

Medium Term Financial Strategy – 2022/23 Budget**Report by Gary Fairley, Chief Officer Corporate Solutions****Report for Decision****1 Recommendations**

Council is recommended to; -

- a) Note that at its meetings of 24 and 31 January and 2 February 2022 the Business Transformation Steering Group gave consideration to recommendations to Council to enable Council to fulfil its statutory duty, as set out in Section 93 of the Local Government Finance Act 1992 (as amended), namely to set Council Tax and a Balanced Budget for 2022/23;
- b) Consider the recommendations from the Business Transformation Steering Group meeting on 2 February 2022 that Council approves:-
 - i. The deferment of debt repayments in 2021/22 & 2022/23 to secure £6.358 million to support the 2022/23 budget;
 - ii. The utilisation of £2 million from uncommitted earmarked reserves to support the 2022/23 budget ;
 - iii. An allocation of £56.438 million to the Midlothian Integration Joint Board for 2022/23 in respect of delegated services (subject to final confirmation of the quantum and distribution of funding for new burdens);
- c) Note that after incorporating the measures in recommendation b) that the remaining budget gap for 2022/23 would be £1.369 million;
- d) In the absence of recommendations from Business Transformation Steering Group to address the remaining budget gap Council is recommended to;-
 - i. Approve the 2022/23 service budgets as set out in appendix D; and
 - ii. As a consequence set a Band D Council Tax for 2022/23 of £1,442.60 as set out in appendix F;
- e) Otherwise note the update in respect of Scottish Government grant, individual Council grant settlements and the net cost of services as set out in the report;
- f) Delegate authority to the Chief Officer Corporate Solutions to determine if it is preferential to use the fiscal flexibility of a Loan Repayment Holiday in 2022/23 should the Statutory Instrument route be adopted by Scottish Government. In such circumstances the use of the Loans Fund review would be utilised in 2021/22 to

create reserves to utilise to support the 2022/23 budget as part of the options noted in recommendation b);

- g) In considering the recommendations above in respect of the 2022/23 budget also consider the overarching EQIA published alongside this report.

2 Purpose of Report/Executive Summary

The approval of the Medium Term Financial Strategy in June 2019 was an important step-change and one that provided greater certainty for local communities and for employees. It allowed the Council to shift from having to consider savings every year at February Council meetings to planning for the medium term and in turn securing continued financial sustainability.

As a result, the approval of the Medium Term Financial Strategy and, on the recommendation of the Business Transformation Steering Group, the subsequent approval of the 2020/21 & 2021/22 budgets ensured that the Council secured strategic budgets which invested in Midlothian to help it fulfil its potential to be a great place to grow.

The Medium Term Financial Strategy also provided a strong foundation on which the Council has been able to build its response to the financial impact of the COVID pandemic. It is against this backdrop that a corporate solution for 2022/23 was also developed to support the delivery of the last budget to be determined during the remaining term of this Council.

The Business Transformation Steering Group had previously considered and endorsed the key budget planning assumptions in respect of pay inflation, government grant and Council Tax and the corporate solution for 2022/23.

This report now facilitates the finalisation of decisions in respect of the 2022/23 revenue budget following the publication of the Scottish Government budget, Council grant settlements and the subsequent addition to the grant settlement of £120 million of non-recurring funding announced on 27 January 2022. The report enables Council to fulfil its statutory duty, as set out in Section 93 of the Local Government Finance Act 1992 (as amended), namely to set its Council Tax and a balanced budget for 2022/23, and as part of that agree a formal funding offer for the Midlothian Integration Joint Board.

At its meetings on 24 January and 31 January and 2 February 2022 the Business Transformation Steering Group gave consideration to recommendations to Council to enable Council to fulfil its statutory duty. After incorporating the recommendations made by the Group the remaining budget gap for 2022/23 would be £1.369 million. In the absence of any further recommendations from Business Transformation Steering Group, it is recommended that the remaining budget gap be addressed by setting a Band D Council Tax for 2022/23 of £1,442.60.

Members are advised that it would not be prudent to utilise further reserves to balance the 2022/23 budget. To do so would diminish the Council's financial sustainability at a time when the longer-term financial impact of Covid remains unclear, when inflationary pressures are increasing and against the backdrop of a challenging financial outlook for Local Government. In contrast the recommended increase in Council Tax would generate a recurring source of funding to support service provision in 2022/23 and beyond.

Date: 4 February 2022

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3 Background

Council last considered an update on the Medium Term Financial Strategy on 14 December 2021 where it agreed to note the update in respect of the 2022/23 budget and received a verbal update on the Scottish Government's budget announcement.

The Scottish Government's draft budget for 2022/23 was published on 9 December 2021 with the proposed Local Government Settlement then set out in Finance Circular 9/2021 published on 20 December 2021.

The Budget (Scotland) Bill has commenced its progress through the Scottish Parliament with Stage 1 (general principles) on 27 January, Stage 2 (amendments) on 2 February and Stage 3 (amendments, debate and final vote) scheduled for 10 February. The Local Government Finance (Scotland) Order 2022 is provisionally scheduled to be presented to Parliament on 24 February, after the Parliamentary recess.

On 27th January 2022 The Cabinet Secretary for Finance and Economy announced an addition of £120 million of non-recurring funding for the Local Government settlement. Details of which are set out in Appendix B, The Cabinet Secretary's letter to Councillor Macgregor the COSLA resources spokesperson.

Recognising the cooperation agreement between the SNP and Scottish Green Party it is not anticipated that there will be further changes to the Budget (Scotland) Bill or local government settlement as the Bill and Order pass through the parliamentary process.

The Local Government Finance Act 1992 sets a statutory deadline of 11 March by which Council is required to determine a budget and set Council Tax and for the year ahead. The practicalities of billing arrangements to ensure direct debits can be collected for April 2022 means that, for practical purposes, Council Tax decisions need to be made at today's meeting and certainly no later than the end of February 2022.

4 Corporate Solution for the 2022/23 Budget

As reported on 14 December 2021 the Business Transformation Steering Group considered and endorsed the key budget planning assumptions in respect of pay inflation, government grant and Council Tax and also the corporate solution for 2022/23.

The options presented to Business Transformation Steering Group reflected amendments recommended to that corporate solution because of the adverse impact of the Scottish Government grant settlement and the associated conditions attached to the settlement together with the completion of the detailed review of service budgets.

The principal amendments to the corporate solution arising from the grant settlement compared to planning assumptions endorsed by Business Transformation Steering Group are as follows:-

- a) Incorporating Midlothian's share of £802 million of new monies for additional burdens and spending priorities. Midlothian share, which is estimated at £12.728 million is fully allocated to fund additional spending commitments.
- b) Additional service budget pressures in respect of the increase in employers National Insurance Contributions and revisions to The Council Tax Reduction Regulations have not been specifically funded by Scottish Government. Nationally these additional costs are estimated at £70 million and £19 million respectively. The unfunded costs for service budgets are £1 million and £0.300 million respectively.
- c) After accounting for these new burdens, service budget pressures and the additional non-recurring funding announced on 27 January 2022, there is a small cash increase of £20 million in the overall local government settlement. This contrasts the budget planning assumption endorsed by Business Transformation Steering Group of a cash flat settlement in respect of the core budget. This small increase equates to £0.3 million more grant support than had been previously anticipated for 2022/23 albeit £2 million of this is non-recurring funding, i.e. it is for 2022/23 only.
- d) As the fastest growing Council the budget planning assumptions were predicated on an increase in the share of the overall grant settlement. However in determining the local government settlement for 2022/23 The Cabinet Secretary for Finance and Economy has determined that the floor adjustment mechanism in the settlement process should be set at -0.25% "to give maximum stability". Before the floor adjustment Midlothian would have secured a 2.21% increase across the Grant Aided Expenditure assessments. The floor reduces this to 0.02% and as a consequence for 2022/23 Midlothian will contribute £3.088 million to the floor. This results in an adverse variation compared to planning assumptions of £1.5 million.
- e) Scottish Government have reduced the quantum for Early Learning and Childcare by £23.9 million (of which £8.9 million was allocated to fund deferral pilots across ten Councils). At the same time, a distribution basis has been adopted to replace the original multiyear funding arrangement. The impact of both of these is a year on year reduction of £1.584 million in funding for Early Learning and Childcare. The distribution element of the reduction being transitioned over three years and so the net reduction for 2022/23 is £0.882 million.
- f) In announcing funding of £554 million for Health and Social Care Scottish Government set a requirement that Local Authority social care budgets for allocation to Integration Authorities must be at least £554 million greater than 2021/22 recurring budgets. As

recommended by the Business Transformation Steering Group the proposed budget allocation to the Midlothian Integration Joint Board for 2022/23 has been amended in line with this requirement.

- g) The settlement has no conditions in respect of setting Council Tax giving Councils full flexibility over setting Council Tax levels for 2022/23.
- h) Alongside the budget, the Scottish Government published its Scottish Public Sector Pay Policy for 2022/23. Although this policy does not directly apply to the local government workforce, it never the less sets expectation in terms of pay negotiations. The initial assessment would indicate that to budget for pay awards in line with the Scottish Public Sector Pay Policy would equate to a 2.79% provision for Scottish Joint Council for Local Government Employees (SJC) and a 1.27% for Teachers and others on Scottish Negotiating Committee for Teachers (SNCT) conditions. The planning assumption endorsed by Business Transformation Steering Group provided for an average uplift in the paybill of 2.5% and this provision continues to be provided for in the 2022/23 service budgets.

Because of the grant variations, the budget gap of £9.222 million increased to £11.429 million which is partly reduced by the recommended revision to the budget allocation to the Midlothian Integrated Joint Board. This gives rise to a budget gap of £9.727 million so requiring a revision to the corporate solution to secure a balanced budget for 2022/23.

It has also been necessary to revise aspects of the corporate solution to reflect the technical accounting requirements related to those elements associated with the option to defer debt repayments. Accordingly, the options presented to Business Transformation Steering Group are summarised follows:-

	Pre Settlement £m	Post Settlement £m	Notes
Budget Gap	£9.222	£9.727	After reflecting the additional funding announced on 27 January 2022 and revision to IJB funding
Less options to address :-			
Deferment of debt repayments in 21/22& 22/23	£7.500	£6.358	reflects revised debt repayments otherwise due
Utilisation of earmarked reserves	£0.000	£2.000	To offset grant reductions
Council Tax increase of 3%/Council tax Freeze and funding equivalent to 3% Increase	£1.722	-	Previous planning assumption agreed by BTSG.
Remaining Budget Gap	£0	£1.369	

The measures above represent the use of £8.358 million of one of funding sources to balance the 2022/23 budget. As a consequence, and reflecting the recommendation to set a Band D Council Tax of £1442.60, the opening budget gap for 2023/24 is estimated at £12 million. That is the extent to which recurring expenditure for 2023/24 would exceed recurring income and before unfunded pay and other costs and unfunded demographic pressures are taken into account.

Accordingly, the decision on Council Tax for 2022/23, a recurring source of funding, has to be considered in the context of the outlook for 2023/24 and beyond where significant service reductions, focusing on statutory requirements as well as continued service transformation will be a necessity.

The adoption of the corporate solution continues to provide the opportunity for the Leadership Team to continue to respond to the impact of the pandemic and, through the work of the Business Transformation Board, focus on development of a financial strategy for the life of the next Council which it is anticipated will be presented early after the May 2022 elections.

5 Scottish Government Grant Settlement

The Scottish Government's budget presented to Parliament on 9 December 2021 by Ms Forbes, Cabinet Secretary for Finance and Economy was presented as delivering an overall increase for Local Government of £853.9 million, outlined in the Cabinet Secretary's letter to the COSLA President Councillor Evison included at appendix C.

COSLA's analysis highlights that of that increase, £802 million and £62.6 million relates to new Scottish Government revenue and capital commitments respectively. Furthermore, there are new pressures falling on Local Government, including additional national Insurances costs, of £89 million. Accordingly, the reality of the original settlement was that it represents a year on year cash reduction in core grant funding of £100 million in respect of revenue and a cash flat settlement in respect of capital.

Appendix C highlights the range of new commitments and conditions included in the overall settlement as summarised below with Midlothian Council's impact also noted. The resources for these new commitments are either "ring fenced" or are already committed.

Scottish Government revenue commitments:-

	National	Midlothian
	£m	£000
Children and Young People (inc. additional teachers, music tuition, curricular charges, school clothing grants, increase in Pupil Equity Fund)	180	3,298
Health and Social Care (social care pay, carers act, free personal care, winter package)	354	5,460
Social Care workforce (inc delivery of £10.50p/h for workers in commissioned services)	200	3,020
Scottish Child Bridging payments	68	950
Total additional revenue commitments	802	12,728

Other known revenue policy pressures:-

	National	Midlothian
	£m	£000
Council tax reduction regulation changes	19	300
Employers National Insurance Contribution increase (levy for Health & Social Care)	70	1,000
Total policy pressures	89	1,300

In response to the proposed settlement all 32 Council Leaders signed a letter to the First Minister seeking a meeting. And arising from that the COSLA Presidential Team and political Group Leaders met with the First Minister on 26 January 2022. Subsequently during the stage 1 consideration of the Budget (Scotland) Bill The Cabinet Secretary for Finance and Economy announced an additional £120m for Local Government albeit on a non-recurring basis. Details are set out in appendix B.

The revised revenue settlement at a national level is slightly more than previously projected for 2022/23, with a small increase in core funding of £20m but which still representing a year on year real terms reduction in core spending power given that the provision for pay inflation is 2.5%.

Turning to the Scottish Public Sector Pay Policy for the year ahead published on 9 December 2021 alongside the Government's budget. It indicates that there will be:-

- A guaranteed wage floor of £10.50 per hour;
- A cash underpin of £775 for public sector workers who earn £25,000 or less;

- A basic pay increase of up to £700 for those public sector workers earning between £25,000 to £40,000;
- A cash uplift of £500 for public sector workers earning above £40,000.

(all based on 35 hour working week)

Council is reminded that pay arrangements for the Local Government Workforce are determined on a bilateral basis nationally between Employers and Trade Unions through the Scottish Joint Council for Local Government Employees (SJC) and for Teachers on a tripartite basis between Employers, Trade Unions and Scottish Government through the Scottish Negotiating Committee for Teachers (SNCT).

The SJC have recently settled pay negotiations for 2021/22. The EIS balloted its members on the offer from the SNCT employers with the recently announced ballot result overwhelmingly rejecting the offer. The EIS expect to receive an enhanced offer from COSLA and the Scottish Government at the next negotiating meeting.

Whilst Local Government is not bound by the Scottish Public Sector Pay Policy it is relevant as it applies to comparator employers such as the NHS and it will clearly set minimum expectations for Local Government employees. The initial assessment would indicate that to budget for pay awards in line with the Scottish Public Sector Pay Policy would equate to a 2.79% provision for employees on SJC conditions and 1.27% for those on SNCT conditions. The planning assumption endorsed by Business Transformation Steering Group provided for an average uplift in all paybills of 2.5% and given the position outlined above the budget for 2022/23 continues to provide the average 2.5% uplift in service budgets for pay.

The SJC Trade Unions have now submitted pay claims for Local Government Workers and Chief Officials for 2022/23 with the SJC claim seeking, amongst other things, a flat rate increase of £3,000 per annum (based on a 35 hour working week). Initial calculations indicate this would represent circa an 11% increase in the SJC paybill and would equate to a national cost of over £600 million for which there is no provision in the core funding settlement.

6 Update on Fiscal Flexibilities

As Council is aware COSLA and Scottish Government reached agreement on three financial flexibilities in respect of a Loans Fund Repayment Holiday, Capital Receipts and Service Contract Concessions.

These flexibilities were designed to allow Council to utilise existing resources in alternative ways and principally to defer debt repayments until later years. Importantly they do not result in any additional funding support for local government.

In respect of the Loans Fund Repayment holiday the Cabinet Secretary has agreed to extend the period over which this is available to be

utilised for one further year. Currently this is expected to be delivered through an administrative arrangement rather than a statutory instrument. However, at the request of Directors of Finance, Scottish Government officials are exploring whether it is best to revert to providing the flexibility through the means of a statutory instrument. At present, any council looking to use this flexibility in 2022/23 is required to take the loans fund holiday in 2021/22 and carry that saving to their General Fund reserve.

The options for the revised corporate solution recommended to Business Transformation Steering Group incorporates utilising the Loans Fund Holiday in 2021/22 to release other funds currently meeting Covid pressures which in turn result in reserves being available to support the 2022/23 budget. If the statutory instrument route is adopted by Scottish Government, then delegated authority is sought to allow the Chief Officer Corporate Solutions to determine if it is better to use this flexibility in 2022/23 with the use of the Loans Fund review utilised in 2021/22 to create the reserve to utilise to support the 2022/23 budget.

The Cabinet Secretary has also agreed to an extension of the flexibilities to allow capital receipts to be used to fund the financial impact of COVID and to fund transformational projects in 2022/23. The extension of these flexibilities is dependent on confirmation from the UK Government that this will not result in an adjustment to Scotland's block grant. Given the financial challenge for future years, it is recommended to now utilise this flexibility to provide additional funding for transformational projects. A recommendation to this effect is contained in the General Services Capital Plan report also on today's agenda.

In respect of the service concession flexibility, there remains uncertainty on what this flexibility entails. Directors of Finance continue to work on securing this flexibility for Councils, now especially important given the Settlement for 2022/23 and the prospects for later years. The Directors of Finance section have written to the Cabinet Secretary to ensure complete alignment on what is required noting that The Cabinet Secretary was of the view that she had indeed provided what had been asked for, but from a Local Government perspective what is currently on offer limits considerably the resources available for many Councils.

Within the letter, Directors of Finance make it clear that they are not looking for an option to simply maximise the value of the benefit but for better alignment between the consumption of the assets acquired via service concession and the charges to revenue accounts over the life of the asset. The professional opinion is that a change to accounting practice, to be in alignment with the 2016 regulations, would ensure greater consistency and at the same time allow prudent decisions to be taken over the profiling of debt charges using the asset life approach.

On our present understanding of the implementation of the change, there is no value to this flexibility for Midlothian. In her letter of 27 January 2022 the Cabinet Secretary indicates that she has written to CIPFA/LASAAC to seek their view on the request for further flexibility in

the accounting treatment of service concessions. It is expected that if the position on financial flexibilities is clarified consideration can be given to how it can support future years budgets.

7 Projected Net Cost of Services

The net cost of services for 2022/23 has been reviewed and the updated projections set out in this report are based on the latest information available. The resultant service budgets, reflecting the recommendations of Business Transformation Steering Group and the recommendation in respect of Council Tax, are set out in appendix D with a year on year analysis of the movements in the budget set out in the analysis of change in appendix E. The key assumptions which underpin the budget are set out in appendix G.

8 Finalisation of the 2022/23 Budget and Setting Council Tax

The recommendations from Business Transformation Steering Group and the separate recommendations in respect of service budgets and Council Tax set out in this report enables Council to fulfil its statutory duty as set out in Section 93 of the Local Government Finance Act 1992 (as amended). Namely to set its Council Tax and a balanced budget for the following financial year commencing 1 April by 11 March.

Members should note that the legislation contains no specific requirement for a Council to set its budget at the same time as setting its Council Tax. This is because it is implicit in setting the Council Tax that the income it raises needs to be sufficient to fund the balance of expenditure not otherwise funded from government grant, fees, reserves etc.

It is therefore implicit in the legislation that Council Tax income funds the gap between other expected income and expenditure. Accordingly, in determining a budget, Council needs first to 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 normally be taken in advance of other budget decisions.

In respect of the medium and indeed longer-term position, members should note that the significant reliance on one off measures as part of the corporate solution. Accordingly, the budget gaps for later years together with the increased borrowing requirement over the longer term required to fund essential infrastructure will have to be addressed as part of the development of the Medium Term Financial Strategy for the term of the next Council. It is against this backdrop that the recommendation to increase Council Tax, and generate recurring income, is made.

The options set out to balance the 2022/23 budget rely heavily on a combination of one of sources of funding and the deferment of debt

repayments. Accordingly, further reliance on one off funding from reserves to balance the 2022/23 budget would result in extremely limited headroom in reserves to deal with unforeseen events or to meet unbudgeted costs.

Members are advised that it would not be prudent to utilise further reserves to balance the 2022/23 budget. To do so would diminish the Council's financial sustainability at a time when the longer-term financial impact of Covid remains unclear, when inflationary pressures are increasing and against the backdrop of a challenging financial outlook for Local Government. In contrast the recommended increase in Council Tax, would generate a recurring source of funding to support service provision in 2022/23 and beyond.

Accordingly, if considering any amendment to the recommendation in respect of Council Tax members should give full consideration to the risks in respect of financial year 2022/23 as set out later in this report, the financial outlook beyond 2022/23 and the need to protect the financial sustainability of the Council. Members should also give careful consideration to those services that would need to be reduced or withdrawn in 2023/24 and beyond as a consequence of the recurring income forgone by a lesser increase in Council Tax in 2022/23.

Members should also continue to note that in terms of Section 112 of the Local Government Finance Act 1992 (as amended) it is an offence for members to participate in any vote in respect of setting Council Tax where the member has unpaid Council Tax. Accordingly, at today's Council meeting members would be required to disclose the fact if this section of the act applies to them and subsequently not vote on any question with respect to the matter.

8.1 Midlothian Integration Joint Board

The Local Government settlement provides an uplift of £554 million for Health and Social Care as follows:

Additional Funding	National £ million	Midlothian £000	Notes
Carers Act	20.4	306	Agreed uplift for Carers Act funding.
Uprating Free Personal & Nursing Care	15	225	10% increase to cover inflation
Real Living Wage baseline from 21/22	30.5	457	additional funding from 21-22 provided for the uplift to £9.50.
Full year impact of £10.02	144	2,276	full year impact of the uplift to £10.02 for adult social care commissioned services.
Care at home	124	1,891	recurring investment from the winter plan

Interim Care	20	305	non recurring 2022-23 funding from the winter plan
Social Care Investment	200	3,020	to cover the increase to £10.50 for adult social care commissioned services staff, with the remainder of funding un-ring-fenced.
Total Budget Uplift	554	8,480	Note that Midlothian's share is provisional and subject to finalisation of distribution decisions

Alongside publication of the Scottish Government's budget the Directorate for Health Finance and Governance advised that in respect of Health and Social Care Integration that the portfolio will transfer additional funding of £554 million to Local Government to support social care and integration. It stated that the funding allocated to Integration Authorities should be additional and not substitutional to each Council's 2021/22 recurring budgets for social care services and therefore, Local Authority social care budgets for allocation to Integration Authorities must be at least £554 million greater than 2021/22 recurring budgets.

Applying that requirement to the budget delegated to the Midlothian Integration Joint Board will result in a budget to be delegated of £56.438 million, which represents a year on year increase of circa. 18% and in the context of the overall Local Government settlement Business Transformation Steering Group recommends that Council approve this as the formal offer to the Board (subject to final confirmation of the quantum and distribution of funding for new burdens).

The Chief Officer and Chief Financial Officer of the Midlothian Integrated Joint Board (MIJB) have been kept updated on the Council's budget position.

9 Governance and Timetable

Each element of the Medium Term Financial Strategy continues to have governance in place to support the timely delivery of the work streams. Any changes to the Medium Term Financial Strategy will first be reported to the Business Transformation Steering Group with recommendations then presented to Council. Responsibility for setting Council Tax and determining budgets remains with Council.

10 Report Implications (Resource, Digital and Risk)

10.1 Resource

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

10.2 Digital

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

10.3 Risk

Within any financial projections, there are a number of inherent assumptions in arriving at figures and budget provisions and therefore risks that may be faced if costs change or new pressures emerge.

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

- The risk associated with further one off measures to balance the budget in contrast to securing recurring funding through an increase in Council Tax income.
- The continued uncertainties arising from the COVID Pandemic;
- Uncertainty over the ongoing impact on the Council's financial position, especially in respect of service income, and the uncertainty over future additional grant support to help mitigate such impacts;
- The economic outlook and decision by Scottish Government on future years grant settlements and grant distribution;
- The delivery of services within approved budgets;
- The risk to service provision and service users associated with a continued decline in available resources to fund services;
- Outstanding pay award settlements and the implications of the National Living Wage for external service providers;
- Actual school rolls exceeding those provided for in the budget;
- Learning Estate Strategy for schools being underfunded to meet statutory functions;
- The funding position for Early Years expansion, which means that whilst delivering 1,140 hours the range of options open to parents and carers is less than was anticipated;
- 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;
- Pressures for uplifts in the National Care Home Contract that exceeds budget provisions;
- The impact of Universal Credit, and potential pension changes;
- The costs of implementation of national policies varying from the resources provided by Government;
- Potential liabilities arising from historic child abuse;
- Unplanned capital investment requirements and the associated cost; and
- Ability to continue to meet the expectations of our communities within a period of fiscal constraint.
- The impact of any further reduction in reserves would have in the Council's financial resilience and sustainability and in turn financial capacity to respond to unforeseen events or unbudgeted costs.

The Medium Term Financial Strategy aims to mitigate a number of these risks by setting out the key assumptions on which forward plans are based, and through the adoption of the corporate solution for 2022/23 secure a means to achieve financial balance without further service reductions.

The risk of not having in place a balanced Medium Term Financial Strategy and the adoption of the corporate solution is the potential elimination of available reserves, which in turn would severely limit the Council's ability to deal with further unforeseen or unplanned events and also the imposition of significant cuts at short notice with limited opportunity for consultation.

10.4 Ensuring Equalities

The Medium Term Financial Strategy was developed within the context of the Single Midlothian Plan, ensuring as far as possible that resources are directed towards the key priorities of reducing inequalities in learning, health and economic circumstance outcomes.

The Medium Term Financial Strategy continues 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.

In addition, these actions underline the Council's commitment in its Midlothian Equality Plan 2021 – 2025 to tackle inequality and promote inclusion within the limitations of the resources available. These actions also will allow the Council to plan and deliver services which meet the needs of our diverse communities and respond to the changes ahead.

An overarching EQIA has been published on the Committee Management section of the Council's website.

10.5 Additional Report Implications

See Appendix A

Appendices

APPENDIX A – Report Implications.

APPENDIX B – Cabinet Secretary's letter of 27 January 2022.

APPENDIX C – Cabinet Secretary's letter of 9 December 2021.

APPENDIX D – Service Budgets.

APPENDIX E – Year on year Analysis of change

APPENDIX F – Council Tax.

APPENDIX G – Key Assumptions.

A.1 Key Priorities within the Single Midlothian Plan

The Medium Term Financial Strategy facilitates decision 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. The corporate solution approach 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 Medium Term Financial Strategy reflected a community consultation exercise carried out in 2019 which has also helped shape the drafting of the “Midlothian Promise” and the early development of the Council’s Longer Term Financial Strategy.

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 Medium Term Financial Strategy.

A.6 Impact on Performance and Outcomes

The Financial Strategy facilitates decision on how 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 Medium Term Financial Strategy will support the prioritisation of resources to support prevention.

A.8 Supporting Sustainable Development

There are no direct sustainability issues arising from this report and we will work to mitigate any sustainability issues which arise as a consequence of the Medium Term Financial Strategy.

Appendix B

Rùnaire a' Chaibineit airson Ionmhas agus na h-Eaconamaidh
Cabinet Secretary for Finance and Economy
Ceit Fhoirbheis BPA
Kate Forbes MSP



Scottish Government
Riaghaltas na h-Alba
gov.scot

T: 0300 244 4000
E: scottish.ministers@gov.scot

Councillor Gail MacGregor
COSLA Resources Spokesperson

By email

27 January 2022

Dear Gail,

Thank you for the continued constructive engagement between us following the Budget announcement on 9 December. I welcomed the candid and thoughtful discussion we had at the Strategic Review Group meeting on the 20 January, and the First Minister found her discussion with Council Leaders to be similarly productive. As we move forward and look to improve our partnership working I hope that this frank and honest dialogue continues.

The First Minister yesterday assured you that I continued to seek what flexibility I could to improve the situation for local government and that we would look carefully at a request from the COSLA President to provide an additional £100 million to address a range of pressures being faced by local government.

The budgetary position for 2022-23 therefore remains very challenging, with all available funding having been fully allocated. However, in recent days I have received unexpected new information from the UK Government indicating the likelihood of further consequential to be allocated to Scotland in 2021-22. Whilst this will require careful management of the Scotland Reserve, I believe there will be scope to carry forward funding into 2022-23, creating the opportunity to allocate additional resources to local government in the current Budget Bill, reflecting the pressures that Councils face.

I have therefore indicated to Parliament today my intention to amend the Budget Bill at Stage 2 to allocate a further £120 million of resource to Local Government in 2022-23. Councils may allocate this funding as they see fit.

I have noted that many councillors have expressed a view that the budgetary position could result in significant Council Tax rises. This additional funding is equivalent to the revenues that could be raised from an average four per cent rise across Scotland. So whilst councils

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have full flexibility in setting local council tax rates, I do not believe that there is a requirement for any inflation-busting increases next year.

This is a pragmatic solution, using the available flexibility that I have, to a challenging budgetary settlement for both Scottish and Local Government in 2022-23. This is of course one off funding, and the Resources Spending Review will need to address the long term sustainability of Local Government alongside the rest of the public sector. We will need to collectively consider commitments carefully alongside available funding, and options for savings and reform. I look forward to working with you in the coming months to progress this work.

Finally, I can confirm that following further useful dialogue between my officials and Directors of Finance, I have today written to the CIPFA LASAAC Board to seek their view on the request for further flexibility in the accounting treatment of service concessions. I have asked that they consider this issue as swiftly as possible.

Yours sincerely,



KATE FORBES

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Appendix C

Rùnaire a' Chaibineit airson Ionmhas
Ceit Fhoirbheis BPA
Cabinet Secretary for Finance
Kate Forbes MSP



Scottish Government
Riaghaltas na h-Alba
gov.scot

T: 0300 244 4000
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Councillor Alison Evison
COSLA President
Verity House
19 Haymarket Yards
Edinburgh
EH12 5BH

Copy to: The Leaders of all Scottish local authorities

09 December 2021

Dear Councillor Evison,

Today I formally set out the Scottish Government's proposed Budget for 2022-23 to the Scottish Parliament. Alongside the Budget I also published the Scottish Public Sector Pay Policy, the Medium Term Financial Strategy and the Resource Spending Review Framework. Further to the budget statement I write now to confirm the details of the local government finance settlement for 2022-23.

The intention is that the indicative allocations to individual local authorities for 2022-23 will be published in a Local Government Finance Circular on Monday 20 December. These can only be calculated following the publication next week of education statistics that are key to the distribution formula. That circular will begin the statutory consultation period on the settlement.

This Budget comes at a crucial juncture for Scotland. Over the past year, thanks to the hard work and sacrifices of everyone across Scotland, including the critical role Local Authorities have played in continuing to support our communities and administer financial support to our businesses, we have started to look beyond the immediate impact of the pandemic.

As the emergence of new variants demonstrates, we must remain vigilant and ensure the necessary resources are available for the continued protection of people and public services, but we must also look to the future. This Budget seeks to balance immediate pressures with long term imperatives – shifting the dial on inequalities, carbon emissions and economic prosperity. It also delivers on the Programme for Government and our Shared Policy Programme with the Scottish Green Party.

The total revenue funding to be provided through the settlement for 2022-23 will increase to £11,794.8 million, which includes distributable non-domestic rates income of £2,766 million.

The capital settlement has been set at £679.5 million. In parallel I am mindful of the challenges in delivering capital investment in the current economic climate so I will also explore the potential to offer flexibility to councils on carry forward of unspent capital from 2021-22 in light of the operation of the Fiscal Framework. This is subject to consideration about the impact on the Scottish Government reserve and I would hope to be in a position to provide confirmation in the early part of 2022 following the UK Government's Supplementary Estimates.

The total funding which the Scottish Government will provide to local government in 2021-22 through the settlement is therefore £12,474.3 million, an increase of £853.9 million and includes;

- £145 million for additional teachers and support staff in addition to the £88 million to maintain the pupil:teacher ratio nationally and secure places for all probationers who require one under the teacher induction scheme;
- funding to maintain 100 day commitments including the removal of curriculum and music tuition charges and expanded School Clothing Grant;
- £68.2 million for Child Bridging Payments;
- maintaining the £292.6 million provided in 2021-22 and providing a further £353.9 million transfer from Health for investment in health and social care and mental health services – including £174.5 million to support ongoing adult social care pay, £20.4 million to continue implementing improved rights and support for carers, £15 million to uplift free personal nursing care rates, £124 million of recurring care at home investment, and £20 million for interim care;
- In addition, a further £200 million will be transferred to support pay and sustainability of social care services bringing (with further detail set out below);
- £5.3 million for Assessors for Barclay implementation costs;
- an extra £62.5 million of Capital including:
 - £30 million for Free School Meals;
 - £20 million for the Local Bridge Maintenance Fund;
 - £11 million for Flood Prevention; and
 - £1.6 million for Coastal Protection

In terms of the broader Local Government Finance package, I have listened to the Live Well Locally campaign and intend to offer a number of flexibilities in direct response to that campaign.

I can confirm that councils will have full flexibility to set the Council Tax rate that is appropriate for their local authority area. In setting Council Tax rates, we expect councils to take full account of the local needs and impacts on household budgets of the decisions they make.

I acknowledge the argument in Live Well Locally that reserves are one off in nature and do not represent a substitute for recurring funding. However, I would also highlight that across Scotland some councils have accrued additional reserves during the pandemic,. Since we are likely to continue to face economic and fiscal challenges during 2022-23, I would encourage all councils to consider whether current levels of General Fund Reserve balances are an efficient use of public funds at this time.

In addition to flexibility on Council Tax rate setting, I recognise that local government have repeatedly called for removal of ring-fencing in the settlement and a greater focus on trust and partnership working. On that basis I commit to reviewing all ring-fenced funding as part of the forthcoming Resource Spending Review and would welcome your constructive engagement in that process so that removal of ring-fencing goes hand in hand with agreement about shared priorities and outcomes whilst ensuring maximum value for money.

More immediately, as recognised in correspondence from Councillors Parry and MacGregor on 06 December 2021, Scottish Government and COSLA officials are currently working together to develop a combined employability grant offer letter for 2022-23 which removes ring-fencing for the various employability programmes and instead focusses on the characteristics and needs of service users with the view of continuing to work together to develop options for a refreshed and collective approach to employability funding for 2023-24 onwards.

I and my ministerial colleagues fully recognise and value the work of Local Employability Partnerships and the important role that they play in shaping the crucial services that individuals need across their journey towards and into employment and that Scottish Government officials will continue to work in partnership with Local Authority employability leads and COSLA to achieve our shared ambitions.

Alongside reducing ring-fenced funding, the Scottish Government remains committed to working with COSLA to develop a rules based fiscal framework to support future funding settlements for local government. The development of a fiscal framework will have direct relevance to the Scottish Government's Resource Spending Review and I am keen to see some substantive work being taken forward during the first part of 2022.

It will be important for local government to bring forward proposals that can then be explored in partnership. The development of a fiscal framework is also an important part of the ongoing work on the Local Governance Review, which considers how powers, responsibilities and resources are shared across national and local spheres of government, and with communities.

The correspondence of 06 December 2021 referenced above also included a request from Leaders to provide flexibility to enable all 2021-22 employability funding to Local Government to be spent across 2021-22 and 2022-23. This request has unfortunately come too late to be factored into the Budget position I outlined today but I will prioritise the request in the coming days to try and agree a position which ensures that services to those requiring support is provided as swiftly as possible whilst reducing the administrative burden on those delivering the services.

I am also content to agree your request of 08 October 2021 for an extension of the flexibilities to allow capital receipts to be used to fund the financial impact of COVID and to fund transformational projects in 2022-23. I had previously stated that the COVID capital receipts flexibility was limited to two financial years, in the light of ongoing COVID impacts I will agree this extension for one further financial year. The extension of these flexibilities is dependent on confirmation from the UK Government that this will not result in an adjustment to Scotland's block grant. I am currently seeking that confirmation.

Similarly, I also agree to extend the period for the loans fund principal repayment holiday for one further year. I will deliver this through an administrative arrangement rather than a further statutory instrument. Any council looking to use this flexibility in 2022-23 should take the loans fund holiday in 2021-22 and carry that saving to their General Fund reserve. To keep with the original intent of this flexibility the increase in General Fund reserves from taking this holiday are to be earmarked as being to fund the financial impact of COVID, and that earmarked reserve must be used in the course of 2022-23.

In terms of your request for a change in policy on capital accounting for service concessions, I remain committed to continuing to work with Directors of Finance and CIPFA/LASAAC on the capital accounting review.

Finally, in acknowledgment of the calls for greater fiscal empowerment across local government, the Transport (Scotland) Act 2019 introduced a discretionary power for local authorities to implement workplace parking licensing (WPL) schemes. I can confirm that regulations to implement those powers will be laid early next year to enable this to progress.

Prior to the COVID-19 pandemic, the Scottish Government was developing legislation to introduce the power for local authorities to create a visitor levy, or tourism tax but this was paused due to the pandemic. Given the overall impact of the pandemic on the tourism sector in Scotland it would be prudent to carefully review that work and undertake further stakeholder engagement before making a firm decision on the next steps, however I am committed to taking this forward in 2022.

Building on previous years' settlements, Local Authorities will again be expected to deliver further certain specific commitments and outcomes.

This year, we will again work with local government to help ensure Integration Authorities use total resources to focus on delivery of key areas for improvement, including: reducing delayed discharges; improving availability of, and access to, community-based health and social care services; and ensuring more people are supported to stay at home.

We will also wish to ensure that the social care workforce is supported and sustained during and following the challenges of the Covid pandemic. To support retention, and begin to embed improved pay and conditions for care workers, the additional £200 million funding transfer requires local government to deliver a £10.50 minimum pay settlement for adult social care workers in commissioned services, in line with the equivalent commitment being made in the public sector pay policy.

The funding allocated to Integration Authorities should be additional and not substitutional to each Council's 2021-22 recurring budgets for adult social care services that are delegated. We will provide support and challenge by working with local government to agree a shared national and local approach to accountability for delivery, building upon existing shared mechanisms for routine reporting of expenditure, activity and outcomes across Scotland.

This Budget cannot deliver the resources all our partners will want. It addresses key priorities, targets resources on low income households, and paves the way for future investment in this Parliament. Where possible, it seeks to cushion all sectors against the headwinds that COVID-19, Brexit and UK Government's settlement have created and it treats Local Authorities fairly and consistently with other portfolios.

The 2022-23 Local Government Settlement of almost £12.5 billion offers a like with like increase of 7.5 per cent in real terms and continues to provide local government with a funding settlement that is both fair and affordable, under the most challenging of circumstances. I look forward to working with COSLA in the year ahead to deliver the broader commitments set out in this letter.

Yours sincerely,



KATE FORBES

Appendix D

MIDLOTHIAN COUNCIL**REVENUE BUDGET 2022/23 SUMMARY**

	2022/23
SERVICE FUNCTION	£
Management and Members	1,965,977
People and Partnerships	
Childrens Services, Partnerships and Communities	20,138,997
Education	109,675,147
Midlothian Integration Joint Board	56,437,641
Non-delegated services - Leisure Services, Community Safety And Welfare Rights	1,995,738
Place	
Place	36,034,212
Corporate Solutions	21,831,954
Joint Boards	581,659
Non Distributable Costs	898,936
GENERAL FUND SERVICES NET EXPENDITURE	249,562,622
Loans Charges	6,411,000
Investment Income	(110,736)
Centrally Held Budget Provisions	479,991
Allocations to Housing Revenue Account, Capital Account	(5,379,516)
NET EXPENDITURE	<u>250,961,000</u>
Utilisation / (Enhancement) of Reserves	2,000,000
Financial Flexibilities - Debt Repayment deferrals	6,358,000
Council Tax Income	58,496,000
Scottish Government Grant	184,107,000
TOTAL FUNDING	<u><u>250,961,000</u></u>

Appendix E

Budget 2022/23 - Analysis of Change

	£m
2021/22 Approved Budget- Gap	0.000
Budget Changes	
Pay Inflation and salary progression	5.779
Contractual Inflation	1.645
Re-assessment of Medium Term Financial Strategy Delivery	1.275
Loan Charges	3.919
Removal of Lothian Buses Dividend	0.450
Council Tax - Property Growth	(1.350)
Scottish Government Grant	
Cash Uplift	(11.726)
For New Burdens – MIJB	8.607
For New Burdens – Council Services	1.080
Other Movements	0.048
22/23 Budget Gap	9.727
Utilisation of Reserves	(2,000)
Financial Flexibilities – Debt Repayments deferrals	(6.358)
Council Tax Increase	(1.369)
2022/23 Approved Budget - Gap	(0.000)

MIDLOTHIAN COUNCIL**Council Tax for Financial Year 2022/23**

This statement gives details of the 2022/23 Council Tax payable in respect of a chargeable dwelling in each of the valuation bands specified in Section 74(2) of the Local Government Finance Act 1992 determined in accordance with Section 74(1) of the Act (as amended) **Based on Band D Council Tax of £1,442.60.**

Band	Range of Values		Band D Proportion	Council Tax £
	From £	To £		
A	-	27,000	240/360	961.73
B	27,001	35,000	280/360	1,122.02
C	35,001	45,000	320/360	1,282.31
D	45,001	58,000	360/360	1,442.60
E	58,001	80,000	473/360	1,895.42
F	80,001	106,000	585/360	2,344.23
G	106,001	212,000	705/360	2,825.09
H	212,001	upward	882/360	3,534.37
Z	-	-	-	801.44

Key assumptions

The principle year on year budget changes include the following key assumptions and cost drivers:

- A provision for pay inflation together with the cost of incremental pay progression;
- Changes in the Council's contribution towards employee pensions costs advised by Lothian Pension Fund and SPPA;
- Provision for the Devolved School Management allocation to schools based on the current DSM scheme and indicative pupil numbers;
- Contractual inflation linked to existing contractual conditions, many of which mirror pay inflation assumptions;
- A provision for the future year's costs of maintain pay levels for procured care services at or above the living wage;
- The impact of current demand for services;
- The demographic impact on the future demand for services;
- Borrowing costs related to the approved capital investment decisions based on future interest rate forecasts provided by the Council's Treasury Advisers;
- Any new government policy requiring budgetary growth will be fully funded through increased Scottish Government grant; and
- Council Tax income continues to grow in line with previous trends and updated projections of future housing growth.