ITEM No …7………..

REPORT TO:	**CITY GOVERNANCE COMMITTEE – 22 SEPTEMBER 2025**
REPORT ON:	**BUDGET STRATEGY AND FINANCIAL OUTLOOK 2026/27**
REPORT BY:	**EXECUTIVE DIRECTOR OF CORPORATE SERVICES**
REPORT NO:	**235-2025**

1 PURPOSE OF REPORT

1.1 To present to elected members medium-term financial projections and to recommend a strategy to address the projected budget shortfall for 2026/27.

2 RECOMMENDATIONS

2.1 It is recommended that the Committee:

(a) notes the financial projections and risks set out in the report and their impact on the future ability of the Council to carry out its statutory functions;

(b) notes that a review of the assumptions included in the budget forecast is being undertaken and the outcome of this review will be reflected in an updated provisional revenue budget for 2026/27 that will be presented to members in due course;

(c) notes that a separate report on budget consultation for 2026/27 will be presented to a future meeting of the Committee;

(d) agrees the budget strategy set out in Section 5 of the Report; and

(e) notes the outline timetable set out in Section 7 of the Report.

3 FINANCIAL IMPLICATIONS

3.1 There are no direct financial implications arising from this report.

4 CONTEXT

The Council has a duty to set a balanced budget each year. Based on the information currently available the Council is projected to face a budget shortfall of at least £8.4m for 2026/27. The medium-term outlook over the three years 2026-29 indicates an estimated budget gap of £29.1m. This deficit is prior to any agreed Council Tax increase. It is noted each 1% increase in Council Tax level would reduce this gap by £0.7m.

4.1 The most significant factors that influence these projections are levels of Scottish Government funding and inflation, especially in relation to pay. Key assumptions in the projections are that Scottish Government funding will be the same in cash terms as 2025/26 with an additional allowance of 0.5% for pay in 2026/27 reflecting the outcome of the recent local government pay negotiations. Pay inflation has been assumed at 3.5% in 2026/27 and 3% in years 2027/28 and 2028/29.

4.2 The Council's budget is constrained by its statutory duties, government policy and contractual obligations. In previous years, the Local Government Settlement has required Council's to maintain the level of funding for Health and Social Care and to protect teacher numbers. Taken with the statutory obligations in relation to Children's Services and the commitments the Council has in relation to loan charges and PFI contracts and other costs such as the Council Tax Reduction Scheme, 69% of the Council's net budget of £496m budget is essentially fixed as shown below.

Service	2025/26 Budget (£m)	Share
Health and Social Care	114.8	23%
Teachers	110.8	22%
Loan charges & PFI	61.4	12%
Children's Services	36.4	7%
Corporate Costs	21.2	4%
Total	**344.7**	**69%**

4.3 This means that savings will require to be made across the remaining 31% of the budget, or alternatively, through raising fees and charges or Council Tax. On a pro-rata basis, £8.4m amounts to a circa 5% reduction across these remaining areas.

Service	2025/26 Budget (£m)	Share
Miscellaneous Income	(3.1)	(1%)
Children & Families	69.9	15%
Corporate Services	35.3	7%
City Development	22.2	3%
Neighbourhood Services	12.8	4%
Leisure and Culture Dundee	9.7	2%
Chief Executive's	4.6	1%
Total	**151.4**	**31%**

4.4 In the context of savings of £181m that the Council has realised since 2008, this represents a significant challenge with the level of funding needed to deliver a balanced budget is equivalent to a 12% increase in Council Tax.

4.5 A report on Transformation published by the Accounts Commission on 1 October 2024 (Transformation in councils | Audit Scotland) highlights the need for faster reform and the need for collaborative work across the public sector if Councils are to remain financially sustainable.

4.6 The nature of the savings proposals set out in this report reflect the challenge the Council faces and that resources will require to be focused on delivering its statutory responsibilities. Single year settlements, without the prospect of inflationary funding increases, mean the Council is on a trajectory that could ultimately mean it is unable to fulfil these duties and becomes financially unsustainable.

4.7 The Scottish Government published "Scotland's Fiscal Outlook, the Scottish Government's Medium-Term Financial Strategy" on 25 June 2025. This outlines the economic, funding and spending outlook for the financial years 2025-26 to 2029-30. This continued to set out some of the challenges of the previous strategy ang highlights how spending on public services in Scotland was projected to grow faster than forecast funding over the next 4 years as follows:

Overall Resource Fiscal Position 2025/26 to 2029/30

Figures in £million	2025/26	2026/27	2027/28	2028/29	2029/30
Resource Spending	52,623	54,938	57,132	59,453	61,723
Resource Funding	52,623	53,975	55,235	57,100	59,099
Fiscal Gap	-	(963)	(1,897)	(2,353)	(2,624)

4.8 The first indication of funding for the Scottish Budget will be provided by the UK Government Autumn Statement that has been announced as 26 November 25. As a consequence of the UK budget not being announced until this date, the Scottish Budget will be later than previous years. Whilst no actual date has been confirmed it is likely this announcement will now be made in late December or early January. The Scottish Budget will provide details of the overall allocation for Local Government with the detail of the Financial Settlements for individual local authorities expected the following week.

4.9 The Council's latest 10-year financial forecast (Article II of the meeting of City Governance Committee 27 February 2025, report 56-2025 refers) already assumed a very challenging outlook with a cumulative savings requirement of £61m projected over the next 10 years to balance the budget. This longer-term forecast is after assuming annual Council Tax increases of 3% per annum.

4.10 The Scottish Government's Medium-Term Financial Strategy outlined the following priorities:

- Eradicating Child Poverty;
- Sustainable Economic Growth;
- Investing in public services; and
- Transitioning to a green economy.

4.11 The full financial impact of supporting these priorities may be clearer once the settlement is announced in terms of whether any additional monies will be made available to meet any new commitments.

4.12 Members will now be aware that the current revenue monitoring report (240-2025 refers) indicates that the Council is forecasting an overspend of £6.8m in 2025/26. The forecast budget pressure predominantly sits within staffing budgets, property and childcare related commitments particularly related to early years.

4.13 It should also be highlighted this position excludes any potential share of the current reported overspend of £5m for the Health and Social Care Partnership (HSCP) and there remains a risk this may require to be partly funded by the Council if this overspend is not contained before the end of the financial year.

4.14 It should be noted that whilst the current revenue monitoring report notes the steps that are being taken by officers to address the overspend through the implementation a financial recovery plan, should the above overspend not be reduced, the level of unallocated reserves as at 31 March 2026 is projected to be £1.3m. This amount is significantly lower than minimum recommended amount of £9.9m m i.e. 2% of budgeted revenue expenditure that was recommended to members as part of the budget setting report agreed earlier this year (Article II of the meeting of City Governance Committee 27 February 2025, report 56-2025 also refers).

4.15 With the exception of any balances held for service concession flexibility, the remaining usable balances over and above this, that are all earmarked for specific purposes, are projected to be £17.4m as at 31 March 2026.

4.16 Finally, as outlined in the latest unaudited accounts for the year ended 31 March 2025 (Article XII of the meeting of Scrutiny Committee 25 June 2025, report 182-2025 refers) the Council are current evaluating a collective equal pay claim on behalf of trade unions. Whilst it is not possible to quantify any financial liability, should there be any, no specific provision has been made in these reserves in respect of any successful claim made by employees.

5 BUDGET STRATEGY

5.1 This report sets out a Budget Strategy and process to enable the Council to set a balanced budget for 2026/27 and subsequent years.

5.2 As noted in Section 4, the latest financial projections for 2026-29 indicate that savings or additional income of at least £29.1m could be required to balance the budget over this period. Key assumptions in these estimates are that inflation are as follows:

Details	2026/27	2027/28	2028/29
Pay Awards	3.5%	3%	3%
Inflation on PPP/PFI Contracts	3.5%	3%	2.5%
Scottish Government Funding	As 2025/26 (with uplift of 0.5% for pay award)	As 2026/27	As 2026/27

5.3 The above represents the realistic best-case scenario and reflects additional cost pressures of at least £8.4m in 2026/27, rising by a further minimum of £10.3m in 2027/28 and £10.4m in 2028/29. The above projections include the revenue impact of the latest 5-year Capital plan, including capital financing costs for existing projects notably investments in the school estate. No allowances for capital spend beyond the agreed 5-year capital plan to be funded from new borrowing. Our assumption is that average pooled interest rates will gradually fall from the current budgeted level of 3.85% and then stabilise at 3.5% from 2030/31 onwards. In addition, in the context of single year financial settlements and well-publicised cost pressures across the public sector, it assumes that our funding will be maintained at current levels.

5.4 A summary of other key assumptions are as follows:

- any incremental progression on salaries will be contained by services;
- additional growth provided for changes in the school estate from 2029/30 onwards;
- the full impact of the staffing reductions i.e. 100 FTE posts, that were agreed as part of the 2025/26 budget process are delivered;
- no allowance has been included in respect of Scottish Government priorities e.g. Reduced Class Contract Time, as this would require to be fully funded should this be implemented;
- no additional provision in respect of current cost pressures being faced by Dundee HSCP are included and future funding for the Partnership will continue to be flat cash;
- containment of any future energy price rises will be met through property rationalisation and other energy reduction initiatives; and
- demand and demographic changes will also be managed through prioritisation within services.

5.5 Finally, whilst the Council have agreed a timeline for early engagement on a potential visitor levy scheme (Article VI of the meeting of the Fair Work, Economic Growth and Infrastructure Committee 9 June 2025. Report 155-2025 refers), no provision has been assumed in terms of any income the implementation of such a scheme may generate.

5.6 The Council's Medium-Term Financial Strategy (MTFS) was last considered on 28 October 2024 (Article X of the meeting of City Governance Committee refers). This set out the Council's medium-term strategy and an updated strategy is included at Appendix A for approval.

6 SAVINGS OPTIONS

6.1 To provide elected members with options to support the setting of a balanced budget in February 2026, Officers are identifying potential savings that could be implemented. These can be categorised as either:

(I) operational savings/efficiencies that can be implemented without any significant impact on frontline services; or

(II) service savings that would impact on the services the Council provides.

The obligations placed on the Council in relation to equalities etc. mean that it will again be necessary to consult with the public on budget proposals in advance of the budget setting meeting to ensure that decisions taken are informed by information on the impact that they may have on individuals.

6.2 Officers are reviewing the feedback from last year's consultation exercise and will reflect on this and make any required changes to enable the process to be undertaken in a way that ensures the public fully understand these proposals and allows citizens to comment on the impact of specific proposals. Details of any options that are recommended for public consultation will be presented to a future meeting of the Council for approval.In addition, Officers are also considering:

(a) income generation, including fees and charges, with a continued focus on ensuring that the costs of service provision are fully recovered;

(b) transformational change projects; and

(c) opportunities to realise savings in staff costs (as employee costs represent the Council’s biggest element of expenditure amounting to 63% of the net revenue budget).

6.3 Leisure and Culture Dundee will also be asked to identify how savings could be realised from their management fee so that these options can be considered alongside the options identified in this paper when the Council sets its budget. This process will be informed by the review of Leisure and Culture Dundee that has recently been undertaken (Article X of minute of meeting of City Governance Committee on 19 August 2024, Report 210-2024 refers).

6.4 As appropriate further reports and information will be provided to Members.

7 OUTLINE BUDGET TIMETABLE

7.1 It is recommended that the Council notes the following key aspects of the provisional budget timetable. Members will be advised once confirmation of these dates has been received.

- **27 October:** Report to City Governance Committee on Budget Consultation Options
- **26 November 2025:** UK Autumn Statement
- **Late December / Early January 2026:** Scottish Budget
- **January 2026:** Local Government Settlement
- **19 January 2026:** Report to City Governance Committee on Financial Settlement
- **February 2026:** Council Budget and Council Tax Setting

8 POLICY IMPLICATIONS

8.1 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.

9 CONSULTATIONS

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

10 BACKGROUND PAPERS

10.1 None.

PAUL THOMSON
EXECUTIVE DIRECTOR OF CORPORATE SERVICES **5 SEPTEMBER 2025**

APPENDIX A

MEDIUM TERM FINANCIAL STRATEGY

The Council budget will be developed along the following principles:

(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) usable 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 transformation and / or 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

The Council further agreed that 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. A longer term (10 year) financial outlook will be prepared alongside the 2026/27 budget and this and the MTFS will be updated annually.