

## Medium Term Financial Strategy – 2023/24 to 2027/28

### Report by David Gladwin, Acting Chief Financial Officer

#### Report for Decision

## 1 Recommendations

- a) Note that at its meetings of 9th and 14th February 2023 the Business Transformation Steering Group (BTSG) further considered savings measures necessary to support delivery of a balanced budget for 2023/24;
- b) Consider recommendations from BTSG that Council approves:
  - i. Savings proposals to increase fees and Charges income by £0.274 million as detailed at section 3.39 below;
  - ii. Savings proposals to increase fees and charges by £0.038 million as detailed at section 3.40 below and in proposal number five in appendix B;
  - iii. Removal of small grants of £0.089 million as detailed in proposal number 31 in appendix B;
  - iv. The phased application of retrospective service concessions equally over a five year period with £4.093 million in years 2023/24 to 2026/27 and £4.091 million in 2027/28 (section 3.44).
- c) Approve an allocation to Midlothian Integration Joint Board for 2023/24 of £57.926 million in respect of delegated services (subject to final confirmation of the distribution of Scottish Government funding to support additional cost pressures) (section 3.38);
- d) Note that after incorporating BTSG approved measures in recommendation b) above that the remaining budget gap for 2023/24 is £7.836 million;
- e) Approve the updated savings proposals of £4.953 million in 2023/24 rising to a full year impact of £9.436 million in 2025/26 as presented at Appendix B;
- f) Approve an increase in the Band D Council Tax of 5% in 2023/24 thus generating an additional £2.990 million additional income. Revised Council Tax bandings are shown at appendix E;
- g) Approve that the remaining budget surplus in 2023/24 of £0.107 million is set aside to support transformational work required to reach ongoing financial sustainability;
- h) Note that the financial outlook remains challenging for this term of Council with the projected budget gap of £15.026 million by 2027/28 (Table 7);

- i) 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*”. 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*”;
- j) Note the latest position on Scottish Government funding for Local Authorities and the associated grant settlement for Midlothian Council;
- k) Note the outcome from the budget consultation that has taken place as detailed in appendix D; and
- l) Otherwise, note the remainder of the report.

**Date: 15 February 2023**

**Report Contact:** David Gladwin, Acting Chief Financial Officer

## **2 Purpose of Report / Executive Summary**

- 2.1 The main purpose of this report is to provide Council with the budget position for 2023/24 to allow discharge of their statutory duties to set a balanced budget for 2023/24. The report also provides budget projections for financial years 2024/25 through to 2027/28.
- 2.2 Commentary is provided to Members on the latest position on Scottish Government funding for Midlothian Council in 2023/24 and government timescales to finalise this.
- 2.3 BTSG approved savings proposals and future planning assumptions around the use of service concession retrospection partially bridge the budget gap.
- 2.4 The remaining budget gap for 2023/24, after reflecting BTSG recommendations, is £7.836 million rising to £27.452 million by 2027/28. Approval of all savings measures presented in Appendix B reduce the remaining gap to £2.883 million in 2023/24 rising to £18.016 million by 2027/28.
- 2.5 An increase in Council Tax of 5% in 2023/24 generates additional recurring income of £2.990 million thus generating a small budget surplus of £0.107 million in 2023/24 rising to a projected gap in 2027/28 of £15.026 million;
- 2.6 The budget surplus of £0.107 million is earmarked within the General Fund to support ongoing transformational work that is crucial to delivering a long term financially sustainable position for the Council.
- 2.7 The use of one-off measures to balance the 2023/24 budget does not contribute to the underlying financial challenge of bridging the gap between recurring expenditure and income to reach a financially sustainable position for Midlothian Council.

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

- 3.1 Council last considered an update on its Medium Term Financial Strategy (MTFS) on 31st January 2023 where latest projections of the budget gap were presented and discussed.
- 3.2 Council and officers were reminded of 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”*. 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 MTFs 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 MTFs 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 MTFs 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 has accelerated financial challenges, exacerbated in recent months 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.

### **Statutory Responsibilities of Councillors**

- 3.7 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 11<sup>th</sup> March.
- 3.8 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.
- 3.9 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.
- 3.10 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 21<sup>st</sup> 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 11/2022**

- 3.11 The Scottish Budget was announced on Thursday 15<sup>th</sup> December 2022 with the first version of the Local Government Finance Circular issued on Tuesday 20<sup>th</sup> December. There have been several revisions to the circular with the latest version received on Tuesday 10<sup>th</sup> January. The budget bill has passed stages one and two in the Scottish Parliament with the stage three (final) debate on the bill scheduled for Tuesday 21<sup>st</sup> February.

#### **Scottish position**

- 3.12 Total cash funding shown in the latest circular received for 2023/24 is £13,229.158 million which is a £543.885 million increase on the published 2022/23 position in Finance Circular 1/2022. Table 1 below provides details.

*Table 1: All Scotland Aggregated Funding Totals*

	<b>2022/23</b>	<b>2023/24</b>	<b>Cash Change</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b>Revenue</b>	12,000.632	12,402.517	401.885
<b>Capital</b>	684.641	826.641	142.000
<b>Total</b>	<b>12,685.273</b>	<b>13,229.158</b>	<b>543.885</b>

#### **Revenue Funding**

- 3.13 The 2022/23 figure of £12,000.632 million contains some non-recurring funding and the 2023/24 figure includes some new funding with associated expenditure commitments. Table 2 below illustrates this.

*Table 2: 22/23 non-recurring funding and 23/24 new commitments*

	<b>£m</b>
<b>Finance Circular 1/2022 (22/23)</b>	<b>12,000</b>
<i>Non-recurring 22/23 Expenditure</i>	
Scottish Child Bridging Payments	(68)
Interim Care Funding	(20)
<b>Adjusted Comparator for 2023/24</b>	<b>11,912</b>
<i>New Expenditure Commitments</i>	
Recurring funding for pay	140
Local Heat and Energy Efficiency Strategies	2
Whole Family Wellbeing Support	32
Real Living wage in Adult Social care (raising rate to £10.90)	100
Free Personal and Nursing Care	15
Free School Meals – P6+7 expansion for eligible pupils	18
Additional Discretionary Housing Payments	6
School Clothing Grants Increase (inflationary)	1
Adult Social Care Fees (SSSC)	2
Increase in LG contribution to Historic Abuse Redress Scheme	1

<b>Total</b>	<b>12,229</b>
Devolution of Empty Property Relief to Local Government	105
<b>Total Scottish Government Funding on a comparative basis</b>	<b>12,334</b>

Comparing Scottish Government funding on a comparative basis against cash values in the latest Local Government Finance Circular shows approximately a £68 million increase in funding in 2023/24.

- 3.15 Converting cash values to real terms figures, as illustrated by various experts including the Institute for Fiscal Studies, Fraser of Allander Institute and the Scottish Parliament Information Centre, describe a significant real terms reduction in funding to Local Government.
- 3.16 The Scottish Budget also made a change to Non Domestic Rates (NDR) Revaluation Appeals. With effect from 1<sup>st</sup> April 2023, the implementation date of new rateable values from the 2022 revaluation process, any local authority that reduces their own liability as a consequence of a successful appeal will lose the same value of funding from their Scottish Government Revenue Funding. Previously local authorities benefitted significantly from successful appeals.
- 3.17 Whilst not being in receipt of an updated Finance Circular the Scottish Government have advised of two areas of material change from the 10<sup>th</sup> January version as shown below:
- Addition in 2023/24 of £32.8 million nationally to support ongoing costs associated with the 2021/22 teachers pay award. This funding has already been provided in the current financial year; and
  - Presentational change of £45.5 million national funding for teachers which was previously treated as “distributed” (without any further deliberation or conditions) and is now shown as “to be distributed”. A letter from the Scottish Government Deputy Director: Workforce, Infrastructure and Digital dated 9<sup>th</sup> February 2023 to Local Authorities, which is provide in full at Appendix F, outlines in sections 5 and 6 the new conditions to be met for funding to be released.

## Impact of Finance Circular 11/2022 on Midlothian Council

- 3.18 Finance Circular 11/2022 distributes £12,171.054 million to local authorities with the remaining £231.363 million undistributed at this stage. Table 3 below shows Midlothian's share of distributed amounts and estimated shares of undistributed.

*Table 3: Local Authority shares of Scottish Government Grant*

	<b>Scotland £m</b>	<b>Midlothian £m</b>
<i>Distributed funding</i>		
General Revenue Funding	8,348.099	152.700
Non Domestic Rates	3,047.000	35.215
Ring-Fenced Grants	755.956	15.249
<b>Total</b>	<b>12,171.054</b>	<b>203.164</b>
<i>Undistributed funding</i>		
General Revenue Funding	231.360	3.065
Non Domestic Rates (NDR)	0	0
Ring-fenced Grants	0.103	0
<b>Total</b>	<b>231.463</b>	<b>3.065</b>
<b>Total Scottish Government Funding</b>	<b>12,402.517</b>	<b>206.229</b>

- 3.19 After allowing for new expenditure requirements these figures give an improvement of £0.836 million on the projected Scottish Government Grant figure included in the latest iteration of Midlothian's budget model as presented to council in December. However, NDR rule changes on appeals as outlined in section 3.16 of this report effectively reduces this figure when taking into account the lost financial benefits that could be achieved from successful Rateable Value appeals.
- 3.20 The re-instatement of £32.8 million national funding for teachers pay as outlined at section 3.17 above results in a distribution to Midlothian of £0.656 million for which the floor calculation will not be re-opened.
- 3.21 The Minimum Grant Floor is designed to ensure a stable distribution of grant to ensure that all councils receive at least a minimum guaranteed increase in total revenue support for each year. As expected, due to pace of growth in Midlothian, relative shares of Scottish Government funding lines have increased giving an overall 4.48% upwards movement. The floor, for 2023/24, is set at a minimum growth of 1.95% for all councils thus reducing Midlothian's funded growth to 2.43% and resulting in a cash contribution to the floor of £3.136 million.

- 3.22 The Deputy First Minister (DFM) and Cabinet Secretary for Covid Recovery wrote to CoSLA on the 15<sup>th</sup> December outlining details of the Local Government Finance Settlement for 2023/24. The letter is provided at Appendix G. Key points to note are:
- Funding allocated to Integration Authorities should be additional and not substitutional to each Council's 2022/23 recurring budgets for services delegated to Integration Joint Boards (IJBs) and therefore, Local Authority social care budgets for allocation to integration authorities must be at least £95m greater than 2022/23 recurring budgets; and
  - Scottish Government will not seek to agree any freeze or cap in locally determined increases to council tax, meaning each council will have full flexibility to set the Council Tax rate that is appropriate for their local authority area.
- 3.23 At the time of writing this report there are some areas of the Local Government Finance Circular that are not finalised. CoSLA are pursuing these areas with the Scottish Government and they include:
- Clarity of the quantum for Early Learning and Childcare, particularly relating to £15m for targeted holiday provision;
  - Clarity on the quantum for Free School Meals provision; and
  - A full reconciliation of figures thus allowing Local Authority finance professionals to fully understand the detailed position.
- 3.24 The planned change to the distribution basis for Early Learning and Childcare has not been implemented, now deferred until 2024/25. It is hoped that the revised distribution base, which will focus more on actual numbers, will provide an increased share for Midlothian.
- 3.25 Consultation on the Local Government Finance circular ended on 27<sup>th</sup> January. An amended Finance Circular is expected on or around Wednesday 22<sup>nd</sup> February after final passage of the budget bill.



## Budget Projections

- 3.26 The projected net cost of services for 2023/24 has been continually refined to reflect new or changing information particularly relating to inflationary forecasts. The current year's budget as approved on 15<sup>th</sup> February 2022 was reliant on £10.283 million of one-off funding measures as presented in table 4 below. Council on 23<sup>rd</sup> August 2022 approved a supplementary estimate of £1.395 million in 2022/23 to cover unbudgeted inflationary pressures. This is partially offset by the full year impact of reversing the Employers National Insurance increase.

*Table 4: Underlying budget gap for 2022/23*

	£m	£m
<b>One-off Measures in 2022/23 Budget</b>		
<b>Use of Reserves</b>		
Utilisation of uncommitted earmarked reserves	2.000	
Utilisation of general reserves	0.250	
		2.250
<b>One-off utilisation of COVID funding (to mitigate savings plans)</b>		1.675
<b>Deferment of debt repayments in 2021/22 and 2022/23</b>		
Loans Fund Review to meet repayments in 22/23 (max)	3.032	
From use of Fiscal Flexibility (Loans Fund Repayment Holiday) and utilise Loans Fund Review both in 21/22 (max)	3.326	
		6.358
Non Recurring Expenditure		(0.250)
Impact of 22/23 contractual inflation – Energy and PPP – approved by Council on 23 <sup>rd</sup> August 2022		1.395
Impact of reversal of Employers NI increase (full year effect)		(1.130)
<b>Underlying Budget Gap for 2022/23</b>		<b>10.298</b>

3.27 The projections for 2024/25 and beyond as shown in table 5 below are predicted on assumptions related to Scottish Government Grant, pay and other inflation and Council Tax growth. They also assume continuation of the current structure of public services in Scotland. Projections for 2024/25 through to 2027/28 have been updated from those presented to Council in January to reflect updated assumptions on demographic pressures, inflation and debt charges to support capital investment.

Table 5: Financial Outlook 2023/24 to 2027/28 – Analysis of Change

	2023/24	2024/25	2025/26	2026/27	2027/28
	£m	£m	£m	£m	£m
<b>Opening gap for the year</b>	<b>10.298</b>	<b>12.183</b>	<b>18.995</b>	<b>24.829</b>	<b>27.913</b>
<i>Budget Changes</i>					
Staffing – pay inflation and salary progression	4.701	3.977	4.077	4.179	4.283
Contractual inflation and indexation	1.762	1.099	1.126	1.154	1.183
Loan Charges	(1.838)	2.088	3.024	0.234	0.230
Energy Inflation based on November pricing information	1.503	0.000	0.000	0.000	0.000
Demographic Pressures	2.604	2.000	1.000	1.000	1.000
Non Domestic Rates					
Revaluations	1.021	0.000	0.000	0.000	0.000
Digital Software / Cyber Security	0.493	0.000	0.000	0.000	0.000
Service Concessions – in year adjustment	(2.608)	(0.188)	(0.209)	(0.222)	(0.232)
Other	(0.153)	(0.011)	(0.011)	(0.011)	(0.012)
<b>Expenditure Increases</b>	<b>7.485</b>	<b>8.965</b>	<b>9.007</b>	<b>6.334</b>	<b>6.452</b>
Council Tax – Property Growth	(1.350)	(1.350)	(1.350)	(1.350)	(1.350)
Waste Third Party Income	(0.742)	0.000	0.000	0.000	0.000
Destination Hillend Net Income	(0.412)	(0.507)	(1.413)	0.133	(0.027)
Industrial Unit Rental Income	(0.330)	0.000	0.000	0.000	0.000
Scottish Government Grant	(1.539)	(0.115)	(0.118)	(1.821)	(1.824)
<b>Gross Income Increases</b>	<b>(4.373)</b>	<b>(1.972)</b>	<b>(2.881)</b>	<b>(3.038)</b>	<b>(3.201)</b>
<b>Budget Gap to Address</b>	<b>13.410</b>	<b>19.176</b>	<b>25.121</b>	<b>28.125</b>	<b>31.164</b>
Operational savings measures	(1.227)	(0.181)	(0.292)	(0.212)	(0.000)
<b>Budget Gap</b>	<b>12.183</b>	<b>18.995</b>	<b>24.829</b>	<b>27.913</b>	<b>31.164</b>

3.28 Council Tax income shown in projections above is based on the existing Band D Council Tax of £1,442.60.

- 3.29 2022/23 pay claims for the SJC bargaining groups have been concluded with the following agreed:
- For those on the Local Government Living Wage and pay scale point (SCP) 19 to 24 and undifferentiated 5% or a £2,000 uplift (calculated on a nominal 36 hour working week), whichever is larger;
  - A 10.2% increase for the lowest paid. For SCP 38 (£24,984) a 7.7% increase (£1,925) and for SCP 52 (£30,212) a 6.37% increase (£1,925); and
  - An undifferentiated 5% or a £1,925 uplift (calculated on a nominal 36 hour working week), whichever is larger, capped for those currently earning £60,000 or more at a £3,000 uplift (based on a 37 hour working week).

It is estimated that this equates to a 7.23% increase in the Council's SJC paybill.

- 3.30 A straight offer of 5%, and a further differentiated offer averaging at just over 5% has been made to and rejected by the Scottish Negotiating Committee of Teachers Bargaining Group. Discussions are ongoing with a further offer being considered at the time of writing this paper.
- 3.31 A pay increase of 2.5% was provided for in the 2022/23 base budget. The Scottish Government have provided additional funding for 3.73% of the increased cost:
- £140m revenue funding nationally of which £2.338m will flow to Midlothian as part of general revenue funding;
  - £120.6 million of Capital Funding (Capital Flexibilities) of which £2.014 million will flow to Midlothian as a capital grant. A one-off flexibility option to allow capital grant to fund in-year revenue expenditure has been developed with Scottish Government and CoSLA officials.
- 3.32 The remaining 1%, estimated at £1.8 million, links into ongoing national discussions around funding flexibilities. Work continues in 2022/23 on identifying areas of the Council budget that can contribute to the £1.8 million target which is proving challenging to reach.
- 3.33 Pay projections shown in table 5 above include the impact of 22/23 agreed pay awards and the latest offer for those still in dispute, uplifted by a further 2.5% in 23/24 and each year thereafter. Funding for pay awards is included also with the **exception** of £1.8 million of financial flexibilities in 23/24. Given the challenges in identifying valid financial flexibility options in 2022/23 as outlined in section 3.32 above it is considered prudent at this stage to assume they will not be available in 2023/24 and beyond.
- 3.34 A letter from the Scottish Government Deputy Director: Workforce, Infrastructure and Digital dated 9<sup>th</sup> February 2023 to Local Authorities, which is provided in full at Appendix F, details new conditions that Local Authorities are required to meet to access the full amount of previously distributed funding. Section 8 of the letter states that

Midlothian are required to maintain a minimum number of teachers, as measured by the annual census, of 1,081 in 2023/24 to access a share of the £45.5 million withheld funding. Failing to do so will result in some, or all, of Midlothian's share of £0.850 million of the £45.5 million national funding being withheld. The 2023/24 base budget has been prepared to comply with the Scottish Government stipulation and as a consequence of this letter the previously presented savings proposal for reduction in devolved School management Budgets involving teachers has been withdrawn.

- 3.35 Further implications of the letter are being discussed by CoSLA and Scottish Government officials and will shape school related transformation measures that can be considered in coming years.

### **Midlothian Integration Joint Board**

- 3.36 The Chief Officer and Chief Financial Officer of the Midlothian Integrated Joint Board (MIJB) have been updated on the Council's budget position and are engaged in the development of the MTFS.
- 3.37 The proposed budget to be delegated to MIJB for 2023/24 together with future year indicative allocations were developed based on the 2022/23 position of cash flat plus additional Scottish Government funding.
- 3.38 The DFM letter referred to in section 3.22 and provided in full in Appendix G outlines Scottish Government expectations for funding IJBs in 2023/24. Council approved a requisition of £56.438 million in 2022/23. Minor adjustments during 2022/23 revise the figure to £56.593 million. Shares of new funding for Living Wage (£100m) and inflationary increases to Free Personal Nursing Care (£15m) less non-recurring Interim Care Money (£20m) increase the minimum requisition in 2023/24 to £57.926 million.

### **Medium Term Financial Strategy Savings Measures**

- 3.39 BTSG support implementation of the following proposed savings measures for increased fees and charges as shown in table 6 below and detailed in appendix B.

*Table 6: BTSG approved changes to Fees and Charges*

<b>Proposal Number</b>	<b>Proposal</b>	<b>Saving £ Million</b>
3	Civic Licensing Fees to reflect full cost recovery	0.050
15	Economic Recovery – Discretionary charge for Planning services	0.010
16	Building Standards – increase fees for non-statutory duties and continue visual inspections	0.006
19	Burials income raised to the Scottish average value	0.080
22	Safety Advisory Group co-ordination fee	0.025
29	Road Construction Consent	0.093
30	Location and vehicle advertising	0.010
	<b>Total</b>	<b>0.274</b>

- 3.40 BTSG also supported implementation of further fees and charges increases of £0.038 million as shown in savings proposal number 5 in appendix B and savings proposal 31 in appendix B for small grants of £0.089 million.

### **Fiscal Flexibilities**

- 3.41 Although Fiscal Flexibilities are one-off in nature and do not contribute to bridging the ongoing gap between recurring expenditure and recurring income they can, whilst available, be used as a means to plug in-year gaps whilst detailed work takes place to develop and implement permanent transformational savings. For the period of the current MTFS there are two options that can be accessed.
- 3.42 The first relates to Service Concessions. The Scottish Government, through Finance Circular 10/2022 published in September 2022 permitted Councils to apply additional flexibility to the accounting treatment for Service Concession Arrangements in place before 1<sup>st</sup> April 2022. The statutory guidance applies from financial year 2022 to 2023 but permits retrospective application as an option.
- 3.43 A full report on service concessions with recommendations is included at item 8.6 on today's agenda. If Council were to approve the recommendations as presented an additional £20.463 million would become available for use in 2023/24 with in-year adjustments of £2.608 million in 2023/24 rising to £3.459 million in 2027/28. The in-year impacts have been included in projections shown in table 5 above.
- 3.44 It would be prudent and also good fiscal sense to use the retrospective benefits from service concessions in a staggered way over at least the life of the existing term of the MTFS as a means to smooth unbudgeted or emerging pressures that arise and to also provide time and investment to support transformational change that is essential in delivering ongoing financial sustainability for Midlothian Council. BTSG have supported this approach and are recommending the use of £4.093 million in years 2023/24 to 2026/27 and £4.091 million in 2027/28.
- 3.45 Application of service concessions in this way, offset by the additional loan charges cost to access funding, reduces the remaining gap to £7.836 million in 2023/24 rising to £27.452 million in 2027/28.
- 3.46 The second Fiscal Flexibility available for use relates to financing Loans Fund Principal repayments and is one Council have adopted previously. The mechanism for implementing this in 2023/24 would be use of retrospective Loans Fund Review savings to repay debt. The maximum value that can be applied in 2023/24 is £2.9 million.

## Setting the 2023/24 Budget

- 3.47 Public consultation on the savings proposals is complete and feedback from this process is included at Appendix D for information.
- 3.48 Table 7 below shows a remaining budget gap for 2023/24 of £7.836 million as described in section 3.45. It is proposed that the following decisions are taken to balance the 23/24 budget:
- A 5% increase in Band D Council moving from £1,442.60 in 22/23 to £1,514.73 in 23/24 as set out at appendix E thus generating additional recurring income of £2.990 million;
  - Approval of the remaining savings measures of £4.953 million, after incorporating BTSG approvals as laid out in sections 3.39 and 3.40 above and as set out in Appendix B; and
  - Enhancement of Reserves of £0.107 million earmarked to support transformational work.

*Table 7: Budget gap reflecting officer proposals to balance 2023/24*

	2023/24	2024/25	2025/26	2026/27	2027/28
	£m	£m	£m	£m	£m
<b>Budget Gap</b>	<b>7.836</b>	<b>14.828</b>	<b>20.759</b>	<b>24.013</b>	<b>27.452</b>
5% Council Tax increase	(2.990)	(2.990)	(2.990)	(2.990)	(2.990)
Savings Measures - Appendix C	(4.953)	(8.246)	(9.436)	(9.436)	(9.436)
Enhancement to Reserves	0.107	0.000	0.000	0.000	0.000
<b>Remaining Budget Gap</b>	<b>0.000</b>	<b>3.592</b>	<b>8.333</b>	<b>11.587</b>	<b>15.026</b>

- 3.49 The resultant service budgets, reflecting the recommendations of BTSG and further officer recommendations on Council Tax, pay funding and reserves are set out in Appendix H.

## 4 Report Implications (Resource, Digital and Risk)

### Resource

- 4.1 The financial outlook remains challenging for the term of this Council and the recommendation of the External Auditor is “*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*”.

### Digital

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

### Risk

- 4.3 Within any financial projections, there are a number of inherent assumptions in arriving at figures and setting budget. Therefore risks exist if costs change or new pressures emerge.

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

- Uncertainty over the Scottish Government's and Council's financial position;
  - The economic outlook and decision by Scottish Government on future years grant settlements and grant distribution;
  - The risk to service provision and service users associated with a continued decline in available resources to fund services;
  - Future years Public Sector pay policy and current and future year pay award settlements;
  - Actual school rolls varying from those provided for in the budget;
  - The impact of the wider economic climate on range of factors including: inflation, interest rates, employment, tax and income levels and service demands;
  - Cost pressures, particularly demographic demand, exceeding budget estimates;
  - The reform of public services and the implications for the National Care Service (Scotland) Bill;
  - The impact of Universal Credit, and potential pension changes;
  - The costs of implementation of national policies varying from the resources provided by Government;
  - Potential liabilities arising from historic child abuse;
  - Unplanned capital investment requirements and the associated cost; and
  - Ability to continue to meet the expectations of our communities within a period of fiscal constraint.
- 4.4 Developing a MTFS is important and can support the mitigation of a number of these risks by setting out the key assumptions on which forward plans are based. The consequences of the challenging grant settlement parameters mean that it is also necessary to bring forward measures to secure financial balance over the period covered by the Medium Term Financial Strategy.
- 4.5 The risk of not having in place 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.

### **Ensuring Equalities**

- 4.6 The strategic plan and associated 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.

- 4.7 The Strategic Plan and associated 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.
- 4.8 In addition, the Strategic Plan will underline the Council's commitment in its Equality Plan to tackle inequality and promote inclusion within the limitations of the resources available. It will also allow the Council to plan and deliver services which meet the needs of our diverse communities and respond to the changes ahead.
- 4.9 Individual Equality Impact Assessments (EQIA) will be placed in the members Library in respect of future policy savings measures and an overarching EQIA will be published alongside the MTFS report presented to the Council meeting on 21<sup>st</sup> February 2023.

### **Additional Report Implications**

See Appendix A

### **Appendices**

**Appendix A** – Report Implications

**Appendix B** - Budget Proposals – Savings Templates

**Appendix C** – Overview Equality Impact Assessment on Midlothian Council Medium Term Financial Strategy 2023/24 to 2027/28

**Appendix D** – Budget Consultation Feedback

**Appendix E** – Council Tax Bandings

**Appendix F** – Letter from the Deputy Director: Workforce, Infrastructure & Digital, Scottish Government dated 9<sup>th</sup> February 2023

**Appendix G** – Letter from the Deputy First Minister and Cabinet Secretary for Covid recovery to COSLA president dated 15 December 2022

**Appendix H** – Service Budgets



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

The Strategic Plan and associated Medium Term Financial Strategy 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 Strategic Plan and associated Medium Term Financial Strategy provides for public engagement.

In addition, there has been and will continue to be, engagement with the recognised Trade Unions on the Council's financial position and the development of the Strategic Plan and associated Medium Term Financial Strategy.

### A.6 Impact on Performance and Outcomes

The Strategic Plan and associated Medium Term Financial Strategy facilitates 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 Medium Term Financial Strategy 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 we will work to mitigate any sustainability issues which arise as a consequence of the Strategic Plan and associated Medium Term Financial Strategy.