

**Medium Term Financial Strategy – 2023/24 to 2027/28****Report by David Gladwin, Acting Chief Financial Officer****Report for Noting****1 Recommendations**

- a) Note that the work of The Business Transformation Steering Group (BTSG) will continue to consider savings measures necessary to support delivery of a balanced budget for 2023/24 before any policy measures are presented to Council;
- b) Note that the financial outlook remains challenging for this term of Council
- c) 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”*.
- d) Note the timetable for the draft Scottish Government budget and associated grant settlement for Councils;
- e) Note the update in respect of fiscal flexibilities;
- f) Note that the projected budget gap for 2023/24 is £12.982 million rising to a projected £25.052 million by 2027/28 and that officer work is well underway to prepare a draft base budget for 2023/24 which will bring more certainty than existing projections;
- g) Due to timescales, and the magnitude of the financial challenge to set a 2023/24 budget, Council is recommended to hold a Special meeting of Council prior to the next scheduled February Council meeting
- h) Otherwise, note the remainder of the report.

**Date: 30 November 2022****Report Contact:** David Gladwin, Acting Chief Financial Officer[David.gladwin@midlothian.gov.uk](mailto:David.gladwin@midlothian.gov.uk)

0131 271 3113

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

- 2.1 The purpose of this report is to provide Council with latest projections of future year budget gaps in advance of completing base budget work for 2023/24 and to outline a timetable through to setting Council Tax and a balanced budget for 2023/24 on Tuesday 21<sup>st</sup> February 2023.
- 2.2 The projected budget gap for 2023/24 is £12.982 million rising to £25.052 million by 2027/28.

## **3 Medium Term Financial Strategy 2023/24 to 2027/28 - Background**

- 3.1 Council last considered an update on its Medium Term Financial Strategy on 4<sup>th</sup> October 2022 where operational savings of £1.227m in 2023/24 rising to £1.912m in 2027/28 were noted alongside the following:
  - Adoption of a range of additional transformation focused activity;
  - Continuation of BTSG considering measures to support delivery of a balanced budget before any policy measures are presented to Council; and
  - A very challenging financial outlook for this term of Council.
- 3.2 The pandemic has accelerated financial challenges and there are some difficult choices ahead as Midlothian Council try to deliver services within available budget alongside sustained demographic growth from being the fastest growing local authority in Scotland. As a result, 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 financial position.

### **Budget Projections**

- 3.3 At its meeting on 4<sup>th</sup> October, Council was provided with an update of the budget projections for financial years 2023/24 to 2027/28. These projections were based on key assumptions on pay inflation and contractual inflation, government grant and Council Tax and included and reflected an assessment of the Scottish Government's Resource Spending Review published on 31 May 2022.
- 3.4 The impact of inflation and pay pressures in the current and future years remains fluid and best estimates are being included in ongoing base budget work which also picks up demographic pressures.
- 3.5 The current year's budget as approved on 15<sup>th</sup> February 2022 was reliant on £10.283m of one-off funding measures as presented in table 1 below. Council on 23<sup>rd</sup> August 2022 approved a supplementary estimate of £1.395m in 2022/23 to cover unbudgeted inflationary pressures. This was partially offset by the full year impact of reversing the Employers National Insurance increase.

Table 1: Underlying budget gap for 2022/23

<b>One-off Measures in 2022/23 Budget</b>	<b>£m</b>	<b>£m</b>
<b>Use of Reserves</b>		
Utilisation of uncommitted earmarked reserves	2.000	
Utilisation of general reserves	0.250	
		2.250
<b>One-off utilisation of COVID funding (to mitigate savings plans)</b>		1.675
<b>Deferment of debt repayments in 2021/22 and 2022/23</b>		
Loans Fund Review to meet repayments in 22/23 (max)	3.032	
From use of Fiscal Flexibility (Loans Fund Repayment Holiday) and utilise Loans Fund Review both in 21/22 (max)	3.326	
		6.358
Non Recurring Expenditure		(0.250)
Impact of 22/23 contractual inflation – Energy and PPP – approved by Council on 23 <sup>rd</sup> August 2022		1.395
Impact of reversal of Employers NI increase (full year effect)		(1.130)
<b>Underlying Budget Gap for 2022/23</b>		<b>10.298</b>

- 3.6 The projections for future years as shown in table 2 below are predicted on assumptions related to Scottish Government Grant, pay and other inflation and Council Tax growth. They also assume continuation of the current structure of public services in Scotland.

Table 2: Financial Outlook 2023/24 to 2027/28 – Analysis of Change

	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
<b>Opening gap for the year</b>	<b>10.298</b>	<b>12.982</b>	<b>16.651</b>	<b>20.333</b>	<b>22.522</b>
<b>Budget Changes</b>					
Staffing – pay inflation and salary progression	3.881	3.977	4.077	4.179	4.283
Contractual inflation and indexation	1.072	1.099	1.126	1.154	1.183
Loan Charges	0.568	0.250	0.250	0.250	0.250
Energy Inflation based on November pricing information	2.200	0.000	0.000	0.000	0.000
Service Concessions – in year adjustment	(2.336)	0.000	0.000	0.000	0.000
Other	(0.011)	(0.011)	(0.011)	(0.011)	(0.011)
<b>Gross Expenditure Increases</b>	<b>5.374</b>	<b>5.315</b>	<b>5.442</b>	<b>5.572</b>	<b>5.704</b>
Council Tax – Property Growth	(1.350)	(1.350)	(1.350)	(1.350)	(1.350)
Scottish Government Grant	(0.113)	(0.115)	(0.118)	(1.821)	(1.824)
<b>Gross Income Increases</b>	<b>(1.463)</b>	<b>(1.465)</b>	<b>(1.468)</b>	<b>(3.171)</b>	<b>(3.174)</b>
<b>Budget Gap to Address</b>	<b>14.209</b>	<b>16.832</b>	<b>20.625</b>	<b>22.734</b>	<b>25.052</b>
Operational savings measures	(1.227)	(0.181)	(0.292)	(0.212)	(0.000)
<b>Budget Gap</b>	<b>12.982</b>	<b>16.651</b>	<b>20.333</b>	<b>22.522</b>	<b>25.052</b>

- 3.7 Council Tax income shown in projections is based on the existing Band D Council Tax of £1,442.60.

### Scottish Government Grant Settlement

- 3.8 The Scottish Government's budget is scheduled for publication on Thursday 15<sup>th</sup> December 2022 and will set out aggregate figures for both Local Government Capital and Revenue Funding. The Local

Government Finance Circular, which provides individual Councils with details of funding share is expected to be released on Monday 19<sup>th</sup> December.

- 3.9 Thereafter, the budget bill will follow parliamentary process with final endorsement anticipated during February. In light of the co-operation agreement involving the Scottish Green Party it is not expected that there will be any material change to the Local Government settlement during the passage of the bill.
- 3.10 The draft base budget will be updated to reflect the actual Scottish Government Grant settlement, specific conditions within the settlement, public sector pay policy and the extent to which funds for Health and Social Care are directed to Integration Joint Boards.

### **Fiscal Flexibilities**

- 3.11 Work continues between the Finance team and the Council's Treasury advisers Link Group to fully evaluate any change in the accounting treatment and associated financial provisions arising from the Service Concession flexibility based on revised statutory guidance now finalised. An evaluation of options in the context of prudent application of guidance and an assessment of the impact on the Medium Term Financial Strategy will be completed. Engagement will then follow with Audit Scotland, the Council's newly appointed auditor before briefing Council in advance of presenting recommendations to full Council.
- 3.12 Projections set out in this report assume an in-year adjustment in 2023/24 of £2.336 million from the application of the flexibility. Whilst it is not possible to be explicit on timescales for completing this work it is being afforded a very high priority with a planned outcome early in 2023.

### **Medium Term Financial Strategy Savings Measures**

- 3.13 The Corporate Management Team are continuing to develop measures which could be implemented to reduce projected budget gaps. There continues to be extensive engagement on these measures with elected members primarily through the Business Transformation Steering Group.
- 3.14 Accompanying individual service measures are a range of transformation projects as outlined to Council in October. Business cases have been drafted for each programme and initial work will focus on assessing the impact each may have on the existing budget and service provision.
- 3.15 In addition to savings measures, members should note that each 1% or £14.42 per annum increase in Band D Council Tax would generate circa £580,000 per annum in additional income.

## **4 Next Steps**

### **Engagement**

- 4.1 Once savings proposals are granted Member support public engagement will be considered. Engagement continues with the recognised Trade Unions who have been kept abreast of the recommendations contained in this report.

### **Finalisation of the 2023/4 Budget and Setting Council Tax**

- 4.2 In light of the unique circumstances of later timescales and the severity of financial pressures facing the Council in setting the 2023/24 budget it is considered prudent to plan for an additional Council Meeting in January which will be preceded by scheduled meetings of the Business Transformation Steering Group.
- 4.3 Council will meet on 21<sup>st</sup> February to finalise the 2023/24 budget.

### **Midlothian Integration Joint Board (MIJB)**

- 4.4 The Chief Officer and Chief Financial Officer of the Midlothian Integrated Joint Board (IJB) are being kept updated on the Council's budget position and are engaged in the development of the Medium Term Financial Strategy.
- 4.5 The indicative budget to be delegated to MIJB for 2023/24 together with future years indicative allocations have been developed based on the 2022/23 position of cash flat plus additional Scottish Government funding. However, it will only be possible to make a formal offer to MIJB once the annual grant settlement is available and the quantum of any additional minimum funding requirements set out by Scottish Government are clear.
- 4.6 Business Transformation Steering Group will be asked to consider the formal offer arising from the settlement when it meets in January 2023 and this will form part of the final budget recommendations to Council.

### **Governance and Timetable**

- 4.7 Responsibility for setting Council Tax and determining budgets sits with Council. Council has a duty as set out in Section 93 of the Local Government Finance Act 1992 (as amended) to set its Council Tax and a balanced budget for the following financial year commencing 1 April by 11 March.
- 4.8 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 Council Tax income needs to be sufficient to fund the balance of expenditure not otherwise funded from government grant, fees, reserves etc.

- 4.9 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 cannot be taken in advance of other budget decisions.
- 4.10 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 the Council meeting where these decisions are formally taken, 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.

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

### **Resource**

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

### **Digital**

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

### **Risk**

- 5.3 Within any financial projections, there are a number of inherent assumptions in arriving at figures and setting budget. Therefore risks exist if costs change or new pressures emerge.

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;
- 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 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.

5.4 Developing a Medium Term Financial Strategy is important and can support the mitigation of a number of these risks by setting out the key assumptions on which forward plans are based. The consequences of the challenging grant settlement parameters mean that it is also necessary to bring forward measures to secure financial balance over the period covered by the Medium Term Financial Strategy.

5.5 The risk of not having in place a balanced Medium Term Financial Strategy 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.

### **Ensuring Equalities**

5.6 The strategic plan and associated Medium Term Financial Strategy 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.

5.7 The Strategic Plan and associated Medium Term Financial Strategy 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.

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

5.9 Individual EQIA's will be published in respect of future policy savings measures and an overarching EQIA will be published alongside the Medium Term Financial Strategy report presented to the Council meeting in February 2023.

### **Additional Report Implications**

See Appendix A

## **Appendices**

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



### A.1 Key Priorities within the Single Midlothian Plan

The Strategic Plan and associated Medium Term Financial Strategy 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 Strategic Plan and associated Medium Term Financial Strategy 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 Strategic Plan and associated Medium Term Financial Strategy.

### A.6 Impact on Performance and Outcomes

The Strategic Plan and associated Medium Term Financial Strategy 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 Medium Term Financial Strategy 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 we will work to mitigate any sustainability issues which arise as a consequence of the Strategic Plan and associated Medium Term Financial Strategy.