

Agenda Item	4
Report No	HC/31/26

The Highland Council

Committee: Highland Council

Date: 29 October 2026

Report Title: Medium Term Financial Plan 2027/28 – 2029/30

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

1. Purpose/Executive Summary

- 1.1 The Council has embedded multi-year financial planning since the 2024/25 financial year, and through this report, is revising and updating its rolling Medium-Term Financial Plan (MTFP) to cover the latest three-year budgeting cycle: 2027/28 to 2029/30.
- 1.2 This report builds on the MTFP last considered by Council in March 2026, reviews and revises core budget planning assumptions, and incorporates a new 3rd year in the rolling plan – 2029/30.
- 1.3 The report sets out the decisions already taken by Members in past MTFP reports, the positive impact of which, from a financial planning perspective, includes £32.8m of savings and financial flexibilities already agreed for 2027/28 and 2028/29.
- 1.4 Those decisions already made, greatly assist in the Council's forward planning, more so given as described in this report, there have been some material changes to the economic environment since the March 2026 report, with consequential negative implications for the budget outlook, most notably the impact of inflation, interest rates and the broader economic outlook since the Iran Conflict and events in the Middle East.
- 1.5 Through a review and revision of budget assumptions, including more cautious views in relation to inflation, interest rates and public sector settlements, this MTFP report highlights that:
 - Budget savings and financial flexibilities of £32.8m have already been agreed across 2027/28 and 2028/29;
 - The core Council tax assumptions as at March 2026 continue to be reflected in this MTFP, including the earmarking of a sum equivalent to 2% of council tax each year, to provide for the Highland Investment Plan;
 - The revised outlook forecasts an additional £24.8m of savings and other measures would be required to balance the budget for 2027/28 and 2028/29;
 - The 'new' third year added to the rolling MTFP, 2029/30, has a forecast budget gap and savings requirement of £14.4m;
 - In total, a forecast additional £39.2m of savings or other measures will be required to balance the plan across the three financial years based on assumptions made;

- While a significant residual savings requirement, this does need considered in the context of previous MTFP forecasts, which has in past plans/periods forecast as high as a £113m three-year gap;
- The Council having established its MTFP and multi-year planning approach, has a solid foundation on which to address financial challenges going forward, however, a significant package of other savings/measures will need be agreed;
- This report sets out a timeline, outline strategy, and key next steps in relation to the Council's budget planning over the coming months.

1.6 This report is expected to be the first, of a series of reports to Council over the coming months, relating to the MTFP.

2. Recommendations

2.1 Members are asked to:

- Note and agree to endorse the updated Medium-Term Financial Plan forecasts and assumptions as set out within this report;
- Note the risks, implications and uncertainties arising from wider economic events, and the impact on the Council's financial planning;
- Note and agree to endorse the continuation of the current '3 pillar' approach to addressing the budget gap and use of 'financial flexibilities', 'strategic savings' and 'service/cluster savings' as part of the strategy;
- Note the key dates and timelines, and next steps in relation to the MTFP;
- Agree that in relation to budget consultation and engagement, the Council adopts the blended approach as set out in this report.

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. It includes commentary and assumptions on future potential grant settlements, and how matters such as Public Sector Reform, and Scottish Government priorities including Reducing Class Contact Time, may impact on the Council's funding position. 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 2027.

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 2027/28 in March of 2027.

(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. In particular the current wider economic environment has significant risks and uncertainties, and this report goes into some detail to ensure Members are sighted on these risks, and in turn how assumptions and mitigations are factored into the MTFP. These risks will be subject to ongoing review and assessment, and reporting as part of future MTFP update reports over the coming months.
- 3.5 Health and Safety (risks arising from changes to plant, equipment, process, or people) – no specific implications to highlight.
- 3.6 Gaelic - no specific implications to highlight.

4. Impacts

- 4.1 In Highland, all policies, strategies or service changes are subject to an integrated screening for impact for Equalities, Poverty and Human Rights, Children's Rights and Wellbeing, Climate Change, Islands and Mainland Rural Communities, and Data Protection. Where identified as required, a full impact assessment will be undertaken.
- 4.2 Considering impacts is a core part of the decision-making process and needs to inform the decision-making process. When taking any decision, Members must give due regard to the findings of any assessment.
- 4.3 This is an update report and therefore an impact assessment is not required.

5. Background and March 2026 Medium-Term Financial Plan (MTFP)

- 5.1 The extract from the March 2026 MTFP report to Council below, reminds Members of the summarised budget at that point in time. Year 1 (2026/27) is shown for completeness, but for the purposes of this report, it is years 2027/28 and 2028/29 of most relevance given they represent the 'new' year 1 and 2 of the rolling plan cycle.

Key budget elements £m	2026/27	2027/28	2028/29
Pay cost increases provided for	20.205	14.149	13.626
Budget Cost Increases & Pressures (recurring)	18.933	17.881	10.200
Budget Cost Increases & Pressures (from reserves)	10.623	1.511	-
Administration Core Revenue Growth & Investment	3.500	-	-
Administration One-Off Growth & Investment	8.500	-	-
Other New Burdens & Commitments (inc SG funds)	10.077	-	-
Highland Investment Plan / Capital Project support*	4.705	4.976	5.258
(*HIP 2% earmarking plus £1.5m p.a. for core capital)			
Package of budget savings, income generation and financial flexibilities (new plus previously agreed after adjustment for rebasing)	28.244	19.353	13.444
Use of reserves to balance the budget	Nil	Nil	Nil
Budget gap still to be closed for future years	-	4.833	0.824
Proposed Revenue Budget	867.976	873.383	889.049

- 5.2 At that time, and as a result of the Council's forward planning and MTFP approach, the residual budget gap for the plan was a then, £5.657m in total across 2 years.
- 5.3 As noted in the next section, there has however been some material changes in the broader economic outlook, requiring review and revision to budget assumptions, and as a result increasing the level of forecast budget gap the Council needs plan for.

6. Economic Outlook and other Risks and Implications for the MTFP

- 6.1 On 5 March 2026 the Council considered the MTFP and approved its budget for 2026/27 and indicative plans for the following 2 financial years. Since that time there have been significant events which impact on the Council's financial forecasts, most notably the Iran Conflict and Middle East events, and the resulting impact on inflation and interest rates. This section of the report provides information and context as to how economic factors have shifted since March 2026.

Inflation

- 6.2 The Bank of England had reported that *"At the time of the February Report, CPI inflation had been projected to fall by over 1 percentage point to 2.0% by 2026 Q3..... The April near-term projection is 1.4 percentage points higher such that CPI inflation is now expected to be 3.3% in Q3. CPI inflation is expected to rise somewhat further in 2026 Q4 (Section 3)."*

The Council had utilised and relied on Bank of England and other economic forecasts at the time, and with the expectation that CPI inflation would continue to ease over the course of 2026, and progressing towards the Bank's 2% inflation target.

As the commentary from the Bank of England highlights, and as shown in the following graphs, actual inflation at the time of this report is markedly higher than had been expected within the March 2026 MTFP, and forecasts suggest it will be into 2027 until inflation potentially starts to reduce. CPI is a 'basket' indicator and Members will be well aware of more substantial rises, risks and volatility in specific sub-sets of the Council's cost base, e.g. oil/fuel prices.

The following graphs sourced from the Council's Treasury Management advisors MUFG, provide some further information and context in relation to inflation and other factors.

Table 1:
CPI Inflation Scenarios

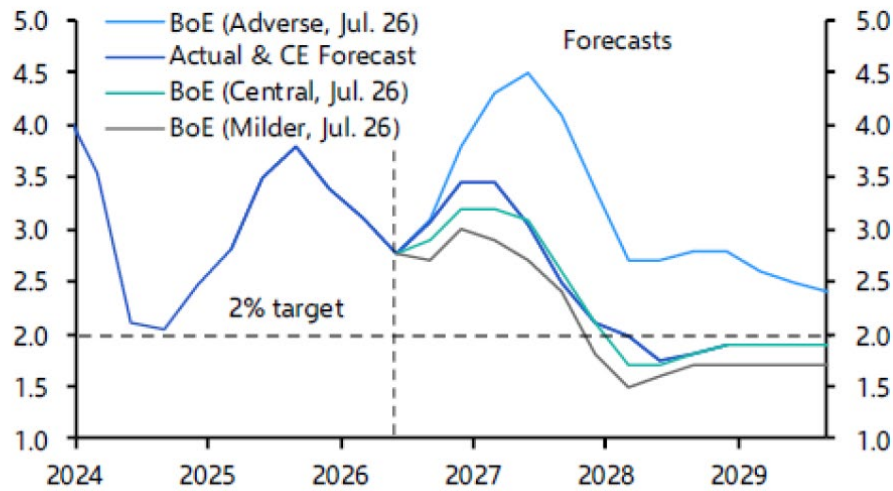


Table 2:
UK Inflation vs Wages

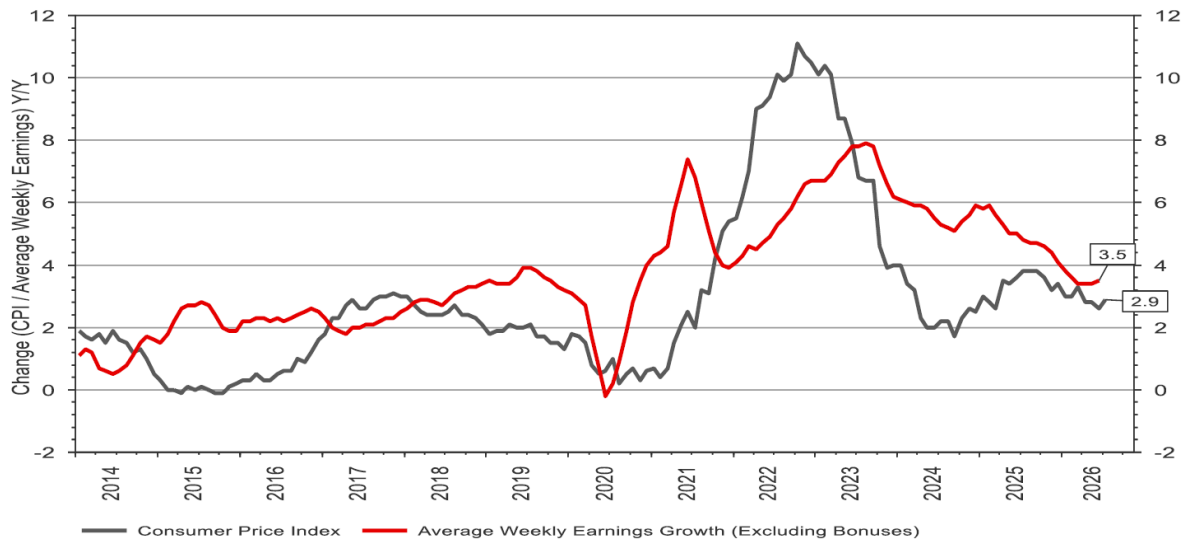
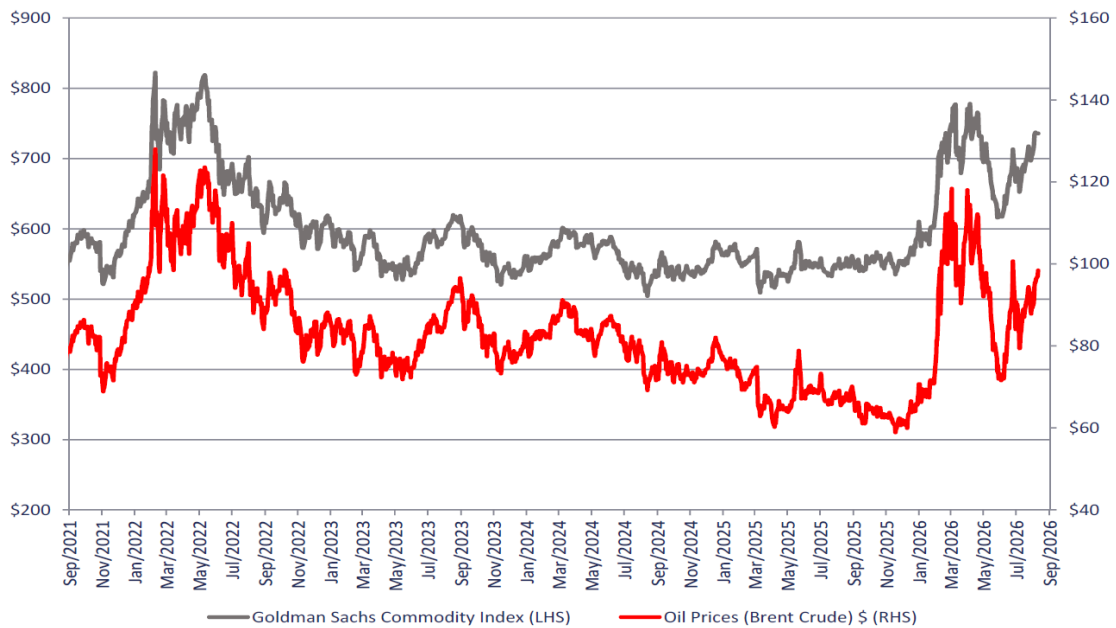


Table 3:

Oil and Commodity Prices



- 6.3 The graph below shows the movement in Public Works Loans Board interest rates, relative to the Bank of England base rates. PWLB, which is the primary source of Council borrowing, has interest rates which are linked to gilt yields, so are influenced by UK and Global economic factors, and are not directly based on bank base rates. The graph shows the increase in rates, and ongoing volatility from March 2026 onwards. At the time of preparing this report, PWLB rates are at their highest since 2023.

Table 4:
PWLB Trends



- 6.4 On a practical level, the table below contrasts actual/forecast borrowing rates before March 2026, and as they stand currently, and highlighting the movement over that time period. The increase in rates over that period represents an unexpected and

unbudgeted cost and risk, which to date is largely being mitigated (avoiding a revenue budget overspend/pressure) through a combination of treasury management activity and shorter-term borrowing, and the profile of capital spend and level of capital slippage which is off-setting the impact of the increase in rates. While that mitigation and off-setting is expected to largely protect the Council's revenue budgets in 2026/27, there is a risk for 2027/28 and beyond, the mitigating of which could only be as a result of rates reducing from current levels and back to forecasts in the region of 1% lower than current.

Table 5:

	PWLB 5 Year	PWLB 25 Year	PWLB 50 Year
<u>March Treasury Strategy:</u>			
-Forecast for Sep-26	4.30%	5.60%	5.40%
-Forecast for Mar-27	4.10%	5.50%	5.30%
-Forecast for Mar-28	4.10%	5.30%	5.10%
-Forecast for Mar-29	4.10%	5.20%	5.00%
<u>Current Forecasts:</u>			
-August 26 NOW rate	5.48%	6.53%	6.32%
-Forecast for Mar-27	4.80%	5.80%	5.60%
-Forecast for Mar-28	4.20%	5.20%	5.00%
-Forecast for Mar-29	4.20%	5.20%	5.00%
<u>Movement March to now:</u>			
-Aug/Sept 26	+1.18%	+0.93%	+0.92%
-Forecast for Mar-27	+0.70%	+0.30%	+0.30%
-Forecast for Mar-28	+0.10%	-0.10%	-0.10%
-Forecast for Mar-29	+0.10%	-	-

- 6.5 Current economic forecasts suggest it may be late 2027 or early 2028 before rates return to levels broadly as assumed in the March 2026 MTFP, which if that were the case, may support the Council in being able to manage the impact over the next 12 months within current plans and forecasts. There is clearly a downside risk that rates don't reduce, or at the pace in economic forecasts, in which case for 2028 and beyond the Council may need assess any other plans or actions it may need consider.

UK Budget and Scottish Government Budget Outlook

- 6.6 A 'flat cash' core Local Government Finance settlement for 2027/28 and 2028/29 had been assumed at March 2026. This was informed by Scottish Government's own draft budget for 2026/27, as highlighted below, which showed a slight cash decline in the Local Government budget over the forthcoming years, and in the context of real-terms reductions in most Scottish Government portfolio budgets as per the second graph.

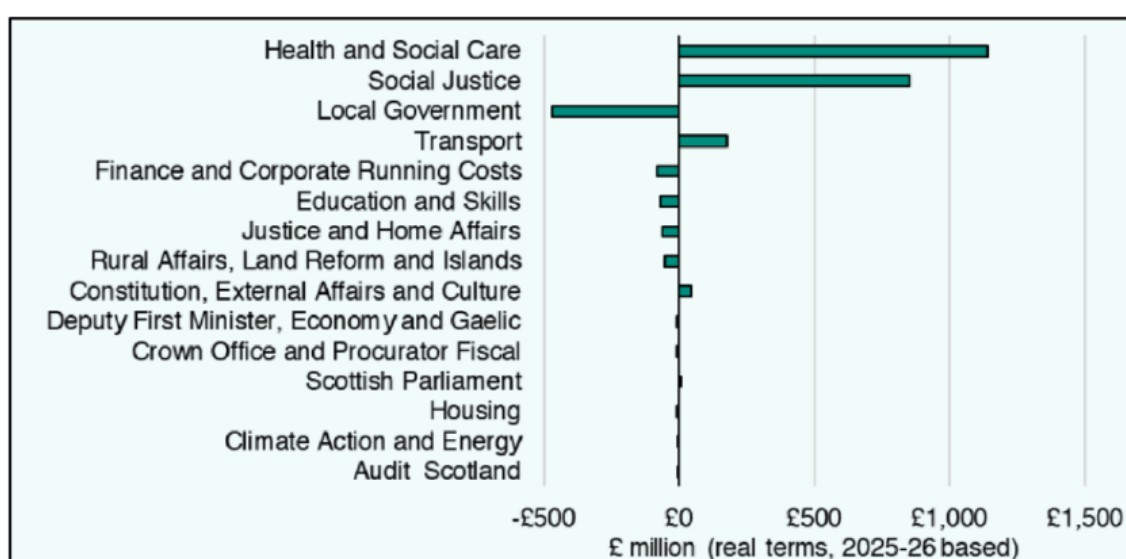
Table 6:

Tables 3&4: Spending Review Portfolio spending plans, cash terms

	2026-27	2027-28	2028-29	2029-30 for Capital and Financial Transactions only
Scottish Spending Review	£m	£m	£m	£m
Health and Social Care	21,952	22,786	23,896	1,032
Finance and Local Government*	15,204	15,135	15,139	699

Table 7:

Table 5: changes in resource spending, 2025-26 to 2028-29 by portfolio, real terms, £ million



Source: Scottish Cipfa Directors of Finance Section/JM

6.7 Beyond the wider economic implications as set out earlier in this report, there have been a number of other developments since March 2026 which suggest there is the potential for, and need to plan for, grant settlements which could be more challenging than the ‘flat cash’ assumption of March 2026. The various developments include:

- Scottish Government officials had shared with Directors of Finance indicative grant settlement models for 2027/28 and 2028/29 which indicate the impact for individual Councils of population and grant distribution changes only. These highlight that relative to other Councils, Highland may see a reduced share of grant in future years due to population and other changes. The models indicate a c1% reduction could be possible arising solely from these distribution factors.
- Audit Scotland have highlighted that the Scottish Government’s Medium Term Financial Strategy projects a combined resource and capital funding gap of £4.7 billion by 2029/30.
- In August 2026 the Scottish Fiscal Commission reported a £720m income tax “negative reconciliation” impact on the Scottish Government budget in 2027/28.

6.8 Further considerations in relation public sector budget settlements, and implications for the Council’s financial planning include:

- The Public Sector Reform agenda and any assumptions related to which (e.g. efficiency targets, Social Care and NHS reforms, Education/school empowerment) Scottish Government may factor into their budget plans;
- The Programme for Government and other Scottish Government priorities including Reducing Class Contact Time (RCCT), Breakfast club/childcare provision, Free school meals, and the extent to which these are fully-funded or not, and implications for Councils in relation to delivery;
- Adult Social Care (ASC) financial cost pressures and the implications of the grant settlement and public sector reform agenda, and in turn what this may mean for the Council's budget and responsibilities relating to ASC.
- The outcome of the 2029 City of Culture bid process, which if successful would bring additional grant funding, and in turn require the Council and other funding partners to formalise their own financial commitments to the 2029 programme.

6.9 It is considered appropriate to take a more prudent and cautious view, recognising that grant settlements may be tighter than had previously been assumed, and were there to be any new or additional funding from Scottish Government, this may well come from within the existing funding envelope and be directed towards new priorities, creating the risk of a core cash grant reduction in reality. These remain planning assumptions, given UK and in turn Scottish Government budgets will not be known until late October through to early December.

7. Updated Financial Forecasts for this Revised MTFP

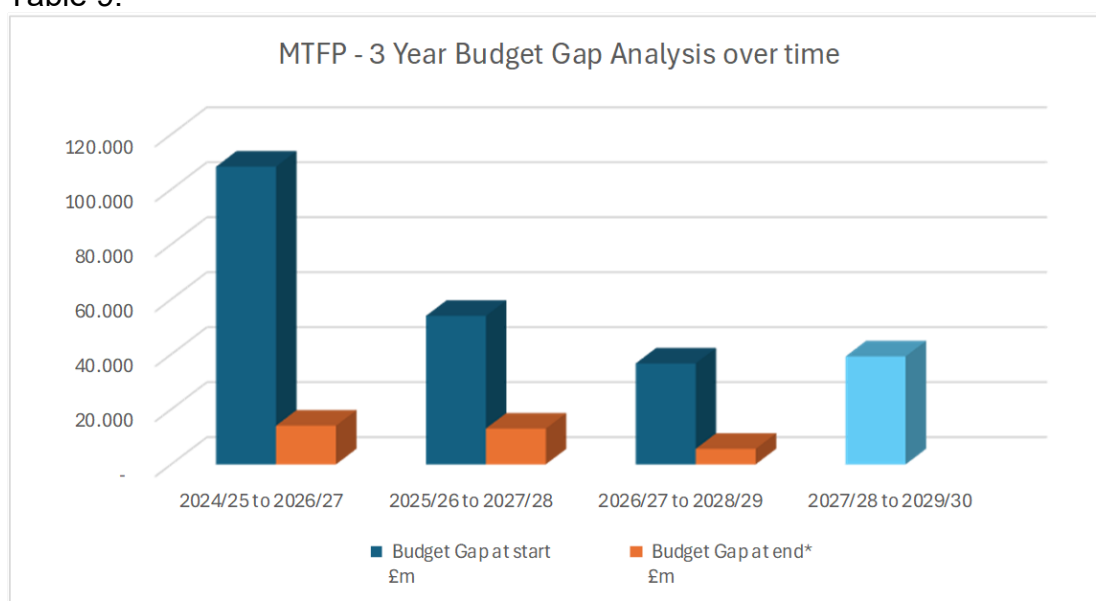
7.1 Taking account of the context and economic implications as set out above, and as a result taking a more cautious view within the MTFP in regard to cost pressures and public sector grant settlement prospects, the implications are as summarised below.

Table 8:

	2027/28 £m	2028/29 £m	2029/30 £m
Budget Gap as forecast March 2026	4.833	0.824	
Adjustments to core assumptions for costs, inflation and pressures	3.633	6.117	
Draft Pension Fund Actuarial Valuation outputs – potential additional cost reduction from revision to employer rates	-3.964		
Adjustment to grant settlement assumptions (core -1% p.a)	6.735	6.668	
Incorporation of a 'new' 3 rd year forecast			14.114
Provision for increase in General Reserves – Nil on presumption in-year action returns reserves to policy level.	Nil	-	-
Revised Forecast Budget Gap	11.237	13.609	14.414
Total across 3 years	39.260		

- 7.2 **Appendix 1** to this report sets out some of the key elements of the budget forecast reflected above, providing more information on different component parts of the budget forecast, leading to the position as summarised above.
- 7.3 While the residual forecast gap and savings requirement is significant, it is important to set this in the context of where the Council has been in past years, and to highlight the importance and value of the multi-year planning approach which has evidently seen a narrowing of budget gaps at the start, and at the end of each three-years MTFP cycle. With the latest 3-year cycle, as covered in this report, and increase in gap being the result of largely external factors outwith the Council's control, i.e. those economic impacts of inflation, interests rates and public sector outlook, which are creating a more challenging outlook for the current three-year period.

Table 9:



*Excludes any planned use of reserves to balance the budget in 25/26 and 26/27

8. Budget Strategy and Closing the Gap

- 8.1 The Council's strategy within the March 2026 MTFP was based on the following '3 pillars' approach to savings and other measures to close the gap. Within each pillar or theme, examples of savings and strategies already adopted/agreed are shown.

Table 10:

Financial Flexibilities	Strategic Savings	Service Savings
Fiscal, tax, levy or other flexibilities: • Council Tax • Pensions AV • Treasury & Debt management • Levies/new funding streams	Council wide or cross-cutting savings: • Staffing/VM • Agency/OT • Fees & Charges • Efficiency & VFM Targets	Cluster/Service Targets: • Set pro-rata to budget with limited if any exceptions. • Traditional Service generated proposals

- 8.2 As shown within **Appendix 1**, the values already agreed as savings and targets at March 2026, against these pillars, is as shown below.

Table 11:

Financial Flexibilities	Strategic Savings	Service Savings	Totals
<u>AGREED:</u> 27/28 £7.329m 28/29 £5.455m 29/30 NIL TOTAL £12.784m	<u>AGREED:</u> 27/28 £4.752m 28/29 £5.511m 29/30 NIL TOTAL £10.263m	<u>AGREED:</u> 27/28 £7.272m 28/29 £2.478m 29/30 NIL TOTAL £9.750m	<u>AGREED:</u> 27/28 £19.353m 28/29 £13.444m 29/30 NIL TOTAL £32.797m
<u>Including:</u> Ctax 2H/LTE £5.2m PPP1 £2.1m Other (tbc) £5.5m	<u>Including:</u> Staffing/VM £4.6m O/t & agency £1.6m Fees/charges £1.6m VFM reviews £2.5m	<u>Including:</u> March'26 £4.3m March'25 £5.5m	

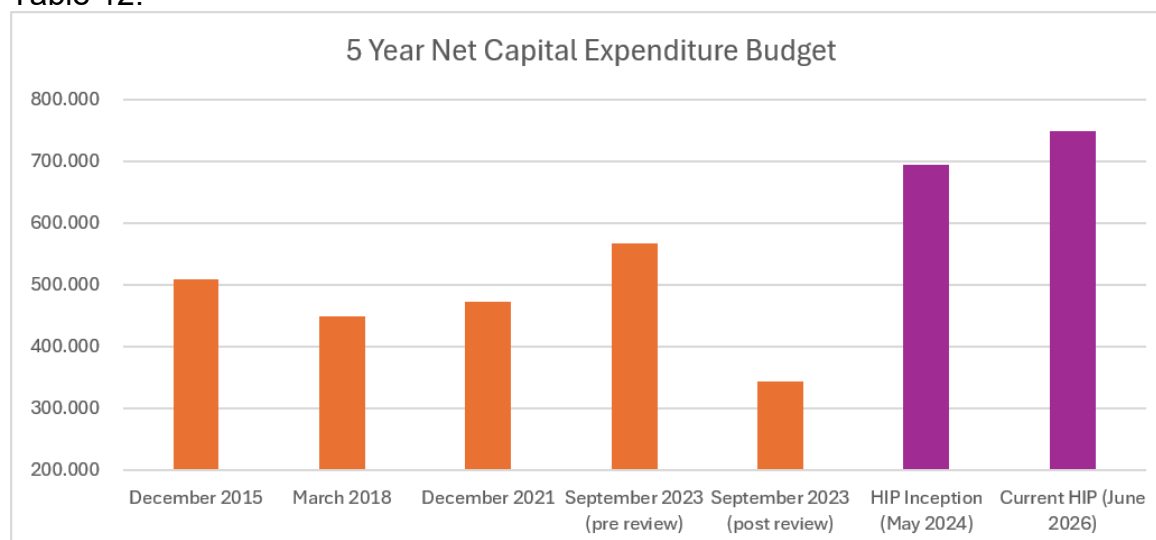
- 8.3 It is proposed that the Council's strategy for the current 3-year MTFP cycle continues to be built upon the 3 pillar approach as shown above. Work is already underway to develop new or additional proposals and opportunities within this strategy, and this will continue over the coming months. The approach may need to flex and adapt to any change in circumstances, with the most significant factor being the output of the Local Government grant settlement which is expected be known on 8th or 9th December. Further information on key dates is set out later in this report.

- 8.4 As stated earlier in this report, in relation to Council Tax, this MTFP continues to adopt the agreed or planned council tax position as per the March 2026 report. For the avoidance of doubt, that being a core 5% p.a. council tax increase, with an additional 2% on top and earmarked for the Highland Investment Plan (therefore 7% in total p.a.). In addition, the decisions made by the Council in March 2026 relating to second homes and long-term empty properties, continue to be reflected within the MTFP. As a result, no change to council tax plans has been modelled or built into the MTFP, and clearly any change to these plans would either increase or decrease the budget gap as a result.

9. Highland Investment Plan

- 9.1 With the Highland Investment Plan a core part of the Council's financial strategy and MTFP, the graphic below is included to set the current HIP in context, highlighting in particular the stable and growing HIP funding envelope, supported by the Council's forward planning and council tax ear-marking, and contrasting that with 5 year capital plans which pre-dated the HIP, and evidence the peaks and troughs of those plans, including years where plans were scaled back due to financial circumstance and without the benefit of the financial and funding strategies now in place. Members will note earlier commentary in this report regarding interest rate risks and implications, the impact of which will require ongoing monitoring. It remains the case that the most recent HIP report was considered by Council in June 2026 and that 5 year plan remains the current approved plan of the Council, with Officers focusing on the delivery of the new and improved infrastructure within that Plan.

Table 12:



10. Budget Consultation and Engagement

- 10.1 The Council has implemented a number of different methods and approaches to budget engagement in recent years, including budget surveys to individuals and groups, the use of a budget simulator, staff suggestions, ideas boards and focus groups. The Council has also adopted a phased approach to engagement with broader themes for engagement in the pre-Christmas period, before more specific of focused engagement in the new calendar year and in advance of budget setting.
- 10.2 The level of engagement from these approaches has been positive, but as per past reports to Council, it is important to avoid engagement fatigue and as seen in more recent years there was a tail-off in the level of citizen/stakeholder engagement last year, perhaps in some respects a symptom of the very significant levels of engagement undertaken in 2024/25.
- 10.3 For this planning cycle, it is proposed to take a blended approach which takes the methods and learning from different approaches used in recent years. Online activity will be hosted on the Council's new engagement platform - [Engage Highland](#) – whilst engagement materials will be available in key locations for people who do not wish to get involved online. The engagement strands to be utilised, including an outline timetable, are outlined below.

Work strand	Timescale
Budget Simulator	Launch Early November
Budget Surveys - Public - Community Group - Youth	Launch Mid November
Ideas Board	Launch Mid November
Focus Groups - Community Councils - Tenant Forum - Business Forum	End November/Beginning December

• Third Sector • Parent Council	
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11. Key Dates and Next Steps

- 11.1 The table below highlights some key dates pertaining to this report and the MTFP over the coming months. Unlike the later parliamentary budget setting process of 2025 (which was 1 month later than normal) the timeline below is back to what is a more typical annual cycle, with the Council being notified of its grant settlement pre-christmas.

28 October	UK Government Budget
29 October	Highland Council and this MTFP report
3 December	Scottish Government Draft Budget
8 th or 9 th December	Local Government Grant Settlement
10 December	Highland Council and further MTFP report
November/December	Phase 1 budget consultation and engagement
January/February '27	Phase 2 budget consultation and engagement
4 March 2027	Highland Council Special Meeting (MTFP, Budget and Council Tax decisions)

- 11.2 Further key actions that are being taken forward as part of the MTFP planning cycle include the following, which will form part of future reporting to Members.
- Review and assessment of previously agreed savings and other measures;
 - Analysis and assessment of provisional Local Government grant settlement (when received 8/9 December);
 - Ongoing review of budget assumptions, risks and change in forecasts or circumstances;
 - Identification, review and scrutiny of budget pressures and growth proposals for consideration;
 - Ongoing review of reserves.

Designation: Chief Officer, Corporate Finance

Date: 6th October 2026

Author: Brian Porter, Chief Officer – Corporate Finance (S95 Officer)

Background Papers:

Appendices: Appendix 1 – Component elements of the budget forecast

Appendix 1 – Core Elements of the Budget Forecast

Core Elements of the Roll Forward Budget/M TFP Forecast	2027/28 £m	2028/29 £m	2029/30 £m
Pay Cost Provision	18.347	18.577	14.607
Other roll forward/base budget adjustments	-3.964	-	-
Budget Pressures Core recurring forecast :			
- Provisionally Allocated (March 2026 MTFP)	4.540	2.188	-
- Unallocated at this time	13.000	10.000	10.000
Budget Pressures – provisionally allocated and due to be met from reserves (March 2026 MTFP)	1.511	-	-
Revenue provision for Loan Charges (for costs of borrowing for capital):			
- Core/Legacy loan charges allocation	1.500	1.500	1.500
- HIP earmarking of sum equivalent to 2% council tax income p.a.	3.516	3.801	4.108
Forecast potential reduction in SG grant funding -1% core cash redn	6.735	6.668	-
Budget Savings and Financial Flexibilities Already Agreed:			
- Budget Savings - Strategic	-4.752	-5.511	0
- Budget Savings - Service	-7.272	-2.478	0
- Financial flexibilities	-7.329	-5.455	0