

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

Report by David Gladwin Acting Chief Financial Officer

Report for Information

1 Recommendations

- a) Note that the Business Transformation Steering Group (BTSG) will continue to consider measures necessary to support delivery of a balanced Medium Term Financial Strategy (MTFS) before any policy measures are presented to Council.
- b) Note that the financial outlook remains challenging for this term of Council and note the recommendation of the external Auditor that, “*as a matter of urgency, officers and elected members need to work together to develop and agree the medium-term financial strategy and progress the Council’s transformation plans*”.
- c) Note the update on Scottish Government grant prospects and ongoing pay negotiations for the current financial year.
- d) Note the MTFS planning assumptions set out in the report.
- e) Note that the budget gap for 2024/25, incorporating the planned use of service concession retrospection and a 3% Council Tax increase is projected to be £7.272 million, rising to a projected £34.677 million by 2028/29.
- f) Note the urgent need to finalise savings proposals, many of which will involve extremely difficult choices, to achieve equilibrium between expenditure and income; and
- g) Otherwise note the remainder of the report.

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2 Purpose of Report / Executive Summary

- 2.1 The report sets out the outcome of the most recent review of the Council's financial planning assumptions pointing to an increased budget gap of £7.272 million in 2024/25 rising to £34.677 million by 2028/29.
- 2.2 Pressure on budgets across Local Government is severe and as the fastest growing Local Authority in Scotland the position is intensified in Midlothian. Recently published census information showed a 16.1% population growth in Midlothian between 2011 and 2022. This was 3.4% more than the 2nd highest growth figure with sustained growth seen in the Central belt.
- 2.3 There is a significant funding gap that will impact on what services the Council can continue to deliver and how they are delivered. Reprioritisation and redesign is crucial to balancing the MTFS and urgent action is needed.

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

- 3.1 The aim of the MTFS is to provide a multiyear financial strategy aligned to the Council's Strategic Plans. It seeks to support the Council in fulfilling its statutory duty to set a balanced budget and determine Council Tax levels annually with a key aspect being ongoing financial sustainability for the Council where recurring costs are matched by recurring income.
- 3.2 Council last considered the MTFS on 21 February 2023 where a range of measures were approved to balance the 2023/24 budget with Council Tax for the year set at a Band D rate of £1,514.73, a 5% increase on the 2022/23 level. Measures included non-recurring elements of a £1.166 million use of covid recovery reserve and a £4.093 million use of backdated service concession savings.
- 3.3 Council on 27 June 2023 approved the Council Transformation Blueprint. The five themes are:
 - Following the Money.
 - 21st Century Workforce.
 - Commercialisation and Income Generation
 - Workplaces of the Future.
 - Multi-Agency Transformation.

3.4 Work on the blueprint will mainly involve a series of short and focused projects, described as sprints, to be phased over several years. The sprints shown below are underway and outcomes will be reported to members, through BTSG, in the coming months. The eight sprints that have commenced are:

- Theme 1 – Following the Money
 - Commissioning, including the % spend in Midlothian.
 - Contract Management.
 - Transport Review.
- Theme 2 – 21st Century Workforce
 - Developing the roles which move away from silo-based working to the delivery of joined-up services in “One Stop Shop” hubs.
- Theme 3 – Commercialisation and Income Generation
 - Advertising and Marketing.
 - Holiday Programmes.
 - Sports and Creative Arts.
- Theme 5 – Multi-Agency Transformation.

These sprints pick up the majority of savings proposals presented to Council during 2023/24 budget deliberations but not supported by Members at that time. Theme 4 – Workplaces of the Future does not have any sprints in the first phase.

Potential Revenue raising measures

- 3.5 Devolution of Non-Domestic Rates Empty Property Relief (EPR) provides Councils with power to end or reduce existing discounts for buildings that have been empty for six months. Officers are currently scoping this.
- 3.6 A Scotland-wide consultation on Council Tax for second homes and empty properties closed on 11th July 2023. This may give rise to additional income depending on the extent of changes permitted and the effectiveness of bringing properties back into use.
- 3.7 Consultation on Council Tax Multipliers closed this week with potential revisions to existing Council Tax multipliers of between 7.5% (band E) and 22.5% (band H). Implementation would be Scotland-wide with the decision out with the Council’s direct control. If this was implemented from 24/25 on an equal phased basis for three years approximately £1.2 million additional Council Tax per annum would be raised but there may be a dampening impact through calculation of Scottish Government Grant.

4 Budget Projections

- 4.1 The Transformation Blueprint provided Members with an update on MTFS projections showing a budget gap of £29.121 million through to 2028/29. Projections have been updated to reflect decisions taken by Council in June and in August 2023 and are shown in table 1 below.

Table 1: MTFS Projected Gap to 2028/29

	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
Opening Budget Gap	0.000	7.272	12.545	17.651	23.602
Use of Covid Funding to mitigate savings shortfall	1.166				
Retrospective Service concessions	4.093	4.093	4.093	4.093	4.091
Revised Opening Budget Gap	5.259	11.365	16.638	21.744	27.693
Funding for 23/24 pay costs met from 22/23 cross year flexibility (2.5% in 23/24 budget, SG funding assumption of 3%)	0.873				
Revised Opening Budget Gap	6.132	11.365	16.638	21.744	27.693
Pay Inflation (3%)	5.817	5.991	6.171	6.356	6.547
Utilities and other Contractual inflation	2.199	2.125	2.161	2.199	2.238
Containment of MIJB funding at Flat Cash	(1.241)	(1.271)	(1.307)	(1.345)	(1.383)
School Demographics	2.000	2.000	1.000	1.000	1.000
Loan Charges	5.255	2.370	1.434	1.749	2.758
In-year Service Concession impact	(0.188)	(0.209)	(0.222)	(0.232)	(0.249)
Destination Hillend Net Income	(0.919)	(1.413)	0.133	(0.028)	(0.016)
VAT on Leisure income	(0.400)	0.000	0.000	0.000	0.000
Scottish Government Grant - funding for pay (otherwise flat cash)	(2.012)	0.000	0.000	0.000	0.000
Council Tax Band D number increase	(1.391)	(1.354)	(1.394)	(1.436)	(1.479)
Lothian Buses Dividend	0.000	0.000	(0.450)	0.000	0.000
Other costs	0.065	(0.030)	(0.033)	(0.029)	(0.033)
Gap	15.317	19.574	24.131	29.978	37.076
Full year impact of 23/24 approved savings measures	(1.980)	(0.867)	(0.212)	0.000	0.000
Council Tax Rate increase (3%)	(1.972)	(2.069)	(2.175)	(2.285)	(2.399)
Retrospective Service Concessions	(4.093)	(4.093)	(4.093)	(4.091)	0.000
Budget Gap to be addressed	7.272	12.545	17.651	23.602	34.677

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

- A flat cash Scottish Government Grant settlement to support existing services and an assumption that any new or enhanced Scottish Government policy requirement will be fully funded. A 1% increase in Scottish Government Grant would yield approximately £1.9 million.

- Pay Inflation – 3% for all years. This is based on the working assumption for 2023/24 that Councils will fund 3% of any pay offer to employees with the Scottish Government providing funding for the remaining costs. Every 1% equates to approximately £2m of cost.
 - A continuation of the Employers Superannuation contribution rate (excluding Teachers) at 22.2%. The results of the triennial revaluation of Lothian Pension Fund are imminent and may provide opportunity to reduce contribution rates in the short term whilst preserving the longer-term funding objectives of the Fund.
 - Council Tax Band D – assumed 3% increase. Every subsequent increase of 1% will generate approximately £0.650m of additional income.
 - Inflation provision for contracts where inflation uplifts are an integral part.
 - Inflation provision for areas of spend where there is high inflationary pressure.
 - Provision for demographic growth in learning settings.
 - Borrowing costs in-line with the most up to date approved version of the General Services Capital Plan.
 - Full delivery in 2024/25 of savings measured approved by Council as part of the 2023/24 budget.
 - Flat cash funding (excluding any ring-fenced additional Scottish Government funding) for Midlothian Integration Joint Board.
- 4.3 These assumptions will all be reviewed and updated as we move through the budget process and Members will be updated on a regular basis.
- 4.4 It is likely that savings emanating from the Transformation Blueprint will not be sufficient, at least in the short-term, to plug budget gaps. To enhance options available to Members and to minimise any reliance on one-off measures, additional Directorate led savings measures may need to be developed at pace.
- 4.5 Consideration can also be given to extending some existing spending control measures beyond non-essential spend and vacancies. Limiting areas of actual spend to match external funding for certain policy initiatives or asking service managers to preserve any areas of service underspend are two further options available.

5 Scottish Government Funding

- 5.1 The Scottish Government published its Medium Term Financial Strategy on Thursday 25th May 2023. This is a five-year look ahead at the trajectory for Scotland's public spending and government spending priorities with forecasts produced by the Scottish Fiscal Commission. Parliamentary committees are now in the pre-budget scrutiny phase in advance of publication of the 2024/25 Scottish Government budget later this year, possibly in December. It remains unknown when Councils will be advised of funding through the Local Government Finance Settlement. Initial figures are normally provided in December with near final figures late-January the following year.
- 5.2 It is clear from commentary that the Scottish Government face a challenging public finance outlook, particularly in 2024/25, driven by rising demand and cost pressures.

Scottish Government / COSLA Partnership Agreement

- 5.3 On 30th June 2023 COSLA and the Scottish Government signed a new Partnership Agreement (the Verity House Agreement) setting out a vision for a more collaborative approach to delivering a number of shared priorities. The agreement includes a commitment to improved budgetary engagement and specifically agreement, by September 2023, of a principle-based fiscal framework between the Scottish Government and Local Government. A joint review of ring-fenced grants and in-year transfers to Local Government will also be undertaken by October 2023 with a view to identifying those funding streams which can be baselined in core grant from 2024/25 thus creating more local freedom and flexibility to address priorities.

Programme for Government

- 5.4 On 5th September the Scottish Government published their Programme for Government which sets out three missions:
- Equality: Tackling poverty and protecting people from harm.
 - Opportunity: Building a fair, green and growing economy.
 - Community: Delivering efficient and effective public services.
- 5.5 Whilst Scottish Government spend will focus on these missions and some have a very clear link to Council budgets, like expanding access to high quality funded childcare and increasing investment in the social care sector, it is too early to understand any direct impact on the Council's MTFS. Publication of the Scottish Budget later this year will provide a much clearer picture.

6 Next Steps

6.1 Engagement

Public engagement will take place at the appropriate point on new savings options with the outcome reported back to Council. Engagement will continue throughout with recognised Trade Unions.

6.2 Outline Timetable for the 2024/25 Budget and Setting Council Tax

Council – Tuesday 10th October

- MTFS Update (this paper)
- Transport Policy

BTSG – Thursday 9th November

- Update on Transformation Blueprint sprints
- Discussion on further savings measures
- Update on MTFS projections

Council – Tuesday 21st November

- BTSG recommendations

BTSG – Monday 4th December

- Update on Transformation Blueprint Sprints
- Consideration of further savings measures
- Update on MTFS projections
- Commentary on Scottish Government Budget (if possible)

Council – Tuesday 19th December

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

BTSG – Tuesday 16th January

- Presentation of options stemming from Transformation Blueprint Sprints
- Consideration of further savings measures
- Update on Base Budget (near final gap)
- Commentary on Local Government Finance Settlement

BTSG – Thursday 8th February

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

Council – Tuesday 27th February

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

The scheduled meetings of the Business Transformation Steering Group and Council will support the approval of the MTFS and decisions required to finalise the 2024/25 budget at Council on 27th February 2024.

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.

6.3 Midlothian Integration Joint Board

The Chief Officer and Chief Financial Officer of the Midlothian Integrated Joint Board (MIJB) will be kept updated on the Council's budget position and will be engaged in the development of the MTFS.

The planning assumptions for the indicative budget to be delegated to MIJB for 2024/25 together with future years indicative allocations have been prepared on the basis of the minimum requirements set out by Scottish Government in previous years. That being, the 2024/25 budget should be no less than the 2023/24 recurring budget plus the IJB's share of new monies provided in 2024/25. However, it will only be possible to formulate a formal offer for the IJB once the annual grant settlement is available and the quantum of any additional monies for delegated activities and any conditions attached to the settlement are known.

MIJB is projecting a £7.871 million overspend at Quarter 1 of 2023/24 and will face further financial pressure if there is a continued expectation that the full cost of pay inflation is met without any additional funding.

BTSG will be asked to consider the formal offer arising from the settlement when it meets in January 2024 and this will inform part of the final budget recommendations to Council.

7 Report Implications (Resource, Digital and Risk)

7.1 Resource

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

7.2 Digital

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

7.3 Risk

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

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

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

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

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

7.4 Ensuring Equalities

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

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

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

7.5 Additional Report Implications

See Appendix A

Appendices

APPENDIX A – Report Implications

A.1 Key Priorities within the Single Midlothian Plan

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

A.2 Key Drivers for Change

Key drivers addressed in this report:

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

A.3 Key Delivery Streams

Key delivery streams addressed in this report:

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

A.4 Delivering Best Value

The report does not directly impact on delivering Best Value.

A.5 Involving Communities and Other Stakeholders

The development of the MTFS provides for public engagement.

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

A.6 Impact on Performance and Outcomes

The MTFS facilitates decisions on how the Council allocates and uses its available resources and as such has fundamental implications for service performance and outcomes. The financial consequences of the pandemic have impacted on the availability and allocation of resources in pursuit of key outcomes as set out in the Single Midlothian Plan for both the immediate and longer term and therefore the ability of the Council to continue to deliver services in a financial sustainable manner.

A.7 Adopting a Preventative Approach

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

A.8 Supporting Sustainable Development

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