

REPORT TO: CITY GOVERNANCE COMMITTEE - 28 OCTOBER 2024
REPORT ON: BUDGET STRATEGY AND FINANCIAL OUTLOOK 2025/26
REPORT BY: EXECUTIVE DIRECTOR OF CORPORATE SERVICES
REPORT NO: 288-2024

1 PURPOSE OF REPORT

- 1.1 To present to Members medium-term financial projections and to recommend a strategy to address the projected budget shortfall for 2025/26.

2 RECOMMENDATIONS

- 2.1 It is recommended that the Committee:
- (a) notes the financial projections set out in the Report and their impact on the future ability of the Council to carry out its statutory functions;
 - (b) notes the budget savings options set out in the Report and that a report on budget consultation for 2025/26 be presented to a future meeting of the Committee;
 - (c) agrees the budget strategy set out in Section 5 of the Report; and
 - (d) notes the outline timetable set out in Section 7 of the Report.

3 FINANCIAL IMPLICATIONS

- 3.1 The Council has a duty to set a balanced budget each year. Based on the best information currently available the Council is projected to face a budget shortfall of £15.6m for 2025/26. The medium-term outlook over the three years 2025-28 indicates an estimated budget gap of £25.3m.
- 3.2 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 for 2025/26 and that pay awards will be at 2.5%.
- 3.3 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 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 64% of the Council's net budget of £469m budget is fixed as shown below.

Service	2024/25 Budget (£m)	Share
Health and Social Care	110.2	23%
Teachers	97.0	21%
Loan charges & PFI	51.1	11%
Children's Services	40.3	9%
Total	298.6	64%

- 3.4 This means that savings will require to be made from across the other services or through that make up the remaining 36% of the budget, or alternatively, through raising fees and charges. On a pro-rata basis £15.6m amounts to a 9% reduction across all these services.

Service	2024/25 Budget (£m)	Share
Corporate Costs	26.3	6%
Children & Families	62.4	13%
Corporate Services	33.6	7%
City Development	15.3	3%
Neighbourhood Services	18.9	4%
Leisure and Culture Dundee	9.2	2%
Chief Executive's	4.7	1%
Grand total	170.4	36%

- 3.5 In the context of savings of £171m that the Council has realised since 2008 this represents an exceptional challenge with the level of funding needed to deliver a balanced budget is equivalent to a 29% increase in Council Tax.
- 3.6 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.
- 3.7 The nature of the savings proposals set out in 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 increases in funding mean the Council is on a trajectory that could ultimately mean it is unable to fulfil these duties and becomes financially unsustainable.
- 3.8 This Report sets out a Budget Strategy and process to enable the Council to set a balanced budget for 2025/26 and subsequent years.

4 CONTEXT

- 4.1 Unlike recent years there has been no Fiscal Outlook published by the Scottish Government in 2024, however, discussions between COSLA and the Scottish Government in the context of pay have demonstrated the tight financial position facing Scotland. The first indication of funding for the Scottish Budget will be provided by the UK Government Autumn Statement on 30 October 2024.
- 4.2 The Scottish budget is scheduled for 4 December 2024 and will provide details of the overall allocation for Local Government with the detail of the Local Government Financial Settlement expected the following week.
- 4.3 The Council's latest 10-year financial forecast (Article II of the meeting of City Governance Committee 29 February 2024, Report 55-2024 refers) already assumed a very challenging outlook with a cumulative savings requirement of £53m projected over the next 10 years to balance the budget.
- 4.4 On 4 September 2024 the Scottish Government announced The Scottish Government's Programme for 2024/25 that outlined the following priorities:
- Eradicating Child Poverty;
 - Growing the Economy;
 - Tackling the Climate Emergency; and

- Ensuring High Quality and Sustainable Public Services.

4.5 The full financial impact of implementing these policies is not known but may be clearer once the settlement is announced in terms of whether any additional monies will be made available to meet any new commitments.

4.6 Members will be aware that the concurrent Revenue Monitoring Report (244-2024) indicates that the Council is forecasting an overspend of £4.3m in 2024/25. In addition it should be noted that the Health and Social Care partnership is forecasting an overspend in 2024/25, currently estimated at £9m, of which £4m was to planned (through the use of balances). The Integration Joint Board is presently developing a recovery plan. Other third sector partners are also reporting financial pressures.

5 BUDGET STRATEGY

5.1 The latest financial projections for 2025-28 indicate that savings of £25.3m could be required. Key assumptions in these estimates are that inflation, including pay awards reduces to 2.5% in 2025/26 and thereafter levels out at 2% and that Scottish Government funding remains at the 2024/25 level for the next three years.

5.2 The above represents the realistic best case scenario and reflects additional cost pressures of at least £15.6m in 2025/26, rising by a further minimum of £3.0m in 2026/27 and £6.7m in 2027/28. The above projections include the revenue impact of the latest 5-year Capital plan, notably investments in the school estate: East End Community Campus and Western Gateway Primary School. Our assumption is that 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.

5.3 A summary of other key assumptions are as follows:

- the Council will not undertake any new borrowing from 2028/29 onwards;
- cost and pay inflation will fall and be maintained at 2% per annum from 2026/27;
- any incremental progression on salaries will be contained by services;
- additional growth provided for the running costs of the new Western Gateway primary school from 2027/28 onwards;
- funding for the Health and Social Care 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.

5.4 The Council's Medium-Term Financial Strategy (MTFS) was last considered on 4 September 2023 (Article IV of the meeting of Policy & Resources Committee of 4 September 2023 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 Members with options to support the setting of a balanced budget in February 2025 Officers have been 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 increased obligations placed on the Council in relation to equalities etc. mean that it may 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.

Officers are therefore working to develop a more detailed budget consultation than the Council has used in the past to enable citizens to comment on the impact of specific proposals and this will be presented to a future meeting of the Council for approval.

6.2 In addition Officers are also considering:

- (a) income generation, including fees and charges, with a particular focus on ensuring that the costs of service provision are fully recovered;
- (b) transformation projects; and
- (c) opportunities to realise savings in staff costs (as employee costs represent the Council's biggest element of expenditure amounting to 60% 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 the Council is in the process of commissioning.

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 budget timetable:

- **30 October 2024:** UK Autumn Statement
- **4 December 2024:** Scottish Budget
- **w/c 9 December 2024:** Local Government Settlements
- **6 January 2025:** Report to City Governance on Financial Settlement
- **February 2025:** Council Budget and Council Tax Setting.

8 POLICY IMPLICATIONS

8.1 This report sets out a process to deliver a balanced budget for 2025/26 based on an estimated shortfall of £15.6m. This report has been subject to the Pre-IIA Screening tool, it does not make any recommendations about changes to specific services at this time, so it is not therefore possible to set out what particular services, communities or individuals would be impacted or what mitigations may be required. Any specific proposals that arise from the budget setting process will each be subject to due process, including an integrated impact assessment, as appropriate. Decisions made in the setting of the Council's budget may have an impact on services delivered by the Council and/or its partners.

9 CONSULTATIONS

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

10 BACKGROUND PAPERS

10.1 None.

ROBERT EMMOTT

EXECUTIVE DIRECTOR OF CORPORATE SERVICES

17 OCTOBER 2024

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) 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 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 (ten year) financial outlook will be prepared alongside the 2025/26 budget and this and the MTFS will be updated annually.