

**Medium Term Financial Strategy – 2025/26 to 2028/29****Report by David Gladwin Chief Financial Officer and Section 95 Officer****Report for Information****1 Recommendations**

- a) Note that the Business Transformation Steering Group (BTSG) will continue to consider measures necessary to support delivery of a balanced Medium Term Financial Strategy (MTFS) before any policy measures are presented to Council.
- b) Note that the financial outlook remains challenging for this term of Council and note the recommendation of the external Auditor 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 the MTFS planning assumptions set out in the report (section 4.2).
- d) Note the planned engagement on demographic pressures relating to Additional Support Needs (ASN) and transitions to adult services (section 4.4).
- e) Note that the budget gap for 2025/26, incorporating the planned use of service concession retrospection and a 5% annual Council Tax increase is projected to be £9.406 million, rising to a projected £20.645 million by 2028/29 (section 4.1).
- f) Note the urgent need to finalise savings proposals, many of which will involve extremely difficult choices, to achieve equilibrium between expenditure and income (sections 5.6 and 5.7); and
- g) Otherwise note the remainder of the report.

**Date: 11<sup>th</sup> June 2024****Report Contact:**

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## **2 Purpose of Report / Executive Summary**

- 2.1 The report sets out the outcome of a recent review of the Council's financial planning assumptions pointing to an increased budget gap of £9.406 million in 2025/26 rising to £20.645 million by 2028/29.
- 2.2 Pressure on budgets across the public sector is severe and as the fastest growing Local Authority in Scotland the impact is intensified in Midlothian. Recently published census information shows a 16.1% population growth in Midlothian between 2011 and 2022. This was 3.4% more than the 2<sup>nd</sup> highest growth figure with sustained growth seen in the Central belt. Population projections show a continued high level of growth in Midlothian through to 2043.
- 2.3 There is a significant funding gap that will impact on what services the Council can continue to deliver and how they are delivered. Reprioritisation and redesign is crucial to balancing the MTFs and urgent action is needed.

## **3 Medium Term Financial Strategy 2025/26 to 2028/29 - Background**

- 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 last considered the MTFs on 27 February 2024 where the 2024/25 budget was approved. To reach a balanced budget, approval was granted for a freeze in Council Tax levels for 2024/25, use of £4.093 million of service concession retrospection and a £2.680 million use of Reserves.

### Population Growth

- 3.3 Edinburgh and the South East Region is Scotland's fastest growing and it is forecast that this trend will continue. Between 2011 and the 2022 Census the three Local Authorities with the fastest growing population were:
- Midlothian – 16.1%
  - East Lothian – 12.7%
  - City of Edinburgh Council – 7.6%.
- 3.4 According to National Records of Scotland (NRS) published projections the population in Edinburgh and the South East Region will rise by a further 9.1% to 2043. This is in contrast to a 2.5% population growth rate for Scotland. In terms of increased households figures equate to an 18% increase for the former and a 10% increase nationally.
- 3.5 A more detailed look at the NRS projections show a population growth in Midlothian of over 30% during this period with the next highest Local Authority area at approximately 15%.

- 3.6 Analysis of Scottish Government Funding for Councils in 2024/25, as shown in Finance Circular 8/2023 published in December 2023, shows an average per capita level of funding in Scotland of £2,368.81. All six councils in south east Scotland receive per capita funding below the national average. Midlothian's figure is £2,266.10 and is amongst the lowest in Scotland.

#### Economic Commentary

- 3.7 In terms of economic growth measured by Gross Domestic Product (GDP) a range of economic commentators anticipate growth of approximately 0.4% in 2024 with a modest increase to around 1% in 2025. Longer term prospects remain relatively flat.
- 3.8 The last published inflation figures at the time of writing this report were for April 2024. Consumer Price Index (CPI) fell by 0.9% from March figures to 2.3%. However, within that figure remain some erratic and stubbornly high areas like energy (5.9%) and food (3.9%).
- 3.9 Interest rates are now expected to reduce slightly late in 2024, followed by further reductions during 2025. A rate of 3.25% thereafter is seen as the equilibrium rate consistent with inflation targets.
- 3.10 Wage increases have outstripped inflation in recent times. The Scottish Government published their Public Sector Pay Policy for 2024/25 which runs through to 2026/27 with an annual pay metric of 3% per annum.
- 3.11 The election of a new UK Government may bring significant changes to current government policy and priorities and this in turn will result in a refreshed economic policy.
- 3.12 The Scottish Government are due to publish their own Medium Term Financial Strategy, including an update on draft tax strategy, on Thursday 20<sup>th</sup> June. The new First Minister has been clear on two main priorities of ending child poverty and growing the economy. Making significant headway with these, particularly the former, will require investment. At this point it is unclear what impact that investment will have on tax policy and re-prioritisation of other budgets.

## 4 Budget Projections

- 4.1 MTFS Budget projections were last presented to Council in February 2024. Projections have been re-worked based on updated data and assumptions. Revised figures are shown in table 1 below.

Table 1: MTFS Projected Gap to 2028/29

	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
<b>Opening Budget Gap</b>		<b>9.406</b>	<b>13.045</b>	<b>14.776</b>
Use of Reserves to balance the 2024/25 budget	2.680			
Retrospective Service concessions	4.093	4.093	4.093	4.091
Share of £62.7m additional consequentials	(1.083)			
<b>Revised Opening Budget Gap</b>	<b>5.690</b>	<b>13.499</b>	<b>17.138</b>	<b>18.867</b>
Pay Inflation	5.071	4.142	4.225	4.309
Utilities and other Contractual inflation	1.907	1.565	1.596	1.627
Provision for School Roll Increases	1.000	1.000	1.000	1.000

Loan Charges	4.713	2.347	0.369	0.811
Council Tax Band D number increase (net of Council Tax Reduction increase)	(0.844)	(1.175)	(1.234)	(1.295)
Other	0.166	(0.445)	(0.385)	(0.557)
<b>Gross Gap</b>	<b>17.703</b>	<b>20.993</b>	<b>22.709</b>	<b>24.762</b>
Full year impact of 23/24 approved savings measures	(0.867)	(0.212)	0.000	0.000
<b>Gap after savings</b>	<b>16.836</b>	<b>20.721</b>	<b>22.709</b>	<b>24.762</b>
Council Tax Rate increase (5%)	(3.337)	(3.583)	(3.842)	(4.117)
<b>Gap after Council Tax increase of 5%</b>	<b>13.499</b>	<b>17.138</b>	<b>18.867</b>	<b>20.645</b>
Retrospective Service Concessions	(4.093)	(4.093)	(4.091)	0.000
<b>Budget Gap to be addressed</b>	<b>9.406</b>	<b>13.045</b>	<b>14.776</b>	<b>20.645</b>

4.2 Projections are based on some key planning assumptions which will undoubtedly change due to economic factors, Scottish Government funding decisions, pay awards and local cost pressures. The main assumptions included in the figures above are:

- A flat cash Scottish Government Grant settlement to support existing services and an assumption that any new or enhanced Scottish Government policy requirement will be fully funded. It is likely that Midlothian will see an increasing share of the national funding pot as its population continues to grow but it remains unclear how much of this increase will be lost through the funding floor. A 1% increase in Scottish Government Grant would yield approximately £2.3 million.
- Pay Inflation – 2.5% in 2025/26 and 2% thereafter. This is based on the working assumption that any pay award in excess of this will be funded by the Scottish Government. Every 1% increase equates to a change of approximately £2 million.
- A continuation of the Employers Superannuation contribution rate (excluding Teachers) at 17.6%. The next triennial revaluation is due in 2026 and may provide opportunity to further reduce contribution rates.
- Council Tax Band D – assumed 5% increase per annum. Every subsequent increase of 1% will generate approximately £0.670m of additional income.
- Inflation provision for contracts where inflation uplifts are an integral part.
- A general provision for demographic growth in learning settings.
- Borrowing costs in-line with the most up to date approved version of the General Services Capital Plan.
- Full delivery of savings measures previously approved by Council.
- An increase in funding provided to Midlothian Integration Joint Board (MIJB) to cover pay increases and inflationary costs.

4.3 The main areas of sensitivity are outlined in table 2 below.

Table 2: Impact on MTFS of changing assumptions

<b>Budget Area</b>	<b>Change</b>	<b>Impact on budget gap (£m)</b>
Scottish Government Grant	1%	+/- 2.275
Council Tax	1%	+/- 0.670
Pay	1%	+/- 2.028
Contractual Inflation	1%	+/- 0.763
MIJB Funding	Flat Cash	- 1.128

4.4 Council and MIJB expenditure in recent years have shown rapidly rising Additional Support Needs (ASN) costs for young people and for those transitioning to adult services. Whilst existing budgets provide for the current level of service the MTFS does not provide for an increase. It is recognised that data in this area needs to be better developed, understood and communicated. To this end, a session with elected members will be scheduled for after the summer recess.

4.5 Assumptions will all be reviewed and updated as we move through the budget process and Members will be updated on a regular basis.

Scottish Government Funding

4.6 The Scottish Government will publish its Medium Term Financial Strategy on Thursday 20th June 2024. This will be a look ahead at the trajectory for Scotland's public spending and government spending priorities with forecasts produced by the Scottish Fiscal Commission. It remains unknown when Councils will be advised of funding through the Local Government Finance Settlement. Initial figures are normally provided in December with near final figures late-January the following year.

4.7 It is clear from commentary that the Scottish Government face a challenging public finance outlook driven by rising demand and cost pressures and that all areas of the public sector are seeing difficult financial challenges.

Scottish Government / COSLA Partnership Agreement

4.8 On 30<sup>th</sup> June 2023 COSLA and the Scottish Government signed a new Partnership Agreement (the Verity House Agreement) setting out a vision for a more collaborative approach to delivering a number of shared priorities. The agreement includes a commitment to improved budgetary engagement and specifically agreement, by September 2023, of a principle-based fiscal framework between the Scottish Government and Local Government.

- 4.9 Discussions on facets of the Verity House Agreement continue with limited tangible impact to date on the flexibility that Councils require to help tackle severe financial challenges in a way that fits with local priorities.

## **5 Measures to Balance the Medium Term Financial Strategy**

- 5.1 As part of the 2023/24 budget setting process, Council on 21<sup>st</sup> February 2023 were presented with a range of savings measures for consideration. Not all of these were supported by Council at the time and are now consumed into the Council Transformation Blueprint. The unsupported value in year one is a saving of £3.440 million, rising to £4.960 million in subsequent years.
- 5.2 Council on 27 June 2023 approved the Council Transformation Blueprint. The five themes are:
- Following the Money.
  - 21<sup>st</sup> Century Workforce.
  - Commercialisation and Income Generation
  - Workplaces of the Future.
  - Multi-Agency Transformation.
- 5.3 Work on the blueprint involves a series of short and focused projects, described as sprints, to be phased over several years. Appendix 1 contains the latest version of the dashboard that is managed by the Business Transformation Board and subsequently shared with BTSG as a matter of course.
- 5.4 It is clear that work on the blueprint is progressing and in some areas there is a strong likelihood of achieving cost savings or generating additional income which will contribute to bridging the 2025/26 budget gap. However, at this point it is too early to attach a value to this work and although there will be some operational efficiencies which can be delivered without requiring approval from Council it remains the case that much of the delivery will require elected member approval.
- 5.5 Based on the projected budget gap for 2025/26 and the range of savings measures that are currently in play, it is clear that, in the absence of significant additional government funding, savings emanating from the Transformation Blueprint will not be sufficient, at least in the short-term, to plug budget gaps.
- 5.6 The Corporate Management Team discussed this challenge on Wednesday 29<sup>th</sup> May and have agreed to work up, with a high degree of urgency, further savings options for consideration. Included will be non-statutory areas of service that Council could withdraw from, areas of service that could be reduced to a statutory minimum level and a tightening of minimum service standards.
- 5.7 Senior officers are tasked with developing options to allow member engagement at BTSG to start soon after the summer recess.

## 6 Next Steps

- 6.1 Public engagement will take place at the appropriate point on new savings options with the outcome reported back to Council. Engagement will continue throughout with recognised Trade Unions.
- 6.2 Outline Timetable for the 2025/26 Budget and Setting Council Tax

### Council – Tuesday 25<sup>th</sup> June

- MTFS Update (this paper)
- Transport Transformation Update

### BTSG – Monday 19<sup>th</sup> August

- Transformation Blueprint dashboard
- Contract Management
- One-stop shops and Libraries Asset Management Plan
- Digital Transformation Strategy
- Building Maintenance Services Phase 1
- Early discussion on further savings measures

### Council – Tuesday 27<sup>th</sup> August

- Digital Transformation Strategy

### BTSG – Monday 30<sup>th</sup> September

- Transformation Blueprint dashboard
- Full discussion on savings measures

### Council – Tuesday 8<sup>th</sup> October

- MTFS Update

### BTSG – Monday 4<sup>th</sup> November

- Transformation Blueprint dashboard
- Agree Savings Measure to progress to Council for decision

### Council – Tuesday 12<sup>th</sup> November

- BTSG recommendations

### BTSG – Monday 3<sup>rd</sup> December

- Transformation Blueprint dashboard
- Agree Savings Measure to progress to Council for decision
- Update on MTFS projections
- Commentary on Scottish Government Budget (if possible)

### Council – Tuesday 17<sup>th</sup> December

- BTSG recommendations
- Update on MTFS projections / Base Budget work
- Commentary on Scottish Government Budget
- Commentary on Local Government Finance Settlement (if possible)

BTSG – Tuesday 14<sup>th</sup> January

- Transformation Blueprint dashboard
- Large Grants report
- Consideration of savings measures
- Update on Base Budget (near final gap)
- Commentary on Local Government Finance Settlement

BTSG – Monday 17<sup>th</sup> February

- Consideration of final budget savings options
- Consideration of Council Tax position
- Final Base Budget
- Final Local Government Finance Settlement

Council – Tuesday 25<sup>th</sup> February

- Large Grants
- BTSG recommendations on savings options
- BTSG recommendation on Council Tax.

The scheduled meetings of the Business Transformation Steering Group and Council will support the approval of the MTFS and decisions required to finalise the 2025/26 budget at Council on 25<sup>th</sup> February 2025.

As Council Tax funds the gap between expected income and expenditure, it is necessary to first identify the proposed expenditure to determine the resulting gap that Council Tax needs to fund. If no other action is taken to redress any shortfall, then the Council Tax has to be set at a rate that will do so, otherwise the budget will not balance. Accordingly, Council Tax decisions should not be taken in advance of other budget decisions.

### **6.3 Midlothian Integration Joint Board**

The Chief Officer and Chief Financial Officer of the MIJB will continue to be kept updated on the Council's budget position and are engaged in the development of the MTFS.

The planning assumptions for the indicative budget to be delegated to MIJB for 2025/26 together with future years indicative allocations have been prepared based on a funding increase for pay and contractual inflation. However, it will only be possible to formulate a formal offer for the IJB once the annual grant settlement is available and the quantum of any additional monies for delegated activities and any conditions attached to the settlement are known.

MIJB overspent in 2023/24 and is working through a financial recovery plan to keep 2024/25 costs within budget. Failure to do so brings further risk to partner budgets.

BTSG will be asked to consider the formal offer arising from the settlement when it meets in January 2025 and this will inform part of the final budget recommendations to Council.



## **7 Report Implications (Resource, Digital and Risk)**

### **7.1 Resource**

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

### **7.2 Digital**

The adoption of digital solutions is a central strand of the Medium Term Financial Strategy.

### **7.3 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 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 2025/26 budget is crucial.

#### **7.4 Ensuring Equalities**

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 2025.

#### **7.5 Additional Report Implications**

See Appendix A

### **Appendices**

#### **APPENDIX A – Report Implications**

#### **Appendix B – Transformation Blueprint Progress Report**

### **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.

