

PERTH & KINROSS COUNCIL

16 December 2020

REVENUE BUDGET 2021/22 – REPORT NO.1

Report by Head of Finance
(Report 20/256)

PURPOSE OF REPORT

This report provides an update in relation to the 2021/22 Revenue Budget.

1. BACKGROUND

- 1.1. On 6 March 2020, the Council approved the 2021/22 Provisional Revenue Budgets (Report No. 20/57 refers). The indicative Council Tax level for 2021/22 was also approved at this time.
- 1.2. On 30 September 2020, the Council approved the update of the Medium-Term Financial Plan (MTFP) (Report No. 20/174 refers). The Plan included a summary of the implications of the latest financial projections on future Council General Fund Revenue Budgets over the medium term.
- 1.3. The update of the Plan included the latest assumptions in relation to potential reductions in Scottish Government grant funding and increases in pay awards.
- 1.4. Specifically, the Council approved:
 - The Head of Finance maintain the Medium-Term Financial Plan and further refine the assumptions which underpin it.
 - The proposal to only set a Revenue Budget for 2021/22.
 - The Executive Officer Team identify additional savings / funding solutions.
 - To submit the updated Reserves Strategy to the Council in February / March 2021
 - Determining the Housing Revenue Account (HRA) Budget and rent levels for 2020/21 and the five-year Housing Investment Programme at the meeting of the Housing & Communities Committee in January 2021.
- 1.5. On 25 November 2020 and in recognition of the impact of Covid-19 on capacity, the Strategic Policy & Resources Committee endorsed a set of principles to underpin the development of the 2021/22 Final Revenue Budget (Report No 20/255 refers). These measures are temporary, and the Council will revert to a more detailed consideration of the Revenue Budget for 2022/23. The primary aim of the Revenue budget process is the delivery of a balanced/lawful /achievable budget.

- The process for 2021/22 requires to be as streamlined as possible.
- The focus will be on updating the Provisional 2021/22 Revenue Budget previously approved by Council in March of this year.
- There is limited flexibility to apply to the Capital Budget.
- Risk and materiality will be at the heart of budget submissions.
- The best available support will be provided to elected member Budget Review Groups within the resources available, but the clear priority for officers will be the maintenance of essential services and the Council's response to Covid 19. The full impact of Covid will not be known until much later and unlikely to be available for February / March 2021 meaning that an in-year budget review may be required post 1 April 2021.
- There is insufficient capacity, in current circumstances, to support major policy review work through the budget process or to commit to such work at a future date whilst the response to Covid 19 is ongoing and expectations will require to be managed.
- The Chief Executive or Chief Operating Officer will determine whether any request for additional work or information arising from the budget review can be supported.
- The Revenue Budget and Capital Investment Blueprint should align with the Offer.
- Work on future year budgets will commence at the earliest opportunity.

1.6. There have been several developments since the meeting of the Council on 30 September 2020 and these are outlined in the remainder of this report.

2. UNITED KINGDOM FISCAL POSITION

2.1 On 25 November 2020, the Chancellor of the Exchequer set out the UK Government's latest Spending Review. A Spending Review is intended to set out broadly fixed spending plans for three or four years into the future, split between Revenue and Capital. However, as in 2013 and 2019, the 2020 Spending Review only covered one year.

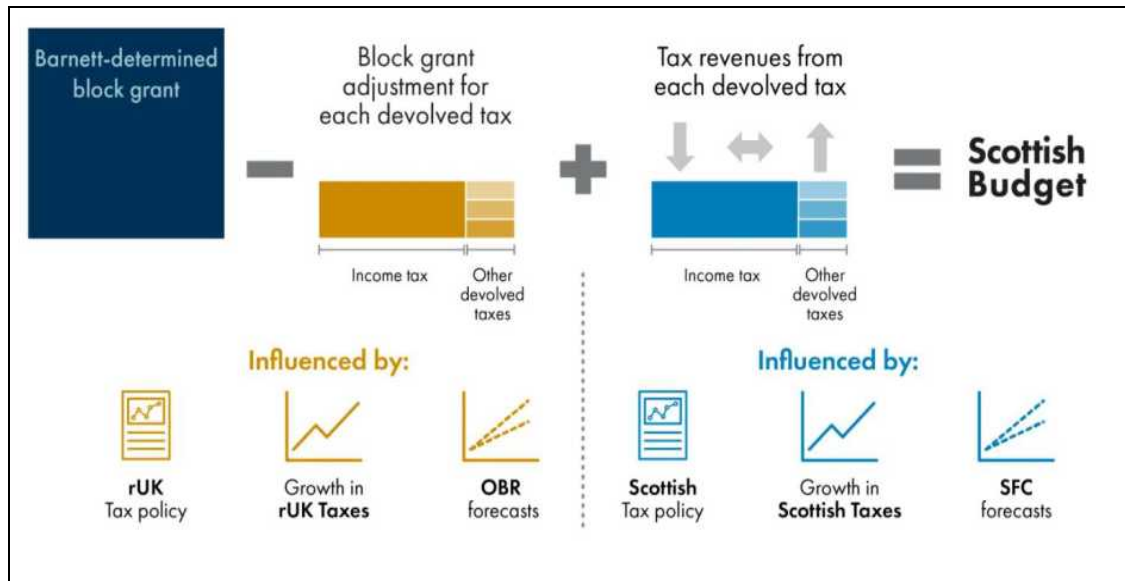
2.2 The overall figures included within this Spending Review were set in the context of:

- UK Gross Domestic Product projected to fall by 11.3% in the current year.
- Borrowing in 2020/21 of approximately £394 billion.
- UK wide unemployment predicted to rise to 2.6 million by the middle of next year.

2.3 Although spending in 2021/22 will increase substantially, the Chancellor did highlight that this would have to be dealt with in the future. The pay freeze for non-NHS, non-low paid public sector workers employed by the UK Government from next year is an example. Pay freezes at a UK level impact on the Scottish Budget as it means that Barnett consequential will be less than they might otherwise have been.

3. IMPLICATIONS FOR THE SCOTTISH BUDGET

- 3.1 There are several factors that influence the size of the Scottish Budget which are set out in the following infographic (NB. this diagram only covers taxation and excludes welfare).



Source: SPICE Scotland November 2020

- 3.2 In relation to “normal” public services, the Spending Review shows that Scotland’s core resource (revenue) block grant increases by £1.3 billion to £31.7 billion in 2021/22. This suggests a real term increase of 3.5% per year between 2019/20 and 2021/22, and for the first time takes the Scottish Budget above 2010/11 levels in real terms. There is no information on which area of the public sector this real term increase in funding will be applied.
- 3.3 Capital spending is set to fall by around £300 million from £5.5 billion in 2020/21 to £5.2 billion in 2021/22.
- 3.4 In 2021/22, Covid19 related funding is initially set at £1.3 billion (compared to the guaranteed minimum amount of £8.2 billion in 2020/21). It is likely that this funding will increase in response to further Covid-19 related interventions that may be required in 2021/22 and the Spending Review does set aside some funding to address this eventuality.
- 3.5 The implication of the reduction in Covid-19 funding between 2020/21 and 2021/22 is that much of the temporary spending in the current year on, for example, business grants, non-domestic rates reliefs, support for transport providers, Councils and the NHS will need to be unwound quickly.
- 3.6 The Spending Review currently assumes that 100% non-domestic rates reliefs for businesses in tourism and hospitality sectors in England will cease completely in 2021/22. However, the Spending Review notes that the UK Government is “*considering options for further Covid-19 related support through business rates reliefs. In order to ensure that any decisions best meet the evolving challenges presented by Covid-19, the government will outline plans for 2021-22 reliefs in the New Year.*” The implication is that, if some form of business rates reliefs for the hospitality sector does continue in England in 2021/22, additional consequential will flow to the Scottish Budget at that point.

3.7 It has been confirmed that the Scottish Budget for 2021/22 will be published on 28 January 2021, which is similar to the timescales for the 2020/21 Budget earlier this year.

3.8 It is anticipated that the Scottish Government will only publish a Budget for 2021/22.

4. 2021/22 PROVISIONAL REVENUE BUDGET

4.1 In line with the recommendations included in the Medium-Term Financial Plan approved by Council on 30 September 2020 (Report No. 20/174 refers), the Executive Officer Team have been updating 2021/22 Revenue Budget submissions.

4.2 A recurring theme emerging from the revised 2021/22 Revenue Budgets submissions is that many of the previously approved inflation assumptions have been reduced in line with current projections, creating capacity to contribute to other pressures.

4.3 The 2021/22 Revenue Budget submissions (as at December 2020) are summarised in the following table. The proposals included in the shaded columns have been previously agreed by the Council. Therefore, the Council will only consider the proposals included in the columns headed "To be Considered (Mar 21)" when it sets the 2021/22 Final Revenue Budget in March 2021. The updated 2021/22 Provisional Revenue Budget submissions have been subject to scrutiny by Elected Member Budget Review Groups during November and December 2020.

Summary of 2020/21 Provisional Revenue Budget Submissions (as at December 2020)

Expenditure Pressures			Savings Proposals		
Previously Approved (Mar 20)	To be Considered (Mar 21)	Total	Previously Approved (Mar 20)	To be Considered (Mar 21)	Total
£'000	£'000	£'000	£'000	£'000	£'000
5,365	6	5,371	2,943	(114)	2,829

4.4 The table above sets out a gap of £2.422 million in respect of the "Previously Approved" decisions taken by Council (difference between pressures of £5.365 million and savings of £2.943 million). Proposals for dealing with this gap were included in the Medium-Term Financial Plan approved by Council on 30 September 2020 (Report No 20/174 refers). The new submissions currently include a further gap of £120,000 and work is ongoing to address this

4.5 Members are also reminded that the Council has an approved 2022/23 Provisional Revenue Budget and work is ongoing to ensure this is in place from 1 April 2022. It is anticipated that the 2022/23 Final Revenue Budget will be set in February / March 2022.

Application of Revenue Budget Headroom

- 4.6 Currently there is **no Revenue Budget Headroom available** to the Council. If any Headroom becomes available, the Council is advised to consider a **prudent approach** in applying it towards recurring expenditure proposals in the 2021/22 Provisional Revenue Budget. The protection of recurring headroom does allow the Council to **reject** Service savings proposal. In recent years headroom has also been committed, on a non-recurring basis, to amongst other areas, economic development and employability.

5. CAPITAL BUDGET

- 5.1 On 30 September 2020, the Council received an update on the Investment Blueprint and Capital Budget 2020/21 to 2028/29 (Report No. 20/175 refers).
- 5.2 An interim high-level Investment Blueprint is currently being developed along with a set of principles to underpin it. Work is also ongoing to identify potential funding solutions for the additional expenditure agreed on 30 September 2020.

Perth City Hall

- 5.3 On 30 September 2020 (Report No 20/175), Council agreed that the City Hall project should proceed to financial close with a revised budget of £26.5 million, based on advice as to the best achievable price following extensive negotiations with the main contractor, through HubCo. This required a funding solution for the additional £3.3 million to be identified.
- 5.4 In accordance with the Council decision, the Head of Culture and Communities, as Senior Responsible Officer, together with the project team are moving towards financial close, with a view to work commencing on site in early 2021. The main contractor has undertaken to hold the pricing of specialist sub-contractor works if financial close can be achieved in December.
- 5.5 Whilst the Project Agreement may take some weeks to finalise, if the funding solution for the £3.3 million is agreed, the Head of Legal and Governance Services could issue a Letter of Intent following this meeting. The Letter of Intent would provide the main contractor with contractual assurance. This would enable the main contractor to enter into contracts with sub-contractors to secure price certainty. Should the Council be unable to issue a Letter of Intent in anticipation of financial close (i.e. the signing of the Project Agreement in the new year), the Head of Property Services has advised that may risk an increase in the overall cost of the project. Whilst there are always circumstances that can lead to increased prices (e.g. Covid-19) this is considered the best way to secure price certainty for the Project at this time.

- 5.6 As reported to the Strategic Policy & Resources Committee in November, the impact of Covid 19 upon the delivery of the Capital Budget in 2020/21 has been significant and there have inevitably been delays in progressing both individual Capital projects and ongoing programmes of work (Report 20/226 refers). Executive Directors have subsequently reviewed their Capital expenditure as part of the routine monitoring arrangements which will form the basis of the next report to the Strategic Policy & Resources Committee.
- 5.7 It is, therefore, proposed to fund the £3.3 million required for the City Hall by using slippage on the Capital programme in 2020/21 and transferring £2.6 million from the Roads Asset Management (structural maintenance) Budget; £200,000 from the Perth & Kinross Place Making budget and £500,000 from the Investment in Learning Estate budget in the current year.
- 5.8 For clarity, the proposal set out at 5.7 is to transfer budgeted resources from the above programmes in 2020/21 only, in line with forecast expenditure. The longer-term impact of this will be considered as part of the wider review of the Capital budget and the development of the interim Investment Blueprint.
- 5.9 **ACTION:** The Council is asked to approve the adjustments to the Capital Budget set out in paragraph 5.7 in order that the Perth City Hall project can move to financial close, in line with the Council decision on 30 September 2020.

6. NEXT STEPS

- 6.1 As set out above, it is anticipated that the Scottish Budget will be announced on 28 January 2021 with the Local Government Finance Circular being issued on the same day.
- 6.2 Work will continue with Budget Review Groups over the coming weeks to ensure that they have the most up to date information. Once the Scottish Budget is announced, further updates will be provided. Subject to Council consideration of the proposed committee timetable for January to June 2021, it is proposed that the budget setting Council meeting will take place on 3 March 2021.

7. CONCLUSIONS AND RECOMMENDATIONS

- 7.1. In common with all Scottish local authorities and the wider public sector, Perth & Kinross Council continues to anticipate a period of continued financial constraint and growing demand for Council Services. The emergence of Covid-19 has led to further financial challenges over the short to medium term. The Council continues to take proactive measures to enable it to address this challenge.

7.2. It is recommended that the Council:

- notes the contents of this report.
- approves the adjustments to the Capital Budget set out in paragraph 5.7 in order that the Perth City Hall project can move to financial close.

Author(s)

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Approved

Name	Designation	Date
Stewart Mackenzie	Head of Finance	8 December 2020
Karen Reid	Chief Executive	8 December 2020

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1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

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

1. Strategic Implications

Corporate Plan

- 1.1 The Council's Corporate Plan 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.

- 1.2 This report relates to all of these objectives.

2. Resource Implications

Financial

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

Workforce

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

Asset Management (land, property, IT)

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

3 Assessments

Equality Impact Assessment

- 3.1 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.
- 3.2 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.

Strategic Environmental Assessment

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

Sustainability

- 3.5 Under the provisions of the Local Government in Scotland Act 2003 the Council 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.
- 3.6 The information contained within this report has been considered under the Act. However, no action is required as the Act does not apply to the matters presented in this report.

4. Consultation

Internal

- 4.1 The Executive Officer Team 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