

# PERTH & KINROSS COUNCIL

28 FEBRUARY 2024

## STRATEGIC PLANNING UPDATE AND 2024/25 TO 2026/27 GENERAL FUND REVENUE BUDGET

Report by the Strategic Lead – Finance & Business Support  
(Report No. 24/63)

### 1. PURPOSE

1.1 The purpose of this report is to:

- provide an update on the how the Council's approach to organisational transformation and budget planning activity mitigates, as far as possible, the impact of the financial challenges facing the Council.
- present the 2024/25 and 2025/26 updated provisional General Fund Revenue Budgets, based on decisions taken by Council on 1 March 2023 (see **Section 7**) and present the 2026/27 provisional General Fund Revenue Budget.
- seek the Council's approval to set the indicative Council Tax level for 2026/27.
- provide an update on and seek approval of the Council's Reserves Strategy.
- provide an update on the financial risks facing the Council over the medium term, including significant inflationary and pay pressures, uncertainty over future funding levels and potential challenges for our partners.

### 2. RECOMMENDATIONS

2.1 It is recommended that Council:

- A. notes the update on transformation activities – see paragraph 5.30.
- B. approve the offer of funding from the Scottish Government to support a Council Tax freeze in 2024/25 – see paragraph 7.16.
- C. approves the 2024/25, 2025/26 and 2026/27 Provisional Revenue Budgets as set out in **Appendix B** – see paragraph 7.22.
- D. agrees a Council Tax collection rate of 98% in 2024/25, 2025/26 and 2026/27 – see paragraph 7.29.

- E. approves the Council Tax bases set out in **Table 7** – see paragraph 7.32.
- F. approves no increase in Council Tax for 2024/25 – see paragraph 7.35.
- G. approves indicative Council Tax increases for 2025/26 and 2026/27 of 4.9% and 4% respectively – see paragraph 7.40.
- H. approves 1% of future Council Tax increases be allocated towards loan charges that will support the Capital Budget – see paragraph 7.39.
- I. approves the contribution of **£87.438 million** to Perth & Kinross Integration Joint Board in the 2024/25 Provisional Revenue Budget – see paragraph 7.53.
- J. maintain a prudent approach to the application of reserves and earmark the General Fund Balances identified in **Table 11** and **Appendix H** – see paragraph 8.11.
- K. approves that uncommitted Reserves are maintained at a minimum of 2% to 4% of the 2024/25 Net Revenue Budget which equates to **£9.254 million** to **£18.508 million** – see paragraph 8.18.
- L. determines the 2024/25 Final Revenue Budget.
- M. determines the 2025/26 Updated Provisional Revenue Budget.
- N. determines the 2026/27 Provisional Revenue Budget.

### **3. STRUCTURE**

- 1.1 This report is structured as follows:

**Section 4 – Background – Strategic Context**  
**Section 5 – Transformation and Change Programme**  
**Section 6 – Scottish Government Budget**  
**Section 7 – 2024/25, 2025/26 & 2026/27 Provisional Revenue Budgets**  
**Section 8 – Reserves Strategy**  
**Section 9 – Risk Assessment**  
**Section 10 – Conclusions**

### **4. BACKGROUND – STRATEGIC CONTEXT**

- 4.1 Like all councils, Perth & Kinross Council is facing an increasingly complex and challenging financial situation, as pressures, service demands and workforce pressures increase, with the ongoing impacts of the cost-of-living and funding forecast to be reduced in real terms. The financial challenges have occurred alongside significant commitments such as climate change and tackling child poverty, with many households facing crisis, increasing child poverty and financial hardship, all placing additional pressures on Council

services. Between 2020/21 and 2021/22 the number of children living in poverty across Perth and Kinross has increased to 5,914.

- 4.2 To make the best use of its available resources, the Council must continue to review how it operates. To do this it must take decisions on what it will stop doing, do less of, do more efficiently or do differently through service redesign and working in collaboration with partners and communities, and in so doing reshape its workforce. Council will also wish to consider areas where it seeks to increase investment to reflect its agreed corporate priorities and take account of the financial principles it has already agreed, at the heart of which was a commitment for financial decisions to be based on data and evidence, whilst focusing on real need and not necessarily traditional demands, which did not fit with our priorities.
- 4.3 There are several key drivers which require the Council to maintain its pace of change and transformation including:
- new and emerging priorities – social, economic and climate – that require the Council to review what, how and where it delivers services to meet these challenges.
  - a growing ageing population and increasing complexity of need and demand for care, support and protection.
  - the continuing cost-of-living crisis, which increases the need for support and services, often to those who were already experiencing inequality.
- 4.4 Bringing together the Council's budget and change plans, supports greater alignment between its agreed strategic priorities and how it allocates resources to minimise the impact of budget cuts.
- 4.5 In bringing forward these budget proposals, officers have sought to find a balance between delivering the required level of unavoidable service reductions whilst protecting services for the most vulnerable people and communities. To do this, officers have followed the principles set out within the Council's policy framework as described below.

### **Our Policy Frameworks for Change**

- 4.6 The Council's policy framework provides parameters for how it will make difficult decisions to deliver its agreed priorities by taking an evidence-based approach and placing a focus on need and by better managing demand.
- 4.7 The Council's [Corporate Plan 2022-27](#) approved in December 2022 (Report No. 22/311) sets our vision for **“a Perth and Kinross where everyone can live life well, free from poverty and inequality”**.
- 4.8 The Council's seven key priorities show how it will address the challenges it faces and focus its work where it is needed most to support the delivery of that vision:

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

4.9 As the financial pressures facing the Council increase, there is an increasing need for the Council to review its priorities and the extent to which these can be met, to ensure investment is effectively targeted against these seven areas. Officers will continue to consider this work as they report on performance and update Council later this year through the Corporate Delivery Improvement Plan.

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

4.11 The Financial Strategy is the link between the Council's long-term priorities and its financial capacity. It aims to build resilience and ensure that the Council has an affordable and sustainable Medium Term Financial Plan, which directs its resources to where they are most needed. The financial principles agreed by Council have been applied to the budget proposals:

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

4.12 The Council approved the updated [Medium Term Financial Plan](#) (MTFP) on 4 October 2023. This update considered future funding levels, increasing costs and rising need / demand over the short to medium term, insofar as they may impact on Perth & Kinross Council. It is anticipated that the MTFP will be further updated in October 2024.

4.13 The MTFP places the development of budgetary strategy in the context of delivering the Council's key outcomes and considers the financial and process risks in the management of the Council's finances. The MTFP informs the direction of the Council for financial planning purposes. As detailed budget

proposals are developed, the broad assumptions included within the MTFP are superseded by more detailed analysis of individual cost pressures and the identification of budget reduction options. The refinement of these assumptions is included in the 2024/25, 2025/26 and 2026/27 Provisional Revenue Budgets.

- 4.14 On 4 October 2023, the Council also approved the [Draft Corporate Delivery and Improvement Plan 2024/25](#) (Report No. [23/266](#)). The CDIP will set out the improvement actions the Council will take in the year ahead to achieve its longer-term vision and priorities. This approach will enable elected members to better consider organisational priorities and improvements alongside budget setting. The final CDIP will be brought back to Council for approval after the final 2024/25 budget is agreed. This will enable any adjustments following agreement on the budget to ensure improvement activity is aligned with the funded priorities set by Council.
- 4.15 In June 2022, the Council agreed a five-year [Transformation & Change Strategy](#) (Report No. 22/142 refers). This recognised that the shape and structure of the organisation, as well as the way it operates, needs to transform. The Finance & Resources Committee considered [Transformation & Strategy Update report](#) on 13 November 2023 (Report No. 23/245 refers). It is anticipated that a further update will be provided on 24 April 2024.
- 4.16 Transformation alone will not address the structural deficit and budget cuts and service reductions will continue to be required. However, the work being undertaken through the Transformation and Change Programme has reduced spend, mitigated costs, and enabled a shift of expenditure to the Council's priorities. Demand management continues to be considered to ensure that the right services reach the right people, where and when they are needed, leading to better use of available resources. A combination of measures and approaches will continue to contribute towards the removal of the structural deficit, with the aim of delivering a balanced budget and removing the need to draw on Reserves.

## **5. TRANSFORMATION AND CHANGE PROGRAMME**

- 5.1 This section sets out the main activities undertaken over the last year in delivering the Transformation & Change Programme.
- 5.2 The [Transformation and Change Strategy](#) recognised that due to the size and complexity of the Council, a range of approaches to change would be required:
- transforming our customer's experience,
  - transforming the shape and structure of our organisation,
  - transforming our systems and processes,
  - transforming our spending and response to demand.
- 5.3 Work during year one (2023/24) focused on implementing of phase 1 of the Strategic Leadership Review and delivery of the 9 consolidation workstreams. Phase 2 transformation projects were also progressed, with a greater focus

on operational service delivery, re-design and efficiency. This work will continue under new Strategic Lead service portfolios. **Appendix A** to this report outlines the overall status of the programme.

- 5.4 Within the Strategic Planning Update and 2023-26 General Fund Budget Report in March 2023 ([Report 23/72](#)), funding was approved to provide additional capacity, enable a greater focus on planning and support to the delivery of the overall programme. The following sections outline the progress made in terms of the programme delivery, as well as the work undertaken to create the conditions for change.

### **Phase 1 progress Update - Consolidation**

- 5.5 The Transformation and Change Strategy recognised the need for the Council to take a greater collaborative approach to the delivery of our priorities. The consolidation workstreams have brought together previously disaggregated functions from across the Council under single points of management. This has addressed areas of duplication, delivered efficiencies and introduced greater consistency across the organisation. Projects have also delivered a range of system and process improvements, which will continue to be progressed over the coming months, with a focus on performance and outcomes.
- 5.6 Each project has delivered a range of benefits, however there are some which are common to them all, demonstrating achievement of the objectives set out in the Transformation and Change Strategy:
- greater collaborative working, with project teams working together, sharing knowledge and experience, and building relationships.
  - the creation of boards in several projects means that decisions are being made at the right time and by the right people.
  - baselining and benchmarking information has identified where system and process improvements could be made.
  - feedback from some community groups have highlighted that they have seen positive changes in how the Council works with local communities.
- 5.7 The **Customer Services workstream** set out to place our citizens and our communities at the heart of how we work through adopting a customer-centric approach to digital improvement activities. This project continues to deliver better outcomes for customers, for example through a channel shift to make more services available online. Evidence shows that more customers are choosing to make use of these services and are getting a better experience, with almost 93% rating their online experience as good or excellent. All school enrolments were processed online this year, which improves both the customer experience and rationalises internal processes.
- 5.8 The **Pitlochry Asset Review** is considering all Council property assets (excl. social housing) within the Pitlochry area to ensure they align with future service delivery and community needs and make best use of resources. Extensive consultation was undertaken with the community, service users, partners and local elected members to establish the best option, focused on

needs as well as considering local aspirations. Finalised proposals will be brought forward to the recently established Strategic Investment Advisory Group for consideration by elected members in terms of service delivery, affordable housing, community asset transfer and co-location of services, before reporting to Council.

### **Leadership Review – Progress**

- 5.9 Phase 1 of the Leadership Review is almost complete, with the new structure due to be fully implemented by April 2024. The newly formed Strategic Leadership Team (SLT) is realigning responsibilities and resources under each of the Strategic Leads and is reviewing the Council's internal governance arrangements. This includes a streamlining of existing arrangements and the establishment of themed Boards linked to the priorities within the Corporate Plan ensuring a broader oversight of performance and outcomes.
- 5.10 Following positive feedback last year, the SLT will following the budget setting, return to holding monthly sessions in localities across the Council area. By meeting with local community representatives, the Council's senior leaders have an opportunity to better understand each locality's needs and priorities including opportunities for communities to develop their local action plans and consider service and asset management or transfer. Officers will be bringing back a further report to Council on engagement with communities as part of a further transformation workstream.
- 5.11 Alongside this internal engagement, internal engagement arrangements continue to be reviewed and developed as we seek to ensure that we are listening to, using the expertise of our full team and supporting the change going on throughout the organisation. This engagement will be supported by a first full staff survey since 2022. This will be carried out early in the coming financial year.

### **Transformation Supported Resource Reduction**

- 5.12 In preparing this budget submission, transformation leads have worked closely with finance colleagues to ensure:
- i. Close alignment with the budget process
  - ii. Any resource reduction proposals identified from transformation are incorporated within budget proposals, and
  - iii. Where possible cuts are considered and incorporated into transformation and change reviews to mitigate impact for service users and our workforce
- 5.13 Due to the significant financial challenges faced, this process has been complex. Project leads have, as far as possible:
- i. Assessed the financial details of each activity within scope.
  - ii. Mapped savings already identified within the budget process related to their workstream.

- 5.14 Whilst transformation will not mitigate the full impact of cuts, it will make best use of remaining resources to ensure the Council continues to meet its statutory responsibilities, service priorities and external and internal customer needs, where possible.
- 5.15 Reductions in service budgets of **£1.042 million** have been achieved in 2023/24. A further **£1.713 million**, previously agreed for 2024/25 has largely been delivered and work is underway to achieve a further **£3.288 million** for 2025/26 across the whole programme. In addition, the new Strategic Leadership Structure approved by the Finance & Resources Committee on 20 June 2023 (Report No. 23/195) will contribute further recurring savings of **£789,000** by 2026/27.
- 5.16 The 2024/25, 2025/26 and 2026/27 Provisional Revenue Budgets includes reductions in expenditure from Strategic Commissioning & Procurement (**£1.5 million**) and phase 2 of the leadership review (**£1.5 million**).
- 5.17 In total the programme has generated and is targeted to deliver over **£10 million** in reduced costs and resources by 2026/27. As projects continue to be identified and progressed; cost avoidance and further reductions in resourcing will be identified and reported to Council.

### **Progress Update – Culture & Behaviours**

- 5.18 To enable the change required, we recognise the need to set the right conditions so that our people feel supported through organisational transformation. Fundamental to supporting our employees is the cultural engagement programme, which has a focus on the Council's purpose, vision and values, ensuring that these are reflected in behaviours. It looks to continue to grow a culture where individuals are valued and treated with respect.
- 5.19 Over the past year, a new Leadership and Competencies Framework and Performance and Development Discussion framework have been introduced. These set out the behaviours, skills and actions needed from our leaders and staff, with a focus on performance and outcomes which contribute towards the Council's priorities.
- 5.20 Reshaping our workforce is key as we move through the change process to enable a shift of resources to where they are needed most, whilst also developing and skilling our employees to meet changing priorities. These changes will take time to be fully effective and a new 3-year People and Culture Strategy is currently being developed to create the conditions to enable delivery of this.

### **Supporting our workforce**

- 5.22 The Council recognises the impact that the budget and change proposals will have on its employees. As an organisation of people delivering services to, for and with people our employees are the Councils most important asset. We remain committed to engaging with, supporting, and developing our



employees as we re-shape our workforce to deliver the services our communities need. As we see reductions in our workforce through required budget measures, it is imperative that officers and members continue to focus on organisational priorities. This will see a reduction on officer capacity to respond to and deliver non statutory and/or non priority activities, including those requests made by members. There is a continuing requirement for officers and members to set out the impact of budget reductions to communities and that Council will not be able to continue to deliver all services at the levels which have previously been available.

- 5.23 A new People and Culture Strategy that reflects the Council's values and incorporates workforce planning, health and wellbeing, growing organisational culture, engagement, along with a programme of training and development will be submitted to Committee later in 2024.
- 5.24 The [Framework for Managing Workforce Change](#) was reviewed in February 2023 (Report No. 23/33 refers). The framework ensures that the Council promotes fair, consistent, and equitable treatment of employees during change. It is one of several tools that support transformation, a culture of innovation, our ongoing commitment to employability, as well as supporting learning opportunities for all employees affected by transformation and change.
- 5.25 In recognition of the changes to how and where we work, the draft [Flexible Working Framework](#) was approved by the Finance and Resources Committee on 31 January 2024 (Report 24/42). The Framework brings together the different provisions which support increased levels of flexibility, formalises hybrid working as a workstyle and sets out key principles which help maintain a focus on operational and customer need. The Working Smarter project will ensure both staff and office space work to optimum efficiency.

### **Next Steps**

- 5.26 The next phase of the Transformation and Change programme will be essential for the Council to help mitigate the significant financial challenges that it faces. With Strategic Leads now in post and getting up to speed with their new remits and new teams, there is an opportunity to review portfolios and identify areas for service redesign and business improvement.
- 5.27 Work is already underway to develop business insights profiles which will focus on developing and improving the quality of business intelligence across the Council that will support the ability to identify options and opportunities for change and redesign.
- 5.28 The profiles will also inform Phase 2 of the Leadership Review, which will include redesigning the functions and structures which support Strategic Lead portfolios. The budget reductions for 2024/25 and beyond will be achieved through a range of measures i.e. realignment of teams and structures, a review of budget reductions over recent years to see the impacts on all service areas, leadership capacity at all levels across the organisation and

workforce management arrangements to optimise how resource is utilised across the Council.

5.29 Once final budget decisions have been made, all proposals will be reviewed alongside transformation and change projects and service delivery arrangements. This will fully align the Council's budget and change plans to ensure the best use of remaining resources to deliver on our agreed priorities. This model of linking organisational change, workforce and asset management planning and budget considerations will be further embedded over the coming year and reflected in updates via Finance and Resources Committee and future Strategic Planning and Budget reports.

5.30 **ACTION: Note the update on transformation activities – RECOMMENDATION A**

## **6. SCOTTISH GOVERNMENT BUDGET**

6.1 The principles and approach set out in the previous section have been applied within the context of the budget available to the Council for this year. This is largely informed by the decisions made in the Scottish Government Budget.

6.2 The Scottish Government budget for 2024/25 was published on 19 December 2023 which was followed by Local Government Finance Circular 8/2023 on 21 December.

### **Local Government Finance Circular 8/2023**

6.3 Local Government Finance Circular 8/2023 includes the provisional financial settlement for 2024/25 at an individual Council level. The Settlement only included information for 2024/25.

6.4 The Circular provides details of the provisional total Revenue and Capital funding allocations for 2024/25, as well as the latest information on funding redeterminations for 2023/24. The Circular also provides details on a range of business rates measures, including the 2024/25 Non-Domestic Rates poundage.

6.5 The provisional total funding allocations form the basis for the annual consultation between the Scottish Government and COSLA ahead of the Local Government Finance (Scotland) Order 2023 being presented to the Scottish Parliament. This is currently scheduled for 28 February 2024.

6.6 The Circular sets out a national funding package of **£13.9 billion** and includes:

- **£950.9 million** that has now been baselined into General Revenue Grant.
- an additional **£230 million** to deliver the payment of £12 per hour minimum pay settlement for adult social care workers.

- an additional **£11.5 million** to support the uprating of free personal and nursing care rates.
- an additional **£6 million** to support the expansion of the free school meals policy.
- an additional **£6.8 million** for discretionary housing payments.
- **£145.5 million** to support additional teachers and support staff.
- **£242 million** to support teacher pay uplifts, and.
- **£266.2 million** to support local government pay.

6.7 As has been the case in previous years, Finance Circular 8/2023 also contained information on revenue funding which has still to be distributed. The undistributed national funding is set out below.

- Teachers Induction Scheme – **£37.6 million**
- Discretionary Housing Payments – **£92.7 million**
- Gaelic – **£0.103 million**
- Scottish Disability Allowance – **£3.5 million**
- Social Care – **£230 million**

6.8 Based on Finance Circular 8/2023, the total Revenue funding being made available by the Scottish Government to Perth & Kinross Council in 2024/25 is **£337.738 million** (see **Table 1** below).

**Table 1: Scottish Government Grant Funding – Perth & Kinross Council**

	<b>2024/25</b>	<b>2023/24</b>
	<b>£m</b>	<b>£m</b>
General Revenue Funding	269.418	239.627
Non-Domestic Rates	64.514	60.754
Ring-Fenced Grants	3.806	17.725
<b>TOTAL REVENUE FUNDING</b>	<b>337.738</b>	<b>318.106</b>

Source: Finance Circular 8/2023 – 21 December 2023  
Finance Circular 11/2022 – 10 January 2023

6.9 The 2024/25 Scottish Government provisional funding allocation of £337.738 million represents a **£19.632 million** increase in absolute cash terms from the allocation for 2023/24 (or 6.2%).

6.10 However, the 2024/25 provisional funding allocation includes **£18.319 million** where there is an expectation or requirement for the Council to apply funding for a stated purpose (most notably 2023/24 pay awards and social care (living wage)).

6.11 Therefore, on a like for like basis, the provisional Scottish Government funding allocation for 2024/25, represents a **£1.313 million** increase (or 0.4%) over the equivalent position for 2024/25 as set out in Finance Circular 11/2022.

6.12 **Table 2** below summarises the movements in the total funding package from the Scottish Government to facilitate a comparison of the 2024/25 provisional allocation with 2023/24 on a comparable basis.

**Table 2: Cash Movements between 2023/24 & 2024/25 (on a comparable basis)**

	£m
2023/24 – Finance Circular 11/2022	<b>318.106</b>
2024/25 – Finance Circular 8/2023	<b>337.738</b>
<b>Year on year cash increase in funding</b>	<b>19.632</b>
<b>Year on year % increase in cash funding</b>	<b>+6.2%</b>
Less:	
- funding directed to service delivery	(18.319)
<b>£ Increase (on a comparable basis)</b>	<b>1.313</b>
<b>% Increase</b>	<b>0.4%</b>

6.13 The increase set out in **Table 2** above does not take account of the additional impact of inflation, which is significant, or increasing demand for Council services.

6.14 The Scottish Government has still to allocate significant funding to Councils including adult social care, discretionary housing payments and the teachers' induction scheme. Once these allocations are known, the Finance & Resources Committee will be asked to approve the 2024/25 Revenue Budget. In addition, the UK Government have announced funding for English local authorities which may flow through to Scotland through Barnett Consequentials. It is anticipated that the outcome of this will not be known until after the Council meeting on 28 February 2024.

### **Implications for the 2024/25 Capital Budget**

6.15 Finance Circular 8/2023 also includes provisional Capital Grant allocations for 2024/25. The impact of these allocations is included within the Strategic Investment & Capital Budget 2024/25 – 2029/30 report (Report No. 24/64 refers) which is on the agenda for this special meeting of the Council.

### **Non-Domestic Rates**

6.16 Finance Circular 8/2023 also includes the Non-Domestic Basic Rate poundage for 2024/25 of **49.8p**, no change from 2023/24. Two additional

rates are levied on properties with rateable values over £51,000 (54.5 pence) and £100,000 (55.9 pence) respectively.

## 7. 2024/25, 2025/26 & 2026/27 PROVISIONAL REVENUE BUDGETS

7.1 The Council approved the 2024/25 and 2025/26 Provisional Revenue Budgets on 1 March 2023. In doing so, the Council approved expenditure pressures and budget reductions which are set out in **Table 3** below (Report No. 23/72).

**Table 3: Decisions Taken by Council on 1 March 2023**

	2024/25 £m	2025/26 £m	Total £m
Expenditure Pressures	5.542	3.399	8.941
Budget Reductions	5.140	4.513	9.653

7.2 As a result of the decisions taken on 1 March 2023, the Council had a known **opening deficit** in **2024/25 & 2025/26** of **£1.954 million & £1.551 million** respectively. These deficits are the basis for updating the 2024/25 & 2025/26 Provisional Revenue Budgets and setting the 2026/27 Provisional Revenue Budget for the first time.

7.3 The information that follows in this section sets out several adjustments that are included within the 2024/25, 2025/26 and 2026/27 Provisional Revenue Budgets.

7.4 On 8 February 2023, the Council approved a change in accounting policy in relation to **Service Concession** arrangements (Report No. 23/43 refers). This change created recurring capacity of approximately £3 million and a non-recurring contribution from revenue balances of £31.2 million. Of the non-recurring contribution in 2023/24 Revenue Budget, **£10 million** unwinds in 2024/25 and requires to be addressed.

7.5 In the revenue monitoring updates considered by the Finance & Resources Committee, the **Council Tax Reduction Scheme** has been identified as an expenditure pressure that requires to be addressed. On that basis, it is proposed that **£1.2 million** is added to the base budget for this activity.

7.6 Two adjustments are required in relation to **staff costs**. Firstly, because this is the first time the Council has set the 2026/27 Provisional Revenue Budget, it is necessary to include a provision for pay awards. Consistent with the Medium-Term Financial Plan, approved by Council in October 2023, the budgeted increase is set at 3% which equates to **£8 million**. Secondly, the Council has been advised of a reduction in the employer's superannuation contribution rate from 1 April 2024 which generates a net recurring saving of **£1.050 million**.

7.7 There have been several **Council approved decisions** which impact on the Provisional Revenue Budgets including Council Tax premium on second homes, non-domestic rates relief, leadership review and the Medium-Term

Financial Plan. The financial impact of these decisions is **£3.005 million** and **£3.525 million** in **2024/25** and **2025/26** respectively.

- 7.8 An **officer review of budgets** has been undertaken to contribute towards the delivery of balanced revenue budgets. This exercise involved an examination of budgets and assumptions included in existing approved revenue budgets and has identified reductions of **£2.510 million, £85,000 and £80,000** in **2024/25, 2025/26** and **2026/27** respectively. None of these adjustments impact on the delivery of Council priorities. This is in addition to the transformation reductions and savings identified at paragraph 5.17 above.
- 7.9 The process for updating the 2024/25 and 2025/26 Provisional Revenue Budgets and preparing the 2026/27 Provisional Revenue Budget included the preparation of Executive Summaries that set out **Expenditure Pressures** and **Budget Reductions**.
- 7.10 The Executive Summaries include an assessment of the potential impact of expenditure pressures and budget reductions against the following criteria:
- **Fairness** – including the potential socio-economic impact on vulnerable individuals and groups.
  - **Workforce** – including information on numbers of employees affected, vacancies, staff turnover and fixed term contracts.
  - **Customers** – including information on the effect on all customers /stakeholders (both external and internal).
  - **Equalities/Diversity** – ensuring that any statutory equalities issues are considered.
  - **Outcome & Performance** – identifying any significant impact on the Local Outcomes Improvement Plan and/or Service Business Management and Improvement Plans.
  - **Climate Change** – including positive and negative impact
- 7.11 The potential workforce implications identified within the Executive Summaries include vacant posts and will be influenced by turnover. The Council's positive and proactive approach to workforce management is designed to mitigate the impact on its people, including investment in skills for the future, retraining, support to take on new job roles, career coaching and building resilience.
- 7.12 Equality and Fairness Impact Assessments for individual expenditure pressures and reductions were prepared which facilitated the preparation of a cumulative impact assessment, circulated to all Elected Members in advance of this special meeting of the Council.
- 7.13 The Executive Summaries have been subject to scrutiny by Elected Member Budget Review Groups which commenced in December 2023. The detailed analysis of these expenditure pressures and reduction proposals are set out

in **Appendix B**. Total updated expenditure pressures of **£7.552 million** and total budget reductions of **£21.384 million**, are summarised in **Table 4**.

**Table 4: Expenditure Pressures and Budget Reductions**

	<b>2024/25 £m</b>	<b>2025/26 £m</b>	<b>2026/27 £m</b>	<b>Total £m</b>
Expenditure Pressures	4.084	1.169	2.299	7.552
Budget Reductions	(8.657)	(4.030)	(8.697)	(21.384)

- 7.14 In paragraph 6.11, detailed information on the financial implications of the **Local Government Settlement** is included. This includes **£1.313 million** of funding that is un-hypothecated.
- 7.15 The Council has also been advised of funding of £4.739 million in 2024/25 from the Scottish Government to support a **Council Tax Freeze**. The Council had previously set an indicative Council Tax increase of 3.9% for 2024/25. The funding offered to Perth & Kinross Council is **£703,000** greater than the indicative increase and is available to contribute towards the 2024/25 Revenue Budget. At this time, the additional funding for the Council Tax freeze is not included in Finance Circular 08/2023.
- 7.16 **ACTION: The Council is asked to approve the offer of funding from the Scottish Government to support a Council Tax freeze in 2024/25 – RECOMMENDATION B.**
- 7.17 Given the significant risks impacting on Council Services in future financial years, it is considered prudent to create a contingency budget to contribute to unforeseen events, including cost pressures, service needs and income shortfalls. To that end the 2025/26 and 2026/27 Provisional Revenue Budgets include **£1.395 million** and **£2.003 million** respectively. At this time the indicative budgets for these years do not fully reflect a number of inflationary elements and these figures will be updated in the next budget setting process.
- 7.18 With all the adjustments set out above, the Council has a balanced provisional revenue budget for 2024/25 and a limited amount of financial contingency to address future pressures in 2025/26 and 2026/27.

**Table 5: 2024/25, 2025/26 & 2026/27 Provisional Revenue Budget Adjustments**

	<i>Para Ref</i>	<b>2024/25 £m</b>	<b>2025/26 £m</b>	<b>2026/27 £m</b>
Opening Deficit	7.2	1.954	1.551	-
Service Concessions	7.4	10.000	-	-
Council Tax Reduction Scheme	7.5	1.200	-	-
Staff Costs	7.6	(1.050)	-	8.000
Council Decisions	7.7	(3.005)	-	(3.525)
Officer Review of Budgets	7.8	(2.510)	(0.085)	(0.080)
Expenditure Pressures	7.13	4.084	1.169	2.299
Budget Reductions	7.13	(8.657)	(4.030)	(8.697)
Local Government Settlement	7.14	(1.313)	-	-
Council Tax Freeze	7.15	(0.703)	-	-
Contingency	7.16		1.395	2.003
<b>Balanced Provisional Revenue Budgets</b>		-	-	-

- 7.19 Elected Members are reminded that the balanced Provisional Revenue Budgets, as set out in **Appendix B**, are based upon the assumption that all expenditure pressures and all reductions within the Executive Summaries attached as **Appendix C** are approved. Furthermore, this position is subject to the current known funding available from Government.
- 7.20 The 2024/25, 2025/26 and 2026/27 Provisional Revenue Budgets have been prepared based upon the information currently available, both in terms of financial resources and anticipated service delivery pressures. The analysis reflects the judgement of Council officers, a focus on Council priorities and financial principles, however, there is a significant risk that these assumptions may require to be revised as part of the ongoing monitoring of Council expenditure and income.
- 7.21 Finally, the Council is recognised by external auditors for its prudent approach to financial management. Given the level of uncertainty over the short to medium term in relation to additional expenditure, reduced income, the previously approved use of Reserves, and the unknown impact of the cost of living on local communities and the local economy, Council is advised to adopt a cautious and prudent approach towards the application of Reserves. Council has already agreed the principle of not funding recurring activity from general fund reserves.
- 7.22 ACTION: The Council is asked to approve the 2024/25, 2025/26 and 2026/27 Provisional Revenue Budgets as set out in Appendix B – RECOMMENDATION C.**



- 7.23 Elected members should be aware that when the decisions already taken on 1 March 2023 are combined with the proposals being considered in updating provisional revenue budgets, there are budget reductions of **£31.037 million** across all 2024/25, 2025/26 and 2026/27 which are set out in **Table 6**

**Table 6: Combined Expenditure Pressures & Budget Reductions**

	<b>24/25 £m</b>	<b>25/26 £m</b>	<b>26/27</b>	<b>Total £m</b>
Pressures – 1 March 2023	5.542	3.399	-	8.941
Pressures – 28 February 2024	4.204	1.169	2.299	7.672
<b>Total Expenditure Pressures</b>	<b>9.746</b>	<b>4.568</b>	<b>2.299</b>	<b>16.613</b>
Reductions – 1 March 2023	(5.140)	(4.513)	-	(9.653)
Reductions – 28 February 2024	(8.657)	(4.030)	(8.697)	(21.384)
<b>Total Reductions</b>	<b>(13.797)</b>	<b>(8.543)</b>	<b>(8.697)</b>	<b>(31.037)</b>

- 7.24 Council is also advised that there may be delays implementing some additional expenditure proposals, to allow lead in arrangements to be established, this may result in some activity slipping into future financial years. Any additional projects introduced through the Revenue Budget Motion / Amendments, must reflect the Council’s priorities and approved financial principles, including a focus on need rather than responding to demand and be based on evidence and data. Delivery of new proposals may also require a commensurate increase in staffing capacity which may delay implementation as the appropriately skilled officers are recruited.

### **Council Tax Collection Rate**

- 7.25 In previous financial years, the Council has budgeted for a Council Tax collection rate of 98%. This target, whilst challenging, was supported by the Council’s collection performance over recent years and represents a realistic budgeted collection rate in “normal” times.
- 7.26 Elected members receive regular updates on Council Tax collection through reporting to the Finance & Resources Committee.
- 7.27 Despite the challenges facing households, Council Tax collection is holding up. It is therefore proposed that the collection rate of 98% is maintained for 2024/25, 2025/26 and 2026/27. It should, however, also be noted that there remains a risk to collection levels due to the economic environment, changes in legislation in relation to debt recovery and welfare reform. The cost-of-living crisis along with Covid-19 and its impact on household incomes may also continue to have a significant impact.
- 7.28 It usually takes on average around six years to reach or exceed a collection level of 98%. The Council remains committed to sustaining and improving performance in respect of all its income recovery activities.

**7.29 ACTION: The Council is asked to agree a Council Tax collection rate of 98% in 2024/25, 2025/26 and 2026/27 – RECOMMENDATION D.**

### **Council Tax Base**

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

**Table 7: council tax – number of band d equivalent properties**

2024/25	73,718
2025/26	74,577
2026/27	75,228

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

**7.32 ACTION: The Council is asked to approve the Council Tax bases set out in Table 7 above – RECOMMENDATION E.**

### **Council Tax Rates**

7.33 On 1 March 2023, the Council approved indicative Council Tax increases of **3.9%** for **2024/25** and **2025/26**. In October 2023, the Council approved the updated Medium Term Financial Plan (Report No. 23/72 refers) which included an indicative increase of **3%** for **2026/27** as a planning assumption.

7.34 The 2024/25 Provisional Revenue Budget has been constructed on the basis that the Council will accept the funding towards a Council Tax freeze. Therefore, it is proposed that there is no increase in Council Tax for 2024/25.

**7.35 ACTION: The Council asked to approve no increase in Council Tax for 2024/25 – RECOMMENDATION E.**

7.36 The 2025/26 and 2026/27 Provisional Revenue Budgets have been constructed in line with previous decisions of Council i.e. 3.9% and 3%.

7.37 However, in recognising the pressures on the Capital Budget, which are set out in the separate report on the agenda for this special meeting of the Council, it is proposed to add a further 1% to 2025/26 and 2026/27 which will generate additional income of **£1.047 million** and **£1.149 million** in 2025/26 and 2026/27 respectively. This additional income will be applied to Loan Charges to support the Capital Budget.

**7.38 ACTION: The Council asked to approve indicative Council Tax increases for 2025/26 and 2026/27 of 4.9% and 4% – RECOMMENDATION G.**

7.39 Beyond these financial years, it is proposed that the policy is extended so that in future years, 1% of Council Tax income is ringfenced and applied to

supporting the Capital Budget to ensure delivery of key infrastructure projects such as Destiny Bridge, Perth Museum, Perth High School and Blairgowrie Recreation Centre as well as supporting the programmes such as roads, bridges and IT investment. This position will be kept under review.

7.40 **ACTION: The Council asked to approve that future Council Tax increases allocate 1% towards loans charges which will support the Capital Budget – RECOMMENDATION H.**

7.41 For illustrative purposes, a 1% increase in Council Tax to support the Capital Budget means an annual increase of less than £14 which represents a weekly increase of 27p or monthly increase of £1.17.

7.42 In the event that future Council Tax increases are restricted or prohibited, a corresponding amount from the Revenue Budget would be applied to Loan Charges in order to ensure the sustainability of the Capital Budget in the medium and longer term.

### **Fees and Charges**

7.43 The proposals set out in **Appendix B** include the financial implications of increases to existing levels of charges in 2024/25. Full details of recommended charges for 2024/25 are set out in **Appendix D**.

7.44 The annual review of charges considers several factors including an assessment of previous year's income levels, trends in user demand, inflationary pressures, savings targets, alternative charging structures and the potential impact on vulnerable groups.

7.45 All fees and charges should be set in line with the approved individual charging policy and fall into one of the following categories set out in **Table 8** below.

**Table 8: Charging Categories**

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

## Perth and Kinross Integration Joint Board

- 7.46 The Public Bodies (Joint Working) (Scotland) Act 2014 introduced joint working with NHS (Tayside) in the form of an Integrated Joint Board (IJB) for the delivery of health and social care across Perth and Kinross.
- 7.47 The Perth and Kinross IJB has an approved Strategic Commissioning Plan for 2020-25 and a series of Strategic Delivery Plans to deliver on its objectives for vulnerable adults who rely upon community health and social care for daily living. The IJB has issued directions to the Council to deliver integrated health and social care, and, to support transformation in key priority areas such as older people services including care at home; expansion of support and independent living for people with a learning disability service and securing better outcomes in community mental health. The IJB has agreed to revise its Strategic Commissioning Plan, to update its Strategic Needs Assessment in 2023, and finalise this in 2024. (mid-term).
- 7.48 The Executive Leadership Team has continued to support the development of a range of transformational approaches to service provision aimed at building on best practice in health & social care provision.
- 7.49 The Local Government Finance Circular 8/2023 issued on 21 December 2023 confirmed that the funding allocated to Integration Authorities should be additional and not substitutional to each council's 2023/24 recurring budgets.
- 7.50 The 2024/25 Provisional Revenue Budget assumes the contribution to the IJB will meet the commitment set out above in paragraph 7.49. The Council will pass on its full share of the funding for health and social care costs and no inflation or savings will be allocated to the IJB contribution.
- 7.51 The 2024/25 Provisional Revenue Budget assumes a pass through of in funding to the Health & Social Care Partnership of **£3.087 million** as provided for in the local government funding settlement from the Scottish Government. In addition, the application of **£1.140 million** towards the cost of the 2023/24 pay award.
- 7.52 The IJB is scheduled to meet on 20 March 2024 to consider its budget for 2024-25. This budget will consider the funding received from each Partner Body alongside the pressures which have been identified for 2024-25. The IJB will require to make decisions in relation to savings to deliver a balanced budget for 2024-25. Until both partners have confirmed their 2024/25 Revenue Budget, there is a risk to the delivery of the IJB Strategic Delivery Plan.
- 7.53 **ACTION: The Council is requested to approve the contribution of £87.438 million to Perth & Kinross Health & Social Care Partnership in the 2024/25 Provisional Revenue Budget – RECOMMENDATION I.**
- 7.54 In addition, the Scottish Government has still to allocate £230 million of funding nationally towards adult social care the Real Living Wage. It is anticipated that the Council's share of this national funding will be

approximately £7 million. This funding is required to deliver the £12 per hour minimum pay settlement for adult social care workers in commissioned services via agreed contract uplifts.

### **Composite Capital Budget**

- 7.55 The agenda for this special meeting of the Council includes a report on the Strategic Investment & Capital Budget 2024/25 – 2029/30 report (Report No. 24/64 refers). Within that report, is an update on several immediate inflationary pressures facing the Capital Budget as well as projections on the Capital Fund, which is being utilised to smooth the impact on the Revenue Budget of the significant capital expenditure in the short term.
- 7.56 To that end, the 2024/25 Provisional Revenue Budget includes a recurring increase in the loan charges budget of **£800,000** to support the Capital Budget in the medium term.
- 7.57 The 2025/26 & 2026/27 Provisional Revenue Budgets also include a proposal to apply 1% of future Council Tax increases to supporting the Capital Budget.

### **Budget Consultation Exercise**

- 7.58 Between 8 December 2023 and 7 January 2024, the Council carried out an online consultation exercise to gauge residents' views on budget issues and priorities.
- 7.59 Overall, there were **761** responses submitted to the on-line survey which is consistent with previous year's budget only exercises (in 2023/24 the exercise included the corporate plan consultation, and the response rate was higher). **Appendix E** provides details on the 761 responses and a report that was shared with Budget Review Groups.
- 7.60 The budget consultation has provided feedback on priorities and themes that are important to people in Perth and Kinross. It has also provided further suggestions which can be used to inform the budget process and wider engagement exercises. The Council will continue to build on its approach to involve communities who are seldom heard, benchmarking with Community Planning Partners and local community groups to ensure that it understands the issues important to them.

### **Scottish Water Charges**

- 7.61 The Council has received notification from Scottish Water that domestic water supply and waste water collection charges for 2024/25 will increase by **8.8%**. This results in a band D equivalent charge for water and wastewater from Scottish Water of £546.39, an increase of £44.10, (£502.29 in 2023/24). The split between water and wastewater is set out in **Table 9** below.

**Table 9: band d water & wastewater charges for 2024/25**

	<b>Water</b>	<b>Wastewater</b>	<b>Total</b>
Band D	£252.90	£293.49	£546.39

7.62 Therefore, if the Council chooses to freeze Council Tax rates in 2023/24, households will still see an increase in bills because of the increase in charges from Scottish Water.

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

## 8. RESERVES STRATEGY

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

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

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

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

8.4 The 2022/23 Audited Annual Accounts included **£69.723 million** of General Fund Reserves. More details on the levels of cash backed Reserves are set out in **Appendix F**. When the earmarked Reserves of **£51.553 million** are removed, there was an uncommitted balance of **£18.170 million** which equates to **4.0%**.

### Proposals to Earmark Reserves

8.5 Revenue Budget 2023/24 Update No 3, which was considered by the Finance & Resources Committee on 31 January 2024 (Report No. 24/40 refers), included the projected outturn for the Council’s 2023/24 General Fund Revenue Budget. These projections have been further refined to recognise several adjustments which are required in closing the Council’s 2023/24 Annual Accounts and represent material changes to the projected outturn.

8.6 The impact of these projections on the level of balances is summarised in **Appendix G**, which indicates a projected General Fund (excluding HRA) balance of **£47.042 million** at 31 March 2024. Of this projected balance, **£32.905 million** is earmarked for the specific purposes set out in **Table 11** below at paragraph 8.8 with a projected uncommitted balance of **£14.137 million**.

8.7 There remain some areas of uncertainty in relation to the projected level of balances at 31 March 2024 including the final impact of weather-related events or additional grant income.

8.8 Based on the Council's existing financial and policy commitments and the work undertaken in preparing the Provisional Revenue Budgets, it is proposed that the amounts included in **Table 10** be earmarked against the projected General Fund balance.

**Table 10: Earmarked General Fund Balances**

	<b>31.3.24</b>	<b>31.3.23</b>
	<b>£'000</b>	<b>£'000</b>
<b>Projected General Fund Balance - 31 March 2024 (Per Appendix G)</b>	<b>47,042</b>	<b>69,723</b>
<b>Less: Proposed Amounts Earmarked Against Balances:</b>		
Transformation and Workforce Management	(6,952)	(9,530)
Revenue Grants	(6,292)	(15,947)
Developer Contributions	(6,194)	(5,540)
Affordable Housing	(4,241)	(4,353)
School Estate	(1,900)	(2,063)
Anti-Poverty Measures	(1,847)	(2,666)
Car Parking	(1,512)	(1,512)
Culture	(1,081)	(1,172)
Non-Recurring Pressures c/f from 2023/24	(703)	0
Modern Apprentices / Graduate Trainees	(340)	(340)
School Counsellors	(329)	(556)
Services for Children, Young People and Families	(281)	(2,139)
Property Maintenance	(262)	(271)
Devolved School Management Balances	(239)	(722)
Works Maintenance	(200)	(400)
Community Resilience	(175)	0
Salix	(100)	(113)
PH2O	(62)	(212)
Local Action Partnerships	(60)	(90)
Local Government Elections	(53)	0
Community Investment Fund	(38)	(89)
Ventilation measures	(24)	(114)
Financial Assistance	(20)	0
Non-Recurring Pressures c/f from 2022/23	0	(1,699)
Decant schools	0	(700)
Perth & Kinross Offer	0	(252)
Grounds maintenance	0	(60)
Financial Insecurity	0	(680)
Climate Change	0	(153)
World cycling	0	(180)
<b>Total earmarked reserves</b>	<b>(32,905)</b>	<b>(51,553)</b>
<b>Revised Projected Uncommitted Balance at 31 March 2024</b>	<b>14,137</b>	<b>18,170</b>

- 8.9 The balances identified in **Table 11** above and described in more detail in **Appendix H** will be monitored as part of the revenue monitoring process. Any proposals to make use of the balances will be subject to approval by either the Finance & Resources Committee or Council.
- 8.10 Within the earmarked Reserve for Transformation and Workforce Management, **£800,000** has been allocated to support the transformation of Care at Home and Reablement within the Health & Social Care Partnership. This investment will mitigate future years' cost pressures. This funding will be drawn down throughout 2024/25 as required following approval by the Finance & Resources Committee.
- 8.11 **ACTION: The Council is asked to maintain a prudent approach to the application of reserves and earmark the General Fund Balances identified in Table 11 above and Appendix H – RECOMMENDATION J.**

### **Proposed Approach to Managing Unearmarked General Fund Reserves**

- 8.12 To assess the adequacy of unearmarked General Fund Reserves, it is necessary to take account of the strategic, operational and financial risks facing the Council, which are set out in **Section 9** of this report.
- 8.13 In addition, Councils are expected to retain the equivalent of 0.2% of their annual Net Revenue Budget to deal with unforeseen emergencies (**£797,780** in 2023/24 for Perth & Kinross Council) before being eligible for support through the Bellwin Scheme.
- 8.14 Taking account of all the risks and historical experience in Perth and Kinross since 1996, it is recommended that the targeted level of uncommitted non-HRA General Fund Reserves continues to be in the range of 2% to 4% of the Council's Net Revenue Budget in the medium term.
- 8.15 Based on the Net Provisional Revenue Budget for 2024/25 of **£462.700 million** as detailed in **Appendix B**, this would mean a level of uncommitted Reserves of between approximately **£9.254 million** and **£18.508 million** for 2024/25.
- 8.16 The Council has targeted a level of uncommitted Reserves between 2% and 4% range for several years. Whilst this range is still considered to be appropriate, it should be noted that the level of risk involved in managing the Council's Revenue Budget is significant. There is currently no confirmation of the Council's Scottish Government funding beyond 2024/25 and it is anticipated that Council services will continue to operate in a challenging financial environment in future years.
- 8.17 Based on the level of earmarked Reserves set out in **Table 11** above, the level of unearmarked Reserves is **£14.137 million** which equates to **3.1%**
- 8.18 **ACTION: The Council is asked to approve that uncommitted Reserves are maintained at a minimum of 2% to 4% of the 2024/25 Net Revenue**



**Budget which equates to £9.254 million to 18.508 million –  
RECOMMENDATION K.**

- 8.19 In the event that any use of General Fund Reserves is made in determining the 2024/25, 2025/26 or 2026/27 Revenue Budgets, this should only be done on the basis of a sustainable strategy, which ensures that future years' Revenue Budgets are not dependent upon the continuing use of Reserves.
- 8.20 **Appendix I** to the report shows the contributions to and from Reserves recommended in setting the Provisional Revenue Budget for 2024/25 and anticipated in 2025/26 and 2026/27.
- 8.21 The Council holds several other cash backed Reserves including the Capital Statutory Fund, Insurance Fund, Capital Fund and Capital Grants Unapplied Fund which are further detailed in **Appendix F**.

**9. RISK ASSESSMENT**

- 9.1 Determining the Revenue Budget and Reserves Strategy requires consideration of the strategic, operational and financial risks potentially facing the Council. The General Fund Reserves Strategy is integral to supporting the Council's approach to the management of financial risk. Both the uncertainty of future events and resource constraints make it impractical to mitigate against all potential risks. In developing its medium-term financial plan, the Council must also be aware of the sustainability of its expenditure proposals. Significant risks, which are of relevance are outlined below.
- 9.2 Council will be kept up to date on the impact of these risks through revenue monitoring reports to the Finance & Resources Committee and budget updates to Council.

**Local Government Funding Beyond 2024/25**

- 9.3 The Council only received a one-year financial settlement for 2024/25 in December 2023. It is very difficult to estimate Scottish Government future funding scenarios at individual Council level. The magnitude of any potential future funding reduction will be influenced by many aspects of the wider economic climate and UK and Scottish Government policies. The financial challenges facing the Scottish Government are known and this may have an impact on future levels of funding available to Councils.
- 9.4 Given the levels of inflation being experienced (both general and specific), the potential for further real terms reductions in funding beyond financial year 2024/25 is considered to represent a risk in the management of the budget over the medium term.
- 9.5 The potential for real terms reductions in funding is compounded over the medium term at a time of rising need and demand for Council services.
- 9.6 At this time, there is also no information on any conditions which may be attached to future local government finance settlements. For 2024/25,

Councils have been advised of financial penalties if they fail to maintain teacher and school support staff numbers. The Executive Summaries set out in **Appendix B** comply with this requirement.

- 9.7 The 2025/26 and 2026/27 Provisional Revenue Budgets also assume that there are no future restrictions on increases in Council Tax levels.
- 9.8 Following the devolvement of a number of taxes to the Scottish Government, under the terms of the Scotland Acts, the actual level of funding available to the public sector is more directly linked to the performance of the Scottish economy. Income from devolved taxation will be dependent upon the relative performance of the Scottish economy.
- 9.9 Whilst the Scottish Government has provided funding information for 2024/25 only, it remains critical that the Council continues to plan over the medium term, to allow sufficient lead in time to identify and deliver the savings that are likely to be necessary in future years. By continuing to plan for the medium term, the Council provides authority for officers to roll out the programme of significant change outlined in the Transformation & Change Strategy.
- 9.10 Finally, as set out in the Council's response to the Scottish Government consultation on a National Care Service (Report No. 21/185 refers), there is the potential for the creation of a National Care Service to have an impact upon the Council's future budget.

### **Pay Award Assumptions**

- 9.11 The 2024/25, 2025/26 and 2026/27 Provisional Revenue Budgets include a budgeted pay award of **3%** for all staff groups.
- 9.12 Pay claims for 2024/25 only have been received from all unions that far exceed the Council's budgeted provision. There is therefore a significant risk that the budgeted provision is insufficient.
- 9.13 Each movement of 1% on pay award results in an approximately **£2.250 million** increase or reduction in the cost to the Council.
- 9.14 The negotiations for the 2024/25 pay awards will likely continue beyond 28 February 2024 for all staff groups. Therefore, this represents a significant risk to the base budget (2024/25) and for all financial years going forward.

### **Teachers' Superannuation – Employers' Contributions**

- 9.15 The Council has been advised that employers' superannuation contributions for teachers will rise from 26% to 23%, a rise of 13%, from 1 April 2024. This will mean additional costs of approximately **£2 million**. It is assumed that the funding for this will flow through from the UK Government to the Scottish Government through Barnett Consequentials, and then to Councils during 2024/25.

## **Inflation**

- 9.16 There is a risk that levels of Service specific inflation exceed budgeted provisions including energy and construction and that levels of general inflation cannot be contained within existing resources as is currently assumed within the Provisional Revenue Budgets.
- 9.17 Future increases in the National Living Wage, pressure to enhance wage rates paid by service providers and suppliers and global uncertainty may also create inflationary pressures.

## **Cost of Living**

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

## **Arms-Length External Organisations**

- 9.19 All three of the Council's Arms-Length External Organisations, Live Active Leisure, Culture Perth and Kinross and Perth Theatre & Concert Hall, are operating under challenging financial circumstances.
- 9.20 Rising costs (both revenue and capital) are placing further strain on ALEO resources. A review of ALEOs is being undertaken within the Transformation and Change Programme.

## **Tayside Contracts**

- 9.21 There is a risk that levels of inflation exceed budgeted provisions for Tayside Contracts covering construction, janitorial, catering and cleaning activities. Furthermore, with Tayside Contracts bound by national pay award negotiations there is a risk that, similar to 2023/24, future pay offers are 'bottom loaded' which have a disproportionately high effect on lower paid employees and therefore significantly increased costs in relative percentage terms (92% of Tayside Contracts staff earn below £25k per annum compared to the Scottish Council's average of 55%).
- 9.22 Tayside Contracts continue to seek ways to improve efficiency and effectiveness in their day-to-day operations to mitigate the impact of cost increases with a Change Plan and programme of Transformation being developed over the short to medium term. There is a risk, however, that these interventions alone will not be sufficient to accommodate all cost increases and as such service reductions may be required going forward.

## **Number of Band D Properties**

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

## **Current Economic Climate**

- 9.24 There is a risk that both the Council's capacity to generate income, and the expenditure it incurs in meeting demand for its Services, may be less predictable in the current volatile economic climate.
- 9.25 In terms of income generation, there is a continued risk that Council Tax collection levels, commercial rental income and other areas of income generated by the Council may be further affected.
- 9.26 The economic climate may also increase demand for, and expenditure on Council services. This risk will require to be managed within the Council's available resources.

## **Climate Change**

- 9.27 On 15 December 2021, the Council approved its Climate Change Strategy and Action Plan (Report No. 21/245 refers).
- 9.28 Legislation has been introduced by the Scottish Government that will aim to ensure Scotland reaches net zero greenhouse gas emissions by 2045. There are also a range of challenging intermediate targets and a further possibility that these targets will be accelerated by legislation. These requirements will have implications for both revenue costs and capital expenditure.
- 9.29 As the Council strives to decarbonise, this will undoubtedly mean significant additional investment will be required. However, it must also be noted that there are major, current and proposed, national funding sources available, and the Council must ensure it is in a position to fully capitalise on these.

## **2024/25, 2025/26 & 2026/27 Revenue Budgets**

- 9.30 Council has previously been briefed on the current challenges in the construction sector and as widely reported, supply chain pressures are emerging across all sectors of the economy. There is accordingly a risk that the assumptions supporting expenditure pressures within future year Revenue Budgets vary significantly with a consequential impact upon the budget.
- 9.31 There are several areas of activity that carry a specific risk including child protection, weather events and income generation.

- 9.32 Furthermore, the 2024/25, 2025/26 & 2026/27 Revenue Budgets are constructed on the basis that approved savings are delivered. There remains a risk that due to capacity issues or changes in demand for services, these savings require to be delayed or may no longer be deliverable.
- 9.33 There is also a risk that the delivery of services continues to be impacted by the ability of the Council to recruit and retain staff with the skills required to maintain high standards of performance. Recruitment challenges continue to be an ongoing issue in many service areas with the pressures of continuing demands on the workforce and competition from other employers contributing to this challenge.

### Implications of Capital Budget

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

### Severe Weather

- 9.35 There is a risk that, as has been the case in previous years, the Council incurs further significant levels of expenditure on severe weather. **Table 11** sets out projected or final outturns on Winter Maintenance over the last ten years. The total net contribution from unearmarked Reserves over the last decade is **£4.142 million**. Officers continue to support the use of Reserves to address these potential pressures as an allocation of additional funding in the Revenue Budget would require further reductions in budgets, service delivery and potential staffing in other areas, when there is no certainty on the level of spend to be incurred.

**Table 11: Winter Maintenance Final Over / Under Spend**

2023/24	Projected over spend of £500,000
2022/23	Over spend of £759,000
2021/22	Over spend of £225,000
2020/21	Over spend £1.024 million
2019/20	Overspend £648,000
2018/19	Underspend £143,000
2017/18	Over spend of £1.350 million
2016/17	Underspend £540,000
2015/16	Over spend £59,000
2014/15	Over spend £260,000

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

## 10. CONCLUSIONS

- 10.1 Despite the challenges the Council faces, its workforce continues to deliver high quality services to the people of Perth and Kinross on a daily basis making a real difference to the lives of our residents. In common with all Scottish local authorities and the wider public sector, Perth & Kinross Council continues to anticipate a period of financial constraint due to growing costs at the same time as increased demand for services.
- 10.2 The cost-of-living crisis has given rise to significant financial pressure on the Council's Revenue Budget and the long-term impact upon service demand; service delivery and the Council's ability to generate and collect income will take some time to establish.
- 10.3 The wider economic situation and consequential impact on the cost of living will further exacerbate the financial and wider challenges the Council will experience over the short and medium term.
- 10.4 The Council continues to take proactive measures to enable it to address these challenges from a robust financial position and continues to develop and strengthen its arrangements for financial and resource management.
- 10.5 The Council remains committed to modernising and improving the efficiency of its services. This report reinforces the Council's commitment to the delivering the best possible services in the context of meeting challenging savings targets which requires the engagement of the Council's workforce; Elected Members; Community Planning Partners and the communities which it serves.

### Author(s)

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### Approved

Name	Designation	Date
Clare Mailer	Director – Strategy, People & Resources	21 February 2024

## 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

#### Corporate Plan

1.1 The Council's Corporate Plan 2022 – 2028 lays out seven outcome focussed strategic objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:

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

1.2 This report relates to all these objectives.

### 2. Resource Implications

#### Financial

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

### Workforce

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

### Asset Management (land, property, IT)

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

## **3. Assessments**

### Equality Impact Assessment

- 2.4 Under the Equality Act 2010, the Council is required to eliminate discrimination, advance equality of opportunity, and foster good relations between equality groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties.
- 2.5 The information contained within this report has been considered under the Corporate Equalities Impact Assessment process (EqIA) and has been assessed as **not relevant** for the purposes of EqIA.

### Strategic Environmental Assessment

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

### Sustainability

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



## **4. Consultation**

### Internal

- 4.1 The Executive Leadership Team has been consulted in the preparation of this report.

## **2. BACKGROUND PAPERS**

- 2.1 No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above report.

## **3. APPENDICES**

Appendix A –	Overall Transformation and Change Programme Status
Appendix B	2024/25, 2025/26 & 2026/27 Provisional Revenue Budgets
Appendix C –	Executive Summaries
Appendix D –	2024/25 Fees & Charges
Appendix E –	Budget Consultation Summary Report
Appendix F –	Summary of Council Cash Backed Reserves 31 March 2023 and Projected to 31 March 2024
Appendix G –	Projected General Fund Balance at 31 March 2024 (excl HRA)
Appendix H –	Summary of Earmarked Reserves at 31 March 2024
Appendix I –	Summary of the Projected Use of General Fund Revenue Balances 2024/25, 2025/26 & 2026/27