

Medium Term Financial Strategy – 2025/26 to 2028/29

Report by David Gladwin Chief Financial Officer and Section 95 Officer

Report for Information

1 Recommendations

- a) Note that the Business Transformation Steering Group (BTSG) will continue to consider measures necessary to support delivery of a balanced Medium Term Financial Strategy (MTFS) before any policy measures are presented to Council.
- b) Note that the financial outlook remains challenging for this term of Council and note the recommendation of the external Auditor that, “*as a matter of urgency, officers and elected members need to work together to develop and agree the medium-term financial strategy and progress the Council’s transformation plans*”.
- c) Note the position relating to the UK Government’s Autumn Budget (section 3.5 to 3.11) and the Scottish Government Budget (sections 3.12 to 3.22)
- d) Note that the projected budget gap for 2025/26, incorporating the planned use of service concession retrospection and a 5% annual Council Tax increase was £9.406 million, rising to £20.645 million by 2028/29 (section 3.2).
- e) Note that a final budget gap, reflecting base budget work and Scottish Government funding is nearing completion and will be presented to BTSG in early January.
- f) Note the outcomes from the recently completed Public Consultation as outlined in section 4 and appendices B and C
- g) Otherwise note the remainder of the report.

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2 Purpose of Report / Executive Summary

- 2.1 The report provides Council with an update on development of the 2025/26 revenue budget, building on the report presented to Council on 8th October 2024 and looking ahead to further member engagement early in 2025 culminating in Council setting a balanced budget on Tuesday 25th February 2025.
- 2.2 Key messages from recent UK and Scottish Government budgets are considered along with the impact these may have on Midlothian Council.
- 2.3 The report provides Council with the results from the recently completed public consultation on the budget.
- 2.4 The UK budget will generate additional funding for Scotland of £1.5 billion in 24/25 with a further £1.9 billion in 25/26 as determined by the Barnett formula. Changes to Employers National Insurance thresholds places additional financial pressure on the Council both directly and indirectly.
- 2.5 The Scottish budget provides Councils with an uplift in both revenue and capital funding from the current financial year and also provides for some enhanced sources of funding that may be available to the Council to support service delivery or expansion. Scottish Government conditions around the budget have been laid out and these have been considered by CoSLA Leaders. Further discussion on will follow.
- 2.6 An updated budget position will be presented to BTSG once the Local Government Finance Settlement has been published and base budget work is complete.

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

- 3.1 The aim of the MTFs is to provide a multiyear financial strategy aligned to the Council's Strategic Plans. It seeks to support the Council in fulfilling its statutory duty to set a balanced budget and determine Council Tax levels annually with a key aspect being ongoing financial sustainability for the Council where recurring costs are matched by recurring income.
- 3.2 Council last considered the MTFs on 10th October 2024 where updated projections for 2025/26 to 2028/29 were provided along with the main assumptions underlying those projections. The projected budget gap for 2025/26 was £9.406 million rising to £20.645 million by 2028/29.
- 3.3 Officers continue to progress work embedded in the Transformation Blueprint approved by Council in June 2023. Updates are being provided to BTSG on a routine basis.

- 3.4 Officers have prepared savings options for consideration, and these include withdrawing from non-statutory areas of service provision, reducing areas of service provision towards a statutory minimum level and a tightening of minimum service standards. A complete pack of savings proposals will be presented to BTSG in early January.

UK Government Autumn Budget

- 3.5 The UK Government set their first full budget on 30th October 2024, and this included the first part of the spending review covering 2025/26. Budget policies increase spending by around £70 billion over the next five years, of which approximately two-thirds is revenue and one-third capital. Around half the increase in spending is funded through an increase in taxes, while the other half is funded by an increase in borrowing.
- 3.6 The Treasury has also indicated that savings are being sought across some government departments whilst others are being protected. This will impact on Barnett consequential as detailed changes in spending are identified and agreed.
- 3.7 It is estimated that the budget will generate an additional £3.4 billion of additional funding for Scotland. £1.5 billion in the current financial year with most being revenue and an additional £1.9 billion in 2025/26 made up of approximately £1.4 billion revenue and £0.5 billion capital. The biggest service areas of additional UK Government spend to generate the revenue consequential are Health and Social Care (59%) and Education (20%).
- 3.8 With effect from April 2025 there will be two significant changes to Employers National Insurance (NI) payments. The percentage rate is to increase from 13.8% to 15% and the threshold at which Employers pay NI for employees is to lower from £9,100 to £5,000.
- 3.9 The estimated additional cost of this for Council employees in 2025/26 is £4.8 million. Whilst not yet confirmed, it is currently expected that funding in addition to the £3.4 billion consequential outlined in section 3.7 will be passed to Scotland and distributed to public bodies to cover additional costs. There are concerns that funding will be insufficient to fully meet additional costs thus creating additional financial pressure.
- 3.10 Increased Employers NI creates an additional pressure for those organisations the Council commission services from or contract with including those in the third sector. Whilst unquantified, there is a risk of demands for higher than expected price increases placed on the Council thus creating an additional financial burden. At this point, there is no information on any funding to support this. Discussions on this subject are ongoing.
- 3.11 The current life of funding for the UK Shared Prosperity Fund ends on 31st March 2025. Midlothian Council received funding of £3.5 million and this has been distributed to support a wide range of projects in keeping with the Fund's policy objectives and criteria. Continuation of the fund into a second phase starting in 2025/26 is confirmed but at a reduced UK wide value of about two thirds of the current scheme. Further detail is awaited.

Scottish Government Autumn Budget

- 3.12 The draft Scottish Budget was presented to the Scottish Parliament on Wednesday 4th December. Over £15 billion funding has been made available for Local Government in 2025/26. £14.2 billion revenue and £0.8 billion capital funding.
- 3.13 On the revenue side there is an increase of £289 million uncommitted with a further £271 million of funding committed or covered by clear Scottish Government direction. The latter includes:
- £125 million to support commissioned providers in Adult Social Care to pay at least a real Living Wage of £12.60 per hour. It is expected that this funding will be passed directly to Midlothian Integration Joint Board (MIJB)
 - £10 million to support an inflationary uplift in payments to those providing Free Personal Nursing Care. Again, the expectation is to pass this directly to MIJB
 - £41 million to fund the cost of the teaching workforce with expectation that it will be maintained, at Council level, at 2023 census figures (1,084 for Midlothian)
 - £43 million for Additional Support for Learning to allow further development of the workforce to meet increasing service demands in this area
 - £25 million to support Early Learning Childcare providers pay at least a Real Living Wage of £12.60 per hour.
 - £15 million to support expansion of Free School Meals to those in Primary 6 and 7 in receipt of the Scottish Child Payment
 - £7 million to supplement budgets for Discretionary Housing payments.
- 3.14 On the capital side there is an increase of £48 million uncommitted funding with a further net £91 million of committed funding which includes:
- £31 million to reinstate capital programmes suspended in 24/25 to fund pay costs (Flooding £26m, Nature Restoration (£5m)
 - £40 million to support work in addressing climate change
 - £25 million for Playpark renewal
- 3.15 Scottish Government expectations of Local Government have been shared with CoSLA and discussion on the detail of these continue in pursuit of consensus, particularly relating to Education and Adult Social Care.
- 3.16 The budget provides no prescribed freeze or cap on Council Tax increases and simply suggests that the settlement should enable councils to minimise any proposed increases.

- 3.17 The Scottish Budget contains a significant uplift to the Health budget which contains a clear message to work as a whole system and across organisational boundaries to improve outcomes and deliver the best possible care. Funding has been made available to support work on areas like hospital at home and improvements in delayed discharge. Detail on funding attached to these workstreams is due and it is expected that elements will flow to Integration Joint Boards for investment in Adult Social Care.
- 3.18 A variety of funding sources made available to support Local Government services sit out with the main Local Government Finance Settlement. They fund specific areas of work in areas like sustainable travel, road safety improvement and regeneration programmes. An early assessment of these indicates a significant increase in available funding for 2025/26. Detail on these will develop during the budget process.
- 3.19 The Affordable Housing Supply Programme (AHSP) funding has been increased to £768 million and now exceeds 2023/24 levels. The impact of this on the Housing Revenue Account budget will be presented to Council on 25th February 2025.
- 3.20 Quantum changes referred to in this report are all in cash terms. When considering known inflationary pressures, particularly relating to pay and commissioned services, it is clear that the real terms increase in funding, however measured, is relatively small.
- 3.21 The draft Local Government Finance Circular is due to be published on Thursday 12th December and will contain detail to support a clearer understanding of the impact of the Scottish Government budget on Midlothian Council. A detailed update will be provided to the Business Transformation Steering Group early in 2025.
- 3.22 Dates for the Budget Bill are still to be agreed by parliament. Provisional dates are as follows:
- Stage 1 – 4th February 2025
 - Stage 2 – 18 February 2025
 - Stage 3 – 25 February 2025

Base Budget Development

- 3.23 The Finance Team, supported by colleagues across the Council, have almost completed detailed work on the 2025/26 base budget. Final review work on areas like Additional Support Needs, Council Tax Income, the ongoing impact of material variances in 2024/25 and significant funding from the UK Government for the Extended Producer Responsibility for Packaging (ePRP) will be completed during December.
- 3.24 The Scottish Budget 2025 to 2026: Public Sector Pay Policy was published alongside the budget. It provides for a 9% pay envelope over the next three financial years with flexibility employers to configure proposals within that envelope.

- 3.25 Local Government have distinct processes to engage with Trade Unions on pay negotiations. A 3% annual increase is higher than current and projected levels of inflation and also the uplift figure contained in Medium Term Financial Strategy projections of 2.5%. However, at this point it feels prudent to increase the Councils budget provision to a 3% uplift in recognition of a consistent approach across public services. This will be reflected in the Base Budget.
- 3.26 Once detailed work on the draft Finance Circular and the Base Budget is complete a draft budget position for 2025/26 will be presented to BTSG. This information will be ready by early-January 2025 at the very latest.

4 Public Consultation

- 4.1 In response to the significant funding gap Council on 8th October 2024 approved a public consultation exercise on our Budget Challenge and the timescales for it.
- 4.2 Budget consultation ran from Wednesday 9th October 2024 to Wednesday 20th November 2024. Alongside the [online consultation](#), paper copies were made available in libraries and additional open comments were received through the 'Have Your Say' email address.
- 4.3 Council officers met in person with Midlothian People Equality Group (MPEG) to gather views on behalf of people who face discrimination, including those with a disability.
- 4.4 A total of 1694 individuals and professional bodies completed the consultation either online or by email, letter or print submission – 1542 online, 105 comments and letters via the email address and 47 paper submissions. Submissions included formal bodies such as MPEG, Scottish Books Trust and community councils. Details of the responses are found in the following appendices:
- Appendix B – Infographic snapshot of feedback by Directorate
 - Appendix C – Full summary and analysis of online questions broken down by questions
- 4.5 Officer work on options for cost reduction or income generation as part of setting a balanced budget for 2025/26 is continuing. A final package of options, once completed and fully reviewed by the Corporate Management Team, will be presented to BTSG early in January 2025.

5 Reserves

- 5.1 The latest reserves projections were presented to Council on 12th November 2024. The General Fund Reserve was £21.5 million of which £12.3 million is earmarked to support MTFS recurring expenditure in financial years 2025/26 to 2028/29 and a further £2.4 million to support the Transformation Blueprint. This leaves a non-earmarked General Fund balance of £6.8 million. This is £2m above the minimum value as prescribed in the Councils Reserves Strategy.
- 5.2 The Council also hold useable reserves in the Housing Revenue Account (HRA), the Capital Account and the Repairs and Renewals Fund. All of these are fully earmarked to support planned expenditure.

6 Next Steps

6.1 Outline Timetable for the 2025/26 Budget and Setting Council Tax

Council – Tuesday 17th December

- Public Consultation Responses
- Update on Base Budget work
- Update on UK Government Budget
- Update on Scottish Government Budget
- Verbal update (if possible) on Local Government Finance Settlement

BTSG – Tuesday 14th January

- Transformation Blueprint dashboard
- Large Grants report
- Consideration of savings measures
- Final Base Budget
- Commentary on Local Government Finance Settlement

BTSG – Monday 17th February

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

Council – Tuesday 25th February

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

6.2 The scheduled meetings of BTSG and Council will support the approval of the MTFS and decisions required to finalise the 2025/26 budget at Council on 25th February 2025.

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

Midlothian Integration Joint Board

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

- 6.5 The planning assumptions for the indicative budget to be delegated to MIJB for 2025/26 together with future years indicative allocations have been prepared based on a funding increase for pay and contractual inflation. However, it will only be possible to formulate a formal offer for the IJB once the annual grant settlement is available and the quantum of any additional monies for delegated activities and any conditions attached to the settlement are known.
- 6.6 MIJB overspent in 2023/24 and are working through a financial recovery plan to keep 2024/25 costs within budget. Failure to do so brings further risk to partner budgets.
- 6.7 BTSG will be asked to consider the formal offer arising from the settlement when it meets in January 2025 and this will inform part of the final budget recommendations to Council.

7 Report Implications (Resource, Digital and Risk)

7.1 Resource

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

7.2 Digital

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

7.3 Risk

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

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

- Uncertainty over the Scottish Government's and Council's financial position.
- Significant uncertainty on funding for additional costs generated by Employers National Insurance changes both for directly employed staff and for organisations that Council engage with to provide essential frontline services.
- 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 supporting the mitigation of a number of these risks by setting out the key assumptions on which forward plans are based.

The risk of not having a balanced MTFS is the potential elimination of available reserves, which in turn would severely limit the Council's ability to deal with unforeseen or unplanned events and also the imposition of significant cuts at short notice with limited opportunity for consultation. Early agreement of the measures required to balance the 2025/26 budget is crucial.

7.4 Ensuring Equalities

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

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

Individual EQIA's will be published in respect of future policy savings measures and an overarching EQIA will be published alongside the MTFS report presented to the Council meeting in February 2025.

7.5 Additional Report Implications

See Appendix A

Appendices

APPENDIX A – Report Implications

APPENDIX B – Public Consultation - Infographic snapshot of feedback by Directorate

APPENDIX C - Public Consultation - Full summary and analysis of online questions broken down by questions

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.