
NORTH AYRSHIRE COUNCIL

16 February 2022

North Ayrshire Council

Title: Medium Term Financial Outlook 2022/23 to 2024/25

Purpose: To outline the financial challenges facing the Council over the medium term in order to help inform the development of budget proposals.

Recommendation: That Council considers the financial challenges identified in the Medium Term Financial Outlook 2022/23 to 2024/25, notes the scale of the financial challenges which the Council faces over the medium term and brings forward proposals to set a balanced budget for 2022/23.

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 continuing to be present in relation to the Covid-19 pandemic. In this climate it is important that Councils take both a medium term and long-term view, however it is recognised that the continuation of single year settlements from Scottish Government does present challenges in this regard. The Council's Long Term Financial Outlook was updated and presented to Council on 16 December 2020. This 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 align resources to key priorities.
- 1.2 The Long Term Financial Outlook 2021/22 to 2030/31 identified an estimated funding shortfall of £120m over the next ten years which the Council requires to address. This is based on best estimates with sensitivity analysis highlighting the implications of changes to the underlying assumptions.
- 1.3. The Medium Term Financial Outlook for the period 2022/23 to 2024/25 draws on the same data and projections as the Long Term Financial Outlook, however, due to the timing of the local government settlement within the context of the production of this report, the 2022/23 funding position is already known at this time. This includes further one-off funding of £120m being announced by Scottish Government on 27 January 2022. Although the Scottish Government has indicated that high level provisional funding levels for 2023/24 and 2024/25 will be made available to local authorities early in 2022, this information is not known at this time. Based on current planning assumptions around financial pressures, Scottish Government funding levels and Council tax funding this has identified a gross funding gap of £38.999m (including

HSCP) over the next 3 years which must be addressed as part of the Council's Medium Term Financial Plan.

- 1.4 To address the financial challenges whilst minimising any impact on communities, the Council must continue to progress a Budget Programme which incorporates financial efficiencies from a sustainable change programme that delivers 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 2019-2024.
- 1.5. Elected members have previously received briefings on the contents of the Medium Term Financial Outlook and officers are currently developing proposals to support the Medium Term Financial Plan for 2022/23 to 2024/25 which will be presented to Council for consideration on 2 March 2022. It is recognised however, that, whilst additional funding from Scottish Government is welcome, the one-off nature of the funding does not address the base funding pressures in the medium term.

2. Background

Long Term Financial Outlook (LTFO)

2.1 The updated Long Term Financial Outlook 2021/22 to 2030/31 was approved at Council on 16 December 2020 and outlined the potential impact of :

- The strategic financial framework;
- Local issues for North Ayrshire including 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

2.2 The LTFO highlighted 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 3.9% over the period, with reductions in the numbers of children and working

age adults being offset by a projected 18.1% 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 result in significant changes to demand for services, particularly in Communities and Health and Social Care;

- Economic Impacts – North Ayrshire’s economy has taken longer to recover from previous challenges than other areas, with pre-Covid economic activity still below pre-2008 levels. The percentage of adults claiming out of work benefits is 40% higher than the Scottish average and 26.8% of North Ayrshire’s SIMD datazones are within the 15% most deprived in Scotland. It is anticipated that this will be further exacerbated by the impacts of the Covid-19 pandemic;
- 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 – The economic impact of Covid-19 on the UK and Scottish economies is expected to result in real terms reductions in public expenditure budgets. Combining the anticipated reduction in the Scottish block grants with the potential impact of any shortfall in the recovery of devolved revenues and the continued direction of funding to support Scottish Government funding priorities within Health, Social care and Education sectors, the LTFO is projecting ongoing challenges to the overall local government funding position, resulting in anticipated reductions in Aggregate External Finance allocations to North Ayrshire Council of 1% per annum in the medium term;
- Council Tax Income and the Use of Reserves – As funding from the Scottish Government in relation to core local government services reduces, North Ayrshire Council will become increasingly reliant on income from Council Tax and internal reserves to fund service delivery. The LTFO assumes a 3% per annum Council Tax increase over the period. However, it is anticipated that the Council’s Useable Reserves will be reduced to the minimum recommended levels by 2024; and
- The Financial Challenge - The LTFO identifies an estimated funding shortfall of £120m over the next ten 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 £228m over the same period.

The Medium Term Financial Outlook

- 2.3 In developing its medium term financial plan for the period 2022/23 to 2024/25, the Council should consider the key messages noted in the Audit Scotland Report: Local Government in Scotland: Financial Overview 2020/21, reported to Audit and Scrutiny Committee on the 16 November, 2021. Unsurprisingly the focus of the report centred around the impact of the pandemic across a number of areas, including communities and people, service delivery and partnership working and resources and governance. The report recognised the additional financial support provided by Scottish

Government during the period and the need for councils to undertake long term renewal planning.

2.4 The Medium Term Financial Outlook for the period 2022/23 to 2024/25 draws on the same data and projections as the Long Term Financial Outlook and examines the medium term impact arising from:

- The Economic Outlook;
- The Scottish Landscape including factors affecting Scottish Government funding and funding for Local Government;
- The financial outlook for North Ayrshire including the anticipated demographic profile and the impact these will have on the Council's cost base, key costs pressures and funding anticipated from Government Grant, Council Tax and Reserves;
- The Health and Social Care Partnership;
- The Council's approach to ensure future sustainability and alignment of resources with key priorities; and
- The Capital Investment Programme.

Economic Outlook

2.5 Funding for public services is inextricably linked to the performance of global and national economies. A review of financial commentators has informed the undernoted assessment.

2.6 In 2022 households will experience reduced disposable income as the result of a variety of factors, the most material of which are likely to impact from April 2022;

Rising Inflation

2.7 The latest figures (December 2021) show CPI at 5.4%, the highest rate in 30 years and the RPI measure stood at 7.5%. Further, at present Scottish inflation is in line with that seen for the UK as a whole. The biggest price rises have been connected to basic goods, like food and energy. Most economists expect CPI to peak in April 2022 at over 6%, possibly nearing 7%. The main reason for this peak will be the introduction of a higher price cap for electricity and gas.

Predicted Interest Rate Rise

2.8 In addition to commodity price rises there is a risk of further household budget pressures relating to higher interest rates. At present, market expectations are for increases in interest rates in 2022, rising to 1.25%. This in turn could impact on household debt and mortgage payments. Mortgage payments could be further impacted on by the recent big rise in house prices, with the ONS estimating that the average house price in Scotland increased by 11.4% in the year to November 2021.

Higher Taxes

- 2.9 April will see the introduction of a range of tax measures that will likely reduce household disposable incomes. These include the raising of National Insurance by 1.25% and the freezing of income tax rate banding, which will pull more people into higher tax brackets over time. A further impact on household disposable incomes comes through benefits (e.g. Universal Credit and Pensions) being uprated in April in line with inflation from last September, when CPI stood at around 3%, at least 3% below the expected April CPI of 6 to 7%.

The Scottish Landscape

- 2.10 There are a range of potential outcomes for Local Government budget components and factors affecting these over the period from 2022-23 to 2026-27. The main sources used in the analysis include: the Scottish Government's 'Draft Budget 2022-23'; 'Medium Term Financial Strategy' (MTFS); associated Scottish 'Resource Spending Review Framework' (RSRF); and the Scottish Fiscal Commission's 'Scotland's Economic and Fiscal Forecasts (SEFF) 2021'.
- 2.11 Obtaining a clear picture of the future Local Government resource budget is made difficult by the following factors:-
- the ongoing COVID-19 impact on both revenues and funding;
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 - the impact of COVID-19 on business activity and business rates income;
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 - the Scottish Government's approach to the setting of Council Tax rates;
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 - the degree to which wage settlements will be affected by the rise in inflation;
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 - how the Scottish Government deals with the large Block Grant Adjustment reconciliation due in 2024-25; and
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 - how the introduction of the 'National Care Service' affects budget allocations.
- 2.12 Based on the latest UK and Scottish Government pronouncements, the medium term outlook does not look positive. While the Scottish resource budget as a whole may continue to increase, in both cash and real terms, this extra funding is likely to be directed towards key priority areas (e.g. the NHS, Adult Social Care and Education). Beyond these immediate priorities lies another layer of prioritisation, including addressing child poverty and climate change. Where such priorities coincide with Local Government activities then additional funding may be forthcoming, although possibly ring fenced to some degree. However, it seems likely that, in relative terms, the Local Government budget will remain a lesser priority area of spending.
- 2.13 Details of the initial 2022/23 Local Government Finance Settlement were published on 20 December 2021. For North Ayrshire Council the core revenue funding represented a £0.488m reduction in cash terms (0.16%) from 2021/22 and an increase in core capital grant of £0.545m. On 27 January 2022 the Scottish Government announced further one-off funding support of £120m to local authorities,

with £3.208m allocated to North Ayrshire Council. Therefore, the core revenue funding for 2022/23 represents a £2.720m increase in cash terms (0.90%) from 2021/22. Additional funding to support new or existing Scottish Government policies were also included across health and social care, education through permanent staffing support, clothing grants and universal free school meal for primary 4/5 pupils and child bridging payments. Details of the full allocation to North Ayrshire Council have yet to be confirmed. The settlement contained the following requirements and key points to note:

- Maintaining pupil / teacher ratios at a national level and ensuring places for all probationers;
- Funding allocated to the HSCP should be in addition to the 2021/22 recurring baseline position; and
- Councils will have full flexibility to set the Council Tax rate that is appropriate for their local authority area.

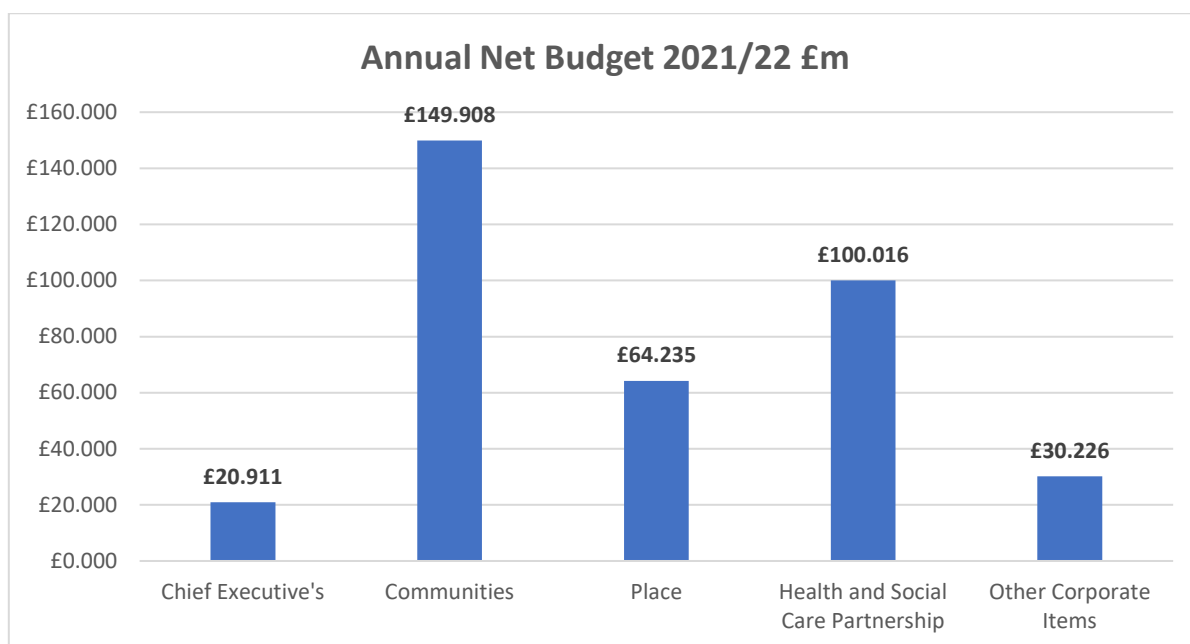
2.14 COSLA continues to engage with the Scottish Government on a range of fiscal measures, issues and flexibilities. To try and aide medium term planning within local authorities the Scottish Government has committed to publish indicative grant allocations for 2023/24 and 2024/25 and this is expected in the spring of 2022. It is recognised that caution will have to be applied with this information, however, this is clearly a step in the right direction. Further key elements of discussion include:

- The broad area of financial sustainability and fair funding for local authorities set within the context of the level of general grant allocation and the financial pressures facing councils (including inflationary and legacy COVID impacts) and importantly the extent to which ring fenced funding to support Scottish Government policy commitments impacts on the level of general grant;
- The progression of financial flexibilities including the areas of service concessions which will follow the review of capital accounting and the removal of any limits / caps applied when setting council tax;
- Productive dialogue around the true costs associated with the implementation of new Scottish Government policy commitments, so as to prevent or at least limit local authorities bearing any additional cost burden. A current example of this being the roll out of universal free school meals and the revenue and capital cost implications; and
- The Scottish Government commitment to a National Care Service and consideration to all policy, operational, resource and funding implications from this.

Financial Outlook for North Ayrshire Council

Allocation of Resources

2.15 The Chart below summarises the allocation of resources for 2021/22 approved at Council in March 2021, with around 60% of gross expenditure relating to employee costs;



2.16 As noted in section 2.14 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, has greatly reduced. This continues to place a disproportionate level of pressure on the other Council budgets and reinforces the desire for local authorities to have more flexibility around resource allocation.

Medium Term Financial Pressures and Planning Assumptions

2.17 Following an assessment of the pressures and income levels anticipated over the next 3 years further work has been completed in respect of the short and medium term impact of anticipated pressures. In addition, ongoing work on the review of the General Services Capital Programme is expected to identify significant cost pressures linked to construction inflation, mainly as a consequence of the pandemic. When set within the context of the planning assumptions around funding this has resulted in a projected medium term gross funding gap of £38.999m over the next 3 years.

2.18 The significant pressures identified within the Medium Term financial Outlook include:

- Workforce costs including estimated future pay settlements and pension auto enrolment. The impact of the 1.25% national insurance rise will also take effect from April 22 at a cost of around £1.5m:

Staff Group	2022/23 Planning Assumption	2023/24 Planning Assumption	2024/25 Planning Assumption
Teachers	3%	3%	3%
Other Staff	3%	3%	3%

- Some significant Inflationary uplifts for major utilities, commodities and contractual commitments. In respect of utilities over 80% of our anticipated energy need for 2022/23 has been purchased in advance via Procurement Scotland with a further 50% purchased for 2023/24, therefore this has mitigated what would otherwise have been a significant cost exposure, with energy increases forecast at over 50% from April 2022. The medium term budget implications will continue to be monitored closely. The Council makes no provision for general inflation, however it is recognised that this will place further strain on operational budgets;
- The occurrence of rising construction inflation, mainly from the impact of the pandemic places a significant burden on the affordability of the 10 year capital programme. As part of the review of the capital programme in 2022/23 further revenue contributions to the loans fund will be incorporated in the medium term financial plan to help mitigate the impact of the rising costs;
- Legacy impact of pressures impacted by the pandemic are likely to trail through into 2022/23 and possibly beyond, whilst additional Scottish Government funding ceased in 2021/22. They include waste services costs, facilities management costs and income, commercial and general income and financial pressures faced by North Ayrshire Leisure Ltd;
- Additional cost pressures linked to Scottish Government policy commitments is an area where effective dialogue between local authorities, COSLA and the Scottish Government is vital. The medium term financial plan has identified financial risk in certain areas, including universal free school meal expansion. Initial indications are such that the funding to support the policy is insufficient to meet the cost of delivery and this is recognised across capital and revenue costs; and
- The Scottish Government policy intent in delivering a National Care Service will also have potentially wide ranging financial and operational implications for the Council including funding, assets and staffing. From the current landscape significant socio economic and demographic pressures remain, including:
 - A growing older population;
 - Increased demand for adult services; and
 - Increased demand for support of vulnerable children and young people.

2.19 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 impedes 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. As noted in section 2.14 of the report the Scottish Government intends to publish indicative grant allocations for 2023/24 and 2024/25 in the spring of 2022.

2.20 With an uncertain funding outlook set within the context of funding commitments for Scottish Government policy areas it is both reasonable and prudent to assume that the level of future budget settlements will remain challenging. Based on this, a reduction of -1.0% has been built in for year 2 and year 3 of the Medium Term

Financial Outlook. This remains consistent with the planning assumption of a number of other Scottish local authorities. This assumes that the £120m additional funding to local authorities announced on 27 January 2022 for the 2022/23 budget is non-recurring. North Ayrshire Council received an allocation of £3.208m from the additional funds announced.

- 2.21 The medium term financial plan includes a planning assumption of an annual 3% increase to Council Tax. Council tax income is a vital source of funding and represents around 16% of council funding i.e. £62m per annum. With current inflation (Dec 2021) based on the RPI measure sitting at 7.5%, this proposed increase sits well below current inflation. As part of the 2022/23 budget settlement the Scottish Government have removed the cap and allowed Councils the flexibility to set their own level of council tax. An important point to note when considering the level of council tax to be set is the future year impact of any decision e.g. a decision to maintain council tax at 2021/22 levels equates to around £2m less income. Due to the recurring impact on the base budget for 2023/24 and aligned to current planning assumptions this would then require an increase in council tax in 2023/24 of more than 6% to simply recover the base income position. This is before the measures to address the budget gap for the year are even put in place. This would present further significant challenges in delivering balanced budgets in future years.
- 2.22 Since 2017/18 the Council has used over £17m of reserves to support recurring expenditure. A full review of all revenue reserves will be carried out as part of the medium term budget considerations.
- 2.23 A summary of the anticipated position of the Council (including the HSCP) over the next three years is provided in the table below. Further work continues to refine the underlying assumptions. Final savings proposals are being progressed and will be presented to Council on 2 March 2022.

	2022/23 £m	2023/24 £m	2024/25 £m	Total £m
General Fund Gross	£4.465	£11.032	£8.823	£24.320
Funding Gap				
HSCP Pressures	£5.338	£4.694	£4.647	£14.679
Total	£9.803	£15.726	£13.470	£38.999

Sensitivity Analysis

- 2.24 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 £3.0m;
 - Council Tax Funding £0.65m;
 - Payroll incl. HSCP £2.5m

2.25 The table below exemplifies the potential impact on the gross funding gap based on a number of scenarios around the level of grant funding. The shaded box highlights the assumptions within the current summary, noting also the settlement for 2022/23 is known and represents an increase of £2.720m (+0.90%).

Gross Funding Gap Scenarios Based on Scottish Govt Grant	2022/23 £000's	2023/24 £000's	2024/25 £000's	Total £000's
2% Increase		6,680	4,424	11,104
1% Increase	11,265	9,682	7,426	28,373
Flat Cash		12,704	10,448	23,152
1% Reduction*		15,726	13,470	29,196
2% Reduction		18,748	16,492	35,240
3% Reduction		21,770	19,514	41,284
4% Reduction		24,792	22,536	47,328
* 2022/23 settlement known				

2.26 The medium term financial outlook generally assumes any new policy or legislative requirements will be funded fully by the Scottish Government. It is recognised, however, where new policy requirements are not fully funded, this presents further financial pressure. In the area of universal free school meal expansion the Council has made prudent financial provision in excess of the additional funding provided by Scottish Government across both revenue and capital. It is noted however that discussions around funding will continue between COSLA and Scottish Government in this policy area.

2.27 The ongoing Covid-19 pandemic has resulted in significant costs to all local authorities during 2020/21 and 2021/22. Through a combination of financial recovery planning and funding support from Scottish Government this position has been managed within the overall resources available and has also supported investment into recovery and renewal activities. The majority of funding from Scottish Government ceases in 2021/22, however legacy financial pressures remain across a number of areas including waste services, commercial and general income, facilities management and North Ayrshire Leisure Ltd. The Council has retained earmarked funds to help mitigate the impact of these pressures, however, it is anticipated the funds will be utilised fully by 2023/24.

Reserves Strategy

2.28 The Council's 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, were reported in the 2020/21 Annual accounts as £11.315m, equivalent to 2.9% of General Fund net budgeted expenditure. This compares to the recommended best practice of between 2% and 4% and the Council's approved Reserves Policy that unearmarked reserves are held at a minimum of 2% of General Fund net budgeted expenditure. In addition to the 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.

- 2.29 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 bi-annually on the setting of the Council's budget and on closure of the Council's Account.
- 2.30 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, as noted above.

Health and Social Care Partnership (HSCP)

- 2.31 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.
- 2.32 Information on anticipated pressures and proposed savings options are shared with North Ayrshire Council to inform the allocation of resources delegated to the IJB. As part of the recent 2022/23 budget announcement the Council at this time plans to make (subject to approval by Council) a net contribution to the HSCP of £9.931m reflecting the requirements as set out in the 2022/23 local government finance settlement. It should also be noted that further resources have yet to be distributed and it is anticipated that when this has been done the additional net resources to the HSCP for 2022/23 are likely to be in excess of £15m to help address a range of pressures and support policy areas.
- 2.33 The cumulative debt position to the Council at 31 March 2021 amounts to £3.807m. Whilst this continues to present a financial risk to the Council, through a combination of the annual budget set aside for repayment to the Council and more recently through the IJB generating a level of general reserve of £4.151m and an anticipated underspend position forecast in 2021/22, the current level of financial risk to the Council has been greatly reduced.

The Council's Approach

- 2.34 With a forecast reduction in resources occurring at the same time as increased cost and demographic pressures, the scale of the financial challenge remains significant. This is also set within the context of the savings which have already been delivered between 2010/11 and 2021/22 which totals over £118m, equivalent to around 25% of the gross revenue budget.
- 2.35 Together with the anticipation of continued pressure on public sector funds, exacerbated by the ongoing response to the Covid-19 pandemic, and longer lead in times to deliver sustainable change, this requires the Council to take a longer-term approach to financial planning. The requirement for such an approach is recognised by a number of bodies including CIPFA and Audit Scotland and has been reflected in many local authority Best Value Assurance Audits.

2.36 The Council’s approach to addressing the financial challenges is influenced by the Council Plan 2019-24 and the Community Wealth Building Strategy. The Council’s key priorities are defined as:

- **Aspiring Communities**

- Active and strong communities;
- Children and young people experience the best start in life;
- Inclusive, growing and enterprising local economy;
- Residents and communities enjoy good life-long health and well-being;
- Residents and communities are safe.

- **Inspiring Place**

- Well connected with effective infrastructure;
- Homes that meet residents' needs;
- Vibrant, welcoming and attractive environment;
- A sustainable environment.

- **A Council for the Future**

- An accessible Council that puts residents and communities at the heart of what we do;
- An efficient Council that maximises resources and provides value for money;
- A valued workforce that delivers high quality services;
- A powerful and respected voice.

2.37 The Council’s sustainable change programme continues to be progressed across a range of themes. It is recognised that progress has been impacted by the pandemic, however it remains vital that change is delivered at pace and scale to support both the budget programme and the Council’s Community Wealth Building ambitions over the medium and long term and to help reduce any impact communities from the services that are provided. A number of projects are aligned to each of the key themes with Digital being an enabler across each of the themes;

Digital				
Sustainability	Land and Property Assets	Children, Young people and Communities	Caring for People	Transport and Travel

2.38 Another key enabler in supporting the Budget Programme is from the use of investment, most notably through the Council’s Investment Fund and Recovery and Renewal Investment Programme. With total resources of over £25m a key focus of this investment is to support sustainability projects as part of the Council’s journey towards net zero. In addition to the clear environmental benefits, financial efficiencies

through energy savings and returns on investment will accrue to help address the financial challenges over the medium term.

Capital Investment Programme

- 2.39 The 10 year General Services Capital Investment Programme 2021/22 to 2030/31 was approved at Council on 4 March 2021. The review being undertaken as part of the 2022/23 Budget will be minor, however, it is becoming more apparent that significant cost pressures, mainly through construction inflation and contractor claims as a consequence of the pandemic, will present affordability challenges in delivering the current programme. This volatile landscape will continue to be monitored, however, it is prudent that, at this time and to help mitigate the financial risks, further financial provision is incrementally incorporated in the medium term financial plan to supplement the existing loans fund resources.
- 2.40 The capital review will also focus on other areas of financial risks including additional costs associated with Scottish Government policy areas, i.e. universal free school meal expansion and the anticipated capital infrastructure costs to support this. In terms of funding, dialogue continues with Scottish Government via COSLA around this, however there is a risk that funding will not meet the anticipated level of cost.
- 2.41 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.
- 2.42 The anticipated revenue implications of the current 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

- 2.43 In advance of the presentation of the Medium Term Financial Outlook, briefings for elected members have been carried out.
- 2.44 Officers continue to progress the Budget programme and develop options to address the budget gap covering the period 2022/23 to 2024/25. Progress to date has been shared with elected members throughout the process.
- 2.45 Discussions continue with the Integrated Joint Board to support a partnership approach to development of the Health and Social Care Partnership's budget.
- 2.46 A virtual community engagement session was held on 20 January 2022. This involved community representation across all localities. This was followed up by an interactive Facebook live engagement session on 27 January 2022. All feedback has been captured and will be considered as part of the Budget setting process.

2.47 It is planned that proposals for the Medium Term Financial Plan 2022/23 to 2024/25 will be presented to Council for consideration on 2 March 2022.

3. Proposals

3.1 That Council considers the financial challenges identified in the Medium Term Financial Outlook 2022/23 to 2024/25, notes the scale of the financial challenges which the Council faces over the medium term and brings forward proposals to set a balanced budget for 2022/23.

4. Implications/Socio-economic Duty

Financial

4.1 The anticipated funding gap over the period 2022/23 to 2024/25, based on current assumptions, is £38.999m. Council will require to set a balanced budget for 2022/23 and future years. The gross funding gap projected for 2022/23 is £9.803m.

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; review of temporary contracts; together with selective use of voluntary severance and early retirement. 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 balance budget is contingent on identification and subsequent delivery of transformation and robust 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 Assessment 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 Significant elements of Council investment have been targeted towards sustainability projects and this is reflected in the Council's sustainable change programme. This will play a key role in supporting the Council's journey towards 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 2019-24.

Community Wealth Building

- 4.7 All capital and revenue investment will continue be considered within the context of the Council's Community Wealth Building Strategy, with maximising opportunities for local suppliers through procurement a key priority and pillar of the strategy. Further, this strategy is a vital reference for the Council's sustainable change programme, most notably through the Land and Property Assets theme.

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.

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

Background Papers

None