

Agenda Item	5
Report No	HC/39/25

The Highland Council

Committee: Highland Council

Date: 11 December 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 have considered update reports on the refresh of the MTFP at the September and October 2025 Council meetings.
- 1.2 Members will recall from past reports to Council that the current MTFP planning assumption over the forthcoming three financial years is for an estimated budget gap of £36.7m, after allowing for budget savings already agreed and other funding and budget assumptions. To give some contingency and flexibility in budget planning, and recognising risks and uncertainties as covered in past reports, the target for additional efficiency, savings and other measures to address that forecast gap was £46.7m over three years. Work continues with regarding to development of options and proposals relating to closing the forecast budget gap.
- 1.3 The purpose of this report is to update members on a number of key developments and matters relating to the MTFP and budget planning. All of which are intended to support the Council's financial planning, and leading to decisions which the Council will make at its Special Meeting of 5 March 2026 to agreed revenue budget and council tax for 2026/27. This report includes updates on:
- (1) The UK Government Budget of 26 November 2025 and initial analysis (with further verbal update to be provided on the day should further information become available);
 - (2) Scottish Government Grant settlement - an update on expected timeline and the expectation of a multi-year settlement approach;
 - (3) Further update in relation to two Council tax related matters, including (a) changes to legislation relating to 2nd Homes and Long-term Empty Properties and (b) Scottish Government consultation recently launched on Council Tax reform. A proposed response to the consultation for Member's consideration is discussed as separate item on today's agenda.

- (4) The timeline and approach to budget engagement to support Council budget setting and decisions at a Special Council meeting on 5 March 2026.
- (5) Further update on actions to close the forecast budget gap and other relevant financial matters.

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 and consider the update regarding the UK Government Budget of 26 November;
- iii. Note the update on Scottish Government budget and grant settlement, including an expectation intimated by Scottish Government that a multi-year grant settlement is being planned for;
- iv. Note and consider the update regarding budget engagement over the coming months; and
- v. Note and consider actions being progressed regarding closing the budget gap.

3. Implications

3.1 Resource - this report makes no change to budget planning assumptions, nor includes recommendations with any direct financial implication. The update provided on the UK Government Budget gives some broad sense of public sector funding implications and outlook, but it remains that it will be 13 January and the Scottish Government Budget and grant settlement before any real clarity relating to the Council's financial position is available. Work progresses as outlined in this report regarding budget planning and actions to develop proposals to close the forecast budget gap. The information provided in this report 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 – there remain significant risks and uncertainties relating to the Council’s MTFP and budget planning, and these have been set out in some detail in recent reports to Council. At this stage the main risks and uncertainties relate to (1) the Scottish Government Budget and grant settlement for Councils for 2026/27 and beyond and (2) the forecast budget gap and need to ensure a range of options and proposals are in place to address the forecast budget gap. These risks are being mitigated through what are considered to be prudent budget planning assumptions as set out in past reports, and ongoing work as described in this report regarding ‘closing the gap’.
- 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. Background

- 5.1 Recent reports to members have set out the Medium Term Financial Plan position as at March of this year, the review of assumptions since that time, and arriving at an updated financial forecast for the forthcoming three financial years, in advance of the 13 January 2026 and Scottish Government Draft Budget and grant settlement.
- 5.2 The table below, and **annex 1** attached, sets out those same assumptions and forecasts as were included in the report considered by Council on 30 October.

Per October 2025 MTFP	26/27 £m	27/28 £m	28/29 £m
Forecast Budget Gap after agreed savings and other funding assumptions	11.343	11.151	14.224
Contingency/flexibility adjustments	5.000	5.000	Tbc
Target for further efficiency, savings and other measures to close the gap	16.343	16.151	14.224

5.3 While assumptions are kept under ongoing review, it is not expected there would be any material change or revision to assumptions pending clarity round the UK and in turn Scottish Government budgets. These likely to give rise to the most material considerations relating to the Council's financial planning.

6. Closing the Gap

6.1 Considering some of the opportunities that may be available to the Council under financial flexibilities, as described further in this report, the table below describes how the forecast gap and targets as set out in section 5, may be taken forward. These are planning assumptions, with proposals being developed and would be part of member consideration at the Special Council meeting of 5 March 2026.

	26/27 £m	27/28 £m	28/29 £m
Target for further efficiency, savings and other measures to close the gap	16.343	16.151	14.224
To be met through the following targeted approach:			
- Financial Flexibilities	6.000	6.000	5.000
- Other efficiencies, savings and income measures.	10.343	10.151	9.224

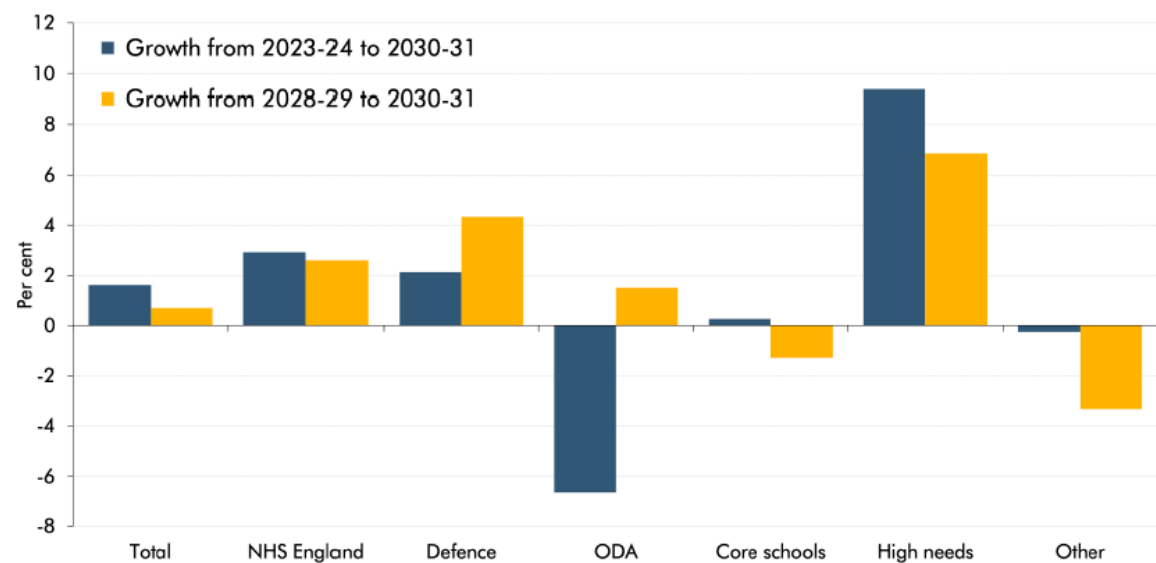
These targets are in addition to agreed savings and other measures set out in the March 2025 report to Council. Savings totalling £18.660m (2026/27) and £5.112m (2027/28) were agreed by Council in March 2025. The MTFP also includes the same planning assumption on Council tax (5% + 2%) each year, and no use of reserves to balance the budget, as was the case as at March.

6.2 While these have been set as prudent planning assumptions, the Council's approach may need alter should there be changes arising from UK or Scottish Government Budgets beyond planning assumptions.

7. UK Government Budget

- 7.1 The Chancellor of the Exchequer delivered her UK Government budget on 26 November. Until such time as Scottish Government release information on their own analysis of that budget, and in turn publish their own Draft Budget in January, there is limited information that can be taken from the 26 November budget as to direct implications for the Council.
- 7.2 **Annex 2** sets out some key briefing points on the UK Government budget across the broad range of matters covered by the Chancellor.
- 7.3 Set out below is some further analysis provided by an economist who supports the Scottish Cipfa Directors of Finance section. While it is difficult for reasons already explained, to draw conclusions from the 26 November Budget, it was always known that 2026/27 and beyond would see a significant tapering off in levels of public sector spending relative to 2025/26 which saw very significant increases in funding. The graph below shows that updated pattern of 'tapering down'. These are UK total resource (revenue) figures.

Chart 1: Implied average annual growth across Departmental resource spending



Source: HM Treasury, OBR

Key:

ODA: Official Development Assistance (i.e. the overseas aid budget).

High Needs: SEND (i.e. ASN/ASL)

- 7.4 In relation to Scotland specifically, the UK Government Budget states that

“The Scottish Government will receive an additional £510 million resource funding and £310 million capital funding.”

These sums are across the 3 year Spending Review period, not solely related to 2026/27. It is understood from language within the UK Government Budget document these sums are in addition to previous spending review settlements.

It will only be on receipt of further Scottish Government analysis, and in turn the publication of the Scottish Government budget, that the full implication for Scotland is understood, and in particular how the November budget contrasts with Scottish Government's own planning assumptions.

8. Scottish Government Grant Settlement

- 8.1 As previously advised, the Scottish Government Draft Budget is due to be published on 13 January 2026. A number of recent developments and indications around timescale and process are set out below and will be of interest to Members.
- 8.2 Grant Settlement Timing. Indications are that Scottish Government hope to provide the initial grant settlement to Councils on 13 January. This is welcome but it is recognised the significant complexity and volume of work sitting behind the grant settlement, and in past years there has been a de-coupling of the two events with the grant settlement sometimes coming days later than the Draft Budget. At a national level Directors of Finance are in discussion with Civil Servants in terms of how they can support the process and that timeline.
- 8.3 Multi-year settlement. There have been indications given to Directors of Finance that Scottish Government officials are progressing work on the basis of a multi-year grant settlement for local government. There has been direct engagement between Civil Servants and Directors of Finance to plan and prepare for how a multi-year approach could be taken forward. Which would be a welcome step and help support the multi-year approach the Council has had in place in recent years. How that multi-year settlement will be taken forward, and implemented is still under discussion e.g. to what extent elements of a future year settlement or its underlying grant allocation methodologies are set over say a 3-year period, or re-opened and adjusted during the period. Multi-year settlements were in place from around 2001 onwards and therefore a degree of the planning being taken forward is built on that past process and experience.
- 8.4 Data Checking and Early Modelling. Given recognition of the late timing of the Scottish Government Budget, given the timing of the UK Government Budget, there have been Officer level discussions between Civil Servants and Directors of Finance around potential for early modelling of statistical (population etc) changes to the current grant settlement, ahead of the 13 January Draft Budget. This to both act as a test and checking process, but to give some indications of how distribution changes might impact at a local level. This being on the basis that the whole grant distribution would then need re-run and reflecting the 13 January Draft Budget. These are still ongoing discussions about what will be possible, but is a welcome step.

9. Financial Flexibilities

- 9.1 As set out in section 6, it is proposed that as a planning assumption a target level is set for financial flexibilities, as a mechanism to assist with closing the budget gap. Which in turn would leave the remaining target to be focused on further efficiency, saving and income generation measures. This approach is founded on a range of developments and opportunities, which could provide the basis from which the Council can make decisions to meet these targets. No specific proposals are outlined within this report, but the following gives an indication of the type of matters which Members may consider on 5 March 2026 or in future years budgets.

- Council Tax on 2nd Homes and Long-term Empty Properties. As reported to Council on 30 October, primary legislation has been passed which would provide additional discretion to Councils to go beyond the previous 200% cap on charges for these properties. It is now understood via Cosla that there is a need for secondary legislation to commence many aspects of the Housing Scotland Act 2025, and further information is awaited to clarify timescales and whether for Council tax specifically, this discretion would be available for April 2026, or not. The Leader wrote to the Cabinet Secretary for Housing on 28 November 2025 seeking assurance that the required secondary legislation to give effect to this provision of the Act will be implemented to enable the Council, should it choose to do so, to make use of this flexibility to increase council tax on second and empty homes from 1 April 2026. A copy of this letter is available at Annex 3.
- PPP1 Schools Contract and Handback – August 2027 is the cessation date of this contract covering 4 schools. A significant degree of forward planning has been in place for some years to plan for the conclusion of this contract. The financial modelling of which is an ongoing piece of work and a key aspect. The Council will cease to have contractual commitments of c£5.8m p.a., but will in turn no longer receive c£1.5m p.a. of associated Government funding. The Council will have to put in place its own arrangements for facilities management, lifecycle, repairs and maintenance and other operating arrangements which would pass to the Council at contract close. And provide for the financial costs of doing so. A key consideration in this forward planning is any scope there may be for the Council to deliver efficiency savings and cost improvements as a result of handback i.e. deliver at lower cost than the current contractual arrangements. Any financial implications would feed into the 2027/28 and beyond budget plans.
- Pension Fund Actuarial Valuation – while a decision for the Pension Fund, via the Pension Committee, rather than the Council as an employer body, the next Actuarial Valuation will set employer pension contribution rates for the period 2027/28 onwards. With there being the possibility, as was the case in the last valuation, that improved surplus and funding levels of the Pension Fund, might lead to changes to employer contribution rates. No assumption could be made until the Fund had concluded its own technical analysis and made its own decisions, over the course of the coming year.
- There remain a number of other developments, which may also be a consideration for the Council's budget planning including current or future funding arrangements for new school buildings (LEIP or future funding schemes), ongoing national developments around Levies and other flexibilities for local government. All of which may also be relevant budget planning considerations into future years.

10. Other Updates

- 10.1 Officer work to review previously agreed savings is underway, with this part of the normal annual budget review process, to ensure profile and assumptions on savings remain valid, and to consider also any scope to accelerate/increase savings, as well as any risk which might require revision/re-profiling of savings.
- 10.2 Previous reports to members have highlighted broad planning assumptions around pressures including the need to provide for inflationary and contractual cost increases. Officer work to identify, forecast and scrutinise pressures and other

expenditure items will move forward over the next month and with further review in the new calendar year to feed into the March special Council meeting.

11. Budget Engagement

- 11.1 As reported to September Council, a two phased approach to budget engagement is being taken forward to support the budget development process for 2026-2029. This first phase will launch week beginning 1 December and run until 5 January. This will focus on: raising awareness with our communities and stakeholders of the budget position along with our ambitions for growth, investment and transformation along with gathering views on what services are important to communities, on ideas for where money can be saved, how we deliver our services and opportunities for generating more income.
- 11.2 The first phase of engagement will focus on gathering views through a range of mechanisms. This will include:
- A survey-based approach that will be available both online and in-person in key Council facilities. A specific survey will also be generated for community groups.
 - The survey will be supplemented by a number of online meetings with key sectoral groups, including business and third sector groups.
 - A series of discussion forums will take place to enable a more interactive discussion on a range of key topics. These will include generating income from second homes/empty homes, approaches to income generation and different approaches to in-sourcing and out-sourcing services.
 - A specific approach to youth engagement, which will be support by the Youth Convener, and involve specifically designed engagement material aimed at young people.
- 11.3 This will help inform the budget setting process and budget proposals to be considered by Councillors in March.

Designation: Chief Officer – Corporate Finance

Date: 28 November 2025

Authors: Brian Porter, Chief Officer – Corporate Finance
Alison Clark, Chief Officer – Housing and Communities
Sheila Armstrong, Chief Officer – Revenues & Commercialisation

Background Papers:

Appendices: Annex 1: Medium Term Financial Plan forecasts
Annex 2: UK Government Budget briefing points
Annex 3: Letter from Highland Council's Leader

Annex 1 – Previously Reported Medium Term Financial Plan Forecasts and Assumptions

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:			
- 2025/26 revised assessment	2.500		
- Ongoing estimated reduction	0.300	0.300	0.300
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:			
- Core Capital Programme	1.500	1.500	1.500
- Highland Investment Plan earmarking of sum equivalent to 2% council tax income p.a.	3.241	3.503	3.786
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	-	-

Reconciliation/Analysis of Forecast Budget Gap

	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
REVISED BUDGET GAP FORECAST (CURRENT MINIMUM FORECAST)	11.343	11.151	14.224
REVISED BUDGET GAP FORECAST OVER 3 YEARS (CURRENT MINIMUM FORECAST)			£36.718M

Annex 2: UK Government Budget Briefing Points

- Remove the two-child limit in Universal Credit (Scottish Government mitigates the cap so should mean savings for Scottish Government).
- Increase the National Living Wage by 4.1% from £12.21 to £12.71 per hour.
- Increase the National Minimum Wage for 18-20-year-olds by 8.5% from £10 to £10.85 per hour.
- Increase National Minimum Wage for 16-17-year-olds/Apprentices by 6.0%.
- Uprate the Universal Credit Standard Allowance by 6.1%.
- Increase the basic and new State Pension by 4.8% (triple lock).
- The Scottish Government is to receive an additional £510 million resource funding and £310 million capital funding as a result of decisions at Budget 2025 via Barnett consequentials over the next three years.
- Scotland, Wales and Northern Ireland will also receive £783 million through a local growth fund to support regeneration across the UK (specific Scotland figure to be determined).
- The extension of a freeze on National Insurance thresholds for an extra three years beyond 2028 (National Insurance is UK wide).
- The removal of a National Insurance exemption for salary-sacrificed pension contributions above an annual £2,000 threshold, from April 2029.
- Cuts to green levies on energy bills to bring down household energy bills.
- A freeze on fuel duty to be extended until September 2026.
- A new mileage-based charge on electric and plug-in hybrid cars from April 2028.
- UK income tax thresholds will be extended until 2030 (Scotland sets its own income tax rates, but the starting threshold is reserved to UK Government).
- Amount under-65s can put into cash ISAs (Individual Savings Accounts) capped at £12,000 a year, with the rest of the £20,000 annual allowance reserved for investments.
- Tax exemption for small packages from overseas retailers worth under £135 scrapped from 2029 (this is an import tax on goods).
- Tax on profits made by gambling firms from online bets to rise from 21% to 40% in April 2026.
- 10% bingo tax to be abolished.
- Pre-packaged milkshakes and lattes to be taxed from 2028 ("Sugar tax").

**Annex 3: Highland Council Leader's letter to Cabinet Secretary for Housing,
Scottish Government**



Màiri McAllan MSP
Cabinet Secretary for Housing
The Scottish Government
St. Andrew's House
Regent Road
Edinburgh
EH1 3DG

Foighnich airson/Please ask for:

**Councillor Raymond
Bremner**

Àireamh fòn/Direct phone: (01463) 702856

Ur n-Àireamh-iùil/Your ref:

Ar n-Àireamh-iùil/Our ref: RB/GM

Ceann-latha/Date: 28 November 2025

Dear Màiri

Housing (Scotland) Act 2025

I welcome the news that the Housing (Scotland) Act 2025 has now become law. This Act represents one of the most significant reforms to Scottish housing law in recent years and will make real difference to the lives of tenants across Scotland.

As you know one of the provisions of the Act removes the cap for councils to increase Council Tax on second homes and long term empty properties.

As part of our budget planning, we are currently considering our approach to this new flexibility. It would therefore be extremely helpful if you could provide an assurance that the required secondary legislation to give effect to this provision of the Act will be implemented to enable the Council, should it choose to do so, to make use of this flexibility to increase council tax on second and empty homes from 1 April 2026.

I look forward to hearing from you.

Yours sincerely / Leis gach deagh dhùrachd,

Councillor Raymond Bremner
Leader of The Highland Council

An Comhairliche Raymond Bremner
Ceannard Chomhairle na Gàidhealtachd

Councillor Raymond Bremner
Leader of The Highland Council

The Highland Council, Glenurquhart Road, Inverness, IV3 5NX

Tel no: (01463) 702856 Mobile: 07787 836402

e-mail: raymond.bremner.cllr@highland.gov.uk

An Comhairliche Raymond Bremner
Ceannard Chomhairle na Gàidhealtachd

Comhairle na Gàidhealtachd, Rathad Ghlinn Urchadain, Inbhir Nis, IV3 5NX

Fòn: (01463) 702856 **Fòn-làimhe:** 07787 836402

Post-d: raymond.bremner.cllr@highland.gov.uk