The Highland Council

Agenda Item	4
Report No	HC/35/24

Date: 31 October 2024

Report Title: Medium Term Financial Plan: 2025/26 to 2027/28

Report By: Chief Officer – Corporate Finance (Section 95 Officer)

1. Purpose/Executive Summary

1.1 This report commences the review and refresh of the Council's Medium-Term Financial Plan (MTFP), agreed February 2024, the purpose of which is to ensure the Council takes an ongoing and rolling three-year financial planning approach to support budgeting and financial sustainability. This report also represents the commencement of revenue budget planning for the coming three financial year period, 2025/26 to 2027/28.

1.2 This report builds upon the MTFP agreed in February, and the decisions already taken to close the then forecast budget gap. Members will recall that of a then projected £113m budget gap over 2024/25 – 2026/27, the Council had agreed £54.6m of budget savings, and a range of other financial decisions or assumptions relating to financial flexibilities, council tax and reserves use, which at that time set out plans to address the forecast gap over that 3-year period. This report revisits those planning assumptions and extends to cover a new rolling three-year period, and the forecast level of budget gap the Council needs plan for.

1.3 This report also references other relevant decisions made by the Council regarding its Operational Delivery Plan, Capital Programme and Highland Investment Plan, and how they relate to or influence the MTFP going forward.

1.4 It is clear from statements from the UK Government, and the Scottish Government, that there are significant and additional financial pressures and challenges facing Governmental budgets in the current and next year, with it being expected these will ultimately translate to a potentially more challenging budget settlement and financial outlook for Scottish Local Authorities. The timing of the UK Budget is 30th October, and in turn the Scottish Government Budget is scheduled for 4th December. There remains uncertainty regarding what the impact of these Governmental budgets may be, and the risk that scenarios as modelled in this report need revisited in light of those budget announcements.

1.5 Pending the information that these Government budgets will provide, this report reviews the Council's current budget planning assumptions, and the implications for the MTFP and future years saving targets. New and additional savings measures will be required to support the MTFP, and this report describes scenario plans and processes for moving forward additional saving proposals. While inflation and cost pressure estimates are expected to exceed the likely level of funding that may be available to the Council, there is an inevitable need to plan for savings and budget reductions to ensure the Council can align spending with the funds available to it. The revised forecast, before taking account of agreed savings and other measures, is a revised headline budget gap over three years ranging from £116m-£132m. After allowing for budget savings and other decisions already made by the Council, and other assumptions on council tax and other funding, these scenarios suggest a residual budget gap of £38m-£54m over the three years. The 'new' 3rd year of the financial plan accounts for a significant element of that residual budget gap.

1.6 While decisions already made by the Council in February 2024 provide a very solid foundation to the Council's financial planning, and the Operational Delivery Plan provides the mechanism for monitoring progress with saving delivery, it is essential the Council continues to apply a multi-year, strategic approach to its financial planning and financial sustainability, and makes the necessary decisions to ensure expenditure plans are in line with funding levels.

1.7 This report also seeks members formal agreement to the repayment into the Landbanking Fund of £6.3m taken as Scottish Government granted temporary flexibility over 2022/23 -2023/24. Members will recall from past reports that the Council had sought and been provided temporary flexibility from the requirement to contribute towards affordable housing, from council tax on second homes income, due to prevailing financial challenges, and using the flexibility provided from Scottish Government. The Council has made provision for this repayment into landbanking, but a formal decision is required to do so. The release of this funding, provided for in the Council's budget and earmarked reserves, will increase the Landbanking Fund and support the Council's broad range of efforts to find solutions to the Highland Housing Challenge.

2. Recommendations

2.1 Members are asked to:

i. Note the update provided regarding the Council's Medium Term Financial Plan;
ii. Note that a rolling three-year revenue budget planning approach is being adopted, and an updated Medium Term Financial Plan will cover the three years 2025/26 to 2027/28;
iii. Note the financial context and financial outlook as described in the report, and the financial risks and uncertainties;
iv. Note the need to plan for additional budget savings and other measures to address the financial outlook over the period of the plan;
v. Note the outline timetable of key dates;
vi. Note the work being taken forward regarding development of saving proposals, consideration of the process of budget engagement, and review of earmarked reserves;
vii. Agree to the repayment into the LandBanking Fund of £6.308m from funds set aside.

3. Implications

3.1 Resource – this report has a number of relevant resource implications as described within the report. The report, at this stage, is predominantly an update report and a report which progresses the review and updating of the Council's Medium-Term Financial Plan. Any specific resource implications relating to budget decisions would be addressed in future reports where there are specific budget decisions for members consideration. Within this report the only specific recommendation with a resource implication relates to the Landbanking Fund. As noted within the report, the Council has made provision for the sums to be repaid to the Landbanking Fund and the decision sought from members is to transfer sums from the budget/earmarked funds, into the Landbanking Fund. This would be in accordance with the time-limited flexibility given to the Council by Scottish Government.

3.2 Legal - In terms of Section 93 of the Local Government Finance Act 1992 (‘the 1992 Act’) Members have a duty to set both Council Tax and therefore by implication the next year’s budget before 11 March in any year. Section 93(4) of the 1992 Act states "in calculating such part of the total estimated expenses to be incurred by a local authority as falls to be met out of council tax, account shall be taken of any means by which those expenses may otherwise be met or provided for'. Therefore, Council is required to estimate how much income it will receive from grant allocations, what its expenditure might be, what other budgetary actions can be taken, before then agreeing the Council Tax rate to fund the difference. This process is commonly referred to as setting a balanced budget. This report will support the Council in its financial planning and fulfilment of these legal requirements.

3.4 Risk – this report describes a number of risks and how they might impact, and might be mitigated, through the Council’s Medium Term Financial Planning approach. Section 8 in particular describes some of the key financial assumptions and risks as they relate to this report. There is considerable uncertainty regarding financial outlook and financial settlements for Local Government, and the expectation is a single year Scottish Government budget for 2025/26 therefore leaving uncertainty regarding year 2 and 3 of the Council’s planning assumptions. Through this report, such risks are intended to be mitigated through prudent budget planning assumptions and the benefits of decisions already made in February 2024, and the multi-year planning approach. Given uncertainty over the outcome and impact of pending UK and Scottish Government budget announcements, there remains the risk the scenarios as modelled in this report, may need revisited in light of those budget announcements.

3.5 Health and Safety (risks arising from changes to plant, equipment, process, or people) – no specific implications to highlight.

3.6 Gaelic – no specific implications to highlight.

4. Impacts

4.1 In Highland, all policies, strategies or service changes are subject to an integrated screening for impact for Equalities, Poverty and Human Rights, Children’s Rights and Wellbeing, Climate Change, Islands and Mainland Rural Communities, and Data Protection. Where identified as required, a full impact assessment will be undertaken.

4.2 Considering impacts is a core part of the decision-making process and needs to inform the decision-making process. When taking any decision, Members must give due regard to the findings of any assessment.

4.3 This is primarily an update report and therefore an impact assessment is not required, other than for the recommendation relating to the Landbanking Fund repayment, for which the assessment is as set out below.

4.4 An Integrated Impact Assessment screening has been undertaken on 17 October. The conclusions have been subject to the relevant Manager Review and Approval.

4.5 The Screening process has concluded that there are generally positive impacts generated by the recommendation in this report to repay to the Landbanking Fund. Members are asked to consider the Impact Assessment Summary in **Appendix 1** to support the decision-making process.

4.6

Impact Assessment Area	**Conclusion of Screening**
Equality	Children and Young People – Positive Children affected by disability – Positive Older adults – Positive
Socio-economic	Positive
Human Rights	Positive
Children's Rights and Well-being	Positive
Island and Mainland Rural	Positive
Climate Change	Positive
Data Rights	No impact

5. Background – Medium Term Financial Plan Agreed February 2024

5.1 On 29 February 2024 the Council agreed the MTFP and three-year budget covering the period 2024/25 to 2026/27. The importance of multi-year and longer-term financial planning cannot be understated, and the multi-year approach taken by the Council was a significant decision, and an important foundation for future financial planning. A multi-year financial planning approach now needs to be embedded and a rolling approach is taken to ensure the benefits and legacy of the approach agreed in February 2024 is continued.

5.2 The context for the budget in February 2024 was a significant forecast budget gap over the three-years totalling £113m. This level of gap being driven by a combination of:

- High levels of inflation, interest rates, pay awards and related pressures;
- An assumed 'flat cash' (i.e. 0% uplift) settlement from Scottish Government when inflation was at much higher levels;
- A legacy from prior years of reliance on reserves to balance the budget, which increased the need for sustainable and recurring measures in 2024/25;

5.3 Some of the key decisions made, and key aspects of the MTFP agreed in February 2024 were:

- A firm year 1 (2024/25) and indicative years 2 & 3 (2025/26-26/27) revenue budget;
- A package of recurring measures to address the budget gap over 3 years, including:
    - £54.6m of budget savings to address the budget gap to be delivered and monitoring via the Operational Delivery Plan;
    - £23.7m of financial flexibilities to address the budget gap;
    - £11.8m reduction in gap through review of budget assumptions;
    - £21.8m assumed increased income from council tax over 3 years;

- With the use of reserves to manage and balance the budget over the three years but with the intent and strategy to see such reserve use reduce over the three-year period, and objective of ceasing use of reserves for this purpose;
- A package of recurring budget pressure and investment funding to address particular service needs and outcomes;
- A reserves strategy focused on redesign and transformation, and the use of reserves to support these outcomes and the Council's Delivery Plan.

5.4 While the Council agreed a three-year budget approach, legally it remains an annual process of setting the budget and council tax for the forthcoming financial year. The report in February 2024 therefore set out indicative budgets for years 2 and 3, on the basis that formal decisions on council tax and the overall revenue budget would be made as part of the annual budget setting process.

6. Updated Medium-Term Financial Plan 2025/26 - 2027/28

6.1 Building on decisions made in February 2024, it is recommended within this report that the Council continues with a rolling three-year financial plan and revenue budget. In practical terms that three-year period will cover the years 2025/26 – 2027/28 and would involve:

- A review and updating of plans agreed in February 2024, and covering 2025/26 to 2026/27;
- The addition of a 'new 3rd year' for 2027/28.

6.2 That new three-year period would be baselined on the MTFP agreed in February 2024, and a revisiting of assumptions made therein. There are a number of key considerations that will influence the new MTFP:

- The change in fiscal and economic outlook since February 2024, which could be broadly described as the prospect of a more challenging public sector financial outlook based on statements made by the new UK Government and Scottish Government;
- The need to incorporate decisions and policy relating to the Highland Investment Plan (May 2024) and in particular the alignment of revenue budget decision making to support the HIP.

7. Public Sector Funding Outlook

7.1 There have been a number of key developments and statements in recent months relating to the public sector budget outlook, well covered in the press and media, which suggest that the public sector and local government need plan and prepare for a more challenging financial outlook than had been assumed previously.

- the Chancellor has stated there is a £22 billion 'gap' identified by the UK government for 2024-25, including Pay Review Body wage settlement implications;
- Public sector pay settlements continue to outstrip current inflation levels and are placing significant financial pressures on public sector budgets;
- At a UK level, the Chancellor has stated that funding for pay settlements will need around one third of the cost met from Departmental internal efficiency savings. By implication Scotland's Barnett Consequentials of any pay funding additions will also reflect the implication of those efficiency saving assumptions;

- There has been press speculation around potential employer National Insurance increases that could be a mechanism being considered by the Chancellor as part of the budget;
- The UK Budget is scheduled for 30th October;
- The Scottish Government has announced a number of in-year fiscal measures to balance the 2024/25 budget. These measures are to address in-year pressures of which pay costs are stated as a significant driver. This has resulted in £500m of saving measures in-year across a range of portfolios;
- The implications of these in-year measures by Scottish Government into the 2025/26 budget is unclear at this time. There is a clear expectation that Scottish Government funding for Local Government pay settlements in 2024/25 will need baselined into grant settlements for 2025/26;
- There remains a risk and uncertainty relating to £145.5m of Teacher pay funding in 2024/25, with Scottish Government making recent statements to re-state that the release of this funding is conditional on the maintenance of teacher numbers. The Council's 2024/25 budget is based on the assumed receipt of the Council's £6.2m share of that funding and the rolling forward into future years. Non-receipt of that funding would impact the financial outlook;
- The Scottish Government Budget for 2025/26 is scheduled for 4th December with it understood the Finance Circular detailing grant to individual Councils available week commencing 12th December. Albeit as in past years there is likely to be some time period beyond receipt before full details and implications are assessed and understood.

7.2 Under the umbrella of the Verity House Agreement, there continues to be work taken forward jointly between Cosla/Scottish Government regarding a new Fiscal Framework for Local Government. That work covers a number of different strands including budget engagement, exploring local revenue raising, wherever possible providing multi-year certainty for longer-term financial planning, and consideration of a "rules based approach" which if adopted might alter the approach to determination of Local Government's allocation from the totality of the Scottish Budget. It's unclear what conclusion to this work may be, or in turn any timelines were there to be any change. It may be the case some elements of a Fiscal Framework, if adopted, have a bearing on some years that fall within a new updated MTFP.

7.3 The extent to which grant funding has direction or ring-fencing regarding its use, versus the Council having flexibility to determine its priorities, has been a key budget consideration in past years and may continue to be over the life of the updated MTFP. There remains a risk that whatever level of grant settlement is received by the Council, there remains some direction around its use and potentially new and additional commitments that have to be met from within that funding provision.

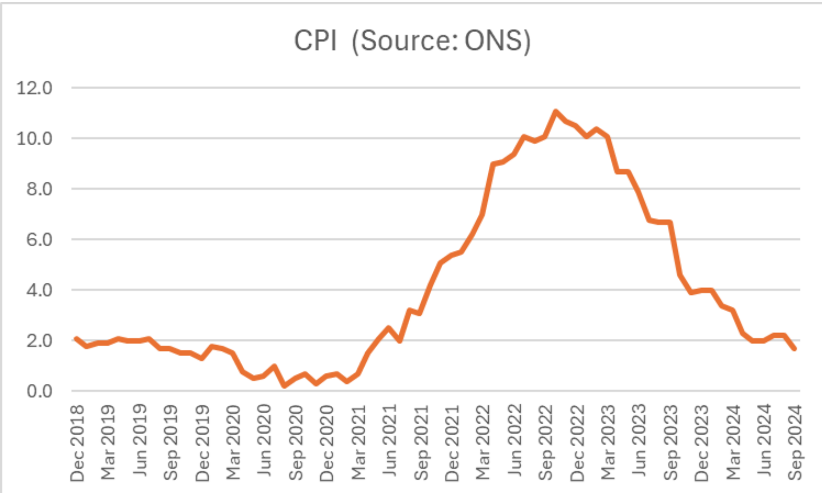
8. Reviewing and Updating the Medium-Term Financial Plan

8.1 The need for and benefits of a multi-year and medium-term financial planning approach are touched on earlier in this report, and have been covered in depth in reports to members over the past year. By continuing with a rolling three-year planning approach, and building on work over the past year, the Council will be much better place in terms of financial planning and financial sustainability. A multi-year approach will also ensure the Council continues to comply with expectations of the Cipfa Financial Management (FM) Code, and support demonstration to External Audit and other bodies the Council's approach to sound financial management. A further development of the MTFP will be to develop a suite of performance and sustainability indicators against which the MTFP can be assessed. This will be founded on good practice in other Local Authorities and make use of existing indicators such as those relating to capital, treasury management, reserves, etc to build a suite of financial sustainability indicators.

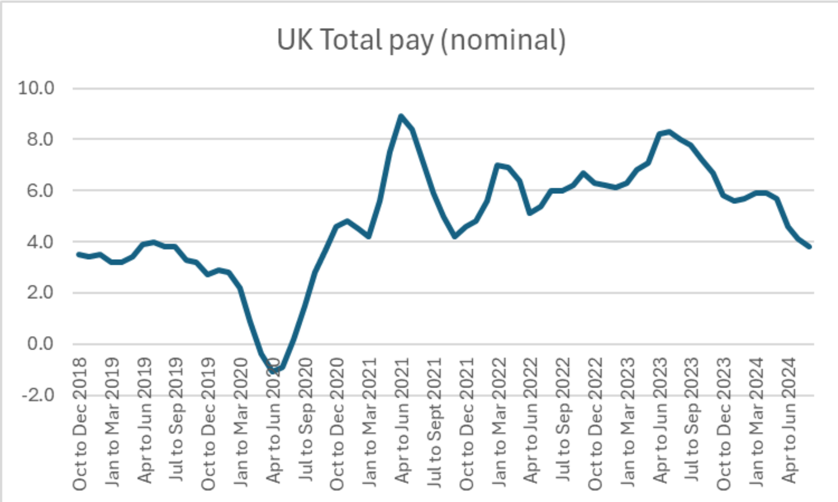
8.2 A core part of any MTFP is the assumptions that feed into it. Assumptions are just that, therefore requiring forecasting and estimation, and suitable managing of risk relating to those assumptions. Since the last MTFP was developed and agreed, there has been further improvement in both inflation and interest rates. On the other hand, pay award expectations remain high relative to inflation, and the cost of many goods and services remain high in relative terms. There is also the need to revisit grant funding assumptions in light statements by both UK and Scottish Governments relating to 2025/26 in particular.

8.3 The following section provides some context to assumptions, and risks and implications that relate.

- Inflation/Budget Pressures. There has been continued and sustained decrease in CPI inflation over the past year. At September 2023 when the last MTFP activity commenced, CPI inflation was 6.7%. By February 2024 when the MTFP was agreed, CPI had fallen to 3.4%. As of the writing of this report, CPI is 1.7%. The UK Government's stated target is 2%. Leaving aside pay costs (see below), around £7.8m of pressures agreed for 2024/25 related to inflationary pressures. The fall in CPI, and if this is sustained, could see an easing of the relative level of inflationary pressures over the coming three years. Some of this had been built into the existing MTFP with overall pressure assumptions reducing from £15m in 2024/25 down to £10m in 2026/27.



- Pay costs. While noting the reduction in CPI as described above, staff side pay expectations have remained substantially above inflation for 2024/25. Current Local Government pay offers for 2024/25 range from 3.6% to 4.27%, not all of which have been accepted by all unions. Both Local Government and Scottish Government have emphasised fundamental affordability issues with pay award expectations, and in 2024/25 the offers made exceeded the funding capacity of Councils. Additional Scottish Government funding has been necessary to fund the full offers made. For the Council's MTFP, it is proposed pay assumptions are kept under ongoing review, and with the expectation that in 2025/26 and beyond pay settlements are more in alignment with prevailing inflation levels and the UK Government CPI target. There remains the risk that staff pay expectations continue to exceed this level, and Scottish Government's Public Sector Pay Policy (SGPSPP), while not directly applicable to Local Government, will nonetheless be a key factor. The 2024/25 SGPSPP published in May of this year, states 3% p.a. over next 3 years as an assumption. Pay costs in excess of CPI inflation would not be affordable to the Council and exceed what could be considered as reasonable budget assumptions recognising the direction of travel of CPI inflation. Pay award assumptions will continue to be a key determinant in the level of budget gap and budget savings the Council needs plan for. Every 1% +/- on the Council's pay bill equates to circa £4.5m of cost.



Source: ONS. Average weekly earnings annual growth rates in Great Britain, seasonally adjusted.

- Scottish Government grant settlement. At this time it is expected that the 4th December Scottish Budget will be a single-year 2025/26 budget. Assumptions for years 2 and 3 of the MTFP will therefore be forecasts without reliance on an underlying UK Government or Scottish Government budget position. In advance of the scheduled UK and Scottish Government budgets, there is little data on which to base a forecast position, other than the outlook being described by both Governments suggests a risk that the Council's February 2024 'flat cash' assumption may be more optimistic now than at that time. Officers are also assessing any other possible implications on the grant settlement, including distribution shares and legacy revisions to government loan charge support grant funding, which may be other factors impacting the level of grant received. The budget planning scenarios as outlined in this paper are set at levels that would give Council ability to plan for grant settlements in difference circumstances. For context a +/-1% on grant settlement equates to circa +/-£6m in grant funding.

- Savings delivery. The budget of February 2024 agreed £54.6m of savings over three financial years (see below). Significant focus and effort on the delivery of these savings, and the monitoring of that delivery, has been put in place. Ranging from the agreement by Council of the Operational Delivery Plan, through to the monitoring arrangements at system, project, board and Committee level of that Plan. Nonetheless, the level of savings agreed was significant, and the level of innovation and risk applying to some savings was noted in the February 2024 budget report. The extent to which agreed savings are not delivered, would increase any forecast budget gap for future years and increase the need to take other actions. As at month 4 of this year, as reported to the Corporate Resources Committee in September, there was a forecast shortfall of £2.5m against the agreed £31.4m savings and other measures for that year. The Quarter 2 budget and delivery plan reporting to the next round of Strategic Committees will give further assessment of progress and allow opportunity to further assess progress. Potential risk of non-delivery of agreed savings will be a consideration factored into budget planning for the forthcoming 3-year period.

Agreed savings February 2024:

	2024/25 £m	2025/26 £m	2026/27 £m	3 Year Total £m
Operating Models	12.087	6.720	5.138	23.945
Asset Base	0.740	1.710	1.750	4.200
Efficiency	6.704	1.334	2.638	10.676
Income Generation	6.548	3.710	5.555	15.813
Totals	26.079	13.474	15.081	54.634

Source: 29 February 2024 report to Highland Council.

- Highland Investment Plan (HIP)/Council Tax – members will recall that the HIP agreed in May was based upon, and had Council agreement that future council tax income (subject still to annual budget setting), would be ring-fenced to support the borrowing costs of the HIP. The financially modelled assumption was for a sum equivalent to 2% p.a. of council tax to support the capital objectives of the HIP. This would in turn release £2.8m p.a. on a growing profile, to support borrowing costs and capital investment. Given the HIP was agreed subsequent to the February 2024 budget, by implication this could also mean the 2% would need be over and above existing council tax assumptions of 5% p.a., unless other funding strategies were adopted. The MTFP and revenue budget decisions will therefore need to factor in either an additional 2% of council tax income, beyond current assumptions, or a sum equivalent (i.e. met from savings or other additional measures) to support the HIP. Budget plans and options will be developed on this basis and with the aim of giving members options around the decisions to be made for the 2025/26 revenue budget. The profile of capital spending and commitments will also be a consideration, which might give some scope to smooth the funding needs in the short-term, recognising that major projects may take 1-2 years before major capital cash outflows are incurred.

- Fiscal Flexibilities/Opportunities. These played a significant part in the Council's financial plans as agreed in February, with decisions made in areas such as Council tax on second homes, Non Domestic Rate empty property reliefs and PPP accounting flexibilities. The financial effect of these decisions was across multiple years and will therefore continue to form a key part of the Council's agreed budget plans. At this time there does not appear to be any similar confirmed further flexibilities available to the Council at this time, beyond those known as at February 2024. There is the potential this could change depending on future UK or Scottish Government decisions. Most of the existing flexibilities, were at source originating from Scottish Government legislation or regulation, or flexibilities around these.

- Levies and Other Opportunities. The Council has indicated its intent to progress consultation and engagement around a potential Highland Visitor Levy and subject to future decisions, could mean 2026/27 as being the financial year in which any new levy went live. The Scottish Government have also responded to calls from Local Government regarding Cruise Ship and Motorhome Levies, with some national work and engagement on a potential Cruise Ship levy moving forward. Any more specific financial assumptions on these levies would be dependent on further information and progress on each.

8.4 With regard to funding assumptions, the table below sets out the assumptions as at February 2024, with a new 3rd year added, using the same underlying assumptions.

	2025/26 £m	2026/27 £m	2027/28 £m
Funding assumptions – February 24 basis			
- Scottish Government Grant support (flat cash)	607.369	607.369	607.369
- Council Tax Income (+5% p.a. plus base growth)	159.886	169.061	179.110
- General Fund Reserves to balance the budget (excludes earmarked or other planned reserve drawdown)	12.922	1.129	0.000
- Total	**780.177**	**777.559**	**786.479**
- Year on Year change	+11.513	-2.618	+8.920

The table reflects the then flat cash grant settlement assumption, an underlying +5% p.a. council tax assumption, and the use of reserves assumption, with the new year 3 reflecting no assumed use of reserves to balance the budget. The core 5% council tax assumption is before the decisions made in May 2024 regarding the Highland Investment Plan and earmarking of revenue funding to support that.

This represents the assumed position at February and rolling forward as a baseline for the new 3 year Medium Term Finance Plan.

8.5 Assessing across the range of risks and assumptions as described above, there is a need to revisit financial plan assumptions and plan for scenarios where higher levels of saving than assumed at February 2024 may be required. This may be driven by a combination of lower grant settlements, higher pay costs, or higher pressures and other factors. Re-setting the expected level of budget gap will allow the Council to progress plans and actions to identify measures, including further budget savings, to support the MTFP.

8.6 The tables below summarise updated scenario plans for the Council's MTFP over the next three years based on scenario planning around different outcomes for the various assumptions and risks at paragraph 8.3. Data is shown on the basis of a 'gross' budget gap **before** any of the agreed or planned savings and other mitigations are shown, and also then shown 'net' i.e. **after** those agreed actions to give a clear understanding of the remaining budget gap that requires plans and actions to address it.

Some of these scenarios have been shown to contrast the February 2024 assumptions (with minor updates) with revised 'mid' and 'worse' case scenarios in light of the factors as described in this report. There remain a number of unknowns, and uncertainty over grant settlement is the most significant uncertainty. It is necessary and prudent to plan for such scenarios and particularly given the lead time to develop new saving and other options, and in turn to implement them. The benefits of a multi-year approach are the potential it provides to try and manage some of the financial challenges faced over a multi-year basis. It does remain vital however that the Council's reserves strategy and MTFP is followed and the clear need to use reserves for change, transformation and investment, and not simply to balance the budget. Financial plans should continue to be based on that strategy, and as one core measure of financial sustainability, to aim for a MTFP and annual budget that doesn't rely on reserves – this will not be achieved immediately but should be the objective over the life of the updated MTFP.

8.7 The updated MTFP financial forecast **before** any agreed savings or other mitigations are as follows. I.e. before savings, council tax, reserves or other assumptions. Potentially more challenging government financial settlements, and continued pay, price and other pressures are the main drivers in the level of headline budget gap shown. The extent to which year 1 and 2 are higher gaps in relative terms to year 3, is due to assumptions made and the expectation that by year 3 a more settled financial outlook may be achieved.

	Current/ Feb'24 £m	Revised - Mid £m	Revised - Worse £m
Forecast Budget Gap - **Before** Mitigations/Savings			
- 25/26	35.675	43.712	49.749
- 26/27	35.046	46.089	53.568
- 27/28	23.381	26.373	28.335
- 3 Years	94.102	116.174	131.652

These figures contrast with a £113m headline budget gap in the previous 3 year Medium Term Financial Plan.

Paragraph 8.4 summarises the baseline funding assumptions rolled forward from February 2024. If these are used as a baseline position, applied to the gross gap as shown above, the revised net remaining gap would be as shown below.

It is important to emphasise that the rolling forward of February 2024 council tax and reserve use assumptions are indicative only. A key consideration for the Council will be its council tax and reserves assumptions for the year. Any decrease in council tax/reserves from that February 2024 baseline, would increase the gap and need for savings or other measures. The funding for the HIP from sources other than council tax (i.e. a 5% plus approach) would also increase the need for savings or other measures.

	Current/ Feb'24 £m	Revised - Mid £m	Revised - Worse £m
Forecast Budget Gap - **After** Agreed Mitigations/Savings			
- 25/26	0.710	8.747	14.784
- 26/27	-0.342	10.701	18.180
- 27/28	15.800	18.792	20.754
- 3 Years	16.168	38.240	53.718

8.8 In light of the above, it is prudent and necessary to plan for further and additional savings and other measures that will be required in 2025/26 and 2026/27, over and above existing agreed savings, as well as progressing plans for the new year 3, 2027/28. To plan on a prudent basis, and to ensure there is scope to adapt/flex the financial plan in light of changed circumstances, it would be appropriate to plan for new and additional savings and other measures on the worse-case scenario. It could be the case that in light of UK or Scottish Government budgets, there is a need to revisit or reset assumptions, given uncertainty as to what these budgets may mean. While mid and worse case scenarios are modelled, given little clarity at this stage regarding impact of UK and Scottish Government budgets, there remains the risk that the impact of these budgets may differ from scenarios modelled.

Officers are progressing initial work around the identification of options and planning related to that need for further savings. This will be founded on:

- A review of existing agreed savings and any scope to increase/accelerate/ expand on those;
- A review of savings options or proposals developed for February 2024, but not taken forward;
- Further focus on income generation opportunities as a key aspect of budget planning;
- Consideration of fiscal flexibilities or other opportunities regarding the budget, in the latter years which may include the potential for new levies such as Cruise Ship or Motorhome Levy being available to local authorities;
- Further budget savings, and redesign/transformation opportunities;
- Other budget reductions as may be necessary to provide options around the financial position.

8.9 As noted earlier, the level of savings that may ultimately need be considered, will be heavily dependent on the grant funding settlement and future pay award assumptions. Both of which have a significant degree of risk and uncertainty. The Council's financial plans will need plan prudently, while giving opportunity to adapt plans should circumstances change.

9. Reserves

9.1 The Council in December 2023 agreed a Reserves Strategy for the General Fund, and as part of its MTFP in February 2024 made decisions which sought to reduce and taper out the reliance on reserves to balance the budget, and also put a greater emphasis on use of reserves for investment, change and transformation. Despite the clear financial challenges that the Council and Local Government phases, the Council is in a positive position regarding reserves. Reserves are finite and can only be used once, and hence why their use for balancing the budget is not a sustainable solution.

9.2 The Council in its February 2024 MTFP had clear plans and strategies in place for reserves. The closing reserves position as reflected within the Council's 2023/24 Annual Accounts was as follows.

£110.8m General Fund Earmarked Reserves. Funds held for specific purposes including investment, change and transformation.

£47.3m General Fund non-Earmarked Reserves. Funds held as a general contingency to meet 3% strategy, and funds held to balance the budget over 2024/25 – 2026/27.

With agreed use of these funds resulting in drawdown from these totals in the current 2024/25 financial year.

9.3 Officers have been progressing a review of earmarked reserves, with a particular focus on legacy reserves from past years budget decisions. The focus being to re-assess the purpose to which the earmarking was originally made, determine whether that still aligns with the Council's current Operational Delivery Plan and other plans and priorities, and to assess the level of spend/drawdown of funds to date, and any capacity to re-purpose and re-prioritise the reserves. From work to date it is expected that there are opportunities to re-purpose reserves of several million pounds, which would provide opportunity for the Council to then consider as part of its financial planning what other investment, change or transformation these funds could now be utilised for. The conclusion of this review work will be set out in subsequent reports to Council.

10. Budget Engagement

10.1 A major aspect of the Council's budget planning to support budget decisions in February of 2024 was the extensive budget engagement undertaken. This encompassed a range of broad as well as more targeted engagement, and a phased approach aligning the engagement approach with the relevant state of the budget process, ie broader/themed engagement at early stages, progressing to engagement on specific proposals later in the budget process. Reports to Council fed back the outputs from the engagement process, the details of which were used to inform the recommendations before members at that time.

10.2 The intent is to build on the learning from that engagement and to progress further engagement to inform member budget decisions in February/March of 2025. The scope of that engagement is currently being assessed and will be informed by the developing work on budget options and once there is greater clarity on the outcome of UK Government and Scottish Government budgets. The extent to which engagement may, for example, focus on similar themes to those in 2023 into 2024, or may move into new areas of activity, is not yet known. Further reports to Council will provide information on approaches and timetable.

11. Landbanking Fund and Council Tax on 2nd Homes

11.1 Members will recall from reports to Council over the past few years, that the Council had sought and received a granting of flexibility in the use of income from Council Tax on 2nd homes. Scottish Government granted flexibility to the Council to utilise income in 2022/23 and 2023/24 to support the revenue budget, rather than for affordable housing purposes, given the financial challenges being faced by the Council at that time. That flexibility was however conditional on repayment of income into the Landbanking Fund within 3 years of the flexibility being exercised. The Council had in turn written again to Scottish Government seeking that the flexibility was permanent in nature, rather than short-term, but this was declined. Past reports have shared with members the correspondence sent and received in relation to this matter.

11.2 Through its budget plans, the Council has made provision for repayment back into the Landbanking Fund, this through a combination of budget provision made in 2024/25 and reserves earmarked for this purpose. In total the sum due to be paid back is £6.308m covering the two financial years.

11.3 Given the funding to repay into the Landbank Fund is set aside, and therefore has no direct consequence for any other budget plans, and the Scottish Government position is clear, it would be prudent to make the repayment in the current financial year, rather than await until the end of the 3 year window. This approach would also increase the funding in the Landbanking Fund more immediately, and in turn provides further financial capacity in the Fund to support the Council in finding solutions to the Highland Housing Challenge. This report seeks members formal agreement to make the necessary repayment into the Landbanking Fund.

Designation: Chief Officer – Corporate Finance (Section 95 Officer)

Date: 16 October 2024

Author: Brian Porter, Chief Officer – Corporate Finance

Background Papers:

Appendices: Appendix 1 – Integrated Impact Assessment

Appendix 1

Integrated Impact Assessment	
Landbank contribution to the Programme	
Fairer Scotland	The delivery of additional affordable housing facilitated by an increased landbank fund has a **positive** impact on those experiencing socio economic disadvantage. The life opportunities of individuals and families living in secure, warm homes are improved. Research shows there is a direct correlation between good health, life expectancy and improved educational attainment and living in secure quality homes. The additional homes proposed through the SHIP are fundamental to this.
Childrens rights and wellbeing impact	The delivery of additional affordable family homes has a **positive** impact on the wellbeing of children both in health and educational attainment. A secure warm home gives space for children to grow and learn in an environment where it is easier to maintain good health and wellbeing. We aim to include family homes on the majority of our sites to ensure we are positively impacting on the lives of families through meeting their housing needs
Climate Change Impact	Each additional newbuild home the Council can deliver has a **positive** impact on climate change. The design standards used exceed the current building standard for energy efficiency. Through a fabric first approach we are actively designing to reduce CO2 emissions and minimising the temperature required to enjoy a warm comfortable home. The continuing progress to near passiv haus standard will continue to reduce climate impact
Human Rights	The proposals embodies the rights that everyone has for private and family life by increasing the availability of affordable homes in the Highlands.
Data Protection	There is no impact on data protection created by this report and recommendations
Equalities, Poverty and Human Rights	These proposals will have a **positive** impact by actively improving opportunities for all those with protected characteristics. The delivery of additional affordable homes using an allocations process based on need; being open, fair and accountable ensures that there is no discrimination against those with protected characteristics. The inclusion of accessible properties (10%) across our developments ensures that we are specifically addressing the barriers associated to age and disability. The proposals will also have a **positive** impact on addressing poverty associated to homelessness or living in insecure accommodation with unaffordable rents.
Island and Mainland Rural Communities	These proposals will have a **positive** impact on both Island and rural communities with projects identified for Skye, the rural west coasts of Sutherland and Ross-shire and other communities which fall within the Scottish Government definition of rurality