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# NORTH AYRSHIRE COUNCIL

26 June 2024

## North Ayrshire Council

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**Title:** Additional Scottish Government Funding for 2024/25 and proposed strategic investment

**Purpose:** To provide an update on additional Scottish Government General Revenue Grant funding for 2024/25 and recommend proposed investment in renewable energy.

**Recommendation:** That Council:

- (a) Notes the additional General Revenue Grant funding confirmed for 2024/25; and
- (b) Approves the investment proposals set out in sections 2.7 to 2.10 for a contribution of up to £1.328million towards the capital cost of a renewable energy development at i3. The level of contribution being subject to the outcome of the 2024/25 pay negotiations.
- (c) Notes the balance of capital investment anticipated and that this is considered as part of the 2025/26 Budget process.

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## 1. Executive Summary

- 1.1 The General Services Revenue Estimates 2024/25 to 2026/27 were approved by North Ayrshire Council on 28 February 2024. The report noted at that time the Scottish Government's intention to passport anticipated consequential effects resulting from the announcement of funding for councils in England.
- 1.2 The Scottish Government has now confirmed that a total of £62.7million additional funding for 2024/25 will be paid as a redetermination of the General Revenue Grant. The allocation for North Ayrshire Council is £1.682million.
- 1.3 After adjusting for some minor changes in the settlement that followed the North Ayrshire Council budget setting and in recognising the current financial risks associated with the 2024/25 pay negotiations, it is proposed that the balance of available funding for 2024/25 of up to £1.328million, subject to a resolution to the pay negotiations, is directed to contribute towards renewable energy investment at the i3 strategic site. This builds on £0.182million investment already approved to progress this development. This proposed investment aligns to the Council priority of addressing Climate Change and will also generate an annual revenue return on investment to help support communities with an annual 15% community benefit and

provide a sustainable source of revenue to help address the significant budget challenges facing the Council over the medium and long-term.

## **2. Background**

- 2.1 The General Services Revenue Estimates 2024/25 to 2026/27 were approved by North Ayrshire Council on 28 February 2024. The report noted at that time the Scottish Government's intention to passport anticipated consequentials resulting from the announcement of funding for councils in England.
- 2.2 The Scottish Government has now confirmed that a total of £62.7million additional funding for 2024/25 will be paid as a redetermination of the General Revenue Grant. The allocation for North Ayrshire Council is £1.682million.
- 2.3 On the 27 March 2024 North Ayrshire Council approved a Motion that stated " once the additional funding allocation has been announced for North Ayrshire, it is brought back to full Council so that all 33 Councillors can have an input into where best to spend this additional money."
- 2.4 When the Council approved its Budget on 28 February 2024 this set out expenditure and funding requirements for 2024/25 of £ 427.268million. This included assumed Aggregate External Finance funding of £353.087million from Scottish Government. After the budget was approved the Scottish Government made some minor adjustments to the 2024-25 Finance Settlement which included changes to the floor calculation, which was partially offset by increased distributions from the Non-Domestic Rates national pool. This resulted in a reduction in anticipated Scottish Government grant funding of £0.139million. To ensure funding meets the expenditure requirements for 2024/25 this shortfall will be drawn from the additional £1.682million allocation, leaving a balance of additional funding of £1.543million.
- 2.5 The Council Budget approved on 28 February 2024 included an assumed pay award increase of 3%. At the time of writing there is no agreement in place with bargaining groups on the pay award for 2024/25 and the trade unions are currently balloting their members for potential strike action. In terms of the current pay offer, this already exceeds the level of financial provision made when setting the 2024/25 Budget. This position presents further financial risk to the Council as it is unlikely that the Scottish Government will provide any further funding to support the pay negotiations. To recognise the additional expenditure requirements aligned to the current pay offer, provision should be made for a further £0.215million from the additional £1.682million allocation. This will leave a balance of additional funding of up to £1.328million. It should be stressed however, that in the absence of any agreed pay award at this time, this position will continue to present financial risk to the Council, therefore it is recommended that any further funding required to support a resolution to the pay negotiations is drawn from the additional Scottish Government funding.
- 2.6 Based on current planning assumptions the projected net Budget deficit for 2025/26 and 2026/27 is £10.718million and £8.721million respectively i.e. £19.439million over the next 2 years. In view of the current financial landscape, it is strongly recommended that any considered use of the additional Scottish Government funding for 2024/25 is made on a non-recurring basis and that areas of strategic investment are considered which support the Council's key priorities and deliver a future financial

return on investment. On the 28 February 2024, as part of the 2024/25 Budget, Council approved an initial investment of £0.282million towards investment in renewables at the strategic i3 site. Subsequent to this date, Council approved a Motion on 15 May 2024 which reduced this contribution by £0.100million, leaving an approved initial investment at £0.182million.

2.7 Investment in renewable energy aligns with the Council's key priority of addressing Climate Change and the strategic aim of achieving net-zero by 2030. The large i3 Strategic Investment Campus site provides around 85 acres of developable land north of the site's spine road. The southern part of the site has the potential for renewables development. A feasibility study identified the potential for a 2MW wind turbine, 15.8MWp of solar PV and 6MWh of battery storage. The study has identified the 2MW wind turbine as the most economically favourable to progress at this time and this aligns with current available grid capacity. In this respect, agreement is sought to progress the i3 wind turbine proposal and to continue to investigate the i3 solar farm proposal. Officers continue to develop the outline business case. A speculative grid connection application has also been submitted to Scottish Power Energy Network (SPEN), and initial pre-application discussions undertaken with the Planning Service.

2.8 The current initial outline business case key facts and figures can be summarised as follows. Please note this position will be subject to change through the development of the business case:

- Proposed erection of a 2MW turbine which could produce an annual energy yield of up to 5.3million KWH's;
- Capital cost estimate (subject to tender) based on industry intelligence is c.£3.3million, exclusive of grid connection costs;
- Grid connection costs are unknown at this time, but due to potential available capacity and size of turbine (2MW) – estimated to be c.£0.250million;
- Grid connection decision expected September 2024, however this may be subject to change;
- Project commencement October 2024, subject to ongoing business case development;
- Potential gross income £0.500million per annum – based on sale of power at £90/MWh (current likely standard Power Purchase Agreement rate);
- Costs to be netted off each year from that figure would include any residual borrowing costs required to fund the capital investment, operating costs, maintenance costs and non-domestic rates; and
- A 15% community benefits investment will also be drawn from the annual revenue source as per the North Ayrshire Council policy position. The community benefit allocation will provide a valuable source of funding for North Ayrshire communities and this will support a Community Wealth Building approach for a Wellbeing economy and help strengthen relationships across North Ayrshire communities.

2.9 The proposed investment in renewables would support the sale of discounted, clean energy to existing and / or new operators at i3. This could attract a higher Power Purchasing Agreement rate than the £90/MWh quoted above. Informal feedback last year indicated that the i3 site generally scores well as part of Scottish Development International assessment for inward investment enquiries but loses out in relation to the lack of availability of green energy as part of the offer. This investment would address that.

2.10 It is important to recognise the financial challenges currently faced by the Council. With a projected Budget deficit over the next 2 years of almost £20million it is recommended that any investment aligns with the strategic priorities of the Council and, where it is possible, delivers a financial return on investment to help address the financial challenges and protect vital Council services. This proposed investment in renewables includes a recommendation of a contribution of up to £1.328million towards the capital construction costs, subject to the outcome of the 2024/25 pay negotiations. It is also recommended that the balance of capital funding required to meet the full cost of capital construction is considered as part of the 2025/26 Budget process. Following the initial investment approved to date of £0.182million, this could require at least a further £1.790million investment, subject to any grid connections costs and the outcome of the 2024/25 pay negotiations. By fully funding the capital investment, this will limit any requirement for borrowing and therefore maximise the level of financial return on investment.

### **3. Proposals**

3.1 It is proposed that Council:

- (a) Notes the additional General Revenue Grant funding confirmed for 2024/25; and
- (b) Approves the investment proposals set out in sections 2.7 to 2.10 for a contribution of up to £1.328million towards the capital cost of a renewable energy development at i3. The level of contribution being subject to the outcome of the 2024/25 pay negotiations.
- (c) Notes the balance of capital investment anticipated and that this is considered as part of the 2025/26 Budget process.

### **4. Implications/Socio-economic Duty**

#### **Financial**

4.1 The financial implications are as outlined in the report. The funding will be met from the Council's share of an additional £62.7million General Revenue Grant for 2024/25.

#### **Human Resources**

4.2 None.

#### **Legal**

4.3 All required planning consents and contractual due diligence will be undertaken to support any power purchasing agreements that require to be put in place following the completion of the business case.

#### **Equality/Socio-economic**

4.4 None.

## **Climate Change and Carbon**

4.5 This investment will make a significant contribution towards the Council's key priority of addressing Climate Change and the strategic aim of achieving net-zero by 2030.

## **Key Priorities**

4.6 This recommendations within this report align to all 4 of the Council's key priorities i.e. Climate Change, a Wellbeing economy through the use of 15% community benefits as part of any investment, and Communities and local democracy through a community wealth building approach to strengthening communities through this investment. Finally, through both the nature of the investment and the anticipated financial return from this investment, this will help the Council on the path to being a more sustainable Council.

## **Community Wealth Building**

4.7 Through the use of a 15% annual community benefit from this investment, this supports a community wealth building approach to a wellbeing economy and strengthening communities.

## **5. Consultation**

5.1 Elected members have been briefed on this investment as part of the 2024/25 Budget process.

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For further information please contact **Mark Boyd, Head of Service (Finance)**, on **01294 324551** or **Markboyd@north-ayrshire.gov.uk**.

## **Background Papers**

N/A