

**Midlothian Council Strategic Plan 2022-2027 and associated Medium Term Financial Strategy – 2023/24 to 2027/28****Report by Dr Grace Vickers, Chief Executive and Gary Fairley, Chief Officer Corporate Solutions****Report for Decision****1 Recommendations**

Council is asked, on the recommendation of the Business Transformation Steering Group, to:-

- a) Note the draft of the Midlothian Council Strategic Plan 2022-2027, *A great, green place to grow: where people and the environment flourish* as set out in appendix B to this report and endorse moving forward with a period of communication, engagement and consultation with communities on the draft strategic plan in the context of the challenging financial outlook;
- b) Agree to receive a further report on the outcome of the communication, engagement and consultation with communities;
- c) Note the operational saving measures set out in appendix C;
- d) Note the adoption a range of additional transformation focused activity as set out in the report. In doing so agree that additional capacity to progress these at pace is funded from the set aside business transformation funds/capital receipts flexibility;
- e) Note that a further report will need to be presented to Council to formalise the compliance requirements set out in Finance Circular 2/2022 in respect of the use of the capital receipts flexibility;
- f) Note that the work of The Business Transformation Steering Group will continue to give consideration to further measures necessary to support the delivery of balanced budgets before any policy measures are presented to Council;
- g) 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”*.

In addition to the recommendations of Business Transformation Steering Group:-

- h) Note the update on Scottish Government grant prospects incorporating the additional measures, which support the 2022/23 pay negotiations including additional grant together with the exploration of funding flexibilities.

- i) Note the direct implications arising from the UK Government fiscal event on 23 September 2022 and that an update to the Scottish Governments budget is expected to follow;
- j) Note the potential for a delay in the publication of the draft Scottish Government budget for 2023/24 and associated grant settlement for Councils as a consequence of the timing of the UK Autumn Budget Statement;
- k) Note the update on the position with 2022/23 pay claims and future pay provisions and the associated impact for the period of the Medium Term Financial Strategy;
- l) Delegate to the S95 Officer, in consultation with the Leader of the Council authority to implement the most appropriate mechanism to utilise the additional capital grant being provided in 2022/23 and 2023/24 to part fund increased pay bill costs;
- m) Note the update in respect of fiscal flexibilities;
- n) Note that the underlying budget gap for 2022/23 is now projected to be £11.730 million and that as a consequence of both the inflationary increase in costs and cash flat grant settlements the projected budget gap for 2023/24 now stands at £13.4 million rising to a projected £26.2 million by 2027/28;
- o) Otherwise note the remainder of the report.

**Date: 29 September 2022**

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## **2 Midlothian Council Strategic Plan 2022-2027, *A great, green place to grow: where people and the environment flourish***

The last two years have brought significant and unprecedented challenge to our communities as we responded to the COVID pandemic. As we move out of the pandemic into a new post-pandemic work, we are committed to building on the learning and new ways of working that were adopted during this time, and renew our focus on delivering our key priorities at the most local level possible. Rooted in the creation of a wellbeing economy our proposed new five year strategy is committed to reducing inequalities in health outcomes, learning outcomes and economic circumstances while addressing the health of our planet.

Our communities were key to delivering support during the COVID pandemic and we want to build on this to further strengthen and empower our communities.

During the pandemic our Council workforce were also key to our crisis response, continuing to deliver essential services, ensuring our residents were safe and providing community outreach support. This work was valued by our communities and we recognise that people are our greatest asset and are integral to how we move forward to achieve success. Many staff during this period volunteered to undertake alternative duties and the flexibility and commitment demonstrated during this time was nothing short of heroic. We want to build on this by creating multi-disciplinary teams who will work locally in our new 'Live Well' hubs so that we provide the right support at the right time at the most local level possible.

The pandemic has accelerated the financial challenges that we are all facing. The local authority is no different and has some difficult choices ahead as we try to deliver services within the budget allocated and the demographic growth we are experiencing as the fastest growing local authority in Scotland. As a result, there is a significant funding gap that will impact on what services we can continue to deliver and how we continue to deliver these. Reprioritisation and redesign is crucial to balancing the financial position, as well as preparing for further challenges and changes that we will face.

The proposed Strategic Plan sets out our biggest challenges that need to be addressed over the next five years. We will continue to work to address the inequalities that our communities face, respond to the demands of being one of the fastest growing local authorities in mainland Scotland, and delivering our vision of being a great, green place to grow.

Our Strategic Goal is to create a Wellbeing Economy where our people and the environment flourish. In line with the priorities outlined in the National Performance Framework this will also help us to tackle the current cost of living crisis and the impact of poverty by sharing opportunities, wealth and power more equally.

Empowering our Communities is at the heart of this strategic goal. We will adopt a Participatory Budgeting (PB) approach in which citizens decide directly how to spend part of a public budget. We will support PB as a tool for community empowerment and as a resource to build on the wider development of community participation. Adopting a PB approach will help deliver on outcomes in Scotland's National Performance Framework that 'we live in communities that are inclusive, empowered, resilient and safe' and 'we tackle poverty by sharing opportunities, wealth and power more equally'.

This approach also complements aspirations in the Community Empowerment (Scotland) Act 2015, to give communities more powers to achieve their own ambitions. In addition, it will help deliver the Public Sector Equality Duty by advancing equality of opportunity and fostering good relations between different groups and also support the principle of Public Service Reform that says people should have equal opportunity to participate in decisions shaping their local community and society.

With a continued focus on Early Intervention and Prevention, Midlothian aspires to be a socially, economically, and ecologically sustainable community by 2030. In line with the Single Midlothian Plan, we will reduce inequalities in learning outcomes, health outcomes and economic circumstances at the same time as working towards carbon neutral status by 2030. This goal is supported by 5 strategic outcomes:

1. ***Inclusive, Empowered, Resilient and Safe Communities***: in line with the Place Principle we are committed to delivering services at a local level ensuring that our communities that are inclusive, empowered, resilient and safe. The adoption of the Place Principle will help to promote a shared understanding of place, and the need to take a more collaborative approach to a place's services and assets to achieve better outcomes for people and communities. The principle encourages and enables local flexibility to respond to issues and circumstances in different places. Drawing on our Local by Default driver, we will implement the Hub and Spoke model for locality based service provision and 'Live well' one-stop shops bringing our services to communities so that the right support can be delivered at the right time.
2. ***All children, young people, adults and communities in Midlothian are supported to be the best they can be***: achieved through a nurturing, respectful and collaborative approach that promotes wellbeing, equity, inclusion and lifelong learning.
3. ***Health and Social Care Transformation***: our services will provide the right support, at the right time and in the right place. We will achieve this by placing more importance and a greater proportion of our resources on our key values.
4. ***Accelerating Inclusive Growth***: building back better for our communities. We will deliver our ambitious Capital Programme, providing new passive standard homes and upgraded infrastructure across the county, leverage the opportunities through the

ESESCRD (City Region Deal) and facilitate opportunities for inward investment and inclusive growth. We will adopt and PB approach in which our citizens will decide directly how to spend part of a public budget so that they are actively involved in sharing opportunities, wealth and power more equally.

- 5. Carbon Neutral by 2030:** we will work with our communities and partners to be carbon neutral by 2030, providing green clean spaces for our residents, promoting modal shift, behavioural change and active travel.

Underpinning these priorities is the delivery plan for our business transformation programme, which brings together our strategies for finance, workforce, digital and commercialisation. This plan also sets out how we will make decisions through sound financial planning phased over the next 5 years.

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

Council last considered an update on its Medium Term Financial Strategy on 23 August 2022 where it noted the following:

- a) *The proposed reporting schedule to support finalisation of the budget and Council Tax levels for 2023/24;*
- b) *The update on Scottish Government grant prospects which reflects the Scottish Government's Resource Spending Review (RSR) published on 31 May 2022. Noting also that the RSR sets out extremely challenging planning parameters for Local Government which are exacerbated for Midlothian by the financial pressures associated with population growth;*
- c) *The update on the position with 2022/23 pay claims and the associated impact for the period of the Medium Term Financial Strategy;*
- d) *The update in respect of fiscal flexibilities and that having now received draft statutory guidance that work continues to assess the full implications of the service concession flexibility;*
- e) *That the underlying budget gap for 2022/23 is now projected to be £13.130 million and that as a consequence of both the inflationary increase in costs and cash flat grant settlements the projected budget gap for 2023/24 now stands at £14.4 million rising to a projected £27.1 million by 2027/28;*
- f) *Otherwise note the remainder of the report.*

This report provides Council with sight of the draft Midlothian Council Strategic Plan 2022-2027, *A great, green place to grow: where people and the environment flourish* as set out in appendix B together with an update on the development of the associated Medium Term Financial Strategy (MTFS).

It includes an update on Scottish Government grant prospects and the current assessment of budget gaps. That being the extent to which

recurring net expenditure is projected to exceed income from Scottish Government Grant and Council Tax income based on the current Band D Council Tax of £1,442.60.

Again, it is reiterated that the projections in this report, being based on planning assumptions, will undoubtedly continue to change as wider economic factors change and as Scottish Government publishes its budget for each year.

The aim of developing a Medium Term Financial Strategy continues to be that of providing a multiyear strategy aligned to the development and approval of the Midlothian Council Strategic Plan 2022-2027, *A great, green place to grow: where people and the environment flourish*. It seeks to support the Council in fulfilling its statutory duty to set a balanced budget and determine Council Tax levels annually. In that respect, the final budget for 2023/24 will be updated to reflect the actual position for Scottish Government grant and Council Tax policy once the Scottish Government's budget bill and the associated finance circular are published either late in 2022 or potentially early 2023. As updates are brought to Council a reassessment of pay and inflation provisions will be made taking cognisance of the Scottish Government Public Sector pay policy and the extent to which this is reflected in the grant settlement.

#### **4 Budget Projections**

At its meeting on 23 August, 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.

The impact of inflation and pay pressures in the current and future years remains fluid and budget projections will be reviewed again before the Scottish Government grant settlement is published.

#### **5 Scottish Government Grant Settlement**

Since the publication on 31 May 2022 of the Scottish Government's Resource Spending Review (RSR) there have been further funding commitments associated with the 2022/23 pay negotiations.

Firstly, recurring additional revenue grant of £140 million was committed by the Scottish Government. This funding equated to circa 1.5% pay uplift across all bargaining groups. For Midlothian, the estimated share is £2.338 million.

In addition and to support a minimum uplift of £1,925 per annum (based on 36-hour working week) for the Scottish Joint Council (SJC) bargaining group, Scottish Government committed to provide additional capital grant for 2022/23 and 2023/24 of £120.6 million.

From 2024/25 this will shift to be recurring revenue grant funding. Midlothian's share is estimated at £2.000 million.

Recognising that capital grant funding cannot be used to directly support the revenue expenditure, such as employee costs, presents significant complexities with this funding route. Accordingly the Directors of Finance section, COSLA and Scottish Government Officials have developed a range of proposed mechanisms that are aimed at providing the means for the additional capital grant to support revenue expenditure.

As a consequence of the fiscal flexibilities already utilised by the Council to secure a balanced budget for 2022/23 the range of mechanisms open to the Council is somewhat limited. As such, the initial assessment is that the most relevant measure will be to receive a capital grant to fund investment in the Housing Revenue Account, in turn this will reduce the level of capital expenditure to be funded from the HRA reserve and so would release equivalent sums from the HRA reserve that can then be transferred to General Fund reserve in 2022/23 and 2023/24 to support the increased pay bill costs. In this respect Council is recommended to delegate to the S95 Officer, in consultation with the Leader of the Council, authority to implement the most appropriate mechanism to utilise the additional capital grant being provided in 2022/23 and 2023/24 to meet the increased pay bill costs.

Even with the additional revenue and capital grant from Scottish Government the increase in pay bill costs would exceed the provision Councils had made in their budgets and so exacerbate the financial challenge in 2022/23 and beyond. Nationally the gap for Councils to fund was estimated at circa £140 million. In recognition of this, Scottish Government and COSLA are jointly exploring the potential for a range of funding flexibilities that could be adopted to help mitigate this pressure. It is anticipated that these funding flexibilities will focus on resources that are currently ring fenced or where Government specifically direct their use. The extent to which these funding flexibilities can allow resources to be diverted to fund core expenditure will be dependent on what funding flexibilities are agreed by Scottish Ministers and the extent to which the Council can withdraw from existing expenditure commitments associated with these funding sources. The assessment of this will only therefore be possible once there is agreement nationally in the funding flexibilities open to Local Government and any quantum attached to these, i.e. will it only be a means to fund the £140 million associated with pay or will it extend to addressing wider financial pressures.

As stated on 23 August 2022, "the RSR presents Local Government with the prospect of cash flat grant settlements through to 2025/26 with a small increase of £100m for 2026/27. This represents extremely challenging planning parameters for Local Government, which are exacerbated for Midlothian by the financial pressures associated with population growth. Unfortunately, these planning parameters are broadly in line with the Council's previous planning assumption". The challenging position will be exacerbated by continuing inflation

pressures and the increased uncertainty in respect of the level of resources the Scottish Government will have at its disposal as a consequence of the UK's autumn budget announcements.

The Resource Spending Review highlighted that Scottish Government face significant volatility in its funding outlook. It notes that the funding available to the Scottish Government can vary substantially over time as economic forecasts change and as the UK Government revises its spending plans. The difference in timing between the UK Spending Review, Office of Budget Responsibility forecasts and Scottish Fiscal Commission forecasts, which form the basis of the Scottish Government's funding envelope, has contributed to the uncertainty and as such the Scottish Government is extremely constrained through the fiscal framework, a legislative requirement to balance the budget, and by limitations on its ability to borrow or increase tax revenue to fund additional resource spending to manage these fluctuations.

On 7th September the Deputy First Minister, Mr John Swinney updated Parliament on the impact of the cost crisis on the public finances and the steps the Scottish Government were taking to keep them in balance. This included the additional funding commitments for pay as noted earlier in this report. The Deputy First Minister also committed to setting out an emergency budget review within two weeks of the UK Government budget update. In doing so Mr Swinney warned further intervention will represent a significant challenge given the largely fixed Scottish Government budget and limited fiscal powers.

On 23 September, the Chancellor of the Exchequer set out his Government's Growth plan which amongst other things reversed the National Insurance increase introduced at the start of 2022/23. As a consequence of the taxation changes which apply elsewhere in the UK, it is anticipated that the Scottish Government will receive additional Barnett consequentials of £630 million, the deployment of which perhaps become clear when the Scottish Government sets out its emergency budget. Though it seems unlikely that any will be passed on to Local Government to support core service provision.

Members should note that no additional financial support was provided to Scottish Councils to offset the cost to employers arising from the National Insurance changes, rather it exacerbated the budget gap for the current year. The reversal, effective from November, is anticipated to reduce cost in 2022/23 by £0.450 million and reduce the underlying budget gap by circa £1.130 million on a full year basis.

## **6 2022/23 Pay Claims and Future Years Pay Inflation**

The 2022/23 pay claims for all of the Local Government bargaining groups have yet to be concluded.

For the SJC bargaining group, Trade Unions are consulting with their members on the revised offer made on 2 September 2022 with a



recommendation to accept this now agreed by GMB, Unite and Unison members.

The revised offer represents:-

- For those on the Scottish Local Government Living Wage and SCP 19-24 an undifferentiated 5% or a £2,000 uplift (calculated on a nominal 36-hour full-time working week), whichever is larger.
- This is a 10.2% increase for the lowest paid and for someone on SCP38 (£24,984) this is 7.7% increase (£1,925) and for someone currently on SCP52 (£30,212) this is 6.37% (£1,925).
- The offer is for an undifferentiated 5% or a £1,925 uplift (calculated on a nominal 36-hour full-time working week), whichever is larger, capped for those currently earning £60,000 or more at a £3000 uplift (based on a 37-hour week).

It is estimated that the revised offer equates to a 7.23% increase in the Council's SJC pay bill, compared to the provision of 2.5% in the 2022/23 budget. Of the difference, circa. 3.73% is funded by the additional resources provided by Scottish Government and so an additional 1% falls on the Council to fund.

An offer of 5% has been made to and rejected by the Scottish Negotiating Committee of Teachers bargaining group with negotiations ongoing. Again, the 5% offer exceeded the provision made in the budget and after additional Scottish Government support means that an additional 1% falls on the Council to fund.

In term of the Financial Strategy, the working assumption is now that the unfunded elements of the pay offers, estimate at £1.8 million, will be offset by funding flexibilities. If this is not feasible then this recurring cost will need to be met from existing resources or require further budget reductions.

In terms of future years, the feasibility of the approach to address pay pressures set out in the RSR remains questionable for the local government workforce. The approach by the RSR is to return the public sector workforce to pre-pandemic levels, targeting workforce growth in priority areas but holding the overall pay bill – as opposed to pay levels – at 2022/23 levels.

Whilst there will likely be further inflationary pressures on the local government pay bill beyond the 2.5% provision made in future years the budget projections it would be extremely challenging to translate this into increasing the provision in future years budget without further grant support also being provided from Scottish Government. Including a 2.5% provision when future grant projections are cash flat means that even these provisions are unaffordable without significant service reductions. As such, the 2.5% provision is considered to be the maximum that should be made whilst cash flat government grant planning parameters remain. Any offers which increase the paybill beyond the 2.5% would therefore require additional government support.

## 7 Update on Fiscal Flexibilities

Work continues in the Finance team to fully evaluate any change in the accounting treatment and associated financial provisions arising from the Service Concession flexibility based on the statutory guidance now provided. Officers, with the support of our treasury advisors Link, will complete the assessment of the options in respect of the prudent application of the guidance and the assessment of the impact of the flexibility on the Medium Term Financial Strategy. Engagement will then need to follow with Audit Scotland, the Council's newly appointed auditor. In that respect at this time we still await details of the audit lead from Audit Scotland.

At the present time, the projections set out in this report assume an in year adjustment from the application of the flexibility with further work focussing on the prudence of any application retrospectively.

## 8 Projected Net Cost of Services

The current year's budget, 2022/23, approved on 15 February 2022 was reliant on £12 million on one off funding measures. On the assumption that funding flexibilities will offset any unfunded costs associated with current pay offers and that there no further unfunded costs the figure is now projected to be £10.600 million as detailed in the table below.

One of Measures in 2022/23 Budget	£m	£ m
<b>Use of Reserves</b>		
Utilisation of uncommitted earmarked reserves	2.000	
Utilisation of general reserves	0.250	
		2.250
<b>One of utilisation of Covid Funding (to mitigate savings plans etc)</b>		1.675
<b>Deferment of debt repayments in 2021/22 &amp; 2022/23</b>		
- Loans Fund Review to meet repayments in 22/23 (max)	3.032	
- From use of Fiscal Flexibility (Loans Fund Repayment Holiday) + Utilise Loans Fund Review both in 2021/22 (max)	3.326	
		6.358
Non Recurring Expenditure		-0.250
Impact of 2022/23 Contractual Inflation – Energy and PPP		1.697
Impact of reversal of NIC increase ( full year effect)		-1.130
Impact of 2022/23 pay offer - planning assumption that remaining unbudgeted cost of circa 1% is mitigated in full by funding flexibilities		0.000
<b>Underlying Budget Gap for 2022/23</b>		<b>10.600</b>

The projections for future years in this report are predicated key assumptions in respect of Scottish Government Grant, pay and other inflation and Council Tax growth. The projections are also predicated on the current structure of public services in Scotland, as such no adjustment has been made for the implementation of a National Care Service or any other changes in the structure of Local Government.

As the National Care Service (Scotland) Bill progresses through Parliament and toward implementation, it will be necessary to assess the impact on future year's budgets.

In respect of Scottish Government Grant, the national planning parameters continue to be defined by the RSR. The provisions for pay are as noted earlier. For other inflation, the projections will be updated before the proposed grant settlement is announced later in the year.

Work will continue to review and update cost projections based on the latest information available. As such, the analysis of change set out below is provisional and will change over the term of the Medium Term Financial Strategy. The aim is to focus on 2023/24 with the objective of de-risking, as far as possible, the deliverability of the 2023/24 budget and allow pre settlement updated projections to be included in the report scheduled for 14 December 2022.

<b>Financial Outlook 2023/24 to 2027/28 - Analysis of Change</b>					
	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Opening Gap for the Year</b>	<b>10.600</b>	<b>12.311</b>	<b>16.161</b>	<b>20.135</b>	<b>22.536</b>
<b>Budget Changes</b>					
Staffing - Pay Inflation and salary progression	3.881	3.977	4.077	4.179	4.283
Contractual Inflation & Indexation	1.072	1.099	1.126	1.154	1.183
Loan Charges	0.568	0.250	0.250	0.250	0.250
Service Concession - in year adjustment	-2.336	0.000	0.000	0.000	0.000
Other	-0.011	-0.011	-0.011	-0.011	-0.012
<b>Gross Expenditure Increases</b>	<b>3.174</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>12.311</b>	<b>16.161</b>	<b>20.135</b>	<b>22.536</b>	<b>25.066</b>

Members should note that each 1% of unfunded pay awards above the 2.5% included in these projections would add a recurring £1.8 million to the budget gaps.

Members will again note that there is no provision made in the table above for demographic pressures. At this stage, rather than including a broad estimate, further work is being undertaken to more fully understand the probable demographic pressures across Schools, ASN and Children's Services and also how the impact will flow through the grant distribution system. In the short term, pressures would be mitigated by one of funding sources.

The tables highlight that the underlying budget gap for 2022/23 is £10.600 million. That is the extent to which the recurring expenditure in the current year's budget is funded by non-recurring funding sources.

As a consequence of the inflationary increase in costs and cash flat grant settlements the projected budget gap for 2023/24 now stands at £12.311 million rising to a projected £25.066 million by 2027/28, albeit later years are based on the existing service responsibilities with no adjustment for the consequences of the National Care Service

(Scotland) Bill. These budget gaps represent the extent to which recurring service expenditure is projected to exceed recurring income.

By progressing the Medium Term Financial Strategy as an integral part of the Strategic Plan, it will support members in taking early decisions to address the projected budget gaps. Thereafter, when Council meets in February each year to finalise the budget and set Council Tax for the year ahead members will only have to consider recommendations from the Business Transformation Steering Group in respect of any matters arising from the settlement.

## 9 Medium Term Financial Strategy Savings Measures

Alongside development of the Strategic Plan and in cognisance of the projected budget gap for 2023/24 and beyond, the Corporate Management Team have been developing measures to contribute to reducing the projected budget gaps. There continues to be extensive engagement on the emerging measures with elected members via Business Transformation Steering Group, supplemented by all member briefings and briefings to all three Political Groups.

Arising from that engagement at its meeting on 28 September 2022, the Business Transformation Steering Group noted those measures which are of an operational nature as set out in appendix C and which can contribute to reducing the projected budget gaps.

In summary, the impact of the operational measures on the projected budget gaps would be:-

Financial Outlook 2023/24 to 2027/28 - Measures to address projected budget gaps					
	2023/24	2024/25	2025/26	2026/27	2027/28
	£m	£m	£m	£m	£m
Overall Savings Measures	-1.227	-1.408	-1.700	-1.912	-1.912

In addition, Business Transformation Steering Group noted that a range of additional transformation focused programmes of work activities, as set out below are progressed at pace. In summary, at this point these programmes, which supplement the Customer Service and Efficient Government Programmes which have savings targets attached to them include:-

Client Travel Review

Sport & Leisure Review

Deliver of Zero Carbon by 2030 Commitment

Local by Default

Participatory Budgeting

Digital Led Transformation

Commercialisation

The school week

Additional Support Need and transition to Adult Services

Commissioning including delegated services

Business cases have been drafted for each proposed programme and initial work will focus on assessing the impact each programme can have on the existing budget and service provision. In turn, this will allow the impact to be reflected in future financial projections.

It is recognised that to deliver these programmes at pace at the same time as continuing to recover from the impact of the pandemic, deal with a range of inflationary and service pressures and support the response to the cost of living crisis would not be feasible within the existing staffing establishment. Accordingly, it is proposed that additional capacity is secured to both manage these programmes of work effectively and to drive the delivery of outcomes from these at pace.

As members will be aware there are already funds earmarked to support Business Transformation activity with decisions on their utilisation delegated to the Business Transformation Board.

In addition, the adoption of the financial flexibility to permit the use of capital receipts to fund projects designed to transform service delivery to reduce costs, allowed capital receipts received in 2021/22 of £0.534 million to be set aside for this purpose but which must be utilised by 31 March 2023, otherwise they would fall to be transferred to the Capital Fund.

There are specific criteria set out in Scottish Government Finance Circular 7/2022 governing the use of the capital receipts flexibility including:-

- Qualifying expenditure is non-recurring expenditure on a transformation/service redesign project where incurring up-front costs will generate on-going savings. This is subject to the following:-
- To be qualifying expenditure, the expenditure must be incurred in the financial years 2018-19 to 2022-23.
- Qualifying expenditure is expenditure on any transformation or service redesign project, to transform service delivery in a way that reduces costs and/or demand for services in future financial years. It is for each local authority to determine whether their project is a transformation/service redesign project.
- The key criteria in deciding whether the expenditure is qualifying expenditure is whether the project will generate ongoing savings to that services net revenue expenditure.
- Qualifying expenditure includes the set up and implementation costs of any new processes or arrangements, but not the ongoing revenue costs.
- Qualifying expenditure for non-teacher severance costs is limited to those costs that:-
  - Are directly linked to transformation or service redesign to deliver efficiencies and not reducing costs by just applying cuts to the service; and
  - Arise through the application of statute, which provides an individual with a right to a payment for redundancy or to the

immediate payment of a retirement pension arising from redundancy or business efficiency. Qualifying expenditure is limited to lump sums due either to the individual or the pension fund and not any future recurring payments.

- Discretionary payments to enhance severance packages are not qualifying expenditure.

It is for each local authority to demonstrate that a project qualifies as a transformation or service redesign project with a report required to be presented to full Council for approval and which must provide details of each project to be funded. As a minimum, the report shall set out the total estimated cost of each project, the expected savings / service demand reduction to be achieved, details of the types of qualifying expenditure and the amounts and the value of capital receipts the authority plans to use to fund qualifying expenditure.

Accordingly, a further report will be required for those to be funded from the capital receipts flexibility though in the interim the Business Transformation Funds can be drawn down to avoid any delay in commissioning the programmes.

Council should note that in themselves the operational savings and additions to the transformation programme would not bridge the gap between recurring expenditure and income for 2023/24 and beyond. Accordingly, Business Transformation Steering Group continues to give consideration to further measures necessary to support the delivery of balanced budgets before any further measures are presented to Council.

While these include service transformation options, the severity of the financial outlook, in part driven by the challenging planning parameters indicated by the Scottish Government's RSR, is such that it will be necessary to develop further measures that have a wide ranging impact on services and which see cuts in services that communities have until now enjoyed and relied upon.

Some of these measures will undoubtedly be unwelcomed by elected members, communities and staff but in the absence of any fundamental change in the planning parameters which flow from the Scottish Government's RSR or a very significant increase in Council Tax, they are the types of measures that will be necessary to implement to enable elected members to fulfil their statutory duty to set a balanced budget for each year.

Council should also note that in their annual report for 2021/22 the external auditor EY is expected to recommend 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*".

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.

## **10 Next Steps**

### **10.1 Engagement**

Subject to Council approval of the recommendations, public engagement will take place on the draft strategic plan together with the challenging financial outlook with the outcome reported back to Council. Engagement continues with the recognised Trade Unions who have been kept abreast of the recommendations contained in this report.

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

The scheduled meetings of the Business Transformation Steering Group and Council would support the approval of the Strategic Plan and associated Medium Term Financial Strategy and for the decisions required in respect of the finalisation of the 2023/24 budget at Council in February 2023.

### **10.3 Midlothian Integration Joint Board**

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.

The indicative budget to be delegated to the IJB for 2023/24 together with future years, indicative allocations have to date been developed on the basis of the minimum requirements set out by Scottish Government for 2022/23 continuing. That being, the 2023/24 budget should be no less than the 2022/23 recurring budget plus the IJB's share of new monies provided in 2023/24. 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.

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.

### **10.4 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 will first be reported to Business Transformation Steering Group with recommendations then presented to Council.

Responsibility for setting Council Tax and determining budgets remains 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.

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.

As Council Tax funds the gap between expected income and expenditure, you need to first identify your 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.

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.

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

### **11.1 Resource**

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

### **11.2 Digital**

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

### **11.3 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:

- 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.

Developing a Medium Term Financial Strategy is an 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.

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. Early agreement of the measures required to balance the 2023/24 budget will be essential and should be considered as part of the Medium Term Financial Strategy alongside the Strategic Plan will help to prioritise available resources and so support Councillors to fulfil their statutory duties in respect of setting budgets and determining Council Tax levels.

#### **11.4 Ensuring Equalities**

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.

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.

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.

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.

### **11.5 Additional Report Implications**

See Appendix A

#### **Appendices**

**APPENDIX A – Report Implications**

**APPENDIX B – Draft Strategic Plan**

**APPENDIX C – Operational Savings Measures**

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

The Strategic Plan and associated 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. 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 decision 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.

**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.



## Appendix C

<b>Financial Outlook 2023/24 to 2027/28 - Operational measures to address projected budget gaps</b>					
	<b>2023/24</b>	<b>2024/25</b>	<b>2025/26</b>	<b>2026/27</b>	<b>2027/28</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Recurring Reductions to Service Budgets from:-</b>					
<b>Corporate Solutions</b>					
Pursue Digital Led Transformation of Corporate Resources Phase 1 ( Business Administration) Business Processes ( 5% of staffing as proxy for savings across all involved in business process, inflated by 10% for pay awards to give time value cost)	-0.100	-0.100	-0.187	-0.187	-0.187
Pursue Digital Led Transformation of Corporate Resources Phase 2 ( Business Administration) Business Processes ( 5% of staffing as proxy for savings across all involved in business process, inflated by 10% for pay awards to give time value cost)	0.000	0.000	-0.07	-0.187	-0.187
Shift Customer engagement online Phase 1 - reduce Contact centre capacity by 15% ( inflated by 10% to give time value cost)	-0.100	-0.100	-0.165	-0.165	-0.165
Shift Customer engagement online Phase 2 - reduce Contact centre capacity by 15% ( inflated by 10% to give time value cost)	0.000	0.000	-0.07	-0.165	-0.165
Leadership Review Corporate Solutions - Remove Snr Post and reconfigure 3/4 teir	-0.045	-0.045	-0.045	-0.045	-0.045
Hybrid Working - Rationalisation of office estate	-0.083	-0.250	-0.250	-0.250	-0.250
<b>Corporate Solutions</b>	<b>-0.328</b>	<b>-0.495</b>	<b>-0.787</b>	<b>-0.999</b>	<b>-0.999</b>
<b>Place</b>					
Roads - Shared On Call Service	-0.010	-0.010	-0.010	-0.010	-0.010
Review of Temporary Accommodation provision ; Budget reduced to reflect recent spend	-0.200	-0.200	-0.200	-0.200	-0.200
Maximise number of HRA void clearances by Waste Services utilising existing resource	-0.015	-0.015	-0.015	-0.015	-0.015
<b>Place</b>	<b>-0.225</b>	<b>-0.225</b>	<b>-0.225</b>	<b>-0.225</b>	<b>-0.225</b>
<b>Place Directorate</b>	<b>-0.553</b>	<b>-0.720</b>	<b>-1.012</b>	<b>-1.224</b>	<b>-1.224</b>
<b>Children, Young People &amp; Partnerships</b>					
<b>Education</b>					
Review of Third Party Services	-0.500	-0.500	-0.500	-0.500	-0.500
Review of Learning Estate	tbc	tbc	tbc	tbc	tbc
School and ASN Transport Review	-0.030	-0.030	-0.030	-0.030	-0.030
School Admin Support review ( from Aug 23)	-0.020	-0.034	-0.034	-0.034	-0.034
<b>Education</b>	<b>-0.550</b>	<b>-0.564</b>	<b>-0.564</b>	<b>-0.564</b>	<b>-0.564</b>
<b>Children, Young People &amp; Partnerships</b>	<b>-0.550</b>	<b>-0.564</b>	<b>-0.564</b>	<b>-0.564</b>	<b>-0.564</b>
<b>Health &amp; Social Care</b>					
<b>Non Delegated Sport &amp; Leisure</b>					
Premises, Supplies & Services and TPP	-0.045	-0.045	-0.045	-0.045	-0.045
Reduction of Specialist Instructors	-0.035	-0.035	-0.035	-0.035	-0.035
Further Review of Sport & Leisure	-0.044	-0.044	-0.044	-0.044	-0.044
<b>Health &amp; Social Non Delegated</b>	<b>-0.124</b>	<b>-0.124</b>	<b>-0.124</b>	<b>-0.124</b>	<b>-0.124</b>
<b>Overall Savings Measures</b>	<b>-1.227</b>	<b>-1.408</b>	<b>-1.700</b>	<b>-1.912</b>	<b>-1.912</b>