

PERTH & KINROSS COUNCIL

23 FEBRUARY 2022

REVENUE BUDGET 2022/23 & RESERVES STRATEGY

Report by the Chief Executive and Head of Finance
(Report No. 22/35)

1. PURPOSE

- 1.1 The purpose of this report is to present to Council the General Fund 2022/23 Final Revenue Budget and to invite Council to set the final Council Tax for 2022/23. The report also includes an updated Reserves Strategy.
- 1.2 The report also provides an update on the financial challenges facing the Council over the short to medium term including
- structural deficit of **£7.614 million**
 - significant inflationary pressures
 - uncertainty over future funding levels
- 1.3 Furthermore, the report introduces how the Council will, as part of its response to the challenges ahead, develop and implement a programme of transformation and service review.

2. RECOMMENDATIONS

- 2.1 It is recommended that Council:
- Approve the 2022/23 Updated Provisional Revenue Budget as set out in **Appendix B** to the report.
 - Approve the non-recurring budget pressures of £5.242 million set out in **Appendix E** to this report to be funded from the Covid-19 earmarked Reserve – see paragraph 6.23.
 - Approve the contribution to Perth & Kinross Integration Joint Board of £70.947 million that is included in the 2022/23 Revenue Budget – see paragraph 6.30.
 - Approve the delay in implementation of the review of the Adult Social Work and Social Care Contributions Policy to 1 April 2022 – see paragraph 6.34.
 - Approve the earmarked Reserves set out in Table 14 and **Appendix I** – see paragraph 8.11

	<ul style="list-style-type: none"> • Approve that uncommitted Reserves are maintained at a minimum of 2% of the 2022/23 Net Revenue Budget which equates to £8.295 million – see paragraph 8.18. • Determine the 2022/23 Final Revenue Budget. • Approve a Council Tax collection rate of 98% in 2022/23 – see paragraph 7.6. • Determine the 2022/23 Final Council Tax.
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3. STRUCTURE OF REPORT

3.1 This report is structured over the following sections:

- Section 4: Background
- Section 5: Scottish Budget
- Section 6: 2022/23 Updated Provisional Revenue Budget
- Section 7: Council Tax
- Section 8: Reserves Strategy
- Section 9: Future Financial Challenges and Transformation
- Section 10: Risk assessment
- Appendices

4. BACKGROUND

4.1 The Council's Corporate Plan 2018-2023 sets out the Council's commitment to the vision of the Community Planning Partnership for the area: -

'Creating a confident, ambitious and fairer Perth and Kinross, for all who live and work here'

4.2 The agreed strategic objectives to support the delivery of this vision are: -

- ***Giving every child the best start in life***
- ***Developing educated, responsible and informed citizens***
- ***Promoting a prosperous, inclusive and sustainable economy***
- ***Supporting people to lead independent, healthy and active lives***
- ***Creating a safe and sustainable place for future generations***

4.3 On 6 March 2020, the Council set the 2022/23 Provisional Revenue Budget (Report No. 20/57 refers). The 2022/23 Provisional Revenue Budget was approved on the basis that further savings had still to be identified.

4.4 An indicative Council Tax increase for 2022/23 of 4.25% was also approved.

4.5 As is normal practice, the approved Provisional Revenue Budget and indicative Council Tax assumption are the starting points for the Council setting a Final Revenue Budget and Council Tax for 2022/23.

- 4.6 On 15 November 2021, the Council approved the Medium-Term Financial Plan (MTFP) (Report No. 21/212 refers). Recognising that the Council would only receive confirmation of Scottish Government funding for 2022/23, and that following the local government elections in May 2022, it would be for the incoming Administration to determine future strategic priorities, the Council agreed to develop a single year 2022/23 Revenue Budget in February 2022.
- 4.7 The update of the MTFP considered future funding levels, increasing costs and rising demand over the short to medium term, insofar as they may impact on Perth & Kinross Council. In addition, the Council faces uncertainty around Covid-19, supporting vulnerable people, economic well-being and climate change.
- 4.8 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 considered in the management of the Council's finances. The MTFP is designed to inform the direction of travel 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 savings options. The refinement of these assumptions is included in the 2022/23 Updated Provisional Revenue Budget.
- 4.9 The final Housing Revenue Account (HRA) Revenue Budget for 2022/23 and Five-Year Capital Investment Programme and Rent Strategy to 2026/27 were approved by the Housing & Communities Committee on 24 January 2022 (Report No. 22/15 refers). The Committee approved the recommendation of an average weekly rent increase for 2022/23 of 3% or £2.14 per week in accordance with the requirements of the Council's approved Housing Business Plan including supporting investment in new council housing.

5. SCOTTISH BUDGET

- 5.1 The Scottish Government budget for 2022/23 was published on 9 December 2021, however, this did not provide information at individual Council level. The Cabinet Secretary for Finance also wrote to COSLA on 9 December 2021 providing further detail of the local government funding package and this is attached at [Appendix A](#). On 27 January 2022, the Cabinet Secretary wrote to COSLA advising of £120 million of additional funding for Councils across Scotland. The funding implications for the Council are set out in paragraph 5.7 below.

Local Government Finance Circular 9/2021

- 5.2 Local Government Finance Circular 9/2021 was issued by the Scottish Government on 20 December 2021 and included the provisional financial settlement for 2022/23 at an individual Council level. As anticipated, the Settlement included information for 2022/23 only.

5.3 The Circular provides details of the provisional total Revenue and Capital funding allocations for 2022/23, as well as the latest information on funding redeterminations for 2021/22. The Circular also provides details on a range of business rates measures, including the 2022/23 Non-Domestic Rates poundage.

5.4 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 2022 being presented to the Scottish Parliament. The Scottish Budget was approved on 10 February 2022

5.5 The Circular sets out a national funding package of £12.5 billion and includes:

- £174.5 million for the continued delivery of the real Living Wage within health & social care
- £15 million for the uprating free personal and nursing care payments
- £20.4 million for the Carers Act
- £124.4 million of additional investment to provide care at home
- £20 million to support interim care
- £200 million of additional support for health & social care
- £145 million for additional teachers and support staff
- maintained funding for 100-day commitments including the removal of curriculum and music tuition charges and expanded School Clothing Grant
- £64 million of additional revenue funding and £30 million of capital funding to facilitate the expansion of Free School Meals

5.6 As has been the case in previous years, Finance Circular 9/2021 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 - £80.2 million
- Pupil Equity Funding - £10.0 million
- Scottish Child Payment (Bridging) - £68.2 million
- Health & Social Care - £200.0 million
- Removal of Curriculum Charges - £8.0 million
- Removal of Music Tuition Charges - £12.0 million
- Free School Meals (revenue) - £42.2 million
- Free School Meals (holiday provision) - £21.8 million

- 5.7 Based on Finance Circular 1/2021, the total Revenue funding being made available by the Scottish Government to Perth & Kinross Council in 2022/23 is **£294.753 million** (see Table 1 below).

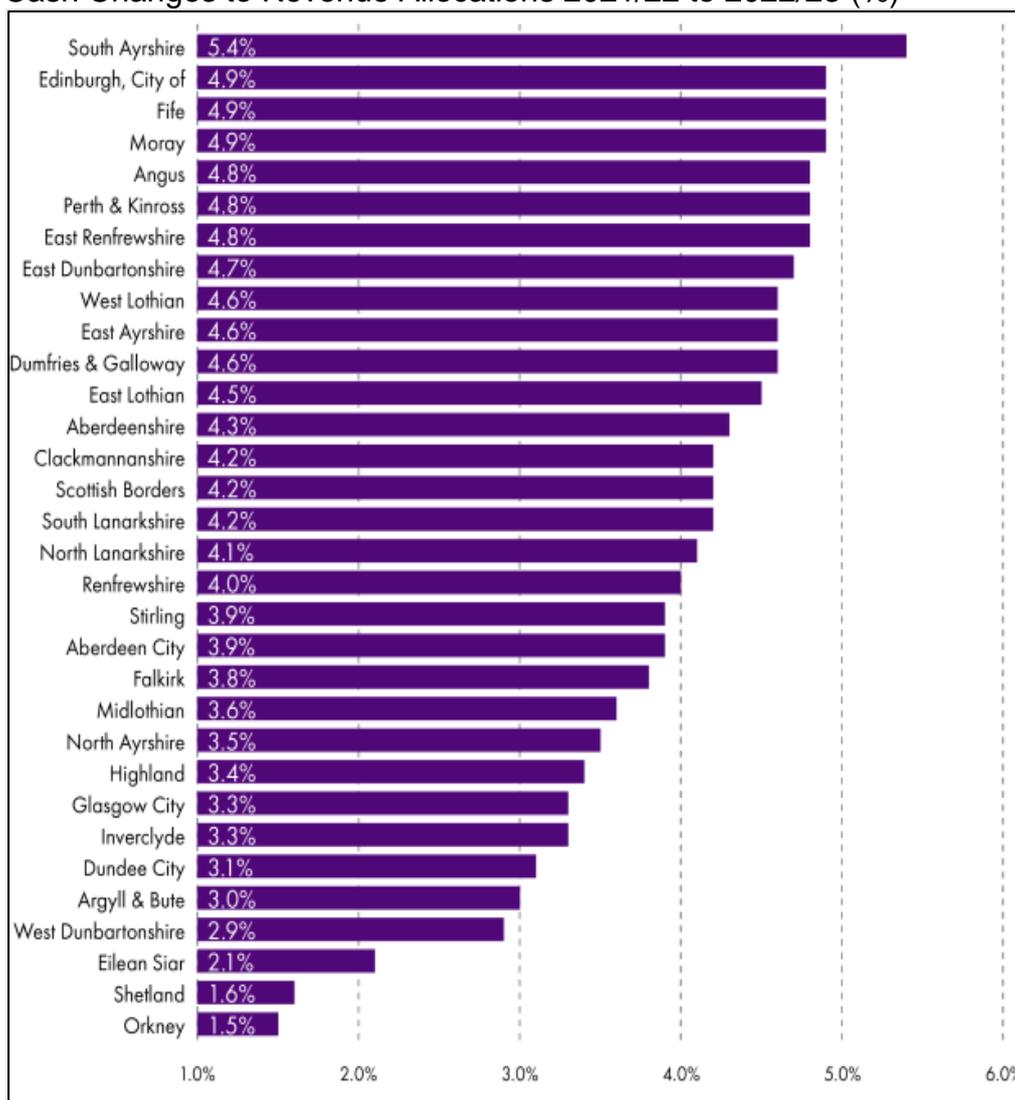
Table 1: Scottish Government Grant Funding – Perth & Kinross Council

	2022/23	2021/22
	£m	£m
General Revenue Funding	231.418	217.645
Council Tax Freeze	-	2.817
Non-Domestic Rates	46.141	43.889
Ring-Fenced Grants	17.194	16.920
TOTAL REVENUE FUNDING	294.753	281.271

Source: Finance Circular 9/2021 – 20 December 2021
Finance Circular 1/2021 – 1 February 2021

- 5.8 The 2022/23 Scottish Government provisional funding allocation of £294.753 million represents a **£13.482 million** increase in absolute cash terms from the allocation for 2021/22 (or 4.8% which is demonstrated in the following graph).

Cash Changes to Revenue Allocations 2021/22 to 2022/23 (%)

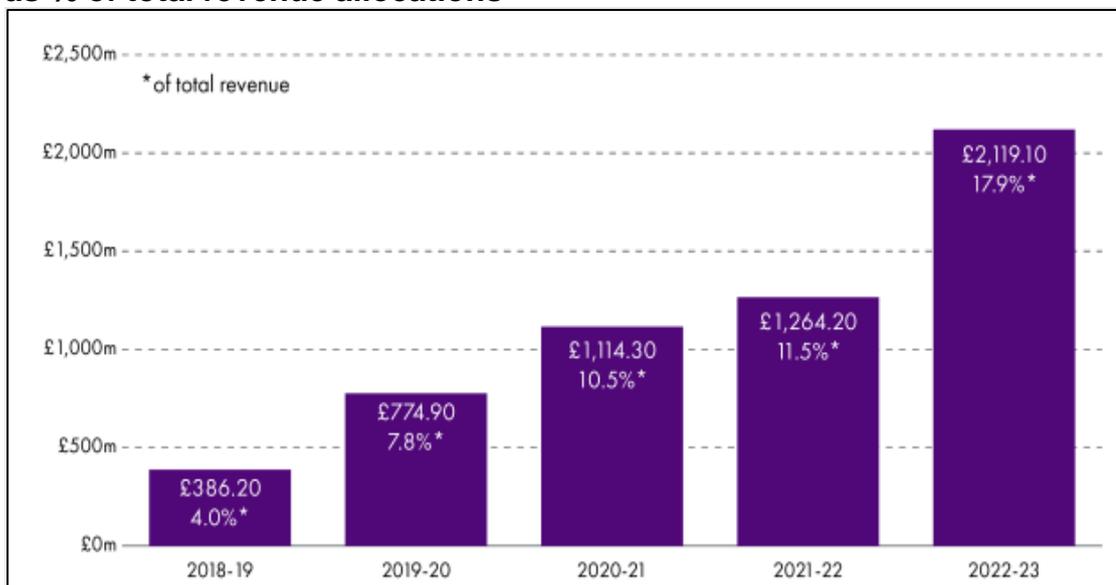


Source: Scottish Parliament Information Centre – Local Government Finance: Budget 2022/23 – December 2021

5.9 However, the 2022/23 provisional funding allocation includes **£15.768 million** which is either ring-fenced by the Scottish Government towards meeting specific initiatives, or where there is an expectation or requirement for the Council to apply funding for a stated purpose (most notably for Education: Covid-19 Recovery & Health & Social Care).

5.10 The level of “ring fencing”, “direction” or “protected” spending has increased significantly in recent years. The following graph sets out analysis undertaken by the Scottish Parliament Information Centre which shows an increase from 4% in 2018/19 to 17.9% in 2022/23. In the letter of 9 December 2021 from the Cabinet Secretary, attached at [Appendix A](#), there is a commitment to review all ring-fenced funding as part of the forthcoming Resource Spending Review.

Combined Specific Resource Grants and revenue from other portfolios, as % of total revenue allocations



5.11 Therefore, on a like for like basis, the provisional Scottish Government funding allocation for 2022/23, represents a **£2.286 million** reduction (0.81%) over the equivalent position for 2021/22 as set out in Finance Circular 1/2021. A like for like comparison is provided to illustrate the movement in Scottish Government funding over which the Council has direct control in determining its own budget priorities in Table 2 below.

5.12 Table 2 below summarises the movements in the total funding package from the Scottish Government to facilitate a comparison of the 2021/22 provisional allocation with 2022/23 on a comparable basis.

Table 2: Cash Movements between 2021/22 & 2022/23 (on a comparable basis)

	£m
2021/22 – Finance Circular 1/2021	281.271
2022/23 – Finance Circular 9/2022	294.753
Year on year cash increase in funding	13.482
Year on year % increase in cash funding	+4.8%
Less:	
- funding directed to service delivery	(15.768)
£ Reduction (on a comparable basis)	2.286
% Reduction	0.81%

- 5.13 Furthermore, the reduction of 0.81% set out above does not take account of the additional impact of inflation, which is significant, or increasing demand for Council services.
- 5.14 As previously noted, Finance Circular 9/2022 did not contain any funding information beyond 2022/23. However, the Scottish Government’s Resource Spending Framework that was published in December 2021 advised that “the intention is to publish multi-year spending plans in May 2022 to provide our delivery partners and businesses, communities and individuals across Scotland with some certainty on which to base their own forward planning”.

Correspondence from Cabinet Secretary – 27 January 2022

- 5.15 On 27 January 2022, and following discussions with the Scottish Government, the Cabinet Secretary for Finance wrote to Cosla advising of a further **£120 million** of funding for Councils. This funding is available to Councils to apply as they see fit.
- 5.16 The Cabinet Secretary confirms in her letter that the source of the funding is under spends from 2021/22 carried forward in the Scotland Reserve. Therefore, this additional funding is explicitly non-recurring.
- 5.17 Councils have now been formally advised of their individual allocations. Perth & Kinross Council has received an additional £3.238 million on a non-recurring basis.

Implications for the 2022/23 Capital Budget

- 5.18 Finance Circular 9/2022 also includes provisional Capital Grant allocations for 2022/23. The impact of these allocations is included within the Capital Budget report (Report No. 22/36 refers) which is on the agenda for this special meeting of the Council.

Non-Domestic Rates

- 5.19 Finance Circular 9/2022 also includes the Non-Domestic Basic Rate poundage for 2022/23 of 49.8p (49p in 2021/22), an increase of 1.6%. Two additional rates are levied on properties with rateable values over £51,000 (51.1 pence) and £95,000 (52.4 pence) respectively (same rateable values as previous year).
- 5.20 The Scottish Budget for 2022/23 also includes the following policies:
- 50% Retail, Hospitality and Leisure relief for the first three months of 2022-23, capped at £27,500 per ratepayer
 - Business Growth Accelerator relief will be expanded by making increases in rateable value due to the installation of solar panels a qualifying improvement eligible for relief from 1 April 2022
 - Enterprise Areas relief will be extended for one year to 31 March 2023
- 5.21 The Small Business Bonus Scheme threshold for 100% relief remains at £15,000, so that the overall scheme is applicable as per Table 3 below (which is consistent with the 2021/22 scheme):

Table 3: Small Business Bonus Scheme 2022/23

Combined Rateable Value of all Properties	2022/23
Up to £15,000	100%
£15,001 to £18,000	25%
£18,001 to £35,000	25% on individual property each with rateable value up to £18,000

- 5.22 The following reliefs will also be maintained: day nursery relief, disabled rates relief, district heating relief, empty property relief, Fresh Start relief, hardship relief, hydro relief, mobile masts relief, new fibre relief, renewable energy relief, renewable heat networks relief, reverse vending machine relief, rural relief, sports club relief and stud farms relief.
- 5.23 Charitable rates relief will also be maintained, however from 1 April 2022 mainstream independent schools will no longer be eligible for this relief, as recommended by the independent Barclay Review of Non-Domestic Rates in 2017.

6. 2022/23 UPDATED PROVISIONAL REVENUE BUDGET

[2022/23 Provisional Revenue Budget](#)

- 6.1 The Council approved the 2022/23 Provisional Revenue Budget in March 2020 (Report No. 20/57 refers).

- 6.2 In setting the 2022/23 Provisional Revenue Budget on 6 March 2020, the Council agreed expenditure pressures and savings (Report No. 20/57 refers) which are summarised in Table 4 below.

Table 4: Summary of 2022/23 Provisional Budget Decisions

	£'000
Total Expenditure Pressures	6,339
Total Savings	(1,432)

- 6.3 The 2021/22 Final Revenue Budget was supported by contributions from Reserves due to delays in delivering recurring savings as officer capacity was diverted to the Covid-19 response. When this is brought forward and applied to the 2022/23 Provisional Revenue Budget that was approved in March 2020, along with the recurring consequences of previous Council decisions, there is a deficit of **£6.114 million** that requires to be addressed. Furthermore, it is anticipated that the additional cost of employer's national insurance contributions will be **£1.5 million**.
- 6.4 On 15 November 2021, the Council was updated on the deficit and made aware of the national insurance pressures and, in the Medium-Term Financial Plan, agreed to apply **£7.614 million** from the Covid-19 earmarked Reserve to address this in 2022/23, Council was advised at this time that the use of reserves as a strategy for responding to the structural deficit in the Council's finances is an unsustainable position and will require to be addressed for 2023/24.

[Process for Updating the 2022/23 Provisional Revenue Budget](#)

- 6.5 The process for updating the 2022/23 Provisional Revenue Budget commenced in October 2021.
- 6.6 Updated Revenue Budget submissions or "Executive Summaries" for 2022/23 have been prepared on a thematic basis in line with the Council's approved strategic objectives. The Executive Summaries set out movements (new expenditure pressures and savings proposals) to the 2022/23 Provisional Revenue Budgets approved in March 2020 (Report No. 20/57 refers).
- 6.7 The 2022/23 Provisional Revenue Budget submissions have been subject to scrutiny by the Council's Executive Officer Team and thereafter presented to Elected Member Budget Review Groups which commenced in November 2021. The detailed analysis of these expenditure pressures and savings proposals are set out in [Appendix C](#).
- 6.8 The updated 2022/23 Revenue Budget Executive Summaries, which are attached at [Appendix C](#), have identified additional expenditure pressures of **£4.377 million** and service reduction proposals of **£4.495 million**.

- 6.9 The Council had previously endorsed the assumptions in the Medium-Term Financial Plan including “flat cash” in terms of recurring Scottish Government funding. Therefore, on a like for like basis, the Council will experience a reduction in funding of **£2.286 million**, which is set out in Table 2 above.
- 6.10 The 2022/23 Provisional Revenue Budget includes an uplift in the Council’s contribution to the Health & Social Care Partnership of **£2.168 million**. Given the significant increase in Scottish Government funding for adult social care, which is set out in paragraph 6.28 below, it is proposed that this provisional increase is redirected within the Council.
- 6.11 Table 5 below also includes **£3.238 million** of non-recurring funding that will support the 2022/23 Provisional Revenue Budget which is described at paragraph 5.17.

Table 5: Summary of 2022/23 Provisional Revenue Budget Movements

	£m
Recurring	
Additional Expenditure Pressures – Appendix C	4.377
Additional Savings Proposals – Appendix C	(4.495)
Reduction in Scottish Government funding – Table 2	2.286
Redirection of funding – paragraph 6.29	(2.168)
Balanced 2022/23 Provisional Revenue Budget	-
Non-Recurring	
Funding announced 27 January 2022	(3.238)
Non-Recurring Headroom available to support 2022/23 Provisional Revenue Budget	(3.238)

- 6.12 The 2022/23 Provisional Revenue Budget has 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 and has been reviewed by the Executive Officer Team. There is, however, a significant risk that these assumptions may require to be revised in due course as part of the ongoing monitoring of Council expenditure and income.
- 6.13 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.

- 6.14 Within **Appendix C**, there is a proposal to implement a consistent corporate staff slippage target of 4% across all Council Services which will apply differential increases to different Services. This proposal is informed by a review of the average staff slippage figures over the past 5 years. The increase will be challenging and will lead to an impact on performance, depending upon where vacancies arise. Service Management Teams will be required to manage this and any variances to the budgeted slippage target will be included in revenue monitoring reports to the Strategic Policy & Resources Committee.
- 6.15 The updated Executive Summaries also include an assessment of the potential impact of expenditure pressures (where applicable) and service reduction proposals 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.
- 6.16 Equality and Fairness Impact Assessments for individual expenditure pressures and savings proposals have been prepared. This facilitated the preparation of a cumulative impact assessment which was shared with the Strategic Equalities Forum in February 2022 and was distributed to all Elected Members in advance of this special meeting of the Council.
- 6.17 The Council is reminded that the Provisional Revenue Budgets, as set out in **Appendix B** are based upon the assumption that all the expenditure pressures and all the savings proposals within the Executive Summaries attached as **Appendix C** are approved.

Budget Consultation Exercise

- 6.18 The Council undertook an online budget consultation exercise with residents between 29 November and 19 December 2021. The consultation web page received 9,381 unique views by the public (5,744 last year). Overall, however there were 739 completed surveys (642 in 2021/22, 484 in 2020/21; 1,085 in 2019/20, 736 in 2018/19, 332 in 2017/18 and 91 in 2016/17).
- 6.19 **Appendix D** includes a report summarising the findings of the consultation exercise.

2022/23 Non-Recurring Expenditure Proposals

6.20 The 2022/23 Updated Provisional Revenue Budget also includes the identification of several non-recurring expenditure proposals of **£5.242 million** which are set out in more detail in [Appendix E](#) and brigaded as follows -

- **Delay in the delivery of Council approved projects** – these pressures have predominantly arisen due to delays in taking forward approved projects due to the impact of Covid-19 on capacity. In addition, many of the projects had longer lead times due to necessary community and business consultation/engagement (including the potential to attract further external funding to augment projects), planning consents, staff recruitment and issues associated with national and international supply shortages for some materials and components. The carry forward of these resources will ensure that these projects are completed in line with previously approved Council decisions.
- **Delay in the delivery of approved savings** – there are several approved savings that have also been delayed for the same reasons set out above. It is currently still the intention to deliver these savings for 2023/24.
- **Other** – mixture of increased demand and essential service developments.

6.21 Many of the non-recurring proposals identified in [Appendix E](#) are a consequence of reduced officer capacity due to the continued requirement to respond to Covid-19 and the issues identified at paragraph 6.20 above. To minimise the immediate impact on recurring budgets, the 2022/23 Provisional Revenue Budget has been constructed on the basis that all these proposals are non-recurring. This will provide time to understand the longer-term impact on the Council more fully.

6.22 These non-recurring proposals are reflected within the 2022/23 Provisional Revenue Budget and set out in detail at [Appendix E](#) to the report. It is proposed that these pressures are funded from projected under spends in the current financial year

6.23 **RECOMMENDATION: The Council is requested to approve the non-recurring pressures of £5.242 million set out in Appendix E to this report.**

2022/23 Fees and Charges

6.24 The proposals set out in [Appendix C](#) contain details of proposed increases to existing levels of charges in 2022/23. Full details of recommended charges in 2022/23 are set out in [Appendix F](#).

- 6.25 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.
- 6.26 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 6 below.

Table 6: Charging Categories

Charging Strategy	Objective
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

- 6.27 The Executive Officer Team has continued to work with the Health & Social Care Partnership to support the development of a range of transformational approaches to service provision aimed at building on best practice in health & social care provision.
- 6.28 The 2022/23 Provisional Revenue Budget assumes that the uplift in Scottish Government for adult social care of **£11.609 million** is applied in full.
- 6.29 With the significant increase in Scottish Government funding, the Executive Officer Team has revisited the Council's contribution to Perth and Kinross Health and Social Care Partnership. The 2022/23 Provisional Revenue Budget has now been constructed on the basis that the Council will maintain the same level of recurring contribution which allows £2.168 million to be redirected. This position is set out in Table 7 below.

Table 7: Recurring Contribution to Perth and Kinross Integration Joint Board

	£m
2021/22 Recurring Contribution	59.833
Application of Scottish Government Funding	11.609
Less application to non-devolved functions	(0.295)
Less contribution to Getting into Care	(0.200)
2022/23 Recurring Contribution	70.947
(cash uplift - £11.114m / % increase – 18.6%)	
2022/23 Provisional Revenue Budget	73.115
Amount available for redirection	2.168

6.30 **RECOMMENDATION: The Council is requested to approve the contribution to Perth & Kinross Integration Joint Board of £70.947 million in the 2022/23 Revenue Budget.**

6.31 In addition, the Scottish Government has still to allocate a further £200 million of funding towards adult social care. Based on previous allocations, Perth and Kinross would expect to receive additional funding in the range of £5 - £6 million.

Contributions Policy

6.32 The Scottish Government has committed to the removal of charges for non-residential social care services which will impact on the previously approved Adult Social Work and Social Care Contributions Policy. It is therefore proposed that the review is further delayed, pending the receipt of additional information from the Scottish Government, and potentially funding.

6.33 The additional income anticipated as part of the Integration Joint Board's 2022/23 Provisional Revenue Budget can be offset by Perth & Kinross Council through the allocation of non-recurring funding which is included in [Appendix E](#). This will increase the level of funding made available in 2022/23 to **£71.655 million**.

6.34 **RECOMMENDATION: The Council is asked to delay implementation of the review of the Adult Social Work and Social Care Contributions Policy.**

Composite Capital Budget

6.35 The agenda for this special meeting of the Council includes a report on the Composite Capital Budget (Report No. 22/36 refers). Within that report, is an update on several immediate inflationary pressures facing approved projects and the overall 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.

6.36 To that end, the 2022/23 Updated Provisional Revenue Budget includes a recurring increase in the loan charges budget of **£250,000**. This level of increase will need to be factored in each and every year for a number of years and this will form part of future years' Revenue Budgets.

6.37 RECOMMENDATION: The Council is asked to approve the 2022/23 Updated Provisional Revenue Budgets as set out in Appendix B.

6.38 The Council is recognised for its prudent approach to financial management. The Best Value Assurance Report stated, "the Council has robust financial planning and management arrangements, including effective monitoring and reporting and Medium-Term Financial Planning". Given the level of uncertainty over the short to medium term in relation to additional expenditure and reduced income, the previous approval of Reserves, and the unknown impact of Covid-19 on Council services, local communities and the local economy, officers are adopting a cautious and prudent approach towards the application of Reserves, reflecting the underlying structural deficit within the Council's funding, increasing demand and inflationary pressures and anticipated challenges in future funding settlements.

6.39 The Council is also reminded that the 2022/23 Updated Provisional Revenue Budget, as set out in [Appendix B](#), is based upon the assumption that all the expenditure pressures and all the service reduction proposals within the Executive Summaries attached as [Appendix C](#) are approved by Council.

6.40 Elected Members are also advised that there may be delays in the implementation of any additional expenditure proposals as arrangements are put in place and some of the activity may slip into future financial years. Elected members should also be aware that additional projects introduced through the Revenue Budget Motion / Amendments may require a commensurate increase in staffing capacity to deliver them and that it may take time to recruit the appropriately skilled officers. Such proposals will create further pressures in addressing the underlying structural deficit within the Council's finances.

7. COUNCIL TAX

7.1 The 2022/23 Provisional Revenue Budget that was approved in March 2020 (Report No. 20/57 refers) included an indicative Council Tax increase of **4.25%**. Any adjustments to this indicative increase will have an impact on the Revenue Budget. To put this into context, + / - 1% results in an increase or reduction in Council Tax income of approximately **£1 million**.
Council Tax Collection Rate

7.2 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.

- 7.3 In 2021/22, the collection rate was reduced to 96.5% for one year only, to reflect the potential impact of Covid-19. Elected members have been regularly advised of Council Tax collection performance throughout the current financial year and it is now anticipated that 2021/22 will exceed the budgeted target.
- 7.4 It is, therefore, proposed that the collection rate of 98% is reinstated for 2022/23. 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 financial insecurity. Covid-19 and its impact on household incomes may also continue to have a significant impact.
- 7.5 It usually takes on average around six years to reach or exceed a collection level of 98%. For example, the actual in year collection in 2020/21 was 96.06% which will increase in the next few years. The Council remains committed to sustaining and improving performance in respect of all its income recovery activities.
- 7.6 **RECOMMENDATION: The Council is asked to agree a Council Tax collection rate of 98% in 2022/23.**

Council Tax Base

- 7.7 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 72,273 in 2022/23.
- 7.8 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. Historic trend information is included in the following graphs.

Scottish Water Charges

- 7.9 The Council has received notification from Scottish Water that domestic water and wastewater charges for 2022/23 will increase by 4.2%. This results in a band D equivalent charge for water and wastewater from Scottish Water of £478.44, an increase of £19.26 (£459.18 in 2021/22). The split between water and wastewater is set out in Table 13 below.

TABLE 13: BAND D WATER & WASTEWATER CHARGES FOR 2022/23

	Water	Wastewater	Total
Band D	£221.40	£257.04	£478.44

- 7.10 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 2020/21 Audited Annual Accounts includes **£72.483 million** of General Fund Reserves. More details on the levels of cash backed Reserves are set out in [Appendix G\(I\)](#). When the Housing Revenue Account and earmarked Reserves of **£64.283 million** are removed, there was an uncommitted balance of **£8.200 million** which equates to 2%.

Proposals to Earmark Reserves

- 8.5 Revenue Budget 2021/22 Update No 4, which was considered by the Strategic Policy & Resources Committee on 2 February 2022 (Report No. 22/24 refers), included the projected outturn for the Council’s 2021/22 General Fund Revenue Budget. These projections have been further refined to recognise several adjustments which are required in closing the Council’s 2021/22 Annual Accounts and are material changes in the projected outturn
- 8.6 The impact of these projections on the level of balances is summarised at [Appendix H](#) to this report, which indicates a projected General Fund (excluding HRA) balance of £65.254 million at 31 March 2022. Of the projected balance as at 31 March 2022, £52.362 million is earmarked for the specific purposes set out in the table 14 below, with a projected uncommitted balance of £12.892 million.

- 8.7 There remain some areas of uncertainty in relation to the projected level of balances at 31 March 2022. Significant issues which might impact on balances include expenditure in relation to any weather-related events that occur during the remainder of the financial year and the ongoing impact of Covid-19.
- 8.8 Based on the Council's existing financial and policy commitments and the work undertaken in updating the Provisional Revenue Budgets, it is advised that significant amounts will require to be earmarked against the projected General Fund balance as follows:

Table 14: Earmarked General Fund Balances

	£'000	£'000
Projected General Fund Balance at 31 March 2022 (Appendix H)		65,254
<u>Less: Proposed Amounts Earmarked Against Balances:</u>		
COVID-19	(17,546)	
Revenue Grants	(7,785)	
Non-Recurring Pressures c/f from 2021/22	(5,242)	
Developer Contributions	(4,767)	
Workforce Management (including transformation)	(3,751)	
Affordable Housing	(2,352)	
Perth High School	(1,369)	
Car Parking	(1,183)	
Insurance Fund	(1,000)	
Devolved School Management Balances	(776)	
REACH project	(711)	
Culture	(659)	
Financial Insecurity	(638)	
School Counsellors	(628)	
Modern Apprentices / Graduate Trainees	(403)	
Perth & Kinross Offer	(394)	
Bertha Park High School	(393)	
Ventilation measures	(323)	
Decant schools	(300)	
Primary School at Bertha Park	(270)	
PH2O	(267)	
Property maintenance	(250)	
Elections	(212)	
Works Maintenance	(200)	
Community Investment Fund	(198)	
Financial Assistance	(196)	
North Inch Golf	(155)	
Grounds maintenance	(135)	
Local Action Partnerships	(127)	
Salix	(92)	
Public Sector Leadership	(40)	
		(52,362)
Revised Projected Uncommitted Balance at 31 March 2022		<u>12,892</u>

- 8.9 It is anticipated that the Covid-19 earmarked Reserve will be £17.546 million at 31 March 2022. However, the Council has already made commitments of £7.614 million and £689,000 from this earmarked Reserve, therefore the uncommitted balance is **£9.243 million**. The requirement for Council to respond to Covid-19 is not over and it is highly likely that there will be further Covid-19 related activity that will require to be funded from this earmarked Reserve.
- 8.10 The balances identified in Table 14 above and described in more detail in [Appendix I](#) 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 Strategic Policy & Resources Committee or Council.

8.11 **RECOMMENDATION: The Council is asked to earmark the General Fund Balances identified in Table 14 above and Appendix I.**

Proposed Approach to Managing Unearmarked General Fund Reserves

- 8.12 In order 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 8 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 (£677,360 in 2021/22 for Perth & Kinross Council) before being eligible for support through the Bellwin Scheme.
- 8.14 Taking account of all of 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 2022/23 of £414.757 million as detailed in [Appendix B](#), this would mean a level of uncommitted Reserves of between approximately £8.295 million and £16.590 million for 2022/23.
- 8.16 The Council has targeted a level of uncommitted Reserves between 2% and 4% range for a number of 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, particularly given the unprecedented circumstances presented by the Covid-19 pandemic and changing weather patterns. There is currently no confirmation of the Council's Scottish Government funding beyond 2022/23 and it is anticipated that Council services will continue to operate in a challenging financial environment in future years, whilst also requiring to address the continuing structural deficit of **£7.614 million** within the Council's finances.
- 8.17 Based on the level of earmarked Reserves set out in Table 14 above, the level of unearmarked Reserves is £12.892m which equates to 3.1%

- 8.18 **RECOMMENDATION: The Council is asked to approve that uncommitted Reserves are maintained at a minimum of 2% of the 2022/23 Net Revenue Budget which equates to £8.295 million.**
- 8.19 In the event that any use of General Fund Reserves is made in determining the 2022/23 Revenue Budget, 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 J** to the report shows the contributions, to and from, Reserves recommended in setting the Provisional Revenue Budget for 2022/23 and anticipated in 2023/24 and 2024/25.
- 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 K**.

9. FUTURE FINANCIAL CHALLENGES AND TRANSFORMATION

- 9.1 The Council has faced significant pressures in recent years. In order to address this, the Council has approved a range of measures totalling £19.4 million over 5 years across all Services. It will become increasingly challenging to identify further measures and therefore a further programme of transformation and change will be required.

Transformation and Change

- 9.2 It has been intimated that the Council will introduce an organisational wide programme of transformation and change to support delivery of the Perth and Kinross Offer and help address the significant financial, economic, social, and environmental challenges faced by the organisation and the changing needs and demands of local communities.
- 9.3 The need for transformation and change is not unique to Perth and Kinross. All public and private sector services and organisations are facing significant challenges and rethinking how they will operate in the future to address these challenges and meet new and emerging demands. In its Covid-19 Recovery Strategy - for a fairer future, the Scottish Government sets out its vision for recovery and the actions it will take to address systemic inequalities made worse by Covid-19, make progress towards a wellbeing economy, and accelerate inclusive person-centred public services. The strategy highlights the need to re-build public services and sets out how it will work differently with partners to deliver change.
- 9.4 There are several key drivers which require us to transform our services and the way we work with partners and communities to deliver improved outcomes. These include:
- new and emerging priorities – social, economic and climate that require us to review what, how and where we deliver services to meet these challenges

- a growing ageing population and increasing demand for services
- delivery of the Perth and Kinross Offer will require a new way of working with our communities and a re-think of how we are organised to deliver
- significant financial challenges, including rising inflationary pressures

9.5 The programme will include a review of our organisational structure to ensure we have the right people in the right place doing the right things. The programme will be supported by the Council's financial strategy, informed by the Perth & Kinross Offer Framework and will underpin the delivery of the Council's new Corporate Plan, to be developed during 2022.

9.6 The programme will include 4 key categories

- **Transformation** – changing the way that we work which will be significantly different from current ways of working e.g., a marked change in the form, nature, and appearance of the services we deliver, how and where we deliver them.
- **Service Improvements** – a programme of service improvements and improved ways of working led by teams and services to deliver better outcomes for communities, improved efficiency, and productivity.
- **Re-structure and consolidation** – the way services and teams are configured to deliver outcomes and service priorities.
- **Budget Cuts** – budget and service reductions to work within the financial constraints facing the Council, whilst focusing on agreed priority areas.

9.7 Through the programme we will:

- support the delivery of the outcomes and priorities in the new Corporate Plan to be developed during 2022
- support delivery of the Perth and Kinross Offer and the development of new models of co-production and delivery with local communities.
- ensure that the Council is effectively organised to deliver to meet new and emerging challenges.
- identify and establish partnering or collaborative opportunities with our CPP partners, other local authorities, and others as appropriate.

9.8 Transformation alone will not address the structural deficit; budget cuts and service reductions will be required. Some transformation 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.

9.9 Our approach will be underpinned by an approach to financial management following key principles:

- upfront investment in prevention and early intervention

- an inclusive and systematic organisational approach to our financial strategy
 - over planning on savings projects to allow greater flexibility across the programme
 - prioritise transformation investment on spend to save and cost mitigation activities and on new priorities such as community investment to support the Offer, climate change and economic wellbeing
- 9.10 The Chief Executive will lead organisational transformation and a team will be identified to develop the programme and oversee its delivery, providing support and scrutiny to the key workstreams. The team will comprise of representatives from each service and include HR, Finance, IT, Communication and Organisational Development.
- 9.11 A Transformation Board will be established, and it is proposed that progress on significant strategic projects will be reported to the Governance Member Officer Working Group and Strategic Policy and Resources Committee. Services will continue to progress a range of operational service improvements and change projects which will be managed at a service and team level, as part of Service Business Management and Improvement Plans, relevant themed committees, and through the budget process, where necessary.
- 9.12 To effectively deliver such an ambitious programme, additional resources are likely to be required, including project management support, funding for spend to save activities, investment in community initiatives and short-term funding to enable shifts to preventative working where required. Council approved £3.7m in the earmarked Reserve for Workforce Management (including Transformation). It is proposed that this budget is utilised to support the programme.
- 9.13 Early engagement on the development of the programme has been undertaken with the Corporate Management Team, with wider engagement to be undertaken across the organisation to develop a programme which will be reported to an early meeting of the new Council following the local government elections.

Workforce Planning / Organisational Development

- 9.14 People are the Council's most important asset and remain at the heart of everything it does. The Council's Corporate Workforce Plan (2021 – 2023) (Report No. 21/84 refers), together with the Organisational Development Plan and Health & Wellbeing Plan, collectively set the direction for how we develop our workforce for the future. These plans will evolve to support and enable the Transformation and Change Programme, with engagement and consultation with employees and trade unions throughout.

- 9.15 The pandemic has changed the way we live and work. As Covid becomes endemic, keeping people safe and promoting wellbeing remain priorities for the Council as an employer of a large and diverse workforce who will continue to deliver public services to the communities of Perth and Kinross.
- 9.16 It is important to harness the positive impacts from the last two years on the way we work. **Working Smarter** means being more flexible about what we do, how we work, who we work with, when and where employees work – ensuring we optimise use of buildings, workspace, and technology to find new and more effective ways of doing things. It is also about supporting wellbeing, enhancing employee experience, and promoting positive life work balance. And finally, we need to continue to develop leadership skills and behaviours to best meet the needs of our communities.
- 9.17 Wider economic pressures relating to a tighter labour market and rising inflation, with associated impact on individual employees are emerging issues for the Council as an employer. There are signs of skill shortages in certain occupational areas, and upward pressure on pay, particularly for lower paid jobs. Strategies to address recruitment and retention of core skills is a priority; pay awards are negotiated nationally for each occupational group and it will be important to ensure that our employment and pay offer remains competitive and affordable.

Asset Management

- 9.18 At its meeting on 6 October 2021, the Council approved the Investment Blueprint which set out the principles that will direct the Council's future Capital investment. (Report No. 21/180 refers). These principles are that the Council's investment decisions must:
- mitigate against the impact of climate change
 - promote inclusive economic growth and a vibrant community
 - promote equality and fairness
 - support the delivery of sustainable public services through effective management of our assets
 - promote and enhance digital inclusion.
- 9.19 The Blueprint is intended to help shape and inform a rolling 30 Year unfunded Investment Plan together with a 6-year rolling delivery plan which will detail the delivery of costed and funded projects and programmes developed from proposals within the 30 Year Plan.
- 9.20 Proposals set out within the 30-year investment plan will be subject to the Council's project governance framework ("5 Case Model" and Gateway Process), building in further opportunity to review, respond and adapt the Plan considering emerging needs, circumstances, and priorities. The Plan will be reviewed annually by elected members to ensure that proposals continue to meet the strategic priorities of the Council.

9.21 Further details on the review of corporate assets and the development of a Corporate Asset Management Strategy are included in the Composite Capital Budget report, as outlined in the later report (Report No. 22/x refers).

10. RISK ASSESSMENT

10.1 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.

10.2 Elected members will be kept up to date on the impact of these risks through revenue monitoring reports to the Strategic Policy & Resources Committee and budget updates to Council.

Structural Deficit

10.3 The Council has previously approved the application of £7.614 million of Reserves to support the 2022/23 Revenue Budget (Report No. 21/212 refers). In addition, Appendix E includes several previously approved recurring savings proposals that will not be delivered in 2022/23 totalling £2.719 million.

10.4 Therefore, in advance of 2023/24, the Council has a structural deficit of potentially up to **£10.333 million** to manage and the Transformation and Change Programme will be critical to achieving this.

Inflation

10.5 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. Future increases in the National Living Wage, pressure to enhance wage rates paid by service providers and suppliers and the impact of the leaving the European Union and global uncertainty on the value of Sterling may also create inflationary pressures. Inflation is currently running at its highest levels since April 1991.

Local Government Funding Beyond 2022/23

10.6 The Council received a one-year financial settlement for 2022/23 in December 2021. It is very difficult to estimate Scottish Government future funding scenarios. 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.

- 10.7 The potential for further cash and real terms reductions in funding beyond financial year 2022/23 is considered to represent a significant risk in the management of the budget over the medium term.
- 10.8 Once inflation is included, these factors may result in further significant real terms reductions in funding to the Council over the medium term at a time of rising demand for Council services.
- 10.9 At this time, there is also no information on any conditions which may be attached to future local government finance settlements.
- 10.10 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.
- 10.11 Whilst the Scottish Government have provided funding information for 2022/23 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 encompassed within the Perth and Kinross Offer.
- 10.12 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 a significant impact upon the Council's future budget, assuming that resources and funding is transferred to the proposed new Boards.

Impact of Covid-19

- 10.13 It is anticipated that Covid-19 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 Covid-19 response continues, as well as seeing further pressure on income streams from both Council Tax and fees & charges due to the impact of the pandemic on the local economy. In addition, as capacity continues to be diverted to supporting the Covid response, there is a risk that approved savings and future transformation is delayed.
- 10.14 At its meeting on 27 January 2021, the Council approved the adoption of a proactive approach to managing this risk through the creation of an earmarked Reserve for Covid-19 (Report No 21/8 refers).

Arms-Length External Organisations

- 10.15 All three of the Council's Arms-Length External Organisations, Live Active Leisure, Culture Perth and Kinross and Horsecross Arts Ltd, have been impacted by the Covid-19 pandemic. Public facing activity continued to experience significant disruption during 2021/22.

- 10.16 In previous years, all three organisations secured additional external non-recurring, Covid-19 related financial assistance including the Job Retention Scheme and the Performing Arts Relief Fund.
- 10.17 There is a risk that further Covid-19 restrictions or consumer nervousness impact on future usage leading to continued pressure on customer generated income, and in turn leading to further financial challenges. There is also an ongoing risk to the financial sustainability of the ALEOs due to the additional costs they are likely to face as they adjust their offer to respond to the consequences of Covid-19.

Health and Social Care

- 10.18 Discussions are ongoing with regards the risk sharing agreement between the Council and NHS Tayside, particularly around how any over spends might be dealt with. There is a risk that this may have a financial impact on the Council over the short to medium term.

Tayside Contracts

- 10.19 There is a risk that levels of inflation exceed budgeted provisions for Tayside Contracts covering construction, janitorial, catering and cleaning activities. In recent months, there have been significant price increases in supply chain costs for key commodities, including material costs for construction and food supplies in catering which, if sustained will put further pressure on client budgets to accommodate these price increases. Furthermore, with Tayside Contracts bound by national pay award negotiations, there is a risk that, similar to 2021/22, 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. In addition, in the short to medium term, with the continued risk of Covid-19 requiring some level of restrictions in schools, there is a risk that school meal uptake numbers remain low relative to pre-Covid-19 levels, impacting on income generated.
- 10.20 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

- 10.21 The 2022/23 Revenue Budget assumes 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

- 10.22 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 economic climate.
- 10.23 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.
- 10.24 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.
- 10.25 The economy has also been impacted on an unprecedented level by Covid-19 and this will undoubtedly put further pressure on public finances as tax revenues are reduced and expenditure rises.

Climate Change

- 10.26 On 15 December 2021, the Council approved the Climate Change Strategy and Action Plan (Report No. 21/245 refers).
- 10.27 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.
- 10.28 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 able to fully capitalise on these.

Pay Award Assumptions

- 10.29 Collective national negotiations for the 2021/22 pay awards have yet to conclude and for 2022/23 have only just commenced. There is a risk that the outcome of national pay negotiations in future years differs from the Council's assumptions which could have a significant financial impact upon the Council.

2022/23 Final Revenue Budget

- 10.30 Elected members have 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 the 2022/23 Revenue Budget vary significantly with a consequential impact upon the budget.

10.31 Furthermore, the 2022/23 Revenue Budget is constructed on the basis that approved savings are delivered. There remains a risk that due to capacity issues or changes in demand for services, as well as the Covid-19 response/recovery, these savings require to be further delayed or may no longer be deliverable.

10.32 There is also a risk that the delivery of services is impacted by the ability of the Council to recruit and retain staff with the skills required to maintain performance.

Implications of Capital Budget

10.33 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

10.34 There is a risk that, as has been the case in previous years, the Council incurs further significant levels of expenditure on severe weather. The following table sets out final outturns on Winter Maintenance over the last ten years.

Winter Maintenance Final Over / Underspend	
2021/22	Currently on budget
2020/21	Overspend £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
2013/14	Under spend £531,000
2012/13	Over spend £1.411 million

10.35 Elected members will be kept up to date with developments through the revenue and capital monitoring updates that will be provided throughout the financial year.

Author(s)

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Approved

Name	Designation	Date
Stewart Mackenzie	Head of Finance	15 February 2022
Karen Donaldson	Chief Operating Officer	15 February 2022

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1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

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

1. Strategic Implications

Corporate Plan

1.1 The Council's Corporate Plan 2018 – 2023 lays out five outcome focussed strategic objectives which provide clear strategic direction, inform decisions at a corporate and service level and shape resources allocation. They are as follows:

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

1.2 This report relates to all of these objectives.

2. Resource Implications

Financial

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

Workforce

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

Asset Management (land, property, IT)

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

3. Assessments

Equality Impact Assessment

- 3.1 Under the Equality Act 2010, the Council is required to eliminate discrimination, advance equality of opportunity, and foster good relations between equality groups. Carrying out Equality Impact Assessments for plans and policies allows the Council to demonstrate that it is meeting these duties.
- 3.2 The Revenue Budget Executive Summaries have been subject to an equalities assessment where appropriate.

Strategic Environmental Assessment

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

Sustainability

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

4. Consultation

Internal

- 4.1 The Chief Executive and Executive Officer Team have been consulted in the preparation of the updated 2022/23 Provisional Revenue Budget.

2. BACKGROUND PAPERS

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

3. APPENDICES

Appendix A –	Letter from the Cabinet Secretary from Finance dated 9 December 2021.
Appendix B –	2022/23 Provisional Revenue Budget
Appendix C –	2022/23 Executive Summaries
Appendix D –	Budget Consultation Summary Report
Appendix E –	2022/23 Non- Recurring Expenditure Pressures and Savings
Appendix F –	Fees and Charges – 2022/23
Appendix G(i) –	Summary of Council Cash Backed Reserves 31 March 2021
Appendix G(ii) –	Summary of General Fund Balances at 31 March 2021
Appendix H –	Projected General Fund Balance at 31 March 2022 (excl HRA)
Appendix I –	Summary of Earmarked Reserves at 31 March 2022
Appendix J –	Summary of the Projected Use of General Fund Revenue Balances 2022/23, 2023/24 and 2024/25
Appendix K –	Summary of Projected Cash Backed Reserves at 31 March 2022