

# PERTH & KINROSS COUNCIL

22 JUNE 2022

## FINANCIAL STRATEGY

Report by the Head of Finance  
(Report No. 22/141)

### 1. PURPOSE

- 1.1 The purpose of this report is to provide elected members with high level commentary on the scale of the financial challenge facing the Council over the short to medium term. It includes commentary on the Resource Spending Review that was published by the Scottish Government on 31 May 2022.
- 1.2 The report also brings forward a Financial Strategy that will assist the Council in delivering its corporate objectives whilst still bringing forward a lawful balanced budget.

2. RECOMMENDATIONS	
2.1	<p>It is recommended that Council:</p> <ul style="list-style-type: none"><li>• Note the contents of the report</li><li>• Agree the Financial Strategy – see <b>Appendix 1</b></li></ul>



### 3. STRUCTURE OF REPORT

- 3.1 This report is structured over the following sections:
- Section 4: Background
  - Section 5: Scottish Government – Resource Spending Review
  - Section 6: Financial Strategy
  - Section 7: Scale of the Challenge
  - Section 8: Conclusions

### 4. BACKGROUND

- 4.1 For financial year 2022/23, the Council has an approved net General Fund Revenue Budget of **£430 million**. For 2022/23, the Council essentially received a flat cash funding settlement from the Scottish Government with additional funding applied to specific national policy initiatives.

- 4.2 There are specific pressures impacting on the 2022/23 Revenue Budget, including general inflation which is currently running at a 40-year high and impacts on activity across the Council and specific inflation impacting on commodities such as electricity, gas and fuel. Furthermore, the 2022/23 pay claims from Trade Unions are significantly more than the amounts budgeted.
- 4.3 In addition, over the next six financial years, the Council has approved Capital investment of **£730 million** which will also be impacted on the external pressures listed above.
- 4.4 The pressures identified above compound the known structural deficit of **£10.014 million** and means that, going forward, the Council faces significant and unprecedented financial challenges.
- 4.5 As well as the financial challenges that the Council faces in delivering a lawful, balanced budget, there are several other reasons why change is necessary:
- new and emerging priorities, including social, economic, health & wellbeing and climate change
  - an ageing population and increasing demand for services
  - delivery of the Perth and Kinross Offer will require a new way of working with communities and a rethink of how the Council is organised to deliver
- 4.6 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 Scottish Government's strategy highlights the need to re-build public services and sets out how it will work differently with partners to deliver change.

## **5. SCOTTISH GOVERNMENT: RESOURCE SPENDING REVIEW**

- 5.1 On 31 May 2022 the Scottish Government published **Investing in Scotland's Future: Resource Spending Review**. This is the Scottish Government's first resource spending review since 2011. It sets out "high level parameters" for resource spend within future Scottish Budgets up to 2026/27.
- 5.2 Annual budgets for portfolios, local government and public bodies for the period 2023/24 to 2026/27 will be presented to the Parliament through the annual budget process, reflecting updated funding assumptions, economic and fiscal forecasts and tax policy decisions. However, the funding envelopes included in this spending review are intended to guide financial planning and reform across the public sector, in anticipation of future Scottish budget setting processes.

5.3 The spending review provides an overarching financial framework focusing on four key Scottish Government priorities:

- Tackling child poverty
- Addressing the climate crisis
- Securing a stronger, fairer, greener economy
- Delivering excellent public services

5.4 Funding to Council's is shown in the Social Justice, Housing and Local Government portfolio which is responsible for leading the national mission to reduce child poverty, creating a fairer Scotland, and tackling inequalities. Funding for local government over the period of this spending review is set out in the following table.

	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Local Government	10,616	10,616	10,616	10,616	10,716

5.5 With inflation currently running at 40-year highs, the funding identified in the Spending Review is likely to mean significant real terms reductions in funding for Councils.

5.6 The Fraser of Allander Institute have published commentary on the implications of the Spending Review and they suggest that "the local government budget will decline by 7% in real terms between 2022/23 and 2026/27". They elaborate further by suggesting that "the real terms erosion of the funding allocations of local authorities, police, universities and colleges represents the continuation of a longer trend".

5.7 The Spending Review does also refer to other funding that may flow through to local government including employability relating to child poverty, teachers & support staff, tackling the poverty related attainment gap, strategic childcare plan and reducing the cost of the school day.

5.8 It is anticipated that how the information reflected within the Spending Review directly impacts on Perth & Kinross Council will not be available until December 2022.

## 6. FINANCIAL STRATEGY

6.1 In their publication, Thinking Ahead / Developing a Financial Strategy, the Chartered Institute of Public Finance and Accountancy (CIPFA) suggest that -

- *"A Financial Strategy is the link between the organisation's long-term service objectives and its financial capacity"*

- *“The financial strategy will set out where the organisation is now, where it would like to be and how it plans to get there”*
- *“Strategic Financial planning requires consideration not only of the organisation’s financial resources, but also of the future of the services that it delivers, the individuals and groups to which it delivers them and the environment in which it operates”*

6.2 Furthermore, the CIPFA financial management standards require that *“the financial management of the authority supports financial sustainability”*. This will require elected members and officers to strengthen their understanding of the Council’s financial position which will include:

- **Inflationary pressures** – are these transitory or now fixed?
- **Demand** – how can the Council manage this and what level of service is no longer affordable?
- **Standards** – is the Council providing an enhanced level of service and might this be reduced?
- **Income** – are Services maximising access to national funding and exploring options for new charges?

6.3 It is important that the Financial Strategy links with the Corporate Plan, the Local Outcome Improvement Plan, the Transformation & Change Programme and the Perth and Kinross Offer.

6.4 It is essential that the Council returns to becoming financially sustainable. Over the last few years, public sector organisations have become more dependent on Reserves, which are by definition non-recurring, to meet recurring expenditure. This needs to be based on realistic assumptions around future expenditure, funding, income generation and Council Tax levels.

6.5 Furthermore, in a process of transformation and change, where the Council has capacity, potentially limited, to invest in key strategic priorities through the managed disinvestment in other service areas, it is important that the Council identifies and secures agreement on what it will no longer provide.

6.6 The Council also needs to ensure that it is best placed and sufficiently agile to be able to respond to the future and better placed for the future for the major challenges ahead, e.g., Climate Challenge, National Care Service.

6.7 The level of financial challenge facing the Council, which is set out in more detail in Section 6, is unprecedented. It is highly unlikely that the level of budget reductions required can be fully delivered by 1 April 2023. Therefore, part of this financial strategy presents elected members with options on how these reductions may be introduced.

## 7. SCALE OF THE CHALLENGE

- 7.1 The Council faces an unprecedented level of financial challenge over both the short and medium term. Rising demand, increasing costs and the known structural deficit alongside potential real terms reductions in Scottish Government funding all contribute towards these financial challenges.
- 7.2 On 15 November 2021, the Council approved the updated Medium-Term Financial Plan (Report No. 21/212 refers). At that time, under the mid-range set of assumptions, elected members were advised of a potential funding gap of approximately **£61 million** through to 2027/28.
- 7.3 Undoubtedly this figure will change as more information becomes available, and the scale of the challenge will inevitably increase. Figures for future years will be updated over the Summer and included within the next Medium-Term Financial Plan.
- 7.4 However, work has been undertaken to identify the potential scale of the immediate challenge for 2023/24 which is now estimated at approximately **£24 million** and will require addressing urgently.

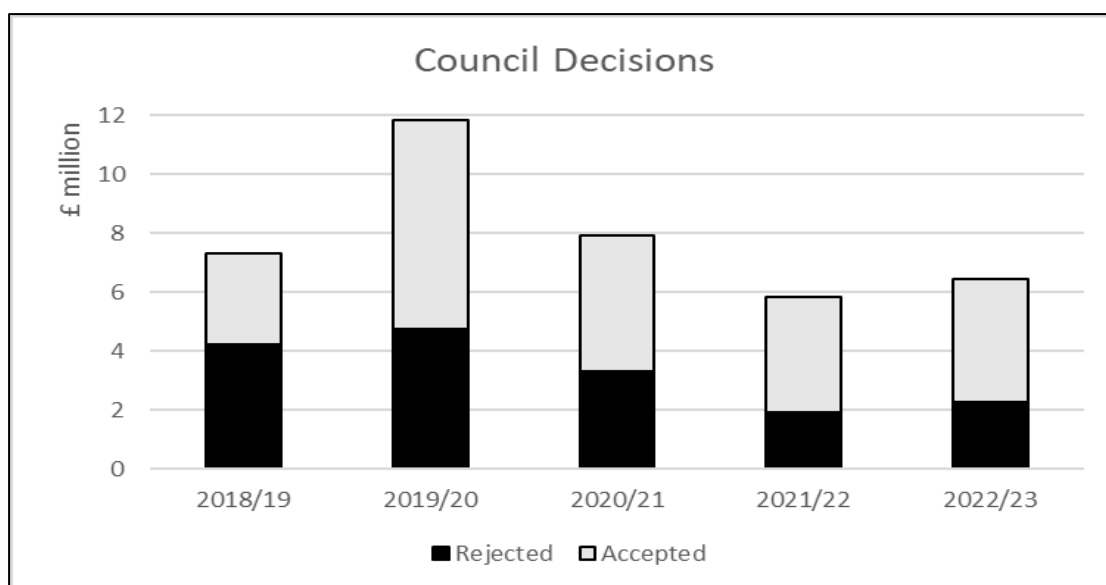
	£m
Structural Deficit	10.0
Pay Award	4.2
Energy	4.0
Inflation	5.0
Other Pressures	0.9
<b>TOTAL</b>	<b>24.0</b>

- 7.5 The estimated financial pressure of **£24 million** will require to be addressed to set a lawful balanced Revenue Budget for 2023/24.

### Context

- 7.6 To provide some context and reinforce the scale of the challenge facing the Council, over the last five years savings options, budget reductions and additional income proposals totalling **£39.315 million** have been put forward. Of the total, £16.531 million have been rejected and £22.784 million agreed by Council. This information is summarised in the following table and graph.

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m
Total	7.307	11.812	7.912	5.825	6.459
Rejected	4.235	4.758	3.337	1.934	2.267
Accepted	3.072	7.054	4.575	3.891	4.192



- 7.7 This information includes the last Transformation Programme, which ran from 2015 to 2020 and delivered full year, recurring budget reductions of approximately **£4.7 million**.

## Risks

- 7.8 There are several risks that may further impact on the Council's financial planning including the outcome of pay negotiations, in both the current year and future years, as well as the longer-term impact of inflation on Council services.
- 7.9 The consequences of the introduction of the National Care Service and further requirements of climate change legislation add to further financial uncertainty over the short, medium and longer term.

## 8. CONCLUSIONS

- 8.1 The Council faces significant financial challenges over the short, medium and longer term.
- 8.2 The scale of the financial challenge facing the Council in 2023/24 is now **£24 million**. Beyond 2023/24, it is anticipated that the challenges will increase beyond that set out in the last update of the medium-term financial plan.
- 8.3 As part of the overall strategy for maximising income, appropriate use of Reserves and the development of transformation activities, the Council will over the coming years be asked to consider and make significant budget cuts to get to a sustainable position. The measures set out within the Financial Strategy seek to balance the levels we have available and to avoid having to make all the anticipated level of cuts in any one financial year. Given the funding levels anticipated and with the probability that current pressures, notably pay and wider inflation will exceed assumptions, there will be a very real requirement for cuts in allocated budgets and an impact on resources available to support the delivery of services to our communities.

**Author(s)**

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**Approved**

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## 1. IMPLICATIONS, ASSESSMENTS, CONSULTATION AND COMMUNICATION

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

### 1. Strategic Implications

#### Corporate Plan

- 1.1 The Council's Corporate Plan 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 Leadership Team have been consulted in the preparation of this Financial Strategy.

## **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 1 – Financial Strategy