

# The Highland Council

Agenda Item	<b>3</b>
Report No	<b>HC/30/25</b>

**Committee:** Highland Council

**Date:** 30 October 2025

**Report Title:** Medium Term Financial Plan Update

**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. Members considered an initial update report on the refresh of the MTFP at the September 2025 Council meeting.
- 1.2 The purpose of this report is to provide Members with feedback and updated financial modelling from a refresh of the MTFP, through which this report advises members of the forecast financial outlook and estimated budget gap for the 3 years covering 2026/27 to 2028/29. This report advises that based on assumptions as described in this report, consideration of risks, and based on decisions already made by the Council, the forecast 3 year budget gap is estimated to be a minimum estimated level of **£36.7m**. This takes account of £23.8m of savings already agreed by the Council for 2026/27 to 2027/28.
- 1.3 The report also highlights some key risks and uncertainties that may impact on the MTFP and financial gap forecasts, in particular those relating to risks and uncertainty around the grant settlement from Scottish Government for 2025/26, budget recovery actions to address the forecast 2025/26 overspend, forecast overspend in the NHS Highland Adult Social Care budget, and ongoing national discussions between Cosla and Scottish Government regarding the manifesto commitment to reduce class contact time (RCCT) in schools. On the latter 2 risks, the forecast financial gap makes no budgetary provision at this time, but the Council's saving and financial strategies would need consider how costs and risks arising from these areas would be addressed. This will be given ongoing consideration and can be expected to lead to revision to MTFP assumptions over the months ahead.
- 1.4 This report sets out a proposed timetable and sequence of actions relating to the MTFP, including the process for development and consideration of budget savings, budget pressures and other budget planning considerations. The report advises that it is now understood that Scottish Government intend to publish their draft 2026/27

budget on 13 January, following which the Council would be advised its draft grant settlement. There are also indications that the Scottish Government intends to take a multi-year approach to its budget. The purpose of this report to members is to support consideration by the Council on 5 March 2026 of its formal decision making on budget setting and council tax for 2026/27.

- 1.5 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. **Note** the update provided regarding the Medium Term Financial Plan (MTFP) as set out in this report;
- ii. **Note** the updated financial gap forecast with a minimum estimated level of £36.7m over three financial years;
- iii. **Note** the range of risks, assumptions and uncertainties as relate to the MTFP, and related actions and mitigations;
- iv. Consider and **agree** the timetable as set out in section 10 of this report;
- v. **Agree** that a further MTFP update report is considered by the Council at its meeting on 11 December 2025.

## 3. Implications

- 3.1 Resource - this report set out revisions to the MTFP and financial forecasts, and provides updated commentary regarding relevant assumptions, risks and uncertainties. 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.

3.4 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. A specific annex of MTFP risks and mitigations is reflected in this report.

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

3.6 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. Background

5.1 The table below reminds members of some of the key financial elements of the Council's then Medium-Term Financial Plan (MTFP) as agreed in March 2025.

Per March 2025 MTFP	26/27 £m	27/28 £m	28/29 £m
Total Budget Additions incl pay awards, pressures, growth etc.	34.093	27.334	Tbc
Savings agreed	-18.660	-5.112	Tbc
Financial flexibilities agreed	-1.200	-	Tbc
Budget Gap Still to be Closed (at March 2025)	3.305	9.721	Tbc

5.2 The most recent MTFP report, considered by Council in September, set out a range of information regarding key risks, changes in circumstance and review of assumptions that were part of ongoing review, and would result in an updated financial forecast to be considered at the October Council meet, through this report.

5.3 The September MTFP report to Members also concluded that **“based on known or forecast matters, it is reasonable to conclude and plan for a higher level of budget gap than in that (March 2025) MTFP, for reasons as described.”**

**6. Scottish Government Draft Budget 2026/27 and Grant Settlement Timeline**

6.1 As previously reported, the UK Government budget is now confirmed for 26 November, being later in the year than typically the case and consequential implications for the Scottish Government budget and Local Government grant settlement timetable.

6.2 Since the last Council meeting, it has now been confirmed that Scottish Government intend to publish their Draft Budget on **Tuesday 13 January**. A date for the publication of the Local Government Grant Settlement has not yet been advised, and typically this would follow the Draft Budget, but there are some indications that Scottish Government intent is to advise that Grant Settlement as soon as is possible on or after 13 January. There have been also some indications given to Cosla and Directors of Finance of Scottish Government considering scope to provide some form of multi-year information.

6.3 The timelines above are clearly later than has been the case in more recent years and with the consequence that the Council will be well into the start of the calendar year before clarity on its grant settlement. For context, the table below gives content on the timing of the grant settlement in recent years.

Budget Year	Date of Local Government Grant Settlement
2026/27	Advised as 13 January 2026
2025/26	12 December 2024
2024/25	21 December 2023
2023/24	20 December 2022
2022/23	20 December 2021

**7. Updated Financial Forecasts for the MTFP**

7.1 The table below sets out the current planning assumptions for the MTFP and contrasts these with the assumptions as at March 2025. 2028/29 is a new third year of the rolling MTFP and there were no prior assumptions made relating to that year. Footnotes provides commentary on those assumptions that have changed or other key points. Further information relevant to assumptions is set out within the risk section and related annex.

	2026/27	2027/28	2028/29
Pay award budget assumptions			

- March 2025 MTFP	2.0%	2.0%	N/A
- Revised to current assumption	3.0%	2.0%	2.0%
Non-pay Inflation provision	No single corporate assumption – pressure allocation below to provide for inflation pressures case by case.		
- March 2025 MTFP			
- Revised to current assumption			
Employer pension costs	No change	No change	No change
- March 2025 MTFP	No change	Tbc	Tbc
- Revised to current assumption	No change		
Core budget pressures provision			
- March 2025 MTFP	£15.0m	£10m	N/A
- Revised to current assumption	£15.0m	£11.0m	£10m
Core Loan Charges for capital			
- March 2025 MTFP	£1.5m	£1.5m	N/A
- Revised to current assumption	£1.5m	£1.5m	£1.5m
Highland Investment Plan 2% earmarked			
- March 2025 MTFP	£3.2m	£3.5m	N/A
- Revised to current assumption	£3.2m	£3.5m	£3.8m
Scottish Government core grant settlement			
- March 2025 MTFP	0% flat cash	0% flat cash	N/A
- Revised to current assumption	0% flat cash	0% flat cash	0% flat cash
Scottish Government loan charge support tapering			
- March 2025 MTFP	-0.75%	N/A	N/A
- Revised to current assumption	-0.75%	N/A	N/A
Council tax planning assumption			
- March 2025 MTFP	5%+2%HIP	5%+2%HIP	N/A
- Revised to current assumption	5%+2%HIP	5%+2%HIP	5%+2%HIP
Income Inflation	Any inflationary increase would be reflected within saving proposals		
- March 2025 MTFP			
- Revised to current assumption			

Pay awards – the Scottish Joint Council (SJC) pay settlement which covers around half of the Council's paybill has settled on a two-year basis at 4.0% for 2025/26 and a further 3.5% for 2026/27. In 2025/26 Scottish Government (SG) committed to provide additional funding over and above an assumed 3% provision by Councils. While there is no clarity as yet on SG funding assumptions for pay in 2026/27, for the MTFP it is assumed SG will again recognise pay pressures above 3% i.e. funding for 0.5% will be provided and the Council's budgeted allocation is therefore for 3%. The Council in the March 2025 MTFP had provided for an assumed 2% based on inflation projections and UK Government inflation target. Resulting in an implied budget shortfall of 1% (3% less 2%). It is assumed beyond 2026/27 that pay settlements normalise to the UK Government inflation target.

Employer Pension Costs – 2027/28 will be the first year of a new Actuarial Valuation of the Pension Fund. The core work on the Valuation will take place over the course of 2026 and it will be a decision for the Fund, through the Pension Committee, as to the employer contribution rates which arise from that Valuation. It is not possible nor appropriate for the Council to take a view on what the outcome of that valuation may be, but over the coming year there will be further clarity which may lead to revision to MTFP assumptions. There is not as yet any indication of any change to other pension schemes or employer rates which might relate to the MTFP.

Core Budget Pressures – the amounts shown are intended to make provision for a range of budget pressures, those known or quantifiable, and to provide capacity for new or unforeseen pressures over the duration of the MTFP. The types of pressure which might need provided for include the full year/future year impact of pressures agreed in 2025/26, inflation and contract increase pressures, 2025/26 budget pressures and overspends and consequences into future years, new burdens or demands on service. In light of the forecast overspend in 2025/26, and the expectation some budget recovery planning will take a multi-year approach, this headline pressures allocation would need give scope and capacity to address some of these matters. The allocations in years 1 and 2 of the MTFP have been increased to reflect some of these considerations.

7.2 The resulting implications for the MTFP as are set out below, providing a reconciliation back to the March 2025 MTFP. Further information on the MTFP forecasts is set out on **Appendix 1**.

	26/27 £m	27/28 £m	28/29 £m
Forecast Budget Gap Per March 2025 MTFP	3.305	9.721	Tbc
Establishing new 3rd year of the MTFP	-	-	13.924
Waste pEPR funding re-based – 2025/26 impact and ongoing assumption -c5% p.a. risk adjusted	2.500 0.300	- 0.300	- 0.300
Pay Awards – alignment of 26/27 forecasts to agreed SJC settlement	5.000	1.120	
Other roll forward/base budget adjustments	0.073	-0.024	-
Re-basing of savings <u>agreed</u> March 2025	0.165	-0.966	-
Increased provision for core pressures	-	1.000	-
Provision for RCCT/ASC	Tbc	Tbc	Tbc
Provision for revenue growth/investment	Tbc	Tbc	Tbc
<b>REVISED BUDGET GAP FORECAST (CURRENT MINIMUM FORECAST)</b>	<b>11.343</b>	<b>11.151</b>	<b>14.224</b>
<b>REVISED BUDGET GAP FORECAST OVER 3 YEARS (CURRENT MINIMUM FORECAST)</b>			<b>£36.718M</b>

7.3 Given the level and allocations for budget pressures is likely to be one of the key aspects of the MTFP, the table below gives some initial consideration as to how the assumptions within the MTFP might need to be prioritised. These are planning assumptions only at this stage, and will need refined and developed over the coming months and in light of detailed assessment of pressures on an item by item basis.

	26/27 £m	27/28 £m	28/29 £m
Total provided for in current MTFP forecasts for budget pressures	15.0	11.0	10.0
Scenario planning for how this budget might be utilised (planning assumptions only and will be updated and informed by assessment of specific pressures over coming months)			
- Full year effect of agreed pressures	5.7	2.4	-
- Inflation and Contract Increase Costs	3.5	3.5	3.5
- Other budget pressures and budget recovery planning support.	5.8	5.1	6.5

7.4 For context, the table below provides some analysis of the levels of overall pressures provided for in recent years agreed budgets, the elements related to inflation and contract increases, and the prevailing inflation rate at the time. Each year varies and reflects the financial circumstance at the time, and some elements have been presented as exceptional items and excluded for comparison with other years (exceptional increases in transport, energy/utility costs in particular which far outstripped the CPI levels at the time). This information is provided for context rather than as a determinant of future pressure levels, but nonetheless gives some relevant information on which to measure against future years requirements. The prevailing CPI levels across these years were also higher, or had peaks higher than current economic forecasts suggest might be relevant to the current MTFP.

Budget Year	Total Pressures built into Budget	Of Which Inflation and Contract Increases	CPI Inflation at April of each year
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2025/26	£20.4m	£3.1m	3.5%
2024/25	£15.1m	£7.8m	2.3%
2023/24	£15.9m (excluding transport and energy/utilities. £32.9m in total.)	£3.8m (excluding transport and energy/utilities. £19.7m in total)	8.7%
2022/23	£7.7m (excl Covid specific pressures and ex transport and energy/utilities. £12.8m in total).	£3.1m excluding transport and energy/utilities. £8.2m in total)	9.0%
Average p.a.	£14.8m Excluding exceptions	£4.45m Excluding exceptions	

7.5 As noted further below in the next section on risk, two key areas of risk and uncertainty relate to national discussions and expectations around Reducing Class Contact Time (RCCT) and current pressures reported by NHS Highland in relation to Adult Social Care. **Neither of these risks are provided for within the gap forecast reflected within this report, or the assumption made around budget pressures.** It is reasonable to conclude that some level of budget impact could be expected to arise and need provided for within the budget, but there is not sufficient information or clarity at this time to support specific assumptions or allocations. It is also clear that given the scale of cost associated with these risks, it would be simply unaffordable for any expectation that the Council's MTFP could provide for these risks at the headline levels the risks present as. The Council's savings plans and strategies should therefore plan for a level of potential gap beyond the minimum forecast set out in this report, pending further clarity on key matters such as ongoing RCCT discussions, Adult Social Care cost containment and budget recovery, and clarity on the Scottish Government draft budget and local government finance settlement. It is normal and good practice for savings plans to target a level of saving beyond that which may be necessary, to give some flexibility within the budget setting process.

## 8. Key Risks and Uncertainties

8.1 The MTFP is based on assumptions and forecasts, and there are a range of key risks and uncertainties relating to the MTFP. Some are matters which might be expected to conclude or be clarified prior to the Council's formal consideration of the 2026/27 Revenue Budget on 5 March 2026, whereas others are likely to represent underlying risks or uncertainties into 2026/27 and beyond. The following section provides some further information and context.

8.2 **Appendix 2** sets out an updated assessment of MTFP risks. Most of which represent existing rather than new MTFP risks, but with updated commentary on key aspects. These risks are kept under ongoing review and will form a core part of ongoing MTFP reporting to elected members.



- 8.3 Of particular significance, and relating to comments made earlier in the report, the cost risks and implications relating to the following matters are highlighted and with further narrative included.

#### 2025/26 Forecast Overspend and Budget Recovery Planning

Quarter 1 forecasts for 2025/26 reflected an estimated £17m overspend across combined Council Services, reducing to a net £12.6m forecast overspend once loan charge, council tax and other budget assumptions and mitigations were factored in. Reports to Strategic Committees have and will continue to provide information on actions being taken, including budget recovery plan activity, as part of the range of actions to address that forecast overspend. At the time of writing this report, budget recovery planning to date shows a forecast ranging from £2.3m to £5.5m from initial phases of plans i.e. this is the estimated cost containment/cost improvement actions in plans to date. With the expectation that these figures increase from ongoing work, and further phases of recovery plan activity. There is also expected to be a need to plan within the MTFP for some aspects of the recovery plan to take more than a single year i.e. giving rise to a short to medium term pressure to be provided for. Strategic Committees will see more detail on these plans as part of the October/November Committee cycle. In terms of risk to the MTFP, there is the risk that reserves are lower than forecast as a result of overspending, and also that a multi-year approach to addressing the forecast overspend will require provision within the MTFP to support these plans and provide for pressures in the short to medium-term. The mitigation for this aspect of risk includes ensuring the level of pressures provided for in the MTFP gives scope to manage this risk across the duration of the plan.

#### Reducing Class Contact Time (RCCT)

It is estimated that the cost of implementing RCCT in Highland could be in the region of £6.6m on a full year basis. This is based upon modelling and analysis derived from schools Census data. There are ongoing national level discussions between Cosla, Professional Associations, and Scottish Government regarding the practical and financial implications of this Government manifesto commitment, including what timelines for implementation might be achievable and affordable, and the conditions and dependencies required to do so. It is also not clear yet what the Scottish Government budget for 2026/27 and beyond may assume or provide for regarding education provision generally, or RCCT specifically. Given ongoing discussions and the degree of uncertainty, no budget planning assumption for RCCT is included within the MTFP, beyond that assumed at March 2025. In the March 2025 budget the Council did earmark £2m in reserves for teacher capacity funding which could be considered as giving scope to mitigate MTFP risks to a limited extent.

#### Adult Social Care (ASC)

As has been covered in past reports to members, a key risk and uncertainty relates to the ASC budget and NHS Highland's forecast of an £19.8m overspend in the current financial year. The Council's in-year 2025/26 forecasts do not include any element of overspend attributed against the Council's budgets for ASC. The Council did however make a year-end decision in 2024/25 to provide one off reserve funding to NHS Highland (NHS) of £5.6m towards ASC, and there remains a risk that some

form of additional financial support may arise as a consideration for the Council this financial year.

To mitigate such risks the Council has already set aside £20m of reserve funding to support change and transformation and has been working alongside NHSH to support delivery of change plans. At the start of the current financial year, after sums drawn down in the previous year, £12m of that reserve remained with further plans and proposals progressing which would reduce that further over the course of this year. Council and NHSH officers have also been considering cost recovery plan and cost containment actions for ASC. Addressing and reducing the forecast overspend are a priority, but there is risk that plans and actions do not meet the required level and/or do not deliver at the pace required. Further mitigation may be the extent to which Scottish Government's budget for 2026/27, sets aside funding to be directed towards ASC as has been the case in past years,. However, given the scale of pressure in ASC, some level of financial provision within the MTFP towards current/future cost pressures is likely to need considered.

The Council and NHSH are reviewing the current model of integration and assessing other governance structure options. Financial sustainability is both a key driver for the review and requisite for success in terms of future options. The Models of Integration (MOI) Steering Group established to take this work forward has agreed that whilst there is a strategic case for change, there is also a requirement for an evidential and auditable basis on which to make any recommendation to move from one model to another. It has approved the scope of potential future options to be appraised, including assessment of the business as usual position. It is important for Members to note that the functions within the existing Lead Agency Model relate to children as well as to adults and there are substantial financial pressures in both sectors. A Budget Recovery Plan to address the £4M predicted overspend in Children's Services has been considered at the Joint Chief Executive's meeting (NHSH and THC) and will be presented to the HSW Committee in November 2025. The ASC Budget Recovery Plan will also be considered by the Joint Chief Executive's meeting prior to both plans being taken to the Joint Monitoring Committee (JMC) for oversight and scrutiny.

The MOI Senior Officers Group has been tasked with providing a report for the next Steering Group meeting on 6 November which sets out a detailed approach to assessing future options, based on the Accounts Commission Appraisal Framework and set against the themes of Performance, Finance and Risk. In addition, there is a separate workstream that will develop the engagement element to be used within the options appraisal process. The activity of each workstream will involve consultation with key stakeholders as appropriate. The outcomes of this work will be reported to the NHS Highland Board, The Highland Council, and the JMC.

## **9. Other Developments and Updates**

9.1 This section provides some further information regarding developments or updates that are or may be relevant to the Council's MTFP, which covers three-forward years.

9.1 **Council Tax on 2<sup>nd</sup> Homes and Long-term Empty Properties.** Following the approval of the Housing Scotland Act 2025 on 30 September 2025, additional discretionary powers have been granted to local authorities. These powers include the removal of the 100% cap on 2nd homes and long-term empties (LTE). That means for example Councils can charge more than the current total charged of 200% on 2nd homes and long-term empties. There appears no new prescription from this

change on what additional income arising from the 2025 Act must be spent on. For context as at September 2025, there are 3,365 2nd homes in Highland, the latest value of the current 100% premium is £5.7m. As at September 2025, there are 2,354 LTEs. The latest value of the 100% premium is £3.36m.

9.2 **Transient Visitor Levy (TVL).** Separately on the agenda of this Council meeting is an update report regarding the TVL. Given the Council’s MTFP covers three forward years, and subject to any future decisions made by the Council, future iterations of the MTFP and forecasts may need consider any implications arising from future decisions made.

9.3 **Real Living Wage (RLW).** Core pay award assumptions have been reflected elsewhere in this report. A related matter is the annual increase in the Real Living Wage and consequential implications for the Council in relation to its own costs as well as any commissioned or other services. While a formal announcement on RLW is not expected until 22 October, there has been indications from the Living Wage Foundation that the increase for 2026 may be +6.8%. There are a number of aspects of Council commissioned services, including Adult Social Care and Early Learning and Childcare, where in recent years there has been directions from Scottish Government, and funding provided, to support increases in payments to commissioned and other service providers to cover RLW uplifts, and it would be expected the Scottish Government budget in January 2026 would give clarity on SG assumptions on RLW.

## 10. Budget Actions, Timetable and Closing the Forecast Gap

10.1 Some key timetable dates relating to the MTFP are reflected in the table below.

September 2025	MTFP report to Council
October 2025	Updated MTFP report to Council including forecast financial gap; Real Living Wage foundation announcement for 2026; Ongoing development of budget proposals.
November 2025	Ongoing development of budget proposals.
December 2025	MTFP report to Council Initial phase of budget engagement
January 2026	Scottish Government Draft Budget Local Government Grant Settlement
January/February 2026	Finalisation of budget proposals. 2 <sup>nd</sup> phase of budget engagement Parliamentary process for SG Budget and Local Government Finance Order
March 2026	5 <sup>th</sup> March Special Highland Council meeting to formally consider revenue budget and council tax for 2026/27.

10.2 A core part of the budget planning process is development of budget proposals and the formal consideration of the budget, on 5<sup>th</sup> March 2026. Budget proposals to be developed and considered will include the identification, assessment and appraisal of budget pressures, as well as any growth or investment proposals, and the development and consideration of budget savings. Further information on these aspects will be set out in future reports to members.

- 10.3 In relation to budget savings, and as outlined earlier in this report, there is an already agreed package of savings approved by Council in March 2025. The summary of which is set out below shown by theme and by date agreed.

£MILLION	2026/27	2027/28	2028/29
Operating Model Savings	5.740	0.666	-
Asset Review Savings	1.950	-	-
Efficiency Savings	2.638	-	-
Income Generation	4.588	0.300	-
<b>TOTAL FEB'24 (re-based)</b>	<b>14.916</b>	<b>0.966</b>	-
Operating Model Savings	0.805	0.850	-
Efficiency Savings	1.190	1.920	-
Income Generation	1.749	1.376	-
<b>TOTAL – MARCH '25</b>	<b>3.744</b>	<b>4.146</b>	-
<b>TOTAL AGREED</b>	<b>18.660</b>	<b>5.112</b>	-

- 10.4 The forecast financial gap, as reflected in this report is after the incorporation of agreed savings and therefore represents an additional target to be met from savings or other budget strategies. Given the risks and uncertainties around Adult Social Care and RCCT referenced in this report, and any cost pressures arising from ASC/RCCT being over and above the current forecast budget gap, it would be necessary and prudent for the Council to plan for a level of savings and other strategies in excess of the forecast financial gap. A target for £5m/circa 50% beyond the forecast gap would give the Council some further flexibility in its financial planning.

10.5

£MILLION	2026/27	2027/28	2028/29
Forecast Budget Gap + Risk/Contingency Target	11.343 +5.000	11.151 +5.000	14.224 -
Total Target for further savings and other strategies to close the budget gap	16.3	16.1	14.2

- 10.6 The Council has developed and implemented a range of plans and strategies in recent years as part of its MTFP and budget setting, including the core themes for savings as reflected in this report e.g. income generation, efficiency savings, financial flexibilities etc and it is expected the development of new and additional proposals will

continue to build on the experience of work taken forward in recent budgets. The benefits of a multi-year approach are the ability to benefit from early decision on and actions to progress savings, which would include those agreed in March 2025, as well as the potential to accelerate or amend the scope of existing proposals where feasible to do so.

- 10.7 The potential level of savings required would be a significant amount based on current forecasts, and with the resultant challenges in relation to identification and consideration of proposals. The Scottish Government grant settlement, its overall level and the extent to which it provides flexibility to Councils on use of any additional funding are expected to be key factors in the extent to which the forecast gap and savings required may differ from that estimated. The relatively late UK and in turn Scottish Government budgets mean the Council must be prudent in its planning given it will be relatively late in this budget planning cycle before clarity on grant settlement is available.
- 10.8 **Budget Engagement** – understanding and listening to the views of the community, partners and key stakeholders is a core part of the budget setting process. For the 2024/25 budget, an extensive engagement programme was undertaken which shaped the budget and the operational Delivery Plan. 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.
- 10.9 The 2025/26 budget built on the learning from the previous year. A key feature was communicating how people’s feedback had shaped the Delivery Plan, in addition to gathering suggestions on further savings and change.
- 10.10 It is proposed that this year’s engagement process once again adopts a two-stage process. It will focus on understanding what is working well, where it is considered change is needed, alongside gathering views on potential areas for savings, efficiencies and improvements. To achieve this we will adopt a range of tried and tested methods. It will be important to hear from partners – third, public and private sector, along with views from the wider community. It is intended a general engagement programme is undertaken prior to Christmas, with a more targeted approach being adopted in January. The feedback will assist in shaping the budget for 2026/27.

Designation: Chief Officer – Corporate Finance

Date: 13 October 2025

Author: Brian Porter, Chief Officer – Corporate Finance

Background Papers:

Appendices: Appendix 1 – Medium Term Financial Plan Summary  
Appendix 2 – Medium Term Financial Plan Risks

**Appendix 1 – MTFP Financial Forecasts**  
**Summary of core elements of the MTFP financial forecast**

	26/27 £m	27/28 £m	28/29 £m
Pay Cost Provision (pay award and incremental pay progression)	20.921	14.272	13.582
Waste pEPR Levy – forecast reduction in income:	2.500		
- 2025/26 revised assessment	0.300	0.300	0.300
- Ongoing estimated reduction			
Budget Pressures Core recurring forecast	15.000	11.000	10.000
Budget Pressures – met from reserves (March 2025 MTFP)	2.112	0.111	-
Revenue Budget provision for Loan Charges (to meet the costs of borrowing/capital investment):	1.500	1.500	1.500
- Core Capital Programme	3.241	3.503	3.786
- Highland Investment Plan earmarking of sum equivalent to 2% council tax income p.a.			
Budget Savings and Financial Flexibilities Agreed:			
- Budget Savings	-18.660	-5.112	-
- Financial flexibilities (debt/treasury management £1m and NDR empty property reliefs £0.2m)	-1.200	-	-

## Appendix 2 – Medium Term Financial Plan Risks

Risk	Risk Descriptor/Impact	Risk Mitigation
<p><b>Economic Risks (inflation, interest rates, the economy)</b></p>	<p>Inflation is higher than assumed or provided for in the budget. Leading to higher costs and potential implications for service delivery.</p> <p>Interest rates are higher than assumed or provided for in the budget, leading to higher borrowing costs and potential implications for capital investment capacity.</p> <p>Other wider economic factors including employment, cost of living, etc impact the costs or practicalities of Council service delivery.</p>	<p>MTFP forecasts based on estimated budget pressure increases in a number of goods, service and contractual arrangements.</p> <p>Council maintains reserves to offer some contingency against in-year issues.</p> <p>Treasury management activity takes account of regular daily/weekly reviews of interest rates and forecasts, and borrowing activity is undertaken in line with Council policy and seeking best rates in the prevailing circumstances and considering term/maturity of debt.</p> <p>Council maintains corporate and service risk registers, and workforce plans, to try and mitigate wider staffing or economic risks that may arise.</p>
<p><b>Budget Savings Delivery not achieved</b></p>	<p>Risk if budget savings are not achieved to the value, or to the timescale expected, this may impact the Council's budget and with consequences for service delivery.</p>	<p>All saving proposals have gone through a significant review and scrutiny process. All will do so again as part of ongoing review.</p> <p>Reserves and other resources have been deployed to support delivery of savings, change and transformation.</p> <p>The Operational Delivery Plan provides the project delivery, monitoring and governance for savings delivery.</p> <p>Review of previously agreed savings, and the re-basing of those where appropriate, has been undertaken at March 2025.</p>

Risk	Risk Descriptor/Impact	Risk Mitigation
<p><b>Grant Settlement Uncertainty</b></p>	<p>The grant settlement for 2026/27 and beyond is not currently known.</p> <p>Indications from Uk Government Spending Review June 2025 and economic analysis suggests a slowing down in pace of cash increases in public sector budgets 2026/27 and beyond.</p> <p>Wider economic challenges and uncertainties may impact on previous Governmental budgets and plans.</p> <p>There are a number of ongoing reviews of aspects of the grant settlement process, the impact of which is unknown but could impact in relative terms how much the Council receives relative to other Councils.</p> <p>c80% of the Council's budget funding is from SG grant and therefore is a material consideration in budget planning.</p>	<p>Regular engagement through Cosla and working with other Directors of Finance to maximise assurance and understanding of the grant potential grant settlement.</p> <p>Prudent 'flat cash' assumption for core grant pending clarity on grant settlements.</p>



Risk	Risk Descriptor/Impact	Risk Mitigation
<p><b>Grant Settlement Loan Charge Support tapering out 2026/27</b></p>	<p>Dating as far back as the early 2000s Scottish Government made decisions to taper out one aspect of grant support to Councils, based on changes to the funding of local authority capital at that time.</p> <p>The impact varies by Council and by year, and in most years the impact is not significant and is managed as part of the overall budget position.</p> <p>For 2026/27, based on historic profile of Council debt and loan charge support associated, there is a more significant expected taper in that year. With an estimated £12.487m of that element of grant funding support dropping out.</p> <p>Which would represent a significant implication for the budget. Albeit analysis suggests the floor mechanism and other elements of the grant mechanism could reduce impact in overall terms to £3m-£6m based on modelling.</p>	<p>Ongoing modelling of the potential implications and grant settlement net effect are taking place.</p> <p>Analysis of past grant settlements, and the impact for other Local Authorities has taken place, to give some degree of assurance regarding the much-reduced effect once the floor mechanism and other aspects of the settlement are factored in.</p> <p>The Council's overall financial planning assumption is for a flat cash grant settlement for 2026/27, with a specific adjustment in 2026/27 to allow for the potential of a net cash reduction due to the tapering of say £3m-£6m. -0.75% (-£4.8m) assumed as reduction in MTFP.</p>

Risk	Risk Descriptor/Impact	Risk Mitigation
<p><b>Waste EPR (Extended Producer Responsibility) funding risks and uncertainties</b></p>	<p>2025/26 represents the first year of this new and significant income stream.</p> <p>£9.5m income was originally estimated and Council has been advised of reduction in 2025/26 post budget setting.</p> <p>Risk the actual level of income from the new levy may vary from that assumed or assessed.</p> <p>Risk that the policy intent of the levy (to reduce packaging and waste/recycling volumes) may lead to a decline in income stream going forward.</p> <p>Risk that the Scottish Government may adjust grant settlements to local government in future years, in recognition of this new and additional income stream.</p>	<p>The MTFP now factors in the revised assessment reduced from £9.5m to £6.9m in 2025/26.</p> <p>The Council remains engaged through Cosla and professional associations to ensure it is aware of any national developments or further risks that may arise.</p> <p>While the policy intent should drive a reduction in volumes, were that to result in a reduced income stream, it may also result in lower costs of waste collection, disposal and recycling. Insofar as the Council's costs remain significantly greater than the EPR funding stream, any reduction in costs could potentially compensate for any reduction in income.</p> <p>The MTFP will consider whether any tapering down of the annual levy income is appropriate linked to the national policy intent to reduce packaging volumes.</p>

Risk	Risk Descriptor/Impact	Risk Mitigation
<p><b>Adult Social Care – financial sustainability</b></p>	<p>NHS Highland budget projections show a level of spend beyond their budget provision and the budget quantum provided by the Council. As at September 2025 a forecast £19.8m overspend in ASC is forecast by NHSH.</p> <p>This is not a financially sustainable position with risks in relation to service delivery, and NHSH/Council financial positions.</p> <p>Even considering the mitigations shown, the risk remains that an overspend and financial unsustainable ASC budget position continues and with risk implications for the Council.</p>	<p>Council had set aside £20m in Earmarked Reserves to support change and transformation in Adult Social Care. Circa £12m of which was available at the start of the 2025/26 financial year.</p> <p>Council is working in partnership with NHSH on delivery of change and transformation.</p> <p>Council Operational Delivery Plan includes projects and associated monitoring and governance of change and transformation delivery.</p> <p>HC and NHSH Officers have been taking forward discussion and actions regarding ASC cost containment and budget recovery.</p> <p>It has been agreed to review current Lead Agency Arrangements to consider whether different structures and governance changes may be appropriate.</p>

Risk	Risk Descriptor/Impact	Risk Mitigation
<p><b>Scottish Government Directions regarding Education provision</b></p>	<p>Financial risk related to Scottish Government funding for the maintaining of teacher numbers, and risks to that funding if Council cannot maintain numbers in light of falling school rolls and teacher recruitment challenges.</p> <p>Scottish Government proposals regarding reduction in class contact time (RCCT) by 1.5 hours per week which would significantly increase the costs of education delivery, beyond that provided for in the budget and beyond the current funding envelope provided for in the grant settlement.</p> <p>Any further directions regarding Education and use of SG funding not known at this time which could have budgetary implications.</p>	<p>Ongoing engagement via Cosla and with Scottish Government regarding SG expectations.</p> <p>Working with professional associations nationally.</p> <p>Consideration as part of the current MTFP review of budget assumptions relating to these matters, considering also the potential for SG funding streams which may be relevant or provided for in the SG budget for 2026/27 or beyond.</p> <p>Earmarked reserves of £2m relating to teaching capacity, to give some limited capacity within the Council for forward planning.</p>

Risk	Risk Descriptor/Impact	Risk Mitigation
<p><b>Pay Settlements exceed budget assumptions and affordability</b></p>	<p>Risk that pay settlements may exceed the sums provided for in the budget.</p> <p>Scottish Government current pay policy, while not applicable to local government, sets an above inflation pay policy.</p> <p>Given the significance of pay budgets as a proportion of the overall budget, any % change can have significant financial implications.</p> <p>Could lead to in-year financial implications which may require change to budget plans to accommodate.</p>	<p>Known and agreed SJC pay award for 2025/26 – 2026/27 gives some certainty albeit with resulting additional cost implications.</p> <p>May give some certainty/baseline around which other as yet unsettled pay agreements may settle at (or beyond which the Council might reasonably expect some intervention and funding from Scottish Government e.g. the teachers pay settlement).</p> <p>An expectation that there should be some normalisation of pay settlements towards CPI inflation levels given the unsustainable nature of pay exceeding inflation levels. Expectation that there is a reduction in CPI inflation towards the UK Government's 2% target level over the duration of the MTFP.</p> <p>Council via Cosla continues to engage in pay settlement discussions.</p> <p>Council maintains a reserves policy of 3% of the revenue budget to give scope to manage budgetary risks.</p>

Risk	Risk Descriptor/Impact	Risk Mitigation
<p><b>Employers National Insurance Contributions</b></p>	<p>Risk that the direct costs or indirect costs exceed that provided for in the budget.</p> <p>Risk that there is a legacy impact from NIC increases across the economy on contract costs and prices generally.</p>	<p>The first risk is largely mitigated regarding direct costs, given the Council has now budgeted for and seeing the impact of NIC costs on its direct staffing in 2025/26 and this is being managed within the budget.</p> <p>To date there has been limited indirect impact in 2025/26 ie regarding current contracts.</p> <p>Future year budgets, and the level of inflation/contract pressures and other cost pressures may need provide for any legacy or timelag implications ie if future tenders and prices see an upward increase as business 'prices in' NIC costs into future tenders.</p>

Risk	Risk Descriptor/Impact	Risk Mitigation
<b>Level of Reserves</b>	<p>Risk the level of general reserves falls below the Council's strategy of a 3% minimum level of reserves held.</p> <p>Risk the overall level of reserves, general and earmarked, falls below the level of commitments the Council has identified for those reserves.</p>	<p>The Council has a strategy position relating to a minimum level of reserves. There is a clear risk that current and forecast overspending in 2025/26 could impact and reduce the level of General Reserves held.</p> <p>This is being mitigated through actions to address that level of over-spending to avoid this scenario, budget recovery planning and other actions. With a fallback mitigation that the overall level of reserves (all useable reserves) far exceeds the 3% target and if necessary, the Council could review and re-purpose its earmarked reserves should the need arise. Albeit this would impact current plans.</p> <p>The Council holds earmarked reserves, and other than the target 3% general reserve, has earmarked all other reserves for specific purposes. As noted in the comments above, the risk is that reserves fall below forecast levels, which could include the need to reduce some earmarked funds to re-instate the 3% minimum. In such scenarios this would require the Council to review and re-purpose its earmarked reserves. Given not all such reserves are as yet wholly committed, this is feasible albeit would require a change in outcomes to be delivered.</p>
<b>Budget Overspends</b>	<p>Risk that budget overspends are not contained or addressed resulting in pressure on the Council's reserves (from overspending) and additional pressures in future years budgets.</p>	<p>A range of budget control and monitoring actions and improvements have been implemented in 2025 and reflected in reports to members.</p> <p>A focus of Budget Recovery Planning activity is in place in 2025 and will be reflected in reports to members at Strategic Committees.</p>