NORTH AYRSHIRE COUNCIL

13 December 2023

North Ayrshire Council

Title:	**Long-Term Financial Outlook 2024/25 to 2033/34 and Medium-Term Financial Outlook 2024/25 to 2026/27**
Purpose:	To outline the financial challenges facing the Council over the next 10 years and examine the likely financial position of the Council's General Fund in the medium-term to inform the development of budget proposals.
Recommendation:	That Council considers the Long-Term Financial Outlook 2024/25 to 2033/34 and the financial challenges identified in the Medium-Term Financial Outlook 2024/25 to 2026/27, notes the scale of the financial challenges which the Council faces over the medium and longer terms and brings forward proposals to set a balanced budget for 2024/25 and beyond.

1. Executive Summary

1.1 Local authorities continue to operate in an increasingly complex, challenging, and uncertain environment with public sector funding not keeping pace with the increasing costs and demand for services, with challenges in relation to the recovery from the Covid-19 pandemic, the cost-of-living crisis and ongoing global conflict. In this climate it is important that Councils take a long-term view. The Council's General Fund Long-Term Financial Outlook is the cornerstone of the Council's strategic financial framework and establishes a sound basis for the development of the Medium-Term Financial Outlook and subsequent annual budgets, enabling the Council to address the challenges it faces and help align resources to key priorities.

1.2. The Long-Term Financial Outlook 2024/25 to 2033/34 has identified an estimated funding shortfall of £127m over the next ten years which the Council requires to address. £48m of this gap occurs over the next three years. This includes anticipated pressures in relation to the Health and Social Care Partnership (HSCP) and is based on best estimates with sensitivity analyses highlighting the implications of changes to the underlying assumptions.

1.3. The Medium-Term Financial Outlook for the period 2024/25 to 2026/27 draws on the same data and projections as the Long-Term Financial Outlook and has identified a number of specific financial challenges in relation to the availability of Scottish Government funding for local authorities, the impact that anticipated demographic profile and other demand and cost pressures will have on the Council's cost base, and the strategies available to address the resultant funding gap. This has identified a structural funding gap of £48m which must be addressed as part of the Council's Medium-Term Financial Plan.

1.4 To address these financial challenges, the Council requires to develop a Budget Programme which delivers sustainable change and transformation at scale and pace over the medium and longer term and for this to be considered within the context of the key priorities set out within the Council Plan 2023-2028.

1.5 It is also vitally important that the Council looks at how it currently uses all available powers that support financial flexibility and considers such powers within the context of the scale of the financial challenges faced by the Council, the local circumstances, and the options available in delivering balanced budgets. This is recognised as a key component of the Verity House Agreement with Scottish Government.

1.6 Elected members continue to receive briefings on the contents of the Medium-Term Financial Outlook and officers are currently developing proposals to support the Medium-Term Financial Plan for 2024/25 to 2026/27, which will be presented to Council for consideration on 28 February 2024.

2. Background

Long-Term Financial Outlook (LTFO)

2.1 The Council's previous LTFO, covering the period 2021/31, was approved by Council in December 2020. The LTFO provides the cornerstone of the Council's strategic financial framework and establishes a sound basis for the development of the Council's Medium-Term Financial Plan and annual budgets. The financial framework was developed to help guide the Council through the challenging economic climate and continuing real terms reduction in resources and support the planning for longer term financial sustainability of priority services. This has been exacerbated in recent years by the impact of high levels of inflation.

2.2. The significant risks that the Council faces are set out in the Council's Strategic Risk Register. There are several high scoring risks being managed by the Council. The 2 highest scoring risks are summarised below:

- ***Financial Environment*** (risk score 20) - this risk reflects the ongoing financial challenge faced by the Council and notes that the level of funding for local government will require the Council to take increasingly difficult and challenging decisions to ensure that service delivery and investment is aligned to available resources;

- ***Inequalities*** (Risk score 20) - this highlights the socio-economic inequalities faced in North Ayrshire reflecting those residents of North Ayrshire and, in particular, certain excluded groups will experience increasing levels of poverty and its effects resulting in the continued increase of socio-economic inequality in the area;

2.3. The revised Long-Term Financial Outlook 2024/25 to 2033/34, appended to this report, outlines the potential impact of :

- The strategic financial framework;

- Local issues for North Ayrshire including our current and anticipated demographic and health profiles, employment and levels of deprivation and the impact these will have on the Council's income and cost base;

- Global and national economic performance;

- Factors affecting Scottish Government funding and funding for Local Government;

- The financial outlook for North Ayrshire including funding and expenditure requirements;

- A review of the Council's balance sheet including assets, debt, future liabilities and reserves; and

- The strategic response required by the Council to ensure future financial sustainability.

Key Messages

2.4 The LTFO highlights a number of key messages in relation to the anticipated financial environment and the potential impact on funding and expenditure requirements of the Council over the next 10 years, including:

- Demographic Changes – North Ayrshire's overall population is forecast to reduce by 4.2% over the period, with reductions in the numbers of children and working age adults being offset by a projected 17.1% increase in Older People. At the same time the percentage of North Ayrshire residents living with disabilities or long-term health and mental health issues is projected to be higher than the Scottish average. This will likely result in significant changes to demand for services, particularly in Communities and Health and Social Care;

- Economic Impacts – North Ayrshire's economy is still recovering from the pandemic. The cost-of-living crisis continues to be impacted by high levels of inflation. The percentage of adults claiming out of work benefits is 43% higher than the Scottish average and 26.9% of North Ayrshire's SIMD datazones are within the 15% most deprived in Scotland.

- Other Expenditure Requirements – In addition to the demographic and economic impacts on service demands, the expenditure requirements of the Council will be subject to further pressures in relation to pay and price inflation and the revenue implications of the Council's ambitious General Services Capital investment Programme which will result in increased budget pressures across the full timeframe of the LTFO;

- External Funding – Aggregate External Finance (AEF) is influenced by the level of Scottish Government funding allocated to Local Government each year. The Scottish Government has already indicated from its Spending Review a projected "flat cash" level of funding for local government over the medium-term. When set against a backdrop of high inflationary costs this creates a significant budget gap. From the overall quantum of anticipated funding nationally, the North Ayrshire demography is the largest influencing factor that determines our share and the changes forecast by the National Records for Scotland have been used to quantify the potential movement in AEF for North Ayrshire over the next 10 years. The plan assumes that AEF will be fixed (flat cash) over the next 3 years. Based on previous funding settlements, although the demographic changes in North Ayrshire would normally lead to a proportionally reduced share of flat cash funding, this position has been adjusted through a mechanism known as "the Floor". This has minimised the impact of the demographic shifts to date. The current planning assumption is that this approach will continue until 2026/27 then the impact of a falling population demographic will lead to reduced funding from 2027/28. There is also the continued direction of funding to support Scottish Government funding priorities within Health and Education portfolios. This could further limit any available funding for core services. A key focus for all Councils is to continue to work in partnership with Scottish Government via COSLA as part of the Verity House Agreement, with the aim of delivering jointly agreed outcomes whilst Councils retain financial flexibility across a range of policy areas.

- Council Tax Income and the Use of Reserves – As funding from the Scottish Government in relation to core services is not keeping pace with the increasing costs and demand for services, North Ayrshire Council will become increasing reliant on income from Council Tax and internal reserves to fund service delivery. Following the proposed Council Tax freeze in 2024/25, as announced in October, the LTFO assumes a 3% per annum Council Tax increase over the period. AEF is expected to increase by £3.2m in 2024/25 to compensate for the freeze in Council Tax. This equates to a 5% increase in 2024/25. North Ayrshire Council approved the use of reserves generated from service concession flexibility on 1 March 2023. This won't provide a sustainable solution to the anticipated funding gaps; however, it will provide temporary mitigation through a controlled application of reserves over the medium-term. This will require to run in parallel to the delivery of more sustainable measures in reducing the Council's cost base.

- The Financial Challenge - The LTFO identifies an estimated funding shortfall of £127m over the next ten years. £48m of this gap occurs over the next three years. This is based on best estimates with sensitivity analysis highlighting that a 1% change in the underlying assumptions could result in this increasing to as much as £265m over the same period.

The Medium-Term Financial Outlook

2.5 The Medium-Term Financial Outlook for the period 2024/25 to 2026/27 draws on the same data and projections as the Long-Term Financial Outlook, however, brings into sharp focus the short and medium-term impacts from recent key global, UK and national events, all of which have contributed to an extremely challenging financial landscape for citizens, communities, and local government finance.

<u>Economic Outlook</u>

2.6 Funding for public services is linked to the performance of global and national economies and through the volatility in financial markets. UK Government fiscal policy and Bank of England Monetary policy decisions have a significant influence on local government finance whether it is through the level of Block grant available to

Scotland, or the purchasing power associated with this funding within the context of inflation and the level of interest rates.

2.7 Through 2023 /24 households will continue to experience pressures on disposable income. Pay increases over the last 2 years have not kept pace with inflation and interest rates have increased significantly. These factors also have a significant impact on local government finance.

Inflation

2.8 Whilst Inflation is reducing, CPI 4.6% as at November 2023, it remains above the Bank of England (BoE) target of 2%. Latest forecasts project Inflation reaching the BoE target in 2025. The biggest price rises have been connected to basic goods, like food and energy and costs of materials in the construction sector. It is important to also note the impact higher inflation has on many contracts that are linked to inflation indices. This will continue to have a material effect on the financial pressures facing local government.

Public Sector Pay

2.9 Employee costs represent 49% of the Council's gross expenditure budget. Inflationary pressure in this area represents the most significant pressure that will be faced by the Council over the medium and long-term. Pay awards have been agreed with all staff groups in 2023/24, with the Council funding element of the increase equating to around 3%. The planning assumption across the medium and long-term is for the Council funding element for pay awards to remain at a 3% increase each year. Future pay negotiations will be influenced by the ongoing level of inflation and the trade union commitment to progress towards a minimum pay level of £15 per hour for staff. The latter having significant financial implications for public sector finance.

2.10 Employees of North Ayrshire Council are members of the Strathclyde Pension Fund or the Scottish Public Pension Agency. Both pension schemes routinely review employer pension contributions. There are planned changes to Scottish Public Agency contribution rates from 23% to 26% from 2024/25. This will cost an additional £2m per annum for North Ayrshire Council. It is assumed at this time that this increase will be fully funded by Scottish Government through Barnet consequentials. There is also a planned decrease to Strathclyde Pension Fund contribution rates from 19.3% to 6.5% for 2024/25 and 2025/26 before increasing to 17.5% from 2026/27. The planning assumption made across the medium and long-term is to retain the recurring contribution rate at 17.5% as this represents the revised base structural rate for the Council. It is recognised however, that a non-recurring pension rebate will occur across 2024/25 and 2025/26. To achieve financial sustainability, the Council requires to fully address the structural budget gap faced in 2024/25 and across the medium-term. By doing this an opportunity for non-recurring strategic investment will arise in 2024/25 and 2025/26.

Interest Rates

2.11 The Bank of England Monetary Policy Committee met on 1 November 2023 and voted to maintain the bank base rate at 5.25%. It is projected that the base interest rate has reached its peak at 5.25% with gradual reductions forecast from the second half of

2024. Similar levels of interest rate are available to Councils for borrowing through the Public Works Loans Board. The rates available are linked to the performance of government bond yields (Gilts). Current projections indicate levels will remain fairly static through 2024.

The Scottish Landscape

2.12 The Scottish Government (SG) Spending Review published in May 2022 reinforced SG priorities of reducing child poverty, addressing the climate crisis, building a strong and resilient economy, and helping public services recover from the pandemic. The SG Medium-Term Financial Strategy was updated in May 2023 and reflected the significant impact of inflation on areas including public sector pay and capital spending.

2.13 The SG also set out details of Public Service Reform which included:-

- Efficiency levers, across digital, shared services, public sector estates, procurement and grant management, each of which are being progressed within Scottish Government, and by individual public bodies and partners.
- Revenue raising to maximise the funding available to invest in and support our public services.
- Pay sustainability and the need for a strategy be linked to both reform and to fiscal sustainability

2.14 The Spending Review also set out the critical role that local government plays in delivering services and improving outcomes for people in Scotland, while recognising the pressure on budgets experiencing growing demand. The New Deal with Local Government – The Verity House Agreement, published on 30 June 2023, agreed three shared priorities.

- tackling poverty,
- just transition to net zero and,
- sustainable public services

2.15 The Partnership Agreement set out the intention for National and Local Government to work together to deliver shared priorities. A key component of this is the Local Government Fiscal Framework which seeks to simplify and consolidate the Local Government Budget Settlement to ensure reduced reliance on ring-fenced funding and establish clear routes to explore local revenue raising opportunities. These opportunities include:-

- ***A review of the Council tax multiplier for properties above Band D*** – Following a SG Consultation and in view of the SG's recent announcement to freeze council tax for 2024/25 it is likely that any consideration for such changes will be in advance of the 2025/26 Budget.

- ***Council tax premium for second homes*** – Legislation will shortly be presented to parliament to provide councils with powers to charge a premium of up to 100% council tax. This would bring the premium in line with long-term empty properties. The policy intent being to help address the level of housing need and provision across the country. It is anticipated that this will be in place prior to the 2024/25 Budget and a report will be presented to Council in February to consider these powers within the context of the Budget Settlement and local circumstances. Further changes to primary legislation that will allow charges of up to a 300% premium are also anticipated. This is likely to be progressed through 2024.

- ***Tourist Visitor Levy -*** The Visitor Levy (Scotland) Bill was introduced to the Scottish Parliament in May 2023*.* The legislation will give local councils the ability to add a tax to overnight accommodation if they wish to do so. This will be based on a percentage of the cost, with the rate set by individual councils. Councils could choose to apply the levy in all or part of their area - but will have to consult with local communities, businesses, and tourist organisations before introducing a levy. Discussions continue around this scheme with the potential cost of administration also being a key factor in any future consideration. In terms of timescale, it is unlikely that any scheme would be in place prior to 2026/27.

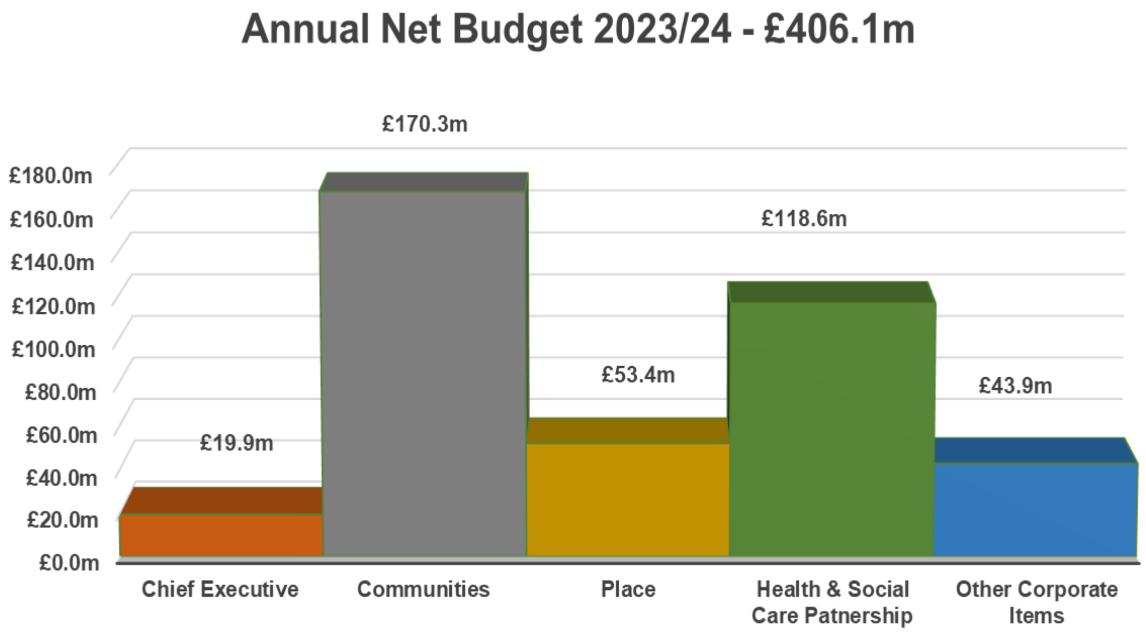
- ***Areas of ring-fencing*** – An important element of the partnership agreement is the principle of achieving agreed joint outcomes in key policy areas without the need to ring-fence resources to deliver this. This is most prevalent in funding directed to the HSCP and in Education, through maintaining teacher and support staff numbers. The current approach significantly limits the level of flexibility to local authorities and places a disproportionate level of financial pressure on other core council services.

2.16 Although the use of revenue generation powers and financial flexibilities is important in helping to manage the financial resources of the Council, the case for financial sustainability and fair funding for local authorities must continue to be recognised, especially when the level of SG general grant allocation is set within the context of significant inflationary pressures, legacy pandemic and demographic pressures.

Financial Outlook for North Ayrshire Council

Allocation of Resources

2.17 The Chart below summarises the allocation of resources for 2023/24 approved at Council in March 2023, with around 50% of gross expenditure relating to employee costs;



2.18 As noted in section 2.15 of the report it is recognised that in the last number of years, the level of influenceable budget which is not linked to Scottish Government requirements or statutory contractual commitments, be it through the Health and Social Care Partnership or large elements of the Communities budget (Education), has greatly reduced. This continues to place a disproportionate level of pressure on the other Council budgets.

Medium-Term Financial Pressures and Planning Assumptions

2.19 Following an assessment of cost pressures and income levels anticipated over the next 3 years forecasts continue to be subject to a degree of volatility. In addition, work to review the General Services Capital Programme continues to be impacted by a very high level of construction inflation. When set within the context of the current planning assumptions around funding, this has resulted in a projected medium-term funding gap of £48m (including the HSCP) and £30m (excluding the HSCP) over the next 3 years. Areas of significant pressures identified within the Medium-Term financial Outlook include:

Workforce costs

2.20 Agreement has now been reached with all bargaining groups for 2023/24, with the teachers' pay agreement running to July 2024. The Council funding element of the increase equates to around 3%. The current planning assumption across the medium and long-term is for the Council funding element of pay awards to remain at a 3% increase each year. Future pay negotiations will be influenced by the ongoing level of inflation and the trade union commitment to progress towards a minimum pay level of £15 per hour for staff. The latter having significant financial implications for public sector finance.

Staff Group	2024/25 Planning Assumption	2025/26 Planning Assumption	2026/27 Planning Assumption
Teachers	3%	3%	3%
Other Staff	3%	3%	3%

2.21 As noted in section 2.10 of the report there is a planned decrease to Strathclyde Pension Fund contribution rates from 19.3% to 6.5% for 2024/25 and 2025/26 before increasing to 17.5% from 2026/27. The planning assumption made across the medium and long-term is to retain the recurring contribution rate at 17.5% as this represents the revised base structural rate for councils. It is recognised however, that a non-recurring pension rebate will occur across 2024/25 and 2025/26. To achieve financial sustainability, the Council requires to fully address the structural budget gap faced in 2024/25 and across the medium-term. By doing this an opportunity for non-recurring strategic investment will arise in 2024/25 and 2025/26. This position will be considered by elected members as part of the budget setting process for 2024/25 and 2025/26.

Other Inflationary Costs

2.22 Inflationary cost increases have been included in forecasts for major utilities (electricity and gas), fuel, food and those contractual commitments with increases linked to inflation indices. In respect of utilities, cost forecasts are based on rates secured via Procurement Scotland from the advance purchases and from available price indices applied to the balance of expected energy need across each of the years. It should also be noted that additional financial provision has been made to support the activities of the council subsidiary KA Leisure. This is in recognition of the significant increase in energy costs to maintain service delivery. This support runs in parallel with an ongoing review of the leisure operations.

2.23 Major contracts linked to inflation indices include PPP contracts and waste contracts. Cost impacts based on inflation forecasts over the next 3 years have been included in the budget model. In addition to this an allowance has been made to cover other major contractual increases e.g. Strathclyde Passenger for Transport and to meet legislative requirements.

2.24 The Council makes no provision for general inflation. It is recognised that due to the high levels of inflation this will place further significant strain on operational budgets across the Council. The implications of this will include a reduced level of purchasing power for a range of materials and commodities and re-phasing of programmes / activities to operate within existing resources on an annual basis. It is important that elected members are kept fully informed of any impacts.

2.25 With the cost of borrowing projected to remain high this will require additional revenue investment across the medium-term to fund delivery of the Council's ambitious capital programme. This, along with high levels of construction inflation continues to place a significant burden on the affordability of the 10-year capital programme.

Local Government Funding and Anticipated Budget Gap

2.26 Single year settlements have been a feature of Scottish Government budget setting since 2015/16. This approach continues to create a high level of uncertainty around future funding levels and can impede progress in delivering sustainable change. This, alongside the complex interaction of block allocations from the UK Treasury, Scottish Government fiscal policy, priorities and commitments and the complexities of the distribution formulae, makes it difficult to forecast future grant funding levels. The publication of the SG Spending Review in May 2022 and the updated SG Medium-Term Financial Strategy in May 2023 provides an indication of the level of overall financial resource. This sets out a broadly "flat cash" funding position.

2.27 Within this funding context and with a predicted decline in overall population for North Ayrshire it is both reasonable and prudent to assume that the level of future budget settlements will remain very challenging. The LTFO forecast includes a flat cash funding projection over the duration of the next 3 years followed by funding reductions from 2027/28 as the impact of the declining North Ayrshire population demographic reduces the proportionate share of national resources based on an overall quantum of flat cash across the period.

2.28 Following the announcement by the SG of a Council tax freeze in 2024/25, the Medium-Term Financial Plan includes a planning assumption of SG funding to the level of a 5% increase in Council tax for 2024/25. It is recognised that there is risk to this assumption, however, current levels of inflation remain high (4.6% in November 2023) therefore it is reasonable to assume this level of funding. For 2025/26 and 2026/27 Council tax has been projected at a 3% increase for each year. This position also assumes that the SG funding for the freeze in 2024/25 will be mainlined into the Council's base budget for 2025/26.

2.29 Since 2017/18 the Council has used over £18m of reserves to support recurring expenditure. A review of all revenue reserves will be carried out as part of the Medium-Term Financial Plan. The Council meeting of 1 March 2023 approved the use of reserves, generated from Service Concession flexibility, to support the Budget programme over the medium-term. Due to the scale of the budget gaps forecast this funding will be an essential element to deliver balanced budgets over the medium-term. This approach will provide only temporary mitigation, however, and will require to run in parallel to the delivery of more sustainable measures in reducing the Council's cost base. Approved reserves to support the Budget are included in the undernoted table.

Reserves	**2024/25 £m**	**2025/26 £m**	**2026/27 £m**
	£5.0m	£4.0m	£3.5m

2.30 A summary of the anticipated funding gap position of the Council (including the HSCP) over the next three years is provided in the table below. This does not incorporate any planned use of reserves noted in the table above. Further work continues to refine the underlying assumptions. Options to address this position are being progressed and will be presented to Council on 28 February 2024. It is recognised that the scale of the financial challenge facing the Council is significant.

	2024/25 £m	**2025/26 £m**	**2026/27 £m**	**Total £m**
General Fund Gross Funding Gap	£16.0m	£7.0m	£7.0m	**£30.0m**
HSCP Pressures	£5.5m*	£6.3m	£6.1m	**£17.9m**
Total	**£21.5m**	**£13.3m**	**£13.1m**	**£47.9m**

*Total HSCP projected pressures in 24/25 £8.1m less anticipated additional Council funding of £2.6m.

Sensitivity Analysis

2.31 Given the uncertainty that underpins the assumptions, sensitivity analysis has been carried out on the key components. A +/-1% movement on these is noted below:

- Scottish Government Grant £3.4m;
- Council Tax Funding £0.65m;
- Payroll incl. HSCP £2.6m

Reserves Strategy

2.32 The Council's usable reserves are classified as either earmarked or unearmarked. The Council's current unearmarked reserves, i.e., those set aside to allow the Council to manage any unanticipated events, currently total £8.053m, equivalent to 2% of General Fund net budgeted expenditure. This represents the lowest end of recommended best practice of between 2% and 4%. In addition to unearmarked reserves, earmarked reserves have been established to meet a range of known commitments, including the Council's Investment fund and Recovery and Renewal Investment programme, and it is anticipated that these will reduce significantly over the next few years.

2.33 The level of Council reserves requires to be maintained at the right level to ensure the Council's future financial stability. These are kept under review and considered annually on the setting of the Council's Budget.

2.34 The Council also maintains statutory reserves in the form of an Insurance fund and Capital Fund. The Insurance Fund is maintained to meet the cost of future insurance liabilities, while the current Capital Fund is earmarked to support the Council's Capital Investment programme and any capital financing requirements.

Health and Social Care Partnership (HSCP)

2.35 The Integration Scheme sets out the Integrated Joint Board's (IJB) responsibility for financial planning and management of the HSCP's resources. The IJB has an implicit statutory obligation to set a balanced budget.

2.36 Information on anticipated pressures and proposed savings options are shared with North Ayrshire Council to inform the allocation of resources delegated to the IJB. The level of contribution to the HSCP is based on an anticipated "flat cash" planning assumption where the HSCP address budget pressures through the delivery of equivalent savings and with the use of reserves. The allocation of resources will also continue to be influenced by any requirements set out in the local government finance settlement. The HSCP have identified financial pressures of £8.093m (£5.537m net) in 2024/25 and £20.505m (£17.949m net) over the next 3 years. The position for 2024/25 currently assumes the passporting of Scottish Government funding to support the 2023/24 pay settlement.

2.37 The HSCP currently hold earmarked reserves of £9.964m, and unearmarked reserves of £6.448m, which represents around 2.3% of the HSCP Budget.

The Council's Approach

2.38 The reduction in resources continues to occur at a time of significant inflationary cost and demographic pressures. £70m of savings have been delivered since 2017-18 which creates a greater future challenge.

2.39 Together with the anticipation of continued pressure on public sector funds, this requires the Council to take a longer-term approach to financial planning. The requirement for such an approach is recognised by several bodies including CIPFA and Audit Scotland.

2.40 The Council's approach, as set out in the Long-Term Financial Outlook, will be considered within the context of the Council Plan 2023-28, approved at Council in June 2023. The Council's key priorities are defined as:

- Wellbeing – to transition to a wellbeing economy, delivering prosperity, wellbeing, and resilience for local people.
- Communities and Local Democracy – we will have active, inclusive, and resilient communities.
- Climate Change – achieving net zero by 2030.
- A Sustainable Council – a Community Wealth Building Council that is efficient and accessible, maximising investment and focusing resources towards our priorities.

2.41 The Council will require to prioritise available funding in accordance with its statutory and regulatory duties and aligned with the key priorities. This will also require to be supported by the delivery of change and Transformation at scale and pace and the Council will also have to consider the use of any financial flexibility from the statutory powers it already has and those powers that could arise through progression of the Verity House Agreement.

2.42 It is important to carefully plan and manage the impact of any change on the workforce. The Council continues to develop Workforce Plans that will support the scale of change and transformation the Council requires to deliver. There is planned investment to support workforce planning arrangements, including a Voluntary Early Release programme in 2024/25.

Capital Investment Programme

2.43 The General Services Capital Investment Programme 2023/24 to 2030/31 was approved at Council on 1 March 2023. The review currently being undertaken as part of the 2024/25 Budget will focus on the affordability of the programme when considering the additional cost pressures, mainly through high levels of construction inflation and contractor claims. The financing of the capital programme through borrowing continues to be affected by high levels of interest rates, in government Gilt yields which links directly to the rates available through the Public Works Loans Board (PWLB). It is therefore prudent to help address the ongoing financial risks, that further financial provision is incorporated in the medium-term financial plan to supplement the existing loans fund resources, recognising however, that this will place further strain on the revenue budget.

2.44 As well as the additional costs being incurred in the capital programme, it is also recognised that, from the impact of inflation, the purchasing power of lifecycle investments is greatly reduced. This affects capital investments in roads, property, vehicles, ICT and other infrastructure. To operate within available financial resources, even by sustaining the level of budgeted investment this will result in a real term reduction in the level of investments across these areas and will lead to the requirement to re-profile programme activity over a longer period. This position will also be reviewed as part of the 2024/25 Budget along with investment to support the Council's key priorities and delivery of the Transformation programme through invest to save initiatives.

2.45 In terms of funding the capital programme, further prudent assessments will be undertaken around the level and timing of capital receipts, the anticipated level of Scottish Government capital grant, the anticipated funding profiles associated with the Ayrshire Growth Deal and how the use of the Council's loans fund reserve and capital fund will support the programme across the 10 years.

2.46 The anticipated revenue implications of the Capital Investment Programme have been reflected in both the Medium and Long-Term Financial Outlook. However, any further operating or staffing costs resulting from changes or additions to the Capital Investment programme will result in an increased funding gap from the year of completion.

Progress and Next Steps

2.47 In advance of the presentation of the Medium-Term Financial Outlook report, briefings for elected members have been carried out.

2.48 Officers continue to progress the Budget programme and develop options to address the significant budget gap covering the period 2024/25 to 2026/27. The SG Budget Settlement for 2024/25 is due to be published on 19 December 2023. It is anticipated that the settlement will present a stark financial challenge to the Council which will require elected members to consider difficult choices. Further progress to date will be shared with elected members during January 2024.

2.49 Discussions continue with the Integration Joint Board to support a partnership approach to development of the Health and Social Care Partnership's budget.

2.50 The Council is currently running an on-line Budget engagement exercise, and this is due to close on the 15 December 2023. The results of this exercise will be shared with elected members in advance of the Council Budget meeting. An on-line community engagement session with community group representatives will take place at the end of January 2024. In view of the current financial challenges, it is important that citizens both understand the scale of the challenge and provide feedback on their views to help inform the prioritisation of resources as part of the Budget setting process.

2.51 It is planned that proposals for the Medium-Term Financial Plan 2024/25 to 2026/27 will be presented to Council for consideration on 28 February 2024.

3. Proposals

3.1 That Council considers the Long-Term Financial Outlook 2024/25 to 2033/34 and the financial challenges identified in the Medium Term Financial Outlook 2024/25 to 2026/27, notes the scale of the financial challenges which the Council faces over the medium and longer terms and brings forward proposals to set a balanced budget for 2024/25 and beyond.

4. Implications/Socio-economic Duty

Financial

4.1 The anticipated funding gap over the period 2024/25 to 2026/27, based on current assumptions, is £48m. Council will require to set a balanced budget for 2024/25 and future years.

Human Resources

4.2 It is anticipated that delivery of savings will impact on the Council's future workforce. The Council has established corporate and service workforce plans which include active management of the size of its permanent workforce; vacancy management and review of temporary contracts. During 2023 the Council has also run a corporate Voluntary Early Release programme with those staff approved for release on 31 March 2024. Communication and regular consultation will continue to take place with the workforce and Trade Unions.

Legal

4.3 It is a statutory requirement for the Council to set a balanced budget and appropriate level of Council Tax to support this. Development of a balanced budget is contingent on identification and subsequent delivery of significant transformation and savings alongside management of risk and pressures, particularly those of a demand led nature. Chief Officers will require to provide assurance that plans are in place to secure delivery of proposed savings and deliver services within the final financial envelope.

Equality/Socio-economic

4.4 An Equality Impact Assessments will be carried out for all options presented to Council to assist Council's in making decisions on the bridging of the funding gap.

Environmental and Sustainability

4.5 This is a key priority for the Council. Significant levels of investment are already in place through the Capital programme and Council Investment funds. Moving forward this will continue to be a key area where available investment will be prioritised in order to progress the Council towards achieving net zero.

Key Priorities

4.6 In addressing the financial challenge which the Council faces it will seek to minimise the impact this has on delivering its key priorities within the context of the Council Plan 2023-28.

Community Wealth Building

4.7 All capital and revenue investment will be considered within the context of the Council's Community Wealth Building Strategy.

5. Consultation

5.1 Development of the Council's medium-term financial plan is carried out collaboratively across the Executive Leadership Team and with key Partners and stakeholders.

Mark Boyd
Head of Service (Finance)

For further information please contact **Mark Boyd, Head of Finance,** on **01294 324560** .

Background Papers
None

North Ayrshire Council
Comhairle Siorrachd Àir a Tuath

Long Term Financial Outlook 2024/25 To 2033/34

North Ayrshire Council

THE FINANCIAL OUTLOOK

Executive Summary

Councils are operating in an increasingly challenging environment with public sector funding failing to keep pace with the backdrop of increasing costs, demand for services and public expectations. In this climate it is essential that Councils consider the long-term financial outlook, an essential component of the overall financial framework, that sets the context for annual and medium-term financial planning and ensures that resources are targeted to key priorities. This outlook report relates to the Council's General Fund. The Housing Revenue Account has its own 30 year business plan.

Councils operate in a complex environment and are impacted by local, national and global factors. The long-term financial outlook assesses the potential impact of these on North Ayrshire, concluding that these will increase demand for services at a faster rate than available financial resources.

The long-term financial outlook will enable the Council to plan its response to these challenges and support future decision making. The outlook report identifies an estimated funding shortfall of £127m over the next ten years which the Council requires to address. £48m of this gap occurs over the next three years. This is based on best estimates with sensitivity analyses highlighting the implications of changes to the underlying assumptions.

The Financial Outlook also considers the assets that support service delivery and the longer term liabilities which the Council may be required to meet. The report shows that the Council is well placed to meet its liabilities over the ten year period and pension contributions are being made at the levels recommended by the Pension Fund.

A clear strategy is required to ensure the Council remains financially sustainable over the longer term. This will require the Council to continually review the services which will be delivered, how they will be delivered and who will deliver them. The Council's financial framework, of which this Long-Term Financial Outlook is a part, supports robust financial planning and management and helps align resources to the priorities detailed in the current Council Plan 2023 – 2028 and the development of future plans.

PURPOSE

TAKING A LONGER TERM VIEW

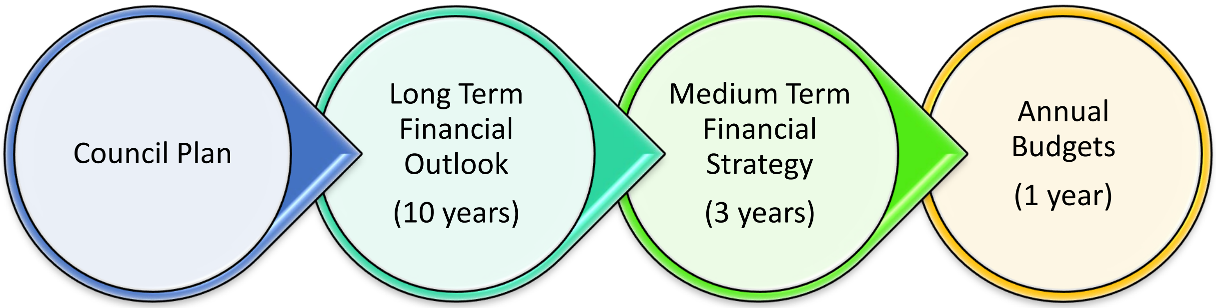
North Ayrshire Council is hugely ambitious for North Ayrshire and its residents and is committed to making sure the area reaches its full potential. We have well established plans for the future, with a Council Plan which outlines our priorities and ambitions and what we want to achieve by 2028.

The Council Plan is supported by Directorate and Operational Plans and service strategies, investment and management plans which underpin day to day service delivery. These plans and strategies set out what the Council wants to achieve, how it will deliver this, and the resources required to secure the desired outcome.

Councils are operating in an increasingly challenging environment with public sector funding failing to keep pace against a backdrop of increasing costs, demand for services and public expectations. In this climate it is essential that Councils assess the long term financial outlook to ensure resources are targeted to key priorities and set the context for medium term and annual financial planning.

Strategic Financial Framework

North Ayrshire has a track record of sound financial planning and management with a Strategic Financial Framework which encompasses General Services, the HRA, Treasury Management and Capital Investment. In terms of the General Services, the key components of the framework supported by regular financial reporting are illustrated as follows.



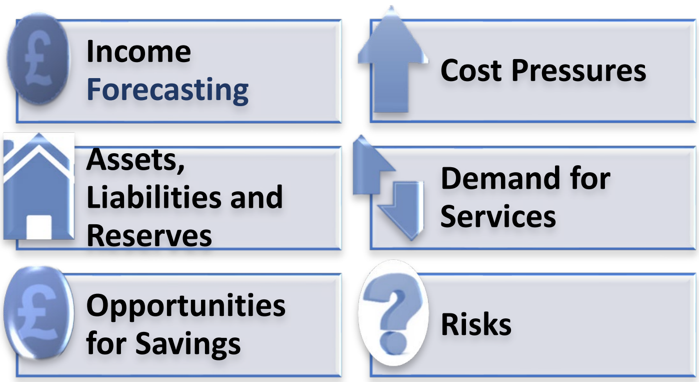
Despite the unprecedented levels of uncertainty, this tiered approach is essential as it aligns with the expectations of Audit Scotland; underpins the wider strategic plans of the Council; ensures the Council has a robust financial framework in place to support financial sustainability and guarantees that the Council is best placed to manage the financial challenges that it faces.

This framework, allied to a proactive approach to transformation, continuous improvement and efficiency, has contributed to the delivery of over £70m of savings since 2017/18.

The Long-Term Financial Outlook is an important part of the Council's strategic planning process and is integral to the delivery of our ambitions. The Council's previous long-term financial strategy covered 2021-2031. This report covers the period 2024-2034.

This report outlines the forecast financial position of the Council over the next 10 years and considers whether spending is sustainable over this period of time. Crucially it identifies the financial challenges which the Council will face and the approach which will be required to deliver financial sustainability over the longer term.

In preparing the report a wide range of factors have been considered to ensure a robust financial position is established for the Council. Some of these are shown below and will be explored further.



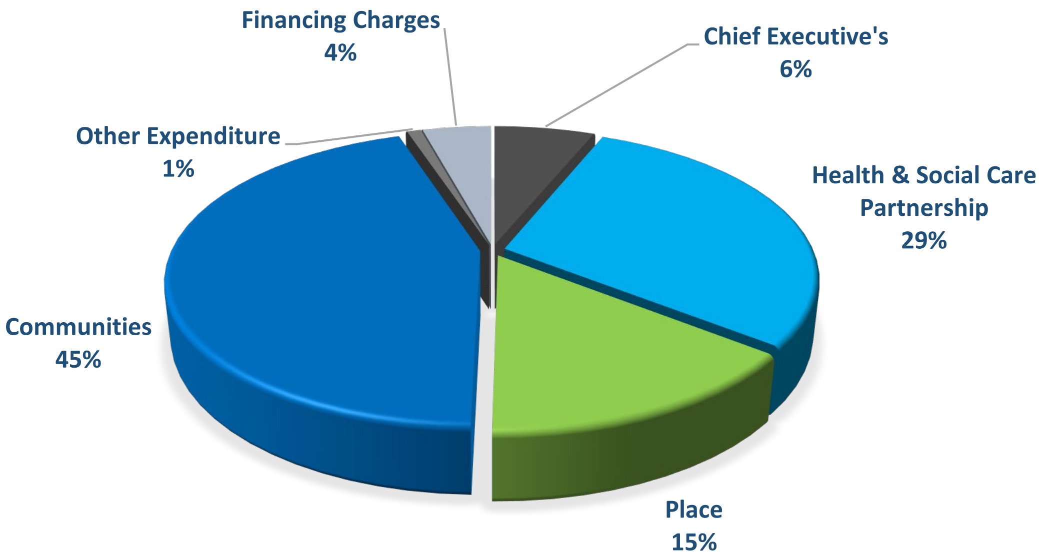
WHAT ARE THE LOCAL ISSUES?

North Ayrshire is located on the west coast of Scotland and shares borders with Inverclyde, Renfrewshire, East Ayrshire and South Ayrshire. The area covers 342 square miles and is home to approximately 133,300 people, or 64,300 households. North Ayrshire is a diverse part of Scotland, with island, coastal and rural areas comprising urban towns and villages.

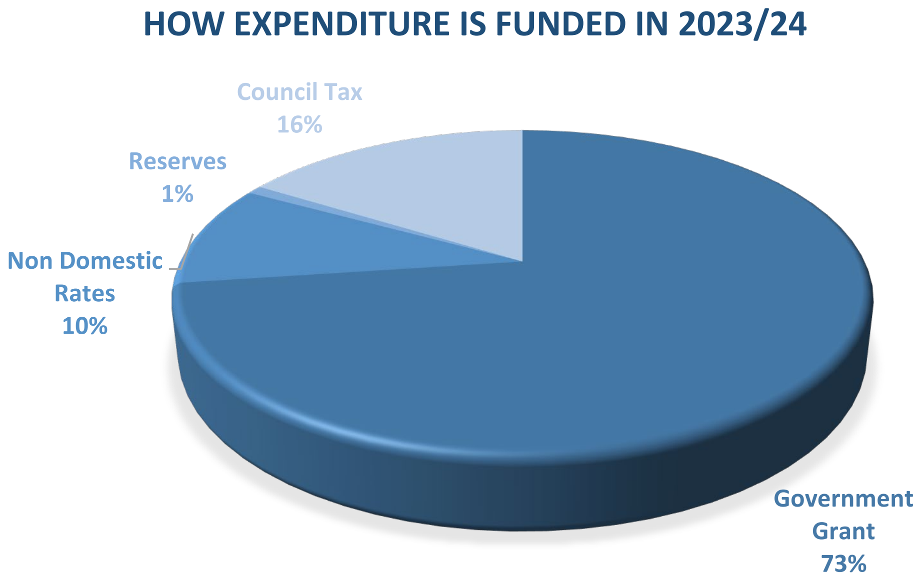
Whilst the area has many positive aspects, such as good transport links, affordable housing, parks and outdoor leisure space, development potential and a distinctive cultural heritage, many residents face disadvantage, with high levels of deprivation, unemployment, and ill health.

Our Budget

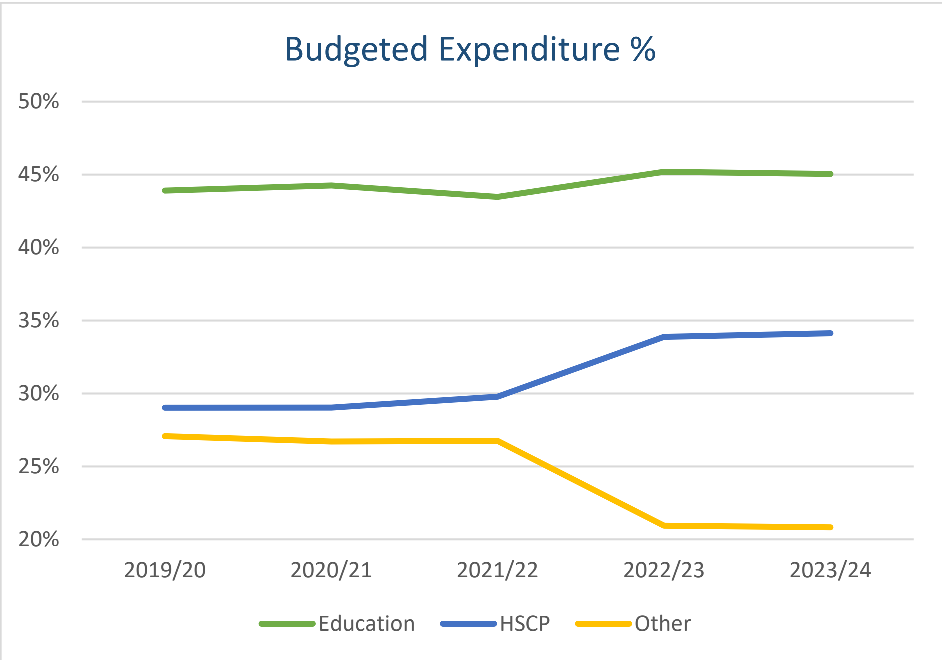
North Ayrshire Council delivers a range of services to its residents and in 2023-24 we budgeted to spend £406m on services.



This expenditure is mainly funded from government grant. This has increased by 2.6% in real terms across Scotland since 2013/14[1] linked to the delivery of a number of national policy requirements including the expansion of Early Learning and Childcare services and the provision of Universal Free School Meals across Primaries 1-5. The balance of funding comes from Council Tax, Non-Domestic Rates and use of our reserve balances.



In recent years the proportion of budgets spent on Council services has also been changing. As funding is reduced, and Education and Health are prioritised both locally and nationally, budgets in other service areas are reducing at a greater pace.

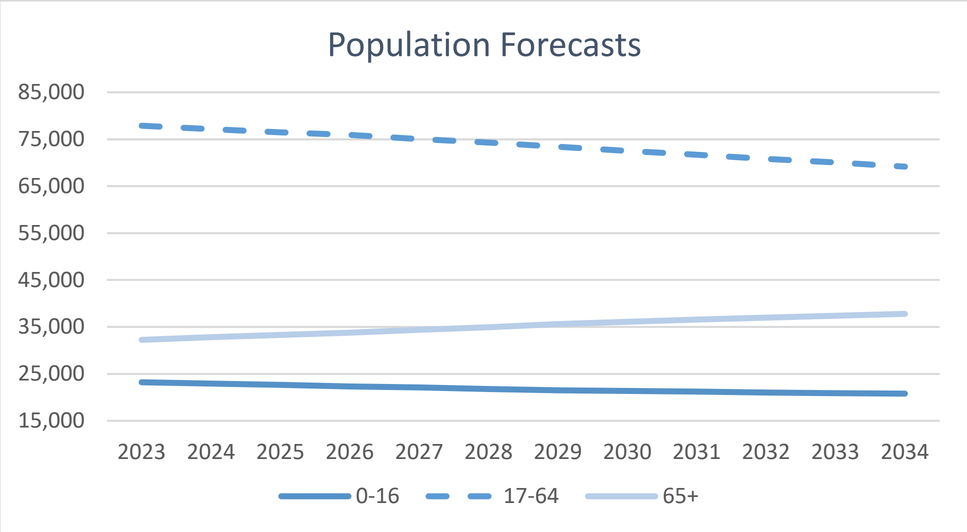


[1] Local government in Scotland, Overview 2023 – Accounts Commission, May 2023

Demography

North Ayrshire is expected to experience a significant change in its demographic profile over the next 25 years. Changes in demographic profile impacts directly on demands for our services and our funding.

North Ayrshire's population is projected to decrease by 8.3%[2] by 2043, of which a decrease of 4.2%[2] is forecast during the life of this plan.



The change in demography is likely to see an increase in demand for services for older people, with a decrease in demand for services to younger people. The decrease in the working population will have wider economic implications for North Ayrshire including a reduction in the population available to work within the area, impacting on local employers. This could increase the likelihood for employers to look beyond North Ayrshire for future staffing needs and result in income generated from wages not being invested in our local economy. The Council, through its Community Wealth Building strategy, regeneration plans and Housing strategy will continue to focus on directing investment into North Ayrshire in order to grow employment and the wider population base.

Key Stats

Increase of 17.1% in population aged 65+by 2034

(21.2% in Scotland)

Decrease of 11.2% in working age population

(2.5% in Scotland)

Decrease of 10.4% in the population of children

(8.2% in Scotland)

1% increase in single adult households

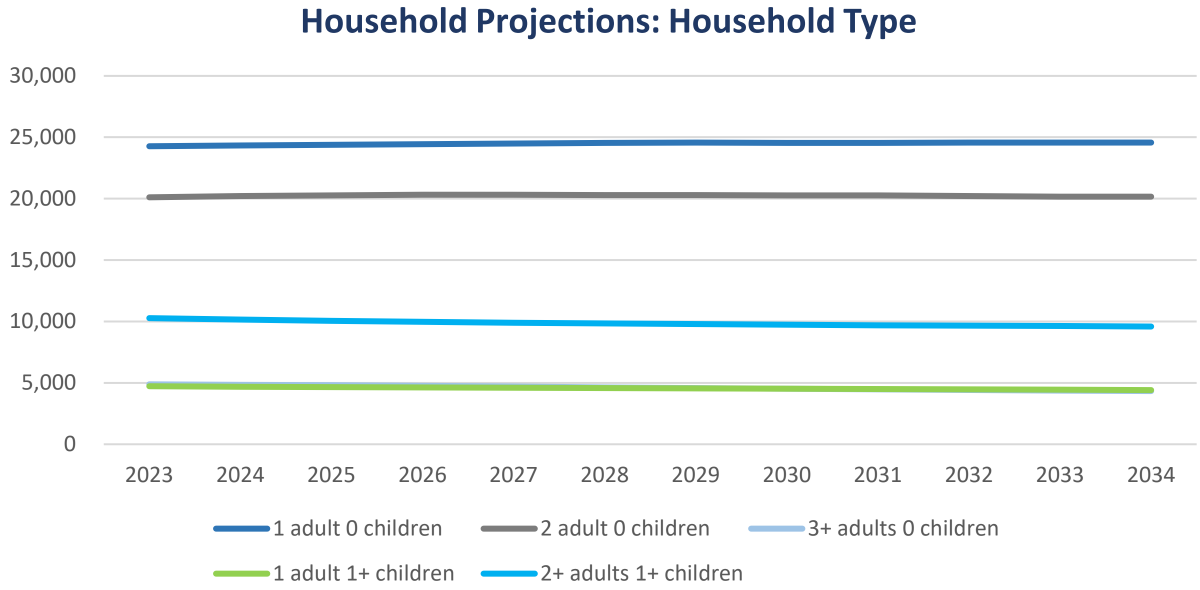
(7% in Scotland)

7% reduction in 2 adults and children households

(1% increase in Scotland)

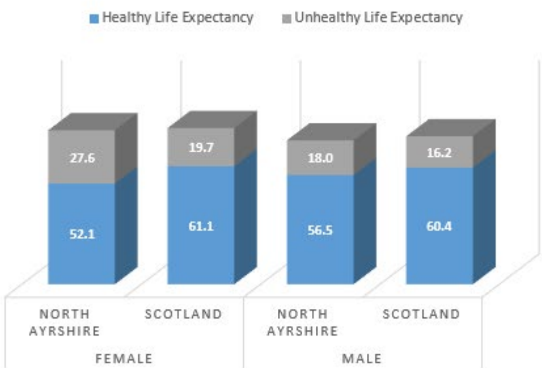
The number of households in North Ayrshire is projected to decrease by 2%[3] during the period of this plan, despite an increase of 4%[3] being projected across Scotland. The profile of households will also change with an increase in single occupant households and a reduction in multi occupant households. This reduction in family support structures is expected to result in a need for additional support services from Communities and the Health and Social Care Partnership.

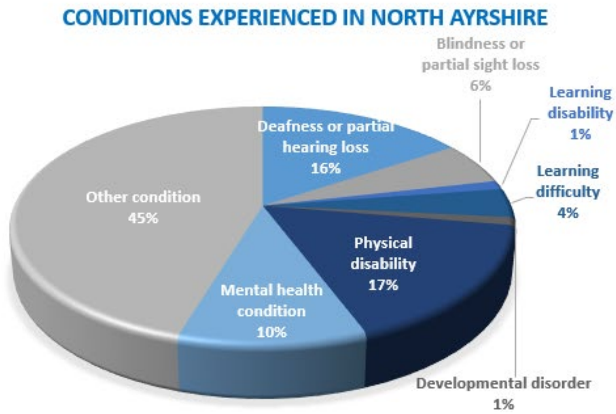
[2] National Records for Scotland, Population Projections 2018
[3] National Records for Scotland, Household Projections 2018



Health

Life expectancy[4] in North Ayrshire is lower than in Scotland as a whole and residents of North Ayrshire are projected to become unhealthy at a younger age and live longer with health issues, than the Scottish average. The earlier people become unhealthy, the sooner they are likely to access services from the Council to support them to remain within their own homes and local communities.



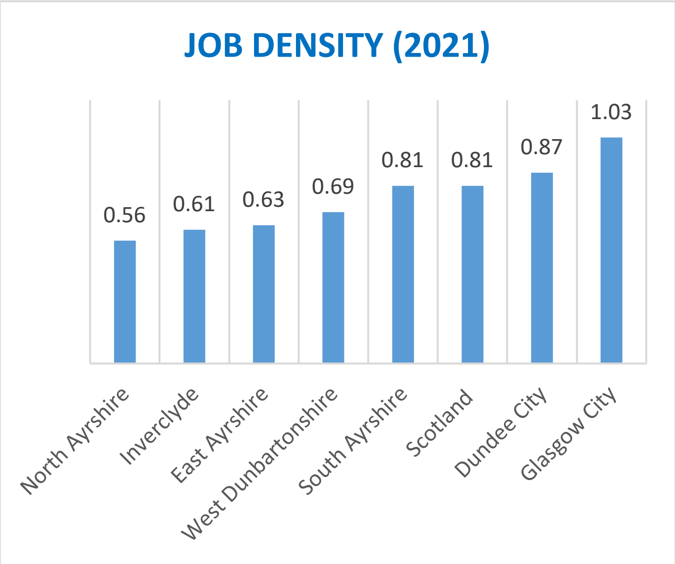


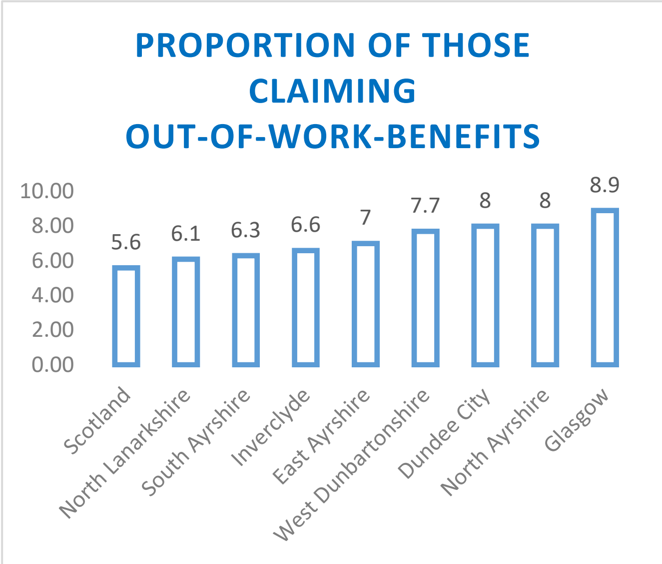
At present, 33%[5] of North Ayrshire's residents are living with one or more long-term health condition, which is higher than the Scottish average of 30%[5]. North Ayrshire also shows higher number of residents with learning disabilities, physical disabilities and mental health conditions when compared with the Scottish average. All other categories are broadly in line with the rest of Scotland. This impacts on demand for services, mainly from Communities and the Health and Social Care Partnership and can often result in proportionately higher support levels than those experienced in other parts of Scotland.

[4] National Records for Scotland, Life Expectancy in Scottish Areas 2019-2021
[5] Scotland Census 2011 – People with Long Term Conditions

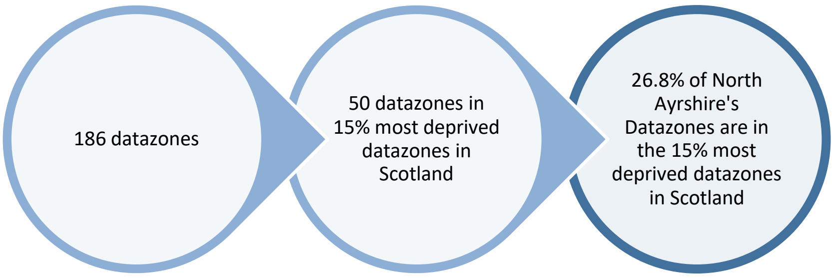
Employment and Deprivation

Employment opportunities within North Ayrshire are lower when compared to other areas within Scotland, resulting in a proportion of the residents of North Ayrshire commuting to work in other areas. Job density measures the number of jobs available per head of population aged 16-64. Within North Ayrshire there is only one job for every two residents aged 16-64. The proportion of the population who are out of work and claiming benefits is also high compared to the national average.





The Scottish Government publishes the Scottish Index of Multiple Deprivation (SIMD) which uses a range of socio-economic data to calculate relative deprivation across small geographical areas with populations between 500 and 2,000 people. Within North Ayrshire there are 186 areas (datazones) which have been assessed through the SIMD[6], a large number of which are in the most deprived areas in Scotland.



Impact on the Long Term Financial Outlook

All of these factors impact on levels of demand and mix of services required to meet the needs of local communities. The financial impacts of these factors are considered later in this plan.

[6] SIMD2020

WHAT ARE THE NATIONAL INFLUENCES?

An understanding of the national context and how this impacts on local finances is essential when developing the long term financial outlook for the Council.

The Global Economy

The global recovery from the Covid 19 Pandemic and the war in Ukraine remains slow and uneven. The International Monetary Fund (IMF)[7] is forecasting global growth will slow from 3.5% in 2022 to 3% in 2023 with further slowing to 2.9% in 2024. Headline Inflation continues to reduce from 9.2% in 2022 to 5,9% and forecast 4.8% in 2024.

However there remains significant risk and uncertainty in any forecast improvements. Several factors are holding back the recovery including the long-term impact of the pandemic, the impact of ongoing global conflicts, extreme weather events and the effects of the monetary policy tightening to reduce inflation.

The forecast growth and inflation figures included in this report may be further significantly impacted by the developing conflict between Israel and Palestine.

The UK Economic Outlook

The UK economy continues to be impacted by high interest rates and inflation. Whilst Inflation is reducing, CPI 4.6% as at November 2023, it remains above the Bank of England (BoE) target of 2%. Latest forecasts project Inflation reaching the BoE target in 2025. [8] An upcoming general election by 2025, together with the war in Ukraine and the middle east adds to the uncertainty within the UK economy. GDP growth is slowing and unemployment rates were 0.6% higher, (4.2%) in the quarter July to September 2023[9], than the year prior. The unemployment rate is forecast to rise steadily to around 5% in late 2025.

Factors Affecting the Economy

- Higher Interest rates and Inflation
- Government Policy Choices
- Global conflicts
- Level of Domestic Demand
- Impact of UK and Global Economic Performance

[7] International Monetary Fund, World Economic Outlook October 2023
[8] Bank of England Monetary Policy Report, November 2023
[9] Office for National Statistics, Labour market overview, UK: November 2023

The table below highlights Office of Budget Responsibility (OBR) / Scottish Fiscal Commission projections[10] for a number of economic indicators and highlights the upward revision to UK GDP (Gross Domestic Product), which measures economic growth, between March 2022 and March 2023;

Table 1

	2021	2022	2023	2024	2025	2026	2027
UK GDP (March 2023) *	7.6	4	-0.2	1.8	2.5	2.1	1.9
UK GDP (change since Mar 22) *	0.1	0.2	-2	-0.3	0.7	0.4	0
Scottish GDP **		1.7	-1	1.2	2.1	1.9	1.5
CPI *	2.6	9.1	6.1	0.9	0.1	0.5	1.6

*Sources; * OBR Economic and Fiscal Outlook March 2023*
*** Scottish Fiscal Commission – Scottish Economic and Fiscal Forecasts, December 2022*

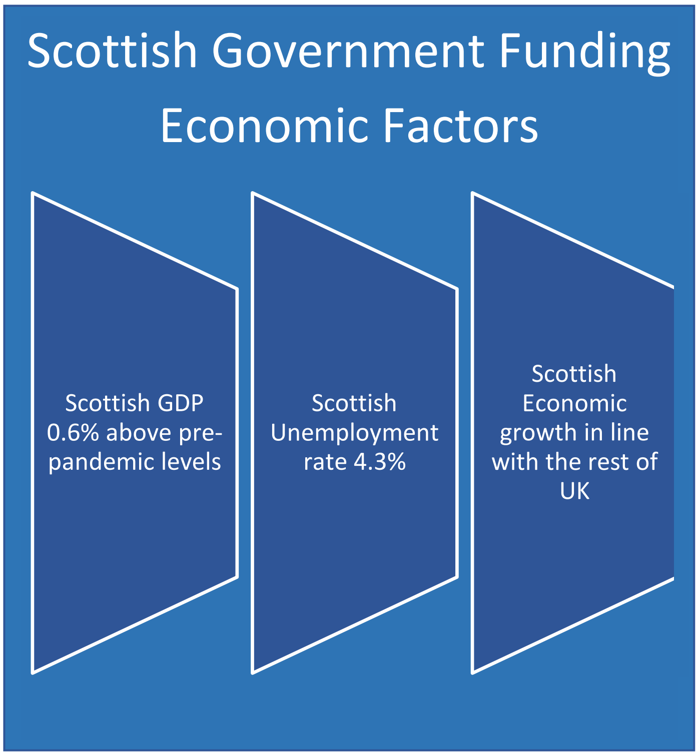
Whilst inflation is slowing it remains above the Bank of England's 2% target. It is estimated that the base interest rate has reached its peak at 5.25% with gradual reductions forecast from the second half of 2024.

The Scottish Economic Outlook

The Scottish Government's economic bulletin for October 2023 reports that GDP grew by 0.1% in July, however over the 3 month period to July it was down 0.1%. Weak growth was forecasted to continue in the next quarter, which is in line with expectations, with above target inflation and higher interest rates impacting economic activity.

The Office of National statistics estimated that the unemployment rate in Scotland had risen to 4.3% in the period May to July 2023, which is in line with the UK rate.

The Scottish Government's Programme for Government 23-24 outlined the upcoming priorities including tackling poverty, growing the economy and delivering efficient and effective services.



[10] OBR Economic and Fiscal Outlook March 2023, Scottish Fiscal Commission, Scotland's Economic and Fiscal Forecasts, December 2022

Scottish Government Funding

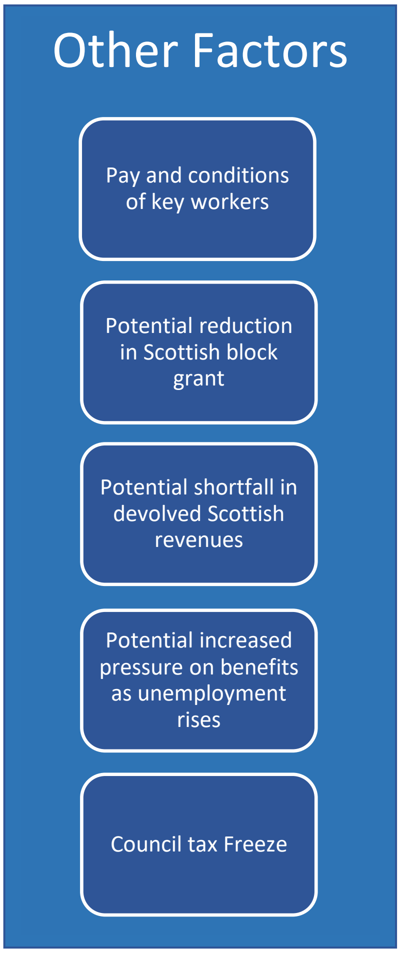
The Scottish budget for 24/25 will be the third one set by the current parliament and the first under the current First Minister. The Programme for Government 2023-24 outlined the following three missions:

- Equality: **Tackling poverty and protecting people from harm.**
- Opportunity: **Building a fair, green and growing economy.**
- Community: **Delivering efficient and effective public services.**

Within these missions key areas of focus include tackling the cost of living crisis, expanding free school meals, responding to the climate crisis, investing in the social care sector and addressing hospital waiting lists.

The Verity House Agreement signed in June 2023 set out how the local and national governments of Scotland will work together and progress our shared priorities: tackling poverty, just transition to net zero and sustainable public services. A focus of the government is to embed this partnership with a focus on agreeing a revised fiscal framework.

At the SNP conference in October 2023, building on the missions set in the programme for government, the first minister announced a council tax freeze for 2024/25 in response to the cost of living crisis and a £300m investment in the NHS to tackle waiting list times.



The North Ayrshire Economy

Economic performance has a significant impact on the availability of funding and the demand for public services. With Inflation remaining above the target level of 2% and interest rates remaining high, the demand for council services is expected to continue to increase as families continue to be adversely affected by the ongoing cost of living crisis in the short term.

FINANCIAL ANALYSIS

THE IMPACT ON OUR FINANCES

North Ayrshire Council is operating in an increasingly challenging environment and the local and national context outlined in this report highlights the main areas which will impact on our long term finances. This analysis informs the long-term outlook and enables plans to be developed which will ensure resources are targeted to support the delivery of Council priorities.

Impact on Funding

The Council has three main funding sources of recurring funding; Government Grant, Non-Domestic Rates and Council Tax. Government Grant and Non-Domestic Rate (NDR) income are paid to the Council through the Aggregate External Finance (AEF) which, in simple terms, is the funding paid from the Scottish Government on an annual basis. For the purposes of this plan these have been assessed jointly.

A range of factors impact on the funding which the Council can anticipate from these funding sources.

AEF is influenced by the level of Scottish Government funding allocated to Local Government each year. Individual Council allocations are also influenced by a national assessment of need relative to other Councils and includes demographic, social and economic factors. This results in a complex mix of factors which influence funding levels.

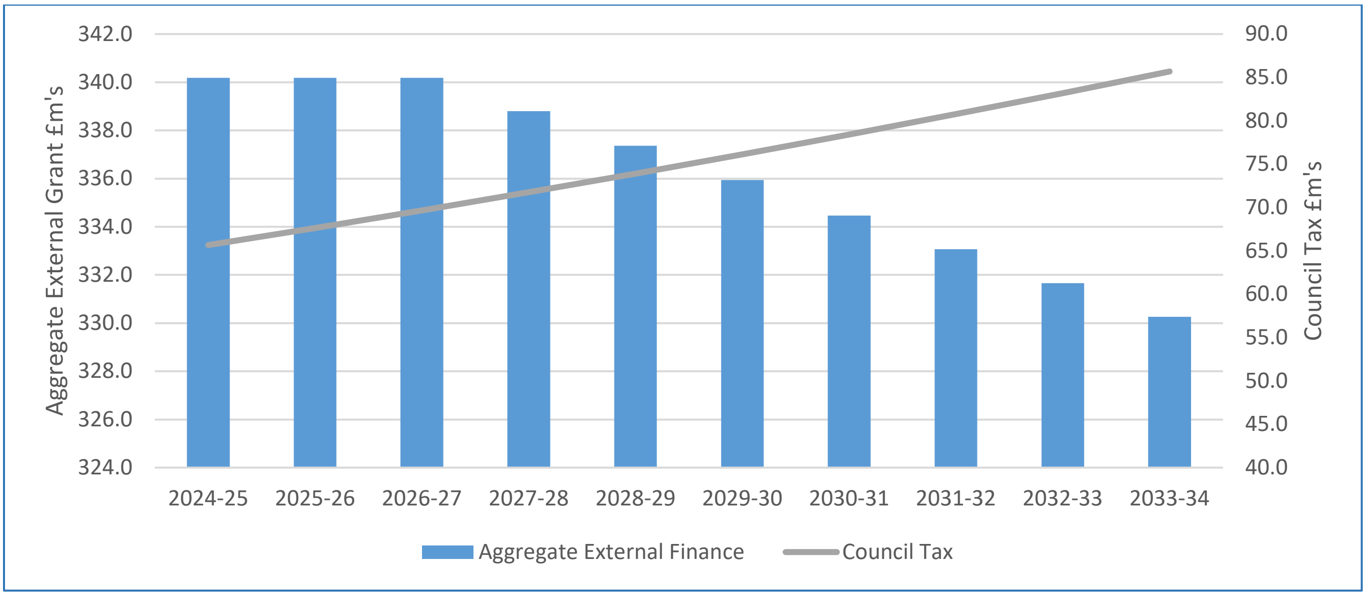
Key Assumptions

- Flat cash for AEF
- Impact of demographic changes to AEF
- 96% collection rate for Council Tax
- No increase to the Council Tax or NDR Base

Demography is the largest influencing factor and the changes forecast by the National Records for Scotland have been used to quantify the potential movement in AEF for North Ayrshire from 2027-28 to 2033-34. For 2024-25 to 2026-27 it is assumed that AEF will be fixed, with no increase or reduction assumed. This is the only assumption which can be made at this stage due to the lack of any other data to support an alternative position.

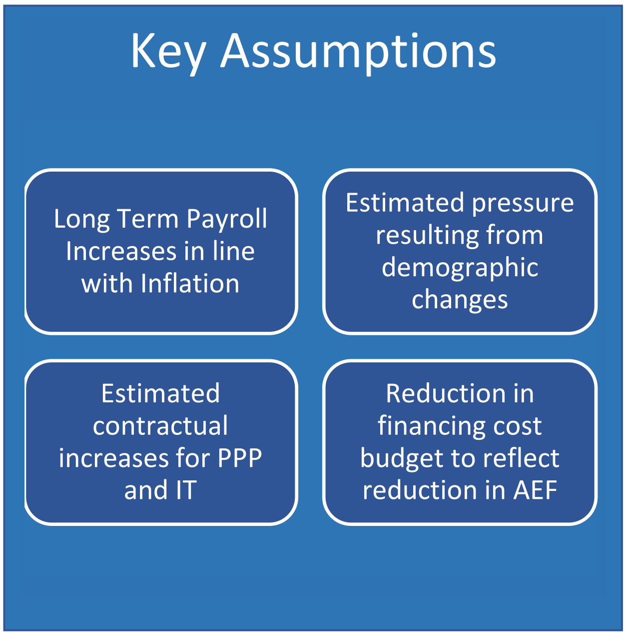
Council Tax is a tax which is set locally by the Council, although within limits set by the Scottish Government. Following the Council Tax freeze in 2024-25, announced in October, it is assumed that Council Tax will be increased by 3% in each year of the plan from 2025-26. AEF is expected to increase by £3.2m in 2024-25 to compensate for the freeze in Council Tax.

Applying the assumptions outlined in this section of the plan results in an estimated average reduction in AEF of £1m between 2027-28 and 2033-34 based on the assessed need of North Ayrshire in comparison to the rest of Scotland. This reduction is influenced significantly by demographic data and especially North Ayrshire's projected decline in the population of children. Council Tax income will increase by an average of £2m per annum.



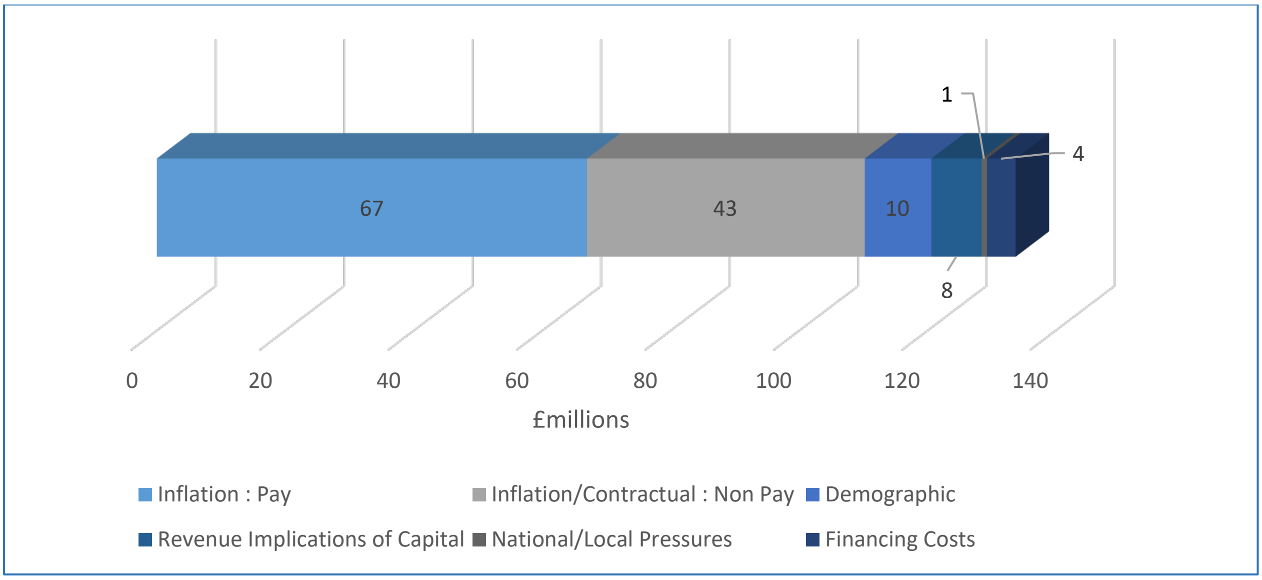
Expenditure Requirements

Financial planning requires a number of assumptions to be made about the demand and cost pressures which could be faced by the Council over the longer term. These have been informed by the local and national context within which the Council operates.



This assessment estimates that the Council will face cost pressures and demands of £133m over the next ten years. These can be analysed across 6 main areas:

(i) Inflation: Pay
(ii) Inflation and Contractual Commitments: Non Pay
(iii) Demographic
(iv) Revenue Budget Implications of Capital Projects
(v) National/Local Pressures
(vi) Financing Costs



(i) Inflation: Pay

Employee costs represent 49% of the Council's gross expenditure budget. Inflationary pressure in this area represents the most significant pressure which will be faced by the Council over the next 10 years. Pay increases for employees are negotiated at a national level. This plan includes assumptions in relation to pay awards and the national commitment to living wage.

Employees of North Ayrshire Council are members of the Strathclyde Pension Fund or the Scottish Public Pension Agency. Both pension schemes routinely review employer pension contributions. There are planned changes to Scottish Public Agency contribution rates from 23% to 26% from 2024/25. It is assumed that this increase will be fully funded by Scottish Government through the Barnet consequentials. There is a planned decrease to Strathclyde Pension Fund contribution rates from 19.3% to 6.5% for 2024/25 and 2025/26 before increasing to 17.5% from 2026/27. The assumption made in the 10 year financial outlook is that this will be maintained during the lifetime of the plan. This is, however, subject to review, linked to future triennial reviews of Strathclyde Pension Fund.

(ii) Inflation and Contractual Commitments: Non Pay

Like many other organisations, North Ayrshire Council is subject to inflationary pressures. Despite this, budgets are not routinely inflated and every effort is made to contain non pay inflation pressures within existing budgets. The financial model recognises that, for some key areas, maintaining spend within budgets over the longer term is not sustainable unless additional provision is made. The key areas where specific provisions are made include: -

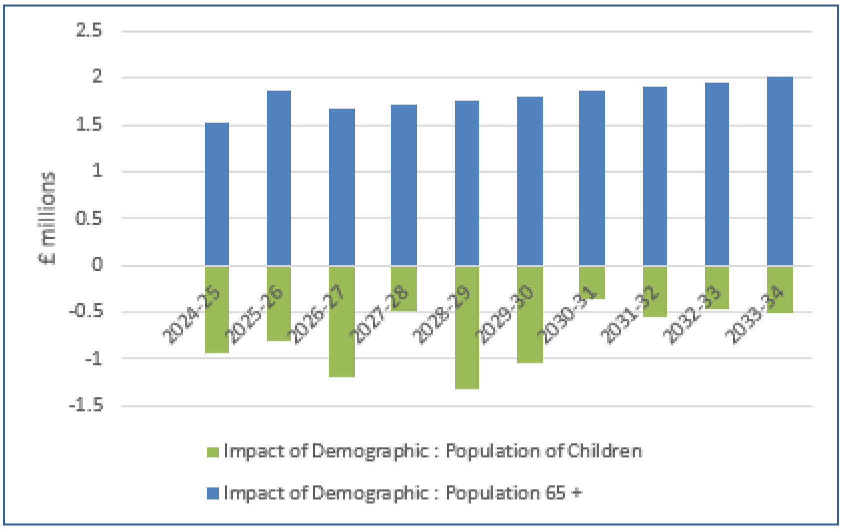
- Energy
- Fuel
- Non-Domestic Rates
- Contracts with specific annual increases linked to inflation such as the National Care Home Contract and the PPP contract
- Contracts linked to IT where delivery models are expected to move to revenue

Non pay inflation and contractual commitments equates to an average £4m per annum over the life of the plan.

(iii) Demographic and Health

There are two main demographic issues which have the biggest impact on the financial plan; an increase of 17.1% in the 65+ population and a decrease of 10.4% in the population of children. The health of North Ayrshire's population also impacts on demand for services and both have been factored into the plan.

This results in increased demand in older people less demand in children services.



Key Statistics

Impact of demographic projections and ill-health on Health and Social Care Partnership and Education and Youth Employment

Energy increases assumed to be in line with CPI + 3%, Fuel increases at CPI + 5%

General provision of £2m per annum for pressures not yet identified

(iv) Revenue Budget Implications of Capital Projects

When the Council approves its 10 year Capital Investment Plan, the revenue implications of any investment is determined and needs to be reflected in our longer term financial plans. These relate to additional operating costs and staffing costs linked to services being delivered from new or refurbished buildings, e.g. additional costs associated with the operation of the new Montgomerie Park Primary School.

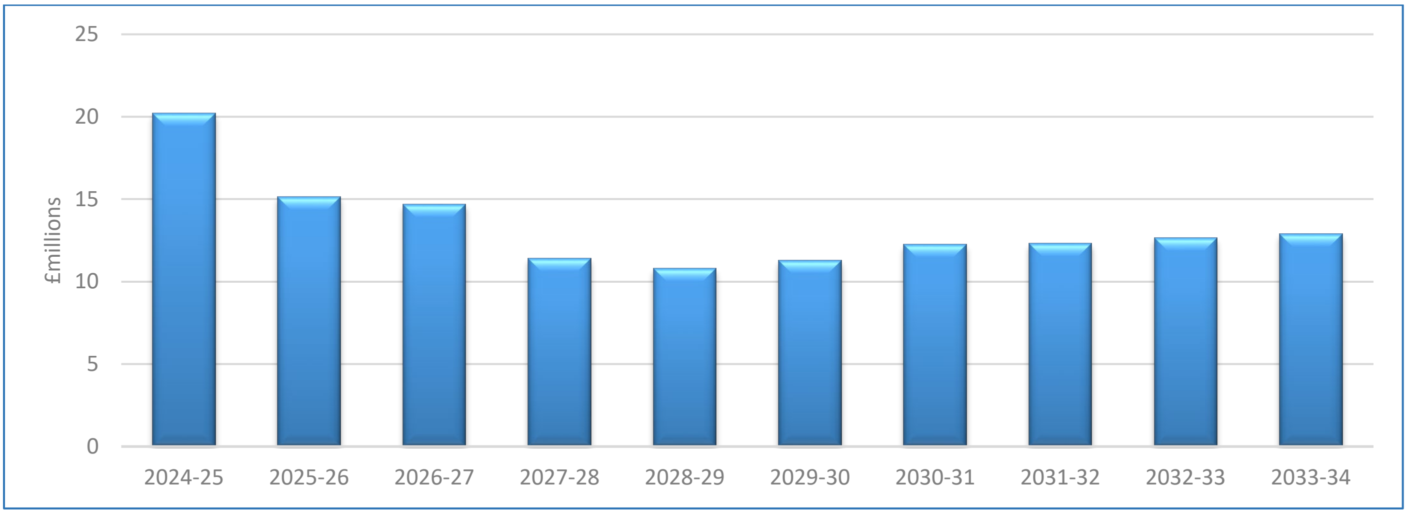
(v) National / Local Pressure

The Council is subject to a range of National and Local pressures which include legislation and regulatory or Council Priorities. The pressures included in this plan include investing in an Islands Officer.

(vi) Financing Costs

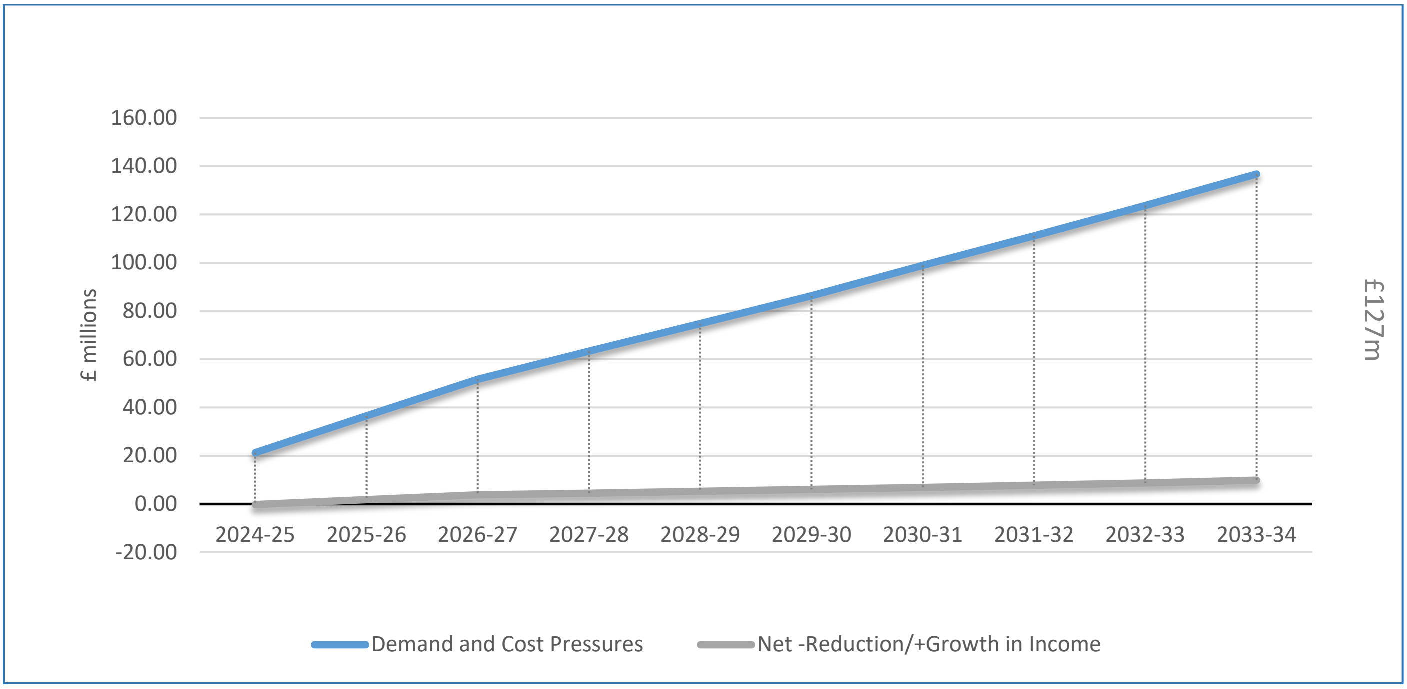
Part of the Council's AEF includes government grant support for financing costs linked to borrowing taken prior to the introduction of the Prudential Code in 2004. The government grant support for this borrowing is being removed over time as debt matures.

It is important not only to understand the totality of the pressures, but also when they will happen. The following graph shows that the highest pressures will be experienced from 2024-25 to 2026-27 before settling to a more stable level moving forward.



Impact on Our Financial Position

The financial plan has identified a trend of relatively static levels of income from AEF and increasing demand and cost pressures across a wide range of areas. Although assumptions have been made about increases in Council Tax, this will be insufficient to cover the financial gap.



The long-term financial outlook provides long-term forecasting of the potential scale of the financial challenge, which enables the Council to plan for the future and deliver services within the resources which are available. A summary of the cumulative financial position is outlined below with more detail available in Appendix 1.

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34
	£millions	£millions	£millions	£millions	£millions	£millions	£millions	£millions	£millions	£millions
Estimated Expenditure	427	443	458	469	481	492	505	517	530	543
Estimated Income	-406	-408	-410	-411	-411	-412	-413	-414	-415	-416
Funding Gap	22	35	48	59	70	80	92	103	115	127

FINANCIAL OUTLOOK

THE IMPACT ON OUR BALANCE SHEET

It is important that, as well as understanding the financial implications of delivering day to day services to our local communities, the Council understands the implications that the financial position will have on the assets that support service delivery and the longer term liabilities which the Council may be required to meet.

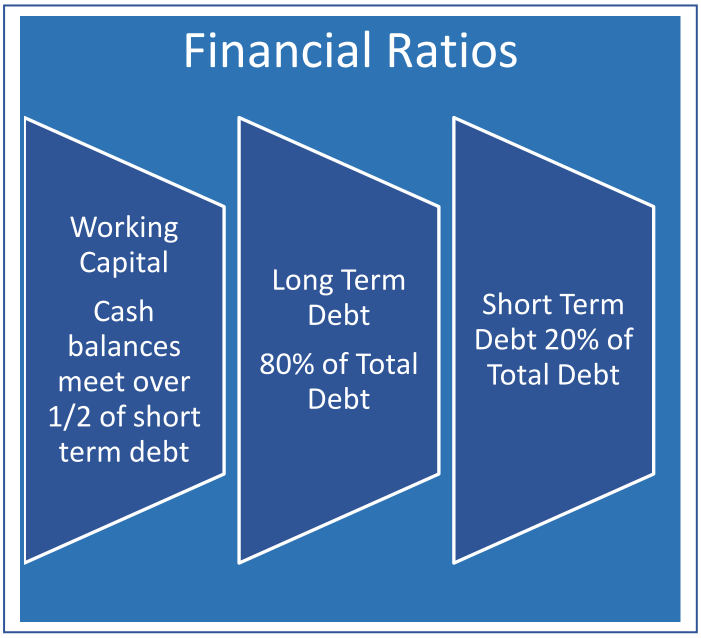
The Council's balance sheet provides a snapshot at the 31 March 2023 of the Council's financial position and is a useful tool in assessing the financial strength of the Council and its ability to remain sustainable.

Net Assets - £897m Funded By

Usable Reserves	Unusable Reserves
£136m	£761m

What Does Our Balance Sheet Tell Us?

Financial Ratios can be used to determine the relative financial health of an organisation.



The Council's ratios reflect the effective treasury management policy in place to minimise the level of cash and investments which the Council holds in this period of low returns for investments. This results in low levels of **working capital** (access to cash) being held to meet short term debt. The Council has facilities to access further funds when this is required to meet short term debt as it becomes due.

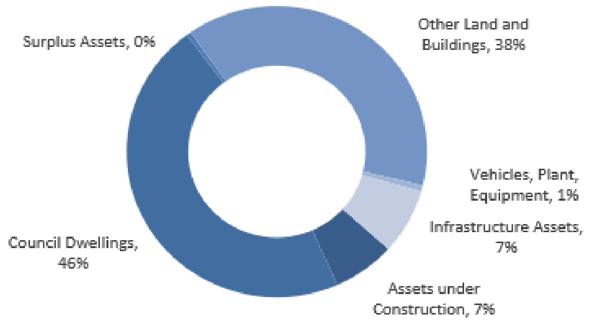
It also demonstrates our policy to hold a mix of **short** (20% of total debt) and **long term debt** (80% of total debt) to manage the risk and impact of any adverse movement in interest rates.

What Should We Focus On?

There are four main items that dominate the Council's balance sheet and require to be considered as part of the long term financial health of the Council.

(i) Property, Plant and Equipment
(ii) Debt including PPP/PFI
(iii) Pension Scheme Liability
(iv) Reserves

(i) Property, Plant and Equipment



The Council has Property, Plant and Equipment of £1,233m on its balance sheet at 31 March 2023. This asset base will require continued investment to ensure that it is sustained in the future.

An essential part of this is the need for lifecycle investment for existing assets and an assessment of the need for new investment to support the delivery of key priorities.

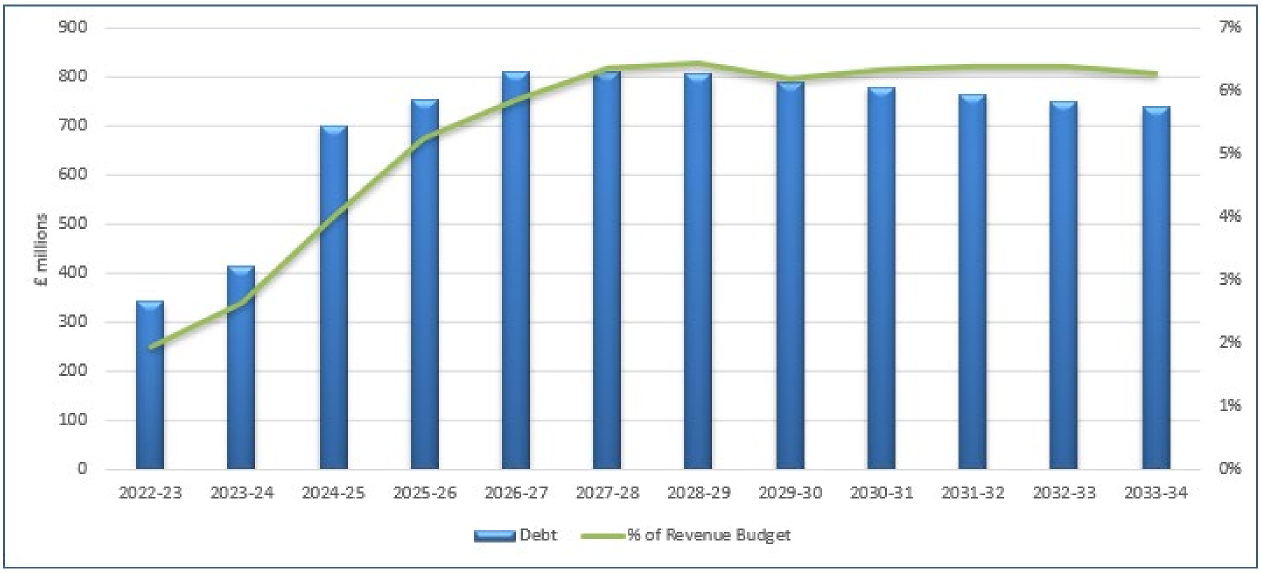
In support of this, the Council has a long term capital investment strategy which will result in £318m invested over the next seven years in our assets, excluding council dwellings. The Council does not have the funds to fully meet all investment requirements and must prioritise investment based on service demand needs and the condition of assets based on asset condition surveys.

(ii) Debt (including PPP/PFI)

The Council's Capital Investment Programme is funded through a number of income sources, one of which is borrowing. Councils are permitted to borrow to fund capital expenditure as long as they can demonstrate that this is prudent and affordable over the longer term. At 31 March 2023 the Council had outstanding debt of £342m. This represents 28% of the value of assets the Council holds and could be considered to be our mortgage on these assets. The graph below profiles the Council's projected outstanding debt across the life of the plan and shows additional borrowing of £398m over the period.

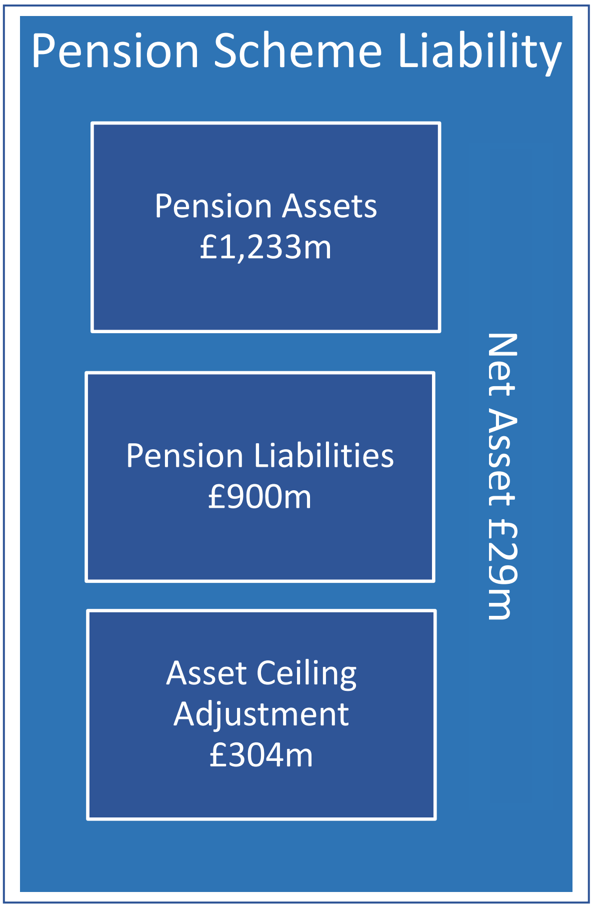
Not all of this borrowing is linked to our future investment plans, some of this is linked to projects already delivered. The Council will only borrow when it needs to and delays borrowing wherever possible to reduce the cost of financing to the Council. At 31st March 2023 the Council was under borrowed by £138m linked to the effective management of our treasury position. This borrowing will be taken over the life of the plan and forms part of the £398m noted above. The Council will also actively repay debt over this period.

It is essential that the costs linked to this borrowing such as principal repayments and interest are affordable over the longer term. The graph shows that this cost is increasing over the period of the plan from 2% of our revenue budget in 2022-23 to 6% by 2033-34 which is reflective of the Council's ambitious Capital Programme and the cost pressures affecting this, including construction inflation and higher borrowing costs.



(iii) Pension Scheme Liability

At 31 March 2023 the Council has a net pension asset of £29m which reflects the current and future assets linked to the pension scheme for all employees with the exception of teachers. The Council's teaching staff are members of a national teacher pension scheme administered by the Scottish Government which the Council contributes to. There is no requirement for the Council to reflect any assets or liabilities for this scheme due to the nature of the scheme and this is excluded from the balance sheet.



This asset is a snapshot valuation by the Pension Fund actuaries at 31 March 2023 and reflects prevailing market conditions at that date. In accordance with IAS 19 and IFRIC 14, the Council has applied an asset ceiling of £29m. This is on the basis that a minimum funding requirement exists in relation to the Strathclyde Pension Fund.

The ongoing risk to the Council is that if pension assets do not grow fast enough to cover pension liabilities, there will be pressure to increase employer pension contribution rates in order to meet the shortfall. The pension fund actuaries remain of the view that the asset holdings of the Strathclyde Pension Fund and the contributions from employees and local government employers provide sufficient security and income to meet future pension liabilities and that the scheme is adequately funded.

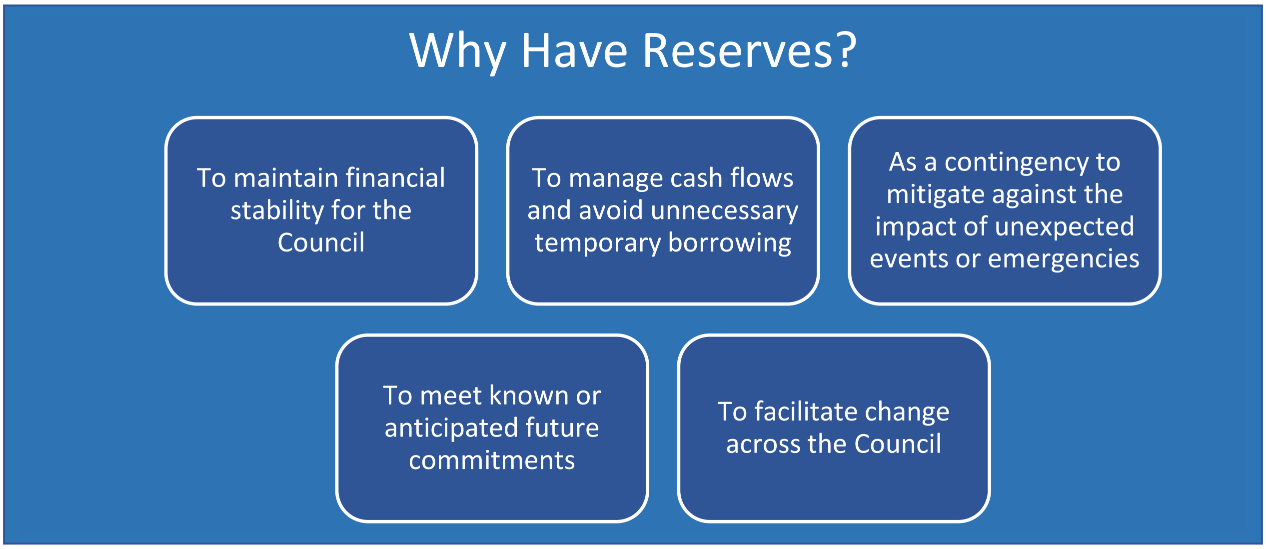
Strathclyde Pension Fund currently has a large surplus which has allowed for a reduction in employer contributions. The long term financial plan assumes a decrease to pension fund contributions from 19.3% to 6.5% for 24/25 and 25/26 then 17.5% from 26/27 onward. This decrease has resulted in projected savings of £3m per annum with one-off rebates during 2024/25 and 2025/26 of £16m each year.

(iv) Reserves

The Council holds two main categories of reserves: -

(i) Usable Reserves

(ii) Unusable Reserves



(i) Usable Reserves

Reserves are a key component of the Council's funding strategy. At 31 March 2023 the Council had £136m of usable reserves, of which £14m is earmarked to support the HRA, with a further £12m earmarked to support the Council's capital investment programme and future insurance liabilities. The balance of £110m is available to support the delivery of General Fund services including £102m earmarked to support the delivery of projects which span financial years, workforce planning, financial insecurity, strategic investments and change programmes. It is expected that the reserves will be used quickly at the start of the plan, reducing in the later years.

The Council's Reserve Policy is that unearmarked reserves are held at a minimum of 2% of net General Fund budgeted expenditure. These reserves are not held to meet any specific liability and offer the Council some flexibility to deal with unforeseen events or emergencies. The Council currently holds unearmarked reserves of £8m. This is at the lower end of the recommended range of 2% - 4% for general reserves.

(ii) Unusable Reserves

Unusable reserves are not able to be utilised to provide services and are created to comply with accounting regulations and statute.

A good example of this is the Pension Reserve. Accounting regulations require the Council to recognise the costs of future liability now, however statute only requires us to account for the cost incurred directly in that year. This reserve represents the difference between these two positions over time.

WHAT IS OUR APPROACH?

Our Approach

The scale of the financial challenge facing Councils is unprecedented and follows a period where funding has already been reducing. The Council has responded well to the challenge to date, delivering over £70m in savings since 2017/18. However, given the magnitude of the challenge and the forecast impact of this on the next two years alone, the Council will require to carefully prioritise which services will be delivered and consider how these are delivered.

The key elements of the Council's Approach are outlined below and will result in a fundamental review of the Council and the services which can be delivered within the funding which we expect to be available.

Our Approach – What We Do?

The Council remains committed to making North Ayrshire the best place to work, live and grow up in Scotland. Although the scale of the financial challenge is significant, it increases the focus on what the Council has set out to achieve. The Council will require to harness the resources at its disposal and work with partners and communities to deliver on the key priorities for North Ayrshire.

In June 2023 the Council approved a new Council Plan, North Ayrshire: A Council that is Fair for All. This plan identifies the key priorities for the Council and ensures resources are focused on the areas which will deliver priorities for local communities. This will require difficult decisions to ensure the Council operates within the funding which is available. Learning from the impact of the pandemic is also very important.

In June 2023, The Convention of Scottish Local Authorities (COSLA) and the Scottish Government agreed a new Partnership Agreement, to be known as the 'Verity Housing Agreement'. Three shared priorities have been agreed – tackling poverty, just transition to net zero and sustainable public services. This new partnership will help set out the vision for a more collaborative approach to delivering our shared priorities for the people of North Ayrshire.

Our Approach – How We Do It?

How We Do It?

The Council has successfully transformed how we deliver services over a number of years and this has been a major factor in securing over £70m of savings since 2017-18. The Council is committed to this journey and will continue to change through the Council's transformation and renewal programme. However, the scale and pace of this transformation needs to increase if the Council is to respond effectively to the challenges it faces. It should be recognised, however, that transformation alone will not offer the full solution to the financial gap which has been identified within this plan.

Three key themes have been identified to respond to the challenges outlined in this strategy: -

(i) Better Ways of Working

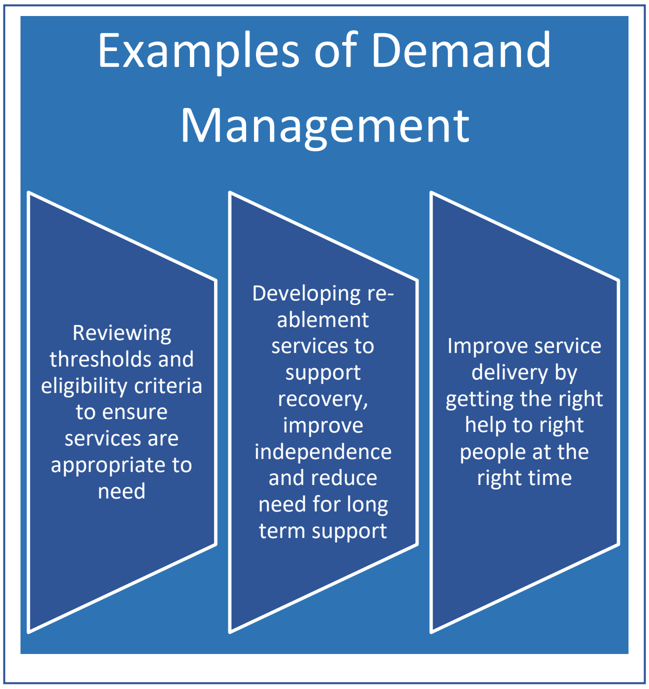
The Council's Change and Transformation programme includes several workstreams that align to the Council's key priorities, and it is anticipated will deliver financial efficiencies to support the Medium-Term Financial Plan. The workstreams include investment in renewable energy (Sustainability) to contribute towards achieving net zero and generate a return on investment for the Council to help address the budget challenges. Use of land and property will also address net zero whilst also considering Best Value on the utilisation of our assets, whether its office accommodation linked to staff workstyles or maximising opportunities in commercial properties and community properties. Accessing our Council and Financial inclusion aims to streamline contact for our customers and provide maximum support to our vulnerable citizens through a "No wrong door" approach. It is also vital that across workstreams we look to maximise digital technology to support our processes, especially in times of limited resources. The world is changing rapidly and it is important that we are agile enough to be able to change services and

harness the use of technology. The Council will continue to maximise digital technology to enable agile working, automation of processes and use of smarter technology to deliver services and improve how customers access services.

(ii) Demand Management

Effective demand management including early intervention and prevention, can be used to transform local services and deliver better outcomes.

This requires the Council to understand customer and system behaviour and how these impacts on demand to establish if there are opportunities to deliver services in a different way or offer alternative options to meet demand. This will enable limited resources to be targeted to those who have the greatest need for services from the Council.



(iii) Review of Costs and Income

The Council will continue to review the cost of service delivery and the sources of income which is available to it. This is a fundamental part of our statutory duty to deliver Best Value.

Our Approach – Who Does It?

North Ayrshire Council delivers a wide range of services to a wide range of citizens using a wide variety of service models which include our own workforce, the use of external providers including those from the independent and third sector, working with our many partners and through local communities who have been empowered to deliver services in their own localities.

Building on the success of the partnership and collaborative working approach through the pandemic, there needs to be a sustained focus on this moving forward as part of a whole systems approach to service delivery.

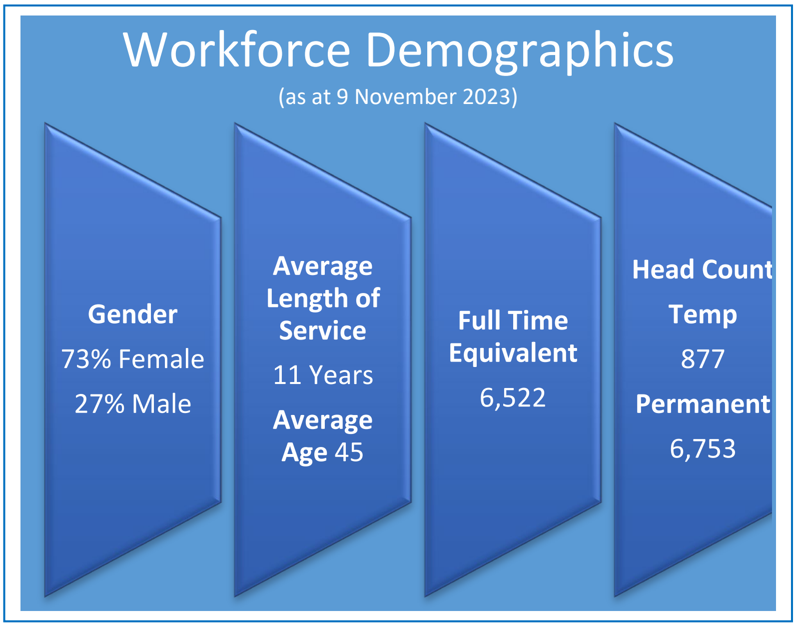
The Council's new priorities were developed from sustained engagement with its communities with one of the Council's four priorities in 'Our Council Plan 2023-28' being communities and local democracy. One of the key activities in achieving this is placemaking, including creation of Locality action plans based on the Community Plan (LOIP) priorities and support the delivery of island plans.

Our Strategy – Impact on Our Workforce

Our people are integral to our success and have been key to the success of our transformational journey.

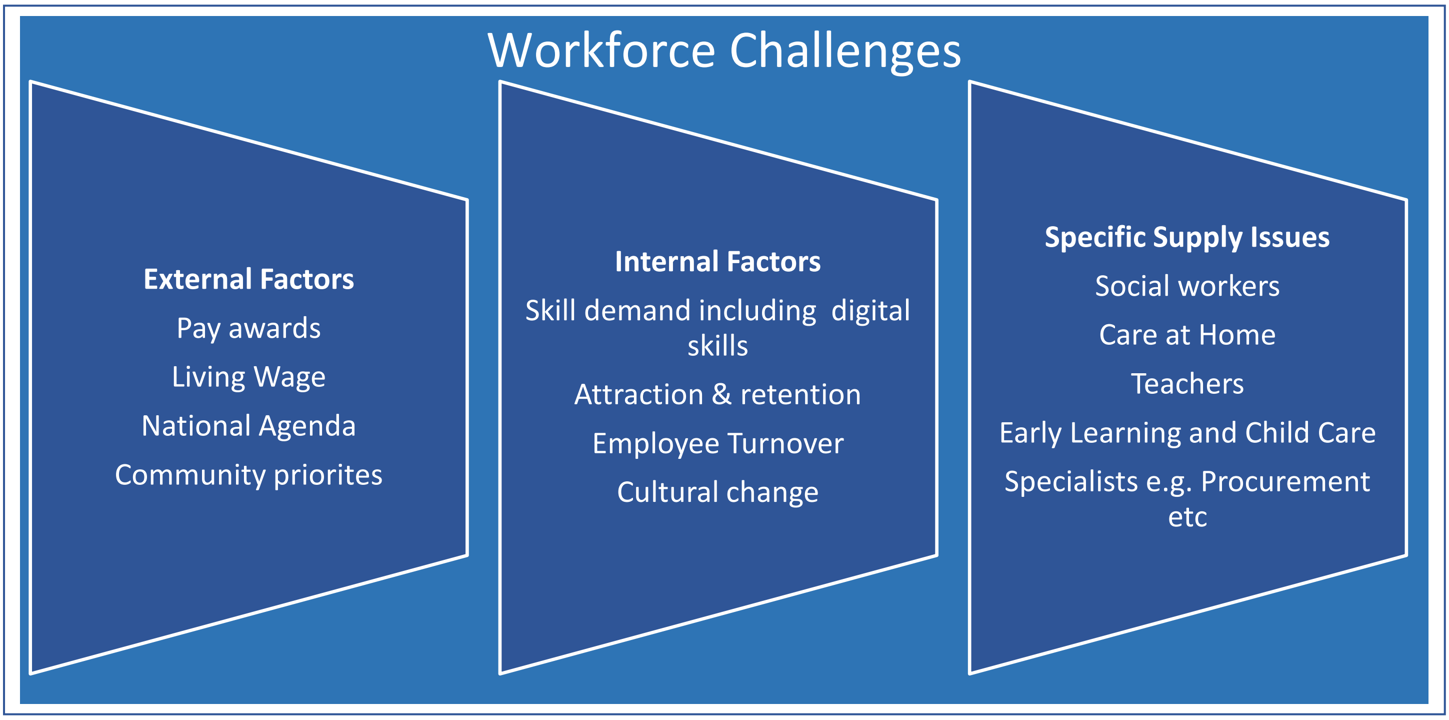
There has been an increase in the workforce since 2020 from 7,076 to 7,630 (6,522 FTE) in 2023.

In the long-term, like many public bodies in Scotland, an ageing workforce is a significant issue which we will consider as part of our wider workforce planning. As at 2023, 42% of our workforce is over 50 years of age (27% is over 55). With changes to pensions it is predicted that individuals will continue to work longer.



Workforce Planning

The funding gap estimated for the next three financial years is £48m. To date a large number of savings have been taken from non-employee budgets. This is unsustainable and may mean that the impact on staffing levels will be higher than in previous years. Employee costs represent 49% of the Council's gross expenditure budget. If future saving proposals impact on staff proportionately to their share of the budget, then there would be a significant impact on staffing levels. This will be partially offset by any reinvestment associated with specific service pressures, such as Early Learning and Childcare. The Council has changed the way it works and how it delivers services by reducing costs, re-organising services and revising service delivery methods. This approach will continue, however, a more integrated, whole systems approach to workforce planning is required. The Council is also currently progressing a Voluntary Early Release programme and will impact in 2024/25. This will contribute towards the Medium-Term Financial Plan, however, will require to be supported by further service re-design across a range of services and Directorates.

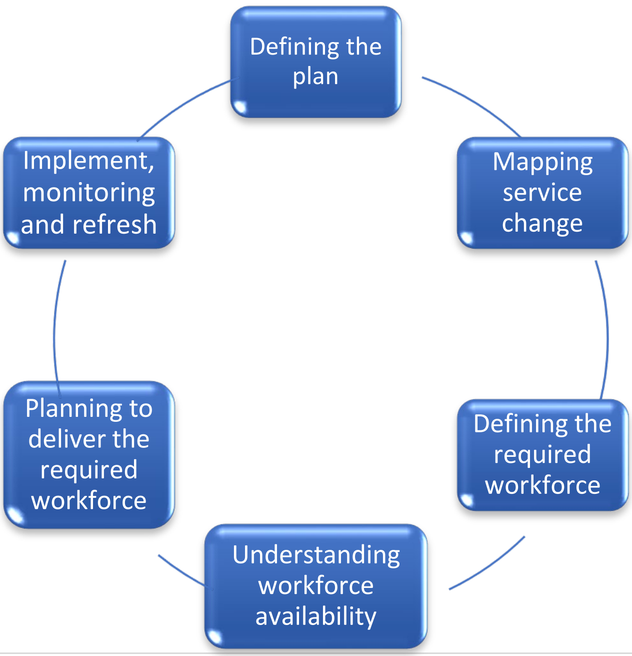


Six Step Methodology

Our six step methodology provides a systematic practical approach to integrated workforce planning. Adopting this approach ensures that each team, Service or Directorate anticipates:

- The current and future demand for services
- The local demographic situation
- The impact on other Services.

It also ensures a corporate approach to workforce planning.



To meet future demand, managers will require to keep pace with a rapidly changing landscape of business transformation and associated skills. This will shape our future workforce.

A key element of workforce planning is identifying gaps in workforce knowledge or skills and taking steps to address these. As 76% of our workforce live in North Ayrshire, any redesign of services could impact on our local community. Our approach includes vacancy management, redeployment and harnessing in-house talent to reduce the impact on our current workforce. We will also continue to 'grow our own talent' with Apprentice and Graduate programmes which will enhance and support the creation of our future workforce.

WHAT CAN IMPACT ON THE PLAN?

Risk

The long-term financial plan is a financial model and as such has risks associated with it. It is essential that the Council understands these risks so that they can be quantified and where possible managed to minimise the likelihood of them having a significant impact on the service delivery of the organisation.

As an organisation the Council needs to be aware of these risks but should not become risk adverse when developing its future plans.

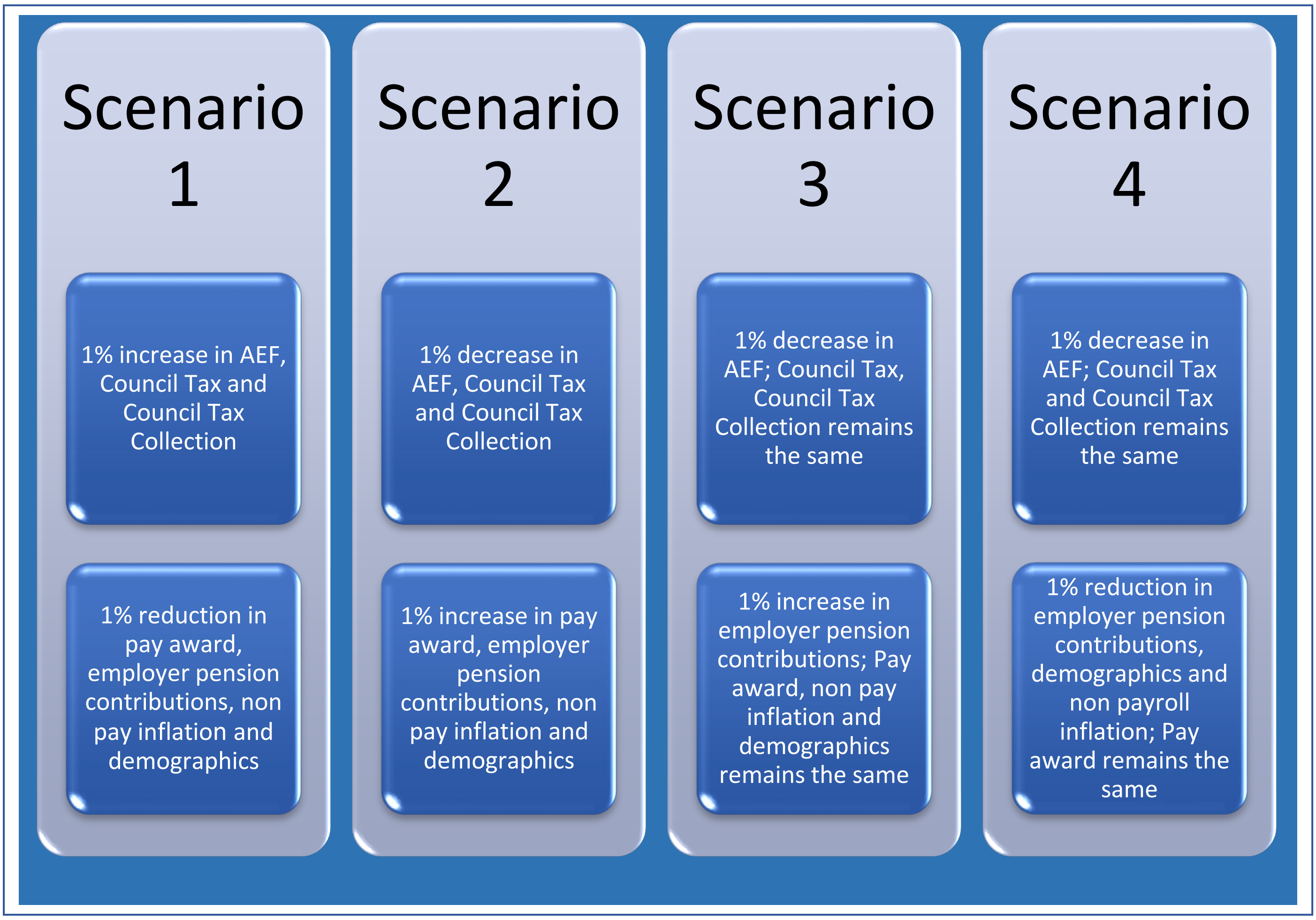
The Council recognises strategic risks through the Council Risk Register. This is used to ensure significant risk is identified and effective actions implemented that reduce these risks to acceptable levels whilst securing service delivery within available resources.

Sensitivity Analysis

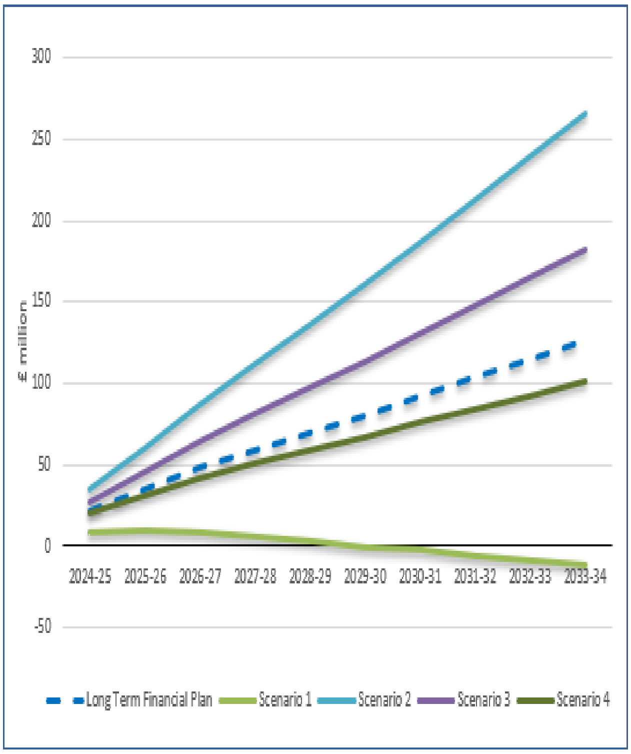
Sensitivity analysis is used to test the major assumptions made by the model and understand what the implications are if assumptions change. This effectively tests ‘what if’ scenarios and enables the Council to determine the potential fluctuation which could exist within the modelling, this will assist planning. The table below shows what would happen if our main assumptions increase by 1%. For example, the income we could get from a 1% increase in AEF would be £3.402m in 2024-25 and an increase of 1% in general inflation would increases costs by £2.032m.

Sensitivity Analysis	Change in Assumption	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31	2031-32	2032-33	2033-34
		£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
AEF	Increase of 1%	-3402	-3402	-3402	-3388	-3374	-3360	-3345	-3330	-3317	-3302
Council Tax	Increase of 1%	-657	-657	-677	-697	-718	-739	-762	-784	-807	-832
Council Tax Collection Rate	Increase of 1%	-684	-705	-726	-748	-770	-793	-817	-841	-866	-893
Employee Costs - Pay Award	Increase of 1%	2756	2873	2957	3021	3048	2959	3021	3078	3139	3208
Employer pension contribution rates	Increase of 1%	1995	2061	2108	2143	2169	2199	2236	2272	2310	2347
Demographic	Increase of 1%	1219	1267	1320	1362	1404	1449	1494	1541	1589	1639
General Non-Pay Inflation	Increase of 1%	2032	2169	2218	2279	2324	2405	2451	2498	2508	2557

To understand the implication of changes in assumptions a number of scenarios have been undertaken which includes a combination of different changes in our main assumptions. The scenarios which have been considered for planning purposes are: -



The impact of each of these scenarios is shown in the graph opposite.



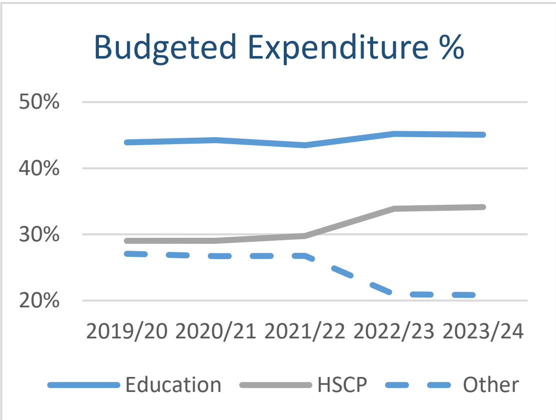
Scenario one forecasts based on all major assumptions improving with the Council receiving more income and cost increases reducing from the core assumptions. The impact of this would be that there would be no funding gap. The probability of this occurring is considered to be low.

Scenario two forecasts based on all major assumptions declining with the Council receiving less income than assumed within the core assumptions and cost increases are higher than the assumptions made by the plan. This would see the funding gap increase to £265m from £127m over 10 years. This scenario is used to consider the impact if all core assumptions are worse than originally estimated.

Scenario Three and Four has been used to demonstrate the impact of a mix of outcomes and shows under scenario three that the funding gap would increase to £182m and under scenario four reduce to £101m.

The scenarios demonstrate the degree of variation which can occur within the plan. The plan is based on the best assumptions available at this time. However, it is important that this is kept under review as part of the Council's short and medium term financial planning and updated to reflect the latest information to refine the plan annually.

Earlier this plan identified the impact that local and national prioritisation of Education and Social Care had on other Council Services. This has resulted in a budget for these services of £293m. The same level of prioritisation cannot be sustained moving forward without the removal of all of these services. This will need to be borne in mind when the Council determines which services will be prioritised in the future.



CONCLUSION

WHAT DOES THE PLAN TELL US?

Conclusion

The next ten years remains an extremely challenging financial climate for local councils. This will require the Council to fundamentally review the services which will be delivered, how they will be delivered and who will deliver them.

The long term financial outlook has been developed to enable the Council to plan its respond to these challenges and support future decision making. The plan identifies a number of local and national factors which will impact on the Council and the demand for services and reaffirms the complex environment that the Council operates in and the many factors which impact on its services.

There is an estimated funding shortfall of £127m over the next ten years which requires to be addressed by the Council. This is based on the best assumptions available and sensitivity analyses have been used to show the implications if core assumptions change.

A clear strategy is required to support the Council in continuing to remain financially sustainable over the longer term.

Appendix One

	£millions	£millions	£millions	£millions	£millions	£millions	£millions	£millions	£millions	£millions
Aggregate External Finance	-340	-340	-340	-339	-337	-336	-334	-333	-332	-330
Council Tax	-66	-68	-70	-72	-74	-76	-78	-81	-83	-86
Total Income	-406	-408	-410	-411	-411	-412	-413	-414	-415	-416
Expenditure										
Chief Executive	23	26	28	31	33	35	38	40	43	45
Communities	175	179	182	184	186	188	191	194	196	199
Health and Social Care Partnership	124	129	134	138	143	147	152	156	161	166
Place	55	58	60	62	64	66	68	70	72	75
Financing Charges	18	19	20	20	21	22	22	23	23	23
Other Expenditure	27	27	27	27	27	27	27	27	28	28
Total Expenditure	421	437	451	463	474	485	498	510	523	536
Other Planning Adjustments*	6	6	7	7	7	7	7	7	7	7
Funding Gap	22	35	48	59	70	80	92	103	115	127

*Other planning adjustments reflect a more detailed assessment of service pressures undertaken as part of medium-tern financial planning