term financial assumptions included consideration of pay increases of 3% reflecting the provisional revenue budget, superannuation contribution increases between 0% and 2% over the next five years, a reflection of the unknown ongoing financial support from government in respect of Covid-19, and Council Tax Charge increases between 3% and 4.7%. Over the shorter term the Council have estimated a reduced level of funding through the General Revenue Grant from the Scottish Government.

Inherent with every forecast is a range of outcomes, which for the Council are an optimistic £4.4 million deficit for the following six years from 2021-22, to a pessimistic £136.2 million deficit. The Council, through its 2021/22 budget are continuing to consider actions and savings to meet this difference. The net savings proposals for 2021-22 are £677,000, alongside expenditure pressures of £1.4 million.

In addition to revenue long-term forecasting, the council is developing a thirty-year capital Investment Blueprint for the Future ("the Blueprint") plan which is expected to be presented in October 2021. As part of the key developments and controls within the Blueprint, the Council will adopt a gateway review approach to the development and delivery of capital investment. This will allow the opportunity for council officers to periodically assess the project's ongoing financial health and progress, as well as allowing electing members to scrutinise capital programme progress.

The Blueprint also responds to the recommendations of the Infrastructure Commission's Key Findings report of January 2020.



Wider scope and Best Value

# Financial sustainability (continued)

DRAFT

Other focus area: Transformation programme

One of the key areas of focus for the Council is the development and implementation of its Corporate Workforce Plan, presented to the Strategic Policy and Resources Committee in June 2021.

The plan sets out the workforce objectives of the Council until 2023, and builds upon the Building Ambition (2018-21) plan, and adjusts the Council approach in its own response to the way that Covid-19 has impacted the way the Council works towards delivery of services.

The workforce plan holds three guiding themes, Building in Agility, Evolving Our Talent, and Refreshing Our Employment Offer.

Building in Agility sets out to how the Council best manages its resources to areas with the greatest need when required, which includes ongoing flexibility to work from home if possible, and considering the positive mental wellbeing impacts that officers are reporting. Key priorities include digital skill development, reduced reliance on temporary contracts and development of a Remote Working Framework which will support Scotland's Net Zero ambitions.

Evolving Our Talent continues to focus on the training and developing of skills, values, experience and aspirations of the Council's workforce. The Council's key priorities are to develop a pipeline of future talent, and create clear career paths for ongoing development and progression. In conjunction with the Council's drive for equalities, there is a focus on increasing the number of employees aged 16-24 to plan for a future workforce and enable longer term succession planning.

Finally, Refreshing Our Employment Offer seeks to promote the Council as an employer of choice, which aims to encourage a strong candidate pool that will allow managers to hire skilled and values-aligned officers.

The Council has responded quickly to the changing employment market, and its strategy gives a clear set of objectives and measures for success. Progress will be reported to committee over the following two years.

Use of reserves

The Council continued to invest its reserves in the future of the organisation during 2020-21, including £4.3 million in respect of the earmarked Workforce Management (including transformation programme) and £25.8 million held for supporting recovery from the pandemic. The Council increased the total of the General Fund reserve by £23.2 million in delivering the 2020-21 financial outturn, a position largely supported by the additional Covid-19 funding.

As at 31 March 2021, the Council had uncommitted general fund reserves of £8.2 million which equates to 2.2% of actual Net Cost of Services (3.6% as at 31 March 2020). This reduction was planned and approved by the Council as part of finance updates to the Council. These reserves are to support the delivery of services in the case of unexpected issues, and a reserves strategy is in place which targets a minimum uncommitted general fund reserve of at least 2% which continues to be maintained.

We consider that this level of reserves is reasonable for a Council of the size of Perth and Kinross Council. The total held is in line with the Reserves Strategy approved in March 2021, which targets an uncommitted reserves balance between 2% and 4%. However the risk for the Council is the non-delivery of savings which would impact on these reserves.

| General Fund Reserves                               | 31 March 20<br>£000 | Increase<br>/(utilisation)<br>£000 | 31 March 21<br>£000 |
|-----------------------------------------------------|---------------------|------------------------------------|---------------------|
| Workforce Management (inc transformation programme) | 5,322               | (1,047)                            | 4,275               |
| Covid-19 Reserve                                    | 0                   | 25,727                             | 25,727              |
| Other Earmarked Reserves                            | 31,053              | 3,228                              | 34,281              |
| Uncommitted General Fund Reserve                    | 12,921              | (4,721)                            | 8,200               |
| <b>Total General Fund Reserves</b>                  | <b>49,296</b>       | <b>23,187</b>                      | <b>72,483</b>       |

# Financial sustainability (continued)

DRAFT

## Cash and Short Term Investments

| Liquidity                 | 31 March 2020<br>£000 | 31 March 2021<br>£000 | Movement<br>£000 |
|---------------------------|-----------------------|-----------------------|------------------|
| Cash and cash equivalents | 67,611                | 27,221                | -40,390          |
| Short term investments    | 139,395               | 161,577               | 22,182           |
| Short term borrowing      | -28,786               | -67,746               | -38,960          |
| <b>Current liquidity</b>  | <b>178,220</b>        | <b>121,052</b>        | <b>-57,168</b>   |

As at 31 March 2021 cash and short term investments increased by £22.2 million as a result of significant increases in borrowing that were unutilised at 31 March 2021. The rate of return from these investments is more favourable than the rate of return from the Council's banking facilities.

Many of these investments are held with local authorities across the UK, and the Council has assessed the credit risk associated with these entities as low.

## Borrowing

Total borrowing as at 31 March 2021 was £26.4 million greater than as at 31 March 2020, with overall borrowing being £590.3 million. The increase in borrowing is primarily funding investment in capital. The Council continued to take advantage of exceptional low rates to secure funding for the Capital Plan.

## Other focus area: EU withdrawal

As part of the 2018-19 audit, Audit Scotland mandated the consideration of EU withdrawal on the operations of the audited entity. We continued to consider this issue as part of our 2020-21 audit work.

The Council continues to manage ongoing risks in respect of EU withdrawal as any temporary agreements between the UK Government and the EU develop or expire. In order to assess ongoing progress, Internal Audit carried out a review in order to update its previous report in January 2020.

Internal Audit reported that the Council had strong controls in respect of managing recruitment risks, mitigating financial pressures such as withdrawal of EU grants, and a continued strong process for identifying new and emerging risks through the EU Exit Group which is able to co-ordinate and work with partners to continuously assess risk to the Council.

We consider that Council controls remain strong in its ongoing assessment of EU withdrawal impact on services, financial resilience and its workforce.



# Governance and transparency

DRAFT

**Governance and transparency is concerned with the effectiveness of scrutiny and governance arrangements, leadership and decision-making, and transparent reporting of financial performance.**

## Governance

The BVAR highlighted several findings regarding the governance arrangements within the Council.

The council operates with a total of 20 sub-committees, ten of which administer common good funds. In addition to the scrutiny committee, the key committees include the strategic policy and resources committee, the lifelong learning committee, the environment and infrastructure committee, the housing and communities committee and the audit committee.

The Scheme of Administration and Standing Orders were both updated during 2021 to reflect the modern ways of working in line with the Council's ongoing review of governance arrangements.

## Governance arrangements during Covid-19

As a result of the Covid-19 pandemic, the council adopted a command structure that would support rapid decision making where scenarios and demands were changing regularly. The council approved the use of Emergency Powers on 20 May 2020.

Decisions made by the Chief Executive, Depute Chief Executive or any Executive Director that would normally require approval would be reported to Council or relevant committee as soon as possible for subsequent ratification and challenge. These emergency powers were given an initial expiry date of 30 September 2020, and management reported to us that the emergency powers expired on 16 August 2020, and the Council returned to normal democratic operating processes.

In order to maintain an element of status quo, weekly sounding boards were introduced at a wide variety of levels across the council which allowed member input into decisions. These sounding boards included finance updates in order to maintain sufficient financial governance by the members. Management provided two Covid-19 financial implications reports to members in June 2020 (on the 1<sup>st</sup> and on the 24<sup>th</sup>),

discussing key topics such as income at risk, and partnership working. We consider this level of reporting and engagement with elected members to be sufficient and appropriate.

In January and March 2021, management proposed temporary changes to the governance arrangements to deal with social restrictions, and ensure that officer resource was being effectively utilised. This changed the committee timetable and again suspended committee meetings except those quasi-judicial committees. In order to maintain elected member governance, an Urgent Business Committee was introduced comprising 13 members from across the political spectrum.

At the March 2021 council meeting, it was agreed that these arrangements would cease, and the previously agreed timetables would resume from 19 April, and the Urgent Business Committee was no longer required. There was also an agreement for the re-introduction of Member Officer Working Groups. These are used to engage elected members in shaping strategies, policies and governance arrangements ahead of finalising reports for consideration by the relevant committee or sub-committee.

In addition, it was agreed that virtual meetings would continue. This is due to ongoing storm damage repairs at the Council offices in Perth which were originally expected to be finalised by June 2021. We understand that work remains ongoing, and that a return for members in-person meetings would be discussed on an ongoing basis through the Member Officer Working Groups.

## Prudential Code

The key objectives of the Prudential Code are to ensure that the Council's capital programme is affordable, prudent and sustainable, and that treasury management decisions are taken in line with good professional practice. The Council has to set its prudential indicators on an annual basis to provide a framework that its capital programme must operate within. At 31 March 2021, the Council reported it remained compliant with its prudential indicators.



# Governance and transparency (continued)

## Best Value focus area: Equalities

As part of our appointment, we carry out best value audit work over key areas that are considered areas of focus by the Accounts Commission. In year five, we planned to and have carried out an assessment of the Council's approach and understanding of inequalities. Each local authority faces its own unique circumstances in respect of inequalities, but also those challenges that are faced consistently across Scotland.

### Equal pay

An ongoing national issue relating to inequalities involves historical equal pay. The Council have to date had a relatively low level of grievance raised against them compared with other local authorities and grievances have typically been investigated and settled quickly. At the time of this report there were no ongoing cases of equal pay action against the council. In order to mitigate future instances the council undertakes an annual equal pay internal audit which shows for 2019–20 there continued to be an effective environment of controls mitigating the risk of inequality between staff pay. This audit found that the Gender Pay Gap was in favour of females by 0.7% across all staff, though when restricted to single status employees (those not teachers, craft workers or chief officers) reduced from 12.1% in 2018-19, to 11.3% in favour of males in 2019-20. Comparing the 2019 overall performance across Scotland indicates that the Council are performing well.

The Council also has an Equal Pay Policy statement, updated in January 2021 which considers potential impact on its wide workforce, and how it manages the equal pay risk. This includes an 'Equality and Fairness Impact Assessment', which is completed for each and every paper appearing in front of the council or one of its standing committees. Furthermore, the Council appointed the Corporate HR Manager to be the responsible officer for equality in employment which reflects the Council's approach to demonstrate its commitment to, and implementation of fairness between staff.

### Stakeholder inequalities

The Council is not only responsible for reducing inequalities in its own workforce, but also that of its service users, residents and other stakeholders.

The Perth & Kinross Offer is being developed to enable all those within the region to input and work with the Council to deliver services and support the economy. The Offer includes the five E's which were identified to bring the offer to life and

specifically includes equalities. Council listened to stakeholder feedback and recognise equalities as an area of focus, whether that be ethnicity, disability or gender.

As part of the councils response to equality it continues to have conversations with local communities which as at April 2021 include some key community driven actions. In addition the council is required to produce its local outcomes improvement plan and this uses local challenges and intelligence to identify key inequalities. These are predominantly identified as poverty, mental and physical well-being, skills, learning and development, employment and digital participation.

There is also an equality strategic forum which allows for budget consideration. Equality learning is also required for all new staff which sets the tone for employee behaviour. Staff are also required to refresh their knowledge on a regular basis. Council officers have access to equalities learning material and external guests are occasionally invited to present and discuss equality topics directly to council staff to ensure a wide range of topics and views are given.

### Rurality

As part of the regional Community Plan, developed in 2017 by the Perth and Kinross Community Planning Partnership, the "uncovering" of rural poverty, and social isolation resulted in this key inequality being an area of focus. The Plan highlights many areas where rurality could result in an inequality arising, whether that be access to services, education, digital connectivity and social activities.

The Community Plan sets out milestones for the region, to be delivered by key partners by 2027/28. Whilst the challenges of Covid-19 have reduced the pace at which progress has been made, there remains an ongoing focus to achieve these targets.

The 2019-20 Equalities Performance Report highlighted one of the equalities outcomes, which is to ensure that *the Council will ensure its services are accessible to all individuals and community groups*. Progress includes greater transparency of committee meetings (recordings now available online), continued use of the Pupil Equity Fund (£1.7 million) and development of a Child Poverty Action Plan.

We consider that the Council's approach to tackling inequalities is robust, and continues to reduce the inequalities across the region.



# Governance and transparency (continued)

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## Annual Governance Statement

The Annual Governance Statement within the Council's annual accounts sets out the Council's conclusion on the effectiveness of governance and the basis for that conclusion. It describes the sources of assurance to support the Council's compliance with the seven principles of the CIPFA/SOLACE framework *Delivering Good Governance in Local Government*, and the requirements of Finance Circular 10/2020. The Annual Governance Statement includes areas where there is future development in governance and where governance issues have been identified. It concludes that the Council's governance arrangements operate effectively.

We consider that the Annual Governance Statement shows an appropriate and accurate reflection of the governance arrangements at the Council.

## Risk management

In line with the revised Risk Management Strategy, a draft Strategic Risk Register was presented to the Audit committee on 30 June 2021.

The risk register summarises at a higher level than in previous iterations, presenting the overarching risks faced by the Council as a whole, and management's assessment of the likelihood and potential impact should the risk materialise.

The current key strategic risks are reported as:

- Protection of Vulnerable Children & Adults
- Climate Change
- Economic Wellbeing
- Poverty & Equalities
- Public Service Design & Delivery
- Information Security
- Security & Emergency Planning/Civil Contingencies
- Financial Resilience
- Workforce
- Asset Management
- Health & Safety

The risk register then clearly assigns all risks a priority rating from one through five, and summarises impact, key controls and key management actions. In our view, this allows those charged with governance a concise overview of risks and mitigations and allows for greater challenge.

## National Fraud Initiative ("NFI")

The NFI in Scotland brings together data from local government, health boards and other public sector bodies. Matching data obtained from the systems of participating bodies allows the identification of potentially fraudulent claims on the public purse including housing benefit fraud, occupational pension fraud and payroll fraud. Audit Scotland have provided instructions to councils to commence work for the 2020-21 financial year.

The Council continue to work through matches, and except for Covid-19 related grants, an internal deadline has been set to ensure matches are investigated on a timely basis. Work on Covid-19 related grants remains ongoing and is also expected to be substantially complete before the end of the year.

## Standards of conduct for prevention and detection of fraud and error

The Council has a range of procedures for preventing and detecting fraud and irregularity including: a whistleblowing policy; fraud, bribery and bribery policy; and codes of conduct for members and officers. We assessed these to confirm that they were appropriate, readily available to staff and are regularly reviewed to ensure they remain relevant and current.

We consider that the Council has appropriate arrangements for the prevention and detection of bribery and corruption.

# Governance and transparency (continued)

DRAFT

## Internal audit

We considered the activities of internal audit against the requirements of Public Sector Internal Audit Standards ("PSIAS"), focusing our review on the public sector requirements of the attribute and performance standards contained within PSIAS.

We reviewed internal audit reports and conclusions, and consider that they do not indicate additional risks and there was no impact on our audit approach. Internal audit's annual report confirmed, "In the Chief Internal Auditor's opinion, reasonable reliance can be placed on the Council's risk management and governance arrangements, and systems of internal control for 2020/21, subject to management implementation of the agreed actions detailed in Internal Audit reports."

Internal audit completed or substantially completed nine of the 13 planned audits per the 2020-21 Internal Audit Plan, and those that remain ongoing are extended into the 2021-22 Internal Audit Plan. In addition, Internal Audit continued to provide advice, support and assurance over the implementation of revised arrangements in connection with the new ways of working implemented as a result of the COVID-19 pandemic. This represents the drive to use internal audit to improve and support service delivery.

Internal audit recommendations are considered by officers in each service and the actions reviewed by Internal Audit prior to closure. As detailed in the Internal Audit Report 2020-21, 20 actions were identified as a result of the work undertaken. The Chief Internal Auditor highlighted that there were seven high risk actions to implement, compared to 22 in 2019-20. This is partially reflective of the redeployment of Internal Audit officers to focus on critical services.

### ***Our view – governance and transparency***

We consider that the Council operates in an appropriately transparent manner.

The Council has good governance arrangements, with sufficient scrutiny offered from Council members through the Scrutiny Committee, and from an internal audit service that is sufficiently independent from finance and service delivery.



# Wider scope and Best Value

## Value for money

DRAFT

**Value for money (“VfM”) is concerned with using resources effectively and continually improving services.**

The Perth & Kinross Offer (“the Offer”) aims to change how services are designed and delivered, and aims to further improvement in respect of areas such as equality, economy and environment.

Since our previous report on the Offer, progress has continued despite the ongoing pressures and challenges of the pandemic. In October 2020, the Council received a full update from officers, which linked with the Renewal and Recovery strategy. The update summarised progress on the first phase, which focused on discovering the impact of the pandemic through impact assessments, service recovery and a number of stakeholder engagement activities. While officers have continued to progress the Offer, including working with members and third parties, there has been no formal committee or publicly accessible reporting since October 2020.

### **Recommendation two**

The second phase is developing the vision of the Offer, through workshops, events and innovation opportunities for staff, elected members and stakeholders. The output of this phase intends to agree a set of key assumptions for the Offer, and inform an overall delivery plan. The third phase will be delivery of the offer, ensuring elected member involvement to scrutinise, challenging and support delivery in the longer term.

As part of the ongoing development, 13 ward meetings were held across the Perth and Kinross region with community representatives and elected members with the intention of facilitating open conversation. The council received generally positive feedback through these engagements, including support for the concept of the Offer, and a willingness for participants to be directly involved. One key concern raised through these meetings was the limited awareness of the Offer, and concern amongst representatives about the capacity of the Council to implement in the community. In response, the Council is undertaking a “You said, We did/Are doing” document for each ward meeting which will allow representatives involved to hold the Council to account.

Throughout the summer of 2021, the Officers presented draft versions of the Offer Blueprint to the Executive Officer Team of the Council, comprising senior officers within the Council, and sought progress on implementing and resourcing distinct projects related to the offer.

One of the key objectives at the commencement of the Offer was to work in partnership with other entities within the region, and in order to demonstrate its commitment to this principal, the Council are holding a series of updates and workshops with key partners and groups. Two meetings have been held thus far, involving the Community Planning Partnership, with internally focused meetings following throughout September 2021. We consider that the Offer is intended to move towards co-design of service delivery with a broad range of stakeholders and that there is scope for greater involvement of those stakeholders in the ongoing design of the Offer and its implementation. Such involvement should be planned, considered and reported to those charged with governance.

### **Recommendation two**

Updates continue to be provided to Member Officer Working Groups, most recently in August 2021.

#### **Financial impact, and value for money assessment**

As part of each report being presented to council or sub-committees the Equality and Fairness Impact Assessment also makes a clear and transparent financial impact, which allows for more informed decision making from elected members.

Performance Reporting

The Council produces an annual performance report ("APR") which summarises its own key performance indicators. This is submitted to the full council, and is also available through the 'PK Performs' dashboard within the council's website. In 2020-21, the Council recognised that some indicators would not compare on a fair basis against prior year figures due to the inherent impact of the pandemic on a wide range of council activities. As a result of this recognition, the Council opted to remove the trend analysis which indicates a deterioration, or improvement of indicators. Examples of skewed comparators include Council use of energy which reduced significantly because Council offices closed for periods of time during the pandemic, and not from any specific Council action. In our view, the decision to remove the trend analysis is appropriate for this year, and reflects the Council's transparency on performance.

The APR does include comparators where it is fair to do so. Overall, the Council report performance on key performance indicators is favourable against similarly sized councils. Key highlights from the performance report include maintained face to face contact with vulnerable stakeholders throughout the pandemic, achievement of 100% accessibility of eligible children to the full childcare allowances, significant shifting to digital learning approaches to support ongoing educational development, the redeployment of council officers to support Scottish Government grants to eligible businesses, supporting and facilitating 1000 resident volunteers to support vulnerable residents, and responding to tourism pressures during periods where travel outside the region was restricted through the Rural Tourism Infrastructure Fund.

The APR will be considered by the Scrutiny Committee in September 2021, before being presented to the full Council in October 2021 to allow for appropriate challenge and scrutiny by those charged with governance.

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*Our view – value for money*

We consider that the Council has processes to consider performance, and assess the financial impact of decisions made.

The Offer continues to progress positively, though as suggested in the Council's most recent Best Value Assurance Report, will need to keep up with the pace expected of a project of this importance and size.

















# Appendices



## Appendix one

# Required communications with the Audit Committee

| Type                                                                              | Response                                                                                                                                                                                                                                                                                                                                        | Type                                                                       | Response                                                                                                                                                                                                                                                                                              | DRAFT |
|-----------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------|
| Our draft management representation letter                                        | <br>We have not requested any specific representations in addition to those areas normally covered by our standard representation letter for the year ended 31 March 2021.                                                                                   | Significant difficulties                                                   | <br>No significant difficulties were encountered during the audit.                                                                                                                                                   |       |
| Adjusted audit differences                                                        | <br>There were two adjusted audit differences identified.                                                                                                                                                                                                    | Modifications to auditor's report                                          | <br>None.                                                                                                                                                                                                            |       |
| Unadjusted audit differences                                                      | <br>There was one unadjusted audit difference identified.                                                                                                                                                                                                    | Disagreements with management or scope limitations                         | <br>The engagement team had no disagreements with management and no scope limitations were imposed by management during the audit.                                                                                   |       |
| Related parties                                                                   | <br>There were no significant matters that arose during the audit in connection with the entity's related parties.                                                                                                                                           | Other information                                                          | <br>No material inconsistencies were identified related to other information in the annual accounts.<br>The Management Commentary is fair, balanced and comprehensive, and complies with the law.                    |       |
| Other matters warranting attention by the Audit, Risk and Scrutiny Committee      | <br>There were no matters to report arising from the audit that, in our professional judgment, are significant to the oversight of the financial reporting process.                                                                                          | Breaches of independence                                                   | <br>No matters to report. The engagement team and others in the firm, as appropriate, the firm and, when applicable, KPMG member firms have complied with relevant ethical requirements regarding independence.      |       |
| Control deficiencies                                                              | <br>We communicated to management in writing all deficiencies in internal control over financial reporting of a lesser magnitude than significant deficiencies identified during the audit that had not previously been communicated in writing.             | Accounting practices                                                       | <br>Over the course of our audit, we have evaluated the appropriateness of the Group's accounting policies, accounting estimates and financial statement disclosures. In general, we believe these are appropriate. |       |
| Actual or suspected fraud, noncompliance with laws or regulations or illegal acts | <br>No actual or suspected fraud involving Group or Component management, employees with significant roles in Group-wide internal control, or where fraud results in a material misstatement in the financial statements were identified during the audit. | Significant matters discussed or subject to correspondence with management | <br>The key audit matters (summarised on pages seven to 11) arising from the audit were discussed, or subject to correspondence, with management.                                                                  |       |

# Appendix two

## Auditor independence

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### Assessment of our objectivity and independence as auditor of Perth and Kinross Council and its Charitable Trusts ("the Council")

Professional ethical standards require us to provide to you at the conclusion of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

This letter is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses:

- General procedures to safeguard independence and objectivity;
- Independence and objectivity considerations relating to the provision of non-audit services; and
- Independence and objectivity considerations relating to other matters.

#### General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners and staff annually confirm their compliance with our ethics and independence policies and procedures including in particular that they have no prohibited shareholdings. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through:

- Instilling professional values
- Communications
- Internal accountability
- Risk management
- Independent reviews.

We are satisfied that our general procedures support our independence and objectivity.

### Independence and objectivity considerations relating to the provision of non-audit services

#### Summary of fees

We have considered the fees charged by us to the Council and its affiliates for professional services provided by us during the reporting period. We have detailed the fees charged by us to the Council and its related entities for significant professional services provided by us during the reporting period below. Total fees charged by us for the period ended 31 March 2021 can be analysed as follows:

|                                         | Current Year<br>£000 (inc VAT) | Prior Year<br>£000s (inc VAT) |
|-----------------------------------------|--------------------------------|-------------------------------|
| <b>Audit of Council</b>                 | 175                            | 163                           |
| <b>Audit of Charitable Trusts</b>       | 8                              | 4                             |
| <b>Total Audit</b>                      | 183                            | 167                           |
| <b>Audit related Assurance Services</b> | 8                              | -                             |
| <b>Total Fees</b>                       | 191                            | 167                           |



## Appendix two

# Auditor independence (continued)

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The ratio of non-audit fees to audit fees for the year was 0:1. We do not consider that the total non-audit fees create a self-interest threat since the absolute level of fees is not significant to our firm as a whole.

### *Subsidiaries*

We are appointed by the Accounts Commission via Audit Scotland as external auditor of Perth and Kinross Council Charitable Trusts; the Tayside and Central Scotland Transport Partnership and Perth and Kinross Integration Joint Board.

### **Independence and objectivity considerations relating to other matters**

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to the Audit Committee.

### **Confirmation of audit independence**

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

Yours faithfully

**KPMG LLP**



# Audit differences - adjusted

The table below lists the adjusted audit differences identified during the course of our 2020-21 audit procedures.

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| Nature of adjustment                                                                                                                                                                                                                                                                                                                                                                                                                                                                                   | Balance sheet |          | Income and expenditure account |          |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|----------|--------------------------------|----------|
|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | £'000 DR      | £'000 CR | £'000 DR                       | £'000 CR |
| <b>1. Omission of income and expenditure</b><br>Dr Net Cost of Services<br>Cr Net Cost of Services<br><br>Being an adjustment to include expenditure and income on the transfer of services from Communities to Corporate and Democratic Services. This has no impact on the overall net cost of services or the Council's general fund.                                                                                                                                                               |               |          | 286                            | 286      |
| <b>2. Change in LASAAC guidance after preparation of draft annual accounts</b><br>Dr Net Cost of Services<br>Cr Taxation and Non-Specific Grant Income<br><br>Being an adjustment to reflect changes to LASAAC guidance in respect of Covid-19 related grants which was issued after the commencement of the audit. KPMG do not view this as an error by management, and is a presentational misstatement only. This has no impact on the overall provision of services or the Council's general fund. |               |          | 448                            | 448      |



# Audit differences - unadjusted

The table below lists the unadjusted audit differences identified during the course of our 2020-21 audit procedures.

DRAFT

| Nature of adjustment                                                                                                                                                                                                                                                             | Balance sheet |          | Income and expenditure account |          |
|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------|----------|--------------------------------|----------|
|                                                                                                                                                                                                                                                                                  | £'000 DR      | £'000 CR | £'000 DR                       | £'000 CR |
| <b>1. Error in valuation certificate</b><br>Dr Property, plant and equipment<br>Cr Revaluation reserve                                                                                                                                                                           | 378           | 378      |                                |          |
| One error was identified in our testing of inputs into the valuation reports. This effectively omitted a zero from the external works valuation figure, resulting in an understatement in valuation. This adjustment would not impact on the resources available to the Council. |               |          |                                |          |

# Appendix five Action Plan

The action plan summaries specific recommendations arising from our work, together with related risks and management's responses.

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| Priority rating for recommendations                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                     |                                                                                                                                                                                                                                                                                                                                                       |                                                                                                                                                                                                                                                                                                                                                                                                               |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Grade one (significant) observations are those relating to business issues, high level or other important internal controls. These are significant matters relating to factors critical to the success of the Council or systems under consideration. The weaknesses may therefore give rise to loss or error.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          | Grade two (material) observations are those on less important control systems, one-off items subsequently corrected, improvements to the efficiency and effectiveness of controls and items which may be significant in the future. The weakness is not necessarily great, but the risk of error would be significantly reduced if it were rectified. | Grade three (minor) observations are those recommendations to improve the efficiency and effectiveness of controls and recommendations which would assist us as auditors. The weakness does not appear to affect the availability of the control to meet their objectives in any significant way. These are less significant observations than grades one or two, but we still consider they merit attention. |
| Finding and risk                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | Recommendation                                                                                                                                                                                                                                                                                                                                        | Management proposed actions                                                                                                                                                                                                                                                                                                                                                                                   |
| <b>1. Valuation of heritage assets (Grade three)</b><br><br>The accounting framework prescribes requirements in respect of the valuation and recognition of heritage assets.<br><br>Whilst we ultimately agreed with management's assessment over heritage assets, there is room for improvement in the process of considering the value, frequency and recognition of potential assets.                                                                                                                                                                                                                                                                                                                                                                                                                                                | We recommend that the Council ensures that recognition and valuation of heritage assets is set out in a clear and concise manner, explaining the key decisions and judgements made in forming a conclusion.                                                                                                                                           | Response: Agreed - the Council will liaise with CPK curators and prepare a document which summarises the process including new and relevant information obtained during 2021/22 and our conclusions.<br><br>Responsible Officer: Chief Accountant<br><br>When: 30 June 2022                                                                                                                                   |
| <b>2. Oversight, governance and collaboration on the Perth &amp; Kinross Offer (grade three)</b><br><br>While officers have continued to progress the offer, including working with members and third parties, there has been no formal committee or publicly accessible reporting since October 2020. This reduces the ability of stakeholders to understand and support development of the Offer, as noted in specific feedback obtained from resident representatives.<br><br>We consider that the Offer is intended to move towards co-design of service delivery with a broad range of stakeholders and that there is scope for greater involvement of those stakeholders in the ongoing design of the Offer and its implementation. Through discussion with management, we were unable to obtain sufficient evidence of co-design | We recommend that Officers agree with elected members an appropriate and agreed timetable for transparent scrutiny of progress on the Offer.<br><br>We recommend that stakeholder involvement should be planned, considered and reported to those charged with governance.                                                                            | Response: Agreed, it is anticipated that the Offer Framework will be considered by Full Council on 15 November 2021 and the Offer Communications & Engagement Plan will be considered by Council in December 2021. Going forward, it is anticipated that progress reports will be considered by Council bi-annually<br><br>Responsible Officer: Head of Innovation<br><br>When: ongoing                       |



# Prior Year Recommendations

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This section provides an update on prior year external audit recommendations, to determine whether they have been addressed. The table below summarises the recommendations made during the 2019-20 audit, and highlights our final conclusion on those recommendations not yet due when we reported in May 2021.

| Original finding and risk                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                                                                               | Recommendation                                                                                                                                                                                                                                                                                                                                               | Original actions                                                                                                                                                                                                                                                                                                                                                                                                       | Status |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------|
| 1. Review of transformation plan goals (Grade three)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                              |                                                                                                                                                                                                                                                                                                                                                                                                                        |        |
| The Council's transformation plan ended during 2020, with as yet no formal review and reporting of the success or development points from the plan.                                                                                                                                                                                                                                                                                                                                                                                                                                | We encourage management to consider whether the transformation plan achieved the goals as intended, and whether there are any lessons to be learned from during the next transformation plan. | Response: Internal Audit are finalising a review of the 2015-20 Transformation Programme. This review has highlighted some lessons to be learned for future programmes and will inform any future actions. This report will be considered by the Audit Committee in December 2020.<br><br>Responsible Officer: Head of Innovation<br><br>When: 31 March 2021 | <b>implemented</b><br><br>The Chief Internal Auditor plans to report in September 2021 the current findings of the work. It is noted that the programme no longer exists, and that the report is outdated due to delays arising as a result of Covid-19. The planned report includes discussion of political oversight and elected member scrutiny. There is also a recognition of key lessons learned going forwards. |        |
| 2. Fraud and corruption in procurement (Grade three)                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                                               |                                                                                                                                                                                                                                                                                                                                                              |                                                                                                                                                                                                                                                                                                                                                                                                                        |        |
| As part of its planning guidance for 2019-20, Audit Scotland have highlighted the requirement for external audit scrutiny over the processes and procedures in place to prevent and detect fraud and corruption in procurement.<br><br>In the guidance, there is an expectation that entities consider the risk at a corporate level, such that there is sufficient oversight and scrutiny from members and senior management. We could not identify the risk on the risk register, though accepted that the procurement function have reasonable controls and processes in place. | Management should consider whether the risk of fraud and corruption in procurement be included on the corporate risk register to allow oversight and scrutiny by members.                     | Response: This will be raised with the Executive Officer Team by the Head of Finance for consideration.<br><br>Responsible Officer: Head of Finance<br><br>When: 31 December 2020                                                                                                                                                                            | <b>Ongoing</b><br><br><b>There was no mention of fraud on the Strategic Risk Register as at 24 June 2021.</b>                                                                                                                                                                                                                                                                                                          |        |

# Prior Year Recommendations (continued)

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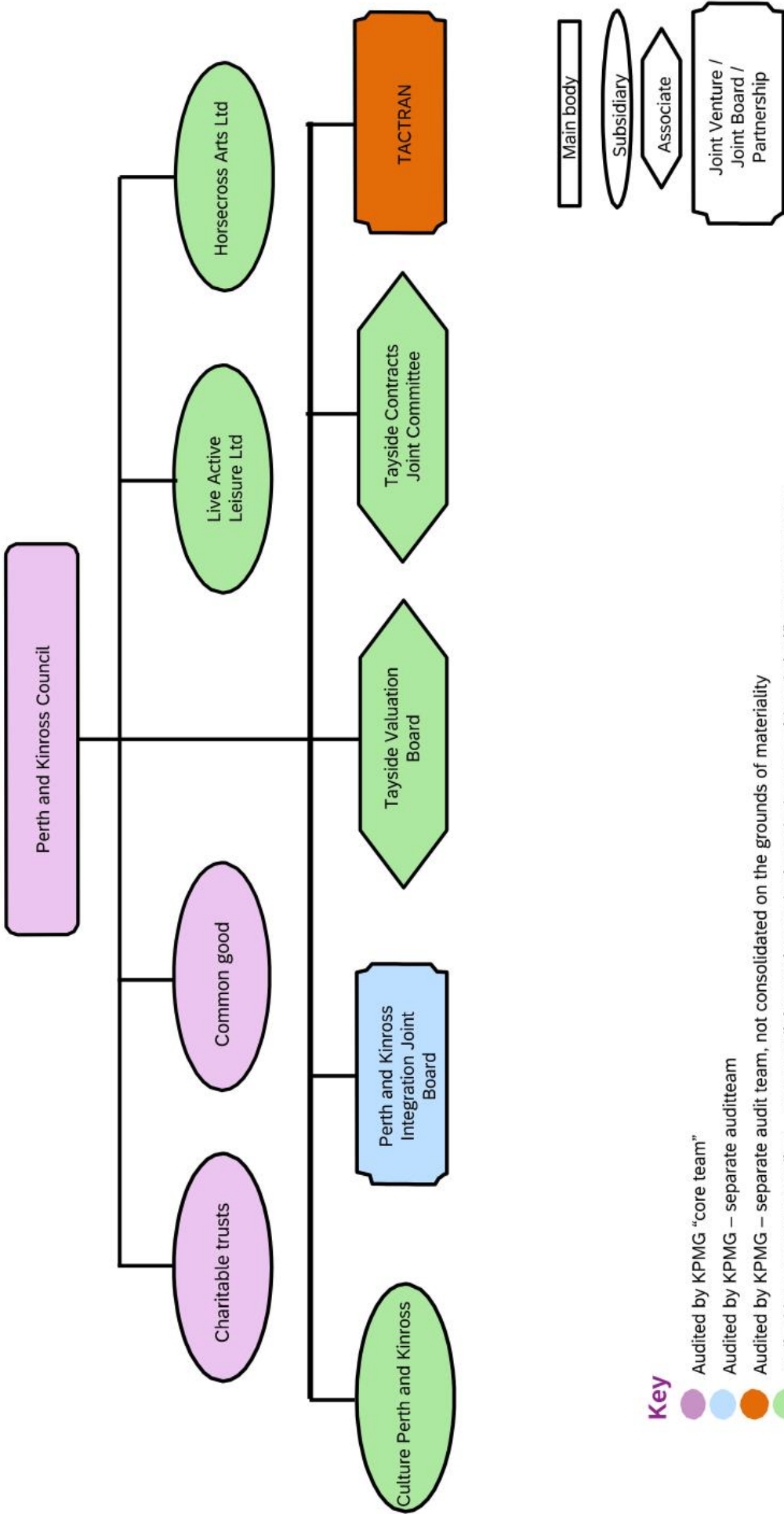
| Original finding and risk                                                                                                                                                                                                                                                                                     | Recommendation                                                                                                                     | Original actions                                                                                                                                                                                                                               | Status                                                                                                                  |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------|
| 3. Transparency of consultations (Grade three)                                                                                                                                                                                                                                                                |                                                                                                                                    |                                                                                                                                                                                                                                                |                                                                                                                         |
| We highlighted the positive developments the Council has made in respect of stakeholder and community consultations, and identifying a number of consultations where responses have been considered and reported upon.                                                                                        | Management should articulate explicitly how the consultation has been passed to members as part of their budgetary discussions.    | Response: Agreed<br>Responsible Officer: Chief Accountant<br>When: 31 March 2021                                                                                                                                                               | Implemented                                                                                                             |
| We identified that significant consultations should have a clear and transparent response to input made by communities and stakeholders. In particular, it was not fully clear how the consultation to the 2020-21 budget influenced the budget approved in March 2020.                                       |                                                                                                                                    |                                                                                                                                                                                                                                                |                                                                                                                         |
| 4. Financial statements preparation (Grade three)                                                                                                                                                                                                                                                             |                                                                                                                                    |                                                                                                                                                                                                                                                |                                                                                                                         |
| While the Council has a robust process, as highlighted in the BVAR, it “has a higher number of traditional, manual components than other local authorities”. The Council has expanded the number of individuals involved in the financial statement production process to reduce reliance on key individuals. | It is recommended that management continue to work with external audit to consider whether there are opportunities for efficiency. | Management response: The Council will build on the existing work with KPMG to identify areas to streamline the preparation of the financial statements.<br><br>Implementation date: 31 March 2020<br><br>Responsible officer: Chief Accountant | Implemented<br><br>As a result of Covid-19, the Council has continued to adapt preparation of the financial statements. |



# Perth and Kinross Council group structure

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The below diagram sets out our scoping of group entities in relation to the group financial statements, and related group audit instructions.



## Grant claims and WGA return

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We set out below the “other reporting” responsibilities of our audit appointment. We will update the audit committee at the September meeting should there be any exceptions arising from the testing.

| RETURN                                         | DESCRIPTION                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | STATUS                                                                                                                                                                         |
|------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Whole Government Accounts (“WGA”)</b>       | WGA is the consolidated financial statements for all components of government in the UK. Most public bodies are required to provide information for the preparation of WGA. External auditors are required to review and provide assurance on WGA returns over a prescribed threshold.                                                                                                                                                                                                                                                                                                                                                                                                | There has been a change in process for the WGA for 2020-21, although no finalised guidance is available at this time. We expect to complete our work in line with legislation. |
| <b>Non Domestic Rates (“NDR”)</b>              | NDR in Scotland is collected by local authorities on an agency basis and notionally placed in a national ‘pool’, which is then redistributed among authorities based on each authority’s estimated collection levels.<br><br>In April each year, authorities submit an estimate of their expected NDR following the year end, authorities are required to submit their actual NDR yield, known as ‘the notified amount’ in a final return to the Scottish Government.                                                                                                                                                                                                                 | We did not identify any exceptions in our testing and issued an unqualified opinion on the NDR return.                                                                         |
| <b>Housing Benefits (“HB”)</b>                 | The HB subsidy scheme is the means by which local authorities claim subsidy from the Department for Work and Pensions (“DWP”) towards the cost of paying HB in their local areas.<br><br>Claimants benefits either by direct application to the authority or by applying simultaneously for income support/jobseekers allowance and HB to the DWP. Eligibility for, and the amount of, HB is determined in all cases solely by the local authority.<br><br>Monthly instalments of subsidy are made by the DWP on the basis of authorities’ estimates in March and August. Final subsidy claims are made on claim form MPF720B which requires to be certified by the external auditor. | Our testing is ongoing and we expect to issue an opinion on the HB return in advance of the 30 November deadline.                                                              |
| <b>Education Maintenance Allowance (“EMA”)</b> | EMA is a means tested weekly allowance payable to young people from low income families to encourage them to remain in education beyond the compulsory school leaving age. Local authorities manage the delivery of the EMA programme in respect of schools, home education, and all other learning other than college provision.<br><br>EMA payments comprise a weekly allowance of £30 and are made by local authorities to eligible young people. The Scottish Government reimburses the costs incurred by authorities through monthly payments of grant. An allowance for the costs of administering the programme is also paid by the Scottish Government.                       | We did not identify any exceptions in our testing and issued an unqualified opinion on the EMA return.                                                                         |

## Appendix seven

# Appointed auditor's responsibilities

DRAFT

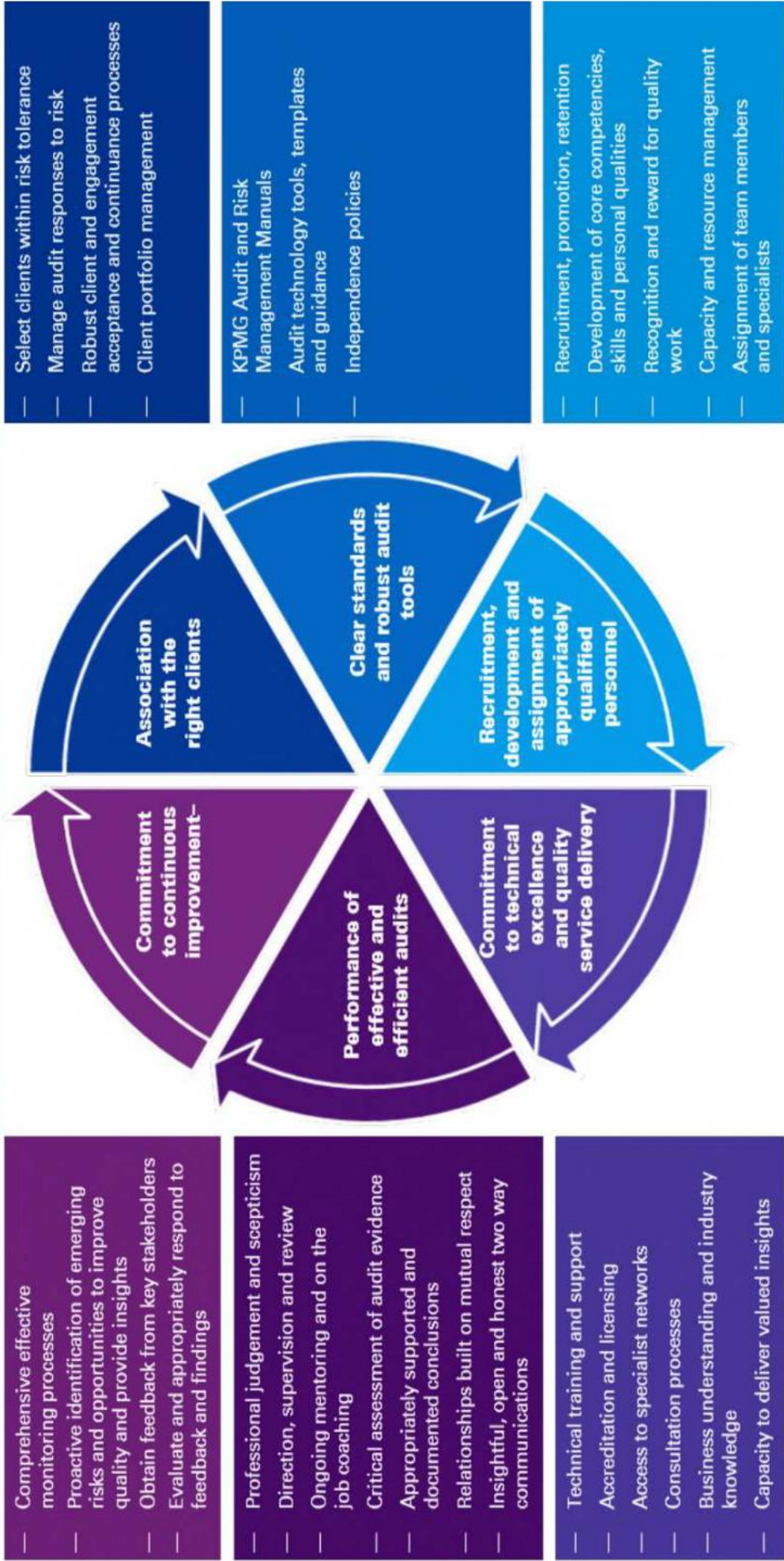
| APPOINTED AUDITOR'S RESPONSIBILITIES            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               | HOW WE HAVE MET OUR RESPONSIBILITIES                                                                                                                                                                                                                                                                                                                                    |
|-------------------------------------------------|-----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Statutory duties</b>                         | Undertake statutory duties, and comply with professional engagement and ethical standards.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                    | Appendix two outlines our approach to independence.                                                                                                                                                                                                                                                                                                                     |
| <b>Financial statements and related reports</b> | Provide an opinion on audited bodies' financial statements and, where appropriate, the regularity of transactions.<br><br>Review and report on, as appropriate, other information such as annual governance statements, management commentaries, remuneration reports, grant claims and whole of government returns.                                                                                                                                                                                                                                                                                                                                                                          | Page eight summarises the opinions we have provided.<br><br>Pages 16 reports on the other information contained in the financial statements, covering the annual governance statement, management commentary and remuneration report.<br><br>Appendix six reports that we have not yet issued opinions in respect of all grant claims and whole of government accounts. |
| <b>Financial statements and related reports</b> | Notify the Auditor General or Controller of Audit when circumstances indicate that a statutory report may be required.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                        | On page 22, we concluded on the effectiveness and appropriateness of arrangements and systems of internal control, including risk management, internal audit, financial, operational and compliance controls.                                                                                                                                                           |
| <b>Corporate governance</b>                     | Participate in arrangements to cooperate and coordinate with other scrutiny bodies.                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                           | Page 28 includes arrangements to cooperate and coordinate with other scrutiny bodies.                                                                                                                                                                                                                                                                                   |
| <b>Wider audit dimensions</b>                   | Demonstrate compliance with the wider public audit scope by reviewing and providing judgements and conclusions on the audited bodies':<br><br><ul style="list-style-type: none"> <li>- Effectiveness of performance management arrangements in driving economy, efficiency and effectiveness in the use of public money and assets;</li> <li>- Suitability and effectiveness of corporate governance arrangements;</li> <li>- Financial position and arrangements for securing financial sustainability;</li> <li>- Effectiveness of arrangements to achieve best value; and</li> <li>- Suitability of arrangements for preparing and publishing statutory performance information</li> </ul> | We set out our conclusions on wider scope and best value in from page 19 onwards.                                                                                                                                                                                                                                                                                       |



# KPMG's Audit quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion.

To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework





## Appendix nine

# Pensions assumptions



| Overall assessment of assumptions for IAS 19 for audit consideration                                                                                          |                     |                                         |                                       |                                    |                                                                                                                                                        |                                                                                                                                |                            |                         |          |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------|---------------------|-----------------------------------------|---------------------------------------|------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------|----------------------------|-------------------------|----------|
| The overall assumptions adopted by the Employer are considered to be balanced relative to our central rates and within our normally acceptable range overall. |                     |                                         |                                       |                                    |                                                                                                                                                        |                                                                                                                                |                            |                         |          |
| Underlying review of individual assumptions                                                                                                                   |                     | Methodology                             | Consistent methodology to prior year? | Compliant methodology with IAS 19? | Employer                                                                                                                                               | KPMG central                                                                                                                   | Assessment vs KPMG central | Significant assumptions |          |
| Discount rate                                                                                                                                                 | CPI inflation       | AA yield curve                          | ✓                                     | ✓                                  | 2.00%                                                                                                                                                  | 1.99%                                                                                                                          | ●                          | ✓                       | Balanced |
|                                                                                                                                                               |                     | Deduction to inflation curve            | No, see pages 11-12                   | ✓                                  | 2.80%                                                                                                                                                  | 2.82%                                                                                                                          | ●                          | ✓                       |          |
|                                                                                                                                                               |                     | Employer best estimate                  | ✓                                     | ✓                                  | CPI plus 1.0%                                                                                                                                          | In line with long-term remuneration policy                                                                                     | ●                          | ✓                       |          |
|                                                                                                                                                               |                     | In line with CPI                        | ✓                                     | ✓                                  | 2.80%                                                                                                                                                  | Employer's CPI assumption                                                                                                      | ●                          |                         |          |
| Mortality                                                                                                                                                     | Base tables         | In line with most recent Fund valuation | See pages 11-12                       | ✓                                  | 110% of the SAPS Series 3 Heavy tables                                                                                                                 | In line with best-estimate Fund experience                                                                                     | ●                          | ✓                       |          |
|                                                                                                                                                               | Future improvements | Latest available CMI model              | See pages 11-12                       | ✓                                  | CMI 2020 projections model, 1.25% long-term trend rate, a default smoothing parameter, a smoothing parameter of 7.5 and a 2020 weight parameter of 25% | CMI 2020 projections model, 1.25% long-term trend rate and default smoothing and Company-specified initial addition parameters | ●                          | ✓                       |          |
| Other demographics                                                                                                                                            |                     | In line with most recent Fund valuation | ✓                                     | ✓                                  | Members exchange half of their commutable pension for cash at retirement                                                                               | In line with Fund experience                                                                                                   | ●                          |                         |          |

We also considered the impact of the following special events: McCloud, GMP equalisation/indexation, recent legal rulings, and unreduced early retirements. See pages 11-12 for further details.

From the work performed in respect of the above special events we have not found reason to suspect management bias.



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# PERTH AND KINROSS COUNCIL

## Audit Committee

20 September 2021

### INTERNAL AUDIT ANNUAL REPORT & CHIEF INTERNAL AUDITOR'S OPINION 2020/21

#### Report by Chief Internal Auditor (Report No. 21/165)

#### PURPOSE OF REPORT

This report presents the year-end report and audit opinion of the Chief Internal Auditor for 2020/21, as set out in Section 4.

#### 1. BACKGROUND / MAIN ISSUES

- 1.1 The Public Sector Internal Audit standards (PSIAS) require the Chief Internal Auditor to provide an annual opinion which must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control. The report must incorporate the opinion, a summary of the work that supports this opinion, a statement on conformance with the PSIAS and the results of the quality assurance and improvement programme. This report fulfils this requirement.
- 1.2 Internal Audit is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. In accordance with the PSIAS, it helps the council accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.
- 1.3 Perth & Kinross Council's internal controls include the full range of policies, procedures and practices intended to ensure the proper conduct of its operations and the achievement of its objectives. They include processes and procedures, organisational structures, job descriptions, authorisation limits, management supervision, risk management processes, reports and decisions.
- 1.4 It is the responsibility of management to devise, implement and maintain appropriate controls over the activities for which they are responsible. The role of Internal Audit is to provide an opinion to the Council as to the effectiveness of the controls that have been put in place by management in order to ensure that the organisation achieves its objectives. Internal Audit is thus a key part of the process by which the Council ensures the management of the risks that threaten the achievement of its objectives.
- 1.5 Internal Audit's work is planned in such a way as to take account of these risks. Prioritising work towards the areas of highest assessed risk enables the Council to identify and remedy the most material weaknesses in its framework of internal controls.

- 1.6 In line with the PSIAS, Internal Audit undertakes a process of planning resulting in an annual plan. This plan was presented partly in themes, with many themes cutting across Services and taking cognisance of the arrangements in place for the delivery of critical services during the COVID-19 pandemic. This approach targeted the key risks identified as part of the Council's Risk Management processes. In this respect, the Internal Audit Plan for 2020/21 was able to closely align with the Council's risk management arrangements.
- 1.7 For 2020/21, the report containing Internal Audit's planned workload was considered and approved in September 2020 ([report 20/166](#)). All Perth & Kinross Council's activities are reviewed as part of the planning process. The plan for 20/21 aimed to cover the most significant areas of risk within the resources available whilst ensuring that there was a balance of coverage for all Service areas. Due to the uncertainties regarding the ongoing pandemic, the requirement for greater flexibility in the Plan was acknowledged.

## **2. INTERNAL AUDIT WORK 2020/21**

- 2.1 During early 2020/21, Internal Audit activity was paused to enable the Council to focus its attention on delivering the 18 critical services identified. Internal Audit resources were reallocated as part of the re-tasking process to support other areas of activity in connection with the delivery of the critical services. As such, an abbreviated plan was agreed which reflected the anticipated available resources and addressed the highest risks to the Council achieving its objectives. This coverage nonetheless provided for sufficient coverage to enable the Chief Internal Auditor to arrive at an opinion on the effectiveness of risk management, governance and internal control.
- 2.2 Some re-tasking of Internal Audit staff continued until the end of the third quarter of 2020/21. However, throughout the year, Internal Audit were available for, and provided, advice support and assurance over the implementation of revised arrangements in connection with the new ways of working implemented as a result of the COVID-19 pandemic.
- 2.3 Assurance is also taken from Internal Audit's involvement in and oversight of the arrangements established to manage the significant risks arising from the pandemic to communities within Perth & Kinross.
- 2.4 Of the 13 planned Internal Audit assignments for 2020/21, 9 are complete or substantially complete and the outcomes have been taken into consideration in arriving at the Opinion. The remaining audits have been considered as part of the arrangements for the 2021/22 Internal Audit Planning process and proposals are to be considered at this meeting for progressing these further.
- 2.5 In addition, a detailed review has been completed and reported in connection with a whistleblowing disclosure.
- 2.6 Of the 6 reports considered by the Audit Committee within the year, 4 have been assessed as providing substantial assurance; 2 provide reasonable



assurance and one provided limited assurance. No areas were identified where no assurance could be provided.

- 2.7 Of the 20 actions agreed, 7 were assessed as being of high importance, 11 were of medium and 2 were of low importance. There are no actions which are of a critical nature reported within the year.
- 2.8 A comprehensive review of all agreed actions has been undertaken with delays appropriate to the circumstances agreed and reported to Audit Committee during the year.

### **3. COMPLIANCE WITH AUDITING STANDARDS**

- 3.1 The Public Sector Internal Audit Standards (PSIAS) have been adopted by Perth & Kinross Council as the relevant professional standards.
- 3.2 There is a requirement for an external review of compliance with the PSIAS to be undertaken every 5 years. This was undertaken during 2018/19 by the then Acting Chief Internal Auditor for South Ayrshire Council. This took the form of a validated self-assessment, the outcome of which was reported to Audit Committee in November 2018 (report [18/358](#) refers). This report verified that Perth & Kinross Council's Internal Audit function fully conforms with the PSIAS.
- 3.3 The Chief Internal Auditor has undertaken a self-assessment of compliance with the PSIAS for 2019/20 and has concluded that the function remains fully compliant.

### **4. AUDIT OPINION**

- 4.1 In the Chief Internal Auditor's opinion, reasonable reliance can be placed on the Council's risk management and governance arrangements, and systems of internal control for 2020/21, subject to management implementation of the agreed actions detailed in Internal Audit reports.

### **5. CONCLUSION AND RECOMMENDATIONS**

- 5.1 It is recommended that the Committee notes the content of this report and specifically the Audit Opinion at Section 4.

#### **Author(s)**

| <b>Name</b>  | <b>Designation</b>     | <b>Contact Details</b>                                                   |
|--------------|------------------------|--------------------------------------------------------------------------|
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All Council Services can offer a telephone translation facility.

## 1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

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

### 1. Strategic Implications

Community Plan/Single Outcome Agreement

Corporate Plan

- 1.1 The Council's Corporate Plan 2018 – 2022 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.

- 1.2 This report relates to all of these objectives.

### 2. Assessments

Equality Impact Assessment

- 2.1 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

- 2.2 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.

#### Risk

- 2.3 The risks are associated with the level of assurance provided on the control environment in the event that Internal Audit's planned work is not completed on time.

### **3. Consultation**

#### Internal

- 3.1 The Chief Executive and Head of Legal and Governance have been consulted in the preparation of this report.

### **2. BACKGROUND PAPERS**

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

### **3. APPENDICES**

None



# **PERTH AND KINROSS COUNCIL**

## **Audit Committee**

**20 September 2021**

### **INTERNAL AUDIT FOLLOW UP**

**Report by Chief Internal Auditor (Report No. 21/167)**

#### **PURPOSE OF REPORT**

This report presents a current summary of Internal Audit's 'follow up' work relating to actions due for completion up to June 2021.

#### **1. BACKGROUND / MAIN ISSUES**

- 1.1 The Public Sector Internal Audit Standards (PSIAS) require the Chief Internal Auditor to establish a follow-up process to monitor and ensure that management actions have been effectively implemented. Internal Audit request evidence from Services which confirms that actions have been implemented and, therefore, controls have been improved.
- 1.2 This is the first detailed Follow Up Report being considered by the Audit Committee since the onset of the COVID-19 Pandemic. Updates were however provided on the approach being taken with regard to the agreed actions, with actions pertaining to two reports (19-01 Live Active Leisure and 10-10 Cash Collection) being rolled forward to the end of the year for follow up.
- 1.3 Details of the remaining 6 actions with a completion date of the end of June 2021 or before which have yet to be completed are included within Appendix 1.

#### **2. PROPOSALS**

- 2.1 It is recommended that the Committee seeks assurance that there are clear and achievable action plans for completing the agreed actions noted above.

#### **3. CONCLUSION AND RECOMMENDATIONS**

- 3.1 The Audit Committee is asked to consider the most appropriate action to be taken to progress the agreed Action Plans.
- 3.2 It is recommended that the Audit Committee:
  - (i) Note the current position in respect of the agreed actions arising from internal audit work; and
  - (ii) Consider the most appropriate action to be taken to progress the agreed action plans, taking into account the recorded audit opinions.

**Author(s)**

| <b>Name</b>  | <b>Designation</b>     | <b>Contact Details</b>                                                   |
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## 1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

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

### 1. Strategic Implications

#### Community Plan/Single Outcome Agreement

#### Corporate Plan

- 1.1 The Council's Corporate Plan 2018 – 2022 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:

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between equality groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties.

- 2.2 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.

#### Risk

- 2.3 The risks are associated with the level of assurance provided on the control environment in the event that Internal Audit's planned work is not completed on time.

### **3. Consultation**

#### Internal

- 3.1 The Chief Executive and Head of Legal and Governance have been consulted in the preparation of this report.

### **2. BACKGROUND PAPERS**

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 1 – Outstanding Actions to June 2021



## Appendix 1

Actions with a completion date up to June 2021 which have yet to be completed

| Finding                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       | Action                                                                                                                                                                                                                                                                                                                                                                                                       | Action owner & Service                                               | Date(s)                                                                                                         | Current status                                                                                                                                                                                                                                                                                                                                                                                                                  | Internal Audit Opinion |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|
| <p><a href="#">16-22 - Roads Maintenance Partnership</a><br/>           Action Point : 7b - Road Maintenance Partnership Agreement<br/>           Importance: Medium<br/>           Audit Committee Date: March 2017</p> <p>An Enterprise and Infrastructure Committee (EIC) report of 21 January 2015 reported that the initial Road Maintenance Partnership (RMP) agreement was for a three year period expiring 31 March 2015. The relevant minutes contain a resolution for an extension for a further year and also that the agreement be subject to an ongoing review to ensure it continues to be fit for purpose. The agreement also seeks to develop systems and</p> | <p>The Deputy Manager, RMP will review and update the “Obtaining Best Value in Works Contracts” procedure taking cognisance of agreed way forward in providing the service, following the approval of the Roads Maintenance Partnership Agreement. Any reference to BS EN ISO 9001/9002 and/or the quality principles will be dependent on the outcome of the review by the collaborative working group.</p> | <p>S D’All,<br/>           Roads Maintenance Partnership Manager</p> | <p>Apr 2018<br/>           Jan 2019<br/>           Nov 2019<br/>           Nov 2020<br/>           Nov 2021</p> | <p>The Roads Maintenance Partnership Agreement was approved by Committee in May 2019.</p> <p>Progress has yet to be made in the second part of this action, namely updating the Obtaining Best Value in Works Contracts procedure document, due to resourcing issues, competing priorities and the ongoing requirement to respond reactively to unplanned events including COVID-19 and various serious flooding instances.</p> | <p>Accepted.</p>       |

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                                                                                                                   |                                                                  |                                                           |                                                                                                                                                                         |                 |
|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------|-----------------------------------------------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|
| <p>procedures that ensure compliance with BS EN ISO 9001/9002. At the date of audit testing no update report had been presented to the EIC and the partnership agreement had expired.</p> <p>The partnering arrangements are supported by the "Obtaining Best Value in Works Contracts" procedures that do not refer to BS EN ISO 9001/9002. The procedures are also in need of review as the document is dated 2005 and stipulate a review period of 12 months and the approval section states "await SMT authorisation".</p> |                                                                                                                                                                                                                                                                                                                   |                                                                  |                                                           |                                                                                                                                                                         |                 |
| <p><a href="#">18-11 - School Estate Strategy</a><br/> Action Point : 1 - School Estate Strategy Update<br/> Importance: Medium<br/> Audit Committee Date: January 2019</p> <p>A draft School Estate Strategy was approved in 2012 to cover arrangements from 2012-2017, with a requirement that a finalised version be submitted to Committee. The Strategy</p>                                                                                                                                                               | <p>The Service will review the School Estate Strategy (2012-2017) document to ensure that strategic developments, governance arrangements and relevant influential factors and challenges are documented and align with the vision for managing the School Estate. This will include liaison with appropriate</p> | <p>C Taylor,<br/> Service Manager<br/> (Resource Management)</p> | <p>Aug 2019<br/> Mar 2020<br/> Jan 2021<br/> Jan 2022</p> | <p>Education recovery work in 2020 and 2021 has taken priority over this action, however it is anticipated that this will be provided to Committee in January 2022.</p> | <p>Accepted</p> |

|                                                                                                                                                                                                                                                                                                                                                                                                                                          |                                                                                                                                            |                                                 |                                              |                                                                                                                                                                            |          |
|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------|-------------------------------------------------|----------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|
| review frequency was also noted as annual. The draft strategy document has not been updated since 2012. In subsequent years there have been a number of changes to the governance arrangements, forward planning processes and influencing factors. This document may therefore benefit from review to provide clarity and formalise the current arrangements and to establish an appropriate review frequency for the future.           | Council Services regarding any legislative changes. A finalised document will be submitted for approval by the Lifelong Learning Committee |                                                 |                                              |                                                                                                                                                                            |          |
| <a href="#">18-11 - School Estate Strategy</a><br>Action Point : 5.2 - Governance Arrangements<br>Importance: High<br>Audit Committee Date: January 2019<br><br>The annual Service Asset Management Plan (SAMP), incorporating the School Estate Management Plan (SEMP), is identified within the School Estate Strategy and subsequent documents as being a key component to planning for the school estate. The SAMP provides Lifelong | The Service Asset Management Plan will be updated and reported to Lifelong Learning Committee.                                             | C Taylor, Service Manager (Resource Management) | Nov 2019<br>Mar 2020<br>Jan 2021<br>Jan 2022 | The Service Asset Management Plan is being finalised along side the School Estate Strategy. These are due to be considered by Lifelong Learning Committee in January 2022. | Accepted |

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                             |                                                                                                                                                                                                                                                  |                                        |                                  |                                                                                                                                                                                                                                                                                |          |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------|----------------------------------|--------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------|
| Learning Committee (LLC) with information on the overall position of the property assets used by Education and Children's Services to deliver services, alongside setting out developments which have been achieved and outlining future plans. However, since the commencement of the transformation review in 2016, a SAMP has not been completed. LLC has only received specific reports pertaining to individual schools and has not been provided with a recurrent overview of all matters relevant to planning for the school estate. |                                                                                                                                                                                                                                                  |                                        |                                  |                                                                                                                                                                                                                                                                                |          |
| <a href="#">18-23 – Local Action Partnerships</a><br>Action Point 2<br>Importance: Medium<br>Audit Committee: March 2019<br><br>The Communities team representative(s) and Lead Officer (if a PKC officer) on each Action Partnership should encourage it to revisit its Action Plan and ensure that the priorities are still relevant in                                                                                                                                                                                                   | The Communities team representative(s) and Lead Officer if a PKC officer on each Action Partnership should encourage it to revisit its Action Plan and ensure that the priorities are still relevant in addressing the inequalities in the area. | D Stokoe, Service Manager, Communities | Dec 2019<br>Mar 2020<br>Oct 2021 | The Local Action Plans were in the process of being refreshed when the initial lockdown occurred. As a result of the impacts associated with the ongoing COVID-19 pandemic, and as part of the approach to recovery and renewal, the Service is working to understand the best | Accepted |



|                                                                                                                                                                                                                                                                                                                                                                                                                                |                                                                                                                                                                                                                 |                                             |                                  |                                                                                                                                                                                                                                                                                                                                               |          |
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| addressing the inequalities in the area. Without a revisit the priorities in the Action Plan may no longer be appropriate and inequalities may not be captured and, therefore, addressed. Internal Audit understands that this will begin to happen after the completion of the Community Investment Fund award process.                                                                                                       |                                                                                                                                                                                                                 |                                             |                                  | way to support communities going forward. It has yet to be determined whether a new Action Plan will be created for each of the Partnerships or whether there will be a different approach. The Service will review the outcome of these deliberations in September 2021 and ensure that the risks raised by the finding are being mitigated. |          |
| <a href="#">19-02 - Digital Strategy</a><br>Action Point : 3 - Digital inclusion and awareness<br>Importance: Medium<br>Audit Committee Date: September 2019<br><br>The Digital Strategy recognises the need to support wider digital inclusion; citizens, external and third sector partners, communities, local businesses, visitors and learners engage with the Council. To include everyone, the Council is providing new | The Service will ensure that findings from the Perth and Kinross digital maturity assessments around digital inclusion and awareness are fed into the review process for the Council's Digital Strategy in 2020 | A Taylor, Head of Corporate Revenues and IT | Dec 2020<br>Jun 2021<br>Jun 2022 | A working group, led by the Head of Corporate Revenues and IT was established and an action plan developed to take forward actions relating to digital inclusion. The release of the revised P&K Digital strategy has been moved to 2022 to allow discussions with the EOT to take place to clarify both the levels of Digital Ambition and   | Accepted |

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |  |  |  |                                                                                                                                       |  |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|--|--|---------------------------------------------------------------------------------------------------------------------------------------|--|
| <p>channels of communication and digital learning. For example the developmental rollout of 'Ask Alexa' for information, accessible on smart phones with the Amazon Alexa app in March 2019. Another channel, Webchat went live in August 2019. Uptake of Council online forms by customers using the Council's Online Services and MyAccount has been measured and reported to the ICT Transformation Board confirming increasing use of self-assist channels. Evidence of assisted services is available through requests received through the Customer Service Centre for comparison. During June 2019, the HSCP completed a self-assessment to identify digital maturity at the point of care for the Scottish Government. The scope includes digital awareness and use by staff, clients, carers and families. Another Council wide digital maturity self-assessment is scheduled for later in 2019-20 for the Local</p> |  |  |  | <p>drivers for change such as Climate Change; Digital Place; Digital Economy and Economic Regeneration and Digital Participation.</p> |  |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--|--|--|---------------------------------------------------------------------------------------------------------------------------------------|--|

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                               |                                                                                                                                                                 |                                    |                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |          |
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| Government Digital Office (LGDO). This will include feedback from the Customer Service Centre. Customer experience work-stream and customer focus groups are planned, with the Customer Service Centre acting as an advisory group.                                                                                                                                                                                                                                                                                                                                           |                                                                                                                                                                 |                                    |                                  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                        |          |
| <p><a href="#">19-09 - Recycling Centres</a></p> <p>Action Point 2.2 - Hazards for personnel</p> <p>Importance: High</p> <p>Audit Committee: February 2020</p> <p>Re-saleable materials can be hazardous. Flammable materials were reported to have been set alight in unmanned skips and had caught fire at other sites. Fire controls varied across recycle centres; Operatives all reported having fire extinguishers on site and were advised to call Emergency Services when fire occurred. There was a general awareness of chemical hazards at sites visited; some</p> | The Service will ensure basic training for Operatives on first aid every year and will review all first aid boxes on site to ensure they are correctly stocked. | N Taylor,<br>Operations<br>Manager | Mar 2020<br>Sep 2020<br>Mar 2022 | <p>All first aid boxes contents have been reviewed post-audit and are checked by Supervisors quarterly as part of health and safety inspections.</p> <p>First aid training is covered within induction and triennial refresher training and is documented within the Key2 system. Plans were put in place to enrol recycling centre staff onto Emergency First Aid at Work courses provided by the Council, including bookings made for 12 staff initially. Due to</p> | Accepted |

|                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                       |  |  |  |                                                                                                                                                                                                                                                                                                                                                                                                       |  |
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| <p>materials for resale contain chemicals, for example car batteries and light bulbs. When they leak, there is a risk of irritation or harm to people and these materials are stored separately. However, they were found near containers which contained flammable material. An Operative reported that he had once checked a vehicle bringing materials to the recycle centre for disposal in bags and found it contained asbestos, so refused access to the vehicle. Operatives and visitors to recycle centres were advised of most hazards as many signs were found on site advising of these. However, no sign warned of insect hazards; wasps were seen in bottle-banks and food packaging skips. Whilst Operatives reported having had health and safety training, some had completed this some time ago.</p> |  |  |  | <p>COVID-19, however, sessions were cancelled, and we are awaiting verification of new training dates. The majority of training is delivered by external providers and these organisations are only now starting to commence this training following recent relaxation of restrictions which would permit such training to recommence. This will be supplemented by additional in-house training.</p> |  |
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# PERTH AND KINROSS COUNCIL

## Audit Committee

20 September 2021

### INTERNAL AUDIT UPDATE

Report by Chief Internal Auditor (Report No. 21/168)

#### PURPOSE OF REPORT

This report presents a summary of Internal Audit's work undertaken as part of the Internal Audit Plans for 2019/20 and 2020/21.

#### 1. BACKGROUND / MAIN ISSUES

- 1.1 The Public Sector Internal Audit Standards (PSIAS) require that the Chief Internal Auditor reports periodically to the Audit Committee on internal audit activity and on performance relative to the approved plan.
- 1.2 At the meeting of the Audit Committee on 21 June 2021 ([report 21/97](#) refers), it was reported that outstanding work from previous Internal Audit plans will be rolled forward for consideration for inclusion within planned Internal Audit work for 2021/22. The Strategy and Plan for 2021/22 was approved on 30 June ([report 21/111](#)).
- 1.3 Following this review, A20-03 Digital IT Assets, A20-08 Scottish Welfare Fund and A20-11 Tay Cities Deal will be included within the scope of work to be undertaken as part of the 2021/22 Audit Plan, namely A21-06 IT Assets, A21-03 Welfare Rights and A21-05 Tay Cities Deal respectively. The latter is a collaboration of audit activity of the Councils within the Tay Cities region.
- 1.4 Internal Audit has provided advice where necessary regarding COVID-19 Grants and this area is subject to review as part of the National Fraud Initiative (NFI) exercise. As such, it is not proposed to undertake any further activity in this area outside of the NFI, unless this process highlights significant weaknesses in this area.
- 1.5 As part of the agreed Internal Audit Plan for Perth & Kinross Integration Joint Board, an audit was undertaken regarding COVID-19 related grants paid to commissioned services partners. The outcomes from this report, which is of relevance to the Council as it relates to payments made through Council systems and processes, is included on the agenda for this Committee.
- 1.6 Due to the developments since the original report arising from the audit of A20-10 Horsecross Arts was drafted, this report is being updated and will be available for the next meeting of the Audit Committee.

- 1.7 The audit of the A19-04 Transformation Programme is a historic review and the Programme itself no longer exists. The outcomes have therefore been reflective, in terms of what lessons can be learned for any future similar arrangements. Areas for consideration being progressed are around the role of political oversight and elected member scrutiny and the potential role of Scrutiny Committee going forward in terms of overall project/programme performance. It is also noted that the opportunities for improving the Council's framework for the management and oversight of projects, as highlighted within the Council's Capital Update report in relation to the use of gateway reviews and the investment blueprint, is being developed and utilised for both Capital and non-Capital projects.
- 1.8 Appendix 1 shows the status of audits arising from the 2020-21 and 2021-22 Internal Audit Plans. Anticipated Committee dates are subject to review as Internal Audit is undertaking recruitment activity. These dates will be dependent upon successful recruitment to vacant posts.

## 2. CONCLUSION AND RECOMMENDATIONS

- 2.1 This report presents a summary of Internal Audit's work.
- 2.2 It is recommended that the Committee notes progress with Internal Audit activity.

### Author(s)

| Name         | Designation            | Contact Details                                                          |
|--------------|------------------------|--------------------------------------------------------------------------|
| Jackie Clark | Chief Internal Auditor | <a href="mailto:Internal.Audit@pkc.gov.uk">Internal.Audit@pkc.gov.uk</a> |

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You can also send us a text message on 07824 498145.

All Council Services can offer a telephone translation facility.

## 1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

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

### 1. Strategic Implications

Community Plan/Single Outcome Agreement

Corporate Plan

- 1.1 The Council's Corporate Plan 2018 – 2022 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.

- 1.2 This report relates to all of these objectives.

### 2. Assessments

Equality Impact Assessment

- 2.1 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.

- 2.2 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.

#### Risk

- 2.3 The risks are associated with the level of assurance provided on the control environment in the event that Internal Audit's planned work is not completed on time.

### **3. Consultation**

#### Internal

- 3.1 The Chief Executive and Head of Legal and Governance have been consulted in the preparation of this report.

### **2. BACKGROUND PAPERS**

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 1 – Internal Audit Activity



## Appendix 1

## INTERNAL AUDIT UPDATE

## Internal Audit Activity

| <b>Audit No.</b>       | <b>Title</b>                             | <b>Service(s)</b>               | <b>Status as at December 2020</b>      | <b>Audit Committee</b> |
|------------------------|------------------------------------------|---------------------------------|----------------------------------------|------------------------|
| <b>2019/20</b>         |                                          |                                 |                                        |                        |
| A19-04                 | Transformation                           | All Services                    | Completed                              | September 2021         |
| <b>2020/21</b>         |                                          |                                 |                                        |                        |
| C20-01                 | Recovery & Renewal                       | All Services                    | Completed                              | June 2021              |
| A20-02                 | Financial Sustainability                 | Corporate & Democratic Services | Completed                              | September 2021         |
| A20-03                 | Digital IT Assets                        | Corporate & Democratic Services | Incorporated into 2021/22 planned work | N/a                    |
| A20-04<br>(inc A19-06) | Contracting                              | All Services                    | In progress                            | December 2021          |
| A20-05                 | EU Withdrawal                            | Communities                     | Completed                              | June 2021              |
| A20-06                 | COVID-19 Grants                          | Corporate & Democratic Services | Part of NFI exercise                   | N/a                    |
| A20-07                 | Violence & Aggression                    | Education & Children's Services | In progress                            | December 2021          |
| A20-08                 | Scottish Welfare Fund                    | Corporate & Democratic Services | Incorporated into 2021/22 planned work | N/a                    |
| A20-09                 | Education & Children's Services Payments | Education & Children's Services | Completed                              | June 2021              |
| A20-10                 | Horsecross Arts                          | Corporate & Democratic Services | In progress                            | December 2021          |
| A20-11                 | Tay Cities Deal                          | Corporate & Democratic Services | Incorporated into 2021/22 planned work | N/a                    |
| A20-12                 | LEADER                                   | Communities                     | Completed                              | June 2021              |
| A20-13                 | Bus Service Operators Grant              | Communities                     | Completed                              | Not applicable         |

| <b>Audit No.</b> | <b>Title</b>                | <b>Service(s)</b>               | <b>Status as at December 2020</b> | <b>Audit Committee</b> |
|------------------|-----------------------------|---------------------------------|-----------------------------------|------------------------|
| <b>2021/22</b>   |                             |                                 |                                   |                        |
| A21-01           | Child Protection            | Education & Children's Services | Planned                           |                        |
| A21-02           | Climate Change              | All Services                    | Commenced                         |                        |
| A21-03           | Welfare Rights              | Corporate & Democratic Services | Planned                           |                        |
| A21-04           | Partnership Working         | All Services                    | Planned                           |                        |
| A21-05           | Tay Cities Deal             | Communities                     | Planned                           |                        |
| A21-06           | IT Assets                   | All Services                    | Planned                           |                        |
| A21-07           | Agency Workers              | Communities                     | Commenced                         |                        |
| A21-08           | Payroll                     | Corporate & Democratic Services | Planned                           |                        |
| G21-09           | LEADER                      | Communities                     | Commenced                         |                        |
| G21-10           | Bus Service Operators Grant | Communities                     | Planned                           |                        |



## **Perth & Kinross Health and Social Care Partnership**

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Internal Audit Report  
Policy & Commissioning  
PKIJB20-03 Commissioned Services:  
Providers Sustainability Payments  
May 2021

### **Final Report**

Legal and Governance  
Corporate and Democratic Services  
Perth & Kinross Council  
Council Offices  
2 High Street  
Perth  
PH1 5PH

## **PKCIJB 20-03 Social Care Sustainability Payments**

### Contents by Section

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[2. Audit Background Information](#)

[3. Scope and Limitations](#)

[4. Assessment of the Control Environment](#)

[5. Summary of Findings](#)

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[8. Action Implementation & Follow Up](#)

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## **1. Introduction**

1.1 The audit of social care sustainability payments made to Commissioned Service Providers was undertaken as part of the Internal Audit Plan for 2020/2021, which was approved by the Audit & Performance Committee on 14 September 2020.

1.2 The indicative scope for the audit was to provide assurance over arrangements for the identification and authorisation of sustainability grants.

1.3 This audit is linked to the following [Strategic Risks](#):

SR01 - Financial Resources

SR06 – Viability of External Providers

SR07 – Insufficient Preparedness for Future COVID-19 (or other pandemic) Pressures

1.4 Whilst this audit is undertaken as part of the Internal Audit Plan for the Integration Joint Board, aspects of this review involve key processes which are undertaken by Perth & Kinross Council on the IJB's behalf. As such, this report will also be considered by Perth & Kinross Council's Audit Committee.

## **2. Audit Background Information**

2.1 The outbreak of COVID-19 is unprecedented and the significant impacts upon businesses of all types and sizes, such as financial viability, supply chain disruption and ability to retain staff, is widely recognised. In response to this, numerous UK and Scotland-wide systems of support for businesses have been introduced.

2.2 In addition to these, and in recognition of the pivotal role played by the Social Care sector in responding to the pandemic, further targeted funding support has been made available for Commissioned Service Providers and their staff. This is to assist in ensuring the sectors future operational and financial viability.

2.3 Whilst there are 2 support schemes available, covering differing elements of costs, any additional funding provided in relation to COVID-19 is referred to generally as 'Social Care Provider Sustainability'.

2.4 The first scheme consists of funding to support Social Care providers with COVID-19-related costs, such as a reduction in occupancy due to the virus, additional staffing costs, infection prevention and control and personal protective equipment.

2.5 The second consists of funding to support workers who, due to the nature of their work or work environment, may have seen their income reduced as a result of being restricted/not being able to work for a reason relating to Coronavirus, for example through having to self-isolate. Its purpose is to ensure that social care workers do not experience financial hardship.

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2.6 The Policy & Commissioning and Finance sections of the Health & Social Care Partnership are responsible for the assessment and administration of Social Care Provider Sustainability claims and payments. Payments are made by the Financial Assessment and Charging Team.

2.7 The forecast up to February 2021 projects the cost of such payments within Perth & Kinross to be circa £3.1 million.

### 3. Scope and Limitations

3.1 In order to arrive at an opinion on the effectiveness of controls, this audit reviewed arrangements put in place to ensure that social care provider sustainability claims were reasonable, in line with guidance, substantiated by evidence and paid out appropriately. Additional areas reviewed were around recording and monitoring processes to facilitate reclaim from the Scottish Government.

3.2 The review considered areas such as application, assessment, authorisation, recording, payment and reclaim processes.

3.3 A sample of 7 claims was analysed in detail. This sample was selected taking into consideration volumes and values of claim elements, establishment type and was representative of claims made at time of the audit commencing. It included claims for increased costs in personal protective equipment, information technology equipment, additional staffing costs, costs for occupancy/loss of income and claims made from the social care support fund.

3.4 This review was carried out remotely and consisted of analysis of documentation and interviews with relevant Officers.

### 4. Assessment of the Control Environment

4.1 The table below contains a summary of the findings against each control objective and Internal Audit's assessment of the adequacy and effectiveness of the controls in place to meet each of the objectives agreed for this audit. Further details, including any improvement actions, are set out in the Management Action Plan.

| No. | Control Objective                                                                                      | Action Rating |   |   |   |   | Control Objective Assessment |
|-----|--------------------------------------------------------------------------------------------------------|---------------|---|---|---|---|------------------------------|
|     |                                                                                                        | 5             | 4 | 3 | 2 | 1 |                              |
| 1   | To provide assurance over the arrangements in place in relation to social care sustainability payments |               |   | 1 | 3 | 1 | Reasonable assurance         |

4.2 The auditor has assessed that reasonable assurance can be placed on controls overall in relation to social care sustainability payments from the audit. Meaning:

*There is a generally sound system of governance, risk management and control in place.*

4.3 A summary of the key findings and actions are provided in section 5, please note however, the following areas of good practice which have been highlighted during the audit:

4.4 The Service worked quickly and pro-actively to set up a process to support Social Care Sustainability Providers at the beginning of the pandemic. This was achieved at a time when available resources were being deployed to support essential services during the initial response to the COVID-19.

4.5 There is evidence that the Service continued to refine arrangements as more information became available.

4.6 A good working relationship was noted between the Finance and Commissioned Services teams.

4.7 Flexibility was shown by the teams to ensure an appropriate balance between information and evidence received and placing an administrative over-burden on the suppliers. This helped also to ensure payments could be made timeously.

4.8 The Service advises that a Tayside Sustainability and Additional Payments Consortium was set up to discuss any issues, share best/common practice, and discuss some approaches concerning National providers or providers who are known to cover the Tayside area.

4.9 Additional areas of good practice/controls operating as intended have been included within the summary of findings section.

## **5. Summary of Findings**

5.1 Below is a summary of key findings and actions, which are reflected in the Management Action Plan, detailed in section 9.

5.2 The Service acknowledges the challenges presented both for providers, and themselves, in understanding constantly evolving guidance and evidence requirements in the context of the volume of schemes available.

5.3 There is evidence of the service working with providers to ensure that they understand funding available, application and evidence requirements.

5.4 Audit sample testing suggests controls are operating effectively in preventing duplication of claims from separate funding streams and in ensuring that monies are paid out in respect of items within the scope of guidance only.

5.5 Additionally, suppliers must sign a declaration regarding honest disclosure and conformance to terms of guidance. These define actions available to the Council including application cancellation and open book retrospective auditing and repayment by the supplier as deemed necessary.



5.6 Internally, there is an assessment and authorisation process, frequent meetings to discuss applications and a tracker outlining all applications made. This tracker generally contains clear and transparent explanation for decisions made.

5.7 Whilst it is recognised that the process was introduced as a temporary measure at a time of great flux, there is currently no documented internal procedure in place which reflects the full scope of how applications are received, assessed and processed. Owing to the ongoing nature of payments, and some matters picked up during the audit around controls and responsibilities, the Service may wish to review measures and document the process internally to ensure clarity.

Action Point 1

5.8 The above point is particularly significant as it was noted within guidance that a general cap of 25% of the annual contract value for any extraordinary costs being requested should be applied, however, no control was in place at the time of the audit to ensure that this limit was not exceeded.

Action Point 2

5.9 Audit is satisfied that the Service are considering and communicating relevant changes to guidance, however, for transparency, ease of reference and auditing, the Service may wish to consider implementing a change control log for any similar projects in future. This has been highlighted to the Service as a minor issue.

5.10 Application information and evidence is currently stored in individual folders defined by supplier in generic email files by both Finance and Commissioning/ Contracts Team. There is currently no access to a shared drive for both teams. Whilst the Service were able to provide evidence for each of the sample applications, it may be of benefit to investigate potential to utilise the Council Electronic Data Management Storage/SharePoint facilities to move these to a centralised repository/drive. This will assist in ensuring that information is kept in line with any storage retention and data protection requirements.

Action Point 3

5.11 There are fraud controls operating, thereby limiting potential for payments being made to fraudulent suppliers. Audit testing revealed some minor points in respect of these and this information has been shared with the Service for consideration when documenting their internal process and controls. There was, however, assurance that all applications and payments sampled were made by and paid to genuine suppliers only.

5.12 There is evidence that controls around approvals and authorisation are operating effectively.

5.13 There are payment, financial recording and monitoring controls in place, however, weaknesses in these were highlighted when the Auditor noted a duplicate payment made to a supplier.



5.14 The Services involved were quick to investigate this matter and implement appropriate controls to prevent further occurrence, investigate if this is an isolated incidence and to take reconciliatory actions to recoup monies paid out in error. The Service stated that the detailed reconciliation undertaken at year-end would have highlighted this duplicate for recovery.

Action Point 4

5.15 Actions and observations noted during the audit which were minor in their impact, but which may provide feedback to improve the control environment in the future, have been communicated directly to the Service. These are not included within the action plan but will be picked up through the minor issues log referenced.

Action Point 5

5.16 There is evidence of a drawdown process and monies having been reclaimed from the Scottish Government to cover expenses already paid out.

## **6. Conclusion**

6.1 The Internal Audit review is able to place reasonable assurance on the overall control environment for Health & Social Care Sustainability Payments. The agreed actions, once implemented, should enable Internal Audit to place substantial assurance on these.

## **7. Acknowledgements**

Internal Audit would like to thank all officers who were involved in this audit, particularly officers within the Policy & Commissioning, Finance and Financial Assessment & Charging teams.

## **8. Action Implementation & Follow up**

8.1 Responsibility for the maintenance of adequate and effective controls rests with management. Where the audit has identified areas for management action, these are identified in the Management Action Plan. Where a decision is taken by management not to act in response to finding from this review, it is the responsibility of management to assess and accept the risk arising from non-implementation.

8.2 Achievement of the agreed actions is monitored through Internal Audit's 'follow up' arrangements.

## 9. Management Action Plan

| Action Point | Para. No | Finding                                                                                                                                                                                                                                   | Risk Rating | Agreed Action & Evidence                                                                                                                                                                                                                                                                          | Action Owner                                     | Target Completion Date |
|--------------|----------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------------------------------|------------------------|
| 1            | 5.7      | There is currently no documented internal procedure/process flow in place which reflects the full scope of how applications are received by the department, assessed or processed.                                                        | 2 - Low     | <b>Agreed action:</b> The internal process for dealing with applications, including key control elements will be documented.<br><b>Agreed evidence:</b> Internal procedure document                                                                                                               | R Pollock,<br>Team Leader<br>– Planning & Policy | May 2021               |
| 2            | 5.8      | Guidance states that a general cap of 25% of the annual contract value for any extraordinary costs being requested should be applied.<br><br>No control was in place at the time of the audit to ensure that this limit was not exceeded. | 2 - Low     | <b>Agreed action:</b> An additional step will be added to the process to check that this limit is not being breached and a retrospective check will be carried out in respect of payments already made.<br><b>Agreed evidence:</b> Internal procedure document & evidence of retrospective review | R Pollock,<br>Team Leader<br>– Planning & Policy | May 2021               |
| 3            | 5.10     | Application information and evidence is currently stored in individual folders defined by supplier in generic email files by both Finance and Commissioning/Contracts Team.<br><br>To ensure compliance with storage                      | 2 - Low     | <b>Agreed action:</b> Work is already progressing to implement a new file structure on an appropriate drive to move evidence to<br><b>Agreed evidence:</b> Confirmation that a new filing structure has been implemented and is in use                                                            | M Grant,<br>Finance Team<br>Leader               | June 2021              |

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|   |             |                                                                                                                                                                                                                                       |            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                                                                                   |           |  |
|---|-------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------------------------------------------------|-----------|--|
|   |             | retention and data protection requirements the Service may wish to consider moving these to a central repository on an appropriately secured drive through use of the Council Electronic Data Management Storage/SharePoint facility. |            |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      |                                                                                   |           |  |
| 4 | 5.13 & 5.14 | Audit testing revealed limitations in Assessment & Charging Team payment controls which led to a duplicate payment being made to a supplier.                                                                                          | 3 - Medium | <p><b>Agreed action:</b><br/>The Assessment &amp; Charging Team advises that controls have now been implemented to prevent a recurrence of this finding. A member of the Assessment &amp; Charging Team is contacting the supplier to arrange reimbursement of the duplicate.</p> <p><b>Agreed Evidence:</b> Procedure document evidencing new controls; confirmation from Services that controls are in place and documented outcomes of historic review; evidence of reimbursement of duplicate payment</p> <p><b>Agreed action:</b><br/>The minor issues log will be considered as part of any process review</p> | E MacDonald,<br>Client Funds<br>Co-ordinator<br>(assessment and charging element) | June 2021 |  |
| 5 | 5.15        | There were some actions and observations noted during the audit which were minor in their impact, but which may provide feedback to                                                                                                   | 1 – Minor  |                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                                      | M Grant,<br>Finance Team<br>Leader                                                | June 2021 |  |

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|  |  |                                                                                                                                                            |  |                                                                                                                                       |  |  |
|--|--|------------------------------------------------------------------------------------------------------------------------------------------------------------|--|---------------------------------------------------------------------------------------------------------------------------------------|--|--|
|  |  | <p>improve the control environment in the future.</p> <p>These have been communicated directly to the Service for consideration in a minor issues log.</p> |  | <p><b>Agreed Evidence:</b> Confirmation from service that the minor issues log has been reviewed and action taken where necessary</p> |  |  |
|--|--|------------------------------------------------------------------------------------------------------------------------------------------------------------|--|---------------------------------------------------------------------------------------------------------------------------------------|--|--|



## 10. Authorisation

The auditor for this assignment was L Ferguson. The supervising auditor was J Clark.

This report is authorised for issue:

## 11. Distribution

This report has been distributed to:

G Paterson, Chief Officer - IJB

E Devine, Head of Health

J Smith, Chief Finance Officer – IJB

H Dougal, Clinical Director

D Mitchell, Finance Manager

Z Robertson, Service Manager (Policy & Commissioning)

C Jolly, Service Manager (Business Planning and Performance)

F Low, Business & Resources Team Leader

M Grant, Finance Team Leader

R Pollock, Team Leader – Planning & Policy

I Boyle, Contract & Commissioning Officer

E MacDonald, Client Funds Co-ordinator

Committee Services

External Audit

## 12. Assessment Definitions

The following table contains the definitions of the control objective assessment.

| Control Objective Assessment |                                                                                                                                                                                                                                                          |
|------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Level of assurance           | Definition                                                                                                                                                                                                                                               |
| Substantial Assurance        | A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.                                              |
| Reasonable Assurance         | There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of objectives in the area audited.                     |
| Limited Assurance            | Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.                       |
| No Assurance                 | Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited. |

The following table contains the definitions applied by Internal Audit in rating audit findings/actions.

| Risk Rating for Individual Findings |                    |                                                                                                                                                                                                                                                                                                                                                 |
|-------------------------------------|--------------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| Rating                              | Rating description | Definition                                                                                                                                                                                                                                                                                                                                      |
| 5                                   | Critical           | Significant observations / major concerns which require immediate action. Management will need to add these to the appropriate Service risk register<br><i>Issue represents a control weakness which could cause, or is causing, severe disruption of the process or severe adverse effect on the ability to achieve process objectives</i>     |
| 4                                   | High               | Significant observations regarding the absence / failure of key controls requiring urgent action. Management should consider adding these to the appropriate Service / divisional risk register<br><i>Issue represents a control weakness which could have, or is having, major adverse effect on the ability to achieve process objectives</i> |
| 3                                   | Medium             | Observations regarding the effectiveness of key controls requiring reasonably urgent action. Management should consider these when updating any divisional / team risk registers<br><i>Issue represents a control weakness which could have, or is having, significant adverse effect on the ability to achieve process objectives</i>          |

|   |                 |                                                                                                                                                                                                                                                                                                                                                                               |
|---|-----------------|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 2 | Low             | <p>Minor observations regarding the adequacy of controls which require action to improve the efficiency, effectiveness or economy of operations or which otherwise require to be brought to the attention of Senior Management</p> <p><i>Issue represents a minor control weakness with minimal but reportable impact on the ability to achieve process objectives</i></p>    |
| 1 | Trivial / Minor | <p>Very minor observations which will be raised during the course of the audit and may not be included within the final report</p> <p><i>Issue represents a very minor control weakness with negligible impact on the ability to achieve process objectives. The issue will be raised during the course of the audit and may not be included within the final report.</i></p> |

