

REPORT TO: POLICY AND RESOURCES COMMITTEE 26 SEPTEMBER 2022

REPORT ON: FINANCIAL OUTLOOK AND STRATEGY

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 257-2022

1 PURPOSE OF REPORT

- 1.1 To advise Members of the financial outlook for the Council and recommend a Medium-Financial Strategy (MTFS) within which future Council Budgets will be set.

2 RECOMMENDATIONS

- 2.1 It is recommended that the Council:
- (a) notes the financial outlook set out in the Report;
 - (b) agrees the Medium-Term Financial Strategy as set out in section 8 of the Report;
 - (c) authorises the Chief Executive, in consultation with the Executive Directors, to take appropriate steps to manage current and recurring revenue expenditure, including reviewing vacancies and any new recurring commitments;
 - (d) notes that a Long-Term Financial Strategy will be developed alongside the 2023/24 revenue Budget;
 - (e) notes that a Report on Transformation will be presented to Committee by the end of the year; and
 - (f) notes that a Report on the Capital Plan will be presented to Committee in Autumn 2022.

3 FINANCIAL IMPLICATIONS

- 3.1 The medium-term financial projections, detailed in section 6 of this Report indicate that the best estimate of the savings the Council could have to find by 2026/27 is £45m.
- 3.2 This equates to around 11% of the Councils net revenue budget for 2022/23 and represents a significant challenge for the Council. The main factors that influence this are inflation, pay awards, general revenue grant and loan charges.
- 3.3 In this context it is recommended that Officers be authorised to take appropriate steps immediately to reduce current and recurring revenue spend.
- 3.4 Inflation is also having a significant impact on capital costs and officers are reviewing the Capital Plan, the outcome of which will be reported to Committee in Autumn 2022.

4 CONTEXT

- 4.1 The development of the Councils MTFS is in the context of an increasingly complex and uncertain environment with budget savings of £147m having been realised since the financial crisis in 2008.
- 4.2 Following significant investment in mitigating the Covid-19 pandemic the UK and Scottish Governments are now having to consider how to address high inflation, driven not just by the impact of the war in Ukraine on energy prices but also the pandemic recovery, and Brexit.

- 4.3 Economic forecasts suggest the UK economy is heading towards recession and government at all levels will require to make choices about the allocation of resources.
- 4.4 At a local level the Covid-19 pandemic is still a significant issue for the City and Council. Changes in behaviours and work patterns mean that income for car parking, leisure and cultural services has not recovered. Though restrictions have been largely lifted Covid-19 remains continues to affect the workforce and consequently the delivery of services. Disruption to Health and Care Services during the pandemic has increased pressure on these services.
- 4.5 These issues are likely to be compounded by the cost-of-living crisis and it is inevitable that in times of financial difficulty there will be increased demand for Council Services. Without a strong recovery from the pandemic there is a risk that non-domestic rate income will fall and that the Council will see a reduction in income for its property estate.
- 4.6 Current inflation levels have led pressure on pay and operating costs at a time when resources are constrained. At the time of writing this Report the 2022/23 pay award has not yet been agreed and this adds to the uncertainty in the strategy.
- 4.7 To address the challenges set out in this report the Council will need to build on its previous strategy and use its reserves carefully to meet Covid pressures and deliver transformation.

5 KEY FACTORS

- 5.1 The Council is operating in an increasingly complex and uncertain environment with the following aspects influencing the MTFs and the assumptions used to develop the financial projections set out in Section 6 of the Report.

City and Council Plans

- 5.2 The new City Plan has already been considered by the Dundee Partnership and will be the subject of a concurrent report to Committee. The Council Plan for 2022-27 will be considered by the Council in October 2022.
- 5.3 For the purposes of financial planning, it is assumed that demographic change and service demand will be contained within service areas with departmental resources directed towards City priorities.

Programme for Government

- 5.4 The Scottish Government set has clear priorities over the course of the current parliament which stem from their manifesto. The MTFs assumes that new initiatives will be fully funded.

Covid-19 Pandemic

- 5.5 The impacts of the pandemic will continue to be felt by the Council for some time. In particular in relation to car parking income, the effect on Leisure and Culture Dundee sickness absence and any additional property costs. The MTFs assumes that these will be contained within the Covid-19 reserves that will be maintained for this purpose.

Resource Spending Review

- 5.6 The Scottish Government published its Resource Spending Review in May 2022, and this was considered by the Policy and Resources Committee on 27 June 2022 (Report 171-2022). Whilst not budget proposals it sets out indicative financial plans for the next four years to 2026/27.
- 5.7 For Local Government the revenue allocated is £10.616bn for the next three years, rising to £10.716bn in 2026/27. The agreed distribution methodology (including the contribution that Dundee City Council receives from the floor) means that an overall

flat cash settlement would equate to a reduction of between 0.25% to 0.75% in funding (£0.8m to £2.5m).

- 5.8 In relation to Capital figures for Local Government are provided in the Outcome of the Targeted Review of the Capital Spending Review – Updated Spending Allocations for 2023-24 to 2025-26 which was published alongside the Resource Spending Review. This indicates funding of £650m in 2022/23, £626m in 2023/24, £654m in 2024/25 and £661m in 2026/26.
- 5.9 For the MTFS this means that Local Government funding for both Revenue and Capital will remain at current levels, adjusted for the impacts of distribution within the Local Government Settlement.

Economy Outlook

- 5.10 The August Monetary Policy Report from the Bank of England highlighted how inflationary pressures, including the near doubling of wholesale gas prices due to the War in Ukraine, is expected to see CPI inflation rise to 13% by the fourth quarter of 2022 and July data from the Office of National Statistics shows this has already increased to 10.1%. The Bank predicts that inflation will remain elevated through 2023 before falling back to the 2% target over the next two years.
- 5.11 The Bank also reports that growth in UK GDP (Gross Domestic Product) is slowing and that the country will enter recession by the end of 2022 with incomes and consumption both falling.
- 5.12 The report also indicates that, consistent with local experience, the labour market remains constrained with high levels of vacancies contributing to wage growth.
- 5.13 The Bank has a duty to set policy to maintain a 2% inflation target and at the Monetary Policy Committee Meeting in May raised base rates by half a percentage point to 1.75% in response to the inflationary pressure.
- 5.14 Interest rates are expected to rise further to 3% in the second quarter of 2023 before falling back to 2.2% in the second half of 2025.
- 5.15 For the MTFS inflation will mean cost increases for PFI/PPP schools and other contracts with inflation linked provisions. It will also be a key factor in pay settlements. Higher interest rates may increase the cost of new borrowing for the Capital Plan.

Fiscal Framework

- 5.16 COSLA is working with the Scottish Government to develop a framework which will provide flexibility for Councils to exercise local flexibility to raise revenues.
- 5.17 The introduction of an infrastructure levy, workplace parking and a transient visitor levy, are ways that additional revenues could be generated to support expenditure, for example, on tourism infrastructure, thereby freeing up Council resources.
- 5.18 The MTFS does not include any assumptions that additional revenues will be generated but will require to be updated once more detail on the Fiscal Framework emerges.

Workforce

- 5.19 Employees remain the Councils biggest asset, accounting for around £269m (65%) of the net revenue budget.
- 5.20 The development of a People Strategy and workforce planning are therefore crucial to supporting the changes needed to deliver the MTFS.

Partnerships

5.21 The Council works in partnership with a range of organisations to deliver services to citizens across the City. Whilst the MTFS assumes that these arrangements continue the Council will be exploring all opportunities for transformation and realising savings to contribute to the projected deficit.

Audit Scotland

5.22 Key highlights of the Local Government in Scotland Overview 2022 were that: Councils have had a difficult year; the challenging landscape requires collaborative leadership; there is continuing pressure on the workforce (especially in terms of absence, recruitment and resilience); and the pandemic had impacted most on those already experiencing inequality.

Education

5.23 Education is a key priority for the Scottish Government with the expansion of early years provision being funded by Specific Grant and an ongoing expectation that the Council will maintain pupil teacher ratios.

5.24 The Council is also committed to taking forward the objectives of The Promise.

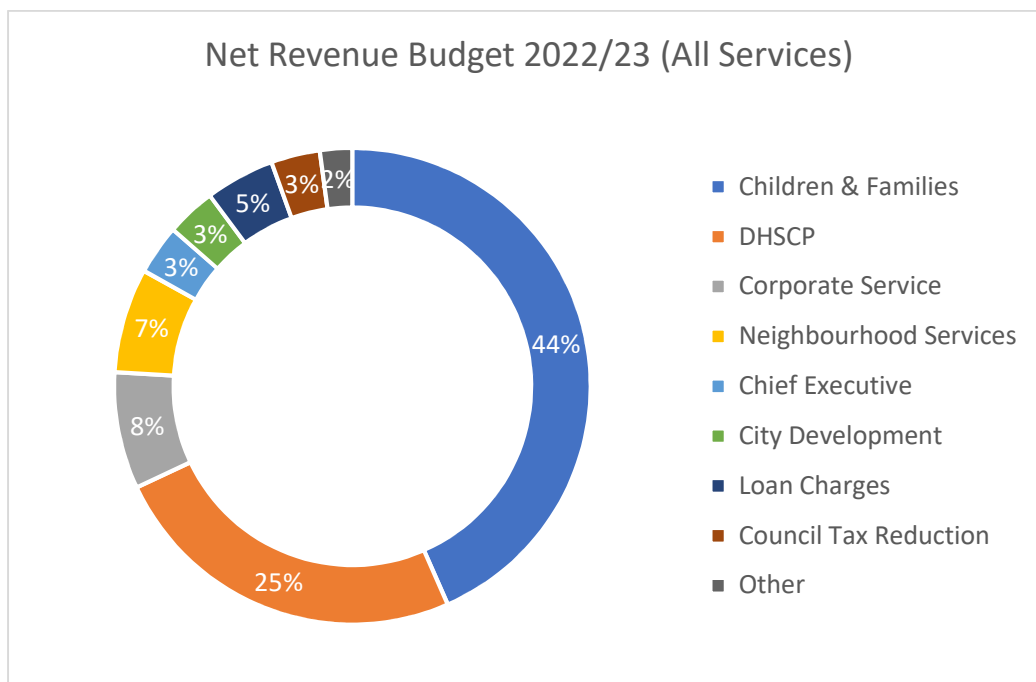
National Care Service

5.25 The creation of a National Care Service (NCS) is a significant reform of the Scottish Public Sector and will have material impact on the Council.

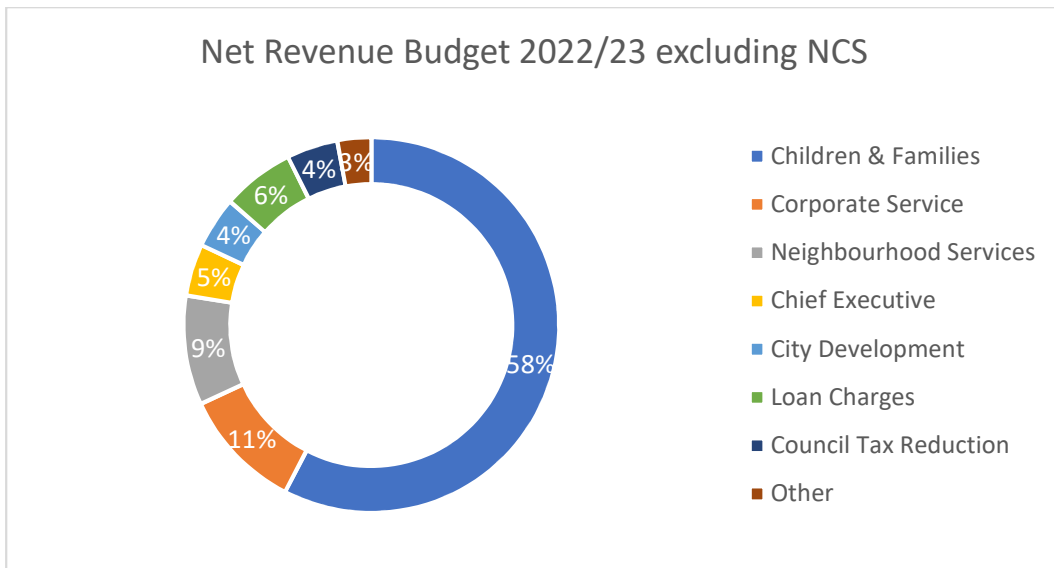
5.26 The detail of how the NCS will be structured, financed and managed is still being developed. For Councils like Dundee, where Children's Services sit outwith the Integration Joint Board, there is uncertainty about what services will transfer.

5.27 The Council Budget includes £99.3m of expenditure via the HSCP which makes up 25% of the Council's net revenue budget.

5.28 This spend excludes corporate property and support costs which are presently being quantified.

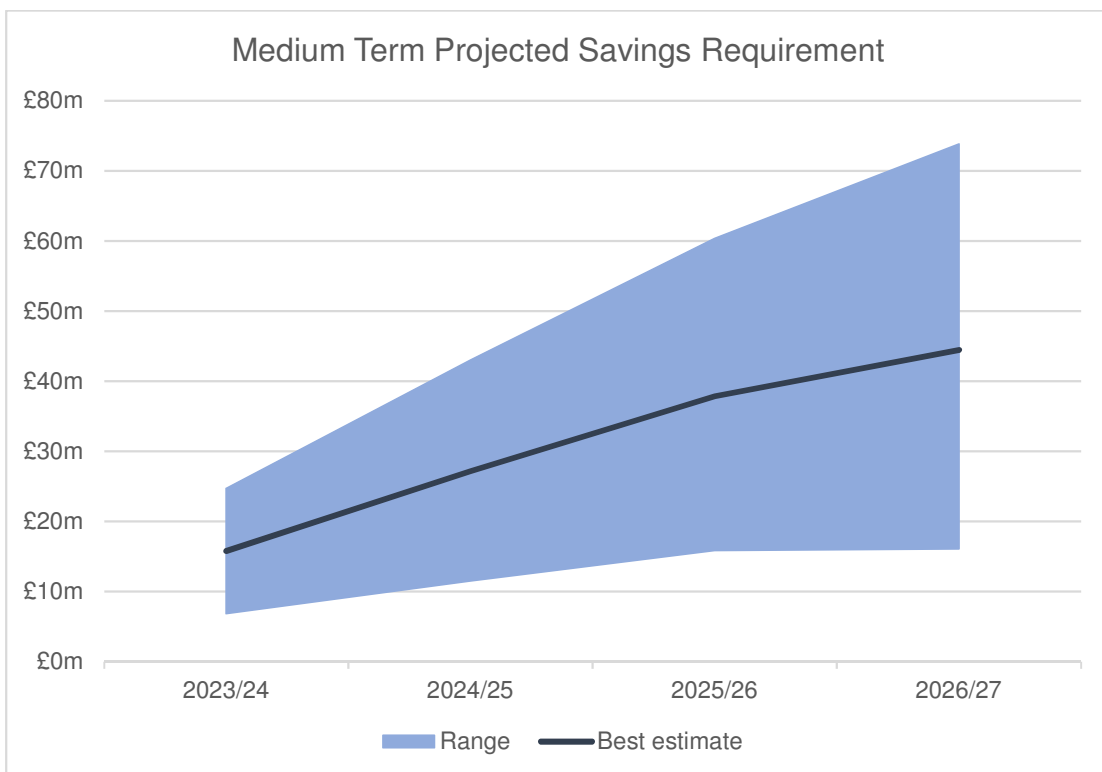


5.29 The transfer of the HSCP to the NCS would change the balance of spending within the Council, with Children and Families now accounting for 58% of the net budget. This may have consequences for the delivery of savings with national policy on teacher numbers and pupil ratios potentially limiting opportunities for transformation.



6 MEDIUM-TERM PROJECTIONS

6.1 The chart below indicates the range of savings that could be required by the Council over the next four years with the dark line showing the current best estimate.



6.2 The range over the period is between £7m and £74m but the best estimate, based on current assumptions amounts to £45m.

6.3 The table below highlights how key factors influence the projections.

	2023/24	2024/25	2025/26	2026/27
Deficit brought forward	£0.0m	£16.1m	£27.5m	£38.2m
Pay	£8.0m	£4.7m	£4.8m	£4.9m
Energy	£1.3m	£0.4m	£0.2m	£0.3m
PFI	£1.4m	£1.1m	£0.6m	£0.6m
Other Inflation	£2.2m	£1.8m	£1.7m	£1.7m
Loan Charges	£3.3m	£3.8m	£3.9m	(£0.2m)
Council Tax	(£1.8m)	(£2.1m)	(£2.2m)	(£2.3m)
Grant	£1.7m	£1.7m	£1.7m	£1.7m
Cumulative deficit	£16.1m	£27.5m	£38.2m	£44.7m

6.4 The most significant cost increase relates to pay and the assumptions are based on COSLA's September 2022 pay offer for 2022/23 being agreed by all pay bargaining groups.

7 RESERVES AND BALANCES

7.1 The Council has a good track record of effective budget management, and this means that it enters this period of financial planning from a position of strength.

7.2 The revenue monitoring report to the period July (report 229-2022 to Policy & Resources Committee refers) shows that the Council holds the following reserves and balances.

Detail:	Opening Balance 1 April 2022 (£000)	In Year Movement – (Inc) / Dec (£000)	Projected Balance 31 March 2023 (£000)
Earmarked Carry-forwards:			
- Covid	4,390	4,390	0
- Non-Covid	5,523	5,023	500
Covid cost related pressures	18,000	3,719	14,281
Covid recovery measures	3,000	300	2,700
Service change initiatives	5,000	0	5,000
Roof Remedial Works	4,400	632	3,768
Other Inflationary Pressures	5,472	3,100	2,372
Other earmarked Funds	5,551	314	5,237
Total Earmarked Funds	51,336	17,478	33,858
Unallocated Balances	9,471	(598)	10,069
Total General Fund Balances	60,807	16,880	43,927

7.3 The recommended strategy, set out below, is to set annually balanced budgets and to continue to operate with the revenue budget agreed by the Council with balances only used for the specific purposes they have been established for or to deliver savings that will support future revenue budgets.

8 MEDIUM TERM FINANCIAL STRATEGY

8.1 It is proposed that the Council adopts the following approach as its MTFs, building on framework agreed in 2019:

- (a) the Council will set a balanced budget each year;
- (b) savings and efficiencies will be driven by transformation and service prioritisation;
- (c) resources will be prioritised to improve outcomes;
- (d) the Council will seek to achieve an overall outturn in-line with or below budget;
- (e) free balances will be retained at the higher of 2% of revenue budget or £8m;
- (f) reserves will only be used for earmarked purposes and to support the revenue budget through spend to save initiatives;
- (g) demand and demographic change will be managed through prioritisation within services;
- (h) the contingency budget will only be used for one off expenditure which is not recurring;
- (i) Joint bodies and boards will bear their share of any General Revenue Grant reduction;
- (j) a planning assumption that fees and charges will increase by at least 3% annually;
- (k) a planning assumption that Council Tax will increase by at least 3% annually;
- (l) budget provision will be made for pay awards (with incremental drift managed by services) and unavoidable inflation; and
- (m) the Council will evaluate the risks and benefits of all financial flexibilities made available to local authorities.

8.2 This Medium-Term Strategy will form the basis of planning and the Council will continue to maintain a rolling three-year financial plan at each budget cycle.

8.3 A longer term (ten year) financial outlook will be prepared alongside the 2023/24 budget and this and the MTFs will be updated annually.

9 CONSULTATIONS

The Corporate Leadership Team has been consulted in the preparation of this report.

10 POLICY IMPLICATIONS

This report has been subject to the Pre-IIA Screening Tool and does not make any recommendations for change to strategy, policy, procedures, services or funding and so has not been subject to an Integrated Impact Assessment. An appropriate senior manager has reviewed and agreed with this assessment.

11 BACKGROUND PAPERS

None

**ROBERT EMMOTT
EXECUTIVE DIRECTOR OF CORPORATE SERVICES**

Date: 15 SEPTEMBER 2022

Integrated Impact Assessment

Committee Report Number: 257-2022

Document Title: Financial Outlook and Strategy

Document Type: Strategy

Description:

This report recommends a Medium-term Financial Strategy for the Council

Intended Outcome:

Agreement by the Council of its Medium-Term Financial Strategy

Period Covered: 26/09/2022 to 31/03/2027

Monitoring:

The Strategy will inform the Council's Budget and be monitored through Revenue Monitoring Reports to the Policy and Resources Committee.

Lead Author:

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Dundee House

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Dundee House

Equality, Diversity and Human Rights

Impacts & Implications

Age: Not Known

The MTFS indicates the likely range of savings that the Council is projected to be required to find over the period, however, it does not identify any specific proposals. The nature of Council services means that there is a risk that any service change will impact on this aspect but a further Integrated Impact Assessment will be carried out on all proposals that are brought forward as part of the Council's budget(s).

Disability: Not Known

The MTFS indicates the likely range of savings that the Council is projected to be required to find over the period, however, it does not identify any specific proposals. The nature of Council services means that there is a risk that any service change will impact on this aspect but a further Integrated Impact Assessment will be carried out on all proposals that are brought forward as part of the Council's budget(s).

Gender Reassignment: No Impact

Marriage & Civil Partnership: No Impact

Pregenancy & Maternity: No Impact

Race / Ethnicity: Not Known

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Religion or Belief: No Impact

Sex: No Impact

Sexual Orientation: No Impact

Are any Human Rights not covered by the Equalities questions above impacted by this report?

No

Fairness & Poverty

Geographic Impacts & Implications

Strathmartine:	Not Known
Lochee:	Not Known
Coldside:	Not Known
Maryfield:	Not Known
North East:	Not Known
East End:	Not Known
The Ferry:	Not Known
West End:	Not Known

Household Group Impacts and Implications

Household Group Impacts and Implications

Looked After Children & Care Leavers: Not Known

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Carers: Not Known

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Lone Parent Families: Not Known

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Single Female Households with Children: Not Known

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Greater number of children and/or young children: Not Known

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Pensioners - single / couple: Not Known

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Unskilled workers or unemployed: Not Known

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Serious & enduring mental health problems: Not Known

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Homeless: Not Known

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Drug and/or alcohol problems: Not Known

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Offenders & Ex-offenders: Not Known

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Socio Economic Disadvantage Impacts & Implications

Employment Status: Not Known

Socio Economic Disadvantage Impacts & Implications

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Education & Skills: Not Known

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Income: Not Known

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Caring Responsibilities (including Childcare): Not Known

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Affordability and accessibility of services: Not Known

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Fuel Poverty: Not Known

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Cost of Living / Poverty Premium: Not Known

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Connectivity / Internet Access: Not Known

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Income / Benefit Advice / Income Maximisation: Not Known

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Employment Opportunities: Not Known

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Education: Not Known

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Health: Not Known

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Life Expectancy: Not Known

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Mental Health: Not Known

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Overweight / Obesity: Not Known

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Child Health: Not Known

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Neighbourhood Satisfaction: Not Known

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Transport: Not Known

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Environment

Climate Change Impacts

Mitigating Greenhouse Gases: Not Known

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Adapting to the effects of climate change: Not Known

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Resource Use Impacts

Energy efficiency & consumption: Not Known

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Prevention, reduction, re-use, recovery or recycling of waste: Not Known

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Sustainable Procurement: Not Known

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Transport Impacts

Accessible transport provision: Not Known

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Sustainable modes of transport: Not Known

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Natural Environment Impacts

Air, land & water quality: Not Known

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Biodiversity: Not Known

The MTFS indicates the likely range of savings that the Council is projected to be required to find over the period, however, it does not identify any specific proposals. The nature of Council services means that there is a risk that any service change will impact on this aspect but a further Integrated Impact Assessment will be carried out on all proposals that are brought forward as part of the Council's budget(s).

Open & green spaces: Not Known

The MTFS indicates the likely range of savings that the Council is projected to be required to find over the period, however, it does not identify any specific proposals. The nature of Council services means that there is a risk that any service change will impact on this aspect but a further Integrated Impact Assessment will be carried out on all proposals that are brought forward as part of the Council's budget(s).

Built Environment Impacts

Built Heritage: Not Known

The MTFS indicates the likely range of savings that the Council is projected to be required to find over the period, however, it does not identify any specific proposals. The nature of Council services means that there is a risk that any service change will impact on this aspect but a further Integrated Impact Assessment will be carried out on all proposals that are brought forward as part of the Council's budget(s).

Housing: Not Known

The MTFS indicates the likely range of savings that the Council is projected to be required to find over the period, however, it does not identify any specific proposals. The nature of Council services means that there is a risk that any service change will impact on this aspect but a further Integrated Impact Assessment will be carried out on all proposals that are brought forward as part of the Council's budget(s).

Is the proposal subject to a Strategic Environmental Assessment (SEA)?

No further action is required as it does not qualify as a Plan, Programme or Strategy as defined by the Environment Assessment (Scotland) Act 2005.

Corporate Risk

Corporate Risk Impacts

Political Reputational Risk: Not Known

The MTFS indicates the likely range of savings that the Council is projected to be required to find over the period, however, it does not identify any specific proposals. The nature of Council services means that there is a risk that any service change will impact on this aspect but a further Integrated Impact Assessment will be carried out on all proposals that are brought forward as part of the Council's budget(s).

Economic/Financial Sustainability / Security & Equipment: Positive

The MTFS sets out a framework to secure the financial sustainability of the Council in the context of an uncertain financial climate.

Social Impact / Safety of Staff & Clients: Not Known

The MTFS indicates the likely range of savings that the Council is projected to be required to find over the period, however, it does not identify any specific proposals. The nature of Council services means that there is a risk that any service change will impact on this aspect but a further Integrated Impact Assessment will be carried out on all proposals that are brought forward as part of the Council's budget(s).

Technological / Business or Service Interruption: Not Known

The MTFS indicates the likely range of savings that the Council is projected to be required to find over the period, however, it does not identify any specific proposals. The nature of Council services means that there is a risk that any service change will impact on this aspect but a further Integrated Impact Assessment will be carried out on all proposals that are brought forward as part of the Council's budget(s).

Environmental: Not Known

The MTFS indicates the likely range of savings that the Council is projected to be required to find over the period, however, it does not identify any specific proposals. The nature of Council services means that there is a risk that any service change will impact on this aspect but a further Integrated Impact Assessment will be carried out on all proposals that are brought forward as part of the Council's budget(s).

Legal / Statutory Obligations: No Impact

Organisational / Staffing & Competence: Not Known

The MTFS indicates the likely range of savings that the Council is projected to be required to find over the period, however, it does not identify any specific proposals. The nature of Council services means that there is a risk that any service change will impact on this aspect but a further Integrated Impact Assessment will be carried out on all proposals that are brought forward as part of the Council's budget(s).

Corporate Risk Implications & Mitigation:

There are considerable risks associated with the subject matter of this report. This is due either to a significant departure from the previous norm of Council activity, the nature of the proposals or the potential for substantial financial or other impact to be sustained. The report incorporates the potential for losses in excess of Â£250,000 should the downside risk materialise and / or there is potential for the Council's decision to be challenged and for significant reputational damage.

Implementation of the MTFS ensure that the Council has an approach to securing financial sustainability.

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