Perth and Kinross Council

2023/24 Annual Audit Report

AUDIT SCOTLAND

Prepared for the Members of Perth and Kinross Council and the Controller of Audit

2 December 2024

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6 The council's general fund balance increased in the year due to the application of the service concession financial flexibility accounting arrangements. The council has used this to support its 2023/24 outturn and plans to use the remainder to support its budgets through to 2027/28.

7 The 2024/25 budget included a planned use of reserves of £13.8 million, but subsequent amendments increased this to £28.1 million.

8 The medium-term financial plan has not been updated since October 2023 and will be reviewed following publication of the Scottish Government's Medium-Term Financial Strategy. The council has yet to develop its revenue financial planning beyond six years as recommended in the 2019 Best Value Assurance Report.

9 The council's capital investment programme totals £674 million over the next five years and a Corporate Asset Management Framework has been approved to inform investment decision-making. Following an updated options appraisal, the PH2O project, which was paused last year due to inflationary pressures, is going ahead on an alternative site.

10 The Transformation and Change Programme is progressing in line with the planned timetable.

Best Value

11 Our Best Value thematic review of workforce innovation confirmed that the council has a workforce plan to support the delivery of its strategic objectives but has yet to set targets against which to measure and report on progress.

12 Two of the 2019 Best Value Assurance Report recommendations remain outstanding and there has been limited reporting of progress to members or the Executive Leadership Team.

Vision, leadership, governance, and use of resources

13 The council revised its service and senior leadership structure during the year as part of its Transformation and Change Programme.

14 The council has appropriate governance arrangements in place for delivery of its plans.

15 In line with national trends, there has been an overall decline in LGBF performance indicators over the last 5 years, although performance relative to other councils is largely unchanged. KPI trend analysis suggests improvement in performance compared to last year.

16 The council is compliant with the Accounts Commission's SPI direction with comprehensive performance information available via 'PK Performs.'

Introduction

1. This report summarises the findings from the 2023/24 annual audit of Perth and Kinross Council (the council) and will be published on Audit Scotland's website: website www.audit-scotland.gov.uk.

2. The scope of the audit was set out in an annual audit plan presented to the March 2024 meeting of the Audit and Risk Committee. This annual audit report comprises significant matters arising from the audit of the council's annual accounts and conclusions on the wider scope areas set out in the *Code of Audit Practice.* It also provides a summary of the conclusions from our Best Value thematic report as presented to the September 2024 meeting of the Audit and Risk Committee.

3. We would like to thank elected members, management, and staff, particularly those in finance, for their cooperation and assistance during the audit.

Responsibilities and reporting

4. Perth and Kinross Council has primary responsibility for ensuring the proper financial stewardship of public funds. This includes preparing annual accounts that are in accordance with proper accounting practices. The council is also responsible for compliance with legislation and putting arrangements in place for governance and propriety that enable it to successfully deliver its objectives.

5. The responsibilities of the independent auditor are established by the Local Government (Scotland) Act 1973, the Code of Audit Practice 2021 and supplementary guidance, and International Standards on Auditing in the UK.

6. This report contains an agreed action plan at the Appendix setting out specific recommendations, responsible officers, and dates for implementation. Weaknesses or risks identified are only those which have come to our attention during our audit work and may not be all that exist. Communicating these does not absolve management of responsibility to address the issues raised and to maintain adequate systems of control.

Auditor independence

7. We confirm that we comply with the Financial Reporting Council's Ethical Standard and that we have not undertaken any non-audit related services. The 2023/24 audit fee of £356,400 (£350,000 for the council and £6,400 for the charitable trusts), as set out in our Annual Audit Plan, remains unchanged. We are not aware of any relationships that could compromise our objectivity or independence.

1. Audit of 2023/24 annual accounts

Public bodies are required to prepare annual accounts comprising financial statements and other related reports. These are the principal means of accounting for the stewardship of public funds.

Main judgements

Audit opinions on the annual accounts of the council, its group and the connected charities are unmodified.

Audit opinions on the annual accounts are unmodified

8. The independent auditor’s report included the following audit opinions on the annual accounts:

- the financial statements give a true and fair view and were properly prepared in accordance with the financial reporting framework
- the audited part of the remuneration report was prepared in accordance with The Local Authority Accounts (Scotland) Regulations 2014.
- the management commentary and annual governance statement were consistent with the financial statements and properly prepared in accordance with the applicable requirements.

The annual accounts were certified on 2 December 2024, in line with the agreed audit timetable

9. We received the unaudited annual accounts on 26 June 2024, in line with the agreed audit timetable. The accounts presented for audit were of a good standard, and the associated working papers had improved in response to our prior year audit recommendation (Appendix, b/f Recommendation 3).

10. Management and finance staff provided good support to the team during the audit process. We continue to work towards recovery of reporting timescales and are on track to restore these by the end of the current appointment round.

Our audit approach and testing were informed by the overall materiality level of £15.2 million

11. The concept of materiality is applied by auditors to determine whether misstatements identified during the audit could reasonably be expected to influence the economic decisions of users of the financial statements, and impact on the opinion set out in the independent auditor's report. Auditors set a monetary threshold when considering materiality, although some issues may be considered material by their nature. It is ultimately a matter of the auditor's professional judgement.

12. Our initial assessment of materiality was carried out during the planning phase of the audit and was based on the audited 2022/23 annual accounts. These materiality levels were reported in our annual audit plan presented to the March 2024 meeting of the Audit and Risk Committee.

13. On receipt of the unaudited 2023/24 annual accounts, we reconsidered our materiality levels based on the financial results for the year ended 31 March 2024 and revised the amounts to reflect the increase in gross expenditure. Materiality amounts used for the audit are detailed in Exhibit 1.

Exhibit 1
Materiality levels for the 2023/24 audit

Materiality level	Council	Group
Overall materiality: this is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. Materiality has been set based on our assessment of the needs of the users of the financial statements and the nature of the council's operations. For the year ended 31 March 2024, we set materiality at 2% of gross expenditure.	£15.2 million	£15.4 million
Performance materiality: this acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures are required. Using our professional judgement, we have assessed performance materiality at 60% of overall materiality.	£9.1 million	£9.2 million
Reporting threshold: we are required to report to those charged with governance on all unadjusted misstatements more than the 'reporting threshold' amount.	£0.5 million	£0.5 million

Source: Audit Scotland

Our audit identified and addressed the risks of material misstatement

14. Exhibit 2 sets out the significant risk and non-significant risks of material misstatement to the financial statements. It also summarises the further audit procedures performed during the year to obtain assurances over these risks and the conclusions from the work completed.

Exhibit 2
Risks of material misstatement in the annual accounts

Audit risk	Assurance procedure	Results and conclusions
Significant risks of material misstatement		
1. Risk of material misstatement due to fraud caused by management override of controls As stated in ISA(UK) 240, management is in a unique position to perpetrate fraud because of management's ability to override controls that otherwise appear to be operating effectively.	Assess the design and implementation of controls over journal entry processing. Make inquiries of individuals involved in the financial reporting process about inappropriate or unusual activity relating to the processing of journal entries and other adjustments. Use data analytics to consider, identify and test journals at the year-end and post-closing entries and focus on significant risk areas. Consider the need to test journal entries and other adjustments throughout the year. Evaluate significant transactions outside the normal course of business. Assess any changes to the methods and underlying assumptions used to prepare accounting estimates compared to the prior year. Substantively test income and expenditure transactions around the year-end to confirm they are accounted for in the correct financial year.	The completion of the assurance procedures did not identify any evidence of management override of controls.

Audit risk	Assurance procedure	Results and conclusions
	Test accounting accruals and prepayments focusing on significant risk areas.	
2. Estimation in the valuation of other land and buildings (OLB) There is a significant degree of subjectivity in the valuation of other land and buildings. Valuations are based on specialist assumptions, and changes in these can result in material changes to valuations. OLB are revalued on a five-year rolling basis. Values may change between periodic valuations. OLB are valued at 1 April and there is a risk of material movement between the date of valuation and the balance sheet date. The council undertakes fair value assessments to ensure the financial statements accurately reflect the carrying value of land and buildings at 31 March 2024. This resulted in a material adjustment to the accounts in 2022/23.	Review the information provided to the valuer to assess for completeness. Evaluate the competence, capabilities, and objectivity of the professional valuer. Review the reconciliation between the accounts, property asset register and valuers' reports. Confirm a sample of asset valuations to valuers' reports including useful lives. Test a sample of OLB subject to revaluation in 2023/24 and critically assess the appropriateness of estimates and assumptions. Confirm our understanding of management's involvement in the valuation process for OLB to assess if appropriate oversight has occurred. Examine management's assessment of fair value of OLB assets not revalued in 2023/24 and assess the appropriateness of any assumptions.	We reviewed and tested information, reports and valuations as planned and did not find any errors in the 2023/24 revaluations, nor any issues with the competence, capability, or objectivity of the professional valuer. We confirmed there was appropriate oversight of the valuation process by management, and the reconciliation between the accounts, property asset register and valuers' reports did not identify any issues. Management's assessment of the fair value of OLB at 31 March 2024 did not identify any material movements and we were in agreement with their conclusions. We concluded that the value of Other Land and Buildings at 31 March 2024 is not materially misstated.
Other non-significant risks of material misstatement		
3. Estimation in the valuation of pension assets and liabilities Actuarial estimates are a complex combination of liabilities over significant future periods based on life expectancy, CPI growth and discounting	Assess the scope, independence and competence of the professionals engaged in providing estimates for pensions. Review the appropriateness of actuarial assumptions and results including comparison with other councils and the pension fund as a whole.	We identified that information relating to the early retiral/voluntary severance of six individuals which was approved during the 2023/24 financial year was not communicated to the actuary of the Tayside Pension Fund by the administrators of the Fund. We undertook further audit

Audit risk	Assurance procedure	Results and conclusions
(based on corporate bond rates). Assets are based on an individual employer body's share of assets at the last triennial valuation. Roll forward adjustments are provided to members data and to asset valuations. There is a risk that small changes in the assumptions used can lead to large changes in the resulting valuations resulting in a material misstatement in the annual accounts.	Establish officers' arrangements for ensuring the reasonableness of professional estimations and the accuracy of information provided to the actuary by the council.	procedures to confirm this had not led to a material misstatement in the annual accounts, and these procedures concluded satisfactorily. Should there be a future, large, voluntary severance scheme however, such omitted information may lead to a material misstatement. **Recommendation 1** Completion of our other assurance procedures did not identify any errors in the valuation of pension assets or liabilities.

Source: Audit Scotland

We reported the significant findings from the audit prior to the annual accounts being approved and certified

15. Under ISA (UK) 260, we are required to communicate significant findings from the audit, including our view about the qualitative aspects of the council's accounting practices, to those charged with governance, prior to the audited accounts being approved and certified.

16. The Code of Audit Practice also requires us to highlight key audit matters which are defined in ISA (UK) 701 as those matters judged to be of most significance.

17. The significant findings are summarised in Exhibit 3.

Exhibit 3
Significant findings and key audit matters from the audit of the annual accounts

Issue	Resolution
1. Error in accounting for depreciation of council dwellings The annual depreciation charge for council dwellings was calculated for a full year, both before and after revaluation at 31 March 2024. This	Both of these calculation errors were corrected in the audited accounts.

Issue	Resolution
resulted in the annual depreciation charge being overstated by £10.4 million. In addition, an error in the calculation of the amount to transfer from the revaluation reserve to compensate for the difference between current value and historic cost depreciation resulted in the adjustment being understated by £1.3 million.	
2. Omission of additional pension contributions for senior staff As explained in Exhibit 2, Point 3, we identified six individuals whose early retiral/voluntary departure had not been notified to the pension fund actuary. We also identified that strain on the fund costs associated with three of these individuals, who formed part of the senior management team, had not been properly disclosed as additional pension contributions in the remuneration report.	The pension disclosures for the affected senior staff were amended in the remuneration report in the audited accounts. **Recommendation 1**
3. Classification error within non-current assets We identified one asset classified as asset under construction (AUC) which had been completed prior to 31 March 2024, and consequently was mis-classified within the annual accounts.	The asset was reclassified and revalued within the audited accounts. This resulted in a net decrease in the value of property, plant, and equipment of £0.549 million. We undertook additional audit procedures and confirmed that there was no potential for material misstatement from other AUC being incorrectly classified.
4. Reporting of performance within the management commentary The management commentary contained within the annual accounts should be fair, balanced, understandable, comprehensive, and concise. Key performance indicators (KPIs) should be corroborated by supporting documentation. We found that the standard of reporting in the management commentary met the requirements but could be improved with regard to performance reporting. The management commentary presented for audit did not contain a summary of KPIs or any details of how the council had performed against its targets. Performance outcomes/achievements are instead listed against each of the council's priority areas. These lack context. We also identified three of	The narrative within the outcome disclosures was amended for the audited accounts, and the 2023/24 performance summary section of the management commentary was updated to give a more balanced overview of the council's performance. The council produces a separate Annual Performance Report (APR) which has been extensively improved as a result of the council revisiting its performance management framework during 2022/23 and 2023/24. It now provides readers with a clear summary and detailed analysis of the council's targets and performance against these.

Issue	Resolution
these disclosures which could not be agreed to the supporting documentation.	A link to this APR was added to the audited accounts. **Recommendation 2**
5. Errors in group accounts The council consolidates its material group components into group accounts included in the financial statements. Our review of the group accounts in the unaudited accounts identified an error in the consolidation of the IAS 19 entries for one of the council's subsidiaries. As a result, net assets and reserves were overstated by £2.1 million.	The audited accounts were amended to correct these misstatements.
6. Statutory basis for reserves Reserves held and operated by local government bodies in Scotland are required to have a basis in statute. Local authorities are not required to establish a Capital Fund (CF), but the Code of Practice on Local Authority Accounting in the UK states that if an authority chooses not to have a Capital Fund, then capital receipts require to be credited to a Capital Receipts Reserve (CRR). It is therefore expected that a CRR is only established if a Capital Fund does not exist. Mandatory LASAAC guidance issued in 2021 permits only one capital fund to be presented on the face of the Movement in Reserves Statement (MIRS). Perth and Kinross Council operates both a Capital Fund and a Capital Receipts Reserve, and present both on the face of the MIRS. It is our view that this is not permitted under statute.	We recommended that the Capital Receipts Reserve be combined with the Capital Fund, as only one such fund is permitted under statute. If the council wishes to maintain separation between elements of the Capital Fund to record capital receipts separately, this can be done in a note to the accounts. Officers do not agree with our conclusions and did not amend the presentation of the MIRS in the audited accounts.
7. Application of financial flexibility for service concession arrangements The Scottish Government introduced a series of enhanced financial flexibility arrangements to enable local authorities to vary proper accounting practice and help mitigate the financial impact of the Covid-19 pandemic. The council agreed to apply the flexibility permitted by Local government finance circular 10/2022 - finance leases and service concession arrangements: statutory guidance (PFI/PPP schemes) from 1 April 2023.	We are satisfied that the council has correctly accounted for the permitted financial flexibility for service concession arrangements, and that the disclosures in the audited accounts are compliant with the requirements of the finance circular. This was judged to be a key audit matter.

Issue	Resolution
This allows the associated debt to be repaid over the life of the asset rather than the contract period as per the previously mandated accounting practice. The council has four of these schemes and applied the flexibility to two of these (Investment in Learning PPP arrangement for six school community campuses, and the DBFM scheme for Bertha Park High School). The retrospective application of financial flexibility accounting arrangements to these schemes resulted in a one-off cumulative saving of £31 million which has been added to usable reserves. We comment further on the financial impact of this at paragraphs 48 and 49.	

Source: Audit Scotland

Total misstatements identified during the audit were £14.3 million and these have been adjusted

18. It is our responsibility to request that all misstatements, other than those below the reporting threshold, are adjusted, although the final decision on making the correction lies with those charged with governance.

19. Total misstatements identified were £14.3 million which exceeds our performance materiality threshold. We considered whether further audit procedures were required. We reviewed the nature and causes of these misstatements, which mainly related to council dwelling depreciation calculations, the re-classification and revaluation of non-current assets, and an error in the group pension disclosures. We have concluded that the issues have been isolated and identified in their entirety and do not indicate further systemic error. We considered whether other misstatements presented material risks of misstatement in the relevant account area and concluded they did not.

20. There are no unadjusted misstatements to report.

Our audit opinions on the connected charities' financial statements are unmodified

21. The council prepares connected charity accounts for six trusts registered as Scottish charities, with net assets of £2.4 million. The preparation and audit of financial statements of registered charities is regulated by the Charities and Trustee Investment (Scotland) Act 2055 and the Charities Accounts (Scotland) Regulations 2006.

22. We set a separate materiality for our audit of the connected charities. Our initial assessment was carried out during the planning phase of the audit and was based on the audited 2022/23 annual accounts. On receipt of the unaudited 2023/24 annual accounts, we reconsidered our materiality levels based on the financial results for the year ended 31 March 2024 and concluded that they remained appropriate. Materiality amounts used for the audit are detailed in Exhibit 4.

Exhibit 4
Materiality levels for the 2023/24 audit of the connected charities

Materiality level	Amount
Overall materiality: this is the figure we calculate to assess the overall impact of audit adjustments on the financial statements. For the year ended 31 March 2024 we have set our materiality at 2% of gross assets.	£45,000
Performance materiality: this acts as a trigger point. If the aggregate of errors identified during the financial statements audit exceeds performance materiality, this could indicate that further audit procedures should be considered. Using our professional judgement, we have assessed performance materiality at 75% of overall materiality.	£35,000
Reporting threshold: we are required to report to those charged with governance on all unadjusted misstatements more than the ‘reporting threshold' amount.	£2,250

Source: Audit Scotland

23. At the audit planning stage, we identified one significant risk of material misstatement in relation to the audit of the connected charities. As stated in International Standard on Auditing (UK) 240, management is in a unique position to perpetrate fraud because of management’s ability to override controls that otherwise appear to be operating effectively.

24. We undertook audit procedures designed to provide an appropriate level of assurance over the transactions relating to the connected charities and did not identify any material misstatements due to management override of controls. As a result, our audit opinions on the connected charities’ financial statements are unmodified. There were no significant findings to report to those charged with governance.

Good progress was made on prior year recommendations

25. Our 2022/23 Annual Audit Report contained 6 recommendations for improvement, which included two recommendations from our Best Value thematic review of leadership in the development of the council’s strategic priorities. The council has made good progress in implementing the agreed prior year audit recommendations, with all but one fully addressed. For the actions not yet fully implemented, revised responses and timescales have been agreed with management and are set out in the Appendix.

2. Financial management

Financial management means having sound budgetary processes, and the ability to understand the financial environment and whether internal controls are operating effectively.

Main judgements

The council's budget setting and financial management arrangements operated effectively during 2023/24.

Excluding the one-off impact of service concession flexibility, the council reported a £15.1 million (3.2 per cent) deficit on general fund services for 2023/24 which was £20.2 million less than planned. The Housing Revenue Account balance reduced by £0.4 million during 2023/24 due to the planned use of reserves (£0.3 million) and additional one-off costs identified during the year (£0.1 million).

The council delivered 76 percent of its capital programme in 2023/24. External debt levels remained relatively static during the year as the council had taken advantage of low borrowing rates in previous years and used these to fund capital expenditure in 2023/24.

Key financial controls operated effectively during 2023/24.

The council's budget setting and financial management arrangements operated effectively during 2023/24

26. The council has a well-established budget setting process that supports members to develop and scrutinise plans and understand the impact of proposed service changes.

27. On 1 March 2023, the council approved its 2023/24 general services revenue budget. Budgeted net expenditure of £450.5 million was approved after inclusion of budget pressures totalling £31.1 million and deduction of savings totalling £6 million. The council used the following measures to balance its budget:

- increase Council Tax by 3.9 per cent or £3.8 million
- use of service concessions fiscal flexibility of £17 million
- use of reserves, including earmarked reserves, of £9.9 million.

28. Subsequent adjustments throughout the year resulted in a revised net budget at the year-end of £478.5 million and a planned contribution from general fund reserves, including the service concession flexibility and contributions to other reserves, of £39.7 million.

29. As part of our audit, we reviewed the council's budget monitoring arrangements and concluded that these are appropriate. Members of the Finance and Resources Committee receive regular budget monitoring reports which set out the main changes to the budget, the current and forecast out-turn position, key variances and actions being taken to address these.

Excluding the one-off impact of service concession flexibility, the council reported a £15.1 million (3.2 per cent) deficit on general fund services during 2023/24 which was £20.2 million less than planned

30. The council reported a £15.1 million (3.2 per cent) deficit on general fund services during 2023/24 which was funded from reserves. This was £20.2 million less than planned, mainly due to service underspends and receipt of additional grant funding. The most significant underspends are detailed in Exhibit 5.

Exhibit 5
Summary of significant under/overspends against budget

Service Area	Underspend	Main reasons for underspends
Education and Children's Services	£8.2 million	£3.4 million of this relates to staff vacancies and underspends on operational budgets; £2.1 million to grant funding received in 2023/24 for use in future years which has been carried forward in earmarked reserves; and £1.6 million is due to reduced costs within Catering Services and higher than anticipated uptake of school meals.
Communities	£10.5 million	The majority (£8 million) of this relates to grant funding received in 2023/24 for use in future years which has been carried forward in earmarked reserves. The remainder relates to staff vacancies (£1.4 million) and additional income (£1 million).

Source: Perth and Kinross Council 2023/24 Annual Accounts

31. The council also took advantage of service concession financial flexibility arrangements during 2023/24 which resulted in a one-off increase in the

General Fund balance of £34.3 million. This is further discussed at paragraphs 48 and 49.

The Housing Revenue Account balance reduced by £0.4 million during 2023/24 due to the planned use of reserves (£0.3 million) and additional one-off costs identified during the year (£0.1 million)

32. The council is required by legislation to maintain a separate Housing Revenue Account (HRA) and to ensure that rents are set at a level which will at least cover the costs of its social housing provision. Rent levels are, therefore, a direct consequence of the budget set for the year. In January 2023, the Housing and Social Wellbeing Committee approved a 2.2 per cent increase in the average weekly rent levels for tenants for 2023/24. The rent level set reflected the income required to fund the annual HRA budget of £33.8 million.

33. The HRA balance reduced by £0.4 million during 2023/24 due to the planned use of reserves (£0.3 million) and additional one-off costs identified during the year (£0.1 million) resulting in a balance of £2.3 million as at 31 March 2024.

The council delivered 76 percent of its capital programme in 2023/24

34. The council approved a capital programme of £220.2 million (£198.7 million for general fund projects and £21.5 million for HRA projects) for 2023/24.

35. Capital works amounting to £167.7 million (76 per cent) of the approved programme) were completed during 2023/24. This included expenditure of £47.4 million on school upgrade projects including replacement of Perth High School; £72.8 million on roads and transport projects; £20.4 million on property, infrastructure, and IT upgrades and £23.1 million on Housing Revenue Account projects including new builds and buy-backs to increase the supply of council dwellings.

The council had taken advantage of low borrowing rates in previous years and so external debt levels remained relatively static during the year

36. The Capital Financing Requirement (CFR) identifies the borrowing required to support the council's capital investment plans. Actual borrowing may differ from CFR if, for example, the council decides to borrow early to take advantage of low interest rates on new borrowing. Any difference is managed within working capital, and this may mean the council invests in short term investments.

37. During 2023/24 the council's external debt levels increased by £18.6 million, from £724.7 million at 31 March 2023 to £743.2 million at 31 March 2024. In previous years, the council's capital debt exceeded its Capital Financing Requirement as the council had borrowed at low interest rates and held the balance in short-term investments, earning interest, until required to fund capital expenditure. The council used its investments to fund the majority of its capital expenditure this year and so its ratio of borrowing to CFR reduced to 91.1 per cent in 2023/24 from 106.7 per cent last year. As a result, short-term investments reduced to £36.6 million from £155.3 million in the previous year.

Key financial controls operated effectively during 2023/24

38. As required by Audit Scotland's Code of Audit Practice, as part of our audit we identified and evaluated the key internal controls in the accounting systems. Our objective was to gain assurance that it has systems of recording and processing transactions which provide a sound basis for the preparation of the financial statements. We concluded that the key controls in the main financial systems were operating as expected but noted that an annual review of external users of the Concerto estate management system is not routinely undertaken. The council has advised that it will review its processes in response to our audit finding. We also considered whether there was any impact on our audit opinion and concluded that there was not, as compensating controls are in operation.

39. Last year we reported that there was one control that could be strengthened (annual establishment checks) and recommended that management within services should respond to these requests in a timely fashion. Our 2023/24 controls testing confirmed that all services responded to the 2023/24 establishment checks request within the required timeframe.

Internal audit provided reasonable assurance on the council's framework of governance, risk management and control

40. We considered internal audit's annual report, presented to the Audit and Risk Committee in June 2024, as part of our review of the Annual Governance Statement within the 2023/24 annual accounts. This included internal audit's opinion that reasonable reliance can be placed on the council's risk management and governance arrangements, and systems of internal control for 2023/24, subject to management implementation of the agreed actions detailed in the Internal Audit report.

41. The internal audit section had been operating under capacity for some time, but two new staff members were recruited in May 2024 which returns the team to full establishment level. We also note that the external review of internal audit's compliance with the Public Sector Internal Audit Standards is overdue although the self-assessment has been completed. Plans are in place to complete the external assessment with outcomes to be reported to the Audit and Risk Committee in March 2025.

Standards of conduct and arrangements for the prevention and detection of fraud and error are appropriate

42. The council has a range of established procedures for preventing and detecting fraud and irregularity including a whistleblowing policy, fraud and corruption policy and codes of conduct for members and officers. We assessed these arrangements to ensure that they were appropriate and that documents are readily available to staff and regularly reviewed to ensure they remain relevant and current. Overall, we concluded that the council's arrangements are appropriate.

The council has well-established arrangements for investigating and reporting data matches identified by the NFI

43. The National Fraud Initiative (NFI) in Scotland is a counter-fraud exercise coordinated by Audit Scotland which aims to prevent and detect fraud. It uses computerised techniques to compare information about individuals held by different public bodies, and on different financial systems, to identify 'matches' that might suggest the existence of fraud or irregularity.

44. The current NFI exercise ran over 2022/23 and 2023/24, and participating bodies began to receive matches for investigation in January 2023. These matches are categorised by risk and all recommended matches, plus any further matches based on findings, should be investigated.

45. The council has participated in the initiative for a number of years and has well-established processes in place for investigating the data matches identified by the NFI and reporting the results to the Audit and Risk Committee. The final results of the NFI exercise were reported to the Audit and Risk Committee in September 2024.

46. The next NFI exercise will take place in 2024/25, with datasets for matching to be submitted in October and November 2024. The council has submitted all the required datasets in accordance with the timetable. Matches for investigation will be issued in December 2024 and January 2025.

3. Financial sustainability

Financial Sustainability means being able to meet the needs of the present without compromising the ability of future generations to meet their own needs.

Main judgements

The council's general fund balance increased in the year due to the application of the service concession financial flexibility accounting arrangements. The council has used this to support its 2023/24 outturn and plans to use the remainder to support its budgets through to 2027/28.

The 2024/25 budget included a planned use of reserves of £13.8 million, but subsequent amendments increased this to £28.1 million.

The medium-term financial plan has not been updated since October 2023 and will be reviewed following publication of the Scottish Government's Medium-Term Financial Strategy. The council has yet to develop its revenue financial planning beyond six years as recommended in the 2019 Best Value Assurance Report.

The council's capital investment programme totals £674 million over the next five years. A Corporate Asset Management Framework has been approved to inform investment decision-making. Following an updated options appraisal, the PH2O project is going ahead on an alternative site.

The Transformation and Change Programme is progressing in line with the planned timetable.

The council's general fund balance increased in the year due to the application of the service concession financial flexibility accounting arrangements

47. As shown in Exhibit 6, the level of usable reserves held by the council increased by £18.6 million during 2023/24, from £102.4 million at 31 March 2023 to £121 million at 31 March 2024.

48. The Scottish Government introduced a series of enhanced financial flexibility arrangements to enable local authorities to vary proper accounting practice and help mitigate the financial impact of the Covid-19 pandemic. The council agreed to apply the flexibility permitted by Local government finance circular 10/2022 - finance leases and service concession arrangements: statutory guidance (PFI/PPP schemes) from 1 April 2023. This allows the associated debt to be repaid over the life of the asset rather than the contract period as per the previously mandated accounting practice.

49. The council has four service concession schemes: the Pullar House scheme, the Pullar House car park scheme, the Investment in Learning Public, Private Partnership (PPP) scheme, and the Bertha Park High School Design, Build, Finance and Maintain (DFBM) scheme. The Pullar House and Pullar House car park schemes are due to end in September 2025 and have been excluded from the reprofiling in line with the statutory guidance. The retrospective application of financial flexibility accounting arrangements to the remaining schemes resulted in a one-off cumulative saving of £34.3 million during 2023/24 which has been added to usable reserves. This resulted in the general fund balance increasing by £14.1 million during 2023/24, from £69.7 million at 31 March 2023 to £83.8 million at 31 March 2024. The impact on the general fund balance was partly offset by the planned use of £15.1 million of reserves to support the revenue budget position during the year and transfers to/from statutory reserves of £5.1 million.

50. Of the total balance of usable reserves, £65.1 million (54 per cent) has been earmarked by the council for specific areas of future spending including: £17 million of expenditure to be funded from Revenue Grants, £7.6 million for expenditure on workforce management including transformation, £6.5 million of expenditure on infrastructure and affordable housing funded from developers' contributions and £5.6 million on affordable housing funded from council tax on second homes.

51. The unallocated general fund balance at 31 March 2024 was £18.7 million which is in line with the council's reserves strategy of holding between 2 per cent and 4 per cent of its net revenue budget as uncommitted reserves.

Exhibit 6
Perth and Kinross Council usable reserves

Reserve	31 March 2022 (£m)	31 March 2023 (£m)	31 March 2024 (£m)
General Fund – uncommitted	16.6	18.2	18.7
General Fund – committed	69.3	51.6	65.1
Total General Fund balance	**85.9**	**69.8**	**83.8**
Housing Revenue Account	3.3	2.6	2.3
Insurance Fund	1.4	1.3	1.7
Capital grants unapplied account	0.1	0.1	0.1

Reserve	31 March 2022 (£m)	31 March 2023 (£m)	31 March 2024 (£m)
Capital Fund (including Capital Receipts Reserve)	27.3	28.6	33.1
Total usable reserves	**118.0**	**102.4**	**121.0**

The council used £17 million of the financial flexibility to support its 2023/24 budget and plans to use the remainder to support its budgets through to 2027/28

52. As noted at paragraphs 48 and 49, the council agreed to apply the service concession financial flexibility accounting arrangements from 1 April 2023 which resulted in a one-off cumulative saving of £31.2 million during 2023/24, reflecting the retrospective impact of the change in accounting treatment (i.e. the change in debt repayments that would have been made up to 1 April 2023 had the revised accounting treatment been applied to the council's PPP scheme and DFBM scheme from the start).

53. In addition to the retrospective impact of the new accounting treatment, an in-year saving of £3.1 million was also achieved in scheduled debt repayments during 2023/24 due to the extended repayment period for the borrowing taken for these PPP/DFBM schemes. Annual debt repayment 'savings' will also be generated each year until the service concession arrangement contracts have been repaid. However, statutory charges will then be made over the remaining lives of the assets which would not have been required had the original accounting treatment continued to be applied as this would have resulted in the borrowing being fully repaid by the end of the contracts. Over the full lives of the service concession arrangement the total capital repayments for the debt liability remains the same under both approaches.

54. The council used £17 million of the financial flexibility to support its 2023/24 budget and created an earmarked reserve for the remaining £17.3 million as at 31 March 2024. The council plans to use the remaining flexibility, to support its budgets for the next four years (2024/25 to 2027/28). As noted above, this will provide short-term benefit but will result in the council's general fund being charged for the cost of funding these assets until 2070.

55. It is important to note that this change in accounting treatment does not in any way affect the existing contracts or any financial arrangements with the parties operating these assets on behalf of the council. Charges will continue to be paid as per contractual obligations over the agreed contract terms which includes annual inflationary increases. Service concession assets will also continue to be included on the council's Balance Sheet.

The 2024/25 budget included a planned use of reserves of £13.8 million, but subsequent amendments increased this to £28.1 million

56. On 28 February 2024, the council approved its 2024/25 general services revenue budget. Budgeted net expenditure of £467.9 million was approved after inclusion of budget pressures totalling £4.1 million and deduction of savings totalling £8.7 million. The council used the following measures to balance its budget:

- additional funding of £4.7 million received from the Scottish Government to support the Council Tax freeze
- use of reserves, including earmarked reserves, of £13.8 million.

57. The council has subsequently updated its 2024/25 budget to reflect increased expenditure funded from additional government grant (£7.5 million), the impact of the 2023/24 outturn (£8.1 million) and additional expenditure to be funded from earmarked reserves (£6.2 million). The revised budget totals £490.5 million, of which £28.1 million will be funded from reserves (including service concessions fiscal flexibility).

Budget reports indicate an overspend of £1.1 million (0.2 per cent) against 2024/25 budget

58. The latest budget monitoring report (as at 20 November 2024) notes that the council is projecting a small overspend of £1.1 million (0.2 percent) against its budget.

The council approved a 6 per cent increase in rent levels for 2024/25

59. In January 2024, the council approved a 6 percent increase in the average weekly rent levels for tenants for 2024/25. The rent level set reflected the income required to fund the annual HRA budget of £36 million.

60. The approved budget included an allowance for staff pay increases of 3 per cent for 2024/25 and the increased costs relating to the agreed 2023/24 pay award. It also reflects the increased costs of building materials resulting from current shortages.

The medium-term financial plan was last updated in October 2023 and will be reviewed following publication of the Scottish Government’s Medium-Term Financial Strategy

61. The council last updated its Medium-Term Financial Plan (MTFP) in October 2023. The plan covers the six years to 31 March 2030 and considers a range of key financial variables that impact on the council’s financial planning including funding levels, inflation and pay awards. These are grouped together under three scenarios: optimistic, mid-range and pessimistic and show that the council needs to make cumulative budget reductions of between £7.6 million and £192 million by 31 March 2030. The council plans to update its MTFP following publication of the Scottish Government's Medium-Term Financial Strategy.

62. The 2024/25 budget papers include provisional balanced budgets for 2025/26 and 2026/27. The council plans to use £4 million of the earmarked service concession flexibility reserve to support both its 2025/26 and 2026/27 budgets with an additional £0.3 million of reserves required to fund the 2025/26 budget. The provisional budget for 2026/27 indicates that £2.9 million will be available to add to uncommitted reserves during the year resulting in a net draw on reserves of £1.1 million in 2026/27. Reserves will not be required to support the council's recurring budget from 2027/28. The budget paper acknowledges that the assumptions used to prepare these budgets are subject to change and that they will be revised as part of the council's ongoing budget monitoring. Contingencies of £1.4 million and £2 million respectively have been included to cover unforeseen events such as cost pressures, service needs and income shortfalls.

The council has yet to develop its revenue financial planning beyond six years as recommended in the 2019 Best Value Assurance Report

63. The 2019 Best Value Assurance Report recommended that the council should build on its strong financial management and consider developing a longer-term financial plan covering a five to ten-year period as part of its modernisation agenda. The council has yet to develop its revenue financial planning beyond six years. Capital investment planning now covers thirty years but only six of these are funded (see paragraphs 67 to 69 below).

The council's capital investment programme totals £674 million over the next five years

64. The approved capital programme for 2024/25 to 2028/29 is £674 million, split between £571 million of general fund projects and £103 million of housing revenue account projects, with expenditure of £202.8 million (£175 million general fund projects and £27.8 million HRA projects) scheduled for 2024/25.

Following an updated options appraisal, the PH2O project has been reviewed and is going ahead on an alternative site

65. Last year we reported that the council had paused the development and delivery of one of its major capital projects (PH2O) due to inflationary cost pressures. In September 2024, the council considered six options for the PH2O project as part of a wider Perth City integrated investment proposal. Each option was assessed against the critical success factors set out in the original business case, and the preferred option, to construct a new-build facility on an alternative smaller site, was approved by members. This together with the previously approved removal of leisure water, ice and indoor bowling from the project scope has resulted in estimated costs of £61 million compared to the previous estimate for the original project of £90 million. The alternative site also has the added benefit of allowing more housing to be built at the previous preferred location.

66. The council's other significant capital projects are on track to deliver on time and within budget. The most significant of these is the Cross Tay Link Road project, budgeted to cost £150 million and due to be completed in Spring 2025.

The council has approved a Corporate Asset Management Framework to inform investment decision-making

67. We reported last year that the council was updating its corporate asset management strategy and plan to inform investment decision-making; help protect services and ensure that assets are optimised to achieve its strategic aims and operational priorities. A revised Corporate Asset Management Framework consisting of a policy, strategy and 30-year investment plan was approved by the council in January 2024.

68. The plan provides a breakdown of the estimated long-term investment requirements for the existing asset base and will inform the next update of the medium-term financial plan. The first six years of the investment plan are funded and form part of the council's current capital programme to 31 March 2030. Current estimates are that the council needs to invest a further £2,594 million in its asset base over the remaining twenty-four years of the plan.

69. A new Strategic Investment Advisory Group has been established to ensure a more collective approach to asset management and investment planning. This group includes members and officers and will oversee the rolling 30-year investment plan and assess and prioritise investment requests to ensure assets are fit for purpose and that any investment is directed where it is most needed.

The Transformation and Change Programme is progressing in line with the planned timetable

70. The Council approved its Transformation and Change Strategy in June 2022 and developed a Transformation and Change Programme to deliver on the vision of "a Perth and Kinross where everyone can live life well, free from poverty and inequality". The programme is phased over a 5-year period. Phase 1 completed in September 2024 and Phase 2 is now underway.

71. Phase 1 focused primarily on review of the Senior Leadership team and consolidation of workstreams where areas of overlap or synergy were identified. The Senior Leadership review was fully implemented by 01 April 2024 and is expected to realise cumulative savings of £2.3 million by 2025/26. Consolidation of workstreams focused on bringing historically disaggregated teams under newly formed single points of management, to remove areas of duplication, deliver financial savings and introduce greater consistency. It is expected to deliver cumulative savings of £2 million by 2025/26.

72. Phase 2 includes a Leadership Development programme and continues to build on the Cultural Change programme which began in Phase 1 with a focus on Employee Engagement, Leadership Development and Communications. This includes employee workshops on strategic direction, values and behaviours and a series of 'masterclasses' for all staff with line management responsibilities.

73. A Transformation and Change Programme Management Office (PMO) model will support the programme from Phase 2 onwards, replacing the temporary team which has been in place since the Strategy was originally approved in June 2022.

74. We will continue to review and report on the council's delivery of its Transformation and Change Programme as part of our 2024/25 Best Value Thematic report on '*Transformation - how councils are redesigning and delivering more efficient services to achieve planned outcomes'.*

4. Best Value

Councils have a statutory duty to make arrangements to secure continuous improvement in the performance of their functions.

Main judgements

Our Best Value thematic review of workforce innovation confirmed that the council has a workforce plan to support the delivery of its strategic objectives but has yet to set targets against which to measure and report on progress.

Two of the 2019 Best Value Assurance Report recommendations remain outstanding and there has been limited reporting of progress to members or the Executive Leadership Team.

Best Value audit work is now fully integrated within our annual audit work

75. Councils have a statutory duty to make arrangements to secure continuous improvement in the performance of their functions. Expectations are laid out in the Best Value Revised Statutory Guidance 2020.

76. As set out in the Code of Audit Practice, Best Value audit is integrated within our annual audit work and will be assessed comprehensively over the period of the audit appointment. This will include an annual evaluation of the Council's approach to demonstrating improvement in its services and public performance reporting. We will also follow up findings reported previously on Best Value to assess the pace and depth of improvement.

77. As part of the new reporting arrangements, the Controller of Audit will also report to the Accounts Commission on a council's performance in meeting its Best Value duties at least once every five years. Around eight councils are selected each year for a Controller of Audit report. Perth and Kinross Council is not included in the current year's programme which is running from October 2024 to August 2025.

For 2023/24 the Accounts Commission directed auditors to conduct a Best Value thematic review of workforce innovation and how councils are responding to workforce challenges

78. For 2023/24 the Accounts Commission directed auditors to conduct a Best Value thematic review of workforce innovation and how councils are responding to workforce challenges through building capacity, increasing productivity and innovation. In carrying out the thematic work auditors considered the following questions:

- How effectively are the council's workforce plans integrated with its strategic plans and priorities?
- How effectively has digital technology been used to support workforce productivity and improve service quality and outcomes?
- How effectively is the council using hybrid and remote working and other innovative working practices such as a four-day week to achieve service and staff benefits?
- What innovative practice is the council using to develop its future workforce capacity and skills needs and manage staff reductions in line with its priorities?
- What progress has the council made with sharing roles or functions across its services and/or with other councils and partners?
- How effectively is the council measuring the impact of its workforce planning approach?

The council has a workforce plan to support the delivery of its strategic objectives but has yet to set targets against which to measure and report on progress

79. We issued our report on the *Best Value Thematic Review 2023/24: Workforce Innovation – How councils are responding to workforce challenges* to the council in September 2024, and it was considered by the Audit and Risk Committee at the meeting on 30 September 2024. The key messages in the report highlighted the following:

- The People and Culture Strategy 2024-28 sets out the council's approach to delivering sustainable workforce development. The strategy is aligned with the council's strategic plans and priorities and the council engaged with staff across the organisation to develop the strategy. The change to the Executive and Leadership structure and development of the People and Culture team will support delivery of the actions in the People and Culture Strategy 2024-28. Service workforce plans are being developed and the council is developing its systems to provide access to service level workforce data
- The council continues to invest in, build on and make extensive use of digital technology to deliver workforce productivity benefits, improvements in the efficiency of service delivery and better user experience. Although there is some recorded impact of the related workforce benefits and productivity gains, there is scope for these to be more formally quantified
- The council has formalised hybrid working as part of its new flexible working framework with over a quarter of the council's workforce being

classified as hybrid workers. The council has set out the intended benefits from flexible working in its flexible working framework but has not yet articulated how these will be measured. The council reported an increase of over ten percent on spend on its use of casual workers between 2022/23 and 2023/24

- Employees are generally positive about working for the council and the relationship between the council and trades unions is good. In the main, trades unions feel they are consulted with appropriately and their views are taken into account

- The council is facing challenges with recruitment and retention of staff and has initiatives in place to address this. It has introduced programmes to develop staff skills and capacity

- The council is involved in an extensive number and variety of shared services arrangements and partnerships across Tayside. The council participates in various other partnerships outwith Tayside and shared working arrangements that provide workforce-related benefits

- The council has agreed proposals to report to elected members annually on the delivery and impact of the People and Culture Strategy 2024-28, but arrangements for reporting on service level workforce plans are still to be finalised. The council is developing measures and targets to monitor and report on progress against the People and Culture Strategy 2024-28

80. The report also included six recommendations for improvement which are replicated in the Appendix of this report along with the council's planned response, responsible officers, and dates for implementation. We will report on the council's progress in implementing these actions as part of our 2024/25 audit.

Two of the 2019 Best Value Assurance Report recommendations remain outstanding and there has been limited reporting of progress to members or the Executive Leadership Team

81. The Perth & Kinross Council Best Value Assurance Report (BVAR) was published in August 2019. The report made eight recommendations for improvement.

82. Last year we reported that there was no formal reporting to committee of progress against the Best Value Assurance Report's recommendations, and that reporting to management on progress had not been completed since June 2021. In response, management agreed to provide an annual update to members and report six monthly to the Executive Leadership Team. We also concluded that there had been slow progress in implementing some of these actions, with the Covid-19 pandemic and revisions to Corporate Plans affecting this, and that two were still outstanding in November last year:

- the council should build on its strong financial management and consider developing a longer-term financial plan covering a five to ten-year period as part of its modernisation agenda
- the ongoing review of the community planning partnership should be wide-ranging and include the effectiveness of the board, outcome delivery groups and the local action partnerships.

83. The council has made limited progress with these outstanding recommendations since we concluded our 2022/23 audit. As noted in paragraph 63, the council has yet to develop its revenue financial planning beyond six years. A further review of the Community Planning Partnership is ongoing and is due to report in early 2025. As a result, we have concluded that these BVAR recommendations are still outstanding.

84. The Annual Performance Report for 2023/24 was presented to the Scrutiny and Performance Committee in September 2024 and to the full Council meeting in October 2024 but contained little information on progress made against the outstanding BVAR recommendations. Six monthly reporting to the Executive Team has been delayed until 2025. Refer to the Appendix, point b/f 2 for revised date for implementation.

5. Vision, leadership, governance, and use of resources

Public sector bodies must have a clear vision and strategy and set priorities for improvement. Through effective planning, they work together with partners and communities to improve outcomes, make best use of resources, and foster a culture of innovation.

Main judgements

The council revised its service and senior leadership structure during the year as part of its Transformation and Change Programme.

The council has appropriate governance arrangements in place for delivery of its plans.

There has been an overall decline in LGBF performance indicators over the last 5 years, although performance relative to other councils is largely unchanged. KPI trend analysis shows improvement in performance compared to last year.

The council is compliant with the Accounts Commission's SPI direction with comprehensive performance information available via 'PK Performs.'

The council revised its service and senior leadership structure during the year

85. As part of its Transformation and Change Programme, the council revised its service structure during 2023/24 reducing from three services to two: Strategy, People and Resources, and Economy, Place and Learning, plus the Health and Social Care Partnership.

86. The council further streamlined its executive level in August 2024 after the Director of Economy, Place and Learning left the council. The Director post was removed from the revised structure and the Chief Executive is now supported by a Deputy Chief Executive and the Chief Officer for the Health and Social Care Partnership.

87. The operation and organisation of the Executive and Strategic Leadership Teams continues to develop as part of the council's wider Transformation and Change Programme, and to ensure that it is aligned to the strategic objectives and key priorities of the council. External support has been engaged to provide learning and development opportunities as part of this development process.

88. The council acknowledges that the restructure has resulted in the loss of skilled and experienced officers at a senior level. Key officers at service manager and team leader level have also been left through retiral or moving to opportunities elsewhere. The council intends to manage the resulting risk through an ongoing programme of leadership redesign and development.

Appropriate governance arrangements were in place during 2023/24

89. We reviewed the council's governance arrangements during the year and concluded that they are appropriate and support effective scrutiny, governance, and transparency.

90. There is, however, scope to strengthen council officer compliance with governance arrangements regarding activity undertaken outwith their council employment. We were notified of one instance of a senior officer participating in a marketing video for a local business. Further investigation confirmed this business supplied goods and services to the council. Council procedures require senior officers to declare any activity which might give rise to a potential conflict of interest. The activity was not declared by the officer.

91. There is a risk of perceived bias when awarding contracts for good or services if the council is not fully transparent in disclosing and addressing potential conflicts of interest. Senior officers should be reminded of the need to disclose activity which might create, or be perceived to create, a conflict of interest with their council role.

Recommendation 3

Senior officers should be reminded of the need to disclose all activity which might be, or perceived to be, in conflict with their council role.

The council is open and transparent

92. The council continues to be open and transparent, with agendas, reports and meeting minutes published on the council website. Members of the public are able to attend meetings of the council and its committees, and livestreaming of council meetings is available for those unable to attend in person.

93. The council website is regularly refreshed and kept up to date. Residents, businesses, and visitors to the area can access a wide range of information, including councillor registers of interest, and senior officer gifts and hospitality registers. The public are also able to access a variety of online council services. This includes functionality to pay bills, report problems or request repairs.

94. The council makes its annual accounts available on its website. These include a management commentary which gives a good summary of the council's financial performance for the year.

Procurement and commissioning were identified as an area for change and improvement in the Transformation and Change Programme

95. The Sustainable Procurement Strategy 2024-2029 has been designed to provide additional economic, social, and environmental benefits to the people of Perth and Kinross, whilst procuring what the council requires to deliver its services. The strategy was approved at the full Council meeting on 26 June 2024.

96. The strategy is based on six guiding principles of Accountability, Equity, Legal Compliance, Strategic Importance, Sustainability and Value Delivery. These are underpinned by six strategic procurement aims which are well aligned to the Corporate Plan. The strategy aims to lead sustainable public procurement that "empowers our communities, fuels local economic growth, sparks innovation, and protects our planet."

97. An implementation plan for the strategy is under development. Reporting will be annually to the Finance and Resources Committee, and we will monitor progress as part of our 2024/25 annual audit.

98. As well as annual procurement reporting, the council publishes a yearly 'Following the public pound' report, which details the level of spend and funding granted to ALEOs and other external organisations. The public can make enquiries about any of the specific items of activity listed in the report, helping to ensure transparency and accountability.

99. Similar transparency is seen within Note 13 of the 2023/24 annual accounts which lists monies paid out in support of various local organisations and grants awarded to third parties, allowing the public to form a view on where and how the council is providing support.

A performance framework aligned to the Corporate Plan is now well established

100. The Best Value Revised Statutory Guidance 2020 sets out that councils should be able to demonstrate a trend of improvement over time in delivering their strategic priorities. The guidance also notes that performance management arrangements should promote the effective use of the local authority's resources, which includes effective performance reporting.

101. As reported in our 2022/23 Best Value thematic review, performance reporting was revised in August 2023 following approval of the Corporate Plan. The revised performance framework identified 53 key indicators against the seven priorities of the Corporate Plan. For 2023/24, this increased to 54 following approval of an additional key indicator during 2023.

102. The Annual Performance Report (APR) is considered at the Scrutiny and Performance Committee each year and by full Council. Reporting includes an Executive Summary which provides a helpful overview of key performance measures (KPI) trends for each strategic priority. Supporting information is available via the PK Performs section of the council's website.

103. Targets have now been set for all but 4 of the KPIs for which it would be appropriate to set a target. 2023/24 performance was mixed, with 15 of the KPI targets met and 15 not met. Trend analysis paints a slightly more favourable position, with 32 KPIs trending in a positive direction, 14 in a negative direction and 6 static. Trend data is not available for 2 of the KPIs.

104. Despite 50 per cent of KPI targets not being met, trend data suggest performance against the priority areas identified in the Corporate Plan is generally improving, as summarised in Exhibit 7.

Exhibit 7
Progress against Corporate Plan priorities

Corporate Plan Priority	Number of KPIs	Target met	Target not met	Target N/A	Overall trend
Tackling poverty	7	3	2	2	Improving
Tackling climate change and supporting greener sustainable places	7	1	4	2	Improving
Developing a resilient, stronger, and greener local economy	10*	3	4	3	Improving
Enabling our children and young people to achieve their full potential	9	-	-	9	Improving
Protecting and caring for our most vulnerable people	8	1	3	4	Static
Supporting and promoting physical and mental wellbeing	6	2	1	3	Static
Working in partnership with communities	7	5	1	1	Improving
Total	**54**	**15**	**15**	**24**	**Improving**

**includes 1 new indicator agreed in 2023, for which data will not be available until December 2024*

Source: Perth and Kinross Council Annual Performance Report 2023/24

105. The greatest success is seen against the ‘Working in partnership with communities’ priority, with 5 of the 7 KPIs meeting target. Of the remaining 2, 1 KPI (Number of participation requests) has no target set, and the other (Number of community groups supported to increase their capacity) is within 5 per cent of the target, although there is a noticeable decrease in performance compared to 2022/23 where performance exceeded the current target level by 27 per cent. The apparent decline in performance is attributed to smarter reporting mechanisms, preventing groups in receipt of support across multiple areas from being over-counted. The 2023/24 figures are therefore considered to be more accurate.

106. The Annual Performance Report notes that whilst KPI trends are indicative of performance, they need to be considered within the context of the wider operating environment which includes factors which the council can and cannot influence. Overall, the Annual Performance Report is clear and well-presented, with improvement actions identified which feed into a corporate improvement plan for the year.

A Corporate Development and Improvement Plan is in place

107. A Corporate Development and Improvement Plan (CDIP) was approved in May 2024, as part of the council’s revised strategic planning and performance framework. The CDIP is set at organisational level and replaces the previous service-by-service approach.

108. The CDIP details the activities to be undertaken to address areas for development identified in the 2023/24 APR. It is presented towards the start of the financial year, allowing for better scrutiny of improvement activity throughout the year. Mid-year progress was reported to the Scrutiny and Performance Committee in September 2024 and the year-end position will be reported as part of the Annual Performance Report for 2024/25.

Performance compared to other councils has remained broadly static over the last 5 years

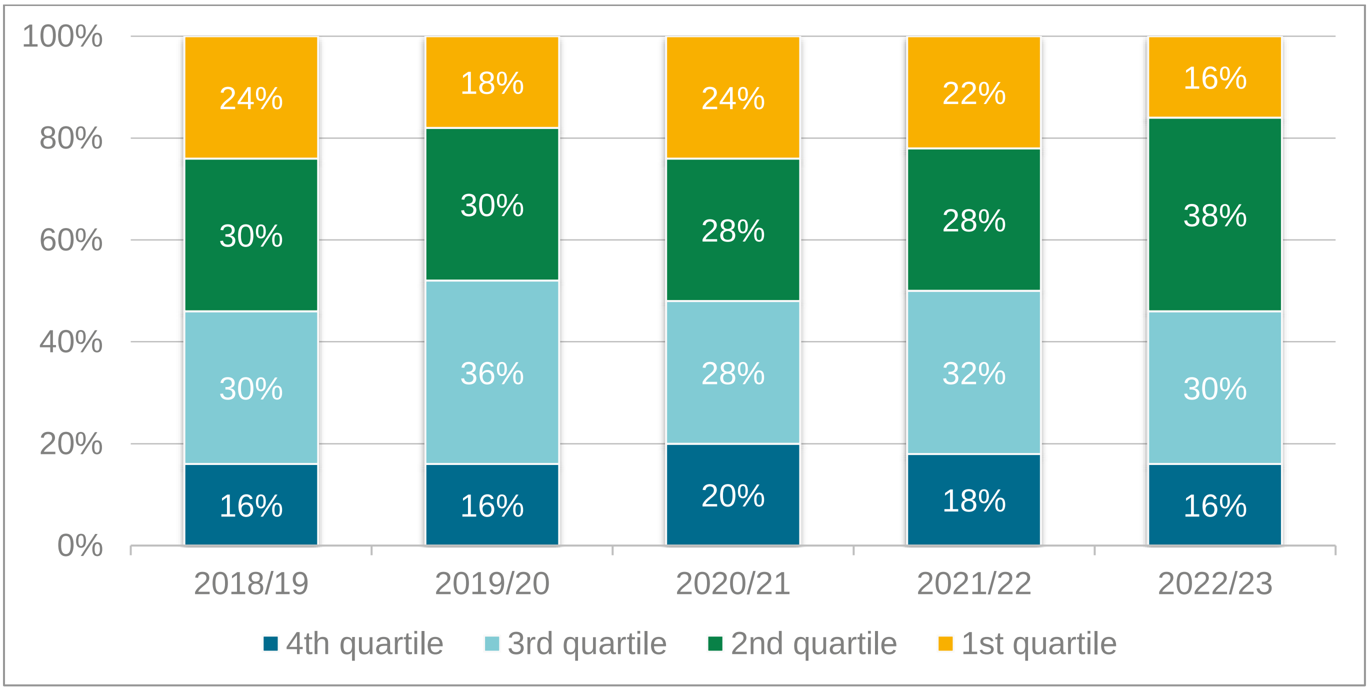
109. A Local Government Benchmarking Framework (LGBF) briefing is provided to members each year. The most recent was issued to members in March 2024. It provided a summary of the most recently published data and a link to the National Benchmarking Overview Report, which primarily relates to 2022/23 data.

110. The briefing reports that since the base year, 60 per cent of the council’s indicators have improved and 36 per cent have declined. Whilst this is an overall positive picture, the briefing notes an overall increase in the proportion of indicators showing negative trends, a decline which is mirrored by national long-term trends since 2014/15.

111. Since April 2024, the Improvement Service have issued monthly data updates and Exhibit 8 shows how the council has performed based upon the latest dataset as published in October 2024. Financial and satisfaction indicators are not included, as these are not directly comparable between councils. Indicators without full data have also been excluded.

112. We analysed a total of 50 indicators over a 5-year period, from 2018/19 to 2022/23. Over this period, 17 performance indicators improved (34 per cent) and 27 declined (54 per cent). This is consistent with the picture seen across Scotland. In their National Benchmarking Overview Report 2022-23, the Improvement Service note that 2022/23 is the first year in which the rate of decline has overtaken the rate of improvement, with fiscal, workforce and demand pressures beginning to have an impact on service performance.

Exhibit 8
Select LGBF data comparison to the 31 other Scottish councils



Source: Audit Scotland analysis of LGBF data available at October 2024

113. Performance relative to other councils in Scotland has been broadly static over the 5-year period. There has been a decline in the number of indicators in the first quartile, but an increase in the number in the second quartile. In 2018/19, 54 per cent of indicators were in the top two quartiles and this remained the case in 2022/23.

114. Areas of notable improvement include:

- **Corporate Services indicator 11:** Proportion of SWF budget spent. The council has improved 21 places since 2018/19 and is now the 3rd ranked council in Scotland

- **Corporate Services Asset indicator 01**: Proportion of operational buildings that are suitable for their current use. The council is now ranked 3rd compared to 20th in 2018/19, an improvement of 17 places.

115. Areas of notable decline include:

- **Adult Social Care Services indicator 07**: Proportion of adult care services graded good or better: The council has dropped 17 places in the rankings, from 7th in 2018/19 to 24th in 2022/23.

- **Financial Sustainability indicator 01:** Total useable reserves as a percentage of council annual budgeted revenue. This has declined by 13 places, with the Council now ranked 18th in Scotland in 2022/23, compared to 5th in 2018/19.

- **Corporate Services indicator 06b:** Sickness absence days per employee (non-teacher). The council was ranked best in Scotland in 2018/19 but is placed 14th in the 2022/23 data.

The council is compliant with the Accounts Commission's SPI direction

116. The Accounts Commission's 2021 Statutory Performance Direction defines the performance information that councils must publish. The Commission does not prescribe how councils should report this information but expects them to provide the public with fair, balanced, and engaging performance information. The Direction applies for 3 years from 2022/23 and is therefore in force for the 2023/24 financial year.

117. Under the direction, a council must report its:

- performance in improving local public services (including those provided with its partners and communities), and progress against agreed desired outcomes (SPI 1). The Commission expects this reporting to allow comparison both over time and with other similar bodies (drawing on Local Government Benchmarking Framework and/or other benchmarking activities)

- own assessment and audit, scrutiny, and inspection body assessments of how it is performing against its duty of Best Value and how it has responded to these assessments (SPI 2).

118. Based on the reporting of performance as detailed above, and our review of compliance with Best Value duties as detailed in Section 4, we have concluded that the council has complied with the Direction for 2023/24. The Annual Performance Report provides a clear and balanced overview of performance, including trend analysis, and the PK Performs website provides members of the public with easy access to more detailed performance information.

Appendix. Action plan 2023/24

2023/24 recommendations

Issue/risk	Recommendation	Agreed management action/timing
1. Communication with Tayside Pension Fund actuary Council officers do not communicate directly with the Tayside Pension Fund, relying instead on Dundee City Council (DCC) as the administering authority. Our audit found that information on early retirement and voluntary severance of 6 individuals was not communicated to the actuary by DCC. The omissions could have been readily identified through detailed review of the curtailment cost information included in the IAS19 report received from the actuary and associated supporting documents. **Risk** - whilst this did not result in a material error in the accounts, future significant levels of voluntary severance or early retirals could lead to errors through incomplete information being provided to the actuary.	Officers should review the information provided by the pension fund actuary for consistency with their own understanding of voluntary severance and early retirals approved in year. Discrepancies identified should be raised with DCC contacts for communication to the pension fund actuary. Exhibit 2, Point 3	Officers will review early retirals as part of their management review of the pension disclosures for the accounts. Council officers will also engage with Dundee City Council to ensure that the information is provided to the actuary. **Responsible officer:** Corporate Accounting Manager **Agreed date:** 31 May 2025
2. Performance reporting in the Management Commentary Reporting of performance in the Management	The Annual Performance Report (APR) presented to the Scrutiny and Performance committee in September each year contains details of KPIs and targets, with a clear	Agreed to meet with Audit Scotland early in the 2024/25 process and review disclosure requirements.

Issue/risk	Recommendation	Agreed management action/timing
Commentary could be improved through the inclusion of KPIs and a summary of how the council has performed with respect to its targets for the year. The existing presentation lists a series of ‘outcomes’ which lack context and do not give users of the accounts a sense of whether performance is improving, declining, or static. **Risk** – the Management Commentary does not provide a balanced view of performance.	summary of whether targets have been met and an analysis of whether the trend over time is one of improvement or decline. Performance reporting in the Management Commentary can be improved through summarising performance in relation to KPIs and targets as presented in the APR. The use of graphs and trend analysis in public performance reporting should also be considered for inclusion, as recommended by the Accounts Commission. Exhibit 3, Point 4	**Responsible officer:** Strategic Lead – Strategic Planning, People and Performance **Agreed date:** June 2025
3. Senior Officer compliance with governance procedures A senior officer participated in a marketing video for a local business which supplies goods and services to the council. Council procedures require senior officers to declare any activity which might give rise to a potential conflict of interest. The activity was not declared by the officer. **Risk** – the council is perceived to be biased when awarding contracts for goods or services.	Senior officers should be reminded of the need to disclose all activity which might be, or perceived to be, in conflict with their council role. Paragraph 90 to 91	Agreed to remind Senior officers of procedures for disclosing conflict of interest or other works. **Responsible officer:** Strategic Lead – Strategic Planning, People and Performance **Agreed date:** January 2025

Recommendations from the Best Value thematic review 2023/24

Issue/risk	Recommendation	Agreed management action/timing
BV1. Service level workforce plans	The council should ensure its service level workforce planning measures align with	Management response/agreed action:

Issue/risk	Recommendation	Agreed management action/timing
Service workforce plans are being developed and the council is developing its systems to provide access to service level workforce data. **Risk** - the council may fail to deliver on the People and Culture Strategy.	actions in the People and Culture Strategy 2024-28 action plan as well as agreeing any additional service level workforce measures.	This is part of the remit of the Workforce Planning Themed Board who will monitor and agree actions within the People and Culture Strategy. HSCP has a separate Strategy and governance and reporting arrangement in place. Education and Learning undertakes annual staffing exercise. All other Strategic leads will develop their own service workforce plans that will be collectively reviewed at the Workforce Planning Themed Board, ELT, and Committee. Responsible officer: Strategic Lead – Strategic Planning, People and Performance Agreed date: Ongoing and annual update to Finance and Resources Committee
BV2. Quantifying workforce benefits from the introduction of digital technology The council has established many workforce benefits and productivity gains of its digital technology improvements but there is scope for more of these to be quantified. **Risk** - there is a risk that the council does not fully understand the workforce benefits from digital technology improvements to inform future decision-making.	The council should build on the work it has done to date to demonstrate and quantify what workforce benefits and productivity gains have been made through its use of digital technology.	Management response/agreed action: The Council will continue to grow the culture of embedding a standardised approach to Benefits Realisation: baselining service delivery costs and related “softer” metrics at the start of any improvement journey to ensure the impact of digital technology and new ways of working is maximised for improving efficiency of our workforce and outcomes for employees and citizens of Perth and Kinross. Responsible officer: Strategic Lead for Customer and Digital Services Agreed date: December 2025

Issue/risk	Recommendation	Agreed management action/timing
BV3. Flexible working benefits Although the council's flexible working framework contains a section on how the council will measure effectiveness of the framework, no specifics are provided in relation to how this will be done. **Risk** - there is a risk the council is not aware of the impact of flexible working on wellbeing and productivity.	The council should develop measures to assess the impact of its flexible working framework on staff productivity, wellbeing, and service performance to ensure these are being maintained or improved.	Management response/agreed action: Strategic Leadership Team, Performance Improvement Team and People and Culture team will devise arrangements to capture qualitative and quantifiable data via pulse surveys, employee survey actions and feedback. Consideration will be given to how this can be captured via data and technology i.e. PK Performs to provide a standard approach in terms of performance monitoring. **Responsible officer:** Strategic Lead – Strategic Planning, People and Performance **Agreed date:** September 2025.
BV4. Workforce-related benefits from shared service arrangements There will be inherent workforce related benefits arising from each of the shared working arrangements that the council has with its partners in Tayside and further afield. **Risk** - Lessons are not learned and applied when creating new, or developing existing, shared working arrangements. The council may not be utilising opportunities for shared services and collaboration opportunities across partner organisations.	The council should develop a formalised analysis of the workforce-related benefits arising from shared service arrangements and further explore additional opportunities for shared service arrangements.	Management response/agreed action: The Workforce Planning Themed Board will determine an approach to identify agreed measures and performance monitoring arrangements. **Responsible officer:** Strategic Lead – Strategic Planning, People and Performance **Agreed date:** September 2025.

Issue/risk	Recommendation	Agreed management action/timing
BV5. Monitoring and reporting on service level workforce plans The council will need to set out its approach to monitoring and reporting on service level workforce plans. **Risk** – service level workforce planning arrangements may not be supporting the delivery of the People and Culture Strategy.	The council should set out its arrangements for monitoring and reporting on service level workforce plans.	Management response/agreed action: This will be discussed with the Workforce Planning Themed Board to agree how to take this forward in respect of monitoring progress and reporting arrangements. **Responsible officer:** Strategic Lead – Strategic Planning, People and Performance **Agreed date:** March 2025
BV6. Measuring the impact of workforce planning The council has still to develop measures and targets to monitor and report on progress against the workforce plan. **Risk** - workforce planning arrangements may not be supporting the delivery of the council's strategic priorities.	The council should further develop SMART measures and targets to assess the impact and effectiveness of its workforce planning actions in the People and Culture Strategy 2024-28.	Management response/agreed action: This will be discussed with the Workforce Planning Themed Board to agree how to take this forward in respect of identifying measures to monitor progress, refreshing new or emerging priorities and reporting arrangements. **Responsible officer:** Strategic Lead – Strategic Planning, People and Performance **Agreed date:** June 2025.

Follow-up of prior year recommendations

Recommendation	Agreed Management Action and Timing	Progress
2022/23 audit recommendations		
b/f 1. Non-current asset valuations We recommend that the council reviews its approach to the rolling programme of asset valuations and refines its process for considering	Officers have agreed to meet with audit to review arrangements for asset valuations and those not included in the rolling programme to provide a	**Implemented** Officers met with audit ahead of the 2023/24 revaluation exercise and agreed to bring forward the valuation of PFI campuses and council

Recommendation	Agreed Management Action and Timing	Progress
the current valuation of assets (OLB and Housing) not subject to a full valuation process at each year end. The current process for other land and buildings is highly detailed and labour intensive and could benefit from simplification.	robust position for the 2023/24 accounts. **Responsible officer:** Corporate Accounting Manager **Agreed date:** 31 December 2023	dwellings into the 2023/24 valuation cycle. Going forward, an annual indexation percentage, provided by the expert valuer, will be applied to council dwellings to reduce the risk of material misstatement arising in the years between formal valuations. The process for reviewing movement in the value of other land and buildings since the last formal revaluation remains very detailed. Council officers are content to continue with this approach. No further action to be taken.
b/f 2. Completeness of non-current assets We recommend that the council prepares a reconciliation between the financial ledger, asset register and valuer's report as part of the working papers package in future years.	Officers will reconcile the financial ledger at 1 April annually and reconcile the valuer's report to asset register as part of the working papers. **Responsible officer:** Corporate Accounting Manager **Agreed date:** 30 June 2024	**Implemented** A reconciliation between the asset register and the valuer's report was provided as part of the working papers package supplied to support the 2023/24 audit. The asset register was reconciled separately to the financial ledger.
b/f 3. Working papers Management should review processes for generating the financial statements, providing clear cross references and links between (and within) working papers, and the source data used to create them.	Officers will meet with auditors to review the simplification of working papers to improve audit efficiency. **Responsible officer:** Corporate Accounting Manager **Agreed date:** 31 January 2024	**Implemented** Officers met with audit following the 2022/23 audit completion and took on board audit recommendations to modify the working papers. A further meeting was held prior to the 2023/24 audit to explain the changes made. The 2023/24 working papers showed good improvement in some areas, with many now containing linkages and cross-references to supporting information.

Recommendation	Agreed Management Action and Timing	Progress
b/f 4. Establishment checks Establishment checks are an important anti-fraud control and are carried out annually. Management within services should ensure they respond in timely fashion to the request for confirmation.	Officers will ensure that all returns not completed are highlighted to appropriate line managers for action. Any outstanding returns post December will be escalated to Strategic Lead – Finance and Business Support for action. **Responsible officer:** Corporate HR Manager **Agreed date:** 31 December 2023	**Implemented** 2023/24 establishment checks for all service areas were completed and responded to in the required timeframe.
Best Value Thematic Review 2022/23 recommendations		
BV b/f 1. Workforce planning The council should revise the workforce plan. This should set out the challenges facing the council workforce; data in terms of workforce numbers, deployment, age profile; and risks and actions in individual employment groups.	A detailed People and Culture Plan will be taken to the Finance and Resources Committee by June 2024. **Responsible Officer:** Strategic Lead – Strategic Planning, People and Performance **Target date:** 30 June 2024	**Implemented** The People and Culture Strategy 2024-28 was approved by the Finance and Resources Committee on 12 June 2024. The Strategy is aligned with the council's strategic plans and priorities and sets out the council's approach to delivering sustainable workforce development. We comment further on the People and Culture Strategy 2024-28 in our Best Value Thematic Review on Workforce Innovation – how councils are responding to workforce challenges.
BV b/f 2. Best Value Reporting The council should implement a process for routinely reporting Best Value action plan progress to committee.	An annual update will be provided through the Corporate Annual Performance Report which is reported to the Scrutiny and Performance Committee and the Council in September. This will also sit on our website as part of the supporting information which	**Outstanding** Refer paragraph 84 **Responsible officer:** Strategic lead – Strategic Planning, People and Performance **Revised date:** 30 September 2025

Recommendation	Agreed Management Action and Timing	Progress
	is accessible to the public. In addition, we will report six monthly to the Executive Leadership Team. **Responsible Officer:** Strategic Lead – Strategic Planning, People and Performance **Target date:** 30 September 2024	

Perth and Kinross Council

2023/24 Annual Audit Report

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