

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

Report by David Gladwin, Chief Financial Officer & Section 95 Officer

Report for Decision

1 The Business Transformation Steering Group Recommends Council to:

- a) Note the key messages in the Accounts Commission Local Government Financial Bulletin 2023/24 (section 3.9)
- b) Note the position relating to Scottish Government funding for Councils in 2025/26 and the associated grant settlement for Midlothian Council.
- c) Approve a 5% uplift in Foster Care Fees for 2025/26 and agree the principle of an automatic annual uplift in line with pay inflation (sections 3.33–3.34)
- d) Approve an allocation to Midlothian Integration Joint Board (MIJB) for 2025/26 of £71.086 million in respect of delegated services (subject to final confirmation of the distribution of Scottish Government Funding) (Sections 3.55-3.56).
- e) Approve the 2025/26 base budget as shown in table 6, sections 3.30–3.35 and detailed in appendix C.
- f) Approve prioritisation of Transformation Blueprint work as outlined in section 3.40.
- g) Approve savings as outlined in sections 3.42 to 3.44
- h) Approve a 10% increase in Council Tax rates for 2025/26 (sections 3.46-3.47). Council Tax bandings are shown at appendix B.
- i) Approve indicative Council Tax increases of 9% in 2026/27, 8% in 2027/28 and 5% in 2028/29 (sections 3.46-3.47).
- j) Approve the utilisation of £4.093 million of earmarked General Fund Reserve to balance the 2025/26 budget (section 3.48)
- k) Approve that any additional funding provided by the government to support Council financial pressures will be used to displace the use of General Reserves which can subsequently be earmarked to support transformation work (section 3.49)
- l) Note that the projected budget gap over the life of the Medium Term Financial Strategy (MTFS) through to 2028/29, assuming Council support all recommendations in this paper, is £8.891 million
- m) Note that a further MTFS report with updated financial projections with a specific focus on progress with Transformation Blueprint work and the General Services Capital Plan will be presented to Council on 24th June 2025.
- n) Otherwise, note the remainder of the report.

2 Purpose of Report / Executive Summary

- 2.1 The main purpose of this report is to provide Council with the budget position for 2025/26 to allow discharge of their statutory duties to set a balanced budget for 2025/26. The report also provides budget projections for financial years 2026/27 through to 2028/29 and planning assumptions for future Council Tax increases.
- 2.2 Commentary is provided to Members on the latest position on Scottish Government funding for Midlothian Council in 2025/26 and government timescales to finalise this.
- 2.3 The UK Government decision to increase Employers National Insurance Payments (eNIC) is discussed and the implications of this is reflected in the 2025/26 base budget position and the remainder of the MTFS.
- 2.4 Council approved savings proposals and future planning assumptions around the use of service concession retrospection partially bridge the projected budget gap over the term of the MTFS. However, the use of one-off measures to balance budgets does not contribute to the underlying financial challenge of matching recurring expenditure and income to reach a financially sustainable position for Midlothian Council.
- 2.5 The budget position for 2025/26 is balanced after endorsement of recommendations made in this report and in items 8.5 and 8.6 on today's agenda. A budget gap of £8.891 million is projected through to 2028/29.

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3 Background / Main Body of Report

- 3.1 The aim of the MTFFS 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 and officers are reminded of a 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*". The auditor also observed that "*The Council continues to demonstrate good financial management arrangements and control of the in-year budget, including understanding of the ongoing impact of Covid and other financial pressures*".
- 3.3 The approval of the MTFFS in June 2019 was an important step-change and one that provided greater certainty for local communities and for employees. It allowed the Council to shift from having to consider savings every year at February Council meetings to planning for the medium term and in turn securing continued financial sustainability.
- 3.4 As a result, the approval of the MTFFS and, on the recommendation of the BTSG, the subsequent approval of the 2020/21 & 2021/22 budgets ensured that the Council secured strategic budgets which invested in Midlothian to help it fulfil its potential to be a great place to grow.
- 3.5 The MTFFS also provided a strong foundation on which the Council has been able to build its response to the financial impact of the COVID pandemic. It was against this backdrop that a corporate solution for 2022/23 was developed to support the delivery of the last budget determined by the previous Council.
- 3.6 The pandemic accelerated financial challenges, exacerbated by very challenging inflationary pressures. There are some difficult choices ahead as Midlothian Council try to deliver services within available budget alongside sustained demographic growth from being the fastest growing local authority in Scotland. As a result, there is a significant funding gap that will impact on what services the Council can continue to deliver and how they are delivered. Reprioritisation and redesign is crucial to balancing the financial position. The approved budget for 2023/24 included some areas of efficiency and service reduction whilst recognising the importance of driving transformation outlined in the Transformation Blueprint as quickly as possible.
- 3.7 Setting the 2024/25 budget was eased by a significant reduction in Employers Pension contributions flowing from the triennial review of Lothian Pension Fund. Council Tax was frozen with supporting funding for this policy flowing from the Scottish Government. Council chose to use reserves to provide additional funding to Midlothian Integration Joint Board in recognition of growing demographic pressures and continued the planned one-off use of service concessions.

- 3.8 Council last considered the MTFs on 17th December 2024. In advance of UK and Scottish Government budget announcements and clarity on Council funding for 2025/26 there was a forecast budget gap of £9.406 million for 2025/26 rising to £20.645 million by 2028/29. It was clear from budget announcements and also the draft Local Government Finance Settlement for 2025/26, albeit in advance of detailed analysis, that forecast budget gaps would reduce considerably.
- 3.9 In January 2025 the Accounts Commission published a Local Government in Scotland Financial Bulletin for 2023/24. This was discussed in detail at Audit Committee on Monday 24th February. Some of the the key messages are:
- In 2023/24 Councils' total revenue and income fell, including another real terms decrease in revenue funding from the Scottish Government. Councils are increasingly reliant on identifying savings, which becomes progressively more difficult year-on-year, and again used reserves to remain within their agreed budgets.
 - Councils continue to borrow more to enable investment in their estates and council debt, and annual interest costs, continue to increase.
 - In 2023/24, useable reserves, which are those that can be used to support service delivery, reduced and most are already committed for specific purposes. This presents an ongoing challenge for councils reliant on reserves to balance their budgets, as well as to longer-term financial sustainability. Using reserves to routinely balance budgets is not sustainable.
 - Councils need to intensify transformation activity, progressing at scale and pace to ensure their financial sustainability.

Statutory Responsibilities of Councillors

- 3.10 Full Council has a statutory duty, as set out in Section 93 of the Local Government Finance Act 1992 (as amended), to set Council Tax and a balanced budget for the following financial year by 11th March.
- 3.11 Members should note that legislation contains no specific requirement for a Council to set its budget at the same time as setting its Council Tax. This is because it is implicit in setting the Council Tax that the income it raises needs to be sufficient to fund the balance of expenditure not otherwise funded from government grant, fees, reserves etc.
- 3.12 It is therefore implicit in legislation that Council Tax income funds the gap between income and expenditure. Accordingly, in determining a budget, Council needs to identify the gap between expenditure and income and if no other action is taken to redress any shortfall Council Tax has to be set at a rate that will do so. As a consequence, Council Tax decisions should not normally be taken in advance of other budget decisions.
- 3.13 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 on 25th February members would be required to disclose if this section of the act applies to them and subsequently not vote on any question with respect to the matter.

Scottish Government Funding - Local Government Finance Circular 10/2024

- 3.14 The Scottish Budget was announced on Wednesday 4th December 2024 with the draft Local Government Finance Circular issued on Thursday 12th December. Consultation on the circular took place during January 2025 and informed the next stages of the parliamentary process. Stage 1 of the Budget Bill passed on Tuesday 4th February, stage 2 is planned for Tuesday 18th February and stage 3 (final) on Tuesday 25th February. The Local Government Financial Order Debate is expected on Wednesday 26th February.

Scottish position

- 3.15 Total cash funding for 2025/26 shown in Finance Circular 10/2024 is £15,035.3 million which is a £632.9 million increase on the published 2024/25 position. Table 1 below provides details.

Table 1: All Scotland Aggregated Funding Totals

| | 2024/25 | 2025/26 | Cash Change |
|----------------|-----------------|-----------------|------------------------|
| | £m | £m | £m |
| Revenue | 13,669.4 | 14,258.1 | 588.7 |
| Capital | 733.0 | 777.2 | 44.2 |
| Total | 14,402.4 | 15,035.3 | 632.9 |

Revenue Funding

- 3.16 To reach a meaningful comparison between financial years it is necessary to compare numbers on the same basis. New and recurring funding provided to Councils during 2024/25 should be reflected in the starting figure and new funding provided in 2025/26 with spending conditions should be excluded. Analysing figures in this manner shows a core cash increase to revenue funding of around £289 million.
- 3.17 Converting cash values to real terms figures is not an exact science illustrated by various commentators concluding slightly differently. In broad terms 2025/26 funding for councils can be described as maintaining rather than improving spending power.

- 3.18 The Scottish Government have provided Councils with funding for 2025/26 to support new expenditure commitments as shown in table 2 below.

Table 2: 2025/26 new commitments

| Commitments (national funding) | £m |
|--|------------|
| Maintenance of Teaching Workforce at 2023 Census levels | 41 |
| Real Living Wage (£12.60 p/h) for Adult Social Care Providers | 125 |
| Personal and Free Nursing Care for Older People | 10 |
| Additional Support for Learning | 28 |
| Real Living Wage (£12.60 p/h) for Early Learning and Childcare providers | 10 |
| Free School Meal Expansion for entitled primary 6 and 7 pupils | 15 |
| Discretionary Housing Payments | 7 |
| Total | 236 |

- 3.19 The Scottish Budget also made a change to Non Domestic Rates (NDR) poundage for Intermediate rated (levied on properties with a rateable value from £50,001 to £100,000) and higher rated (levied on properties with a rateable value over £100,000) properties. The poundage rate for both categories will increase by inflation. The basic poundage rate is provisionally set at 49.8p which is the same at 2024/25.

Impact of Finance Circular 10/2024 on Midlothian Council

- 3.20 Finance Circular 10/2024 distributes £13,803.6 million revenue funding to local authorities with the remaining £441.5 million undistributed at this stage. Table 3 below shows Midlothian's share of distributed amounts and estimated shares of undistributed. Midlothian figures have been updated from those published in circular 10/2024 to incorporate known changes during the circular consultation period in January 2025.

Table 3: Midlothian Council shares of Scottish Government Grant

| | Scotland £m | Midlothian £m |
|--|------------------------|--------------------------|
| <i>Distributed funding</i> | | |
| General Revenue Funding | 10,504.8 | 199.8 |
| Non Domestic Rates | 3,114.0 | 36.4 |
| Ring-Fenced Grants | 184.8 | 2.4 |
| Total | 13,803.6 | 238.6 |
| <i>Undistributed General Revenue funding</i> | | |
| Undistributed General Revenue funding | 441.5 | 7.5 |
| Top-sliced funding | 13.0 | 0 |
| Total Scottish Government Funding | 14,258.1 | 246.1 |

- 3.21 Full incorporation of results from the 2022 census along with further relative increases of some of the indicators used in Scottish Government Grant calculations provides Midlothian with a growing share of National Local Government revenue funding. Table 4 below shows the distributional gains.

Table 4: Impact of 2022 Census and updating of other indicators

| GAE Service Grouping (note 1) | £m |
|---|--------------|
| Education | 1.235 |
| Social Work - Children | (0.140) |
| Social Work - Adults | 1.139 |
| Roads and Transport | (0.073) |
| Leisure and Recreation | 0.101 |
| Cleansing and Environment | 0.025 |
| Other | 0.191 |
| Growth in Midlothian Share of National Funding | 2.478 |

Note 1 - Individual GAE lines (80+) are recalculated each year based on updated indicators.

- 3.22 In 2024/25 Midlothian contributed £2.419 million to the Floor which was set at 0.5% below the average level of Local Authority revenue grant change. The Cabinet Secretary for Finance and Local Government has discretion to choose where to set the floor but tends to work within parameters of 0.25% to 0.75% as agreed by CoSLA Leaders. Growing Councils, like Midlothian, have continued to illustrate how the floor works against increasing service demand.
- 3.23 The annual average change in grant for Councils in 2025/26 was an increase of 2.70%. The floor has been set at -0.75% thus ensuring that the minimum percentage increase any Council can receive is 1.95%. In 2025/26 Midlothian contributes £1.868 million to the floor. A floor of 0.5%, as seen in the 2024/25 settlement, would have resulted in a £2.277m contribution. Whilst movement on the floor brings financial benefit to Midlothian Council it remains the case that a large element of additional funding for a growing population is re-distributed.
- 3.24 A share of the £289 million increased funding, upsides in distribution shares and a movement in the floor provides Midlothian with a £6.1 million increase in general Scottish Government funding.
- 3.25 The 2024 UK Government Autumn Budget laid out some changes to the calculation of Employers National Insurance contributions (eNIC). With effect from April 2025 there will be two significant changes. The percentage rate is to increase by 1.2% to 15% and the threshold at which employers pay eNIC is to lower from £9,100 to £5,000.
- 3.26 The direct impact on the Council's staffing budget in 2025/26 is calculated at £4.3 million and these costs are incorporated in table 6 below.
- 3.27 Increased eNIC also creates an additional pressure for those organisations the Council commission services from or contract with including those in the third sector placing a risk of demands for higher than expected or budgeted price increases on the Council thus creating an additional financial pressure to manage.

- 3.28 Latest expectations are for partial funding flowing from UK Government for direct public sector costs in Scotland (circa 60%) with no additional funding for indirect costs. It will be spring 2025 before the position is finalised.
- 3.29 To provide Councils with a degree of certainty for 2025/26 budget setting the Scottish Government have provided additional funding of £144 million. This equates to approximately 60% of the direct costs Councils face. The estimated share of this for Midlothian is included in table 6 below.

Local Government Finance Settlement Conditions

- 3.30 It has been customary in recent years for the Scottish Government to attach conditions to Local Government Funding. Finance Circular 10/2024 is not so explicit but does outline some proposals which are being discussed between CoSLA and the Scottish Government. The relevant areas are:

Education

- Local Government and Scottish Government jointly commit to developing improved outcomes for Children and Young People, acknowledging the critical importance of delivering excellence and equity in Education.
- Establishment of an Education Assurance Joint Board.
- Reaching agreement for 2025/26 to maintain teacher numbers, with appropriate funding in place, to freeze learning hours, and invest in improving the additional support for learning provided across the country.

Social Care

- Further action must be taken to drive further and deeper social care from the first quarter of 2025.
- Both parties are committed to securing a route to enhanced national oversight of improvement and performance delivery.
- One area where leadership, assurance and transparency could be demonstrated quickly would be further work to ensure effective whole system health and social care.
- In the interim, the additional funding allocated to Integration Authorities, in support of the real living wage uplift in commissioned services and for Free Personal and Nursing Care should continue to be additional and not substitutional to each Council's 2024/25 recurring budgets for delegated adult social care services.

2025/26 Base Budget and MTF5 Projections to 2028/29

- 3.31 The projected net cost of services for 2025/26 has been continually refined to reflect new or changing information particularly relating to inflationary forecasts. The current year's budget as approved on 21st February 2024 was reliant on £5.690 million of one-off funding measures as presented in table 5 below.

Table 5: Underlying budget gap for 2024/25

| One-off Measures in 2024/25 Budget | £m | £m |
|---|-----------|--------------|
| Utilisation of uncommitted reserves | 2.680 | |
| Additional Scottish Government Funding | (1.083) | |
| Service Concession retrospection | 4.093 | |
| Underlying Budget Gap for 2024/25 | | 5.690 |

- 3.32 The Base Budget for 2025/26 has been developed and provides for:
- 3% funding for a pay increase
 - Provision for contractual inflation
 - Loan Charges in line with the spend profile of the approved General Services Capital Plan
 - Scottish Government grant in line with available information
 - Household growth in Midlothian generating additional Council Tax income
 - Implementation of the Scottish Local Authorities Remuneration Committee recommendations
 - Demographic service pressures
 - Additional funding of £0.3 million for Roads Maintenance
 - Additional funding of £0.047 million for grass cutting.

Table 6 below presents the financial impact of these.

Foster Care Fees

- 3.33 Whilst Foster Care and Kinship allowances are now set nationally, Councils retain responsibility for setting Foster Care Fees. Existing weekly fees in 2024/25 are:
- Probationary Fee - £255.89
 - Standard Fee - £323.46
- 3.34 It is proposed to increase these fees by 5% thus giving revised weekly amounts in 2025/26 of:
- Probationary Fee - £268.68
 - Standard Fee - £339.63

The financial impact in 2025/26 of a 5% increase is £0.059 million. This is incorporated in figures in table 6.

Fees and Charges

- 3.35 Agenda item 8.6 today asks Council to approve a range of new, revised and frozen fees and charges. Approval of recommendations in this paper adds income of £0.431 million to the 2025/26 budget and this is reflected in table 6 below.

Transformation Blueprint and Savings

- 3.36 Officers continue to progress work embedded in the Transformation Blueprint approved by Council on 27th June 2023. Updates on work are routinely reported to the Business Transformation Steering Group. Delivery of transformation in this way is the key action in delivering a balanced MTFS and in turn a financially sustainable Council.
- 3.37 In response to the significant funding gap, Council on 8th October 2024 approved a consultation exercise on our budget challenge. Consultation ran until 20th November 2024 with the results presented to Council on 17th December 2024.
- 3.38 Alongside public consultation, and in recognition of the stark financial position, Council officers have examined a wide range of areas where spend could be reduced or additional income could be generated. Many options cut into areas that can be viewed as key or essential service delivery which serves to indicate how difficult the challenge of balancing the budget annually has become.
- 3.39 BTSG have considered savings options throughout the course of the year. Improved funding for 25/26 announced in national budgets has, to an extent, eased pressure to make immediate savings but nonetheless, due to in-year pressures and pressures in future years, some savings are still required to set a balanced budget.
- 3.40 Delivery of savings through the Transformation Blueprint is the preferred route to reach financial sustainability. To contribute to a balanced budget for 2025/26 and also to the longer term MTFS the following will now be prioritised:
- Theme 3 – Workplaces of the Future
 - A one-stop shop pilot in Gorebridge
 - Theme 4 – Income Generation
 - Commercial opportunities at Vogrie Country Park
 - Introduction of a Ringo Service for on-street parking
 - Out of School Childcare Provision; and
 - Early Learning 52-week provision.
- 3.41 At this stage identification of savings or income generation for these areas is not sufficiently developed to be included in 2025/26 budget setting. Individual business plans will be developed, and timing of delivery will become clear. At this point expected savings will be incorporated into the MTFS.
- 3.42 Several operational cost reductions have been identified, and it is recommended that Officers progress with delivery of these. Cost savings of £1.112 million in 2025/26 are anticipated. They are:
- Reduction in dry-side facilities at the weekend in Leisure Centres (Appendix D)
 - Reduction in wet-side facilities at the weekend in Leisure Centres (Appendix D)
 - A reduction in cleaning frequency in some Council buildings (Appendix D)

- Under the Follow the Money theme of the Transformation Blueprint, a review of all service contracts in Communities, Young People and Partnerships (CYPP) Directorate
- An efficiency-based cost reduction in the Communities and Lifelong Learning service
- A review of the CYPP Directorate central teams.

3.43 In addition to these, one proposal relating to Lets and Charges for After School Clubs (Appendix D) requires a policy change. Approval of this would generate savings of £0.171 million in 2025/26. Integrated Impact Assessments for proposals in Appendix D are provided in Appendix E.

3.44 In response to the in-year financial challenges the Chief Executive introduced enhanced financial discipline through a directive of “Business Critical Spend only” until costs are brought back in line with budget. Continuation of this into 2025/26 is expected to generate savings and these will contribute to a general efficiency / financial discipline target in 2025/26 of £0.717 million. Delivery of this will be monitored closely with mitigating action introduced if needed.

MTFS Projections from 2026/27 to 2028/29

3.45 Budget projections for 2026/27 to 2028/29 have been updated to reflect detailed 2025/26 budget development work. These are laid out in table 6 below and are predicated on assumptions related to Scottish Government Grant, pay and other inflation and Council Tax growth as follows:

- 3% pay increase for all years
- 3% provision for contractual inflation
- Loan Charges projections in line with the spend profile of the approved General Services Capital Plan
- Scottish Government flat cash except expected growth in share for Midlothian and expected Learning Estate Investment Programme (LEIP) funding aligned to projected project delivery
- Household growth in Midlothian generating additional Council Tax income

Table 6: Financial Outlook 2025/26 to 2028/29 – Analysis of Change

| | 2025/26 | 2026/27 | 2027/28 | 2028/29 |
|---|-----------------|----------------|----------------|----------------|
| | £m | £m | £m | £m |
| Opening gap for the year | 5.690 | 10.693 | 18.280 | 26.505 |
| <i>Budget Changes</i> | | | | |
| Staffing – pay inflation and salary progression | 7.793 | 6.499 | 6.694 | 6.895 |
| Employers National Insurance – direct costs on employed staff | 4.336 | | | |
| Contractual inflation | 1.183 | 2.167 | 2.227 | 2.288 |
| Loan Charges | 3.412 | 2.972 | 3.545 | (0.088) |
| In-year (24/25) financial pressures | 1.700 | 0.305 | 0.320 | 0.336 |
| Demographic Pressures | 1.178 | 1.000 | 1.000 | 1.000 |
| Approved Savings measures | (0.867) | (0.212) | | |
| Foster Care Fees Increase | 0.059 | | | |
| Additional Budget for Roads | 0.300 | | | |
| Additional Budget for Grass Cutting | 0.047 | | | |
| Additional one-off funding for MIJB | 1.100 | (1.100) | | |
| Additional recurring funding for MIJB | 3.000 | | | |
| Savings Measures – Operational (Para 3.42) | (1.112) | | | |
| Savings Measures – Policy (Para 3.43) | (0.171) | | | |
| Operating efficiency target (para 3.44) | (0.717) | | | |
| Transformation Blueprint delivery | | (1.000) | | |
| Other | (1.257) | (0.549) | (0.531) | (0.548) |
| Expenditure Changes | 19.984 | 10.082 | 13.255 | 9.883 |
| Council Tax – Property Growth | (0.544) | (1.111) | (1.166) | (1.224) |
| <i>Scottish Government Grant</i> | | | | |
| - Increasing share | (1.019) | (1.065) | (1.160) | (1.160) |
| - Additional funding | (6.248) | | | |
| - Other | (1.611) | | (2.404) | (2.025) |
| Funding for Extended Producer Responsibility for Packaging | (2.527) | | | |
| Funding for Employers National Insurance | (2.601) | | | |
| Fees and Charges Increases | (0.431) | (0.319) | (0.300) | (0.300) |
| Income Increases | (14.981) | (2.495) | (5.030) | (4.709) |
| Budget Gap before Council Tax Increase | 10.693 | 18.280 | 26.505 | 31.679 |

Council Tax Strategy

- 3.46 MTFs projections assumed a Council Tax increase of 5% in each financial year. The budget gap, even after taking measures to reduce recurring costs and increase fees and charges, leaves Council Tax as the only recurring option remaining to balance budgets other than introduction of some very challenging savings options.
- 3.47 Council Tax planning is a key element of a sustainable financial strategy and Council is asked to approve:
- A 10% increase in 2025/26
 - An indicative 9% increase in 2026/27
 - An indicative 8% increase in 2027/28
 - An indicative 5% increase in 2028/29

Table 7 below shows the impact of this on budget gaps in table 6.

Table 7: Financial Outlook 2025/26 to 2028/29 – Incorporating Council Tax Strategy

| | 2025/26 £m | 2026/27 £m | 2027/28 £m | 2028/29 £m |
|---|---------------|---------------|---------------|---------------|
| Budget Gap before Council Tax Increase (per table 6) | 10.693 | 18.280 | 26.505 | 31.679 |
| Council Tax Increase – 25/26 | (6.600) | (6.600) | (6.600) | (6.600) |
| Council Tax Increase – 26/27 | | (6.251) | (6.251) | (6.251) |
| Council Tax Increase – 27/28 | | | (5.940) | (5.940) |
| Council Tax Increase – 28/29 | | | | (3.997) |
| Remaining Budget Gap | 4.093 | 5.429 | 7.714 | 8.891 |

3.48 Utilisation of reserves that were created by the Council approved change in accounting policy in February 2023 relating to Public Private Partnership (PPP) contracts is an agreed part of the Council's MTFs. £4.1 m has been applied in financial years 2023/24 and 2024/25 with continuation of that planned approach through to 2027/28. The impact of this approach on the remaining budget gap in table 7 above is shown in table 8.

Table 8: Financial Outlook 2025/26 to 2028/29 – Incorporating Utilisation of Reserves

| | 2025/26 £m | 2026/27 £m | 2027/28 £m | 2028/29 £m |
|---|---------------|---------------|---------------|---------------|
| Budget Gap after Council Tax Increases (table 7) | 4.093 | 5.429 | 7.714 | 8.891 |
| Utilisation of Reserves | (4.093) | (4.093) | (4.091) | |
| Remaining Budget Gap | 0.000 | 1.336 | 3.623 | 8.891 |

3.49 An easing of financial pressure would provide opportunity to reduce reliance on one-off use of reserves to balance annual budgets and to re-provision these to support essential investment in service transformation. To that end, should any additional funding become available in current or future financial years supporting this approach, whether funding to support significant adult social care pressures, direct and indirect eNIC unfunded costs, education related costs of a fast-growing Council or any indeed other source, it is recommended that Council use this to reinstate reserves.

3.50 The most significant assumption in table 6 above relating to financial years 2026/27 to 2028/29 is on Scottish Government Grant funding. MTFs forecasts in recent years have assumed a flat cash grant settlement and this has been closely aligned to the actual position. However, the position in 2025/26 changed with Councils receiving an uplift of £289 million broadly equating to funding equivalent to inflationary costs. If funding for 2026/27 to 2028/29 was to be in excess of cash flat the impact of this, based on scenarios of a £150m increase and a £300m increase, on projected budget gaps is shown in table 9 below.

Table 9: Financial Outlook 2025/26 to 2028/29 – Adjusted for additional Scottish Government Funding

| | 2025/26 £m | 2026/27 £m | 2027/28 £m | 2028/29 £m |
|--|---------------|----------------|----------------|----------------|
| Scenario 1 | | | | |
| Budget Gap per Table 8 above | 0.000 | 1.336 | 3.623 | 8.891 |
| Scottish Government funding – additional £150 million per annum | | (2.728) | (5.455) | (8.183) |
| Revised Budget Gap / (surplus) | | (1.392) | (1.832) | 0.708 |
| Scenario 2 | | | | |
| Budget Gap per Table 8 above | 0.000 | 1.336 | 3.623 | 8.891 |
| Scottish Government funding – additional £300 million per annum | | (5.455) | (10.910) | (16.365) |
| Revised Budget Gap / (surplus) | | (4.119) | (7.287) | (7.474) |

- 3.51 Whilst useful to understand the impact of changes in Scottish Government funding, the situation persists where detail is not known to Councils until approximately two months before future year budgets are set thus making financial planning extremely difficult. Discussions on a multi-year Scottish Government funding settlement and the use of a Fiscal Framework to deliver this continue. A positive outcome to these discussions will bring much more certainty to Councils financial planning.

General Services Capital Plan

- 3.52 Demographic pressures remain a significant funding challenge for a fast-growing Midlothian. Statutory school places and an associated pressure from young people with additional support needs is a key challenge with costs ranging from specific infrastructure expansion to day-to-day service provision costs.
- 3.53 Considerable work has taken place to review the content of the General Services Capital Plan to ensure it is aligned to key Council objectives and also that it is also affordable. As outlined in sections 3.32 and 3.45 of this report, costs included in the MTFs are aligned to the existing approved GSCP. Approval of further projects may generate additional borrowing costs if not fully funded by grant or developer contributions and they may also have some additional revenue implications like staffing for a new school or running costs of a building.
- 3.54 Agenda items 9.2 and 9.3 on today's agenda discuss the Education provision at Shawfair and more generally the outcomes from the Capital Plan Prioritisation exercise. Whilst, at this point it is unlikely that any decision on these papers will generate significant loan charges or additional running costs in 2025/26, it is very likely there will be additional costs from 2026/27 onwards that will require to be included in MTFs projections. The MTFs will be updated accordingly and presented to Council no later than June 2025.

Midlothian Integration Joint Board

- 3.55 The Chief Officer and the Chief Financial Officer of MIJB are being kept updated on the Council's budget position and have also shared the Board's own challenging financial forecasts both in 2024/25 and looking forward. Scottish Government guidance on Council funding parameters for IJB's is outlined at section 3.29 above.
- 3.56 The proposed budget to be delegated to MIJB is £71.086 million and is made up as shown in table 10 below.

Table 10 - MIJB budget offer for 2025/26

| | £m |
|---|---------------|
| 2024/25 Approved Funding | 63.534 |
| Additional 2024/25 funding for pay costs | 0.311 |
| Revised 2024/25 funding | 63.845 |
| Funding for 3% pay increase in 25/26 | 0.772 |
| Funding for full direct impact of eNIC increases | 0.355 |
| Other minor changes | 0.014 |
| <i>New Scottish Government Funding</i> | |
| £12.60 per hour living wage payment for private, voluntary and independent commissioned providers | 1.863 |
| Uplift to Free Personal Nursing Rates | 0.137 |
| Total | 66.986 |
| Additional recurring funding to support demographic pressures | 3.000 |
| Additional non-recurring funding to allow delivery of transformational change by 2026/27 | 1.100 |
| Proposed offer to MIJB for 2025/26 | 71.086 |

4 Report Implications (Resource, Digital and Risk)

4.1 Resource

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

4.2 Digital

The adoption of digital solutions is a central strand of the MTFS.

4.3 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 further 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.
- 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 future years budgets is crucial.

4.4 Ensuring Equalities (if required a separate IIA must be completed)

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 them.

4.5 Additional Report Implications (See Appendix A)

See Appendix A

Appendices

Appendix A – Additional Report Implications

Appendix B – Council Tax Bandings

Appendix C – Service Budgets for 2025/26

Appendix D – Budget Proposals for the Medium Term Financial Strategy

Appendix E – Integrated Impact Assessments for Budget Proposals

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.