

PERTH & KINROSS COUNCIL

23 June 2021

REVENUE BUDGET 2021/22 - UPDATE No.1

Report by Head of Finance (Report No. 21/101)

PURPOSE OF REPORT

This report provides a brief update on the final outturn for 2020/21, advises elected members on further funding that will be received in 2021/22 and seeks authority to draw down Reserves.

1. BACKGROUND

- 1.1 On 27 January 2021, the Council approved the creation of the Covid-19 earmarked Reserve (Report No. 21/8 refers). The rationale for the creation of this earmarked Reserve was that many of the financial challenges identified in 2020/21 would likely be replicated in 2021/22 and beyond with additional expenditure, reduced income, and delays in the delivery of approved savings. Furthermore, it is likely that adjustments and adaptations will continue to be required and funded, to ensure the effective delivery of operational services in a 'Covid world'. Significant funding will also be needed to support the delivery of the approved economic wellbeing plan and other activities as we support communities to recover from the impact of the pandemic.
- 1.2 On 10 March 2021, the Council approved the 2021/22 Final Revenue Budget (Report No. 21/33 refers).
- 1.3 On 31 March 2021, the Council considered Revenue Budget 2020/21 Update No. 4 (Report No. 21/40 refers). This update included further information on 2021/22 Scottish Government funding and was included in Finance Circular 5/2021 which was issued on 18 March 2021. Specifically, it included the allocation of £259 million in relation to "Non-Recurring Covid Consequentials" in 2021/22 with Perth & Kinross Council receiving **£7.220 million**. A further £40 million of funding for local government, announced on 18 March 2021, as part of the Scottish Parliamentary debate on the Local Government Finance (Scotland) Order 2021, will be paid as a redetermination of the 2021/22 General Revenue Grant once the distribution has been discussed and agreed with COSLA.
- 1.4 The Council was advised that proposals to utilise this additional funding would be included in revenue monitoring updates to elected members in 2021/22.

2. 2020/21 FINAL OUTTURN – IMPACT ON COVID-19 EARMARKED RESERVE (PRE-AUDIT)

- 2.1 On 27 January 2021, the Council considered the Revenue Budget 2020/21 Update Report No. 3 (Report No. 21/8 refers). Recognising that there were

monies available which could not be spent in the financial year 2020/21, Council agreed to establishing a Reserve earmarked for COVID-19 related expenditure as a means of carrying over the funding in future years to be drawn down as and when required.

- 2.2 The Reserves Strategy, which was approved by Council on 10 March 2021, advised that the projected balance on the Covid-19 earmarked Reserve would be **£10.867 million** (Report No. 21/34 refers). This projection was based on the following approved adjustments –

	£m
Adjustments to Capital Fund	5.100
Redesignation of unearmarked Reserves	5.767
PROJECTED BALANCE AS AT 31 MARCH 2021 (as at 10 March 2021)	10.867

- 2.3 In setting the 2021/22 Revenue Budget on 10 March 2021, the Council approved the net use of **£8.754 million** from the Covid-19 earmarked Reserve in 2021/22 (Report No. 21/33 refers).

Use of Covid-19 Earmarked Reserve in Setting the 2021/22 Final Revenue Budget	Transfer In / (Out) £m
Adjustments to Capital Fund	4.922
Funding of non-recurring Budget pressures	(8.094)
Funding of 2021/22 Revenue Budget “Gap”	(2.417)
Additional Expenditure Pressures (approved by Council)	(3.165)
NET USE OF COVID-19 EARMARKED RESERVE IN SETTING 2021/22 FINAL REVENUE BUDGET	(8.754)

- 2.4 On 31 March 2021, the Council considered Revenue Budget 2020/21 Update Report No.4 (Report No. 21/40 refers). In this update, elected members were advised of **£11.173 million** of additional Scottish Government funding in 2020/21 and a further **£7.220 million** in 2021/22 which the Council agreed to transfer to the Covid-19 earmarked Reserve.
- 2.5 The 2020/21 Unaudited Annual Accounts have now been completed and will be subject to full consideration by the Audit Committee on 30 June 2021. The finalisation of the draft 2021/22 Unaudited Annual Accounts has resulted in an under spend of **£3.394 million** across all Council Services which will be considered more fully by the Audit Committee.

- 2.6 Therefore, the pre-audit amount available in the Covid-19 earmarked Reserve is currently **£23.900 million** which is set out in the following table.

Projected Balance on Covid-19 Earmarked Reserve (Pre-Audit)	2020/21 £m	2021/22 £m	Total Transfer In / (Out) £m
Projected Balance as at 31 March 2021 (as at 10 March 2021) (see para 2.2)	10.867	-	10.867
Use of Covid-19 Earmarked Reserve in Setting the 2021/22 Final Revenue Budget (see para 2.3)	-	(8.754)	(8.754)
Revenue Budget 2020/21 Update Report No.4 (see para 2.4)	11.173	7.220	18.393
Impact of Draft 2020/21 Unaudited Accounts (see para 2.5)	3.394	-	3.394
TOTAL	25.434	(1.534)	23.900

- 2.7 In common with all Scottish local authorities, the Council is holding higher levels of Reserves at 31 March 2021 due to the receipt of Scottish Government funding late in the financial year. Included within the table above is **£18.4 million** of funding, currently reflected within the Covid-19 earmarked Reserve, which forms part of over £1.2 billion nationally of Scottish Government funding included as a grant redetermination for 2020/21 in Finance Circular 5/2021 issued on 18 March 2021.
- 2.8 The application of these non-recurring funds needs to be considered in the context of the Council's immediate and future financial sustainability given the significant pressures facing the Council. This includes consideration of the Council's:
- future financial resilience in terms of its level of unearmarked Reserves which are currently **£8.2 million** (2% of Net 2021/22 Revenue Budget) as compared to **£12.9 million** (3.7%) at 31 March 2020, and
 - financial challenges facing the Council in relation to its income streams and underlying budget pressures, together with the investment required to support recovery and the Perth and Kinross Offer.

- potential financial implications of legislative changes in relation to the climate change agenda and the United Nations Convention on the Rights of the Child (UNCRC).
- 2.9 In four out of the last six financial years, the Council has also overspent on the Winter Maintenance budget which has led to further pressure on unearmarked Reserves.
- 2.10 Pay negotiations for 2021/22 are currently under way. If the final agreement is more than the budgeted amount, then unearmarked Reserves may be required to fund the shortfall pending a recurring solution being identified for the 2022/23 Revenue Budget.
- 2.11 In addition, the Council's Arm's Length External Organisations may face further financial challenges in 2021/22 and beyond, which will not become known until the full impact of Covid-19 and ongoing or future restrictions becomes clearer.
- 2.12 **ACTION:** The Council is asked to note the update on the Covid-19 Earmarked Reserve set out above.
- 2.13 The in-year consideration and scrutiny of the Council's Revenue and Capital Budgets, including the reporting and application of Reserves, is remitted to the Strategic Policy & Resources Committee. In view of the return to the full committee cycle, all subsequent Revenue and Capital monitoring reports will be submitted by the Head of Finance for consideration by the Strategic Policy & Resources Committee in line with previous practice and in accordance with the Scheme of Administration.
- 2.14 The Council has also established a Perth and Kinross Offer Member Officer Working Group (MOWG) whose remit includes supporting recovery from the Covid pandemic. It is proposed that strategic investment proposals in relation to the ongoing response to or recovery from pandemic which could be funded from the Covid-19 earmarked Reserve, be subject to consideration by the Offer MOWG in the first instance.
- 2.15 **ACTION:** The Council is asked to approve the process set out at paragraph 2.14 above, in relation to potential strategic investment to be funded from the Covid-19 earmarked Reserve.

3. 2021/22 ADDITIONAL FUNDING

- 3.1 Since elected members were provided with a Revenue Budget update on 31 March 2021 (Report No 21/40 refers), the Council has been advised of additional funding in 2021/22. To ensure that the 2021/22 Management Budgets continue to reflect the operational requirements of the Council, several adjustments are required, which are summarised below and included in Appendix 1.

Scottish Government – Revenue Support Grant:

- Education Recovery (Education & Children's Services (ECS)) – £1.448 million
- Expansion of Free School Meals 2021/22 (P4 and P5) (ECS) – £775,000
- Enhanced Provision for Summer Activities (ECS) – £397,000 (ECS)
- Free School Meals during holiday periods for 2021/22 (ECS) –£307,000
- Extension of funds for COVID-19 Local Self-Isolation Assistance Service – 31 March to 30 June (Corporate & Democratic Services) – £56,875

Scottish Government – Ring Fenced Grant

- Increase in Pupil Equity Fund (Education & Children's Services) - £265,801

3.2 These resources have been allocated to Service Budgets as shown in Appendix 1 to the report. The Scottish Government has advised that the increase in Revenue Support Grant of **£2.984 million** and Ring-Fenced Grant of **£265,801** will be made through a redetermination of the Council's funding in 2021/22.

3.3 **ACTION:** The Council is asked to approve the adjustments set out at paragraph 3.1 and 3.2. These adjustments are reflected in Appendix 1 (Column 3) to this report.

Other Funding

3.4 Other funding amounting to **£21.109 million** will be paid outside the Revenue Support Grant mechanism as Other Grant income and is, therefore, cost neutral in terms of the budget summary. It should be noted that the majority of this Other Funding will be passed straight through to external organisations.

- Covid-19 – Strategic Framework Business Fund Transition Payment and Scottish Business Restart Grant - £18.803 million (Communities)
- Social Care £500 payment to staff working in the Third, Voluntary, Charitable and Private Sectors - £1.822 million (Corporate & Democratic Services)
- Community Mental Health and Wellbeing Support & Services - £414,000 (Education & Children's Services (ECS))
- Temporary Restrictions Fund for Childcare Providers - £70,200 (ECS)

3.5 **ACTION:** The Council is asked to note the receipt of **£21.109 million** of additional resources, with this funding being reflected within Education & Children's Services, Communities and Corporate & Democratic Services as additional grant income. The current projected outturn assumes that all these additional resources will be fully expended in 2021/22 or will be carried forward under the terms of the grant award.

4. MOVEMENTS IN RESERVES

Carbon Dioxide Monitoring

- 4.1 The ventilation guidance for the School Estate has been updated in accordance with industry and Scottish Government guidance which specifically suggests that *“local authorities should consider whether CO₂ monitors may play a useful role in their overall ventilation monitoring strategies, particularly in areas of the school estate that are identified as higher risk or of concern.”* The revised guidance helps improve air quality across the school estate.
- 4.2 Prior to the receipt of the updated guidance, Council officers had visited / risk assessed every Council property and incurred approximately £300,000 of expenditure to ensure building ventilation is operational and adequate for occupants.
- 4.3 To ensure compliance with the latest guidance, it is proposed that a mixture of networked and standalone CO₂ monitors are installed across the school estate. This approach will ensure all schools are fitted with CO₂ monitoring devices, with remote data being provided in schools which are currently linked through our Building Management Systems (BMS). Both standalone and networked devices comply with the Scottish Government guidance. This approach will also provide greater accuracy and provide additional remote data.
- 4.4 The estimated cost of this proposal is between £375,000 and £500,000 (including capacity to roll out the project but excluding additional unknown costs required because of the works). Approval is sought to transfer up to £500,000 from the Covid-19 earmarked Reserve to roll out the installation of the CO₂ monitors.
- 4.5 **ACTION:** The Council is asked to approve the transfer of £500,000 from the Covid-19 earmarked Reserve to Corporate & Democratic Services to fund the installation of CO₂ monitors across the school estate. This adjustment is reflected in Appendix 1 (Column 5) to the report.

Support for Young People

- 4.6 The social restrictions put in place to manage the Covid-19 pandemic has had a significant impact on our young people. Their social lives, which predominately were focused around friends gathering and socialising in large groups in either organised or ad hoc activities, have been restricted severely over the past year. As a result, in the last few months, there have been increasing numbers of anti-social behaviour incidents with members of the public complaining about large groups of young people gathering in open spaces. This culminated in several incidents being reported on Easter Saturday with reports of large groups of young people gathering on the Inches in Perth and other rural locations. Concerns were raised about alcohol

consumption and threatening behaviour and whilst not at a level of disorder did give cause for concern in terms of health and wellbeing.

- 4.7 Approval is sought to draw down £100,000 from the Covid-19 earmarked Reserve to put in place an oversight group comprising Youth Services, Safer Communities, Police Scotland, Universal Partners and Education & Children's Services. This additional capacity will allow for greater engagement with both young people and the wider community and will augment the additional funding provided by the Scottish Government to promote positive engagement and fun set out at paragraph 3.1 above. This oversight group will manage the additional Scottish Government funding to ensure a joined-up response and that benefits are maximised.
- 4.8 **ACTION:** The Council is asked to approve the transfer of £100,000 from the Covid-19 earmarked Reserve to Education & Children's Services (£40,000) and Communities (£60,000) to take forward several initiatives to support young people. This adjustment is reflected in Appendix 1 (Column 5) to the report.

Working Smarter for Perth and Kinross

- 4.9 In recognition of the inter-connectedness of workforce, digital and use of property, a new project is being established to take a strategic and integrated approach to people, technology and property to improve how we work as a council to support delivery of the Perth and Kinross Offer. Working smarter means being more flexible about when, where and how we work; making better use of space and technology to work more efficiently and effectively. The project is very much focussed on our recovery and how the Council will do business in the future. As our workforce, property estate and digital approach are core resources and key enablers for change, this project will support the wider Perth and Kinross Offer through:
- better collaboration – among staff and with others,
 - increased productivity,
 - enhanced employee experience and work /life balance,
 - effective recruitment and retention,
 - optimisation of our property portfolio,
 - reduced carbon footprint,
 - greater efficiency and effectiveness
- 4.10 This will be a significant project over the next two years and will inform the use of our Council estate. Whilst it will draw upon the skills, knowledge and expertise of current staff, a project of this magnitude needs to be properly resourced if it is to be succeed in transforming how we operate in the future. It is proposed that a small project team be established to deliver this ambitious and far reaching project.
- improved collaboration – among staff and with others,
 - better productivity,

- improved employee experience and work – life balance,
- positive benefits for recruitment and retention,
- more effective use of property/optimising our property portfolio,
- reduced carbon footprint,
- greater efficiency and effectiveness

4.11 **ACTION:** The Council is asked to approve the transfer of £350,000 from the Covid-19 earmarked Reserve to Corporate & Democratic Services / Communities to fund the Working Smarter for Perth and Kinross Project. This adjustment is reflected in Appendix 1 (Column 5) to the report.

4.12 As we learn more about the impact of the pandemic on our children, young people, families businesses and wider communities, it is likely that we will need to adapt and redesign our operational services to make sure that they are fit for purpose . in the current and post Covid-19 environment. If we are to respond to the emerging and increasing needs of our communities need then the scale of change and transformation required may be extensive and will require to be properly resourced, possibly over a number of years. As knowledge and awareness increases, further updates will be reported to future meetings.

Financial Insecurity

4.13 The Council received significant funding from the Scottish Government in 2020/21 to tackle financial insecurity. This funding was provided with sufficient flexibility to allow the Council to adapt to the emerging needs of households, considering an income based and proactive approach to support wellbeing and reduce the need for food aid. Most of this funding was received very late in 2020/21 and in the draft unaudited 2020/21 Annual Accounts sits in the Covid-19 earmarked Reserve as a mechanism for ensuring that this funding could be carried over into the current year and drawn down as required.

4.14 The funding is targeted at those groups of citizens at an increased risk of financial insecurity -

- younger people
- disabled people
- lone parents
- minority ethnic households
- people living in households with children
- larger families
- people living in households on low incomes
- people living in the most deprived areas

4.15 In 2020/21, the funding was used to:

- supplement local budgets for the Scottish Welfare Fund or Discretionary Housing Payments

- provide financial support to tackle food insecurity or meet fuel costs, or alternate provision where this is more appropriate or is the preference of individuals themselves
 - other activities and services, as necessary, to support individuals to overcome financial crisis and support wellbeing.
- 4.16 To meet the increasing demand for this support during 2021/22, approval is sought to draw down £605,000 from the Covid-19 earmarked Reserve.
- 4.17 **ACTION:** The Council is asked to approve the transfer of £605,000 from the Covid-19 earmarked Reserve to Corporate & Democratic Services to support measures aimed at mitigating the impact of financial insecurity. This adjustment is reflected in Appendix 1 (Column 5) to the report.

Project Feasibility Fund

- 4.18 As the Council continues to manage the operational response to the pandemic, there is a need to focus on the recovery aspects of strategic investment planning and take advantage of any national funding available at UK and Scottish Government level (e.g. Levelling Up Fund, UK Shared Prosperity Fund, Community Renewal Fund, Learning Estate Investment Programme, Town Centre Fund, Regeneration Capital Grant Fund etc). In order to put the Council on a stronger footing for bidding it is essential that feasibility studies are developed in key areas of opportunity which fit with the Council's strategic objectives and outcomes (through the P&K Offer) and also align to national objectives and outcomes. This will ensure that the Council has 'shovel ready' projects to submit as and when funding opportunities arise. As the timeframe for spending such funding is often limited, having projects which are ready to start is often an essential criteria of many funding opportunities.
- 4.19 At present we do not have sufficient capacity and expertise within our workforce to prepare and develop feasibility studies etc. to enable the Council to identify opportunities to secure external funding and maximise current and future funding streams to augment the Capital programme and provide the level of investment needed to help Perth and Kinross recover and grow. Whilst such feasibility studies would be speculative at this stage with no guarantee of funding, having a number of thought through projects ready to be submitted as and when funding opportunities arise would enable the Council to lever in funding from a variety of sources which it is currently not in a position to do.
- 4.20 From experience, the most effective feasibility studies are done with officers working in partnership with consultants with relevant specialist knowledge. At present, however, there is insufficient capacity to allow the Council to take a more proactive approach to optimising available funding opportunities.
- 4.21 It is proposed that an initial fund of £450,000 is transferred from the Council's Covid Reserve to develop feasibility studies across Services focussing on the

types of projects which will support recovery and renewal, align to both local and national strategic outcomes and are likely to attract external funding.

- 4.22 **ACTION:** The Council is asked to approve the transfer of £450,000 from the Covid-19 earmarked Reserve to Corporate & Democratic Services to create a Project Feasibility Fund. This adjustment is reflected in Appendix 1 (Column 5) to the report.
- 4.23 All the proposals set out above rely on Reserves to take them forward and are, therefore, non-recurring and will come to an end at various points. The funding request in relation to Working Smarter for Perth & Kinross and the Project Feasibility Fund is sufficient to fund two years of activity.
- 4.24 There may be pressing operational requirements to further draw down Reserves, and particularly the Covid-19 earmarked Reserve, in order to support the Council's response to Covid-19. This may require the convening of Executive Sub-Committee of the Strategic Policy & Resources Committee at short notice including during recess / holiday periods.
- 4.25 The tri-ennial review of the Financial Regulations is scheduled to be considered by Council before the end of the current calendar year. The last reviews of Financial Regulations have not resulted in many significant changes. In order to ensure that the Council remains agile, able to respond to emerging pressures, and to meet the changing needs of both internal and external customers, as well as addressing any issues arising from the finance review, it is anticipated that the next iteration will be much more far reaching and may involve changes to virement limits and how Reserves are accessed.

5. CONCLUSION AND RECOMMENDATIONS

- 5.1 Covid-19 has resulted in the Council facing a significant financial challenge. The creation of the Covid-19 earmarked Reserve will assist in managing this over the short to medium term.
- 5.2 The Covid-19 earmarked Reserve is projected to hold total resources of **£23.900 million** but there are likely to be significant calls on this funding in 2021/22 and beyond.
- 5.3 It is likely that the Council's financial position in 2021/22 will remain challenging and regular updates will be provided to the Council's Strategic Policy and Resources Committee as the position develops.
- 5.4 The Council is requested to:
 - (i) Note the update on the Covid-19 Earmarked Reserve set out in Section 2.
 - (ii) Approve the process set out at paragraph 2.14 above, in that issues identified by Elected Members in relation to potential investment from

the Covid-19 earmarked Reserve be subject to consideration by the Offer Member Officer Working Group.

- (iii) Approve and note the additional funding identified in Section 3.
- (iv) Approve the application of Reserves set out in Section 4.

Author(s)

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Approved

Name	Designation	Date
Stewart Mackenzie	Head of Finance	16 June 2021
Karen Donaldson	Chief Operating Officer	16 June 2021

ANNEX

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

1.1 Corporate Plan

1.1.1 The Council's Corporate Plan 2018 – 2022 lays out five outcome focussed strategic objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:

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

1.1.2 This report relates to all these objectives.

2. Resource Implications

2.1. Financial

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

2.2 Workforce

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

2.3 Asset Management (land, property, IT)

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

3. **Assessments**

3.1 Equality Impact Assessment

3.1.1 Under the Equality Act 2010, the Council is required to eliminate discrimination, advance equality of opportunity, and foster good relations between equality groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties.

3.1.2 The information contained within this report has been considered under the Corporate Equalities Impact Assessment process (EqIA) and has been assessed as **not relevant** for the purposes of EqIA.

3.2 Strategic Environmental Assessment

3.2.1 The Environmental Assessment (Scotland) Act 2005 places a duty on the Council to identify and assess the environmental consequences of its proposals.

3.2.2 The information contained within this report has been considered under the Act. However, no action is required as the Act does not apply to the matters presented in this report.

3.3 Sustainability

3.3.1 Under the provisions of the Local Government in Scotland Act 2003 the Council has to discharge its duties in a way which contributes to the achievement of sustainable development. In terms of the Climate Change Act, the Council has a general duty to demonstrate its commitment to sustainability and the community, environmental and economic impacts of its actions.

3.3.2 The information contained within this report has been considered under the Act. However, no action is required as the Act does not apply to the matters presented in this report.

4. Consultation

4.1 Internal

- 4.1.1 The Executive Officer Team have been consulted in the preparation of this report.

2. BACKGROUND PAPERS

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

3. APPENDICES

Appendix 1 – 2021/22 Management Budget