

Medium Term Financial Strategy – 2022/23 Budget**Report by Gary Fairley, Chief Officer Corporate Solutions****Report for Noting****1 Recommendation**

Council is asked to note this update on the Medium Term Financial Strategy in respect of the 2022/23 budget.

2 Purpose of Report/Executive Summary

This, the second of three agreed reports, supports Council in fulfilling its statutory obligation to determine a budget and set Council Tax for next financial year when it next meets on 15 February 2022.

The report provides Council with an update on the development of the 2022/23 budget in advance of the publication of the Scottish Government budget and associated local government grant settlement. A verbal update will be provided on the implications of the 9 December announcements.

The report is presented in the context of the Medium Term Financial Strategy approved in June 2019 which brought an important step-change and which provided greater certainty for local communities and also for employees. It has allowed the Council to shift from having to consider savings each year at February Council meetings to planning for the medium term and in turn securing continued financial sustainability. As a consequence of the approval of the Medium Term Financial Strategy and, on the recommendation of The Business Transformation Steering Group, the subsequent approval of the 2020/21 and 2021/22 budgets has ensured that the Council has maintained a financially sustainable position.

This strategic approach has supported continued investment in Midlothian to help it fulfil its potential to be a great place to grow and provided a strong and stable financial foundation on which the Council has been able to build its response to the Covid pandemic. A pandemic that has brought unprecedented financial challenges, risks and uncertainties for Local Government and which is anticipated to affect Council budgets for years to come.

Date: 1 December 2021**Report Contact:**

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3 Background

Council last considered an update on the Medium Term Financial Strategy on 16 November 2021 where it unanimously agreed:

- a) *On the recommendation of The Business Transformation Steering Group that for 2022/23 Council continue to freeze, at 2020/21 levels, fees and charges determined by the Council;*
- b) *Otherwise to note the report.*

In respect of the planning for the 2022/23 budget the Business Transformation Steering Group have considered and endorsed the key budget planning assumptions in respect of pay inflation, government grant and Council Tax as set out below. The final proposed budget for 2022/23 will be updated to reflect the actual position for Scottish Government grant and associated conditions, including conditions in respect of Council Tax. In parallel, a reassessment of pay award 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 itself.

4 Budget Projections and Revised Corporate Solution for 2022/23

This report and the report on 15 February 2022, as outlined below, facilitate the determination of the budget and setting Council Tax. This approach reflects the combination of the Council having an approved Medium Term Financial Strategy and also the adoption of a corporate solution to secure a balanced budget.

BTSG	Council	Objective of Report
24 January	15 February	<p>A report for Decision - Finalisation of 2022/23 budget</p> <ul style="list-style-type: none"> • Determine Council Tax for 2022/23 taking cognisance of settlement conditions. • Any changes as a consequence of the grant settlement and associated policies required to Agree a balanced budget for 2022/23.

In advance of the publication of the Scottish Government grant settlement, and associated conditions and Scottish Public Sector Pay Policy, members are reminded that budget projections are predicated on three key assumptions, the adoption of which was endorsed by the Business Transformation Steering Group.



The corporate solution to support securing financial balance for 2022/23 continues to utilise the benefits of the Loans Fund Review. This comprises of an in year reduction to the loan charges budget and the drawdown of the one-off prior year adjustment. As reported on 16 November 2021 the technical accounting requirements associated with this approach require an element of the draw down of the one off prior year adjustment to be accounted for through year-end earmarked reserves at 31 March 2022.

This constraint combined with a downward revision to the actual loan fund repayments for the current year (reflecting the actual capital expenditure funded by Loans Fund advances) impacts on the sum that can be released in the current year. Consequently this will necessitate the utilisation of non-earmarked general reserves to secure a balanced budget for 2022/23. In turn, the use of reserves can be reinstated in future years. In effect this represents a re-phasing of the benefit of the loans fund review with non-earmarked reserves managing the timing aspects across financial years.

The adjustments necessary to reflect the technical accounting treatment/phasing will be incorporated in the quarter 3 financial monitoring report and final budget papers to be presented to Council on 15 February 2022.

This adoption of the approach to secure a balanced budget for 2022/23 provides the opportunity for the Leadership Team to continue to focus on development of the next iteration of the Medium Term Financial Strategy, covering the term of the next Council which it is anticipated will be presented after the May 2022 election.

5 Scottish Government Grant Settlement

The Scottish Governments budget is scheduled for publication on 9 December 2021 and will set out aggregate figure for Local Government for both revenue and capital allocations. The Local Government Finance Circular, setting out individual Council grant allocations, is expect to be published on 20 December 2021.

Thereafter there will be a parliamentary process for the budget bill with stages 2 and 3 anticipated to be in late January / early February 2022. Recognising the cooperation agreement with the Scottish Green Party it is not anticipated that there will be any material change or any uplift to the local government settlement during the passage of the budget bill.

In respect of the prospects for the 2022/23 grant settlement the available information continues to indicated a number of challenges for the Scottish Government budget and subsequently continued funding pressures for the core local government settlement for the year ahead

The table below provides an overview of the Scottish Governments Departmental Expenditure Limits (DEL) following the UK spending review.

Budgets in Cash Terms for Scotland

	Baseline 2021-22 (£b)	Plans 2022-23 (£b)	Plans 2023-24 (£b)	Plans 2024-25 (£b)
Resource DEL	31.6	35.0	35.7	36.3
Capital DEL	5.2	5.6	5.6	5.5
Total DEL	36.7	40.6	41.2	41.8
% increase		10.7%	1.48%	1.46%

Source SPICe

This indicates that the total unadjusted Scottish block grant will increase from £36.7 billion (excluding COVID funding) in the current year to £41.8 billion by the final year of the Spending Review period. This equates to a 2.4% real terms increase over the Spending Review period. However, as the table above shows, this is front-loaded.

The Fiscal Framework Agreement between the Scottish and UK Governments sets out the fiscal arrangements required support the devolution of tax and welfare powers. The agreement provides for reconciling adjustments in respect of previous years estimates. It is understood that the reconciling adjustment for 2022/23 is a downward adjustment of circa £1bn. As such this would indicate an adjusted uplift for 2022/23 of £2.5bn.

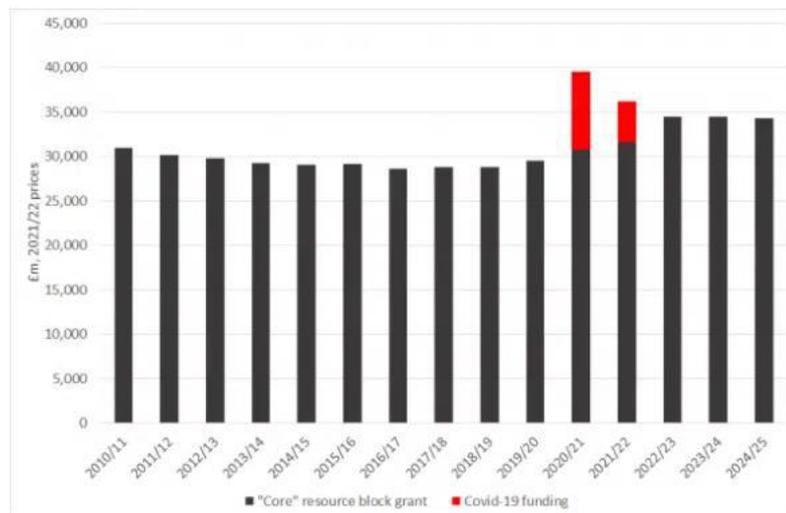
Furthermore, indications are that £1.7bn of the adjusted uplift for 2022/23 relates to the Health Barnett consequential which arise from the National Insurance levy. Indications from Government are that these will be passed through in full to the Health department budget. This in turn would indicate a cash uplift of £0.8bn for all other inflationary and spending pressures across the remaining elements of the Scottish Government budget.

In terms of later years there are small increases projected for revenue with a cash flat position for capital. In respect of capital The Cabinet Secretary has indicate to the COSLA finance spokesperson that UK Spending Review has created an extremely challenging budget with

less funding than Scottish Government had forecast in its five year medium term capital strategy.

The following graph produced by Fraser of Allander shows the outlook for the unadjusted Scottish Block Grant.

Chart 2: Outlook for the Scottish resource block grant



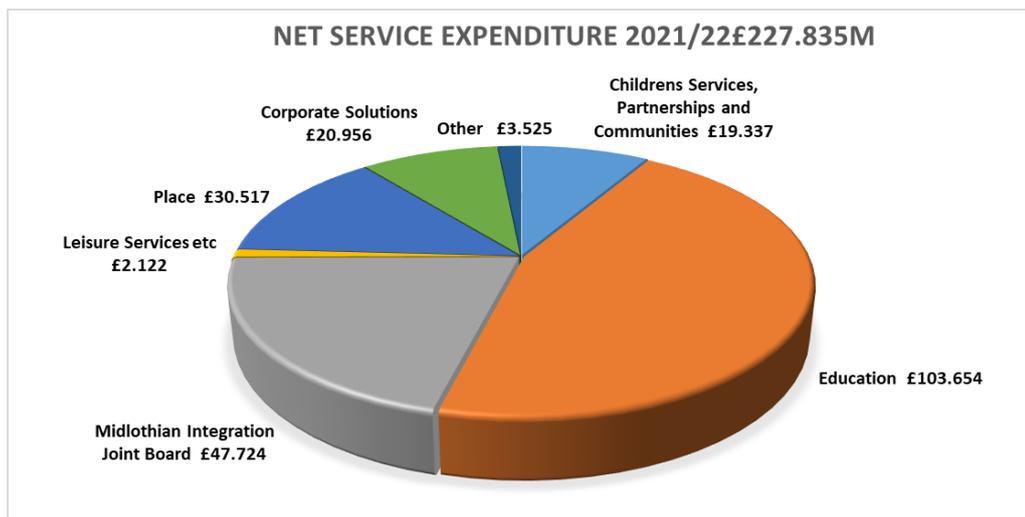
A verbal update will be provided at the Council meeting on the Scottish Government budget announcement scheduled for 9 December 2021.

On receipt of the actual settlement, grant conditions and publication of the Scottish Public Sector Pay Policy the budget projections and corporate solution will be updated and reflected in the final budget report to Council on 15 February 2022.

On 15 November COSLA launched its Budget Lobbying Campaign “Live Well Locally”. It calls for adequate funding from the Scottish Government and a reversal of historical cuts and provides an overview of the funding position and challenges faced by Local Government. A copy of the Live Well Locally release is attached as Appendix B for information.

6 Projected Net Cost of Services

The chart below provides an overview of the approved budget by service for the current financial year.



Work continues to review and update cost projections from those set out in the 16 November 2021 report to ensure that the final proposed budget reflects the latest information available including school rolls projections and care demographics.

Projections will also be further refined to reflect the actual grant settlement, associated conditions, public sector pay policy and also the extent to which funds for health and social care are directed via Health Boards.

The approach set out above will provide updated net cost of services in advance of the settlement announcement. When Council meets on 15 February 2022 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 and associated announcements.

7 Next Steps

7.1 Finalisation of the 2022/23 Budget and Setting Council Tax

The scheduled meetings of the Business Transformation Steering Group and Council provide for finalisation of the budget at Council on 15 February 2022.

7.2 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. However it will only be possible to formulate a formal offer for the IJB once the 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 and this will form part of the final budget recommendations to Council.

8 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 to the budget strategy and corporate solution 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 would be 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.

9 Report Implications (Resource, Digital and Risk)

9.1 Resource

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

9.2 Digital

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

9.3 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 ongoing impact of the Pandemic on the Scottish Government's and Council's financial position;
- The economic outlook and decision by Scottish Government on future years spending priorities, grant settlements and grant distribution;
- The risk to service provision and service users associated with a continued real terms decline in available resources to fund services;
- Future years Public Sector Pay Policy and future year pay award settlements;
- Actual school rolls varying from those provided for in the budget;
- Decisions to be taken as part of the Scottish Government's 2022/23 budget on the funding quantum for 2022/23 for Early Years expansion;
- The impact of the wider economic climate on range of factors including:
 - inflation impacting on the cost of capital projects, good and services and utility costs beyond the provisions made in the budget and the extent to which such pressures are reflected in core funding through the grant settlement;
 - interest rates, employment levels, tax and income levels and service demands;
- Cost pressures, particularly demographic demand, exceeding budget estimates;
- 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.

The Medium Term Financial Strategy aims to mitigate a number of these risks by setting out the key assumptions on which forward plans are based, and through the adoption of the corporate solution for 2022/23 secure a means to achieve financial balance without further service reductions. However as highlighted in this and previous reports the funding settlement for Scottish Government has a material bearing on the extent to which Council can fund service provision and also mitigate financial risks.

The risk of not having in place a balanced Medium Term Financial Strategy and the adoption of the three strands of the corporate solution 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.

9.4 Ensuring Equalities

The Medium Term Financial Strategy and the resource allocation measures which will support financial sustainability have, as far as the constraint on resources allows, been developed within the context of the Single Midlothian Plan, ensuring as far as possible that resources are directed towards the key priorities of reducing inequalities in learning, health and economic circumstance outcomes.

The Medium Term Financial Strategy continues 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, these actions underline the Council's commitment in its Midlothian Equality Plan 2017 – 2021 to tackle inequality and promote inclusion within the limitations of the resources available. These actions also will allow the Council to plan and deliver services which meet the needs of our diverse communities and respond to the changes ahead.

An overarching EQIA will be published on the Committee Management section of the Council's website in parallel to the Medium Term Financial Strategy report presented to the proposed Council meeting on 15 February 2022.

9.5 Additional Report Implications

See Appendix A

Appendices

APPENDIX A – Report Implications

APPENDIX B – COSLA “Live Well Locally”

A.1 Key Priorities within the Single Midlothian Plan

The 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. The corporate solution for financial year 2022/23 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 Medium Term Financial Strategy reflected a community consultation exercise carried out in 2019 which has also helped shape the drafting of the “Midlothian Promise” and the early development of the Council’s Longer Term Financial Strategy.

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 Medium Term Financial Strategy.

A.6 Impact on Performance and Outcomes

The Financial Strategy facilitates decision on how 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 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 Medium Term Financial Strategy.