

Agenda Item	6
Report No	HC/25/25

The Highland Council

Committee: Highland Council

Date: 18 September 2025

Report Title: Medium Term Financial Plan 2026/27 – 2028/29

Report By: Chief Officer – Corporate Finance

1. Purpose/Executive Summary

- 1.1 The Council has taken a multi-year Medium Term Financial Planning (MTFP) approach since the 2024/25 financial year. This being part of a wider range of plans and actions to support and improve the Council's financial planning and financial sustainability. The most current agreed iteration of that plan was that agreed as part of the March 2025 revenue budget, and covering the three-year period 2025/26 to 2027/28.
- 1.2 The purpose of this report is to commence a review and refresh of that MTFP, which in turn is part of preparation and actions towards the Council's formal consideration and setting of the 2026/27 revenue budget and council tax in March 2026. It is a requirement for the Council to set a balanced budget each financial year, and this report commences the relevant planning work in that regard.
- 1.3 This report provides Members with a reminder of the financial position and assumptions in that agreed March 2025 MTFP, and sets out initial consideration of known or emerging risks, issues and opportunities which will need assessed as part of the refresh of the MTFP. This report also reminds Members of decisions already made, including the agreement of forward savings totalling £23.8m over 2026/27 and 2027/28 which have reduced the level of budget gap that would otherwise be faced. As at March 2025 the remaining forecast budget gap was £13.026m over 2026/27 – 2027/28, with the expectation the refresh of the MTFP will likely see an increase in that figure, based on a new rolling 3rd year of the plan to be added, and cost pressures arising from pay awards, Waste pEPR (Extended Producer Responsibility) funding reductions and other factors as set out in the report.
- 1.4 This report will form a series of regular MTFP and budget planning reports to Council over the coming months, with further updates and refinements to the financial outlook, and actions being taken forward, updated within future reports.

2. Recommendations

2.1 Members are asked to:

- i. Consider this report and note the assumptions and forecasts within the existing March Medium-Term Financial Plan as at March 2025;
- ii. Agree to commence the refresh and update of the Council's Medium Term Financial Plan to cover the new rolling three-year period 2026/27 to 2028/29;
- iii. Note the key risks, assumptions and forecasts that may have implications for, and need incorporated within, the refreshed Medium Term Financial Plan;
- iv. Agree to the development, in parallel with the Medium-Term Financial Plan, of supplementary financial and other data to support a longer-term consideration of the Council's financial position and to capture some of the longer-term economic changes and opportunities taking place in the Highlands;
- v. Agree that an updated Medium Term Financial Plan report is considered by the October Council, including a refreshed financial gap forecast.

3. Implications

3.1 Resource – this report re-states and reminds Members of the current and agreed MTFP and relevant financial assumptions and factors. It highlights some new and emerging risks and considerations for the refresh of the MTFP, and represents a commencement of budget planning with further reports on this topic to be considered at subsequent Council meetings. At this time there are no direct resource implications arising from the recommendations within this report, but the information provided will support the Council in its ongoing budget planning considerations, ultimately feeding into formal budget and council tax setting decisions in March 2026.

3.2 Legal – the formal setting of a budget and council tax has specific legal and related implications, as set out below. This report represents the commencement of budget planning leading to formal consideration and decision on budget and council tax for 2026/27 in March of 2026.

(i) 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".

(ii) 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.

(iii) Section 95 of the Local Government (Scotland) Act 1973 (the 1973 Act') states, "...every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that the proper officer of the authority has responsibility for the administration of those affairs." In The Highland Council the 'proper officer' in terms of the 1973 Act is the Chief Officer - Corporate Finance (E Part IV Scheme of Delegation and Administration).

(iv) The Council's financial arrangements must conform with the governance requirements of the Cipfa/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code'). Therefore, the proper officer must ensure that the Council corporately and the Officer himself discharges their respective obligations and responsibilities.

3.3 Risk – this report highlights some specific risks, uncertainties and assumptions as they relate to the Council's MTFP, with these to be subject to further consideration and reporting as part of future MTFP update reports over the coming months. As set out within this report, based on known, costed and other risks, and given the need to refresh and incorporate a 'new' 3rd year in the plan, the forecast level of budget gap to be addressed in the refreshed MTFP is expected to be higher than estimated at March 2025. While there are agreed forward savings totalling £23.8m, there is the need to ensure delivery of those savings, and risk around any slippage or other implications for delivery, which is mitigated through ongoing monitoring and review.

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

3.5 Gaelic - no specific implications arising from this report.

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 an update report and therefore an impact assessment is not required.

5. March 2025 Revenue Budget and Medium-Term Financial Plan (MTFP)

5.1 On 6 March 2025 the Council considered the then updated Medium Term Financial Plan (MTFP) covering the three-year period 2025/26 – 2027/28, and agreed its revenue budget and council tax for 2025/26.

5.2 That MTFP forms the foundation of the Council's financial planning, and through this report the process to review and refresh that plan commences, forming part of budget planning for the three-year period 2026/27 to 2028/29, and agreement of the revenue budget and council tax for 2026/27 in March of 2026.

5.3 The table below, taken from that March 2025 MTFP report, summarises the key elements of that budget plan, and what the forecast budget gap over years 2 and 3 of the plan was forecast to be at that time.

MTFP as at March 2025

Budget Summary £m	2025/26	2026/27	2027/28
Opening Budget for the Year	779.545	818.423	823.737
Less: non-recurrent items	-	-5.449	-2.112
Pay, pensions, NIC & other budget adjustments	27.220	13.745	13.725
Budget Pressures (recurring)	20.433	15.000	10.000
Budget Pressures (met from reserves)	5.449	2.112	0.111
Growth and Investment	4.539	-	-
New Burdens and Commitments	8.512	-	-
Highland Investment Plan (revenue)	2.997	3.236	3.498
Total Budget Additions	69.150	34.093	27.334
Budget savings (new plus previously agreed)	-19.472	-18.825	-4.146
Waste Extended Producer levy income	-9.500	-	-
Financial flexibilities (February 24)	-1.300	-1.200	-
Budget gap still to be closed	-	-3.305	-9.721
Net budget for the year	818.423	823.737	835.092

5.4 In terms of key points of note within that March 2025 MTFP, the following are highlighted:-

- This was the 2nd iteration of the Council's now embedded approach to multi-year financial planning;
- A balanced budget for year 1 (2025/26) was agreed and progress made in closing significant aspects of the forecast gap for years 2 and 3;
- Savings agreed totalling £36.715m over three years, and £23.772m over years 2 and 3;
- An MTFP that embedded the founding principles and funding assumptions for the Council's Highland Investment Plan, including the assumption of and setting aside of a sum equivalent to 2% of council tax income each year;
- A 3 year MTFP which made no use of reserves to balance the budget, instead utilising recurring saving measures and income streams;
- An MTFP founded on the December 2023 Reserves Strategy agreed by the Council, and the intent to retain a minimum 3% General Reserve as a contingency, and other reserves to be earmarked to specific and agreed purposes including investment, change and transformation;
- A budget which despite the requirement for savings and other measures, made provision for core budget pressures and investment into agreed priority areas.

5.5 The MTFP of March 2025 clearly remained **with a residual budget gap in years 2 and 3, totalling £13.026m over those 2 years**. Which would require further measures to be agreed to close that gap, before consideration of changes in circumstance and assumptions which would update the refreshed MTFP. **As is set out in the latter parts of this report, based on known or forecast matters, it is reasonable to conclude and plan for a higher level of budget gap than in that MTFP, for reasons as described.**

5.6 As in past years, the intent it to refresh and roll forward that March 2025 MTFP, to maintain the three-year forward planning approach, and in doing so build a refreshed plan for the period 2026/27 to 2028/29 and through which incorporate a 'new' 3rd year, 2028/29.

5.7 The following sections of this report provide some wider financial context as it relates to the Council's financial planning, in turn leading to some specific considerations and actions being taken forward to refresh and update the MTFP.

6. Refreshing the Medium Term Financial Plan

6.1 The following sections describe some of the aspects of the MTFP that will require updating, and sets out for Members, information on changes in circumstance or assumptions that will feed into the MTFP. As stated above, the effect of these changes is expected to increase the forecast financial gap, given pressures arising from pay awards, funding changes and other matters described below.

The main matters for consideration in this section include:

- Review and refresh of core budget assumptions
- Key pressure areas, risks and developments
- MTFP duration and developing a longer-term approach
- Saving approach and development

6.2 Core budget assumptions as at March 2025 are as set out below. In the main the majority of these assumptions are considered to still be applicable and relevant for the current MTFP refresh. These assumptions will also require to be rolled forward and reviewed for a 'new' 3rd year (2028/29). By exception, the highlighted assumptions are those where some further review is required and for more significant matters further commentary is included within the subsequent paragraphs of this report.

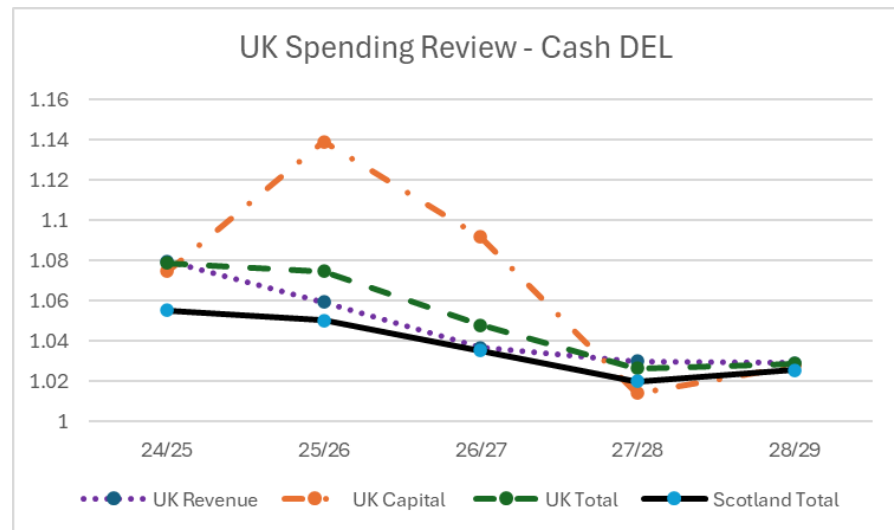
Assumptions as at March 2025 – highlighted those requiring review/revision.

	2025/26	2026/27	2027/28
Pay award budget assumptions	2.5%	2%	2%
Non-pay Inflation provision	Nil	Nil	Nil
Employer pension costs	No change	No change	Pending Actuarial Valuation
Core budget pressures provision	£20.4m	£15m	£10m
Core Loan Charges	£1.5m	£1.5m	£1.5m
Scottish Government core grant settlement	As notified	0% flat cash	0% flat cash
Income Inflation	As per agreed saving proposals		

6.3 The following section highlights some of the key changes in circumstance, risk or assumptions that will be considered as part of the refresh of the MTFP.

Item	Change or Risk, and Impact
Grant Settlements	<p data-bbox="507 253 1378 360">It remains the case that Scottish Government operate single-year grant settlements, therefore the Council can expect a grant settlement for 2026/27 only.</p> <p data-bbox="507 398 1406 613">In the March 2025 MTFP the Council had assumed a flat cash level of core SG revenue grant. The meaning of which is a NIL change in core grant, and that any uplifts in grant are most likely to be linked to new and additional spending burdens which therefore might be neutral in terms of budget impact (i.e. grant in, new expenditure out).</p> <p data-bbox="507 651 1414 1200">As shown in the graph below, based on the UK Government June Spending Review, it remains the case that the pace of public sector budget increases in cash terms is expected to decline, with most funding post-UK election front loaded into 2025/26. Therefore any cash increases in public sector funding, are more modest and decline 2026/27 and beyond, and with the risk and impact that it is likely public spending may reflect a real-terms reduction, and the further risk that via the Barnett formula Scotland may be relatively impacted in overall funding terms compared to the UK as a whole. Ultimately it will be forthcoming UK and Scottish Government Budget decisions which will determine the level of funding to Scottish Councils. The graph below sourced from data provided by an external economist, can only provide context and indications at this time.</p> <p data-bbox="507 1238 1406 1789">It is also known, and built into the current MTFP, that the Council may see a reduction in one aspect of its Scottish Government grant funding, associated with Loan Charge Support. This is part of a long-standing and known tapering out of that funding stream linked to past changes in capital funding arrangements, with the impact being greater for particular Councils in given years. For Highland 2026/27 represents a year with a more significant impact, albeit it is assumed this would be mitigated by the over-arching 'floor' mechanism in the settlement to limit the level of reduction any Council may face. For Highland it is assumed that a 0.75%/£4.8m reduction in funding may apply from this tapering effect. The remains a degree of risk and uncertainty on this estimate, until such time as the Council receives its grant settlement.</p> <p data-bbox="507 1827 1406 2042">Despite the difficulty and uncertainty in forward estimating grant settlements, the retention of a flat cash settlement seems a reasonable and prudent assumption at this time, and in line with assumptions being made across many Scottish Councils. With specific assumption along-side flat cash for the 0.75%/£4.8m reduction estimated in Loan Charge support.</p>

Table: UK/Scotland Budget Forecasts (Departmental Expenditure Limits – DEL)



Impact: no change to assumptions within the March 2025 MTFP.

Pay Awards

The March MTFP assumed a 2% p.a. pay award assumption for 2026/27 and 2027/28, reflecting the Government inflation target and (at that time) the forecasts indicating progress towards that target being met within the plan timescale.

Many of the Council's staff groups, including the SJC pay group, have now agreed a 2 year pay deal being 4% 2025/26 and a further 3.5% 2026/27. There is a need for the Council to increase its budget assumption to reflect that agreed settlement. While Scottish Government have committed to provide funding in 2025/26 representing 1% (the difference between 4% and 3%), it remains uncertain what if any funding may be provided in 2026/27. There is also risk and uncertainty surrounding the remaining Teachers SNCT pay settlement for 2025/26 and beyond.

The level of pay settlement, and the extent to which it is outstripping inflation levels and expected grant funding levels, represents a key financial risk and pressure on the Council.

Every 1% on the Council pay bill represents a £4.5m cost pressure.

Providing for the differential between 2% and 3.5%, would represent a pressure of £6.75m in 2026/27. Potentially this pressure could be mitigated if in due course there is further clarity on SG funding for 2026/27 and towards pay settlements.

<p>Waste pEPR levy funding</p>	<p>In 2025/26 the Council is faced with a £2.5m funding pressure given the budget for that year was based on the November 2024 notified £9.5m estimate of funding from the UK pEPR (Packaging Extended Producer Responsibility) levy scheme, but in July 2025 Councils were advised of a major revision to the levy allocation model and the Council's assessment for 2025/26 was now £7.0m. At this stage there is nothing to suggest or give certainty that the levy in 2026/27 would increase, and it would be prudent to now budget for that reduced levy expectation. With a residual risk/impact should that revised assessment vary into future years.</p> <p>Provide for an assumed recurring shortfall in pEPR levy income of £2.5m, and re-base the budget to £7m income target.</p> <p>Budget cost pressure of £2.5m.</p>
<p>Class Contact Reduction (CCR)</p>	<p>Scottish Government have clearly stated¹ that as part of the 2025/26 Budget Agreement with Cosla, that Councils committed to <i>“restoring teacher numbers to 2023 levels in 2025, freezing learning hours, and making meaningful progress towards reducing class contact time for teachers.”</i> With <i>“increased funding”</i> of £186.5m from the Scottish Government 2025/26 grant settlement to Councils to support these commitments. And the First Minister stated¹ in the context of CCR that <i>“it is essential that meaningful progress on reducing CCR is now made....”</i></p> <p>For context, the bulk of the £186.5m nationally, being £145.5m, was <u>not</u> new funding in 2025/26 and had been within the grant settlement since 2022/23. And as a result, was supporting the existing core teaching budget, and was not additional or uncommitted. Of the £41m that was an increase/additionality in 2025/26, the Council's share was £1.789m and the Council's March 2025 budget fed that into the Education and Learning budget to support budget and service investment plans agreed March 2025.</p> <p>The Council has also set aside £2m in its earmarked reserves in March 2025 to support some initial investment in teacher numbers pending ongoing national discussions. This sum was not intended to reflect the full and recurrent cost of CCR changes, and would not provide for the full level of cost.</p> <p>For context, the Council's initial assessment of the cost of implementing a reduction in CCR is an annual recurring cost pressure of circa £6.6m. This is not currently funded within the Council's budget, and also carries wider risks and concerns in relation to practical delivery (ability to recruit, ability to cover provision for young people's learning during CCR, implications in the context of declining school rolls).</p>

	<p>Given ongoing national discussions at Cosla and with Scottish Government, in the expectation of getting to a position of an affordable and deliverable solution, no specific cost pressure is assumed at this time, but clearly with the risk that the Council may be faced with significant additional cost unless further funding is forthcoming. The timing or potential phasing in of any changes would be a key consideration also.</p> <p>Cost pressure: tbc. But with risk full year cost could be up to an estimated £6.6m.</p> <p>¹Extracts from letter from First Minister to Cosla President June 2025.</p>
<p>Adult Social Care (ASC)</p>	<p>NHS Highland, through the Lead Agency model, are reporting a current forecast £19.8m overspend in Adult Social Care for 2025/26. The funding for ASC consists of the Council’s ‘quantum’ of funding for ASC plus those NHSH budgets which are provided towards ASC. NHSH have been reliant upon Scottish Government brokerage for the deficits they have reported, but are stating that for 2025/26 the brokerage will not provide for ASC.</p> <p>In 2024/25, and for the first time in recent years, the Council provided additional end of year deficit support of £5.6m towards the NHSH ASC deficit, met from Council reserves.</p> <p>Given the level of overspend in ASC, and risk that cost containment and transformation activity does not make a meaningful reduction in the deficit this year, there remains the risk that on a forward budget planning basis, there may be an ask or expectation of further Council budget funding into ASC.</p> <p>The Council and NHSH are however reviewing the current model of integration, and that in itself may alter the financial context for Adult Social Care. Which could have a range of potential implications, both opportunities, and costs and risk.</p> <p>Ultimately given the pressures on ASC, the Council will need consider in its updated MTFP what financial assumptions it makes in that regard. This will in turn be influenced by Scottish Government budget priorities and the extent to which there may again be some targeted additional funding for ASC from Scottish Government.</p> <p>No specific costed assumption has been included in this report, but there may need be for revision to the MTFP should the need to revisit ASC funding assumptions arise.</p> <p>Cost pressure: tbc</p>

Future Funding and Flexibilities	<p>There remain a number of current or ongoing developments which may represent changes, and in some cases potential opportunities, for the Council to utilise new or revised funding streams or financial flexibilities as part of its financial planning. Some are subject to national developments and decision making and not wholly within the Council's control.</p> <ul style="list-style-type: none"> • Visitor Levy (TVL) – subject to Council decisions. • Cruise Ship Levy – subject to Scottish Government/legislation. • General Power of Competence – SG considering consultation responses. • Council tax reform – planned SG led consultation for later in 2025 into 2026 and based around 3 key elements (revaluation, changes in bandings and transitional arrangements). Would be a matter for a new Scottish Government to consider post 2026 elections.
Current 2025/26 Cost Pressures	<p>There are a number of cost pressures reflected within the Council's Quarter 1 financial monitoring for 2025/26. Overall, as per recent report to Corporate Resources Committee, a £17m overspend at Service level is forecast, with this reducing to £12.5m once other budgets and mitigations are considered. Members will be aware of focused action being taken to address the forecast overspend, and budget recovery actions being put in place. There does however remain the risk of current year overspending requiring review of assumptions on cost pressures to be provided for in 2026/27. This will be kept under review and with the expectation that as this current year progresses, the effect of budget actions are seen with reduction in forecast overspends.</p>

6.4 The intent is that the duration of the Council's Medium-Term Financial Plan remains as 3 years. This represents an approach which gives the benefits of multi-year planning, while ensuring a relatively short enough forward look such that there can be sufficient confidence in assumptions and forward forecasts. The downsides of extending that MTFP duration are the difficulties of forecasting forward over a much longer-time period, how meaningful and useful such an approach would be, and mindful that much of the Council's funding context, Scottish Government grant in particular, remains at present a single year only approach.

6.5 Having said the above, there remains some key drivers and benefits to considering complimentary approaches to the three-year MTFP, to consider what data and modelling might sit alongside the MTFP to support some longer-term and higher level financial planning. By way of example, there is clearly significant potential and longer-term developments taking place in the Highland ranging from the Green Freeport, and the ASTI energy investment developments, through to the Council's own Highland Investment Plan and response to the Highland Housing Challenge. These developments are expected to be very significant in scale, phase-in and occur over a longer time period than 3 years, and most importantly, represent significant financial considerations for the Council, for example:

- Additional retained NDR income associated with the Freeport with the Council retaining such funding for use in line with the Freeport FBC and decisions to be made on investment priorities;
- The potential for increased council tax income, and in time Scottish Government grant, if the economic development drives increased population (or addresses declines in population) and drives increased housing;
- The investment requirements across the region to support and sustain this economic opportunity, including the need for investment in Council assets;
- The need to plan and provide for increased or changed demands for service, driven by changes in population/housing.

6.6 It is therefore proposed that over the course of this year, and in parallel with the refresh of the MTFP, works is progressed to develop complimentary financial and data driven models which look beyond the three-year duration of the MTFP. These would not at this stage be expected to be budget plans or fully costed models, rather broader forecasts which might suggest potential levels of economic growth and associated income/cost trends for the Council, which in turn could support future MTFPs, budgets and Council plans to ensure it is forward planning in financial terms for these longer-term opportunities, and associated incomes and costs.

6.7 In summary, based on the information as set out above, there are indications that there are risks and cost pressures which would be expected to increase the forecast level of gap over the next two financial years, added to which will be the addition of a 'new' 3rd year in the refreshed plan, and the need to estimate the funding gap expected in that year also. Further detailed modelling is taking place to reflect a more detailed costing and refreshed MTFP for 2026/27 to 2028/29.

7. Next Steps and Closing the Budget Gap

7.1 It is expected that the mechanisms to close remaining budget gaps would build on work over the past few years, and represent an evolution and development of existing workstreams including for example income generation and consideration of further efficiencies. Ultimately the approach will need develop and respond to any change in financial circumstance that arises over the remainder of this financial year.

7.2 The next MTFP report to Council, planned for October of this year, will incorporate further detailed modelling around the forecast financial position, further information in approach to saving development linked to that updated forecast, and initial timetabling of core budget activity.

7.3 At the time of writing this report it has just been announced that the Chancellor's UK Budget will be on 26 November. This is later in the year than typically the case and with resultant implications for clarity on Scottish Government funding and budget, and the Council's funding position. While the Council would normally plan for a grant settlement to be received in December of this year, there remains uncertainty and a risk that the timing of the UK Budget pushes some of these key milestone dates into early 2026.

Designation: Chief Officer – Corporate Finance

Date: 2 September 2025

Author: Brian Porter

Background Papers:

[https://www.highland.gov.uk/download/meetings/id/84703/item_3 -
_mtp_and_rev_and_ctax_2526](https://www.highland.gov.uk/download/meetings/id/84703/item_3_-_mtp_and_rev_and_ctax_2526)

Appendices: