

PERTH & KINROSS COUNCIL

EXECUTIVE SUB-COMMITTEE OF THE FINANCE & RESOURCES COMMITTEE

22 March 2023

REVENUE BUDGET 2022/23 –TAYSIDE CONTRACTS

Report by the Head of Finance
(Report No. 23/98)

1. PURPOSE

- 1.1 The report provides the Executive Sub-Committee with an update on the financial projections for Tayside Contracts. In line with these projections, the report seeks authority for the Head of Finance to apply up to **£1.1 million** from unearmarked Reserves to meet the Council's forecast obligations to Tayside Contracts in 2022/23.

2. RECOMMENDATIONS

- 2.1 It is recommended that the Executive Sub-Committee:

- (a) notes the content of the report and the latest financial projection for Tayside Contracts.
- (b) authorises the Head of Finance to apply up to **£1.1 million** from unearmarked Reserves to meet the Council's forecast obligations to Tayside Contracts in 2022/23 as set out in sections 5 and 6 of the report.

3. STRUCTURE

- Section 4 Background
- Section 5 Latest Position
- Section 6 Recommendation
- Section 7 Beyond 2022/23

4. BACKGROUND

- 4.1 Tayside Contracts are the collaborative and commercial operating arm for the three Councils in Tayside – Angus Council, Dundee City Council and Perth & Kinross Council. Tayside Contracts was constituted under a Minute of Agreement (MoA) entered into by the three constituent Councils in 1995, with the Minute of Agreement most recently being reviewed in 2018.
- 4.2 Tayside Contracts provide the following services, under contract, to the constituent Councils; other public bodies; private firms and the wider public:
- civil engineering

- school and community catering
- facilities management
- school crossing patrollers
- winter maintenance

- 4.3 As a trading organisation, Tayside Contracts is required to generate a rate of return over a rolling three-year period. In their Business Plan 2021-24, Tayside Contracts set a performance baseline of generating £800,000 of annual surplus to be distributed amongst the three constituent Councils.
- 4.4 In previous years, the level of return to individual Councils regularly exceeded the budgeted levels and are outlined in Table 1 below. The current budgeted surplus for Perth & Kinross Council in 2022/23 is £550,000.

Table 1: Tayside Contracts Historic Surpluses returned to Perth & Kinross Council

	£'000
2021/22 *	521
2020/21 *	804
2019/20	588
2018/19	525
2017/18	600
2016/17	435
2015/16	595

* After additional payments received from constituent Councils – see paragraph 4.6.

- 4.5 Section 20 of the Minute of Agreement sets out the Financial Arrangements for Tayside Contracts. Provision 2 of Section 20 notes that “any surplus or deficit from the annual trading activities of Tayside Contracts shall be shared between the three Constituent Councils on the basis of the Agreed Percentage” (calculated annually based on the previous year’s turnover).
- 4.6 In both 2020/21 and 2021/22, all three constituent Councils were required to make additional contributions to Tayside Contracts to mitigate the impact upon their finances of increased costs and reductions in income arising from Covid 19. In 2020/21, Perth & Kinross Council’s share of these additional contributions was £327,000 and in 2021/22 £542,000.
- 4.7 The Finance & Resources Committee received an overview of Tayside Contracts financial position in the revenue monitoring reports considered in November 2022 and February 2023 (Reports 22/294 and 23/30 refer). In February 2023, the total projected deficit was reported as £5.1 million.
- 4.8 Tayside Contracts faces the same financial pressures as those experienced by other public sector bodies. This includes very high levels of inflation on operating costs, together with lower than anticipated income due to the

residual impact of the pandemic. It should be noted that these pressures would have been faced by the three constituent Councils, regardless of the operating model in place for the delivery of the services provided by Tayside Contracts.

- 4.9 This report provides an updated revenue monitoring position for Tayside Contracts and outlines the financial implications for Perth & Kinross Council.

5. LATEST POSITION

- 5.1 The latest consolidated projections for Tayside Contracts for 2022/23 are set out in Table 2 below which show a projected consolidated operating deficit of £3 million.
- 5.2 Within this consolidated projection, Construction Services are projecting a surplus of £200,000 and Facility Services are projecting a loss of £3.2 million.

Table 2: Tayside Contracts – Latest Revenue Monitoring Position (Facility Services)

	Facilities £m
Income	36.7
Direct Expenditure	33.7
Gross Margin	3.0
Indirect Expenditure	6.2
Operating Surplus / (Deficit)	(3.2)

- 5.3 Direct expenditure relates to expenditure on staff costs, plant, equipment and supplies and services directly related to service provision whilst indirect expenditure relates to property; financing; professional support and overhead costs. The most significant factors reflected within the projection are summarised below.

2022/23 Pay Award

- 5.4 Tayside Contracts employees are employed on local government terms and conditions, with their pay being subject to the outcome of national pay negotiations. In setting their budget for 2022/23, Tayside Contracts provided for a pay award of 5%. As part of the negotiation on pay for non-teaching employees, the trade unions sought a weighting of the 2022/23 pay award towards employees on the lowest grades. Approximately 80% of Tayside Contract's workforce are at the lowest end of the pay scales and 95% of all staff earn under £25,000 per annum. As such, the resultant cost of pay

awards in 2022/23 for Tayside Contracts was, therefore, equivalent to around 11% or **£2.9 million** more than budgeted.

School Meals Income

- 5.5 Whilst uptake in both primary and secondary schools sit below the budgeted meal projections, primary uptake continues to recover steadily, and it is anticipated that with the continued expansion of free school meals this trend will continue. Following the change in eating habits during Covid-19, school meal uptake in secondary settings currently is not returning to pre-pandemic levels, despite a slow and steady increase in meal uptake across Perth and Kinross. Nationally, despite measures taken by Councils across Scotland, there is little evidence that this decline is reversing.
- 5.6 In 2022/23, it is anticipated that there will be a shortfall of circa 865,000 school meals which equates to 14% less than budget, or **£1.035 million**.

6. RECOMMENDATION

- 6.1 Under the Minute of Agreement, Perth & Kinross Council is attributed with **34%** of any profit or loss on Tayside Contracts' operations in 2022/23 based upon the previous year's turnover.
- 6.2 Therefore, based on the latest projections Perth & Kinross Council is required to make an additional contribution of up to **£1.1 million** (34% of £3.2 million). This is to meet its obligations to Tayside Contracts and ensure that the Facilities Services Division breaks even in 2022/23 and does not put at risk the requirement for individual Divisions to provide a rate of return.
- 6.3 As this sum is more than the provision within Council Service budgets, it requires to be met through applying unearmarked Reserves.

RECOMMENDATION

- 6.4 **(b) The Head of Finance is authorised to apply up to £1.1 million from unearmarked Reserves to meet the Council's forecast obligations to Tayside Contracts in 2022/23.**
- 6.5 The Executive Sub-Committee are advised that the projections included within this report are based upon 9 months of financial data and are, therefore, still subject to change before the end of the financial year.
- 6.6 As noted in paragraph 4.5 above, the Council is obligated under the Minute of Agreement to meet its share of any deficit on the annual trading activities of Tayside Contracts. In the event that the final position differs from the forecast set out in section 5 of the report, any variance (favourable or adverse) will require to be met by the three constituent Councils, potentially through the further application of reserves. The final position will be consolidated in preparing the Council's statutory accounts for 2022/23 and will be reflected in

the variance analysis which forms part of the management commentary to the accounts.

7. BEYOND 2022/23

- 7.1 Beyond the current financial year, there is a very real risk that Tayside Contracts experience similar pressures in 2023/24. There is likely to be further pressure on staff costs due to wage demands, school meal uptake remains slow to recover, the final costs of recent court rulings are not yet quantified and the significant inflationary pressures on many of the goods and services procured by Tayside Contracts all remain significant risks.
- 7.2 To this end, the three constituent Councils have committed to an external review of Tayside Contracts. This will include a review of the operation and cost base of all Tayside Contracts services with a view to providing the three constituent Councils with assurance that it is operating at its optimum cost level and identifying any improvements required, should these be necessary. Furthermore, it will provide comparative costs and options for future delivery specifications against each of the services currently provided. The outcomes and recommendations from this review will be included in a future report to the Finance & Resources Committee.

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Approved

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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 2022 – 2027 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:

- (i) Tackling poverty.
- (ii) Tackling climate change and supporting sustainable places.
- (iii) Growing a sustainable and inclusive local economy.
- (iv) Enabling our children and young people to achieve their full potential.
- (v) Protecting and caring for our most vulnerable people.
- (vi) Supporting and promoting physical and mental wellbeing.
- (vii) Placing communities at the heart of how we work.

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

- 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 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 have been consulted in the preparation of this report.

2. BACKGROUND PAPERS

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