

REPORT TO: POLICY AND RESOURCES COMMITTEE - 26 JUNE 2023

REPORT ON: FINANCIAL OUTLOOK

REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES

REPORT NO: 175-2023

1 PURPOSE OF REPORT

1.1 To allow Members to consider the Scottish Government's Medium-Term Financial Strategy, published on 25 May 2023, and the potential consequences for the Council.

2 RECOMMENDATIONS

2.1 It is recommended that the Committee:

- (a) notes the Report;
- (b) remits the Executive Director of Corporate Services to Report back to a future meeting of the Committee setting out an updated medium-term strategy for the Council and a strategy to address the projected budget shortfall over the period 2024-28;
- (c) notes that Officers will commence exploring options for budget savings and that this will include engagement with partners; and
- (d) 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.

3 FINANCIAL IMPLICATIONS

3.1 Whilst there are no direct implications associated with the recommendations in this Report the Council has a duty to set a balance budget each year. The Council's medium term financial strategy outlines a projected savings requirement over the next three years of £28.6m and this Report starts the process of setting the Council's budget strategy for 2024-28 whilst at the same time recommending measures to manage expenditure.

4 CONTEXT

4.1 The Scottish Government published "Scotland's Fiscal Outlook The Scottish Government's Medium-Term Financial Strategy" on 25 May 2023. This sets out how spending on public services in Scotland is projected to grow faster than forecast funding over the next 4 years creating a gap of £1bn in 2024/25 rising to £1.9bn in 2027/28.

4.2 The publication sets out three pillars of a strategy to address the financial challenge:

- ensuring that public money is focussed on government priorities (equality, opportunity and community);
- growing and strengthen Scotland's well-being economy, including the tax base; and
- a strategic approach to tax policy.

4.3 The following points from the document are highlighted for noting:

- whilst it is not expected that Scotland will enter recession growth remains subdued;
- the labour market is robust with high levels of employment and low unemployment;
- inflationary pressure is continuing, and the outlook is still uncertain;
- funding is expected to grow from £45.3bn in 2023/24 to £51.0bn by 2027/28 but increases vary between years with pressure most severe in 2024/25;

- the medium-term outlook is volatile and the two key components, block grant and net income tax, remain uncertain;
- high inflation will have long term impact on public service spending in Scotland;
- spending could exceed resources by 2% (£1bn) in 2024/25 rising to 4% (£1.9bn) in 2027/28;
- capital is also under pressure and a real terms fall of 7% expected between 2024/5 and 2027/28. Higher costs also exacerbate this with a 16% gap projected in 2025/26;
- Social Security spend is projected to rise from 10% of the resource budget (£4.2bn) to 15% (£7.5bn) by 2027/28;
- the prioritisation of those in greatest need may mean a move away from universal to targeted services and a need to stop spending on non-priority programmes
- the Scottish Government will publish multi-year spending envelopes for revenue and capital alongside 2024/25 budget;
- the capital spending period will be extended by a year to 2026-27 with a reprioritisation to focus on core objectives; and
- work is continuing on a New Deal for Local Government which will include a partnership agreement and fiscal framework.

4.4 The table below is taken from the Report and sets out the central case spending outlook over the period to 2027/28.

Annex A: Central Resource Spending Outlook

Table A. 1: Central Resource Spending Outlook

	2023-24	2024-25	2025-26	2026-27	2027-28
Social Security	5,290	6,192	6,638	7,000	7,389
Health and Social Care	18,176	18,903	19,660	20,446	21,264
Local Government	10,958	11,403	11,720	12,054	12,417
Other	10,836	11,076	11,286	11,513	11,777
Total	45,260	47,575	49,304	51,013	52,846
Central funding outlook	45,260	46,535	47,917	49,415	50,971
Modelled shortfall	0	-1,040	-1,387	-1,598	-1,875
		-2%	-3%	-3%	-4%

4.5 This suggests growth of 13.3% or £1.459bn over the period. However, if Local Government has to find a proportionate share of the modelled shortfall this falls to £1.128bn (10.3%).

4.6 As noted above inflation remains a significant uncertainty and the central scenario reflects a 2% pay award from 2024-28, further pressure on this element of costs remains therefore a significant factor in public spending.

5 IMPLICATIONS FOR DUNDEE CITY COUNCIL

5.1 The Council's Medium-Term Strategy was agreed on 26 September 2022 (Article IX of the meeting of Policy and Resources Committee of 26 September 2022 refers). This set out projected savings required from 2024-27 of £28.6m.

- 5.2 Officers will be updating these projections in the light of the Scottish Government's financial outlook and the outcome of this will be reported to a future meeting of the Committee. However, at this stage it should be noted that there remains significant uncertainty in terms of pay awards, energy prices and general inflation. Members will also be aware of the pressure on Children's Services budget as reported in the Revenue Monitoring.
- 5.3 In the context of the Council having delivered savings of the order of £147m since 2008 further budget reductions on this scale will be challenging.
- 5.4 Members will note that whilst £28.6m represents around 7% of the 2023/24 net revenue budget of £424m the scope for savings will necessarily be limited to those areas of the budget where the Council has discretion to implement changes.
- 5.5 Officers will be exploring opportunities for savings over the summer period and will consider options including income generation, service redesign, partnership working and service reduction. As part of this process it is recommended that Officers engage with partners that work with Council on delivering services for the City to ensure that all opportunities for collaboration and service change or reduction are examined and any consequences fully understood.
- 5.6 A further report setting out the Councils Budget Strategy for 2024-28 will be presented to a future meeting of the Committee.

6 POLICY IMPLICATIONS

- 6.1 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.

7 CONSULTATIONS

- 7.1 The Council Leadership Team have been consulted on the content of this report.

8 BACKGROUND PAPERS

- 8.1 [Scotland's Fiscal Outlook The Scottish Government's Medium-Term Financial Strategy](#)

ROBERT EMMOTT
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13 JUNE 2023

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