

PERTH & KINROSS COUNCIL

FINANCIAL STRATEGY

1. CONTEXT

- 1.1 The local government landscape has never been more complex or challenging. As we try to recover from the global health pandemic, we are also experiencing increased levels of poverty across our communities, rapid growth in our elderly population and the impact of poor mental health and wellbeing. Added to that we have an ambitious policy agenda to regenerate our economy, reduce the impact of climate change, raise educational attainment, and to increase and optimise the use of digital technology; all of which will come with a significant cost attached.
- 1.2 At the same time, the Council is experiencing unprecedented financial and other resource pressures because of real terms reductions in funding, significant cost increases due to inflation and an increasing demand for services.
- 1.3 This has created a substantial “funding gap” or structural deficit in our Revenue Budget which needs to be addressed as a matter of urgency, given our legal requirement to set a balanced budget each year, whilst maintaining sufficient Reserves to deal with any unexpected events.
- 1.4 Through the Perth and Kinross Offer (“the Offer”) and our Transformation and Change Strategy, we must rethink how both our front line and internal services are designed and delivered so that we can better meet the needs of our communities, now and in the future, within the resources that are available to us. Our Financial Strategy will be key in supporting that outcome.

2. PURPOSE

- 2.1 Our Financial Strategy is the link between the Council’s long term strategic objectives and its financial capacity. Our strategic objectives are set out in the Council’s Corporate Plan. These objectives are determined by elected members and will reflect political priorities, legal requirements, national policy and reflect the particular needs of our communities in terms of both our people and place. Priorities and key objectives may therefore change over time.
- 2.2 The aim of the Financial Strategy is therefore, to build financial resilience and ensure that we have an affordable and sustainable Medium Term Financial Plan and Revenue Budget, which directs our resources to where they are most needed, in line with our agreed priorities and strategic objectives at any given time.

- 2.3 The Council is legally required to set a balanced Revenue Budget each year. Revenue expenditure relates to the day-to-day operating costs of the Council, for example staff costs as well as the borrowing costs incurred in funding the Council's Capital programme.
- 2.4 At present, the Council's recurring Revenue expenditure is, in part, funded from Reserves. The application of non-recurring resources to meet ongoing expenditure is not sustainable and is referred to as a structural (recurring) deficit which requires to be addressed.
- 2.5 The Financial Strategy is predicated on the Council taking corrective action to manage its expenditure and income to return to a position of long -term financial sustainability.
- 2.6 Financial sustainability will be achieved and maintained through prudent financial management, targeted investment and dis-investment, increasing income, reducing costs and developing more efficient and effective ways of working.

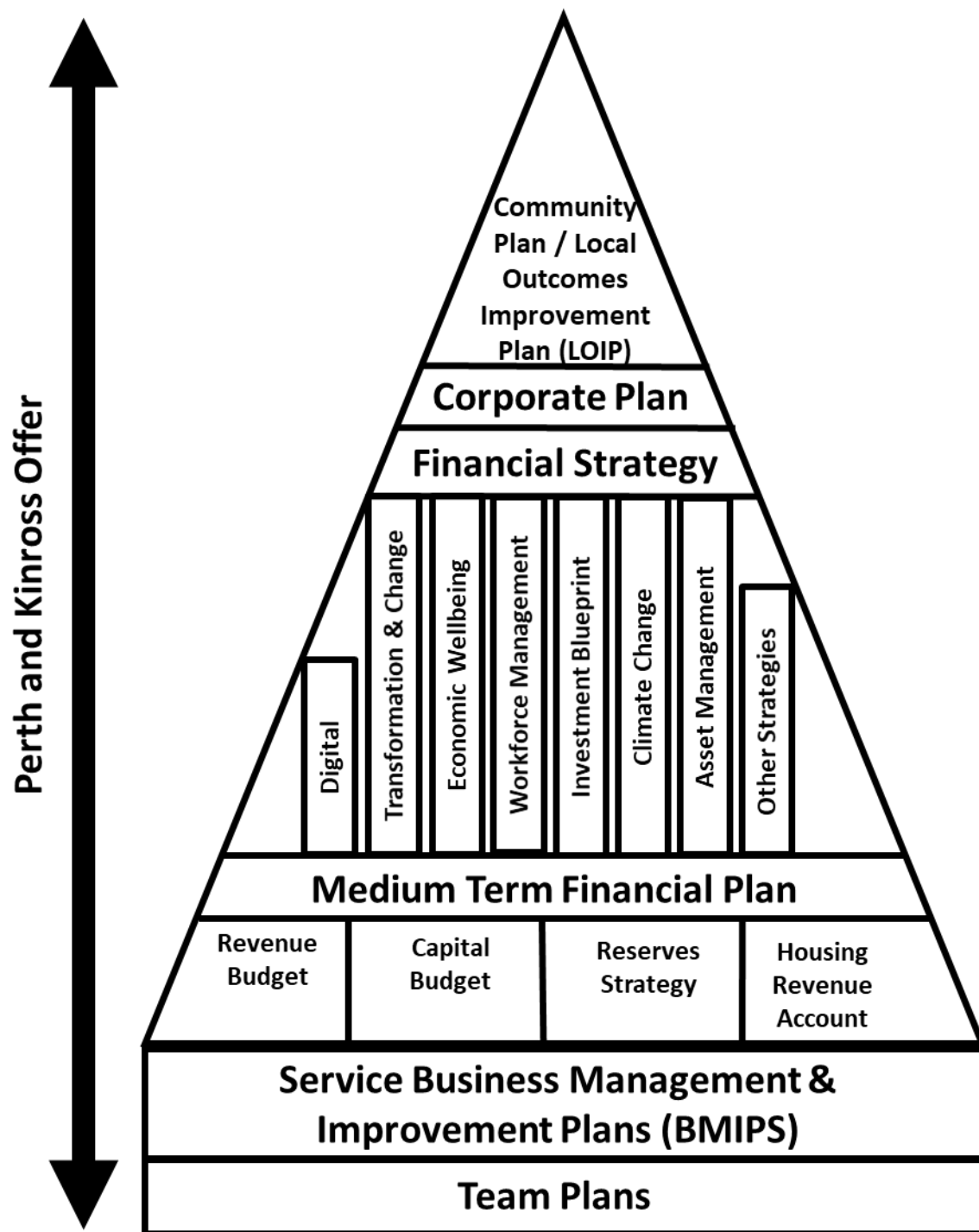
3. PRINCIPLES

- 3.1 A set of principles have been developed which will assist the Council in bringing forward a Medium-Term Financial Plan and Revenue Budget that is sustainable over the longer term.
- 3.2 Meaningful communication and engagement will be key to the successful implementation of this Strategy. The Perth & Kinross Offer represents the Council's commitment to engage with our communities and partners in shaping service delivery and addressing need at a local level. This engagement with our communities will be central in framing how best to allocate the limited resources available in a period of increasing financial challenge.
- 3.3 Maintaining effective dialogue with our staff, communities, public, private and third sector partners will help strengthen the understanding of what the Council may or may not be able to continue to deliver and allow us to draw on local knowledge and experience in shaping future service delivery.
- 3.4 In line with the Council's agreed strategic priorities and objectives, we will, as far as possible:
- i. direct resources to where they are most needed,
 - ii. protect the most vulnerable in our community
 - iii. prioritise the delivery of services which we must provide by law
 - iv. deliver services in the most efficient, and cost-effective manner
 - v. prioritise upfront investment in prevention and early intervention
 - vi. prioritise transformation investment on cost mitigation activities

- vii. not fund recurring activity from General Fund Reserves
- viii. contain spending within approved budgets
- ix. minimise unnecessary expenditure and maximise income
- x. take a planned and sustainable approach to Capital investment
- xi. reflect the full cost of Capital investment in future budgets
- xii. over plan for the delivery of savings

4. BUILDING FINANCIAL RESILIENCE: TOOLS & LEVERS

- 4.1 Effective financial management in the public sector is built on planning for the long term to deliver strategic outcomes. Increasingly however, with the scale of the financial challenge facing the public sector, building financial resilience is seen as a key element of effective financial management. Councils and other public bodies therefore must be able to deliver significant annual savings and manage financial uncertainty whilst still delivering the good quality services that our local communities need and value.
- 4.2 As a Council we have a number of tools and levers at our disposal, set out below, to support effective financial management and to help build financial resilience.
- 4.3 The following graphic sets out the suite of financial management tools and levers across the Council and how they link into the delivery of our strategic objectives.



- 4.4 The purpose of our **Transformation and Change Strategy** is to deliver better services for our communities whilst contributing towards making the Council more financially sustainable.

- 4.5 Transformation alone will not address the structural deficit; **budget cuts and service reductions will still be required**. Some transformation activity will reduce overspends, mitigate costs or enable a shift of expenditure to new and emerging priorities. It is anticipated, therefore that a combination of measures and approaches will enable a reduction in the structural deficit, helping to deliver a balanced budget and reducing the need to draw on Reserves.
- 4.6 Transforming how we meet the needs of communities, will take time and investment. Even with “invest to save” initiatives, there will likely be initial funding required before any cost- efficiencies are realised. In the short term therefore, there will be heavier reliance on budget cuts to help the Council achieve a more sustainable financial position.
- 4.7 Our **Digital Strategy** will set out the Council’s ambition for digital innovation and inclusion. We will also use it to support the streamlining and automation of many of our systems and processes, potentially providing savings and efficiencies or allowing resources to be directed to meeting increasing need in other areas.
- 4.8 The Corporate **Asset Management Strategy** will support more effective and cost-efficient use of our physical assets. We will always seek to make best use of our assets. Specifically, in relation to our property estate, we will collaborate with our public partners to reduce the overall public estate and we will dispose of assets which no longer best support the delivery of our strategic objectives. In doing so we can create opportunities for savings in terms of running costs and/or generate income by way of a Capital receipt. All of which will help contribute to longer term financial sustainability.
- 4.9 The **Workforce Management Strategy** must ensure that our most valuable resources are directed where they are needed most, in line with our strategic priorities and objectives. As we reshape service provision there will be inevitable changes within the workforce; requiring additional resource in some areas and reduction in others.
- 4.10 The **Investment Blueprint** provides for a more transparent and flexible approach to investment decision-making to deliver the long-term vision of the Council. The wider capital investment planning framework allows us to identify priorities, risks, challenges and opportunities with a coherent and consistent mechanism for assessing investment initiatives, enabling better informed, risk-based decision-making. The **Financial Strategy** will contribute towards a sustainable capital budget and the development and implementation of a sustainable funded rolling 6- Year Delivery Programme, aligned to our strategic priorities.
- 4.11 The **Revenue Budget and Reserves Strategy** will “smooth” future budget reductions, and as far as possible, minimise the impact on stakeholders. The planned use of Reserves will also provide time to allow for an orderly transition.

- 4.12 The Council's Revenue Budget and Reserves Strategy support both its financial management and underpin its financial resilience and ability to deal with unplanned or unexpected events. Council officers will advise members in the management of these resources at a level sufficient to maintain the Council's financial resilience.
- 4.13 Specifically, as far as Reserves, Expenditure and Income are concerned, the Council will:
- **Reserves** – maintain and build up Reserves to smooth the level of budget cuts required in the first few years of the new Council.
 - **Expenditure** – manage down expenditure in the current year and identify proposals for 2023/24 and beyond.
 - **Income** – identify new opportunities and maximise existing income sources.
- 4.14 All strategic financial plans & policies; annual budgets and strategic financial decisions are matters to be determined by elected members. The Council's statutory officers have specific responsibilities in terms of the financial management of the Council and all officers are available to provide professional advice to elected members in their decision making.
- 4.15 Ordinarily, the budget process takes place from late Summer through to early Spring.
- 4.16 In September / October, Council will be asked to approve the **Medium-Term Financial Plan** which includes updated financial assumptions for the next six years.
- 4.17 The **Budget Review Group** process runs from October to February and allows elected members to undertake detailed scrutiny of officer proposals.
- 4.18 In December, the Council receives a **Budget Update**, that subject to the availability of Scottish Government information, provides an update on detailed implications for Perth & Kinross Council for future financial years.
- 4.19 In February, the **special meeting of Council** approves the Revenue Budget and Reserves Strategy and Capital Budget. It is at this point that elected members take formal decisions on specific budget proposals.
- 4.20 The broad timelines are set out in the following table.

	September	October	November	December	January	February
Approval of Medium Term Financial Plan						
Budget Review Group Process						
Budget Update Report to Council						
Special Council Meeting						

- 4.21 The Council has separate accounting and budget arrangements for its social housing services (Housing Revenue Account) and Housing Investment Programme and a statutory responsibility to consult with tenants in the setting of annual rent levels. The principles set out within the Financial Strategy are, however, taken to apply to the management of the Council's resources for social housing services.