

Medium Term Financial Strategy – 2024/25 to 2028/29

Report by David Gladwin, Chief Financial Officer & Section 95 Officer

Report for Information

1 Recommendations

- a) Note that the Business Transformation Steering Group (BTSG) will continue to consider necessary measures to support delivery of a balanced Medium Term Financial Strategy (MTFS) before any policy recommendations are presented to Council.
- b) Note that the financial outlook remains challenging for this term of Council and recall the recommendation in the External Auditors report in 2022 that *“as a matter of urgency, officers and elected members need to work together to develop and agree the medium-term financial strategy and progress the Council’s transformation plans”*.
- c) Note that the projected budget gap for 2024/25, as presented to Council on 10th October 2023, incorporating planned use of service concession retrospection was projected to be £7.272 million, rising to a projected £34.677 million by 2028/29.
- d) Note the position relating to the UK Government’s Autumn Statement and the expected impact on the Scottish Budget.
- e) Note the update on Employer Pension contributions.
- f) Otherwise, note the remainder of the report.

2 Purpose of Report / Executive Summary

- 2.1 This report provides Council with an update on development of the 2024/25 revenue budget, building on the report presented to Council on 10th October 2023 and looking ahead to Member engagement early in 2024 culminating in Council setting a balanced budget on Tuesday 27th February 2024.
- 2.2 Key messages from recent UK and Scottish Government fiscal events are outlined along with the possible implications of these on the Scottish Government Budget for 2024/25 which is scheduled for Tuesday 19th December 2023.
- 2.3 Recent developments relating to Employers Pension contributions for all groups of workers is discussed and the implications of these will be reflected in the projected 2024/25 base budget position and the remainder of the existing MTFS.

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3 Background / Main Body of Report

- 3.1 The aim of the MTFS is to provide a multiyear financial strategy aligned to the Council's Strategic Plans. It seeks to support the Council in fulfilling its statutory duty to set a balanced budget and determine Council Tax levels annually with a key aspect being ongoing financial sustainability for the Council where recurring costs are matched by recurring income.
- 3.2 Council considered the MTFS on 21st February 2023 where a range of measures were approved to balance the 2023/24 budget with Council Tax for the year set at a Band D rate of £1,514.73, a 5% increase on the 2022/23 level. Measures included non-recurring elements of a £1.166 million use of covid recovery reserve and a £4.093 million use of backdated service concession savings.
- 3.3 A further MTFS report, outlining updated projections of a budget gap of £7.272 million in 2024/25 rising to £34.677 million by 2028/29, was presented to Council on 10th October 2023.
- 3.4 Officers continue to progress work embedded in the Transformation Blueprint approved by Council on 27th June 2023. Updates are being provided to BTSG as quickly as possible.

Base Budget Development

- 3.5 The Finance team, supported by colleagues across the Council, are progressing work on the Base budget. Significant areas of work include pay award costs, the impact of recent pension announcements, inflationary pressures, a review of income targets and Council Tax income.
- 3.6 Detailed work on Scottish Government Grant for 2024/25 will flow from the Scottish Government Budget planned for 19th December 2023. It is expected to see key funding commitments made by the Scottish Government embedded in grant for 2024/25 including ongoing funding for pay awards, adequate cash to support a Council Tax freeze and full funding for the increase in Employer Pension contributions for teachers.
- 3.7 The published results from the 2022 census will result in a refresh of some of the indicators used in Scottish Government Grant calculations with an improved relative position for Midlothian Council expected. The floor for 2024/25 has not yet been set and there remains a risk that a high proportion of distributional gains will be lost when the floor is applied.

UK and Scottish Government announcements

- 3.8 On the 17th October 2023 the First Minister announced that Council Tax is to be frozen for financial year 2024/25. Discussions are ongoing

between Councils and Government on the precise details of this particularly on the level of financial support the Scottish Government will provide to Councils. The average Council Tax rise across Scotland in 2023/24 was 5.3%. Midlothian's increased by 5%.

- 3.9 On Tuesday 21st November 2023, in a letter to the Finance and Public Administration Committee from the Deputy First Minister of Scotland, a list of in-year Scottish Government budget adjustments were outlined to balance in-year 2023/24 pressures including funding for pay and higher than expected impacts of inflation. Budgetary revisions covered a wide range of portfolios totalling £680.3 million, of which £391.4 million is revenue and £288.9 million capital.
- 3.10 On Wednesday 22nd November the UK Government published their Autumn Statement and accompanying Office of Budget Responsibility Forecasts. Analysis by the Scottish Parliament Information Centre (SPICe) indicates that UK government spending will remain tight in the medium term with small real term increases in revenue budgets forecast. Capital budgets are forecast to remain cash flat to 2028/29.
- 3.11 Focussing on the direct impact on Scottish Budgets it is estimated that £545 million of Barnett consequential funding will now flow. £223 million of these will be seen in 2023/24 with the remainder in 2024/25. The Barnett formula is a mechanism used by the UK Treasury to automatically adjust the amounts of public expenditure allocated to Northern Ireland, Scotland and Wales to reflect changes in spending levels allocated to public services in England, Scotland and Wales as appropriate. The main changes that drive the increased allocation to Scotland are UK policy decisions on funding the pay award for the NHS in England and continued business rate relief in England for the retail, hospitality and leisure sectors.

Council Tax and National Non-Domestic Rates legislation

- 3.12 Devolution to Councils of Non-Domestic Rates Empty Property Relief (EPR) provides Councils with power to end or reduce existing discounts for buildings that have been empty for six months. A paper on this is on today's agenda at item 8.4.
- 3.13 A Scotland-wide consultation on Council Tax for second homes and empty properties closed on 11th July 2023. Legislation has now been passed to allow a doubling of the full rate of Council Tax on second homes and bring this into line with long-term empty premises. This may give rise to additional income depending on the extent of any changes to existing Council policy. Officer work on this area will be presented to BTSG in January 2024.
- 3.14 Consultation on Council Tax Multipliers has closed with potential revisions to existing Council Tax multipliers of between 7.5% (band E) and 22.5% (band H). Implementation would be Scotland-wide with the decision out with the Council's direct control. If this was implemented from 24/25 on an equal phased basis for three years approximately

£1.2 million additional Council Tax per annum would be raised but there may be a dampening impact through calculation of Scottish Government Grant.

Fees and Charges

- 3.15 A review of existing fees and charges is underway. This will be concluded early in 2024 and reported to BTSG. A recommendation will be made on an appropriate defined measure of inflation that can simply be applied to a wide range of charges on a recurring annual basis.

Employer Pension Contributions

- 3.16 On 14th November 2023 a letter was received from the Scottish Public Pensions Agency (SPPA) indicating an increase in the employer contribution rate to 26% from 23%. This applies to all teachers employed by Councils that are members of the occupational pension scheme. The principal reason for the increase was described as the impact of the UK Government's decision to reduce the Superannuation Contributions Adjusted for Past Experience (SCAPE) discount rate. This increased rate will result in a significant cost increase for Councils but, in the Chief Secretary to the Treasury's statement announcing the change, the UK Government committed to providing funding for increases and, for Scotland, the Barnett formula will apply. It is expected that funding will flow through the Local Government Finance Settlement but there is a risk that funding will only partially meet the additional cost thus adding to existing budget gaps.
- 3.17 Draft results from the triennial revaluation of Lothian Pension Fund (LPF) were received on 24th November. These will be presented to the Pension Committee on Tuesday 5th December as part of the Funding Strategy Statement for the next three years, prior to a period of consultation and a final decision in March 2024. The funding position of LPF as at 31st March 2023 is 157% (assets as a percentage of liabilities). At 31st March 2020 the funding position was 104%.
- 3.18 The Funding Strategy Statement will recommend suspension of the Contribution Stability Mechanism which currently allows for an annual 0.5% increase or decrease in employer percentage contributions. It will also recommend contribution rates for financial years 2024/25 – 2026/27 for individual employers. Draft results indicate a significant decrease from the current rate of 22.2% to 17.6% for Midlothian Council for all three years. If approved this will significantly improve cost projections from current. The financial impact is being assessed alongside recently agreed pay awards and will be presented to Members early in 2024 in the final base budget.

Midlothian Integration Joint Board (MIJB)

- 3.19 The Chief Officer and the Chief Financial Officer of MIJB are being kept updated on the Council's budget position and have also shared the Board's own challenging financial forecasts both in 2023/24 and

looking forward. Officer discussion will continue during the base budget development phase and will feed into BTSG discussions once the base budget is complete and full details of the Scottish Government Grant settlement are known.

4 Report Implications (Resource, Digital and Risk)

4.1 Resource

Whilst this report deals with financial issues there are no financial implications arising directly from it.

4.2 Digital

The adoption of digital solutions is a central strand of the MTFS.

4.3 Risk

Within any financial projections there are inherent risks in making assumptions to arrive at figures and also a risk of costs changing significantly or new pressures emerging.

The following key risks and issues are highlighted in the context of this report:

- Uncertainty over the Scottish Government's and Council's financial position.
- The economic outlook and decision by Scottish Government on future years grant settlements and grant distribution.
- Impact of further UK Government budget announcements and any associated policy revision.
- The risk to service provision and service users associated with a continued decline in available resources to fund services.
- Future years Public Sector pay policy and current and future year pay award settlements.
- Actual school rolls varying from those provided for in the budget.
- The impact of the wider economic climate on range of factors including: inflation, interest rates, employment, tax and income levels and service demands.
- Cost pressures, particularly demographic demand, exceeding budget estimates.
- The reform of public services and the implications for the National Care Service (Scotland) Bill.
- The impact of any changes to benefits.
- The cost of implementing national policies varying from resources provided by Government.
- Potential liabilities arising from historic child abuse.
- The financial sustainability of MIJB.
- The affordability of borrowing to support capital investment; and

- Ability to continue to meet the expectations of communities within a period of fiscal constraint.

Developing and updating a MTFS is key to support the mitigation of a number of these risks by setting out the key assumptions on which forward plans are based.

The risk of not having a balanced MTFS is the potential elimination of available reserves, which in turn would severely limit the Council's ability to deal with unforeseen or unplanned events and also the imposition of significant cuts at short notice with limited opportunity for consultation. Early agreement of the measures required to balance the 2024/25 budget is crucial.

4.4 Ensuring Equalities (if required a separate IIA must be completed)

The MTFS together with the resource allocation measures which will support financial sustainability will, as far as the constraint on resources allow, be developed within the context of the Council's priorities, ensuring as far as possible that resources are directed towards the key priorities of reducing inequalities in learning, health and economic circumstance outcomes.

The MTFS will continue, as far as is possible, to reflect Midlothian Council's commitment to the ethos of the Equality Act 2010 with careful consideration of the interests of the most vulnerable in our communities through the preparation of equality impact assessments.

Individual EQIA's will be published in respect of future policy savings measures and an overarching EQIA will be published alongside the MTFS report presented to the Council meeting in February 2024.

4.5 Additional Report Implications (See Appendix A)

See Appendix A

Appendices

Appendix A – Additional Report Implications

APPENDIX A – Report Implications

A.1 Key Priorities within the Single Midlothian Plan

The MTFS facilitates decisions on how Council allocates and uses its available resources and as such has fundamental implications for delivery of the key priorities in the Single Midlothian Plan. It helps ensure that resources are available to continue to delivery key priorities.

A.2 Key Drivers for Change

Key drivers addressed in this report:

- ☒ Holistic Working
- ☒ Hub and Spoke
- ☒ Modern
- ☒ Sustainable
- ☒ Transformational
- ☒ Preventative
- ☒ Asset-based
- ☒ Continuous Improvement
- ☒ One size fits one
- ☐ None of the above

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

- ☒ One Council Working with you, for you
- ☒ Preventative and Sustainable
- ☒ Efficient and Modern
- ☒ Innovative and Ambitious
- ☐ None of the above

A.4 Delivering Best Value

The report does not directly impact on delivering Best Value.

A.5 Involving Communities and Other Stakeholders

The development of the MTFS provides for public engagement.

In addition, there has been and will continue to be, engagement with the recognised Trade Unions on the Council's financial position and the development of the MTFS.

A.6 Impact on Performance and Outcomes

The MTFS facilitates decisions on how the Council allocates and uses its available resources and as such has fundamental implications for service performance and outcomes. The financial consequences of the

pandemic have impacted on the availability and allocation of resources in pursuit of key outcomes as set out in the Single Midlothian Plan for both the immediate and longer term and therefore the ability of the Council to continue to deliver services in a financial sustainable manner.

A.7 Adopting a Preventative Approach

An effective Strategic plan supported by a MTFS will support the prioritisation of resources to support prevention activities.

A.8 Supporting Sustainable Development

There are no direct sustainability issues arising from this report and work will take place to mitigate any sustainability issues which arise as a consequence of the MTFS.