
NORTH AYRSHIRE COUNCIL

16 December 2020

North Ayrshire Council

Title: Long Term Financial Outlook 2021/22 to 2030/31 and
Medium Term Financial Outlook 2021/22 to 2023/24

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 in order to inform the development of budget proposals.

Recommendation: That Council considers the Long Term Financial Outlook 2021/22 to 2030/31 and the financial challenges identified in the Medium Term Financial Outlook 2021/22 to 2023/24, 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 2021/22 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 further challenges presented in relation to the Covid-19 pandemic and the UK's planned withdrawal from the European Union. 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 align resources to key priorities.
- 1.2. The Long Term Financial Outlook 2021/22 to 2030/31 has identified an estimated funding shortfall of £120m over the next ten years which the Council requires to address. £40m of this gap occurs over the next three years. 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 2021/22 to 2023/24 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 which 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. As noted above this has identified a funding gap of £40m which must be addressed as part of the Council's Medium Term Financial Plan.

- 1.4 To address these financial challenges, the Council must develop a sustainable Budget Programme which delivers 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 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 2021/22 to 2023/24 which will be presented to Council for consideration in March 2021. These proposals will consider the impact of the pandemic and the key learning as part of a Renewal programme.

2. Background

Long Term Financial Outlook (LTFO)

- 2.1 The Council's previous LTFO, covering the period 2018-28, was approved by Council in October 2017. The LTFO provided the cornerstone of the Council's strategic financial framework and established a sound basis for the development of the Council's medium term financial plans 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.
- 2.2. The significant risks that the Council faces are set out in the Council's Strategic Risk Register. These are summarised below:
 - Financial Environment - this risk reflects the ongoing financial challenge faced by the Council and notes that reductions in 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 - this highlights the socio-economic inequalities faced in North Ayrshire reflecting that 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;
 - Financial Sustainability of the Health and Social Care Partnership – this reflects the ongoing financial challenges faced by the Partnership and the increased financial risk resulting from the delegation of resources and the responsibility for planning and delivering social care to the Integration Joint Board at a time of reducing resources and growing demand;
 - EU Withdrawal – reflecting the risks associated with the UK's withdrawal from the European Union across the workforce, supply chain and potential economic impact associated with the nature of the exit from the European Union; and
 - Impact of Covid-19 – highlighting the financial and economic impact of the Covid-19 pandemic on the current and future delivery of services across the Council.

2.3. The revised Long Term Financial Outlook 2021/22 to 2030/31, 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 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, which has seen increased unemployment and reduced economic activity across the world. Economic recovery and growth is impeded by market uncertainty which is forecast to increase in the short term as a result of the UK's withdrawal from the European Union on 1 January 2021;

- 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, the Police and the Higher 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. £40m 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 £228m over the same period.

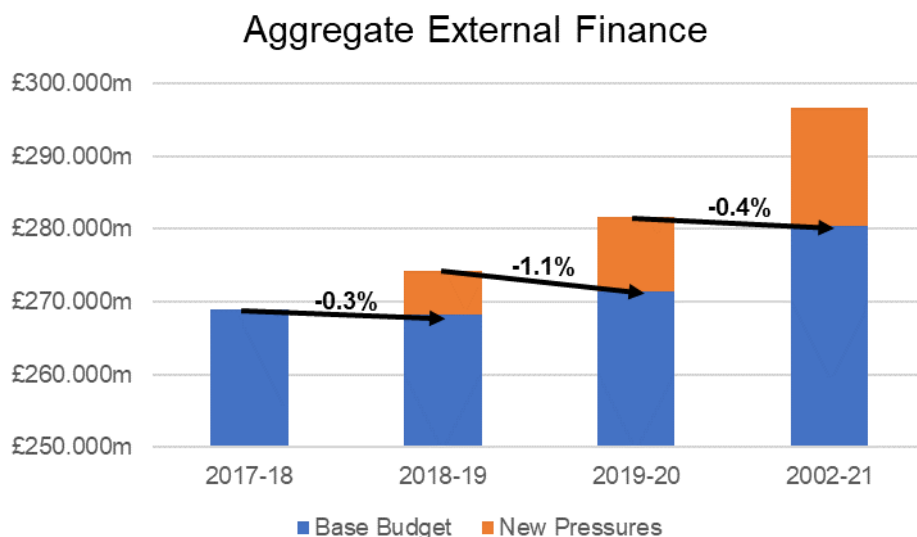
The Medium Term Financial Outlook

2.5 In developing its medium term financial plan for the period 2021/22 to 2023/24, the Council should consider the issues and challenges noted in the Audit Scotland Report: Local Government in Scotland: Financial Overview 2018/19, reported to Council on 12 February 2020 and the Local Government in Scotland Overview 2020 presented at Audit and Scrutiny Committee on the 24 August, 2020. This highlighted a number of common themes across all Scottish local authorities, including:

- Scottish Government revenue funding remains the most significant source of income for Councils. Since 2013/14, Scottish Government funding to Councils has reduced by -3.3% in real terms.;
- The growing proportion of Scottish Government funding for national policy initiatives has reduced the flexibility which councils have in responding to local priorities;
- The majority of Integration Joint Boards are struggling to breakeven; and
- Councils have made preparations for EU withdrawal but there are many potential implications that cannot be anticipated in financial planning.

2.6 As part of its response to the themes identified in this report, North Ayrshire Council noted that:

- The impact of the historic Scottish Government funding trend on North Ayrshire has resulted in annual reductions in core funding, in both cash and real terms, while any increases reflect additional national policy pressures, as highlighted in the following chart:



- The Council's current transformation programme aligns with the 2019-24 Council Plan and continues to evolve as the Council responds to the anticipated future funding challenges. Key learning from the pandemic will help develop this further as part of a Renewal programme;
- Having used over £16m of reserves to support non-recurring investment and the core budget since 2017/18, the Council's unearmarked reserves were sitting at the minimum acceptable level of 2%, although this has since increased to 2.7%, with a bi annual review of all reserves undertaken;
- Continued financial support through the Council's core budget for the Health and Social Care Partnership to repay the outstanding debt to the Council; and
- Regular reporting to Audit and Scrutiny committee on the risks and mitigations of the EU withdrawal, as well as the financial reporting on the HSCP financial position.

2.7 The Financial Overview 2019/20 is anticipated early in the new year and is expected to re-iterate many of these issues.

2.8 The Council should also consider the issues highlighted in the Best Value Assurance Report, reported to Council on 23 September 2020, which included four recommendations for improvement, with the follow up of the recommendations to be considered as part of the Council's future Annual External Audits. These included:

- The Council should fully develop and deliver detailed transformation plans to meet the current estimated funding shortfall. To achieve this, it should ensure sufficient arrangements are in place to support, monitor and deliver the expected outcomes. This includes:
 - Developing the transformation themes into projects and further developing the governance arrangements to ensure the Council has the skills needed to implement the next stage of transformation; and
 - Developing a robust benefits realisation tracker to assess whether the Council has achieved its aims;
- The Council must evolve workforce planning across all services, and clearly align service workforce plans to the transformation projects, in order to:
 - Identify the numbers, cost and skills of the current and desired workforce; and
 - Effectively facilitate the transition from the current workforce composition to the desired workforce;
- The Council should work with locality partnerships to make clear what the intended impacts are of locality plans are and make them publicly available; and
- The Council should review its Public Reporting online portal, North Ayrshire Performs, to make it more user friendly and accessible.

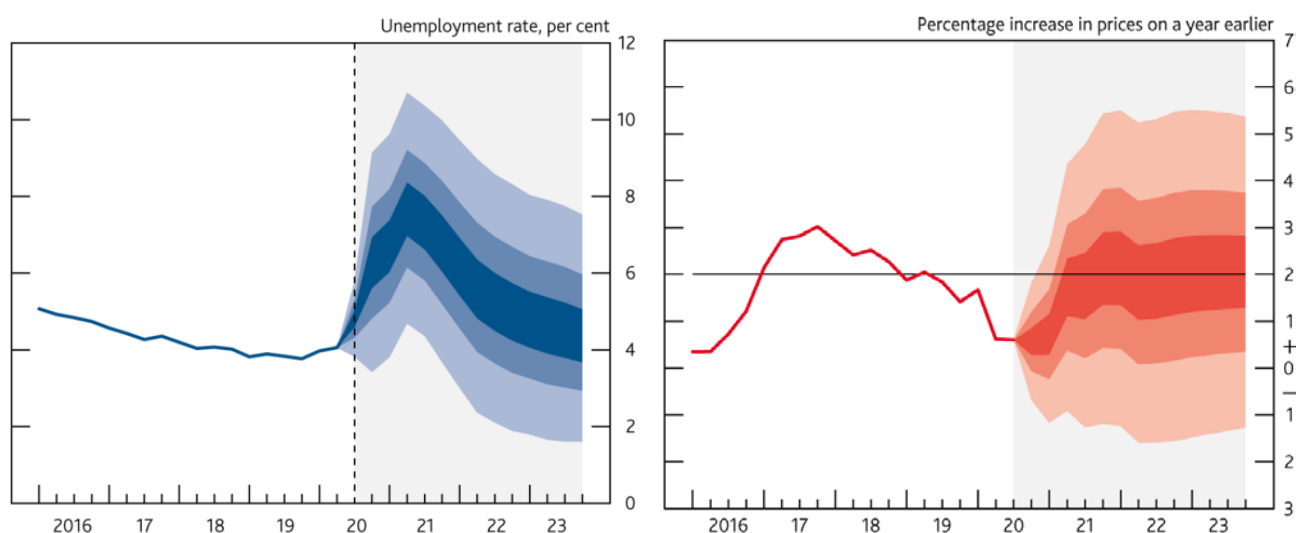
2.9 It should be noted that Deloitte LLP's reports on the 2019/20 External Audit, reported to the Audit and Scrutiny Committee on 29 September 2020, contained no further recommendations or actions.

2.10 The Medium Term Financial Outlook for the period 2021/22 to 2023/24 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

- 2.11 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.
- 2.12 The medium-term global economic outlook is dominated by the impact of Covid-19 and the uncertainty around the UK's withdrawal from the EU. Although UK GDP grew by 15.5% in Quarter 3, driven by the easing of restrictions in key areas such as construction, second waves of Covid cases have prompted more restrictive measures and further lockdowns in Europe and the UK and it is unlikely that this growth will continue into Quarter 4 as lockdown restrictions are reinstated and uncertainty surrounding the negotiations from the UK's withdrawal from the EU continue to hamper activity. Growth has already slowed to 1.1% in September 2020.
- 2.13 The Bank of England Monetary Policy Report for November 2020 indicates that the extended Coronavirus Job Retention Scheme and new Job Support Scheme are expected to significantly mitigate the impact of weaker economic activity on the labour market. The unemployment rate, however, is expected to peak at around 7.75% in Quarter 2 of 2021 while inflation is expected to remain at, or just above, 0.5% during most of the winter, before rising quite sharply towards the 2% target.



- 2.14 Headline details of the UK Chancellor's 2020 Comprehensive Spending Review include an announcement of an additional £2.4billion to the block grant for Scotland's devolved administration. It is understood this includes an additional £1.1billion core funding and £1.3billion relating to COVID-19. The distribution of this funding however, is a matter for the Scottish Government.

The Scottish Landscape

2.15 Similar to UK economic growth forecasts, the Scottish forecasts follow a similar pattern of uncertainty with the Scottish Government's State of the Economy report for September 2020 outlining a projected fall in Scottish economic output during 2020 of 9.8% and a peak unemployment rate by Quarter 4 of 2020 of around 8.2%. The report predicts an, at best, gradual recovery over the medium term with economic activity only returning to pre-crisis levels by the end of 2023. However, the report also highlights significant ongoing risks to this projected recovery arising from:

- The need to introduce further local or national restrictions in order to protect public health;
- Consumers becoming more risk adverse and cutting back spending; and
- A reduction in the level of business support schemes available.

2.16 Although the Scottish Government has not published a revised Medium Term Financial Strategy since before the impact of the Covid-19 pandemic, it is anticipated that the 2021/22 Local Government Finance Settlement will contain conditions and limitations to flexibilities similar to those in place for previous settlements. For example, the 2020/21 settlement contained the following requirements:

- 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 2019/20 recurring baseline position; and
- Council Tax increase not exceeding 3% in real terms, which equated to 4.84%.

2.17 The impact of conditions against such significant spend areas creates a “gearing” effect on savings delivery, impacting more severely on unprotected service areas.

2.18 COSLA continues to engage with the Scottish Government on the scope of future Local Government Finance Settlements with the broad strategy including:

- Recognition of the key role played by local authorities in responding to the ongoing crisis and the support required in relation to any ongoing legacy impact from the pandemic;
- Full discretion on local taxation with the removal of the limitations to Council Tax; and
- Protection of the core local government settlement, including the removal of ring fencing.

In addition, COSLA continues to clarify the scope and availability of the financial flexibilities being put in place to help Councils address the financial impacts of the pandemic, including:

- Dispensation to allow the use of capital receipts to finance Covid related revenue expenditure;

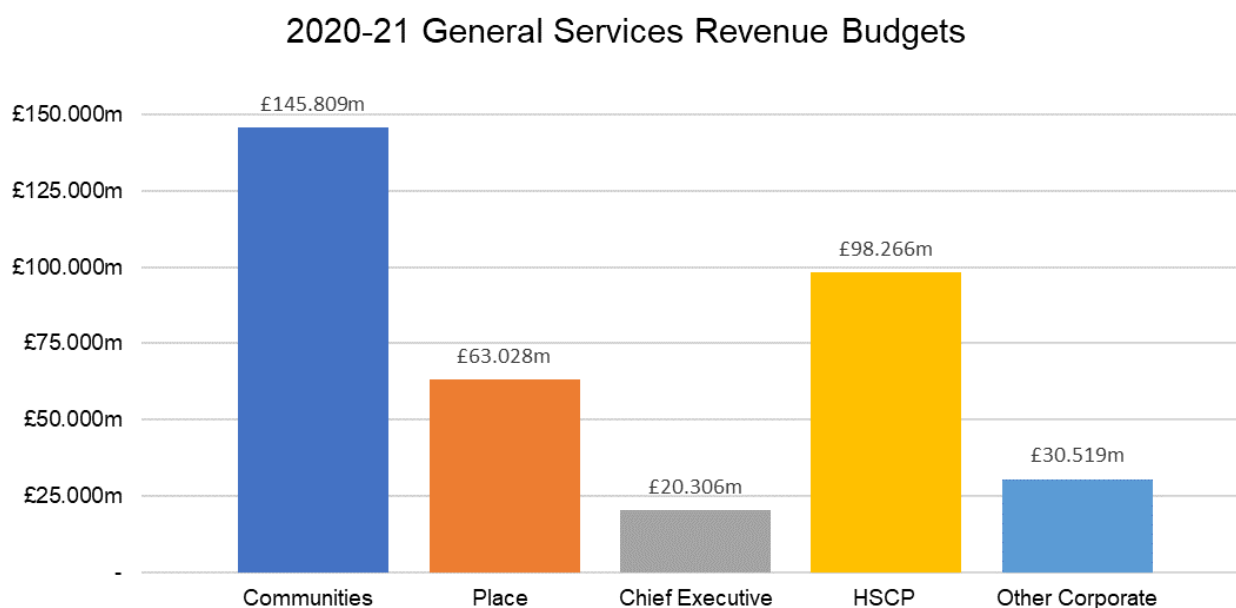
- Changes to statutory accounting arrangements to allow flexibility in the repayment of finance lease debt, including PPP/PFI arrangements; and
- A proposed one year deferral of Loans Fund principal repayments.

2.19 Following the UK Government's announcement that it will delay its autumn budget announcement until the new year, the Scottish Government has announced that details of its 2021/22 budget will be published 28 January 2021. The resulting dates for the full parliamentary timetable in relation to the Budget Bill are not known at this time. However, the timing of this process is likely to present Councils with challenges within the context of setting their own budgets, which must be completed before the statutory deadline for setting Council Tax of 11 March.

Financial Outlook for North Ayrshire Council

Allocation of Resources

2.20 The Chart below summarises the allocation of resources for 2020/21 approved at Council in March 2020, with 50% of relevant gross expenditure relating to employee costs;



Medium Term Financial Pressures

2.21 Following an assessment of the pressures and income levels anticipated over the next 3 years, as detailed in the Long Term Financial Outlook, further work has been completed in relation to the short and medium term impact of the anticipated demographic pressures. In addition, ongoing work on the review of the 10 year General Services Capital Programme is expected to identify opportunities to offset the medium term capital financing pressures from the utilisation of anticipated capital receipts and the available Capital Fund balance. This has resulted in a projected medium term funding gap of £40m over the next 3 years.

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

- Workforce costs including future pay settlements and adjustments for pension auto enrolment:

Staff Group	2021/22 Planning Assumption	2022/23 Planning Assumption	2023/34 Planning Assumption
Teachers	3%	3%	3%
Other Staff	3%	3%	3%

- Inflationary uplift for major commodities and contractual commitments only, with no provision for general inflation; and
- Significant socio economic and demographic pressures, including:
 - A growing older population;
 - Increased demand for adult services; and
 - Increased demand for support of vulnerable children and young people.

2.23 Single year settlements have been a feature of Scottish Government budget setting since 2015/16 creating a high level of uncertainty around future funding levels. 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.

2.24 Changes to core grant funding for North Ayrshire over the last 3 years have been seen annual reductions of -0.3%, -1.1% and -0.4%, respectively, with an average annual cash reduction of -0.6%. Based on this, a reduction of -1.0% has been built in for each year of the Medium Term Financial Outlook. This is consistent with the planning assumption of a number of other Scottish local authorities and assumes that the additional £95m allocated to local government during the first stage debate of the Budget Bill for the 2020/21 budget is recurring. North Ayrshire received an allocation of £2.516m from these additional funds during 2020/21.

2.25 Specific adjustments have been included in 2021/22 to reflect reducing loans fund support. However, this is the final year of these programmed reductions and small annual increases in this budget line are anticipated from 2022/23.

2.26 The model assumes a 3% annual increase to Council Tax, generating £5.6m over the next 3 years. This assumes that the flexibility to apply a real terms increase, equivalent to 4.84%, offered as part of the 2021/22 Local Government Finance Settlement is not available in future.

2.27 Since 2017/18 the Council has used over £16m 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.

2.28 A summary of the anticipated position of the Council over the next three years is provided in the table below. Further work continues to refine the underlying assumptions. Final savings proposals and the affordability of demographic pressures will be determined following the Local Government Financial Settlement.

	2021/22 £000's	2022/23 £000's	2023/24 £000's	Total £000's
Scottish Government Grant	5,828	2,277	2,728	10,833
Council Tax	-1,602	-2,079	-2,095	-5,776
Use of Reserves	436	112	-	548
Pressures (Excluding HSCP)	4,785	8,110	8,407	21,302
HSCP Pressures	4,231	4,235	4,337	12,803
Gross Funding Pressure	13,678	12,655	13,377	39,710

Sensitivity Analysis

2.29 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 £2.9m
- Council Tax Funding £0.6m
- Payroll incl. HSCP £2.4m

2.30 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.

Gross Funding Gap Scenarios (Based on Scottish Government Grant)	2021/22 £000's	2022/23 £000's	2023/24 £000's	Total £000's
Flat Cash	10,711	9,746	10,491	30,948
1% Reduction	13,678	12,655	13,377	39,710
2% Reduction	16,645	15,504	16,146	48,295
3% Reduction	19,611	18,294	18,801	56,706
4%Reduction	22,578	21,024	21,343	64,945

2.31 The medium term financial outlook assumes any new legislative requirements will be funded fully by the Scottish Government and makes no provision for new investment. Future local investment in new initiatives will increase the projected financial gap identified within the model.

2.32 The ongoing Covid-19 pandemic has resulted in significant costs to all local authorities during 2020/21. It is anticipated that most, if not all, of the current restrictions will have been withdrawn by the start of 2021/22. However, where any ongoing restrictions remain or where financial impacts continue to accrue, it is assumed that these will be supported by additional Scottish Government grant funding. Any unfunded financial impacts in relation to covid-19 during 2021/22 will increase the projected financial gap.

Reserves Strategy

- 2.33 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 2019/20 Annual accounts as £9.659m, equivalent to 2.7% 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 and it is anticipated that these will reduce significantly over the next few years.
- 2.34 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.
- 2.35 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)

- 2.36 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.
- 2.37 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 2020/21 budget the Council made a net contribution to the HSCP of £3.257m reflecting the requirements as set out in the 2020/21 local government finance settlement.
- 2.38 Despite investment by the Council in HSCP services over a number of years, including resources to support transformation, year-end overspends have resulted in a cumulative deficit position and debt to the Council of £5.293m at 31 March 2020. The Council as one of the funding partners is exposed to financial risk unless the HSCP delivers services in a financially sustainable way.
- 2.39 The proposed timetable for the Integrated Joint Board setting its Budget is set out below;
- Budget Outlook (November)
 - Savings Proposals (November / December)
 - Updated Budget Outlook (February 2021 following the settlement)
 - Medium Term Financial Plan (March 2021)

The Council's Approach

2.40 The reduction in resources noted above is happening at the same time as significant cost and demographic pressures. The scale of the financial challenge is within the context of the savings which have already been delivered between 2010/11 and 2020/21, £111m, equivalent to 24% of the gross revenue budget, creates a greater future challenge.

2.41 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 significant change and transformation, 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.

2.42 The Council's approach, as set out in the Long Term Financial Outlook, will be considered within the context of the Council Plan 2019-24, approved at Council on 26 June 2019. 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.

2.43 A key component of the Council's approach will be defined by the relationship between the Council and communities within the context of service delivery and available financial resources and how a collaborative approach can generate positive outcomes for the citizens of North Ayrshire.

What can you do for
your community



What can we deliver
together



What can we do for
you

- 2.44 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 pace and scale of change and transformation the Council requires to deliver.

Capital Investment Programme

- 2.45 A review of the 10 year General Services Capital Investment Programme 2021/22 to 2030/31 is currently underway and will be presented to Council in March 2021. This review is being carried in line with the Council's Capital Investment Strategy consider proposals for new investment projects as well as the phasing and refinement of current programme commitments. The cost impact of the pandemic will also be considered as part of this review, including an assessment of anticipated levels of construction sector inflation.
- 2.46 It is currently anticipated that the additional capital financing costs resulting from the revised Capital Investment Programme will be financed through the application of anticipated capital receipts and the utilisation of the current Capital Fund balance.
- 2.47 The anticipated revenue implications of the current Capital Investment Programme have been reflected in the Medium and Long Term Financial Outlooks noted above. However, any further additional 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

- 2.48 In advance of the presentation of the Medium and Long Term Financial Outlooks, briefings for elected members have been carried out.
- 2.49 Officers continue to progress the Budget programme and develop options to address the budget gap covering the period 2021/22 to 2023/24. Progress on this was shared with elected members on 10 December 2020.
- 2.50 Discussions continue with the Integrated Joint Board to support a partnership approach to development of the Health and Social Care Partnership's budget.
- 2.51 Community engagement sessions were held across each locality during November and early December. All feedback has been captured and will be considered through the Budget process.
- 2.52 It is anticipated that proposals for the Medium Term Financial Plan 2021/22 to 2023/24 will be presented to Council for consideration in March 2021.

3. Proposals

- 3.1 That Council considers the Long Term Financial Outlook 2021/22 to 2030/31 and the financial challenges identified in the Medium Term Financial Outlook 2021/22 to 2023/24, 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 2021/22 and beyond.

4. Implications/Socio-economic Duty

Financial

- 4.1 The anticipated funding gap over the period 2021/22 to 2023/24, based on current assumptions, is £40m. Council will require to set a balanced budget for 2021/22 and future years. The gross funding gap projected for 2021/22 is £13.7m

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 work force; 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 work force 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 significant 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 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 The £8.8m Investment Fund secured as part of the 2020/21 Budget will play a key role in delivering sustainable renewable energy investment. This will be reflected in the Capital Programme, with the revenue implications reflected in the Council's General Fund Revenue Budget.

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 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

2021/22 TO 2030/31

THE FINANCIAL OUTLOOK

Executive Summary

Councils are operating in an increasingly challenging environment with public sector funding continuing to reduce against a 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 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 £120m over the next ten years which the Council requires to address. £40m of this gap occurs over the next three years. This is based on best estimates with sensitivity analysis 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 outlook report shows that the Council is well placed to meet its liabilities with the cost of financing debt reducing over the ten year period and pension contributions 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 2019 – 2024 and the development of future Plans.

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 2024.

The Council Plan is supported by Directorate and Operational Plans and a variety of 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 continuing to reduce 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.

Our Priorities

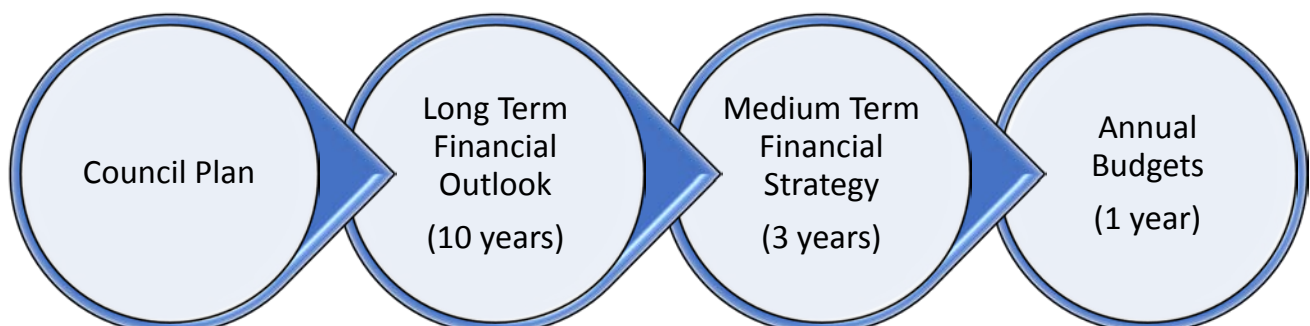
Aspiring
Communities

Inspiring
Place

A Council for
the Future.

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 £111m of savings since 2010/11. However, the delivery of this historic level of savings, in itself, results in a significantly greater future financial challenge.

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 2018-2028. This report covers the period 2021-2031.

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.



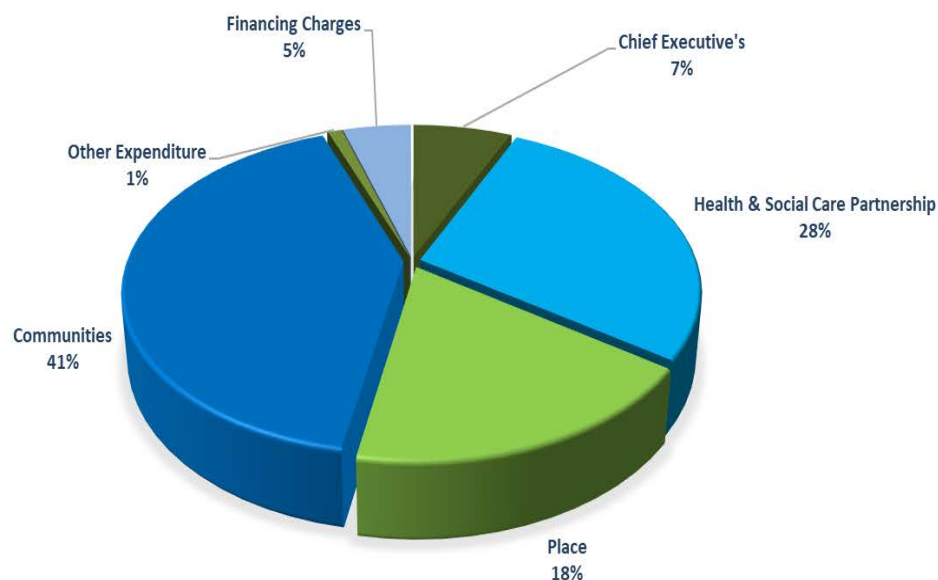
WHAT ARE THE LOCAL ISSUES?

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 135,000 people, or 64,100 households. North Ayrshire is a diverse part of Scotland, with island, coastal, rural areas comprising urban towns and villages.

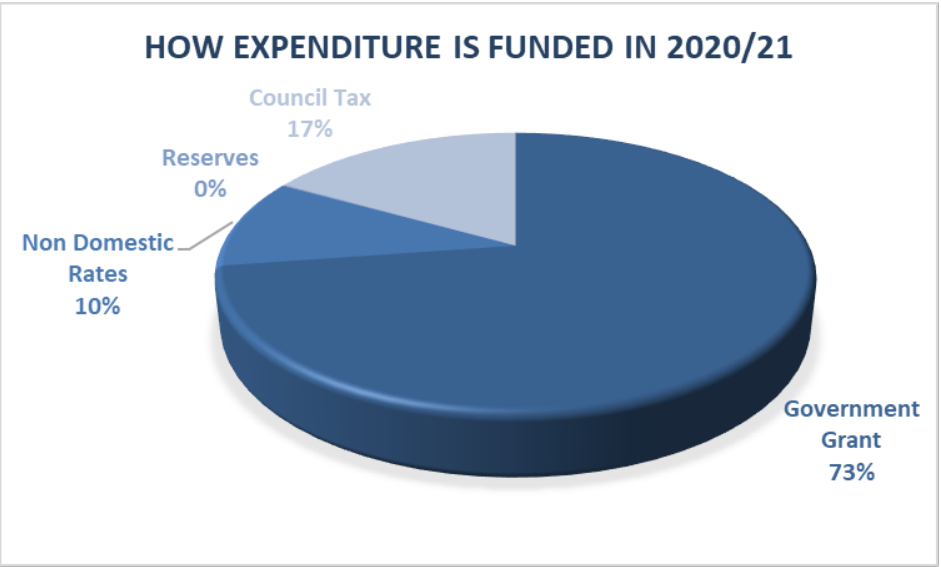
Whilst the area has many positive aspects, such as good transport links, affordable housing, parks and outdoor leisure space, development potential and a distinctive cultural heritage, many residents face disadvantage, with high levels of deprivation, unemployment, and ill health.

Our Budget

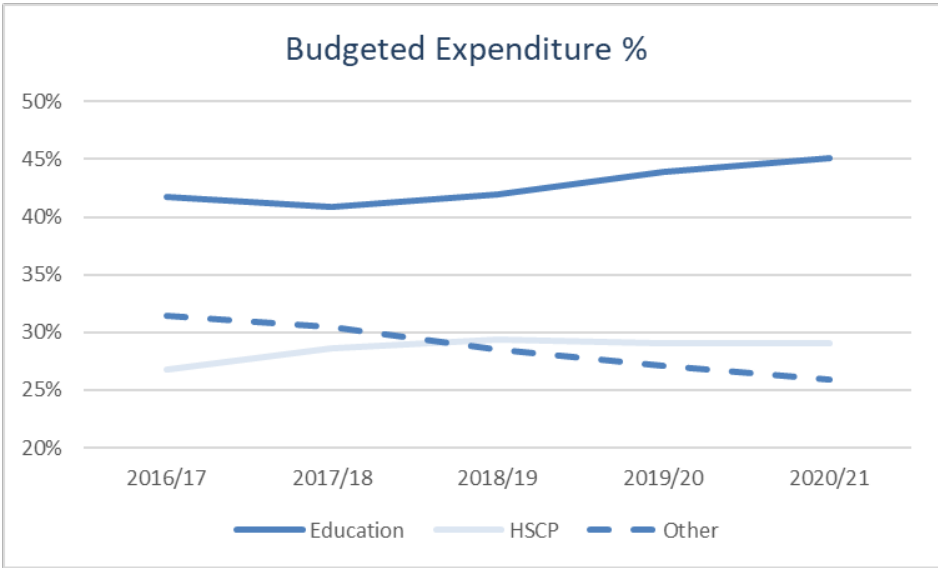
North Ayrshire Council delivers a range of services to its residents and in 2020-21 we budgeted to spend £358m on services.



This expenditure is mainly funded from government grant which has been reduced by 3.3% in real terms across Scotland since 2013/14¹. 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.

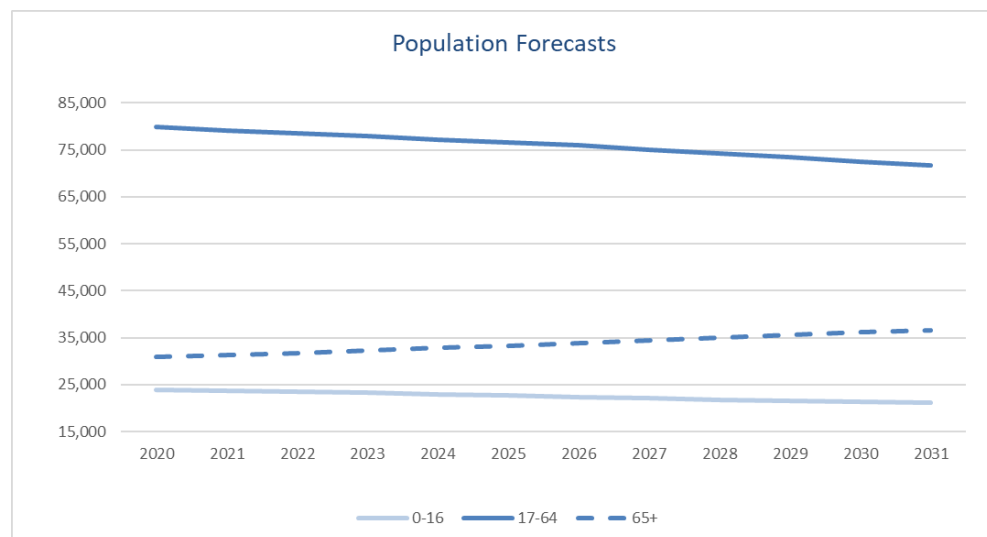


¹ Local government in Scotland, Overview 2020 – Accounts Commission, June 2020

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 9.6%² by 2039, of which a decrease of 3.9% 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 new 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.

The number of households in North Ayrshire is not projected to change in total terms during the period of this plan, despite an increase of 6%³ being projected across Scotland. Although the projection is static, the profile of households will 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.

Key Stats

Increase of 18.1% in population aged 65+ by 2031
(22.2% in Scotland)

Decrease of 10.2% in working age population
(2.1% in Scotland)

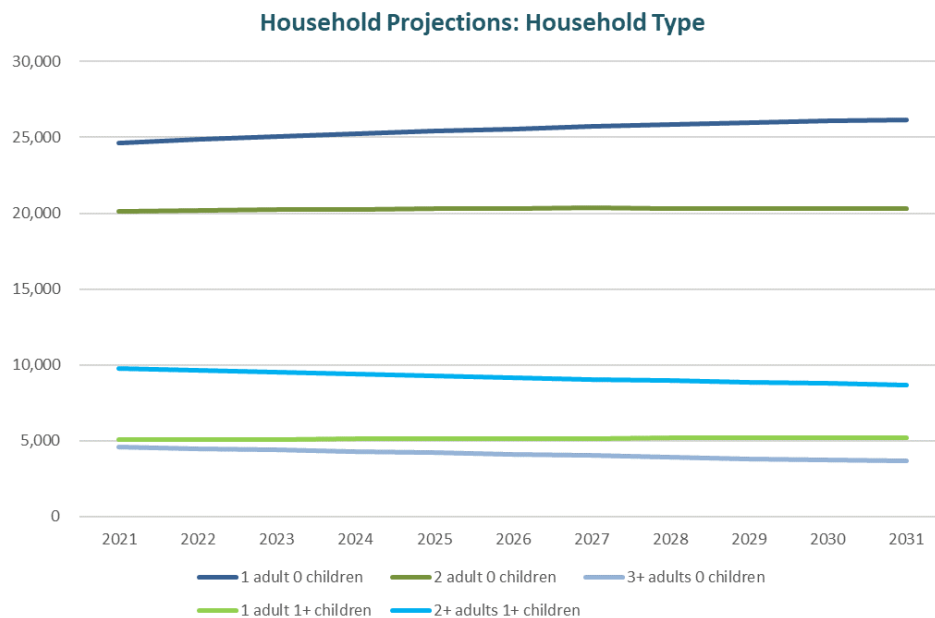
Decrease of 11.1% in the population of children
(7.3% in Scotland)

7% increase in single adult households
(12% in Scotland)

13% reduction in 2 adults and children households
(4% in Scotland)

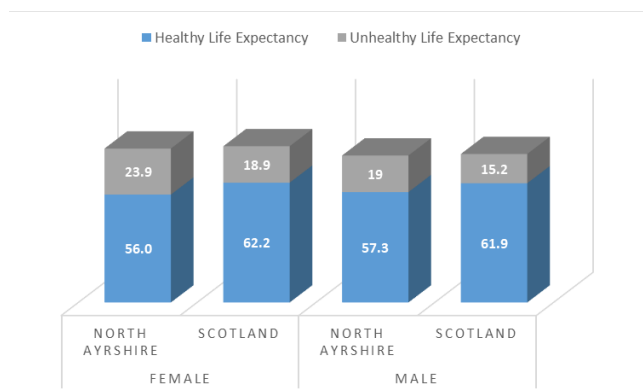
² National Records for Scotland, Population Projections 2018

³ National Records for Scotland, Household Projections 2016

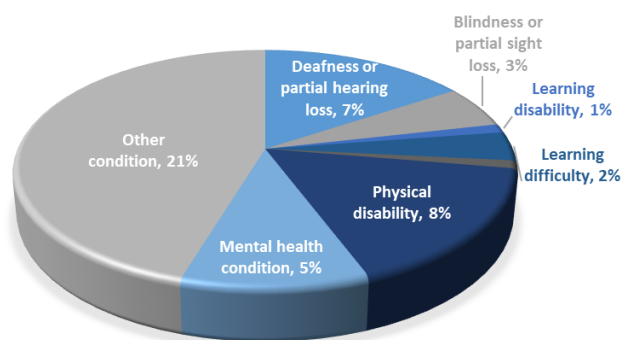


Health

Life expectancy⁴ 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.



CONDITIONS EXPERIENCED IN NORTH AYRSHIRE



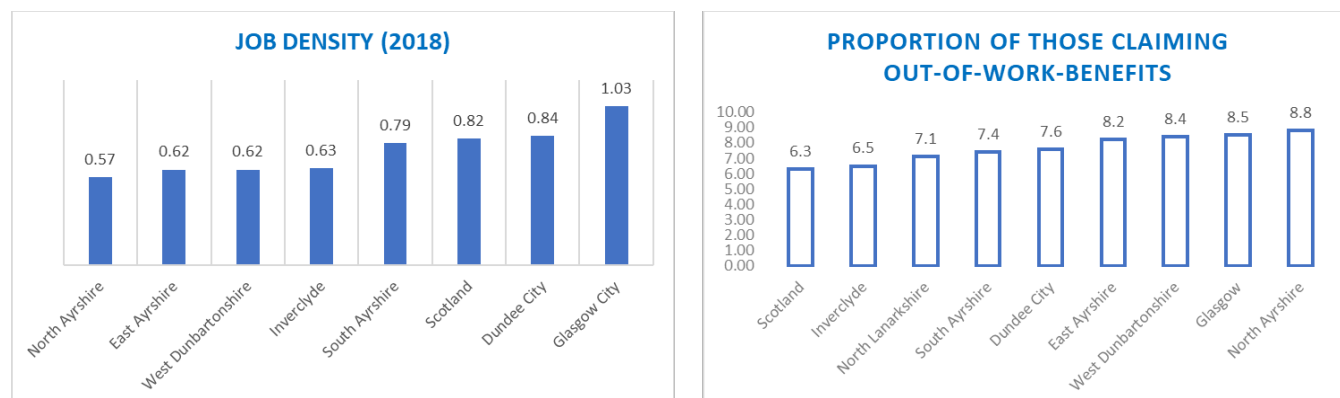
At present, 33%⁵ of North Ayrshire's residents are living with one or more long term health condition, which is higher than the Scottish average of 30%. North Ayrshire also shows higher number of residents with learning disabilities, physical disabilities and mental health conditions when compared with 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 2016-2018

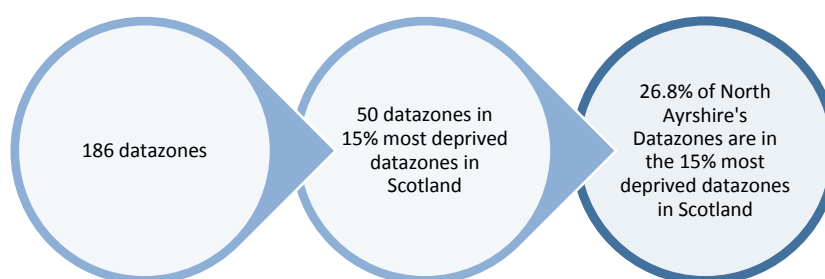
⁵ Scotland Census 2011 – People with Long Term Conditions

Employment and Deprivation

Employment opportunities within North Ayrshire are lower when compared to other areas within Scotland, resulting in approximately 15% 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 SIMD⁶, 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 world economy, key to UK and Scottish trade, has been significantly impacted by the Coronavirus pandemic with the International Monetary Fund (IMF)⁷ forecasting global growth at -4.4% in 2020. There have been signs of recovery as Countries exited their national lockdowns and the IMF is forecasting Global growth of 5.2 percent in 2021 and then gradual growth of 3.5% in the medium term.

However there remains significant risk and uncertainty in any forecast improvements. As countries begin to see a second phase of the virus and further national and local restrictions are imposed. Progress on vaccines and treatments will also have a significant impact on any economic recovery.

The UK Economic Outlook

Similar to the Global Economic position, the UK economy has been significantly impacted by the pandemic. The national lockdown in March, followed by local restrictions being imposed, has resulted in huge uncertainty for businesses and individuals. GDP has fallen and unemployment rates were 0.6% higher (4.5%) in October 2020⁸ than the year prior. This increase has likely been kept down as a result of the Government's Job Retention Scheme and there may yet be a significant increase when the scheme comes to an end in March 2021. Before the announcement of the extension of the scheme, from October to March, KPMG had forecast that unemployment could rise to 9% in the fourth quarter of 2020⁹.

Factors Affecting the Economy

EU Withdrawal

Government Policy Choices

Covid-19

Level of Domestic Demand

Impact of UK and Global Economic Performance

⁷ International Monetary Fund, World Economic Outlook October 2020.

⁸ Office for National Statistics, Employment in the UK: October 2020

⁹ KPMG UK Economic Outlook September 2020

The table below highlights Office of Budget Responsibility (OBR) / Scottish Government projections¹⁰ for a number of economic indicators and highlights the downward revision to UK GDP (Gross Domestic Product), which measures economic growth, between March 2019 and March 2020;

Table 1

	2018	2019	2020	2021	2022	2023	2024
UK GDP (March 2020) *	1.3	1.4	1.1	1.8	1.5	1.3	1.4
UK GDP (change since Mar 19) *		0.2	-0.3	0.2	-0.1	-0.3	0
Scottish GDP **		0.9	1	1.1	1.2	1.2	1.2
CPI *	2.5	1.8	1.4	1.8	2.1	2.1	2

Sources; * OBR Economic and Fiscal Outlook March 2020 ** Scottish Budget 2020-2021

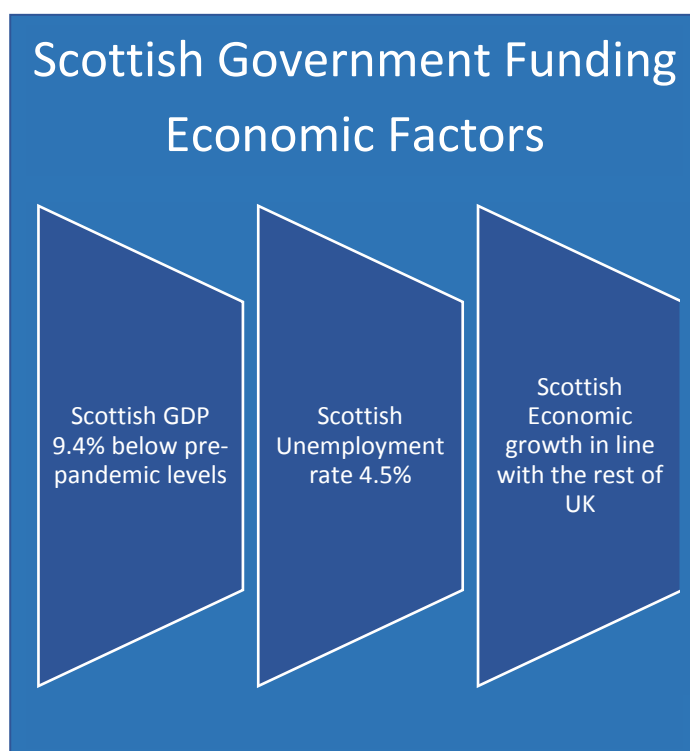
Inflation is currently well below the Bank of England's 2% target and as a result this will likely see the base interest remain at 0.1% for the foreseeable.

As well as managing the impact of the coronavirus pandemic, there is the added uncertainty in relation to the UK's withdrawal from the European Union. Trade talks continue as the transition deadline of 31st December approaches.

The Scottish Economic Outlook

As a result of the Coronavirus pandemic, the Scottish economy shrunk by nearly a fifth between April and June¹¹. The Scottish Government's monthly economic brief for October 2020 reports that GDP grew for the 4th consecutive month in August but the pace of growth has slowed down. The GDP remains 9.4% below its level in February, before the national lockdown.

The unemployment rate remained at 4.5% which is in line with the UK rate. However, a significant number of employees in Scotland are on 'Furlough' and it is therefore anticipated that the unemployment rate will increase when the Government's Job Retention Scheme ends in March 2021, potentially rising to 8.2%.



¹⁰ OBR Economic and Fiscal Outlook March 2020, Scottish Government, Scottish Budget 2020-2021 Report

¹¹ Fraser of Allander Institute, Economic Commentary Vol 44 No 3

The other major factor affecting future growth and the Scottish economy is the potential for a second independence referendum.

With the Scottish Parliament elections due in May 2021, the start of the year will see party manifesto's being launched and we will begin to get an indication of the priorities being targeted in the next parliament.

Scottish Government Funding

The Scottish Budget for 20/21 has changed substantially as the country responds to the Coronavirus pandemic and as a result a Summer Budget Revision was published in May 2020. The Summer budget revision detailed a net increase of £2.8bn in response to Covid-19.

The 21/22 budget will be the last one set by the current parliament and will see the political parties begin to launch their manifestos ahead of the elections in May 2021. The Fraser of Allander Institute (FAI) article. *The outlook for the Scottish budget in 2020 and beyond*, identifies the following key issues likely to feature in the manifestos for the next parliament:

- Pay and conditions among public sector key workers;
- Financial implications of a renewed emphasis on resilience rather than efficiency in health and social care;
- Actions to support economic recovery in relation to business support, skills and employability;
- Supporting the higher education sector in the face of major disruption to student numbers and revenue streams; and
- The role for local government in contributing to many of these challenges at a local level.

Other Factors

Pay and conditions of key workers

Potential reduction in Scottish block grant

Potential shortfall in devolved Scottish revenues

Potential increased pressure on benefits as unemployment rises

The North Ayrshire Economy

The North Ayrshire economy had taken significantly longer to recover from the 2008 financial crash than other areas in Scotland and the economy had still not returned to pre-2008 levels. Given this, we can anticipate that any future downturn as a result of the impact of COVID-19 will be felt more severely in an already fragile North Ayrshire economy. The Council's COVID-19 Financial Recovery plan 2020/21, reported to cabinet on 8 September, projected a net cost impact of £15.475m. It is too early to know the local impact of the decision to leave the EU for trade, investment, migration and access to European Structural Funds (ERDF and ESF).

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 highlight 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

1% reduction in
AEF from 2021-
22 to 2023-24

Impact of
demographic
changes to AEF

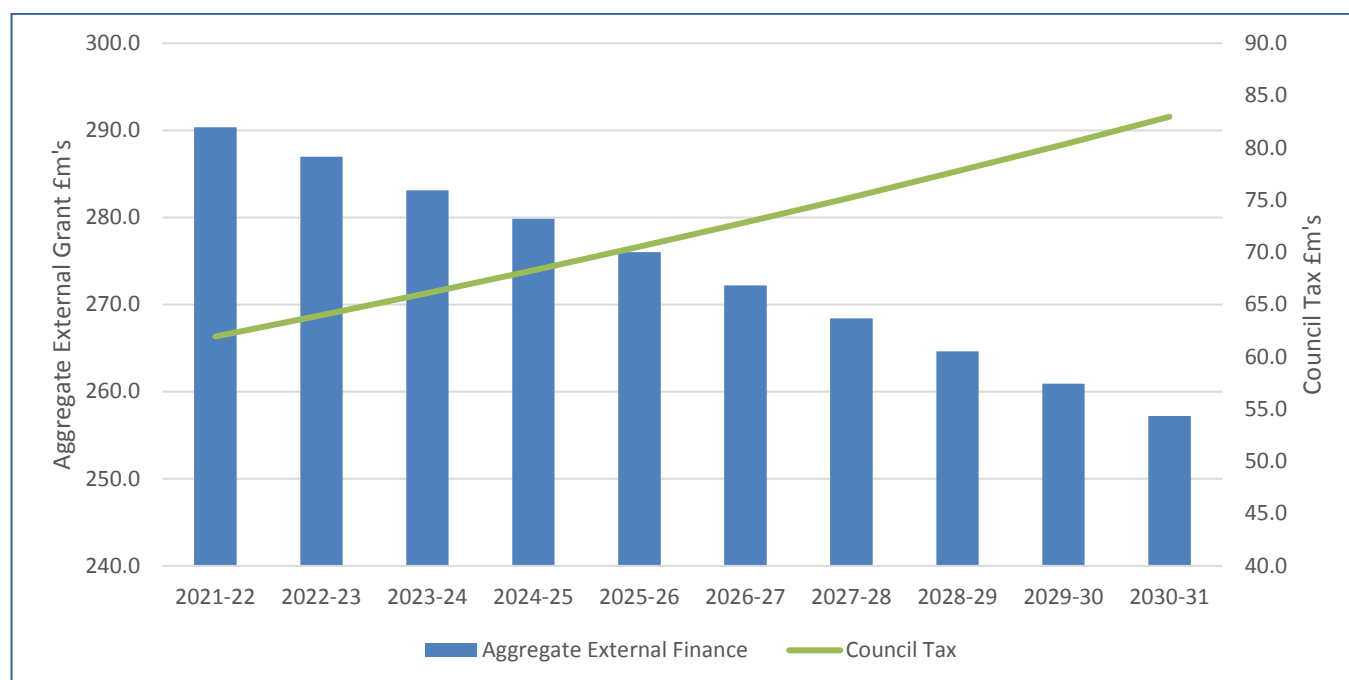
96.5%
collection rate
for Council Tax

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 over the next 10 years. In 2021-22 historic grant to support financing costs will also be removed from North Ayrshire and redistributed across Scotland, resulting in a net reduction of £3m. Beyond 2023-24 the plan assumes 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. It is assumed that Council Tax will be increased by 3% in each year of the plan.

Applying the assumptions outlined in this section of the plan results in an estimated reduction in AEF of £18m between 2020-22 and 2024-25, with an average reduction of £4m thereafter based on the assessed need of North Ayrshire in comparison to the rest of Scotland. This latter 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 £111m 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

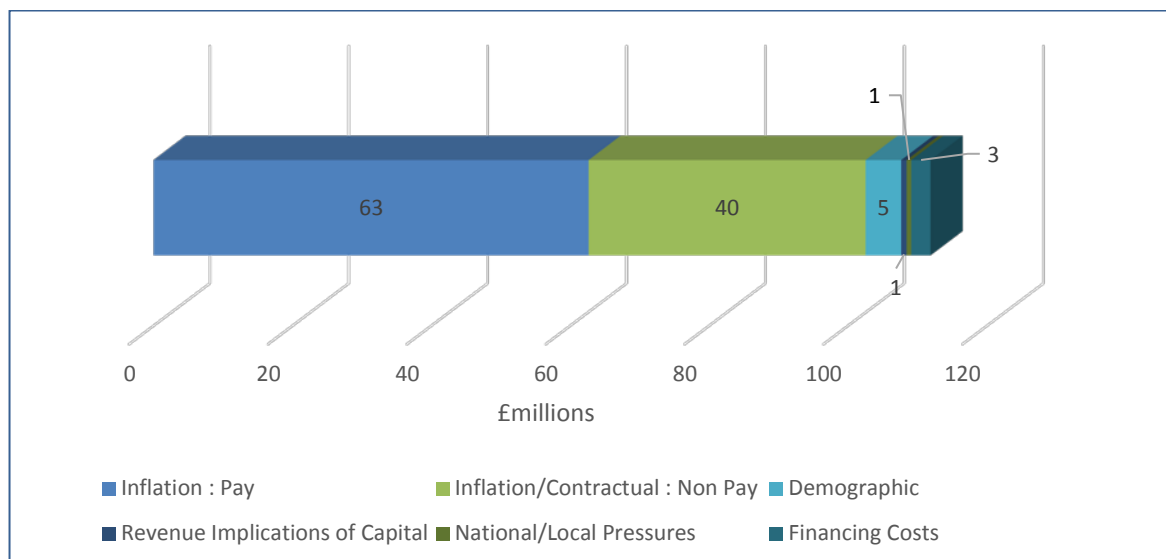
Key Assumptions

Long Term Payroll
Increases in line
with Inflation

Estimated pressure
resulting from
demographic
changes

Estimated
contractual
increases for PPP
and IT

Reduction in
financing cost
budget to reflect
reduction in AEF



(i) Inflation: Pay

Employee costs represent 68% of the Council's net budget excluding benefit payments. 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. Although there are triennial reviews of the pension schemes, there are currently no planned changes to contribution rates and the assumption is that this will be maintained during the lifetime of the plan.

(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: -

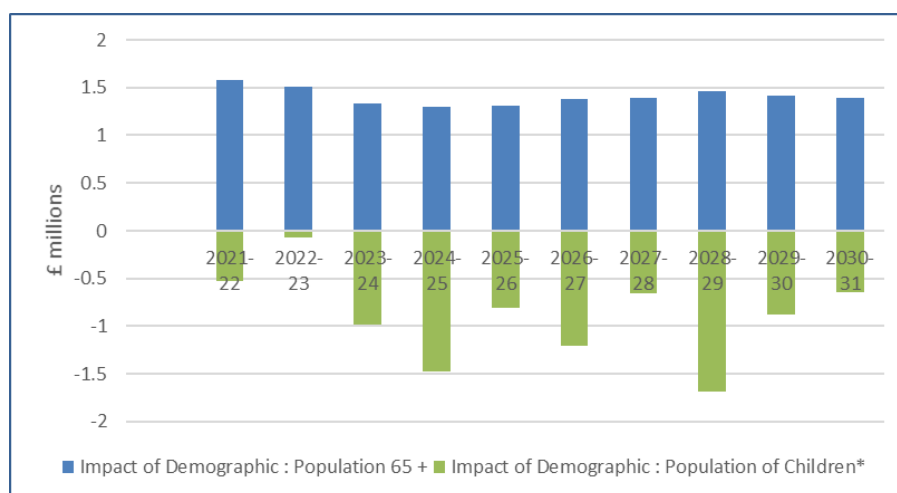
- Energy
- Fuel
- Non Domestic Rates
- Contracts with specific annual increases linked to inflation such as the National Care Home Contract and the PPP contract
- Contracts linked to IT where delivery models are expected to move to revenue

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; increase of 16.8% in the 65+ population and a decrease of 11.8% 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, 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 known 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.

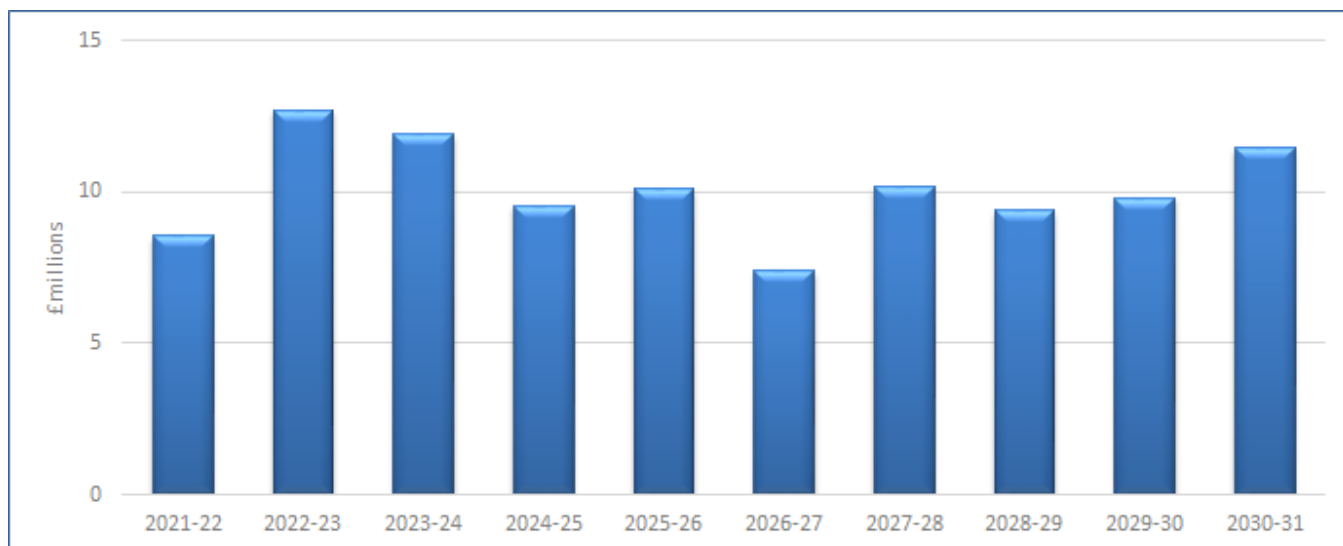
(v) National / Local Pressure

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 the Council's investment in community wealth building, as well as the planned reduction in the Benefit Admin Subsidy from the DWP.

(vi) Financing Costs

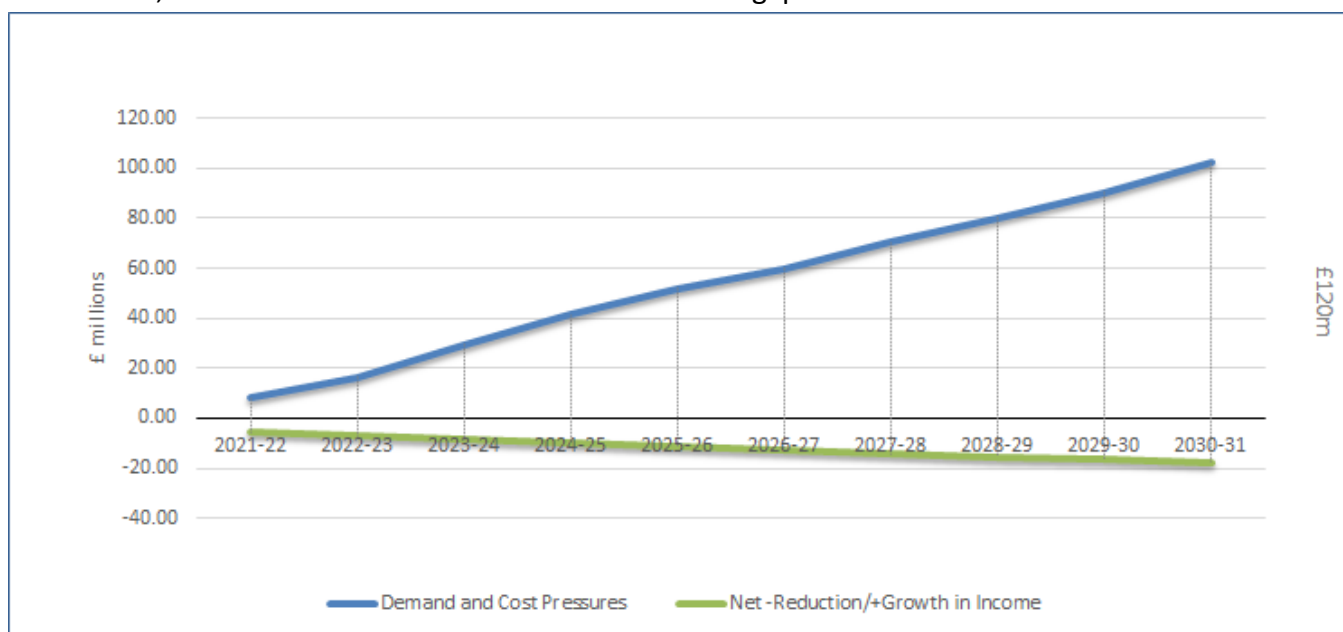
Part of the Council's AEF includes government grant support for financing costs linked to borrowing taken prior to the introduction of the Prudential Code in 2004. The government grant support for this borrowing is being removed over time as debt matures.

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 in 2022-23 and 2023-24 before settling to a more stable level moving forward.



Impact on Our Financial Position

The financial plan has identified a trend of reducing 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. Note. The other planning adjustments across years 2021-22 to 2023-24 represent a more detailed review of pressures, funding and use of reserves across these years which have been incorporated in the Budget Programme 2021-22 to 2023-24. A summary of the cumulative financial position is outlined below with more detail available in Appendix 1.

	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
	£millions	£millions	£millions	£millions	£millions	£millions	£millions	£millions	£millions	£millions
Total Income	-352	-351	-349	-348	-347	-345	-344	-342	-341	-340
Total Expenditure	371	387	400	410	421	429	439	449	459	471
Other Planning Adjustments	-5	-10	-11	-11	-11	-11	-11	-11	-11	-11
Funding Gap	14	26	40	51	63	73	84	95	107	120

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 2020 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.

What We Own



Property,
Plant and
Equipment
£1010m

Debtors
£44m

Inventories,
Investment
and Cash
£37m

What We Owe



Debt
including
PPP/PFI
£393m

Pension
Scheme
Liability
£122m

Creditors
and
Provisions
£68m

Net Assets - £508m Funded By



Usable Reserves
£53m

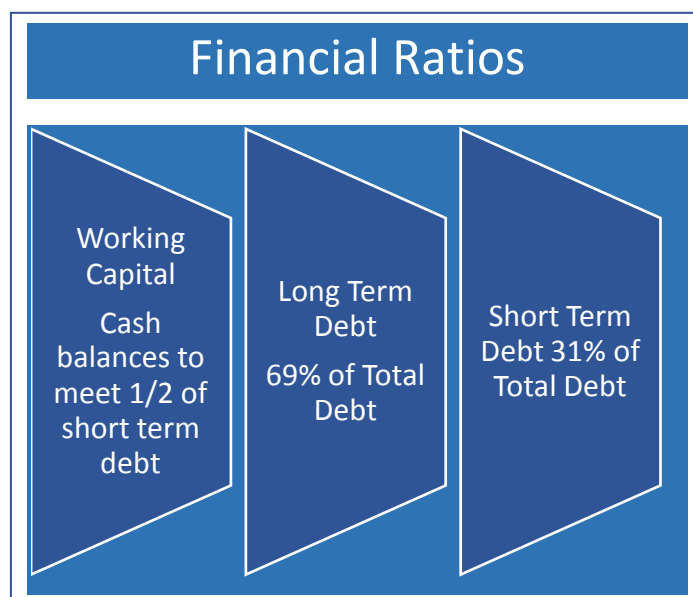
Unusable Reserves
£455m

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** (31% of total debt) and **long term debt** (69% of total debt) again to benefit from the low interest rates which are available in the current market.

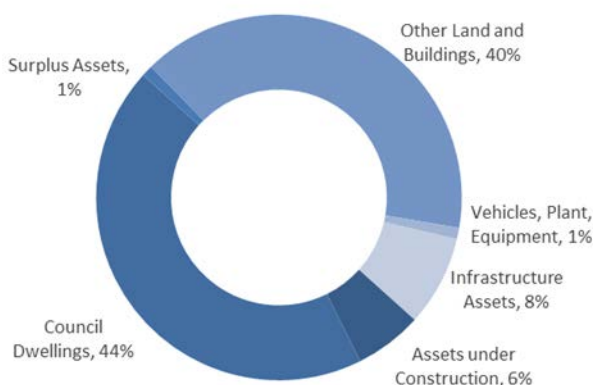


What Should We Focus On?

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 £1,008m on its balance sheet at 31 March 2020. 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.

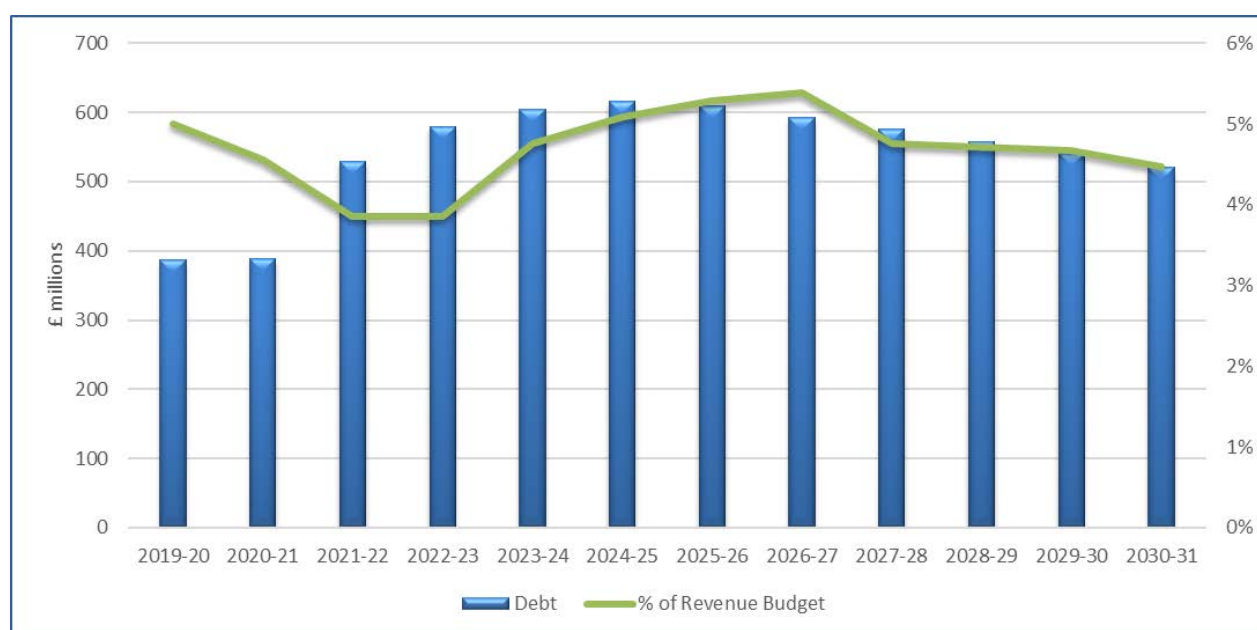
In support of this, the Council has a long term capital investment strategy which will result in £204m invested over the next seven years in our assets, excluding council dwellings. The Council does not have the funds to meet fully investment requirements and prioritises investment based on service demand 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 2020 the Council had outstanding debt of £386m. This represents 38% 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 £134m over the period.

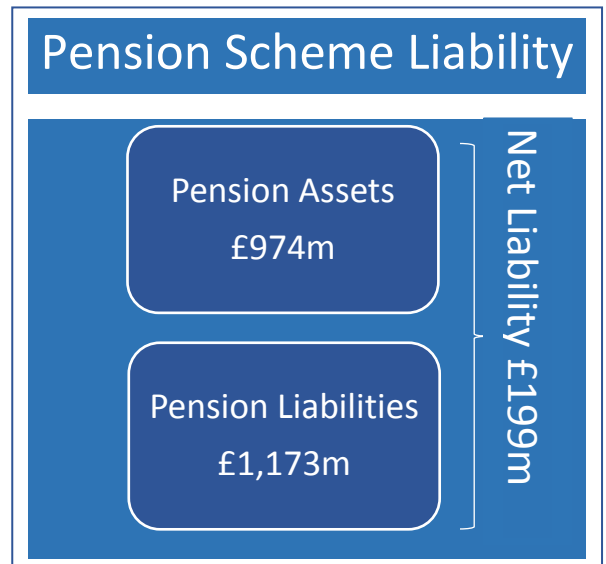
Not all of this borrowing is linked to our future investment plans, some of this is linked to projects already delivered. The Council will only borrow when it needs to and delays borrowing wherever possible to reduce the cost of financing to the Council. At 31st March 2020 the Council was under borrowed by £30m 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 £134m 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, and this graph shows that this cost is falling over the period of plan from 5% of our revenue budget in 2019-20 to 4% by 2030-31 and therefore does not place an additional burden on the Council's existing financial position.



(iii) Pension Scheme Liability

At 31 March 2020 the Council has a net pension liability of £199m which reflects the current and future liabilities 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 liability is a snapshot valuation by the Pension Fund actuaries at 31 March 2020 and reflects prevailing market conditions at that date.

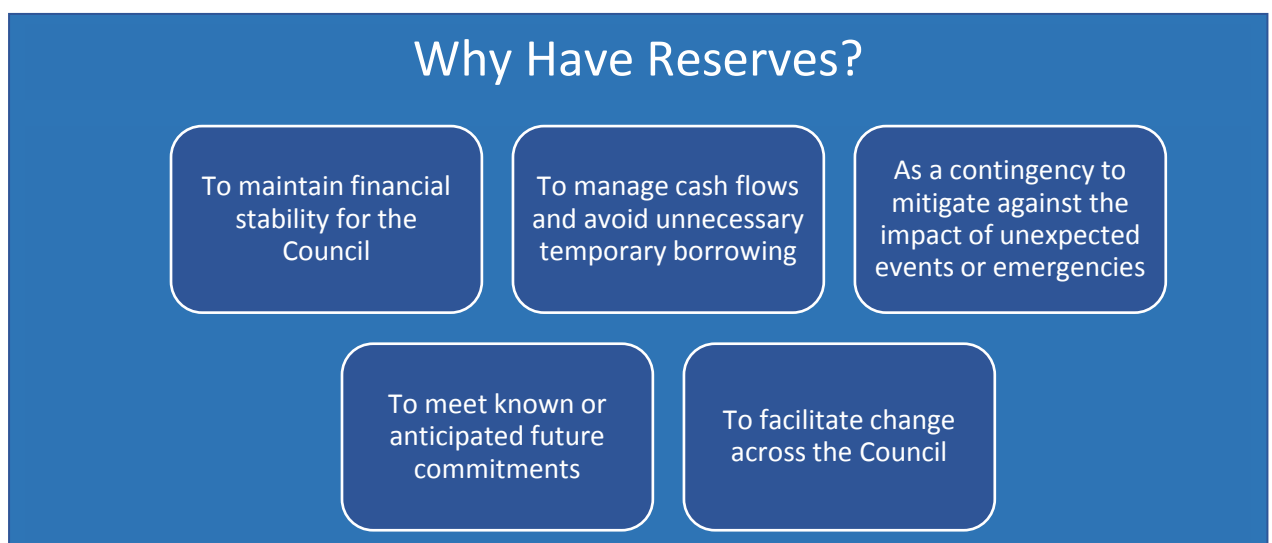
The ongoing risk to the Council is that if pension assets do not grow fast enough to cover pension liabilities, there will be pressure to increase employer pension contribution rates in order to meet the shortfall. The pension fund actuaries remain of the view that the asset holdings of the Strathclyde 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.

The long term financial plan assumes no increases to pension fund contributions. An increase of 1% would result in a further cost pressure of £2m per annum.

(iv) Reserves

The Council holds two main categories of reserves: -

- (i) Usable Reserves
- (ii) Unusable Reserves

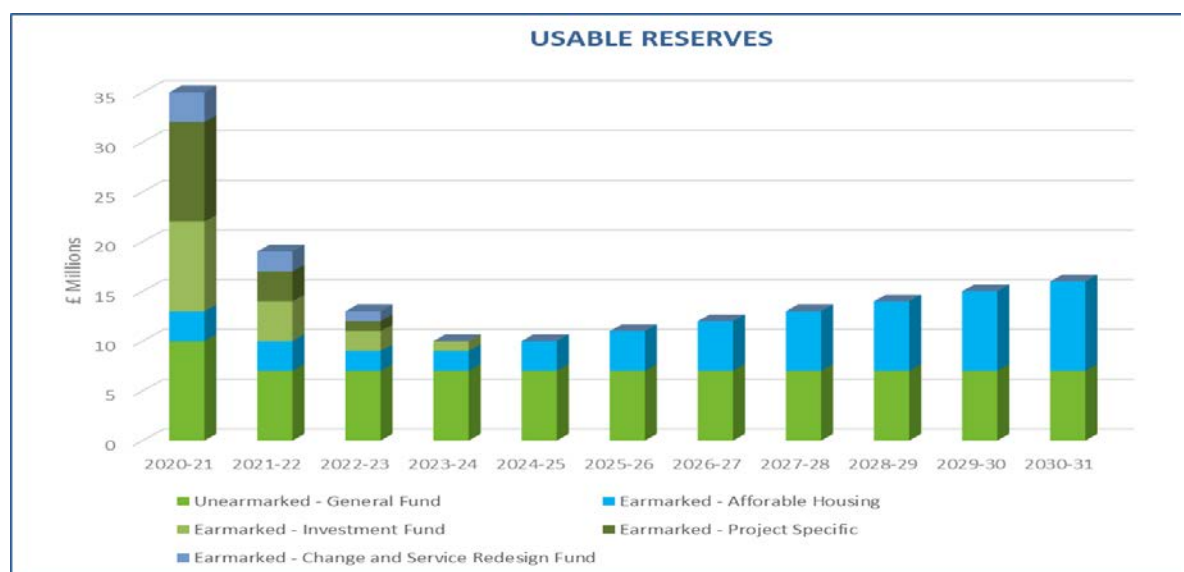


(i) Usable Reserves

Reserves are a key component of the Council's funding strategy. At 31 March 2020 the Council had £53m of usable reserves, of which £11m is earmarked to support the HRA, with a further £7m earmarked to support the Council's capital investment programme and future insurance liabilities. The balance of £35m is available to support the delivery of General Fund services including £25m earmarked to support the delivery of projects which span financial years, strategic investments and change programmes.

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 £9.7m, which represents 2.7% of current net General Fund expenditure. Best practice recommends unearmarked reserves of between 2% and 4%.

The graph below indicates how each of our reserves are planned to be used over the life of this plan. This plan confirms the use of reserves quickly at the start of the plan, reducing to a core level of £10m, with £3m each year earmarked and £7m as unearmarked over the remaining life of the plan. The unearmarked reserve still represents 2% by the end of the plan which is the minimum level set out in the Council's Reserve Policy.



(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 £111m in savings since 2010/11. 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 it is that 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 2019 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. Through this period it is recognised that, as part of the renewal programme, the priority of services will also be assessed against the value they deliver to the communities we serve.

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 £111m of savings since 2010-11. 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. This has been included as an area of further improvement following the recent Best Value Audit of the Council. 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 Transformation and renewal programme seeks to consider the lessons from the pandemic and find better ways of working and deliver sustainable savings to reduce the longer term financial challenge which the Council faces. A range of solutions will be considered.

This will include **redesigning** and **transforming** our services to better meet the needs of the community whilst also making them more cost effective. The Council will also consider working with other local authorities, partner bodies and the third and independent sector to **share services** or operate in a wider geographic area such as **regions** to secure efficiencies from working on a larger scale.



The Council will use its assets to secure efficiency in service delivery. 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 **maximise digital technology** to enable agile working, automation of processes and use of smarter technology to deliver services and improve how customers access services. The Council will also consider the use of its wider asset base including land and property assets and vehicles in support of service delivery and look to **rationalise the assets** held, bringing

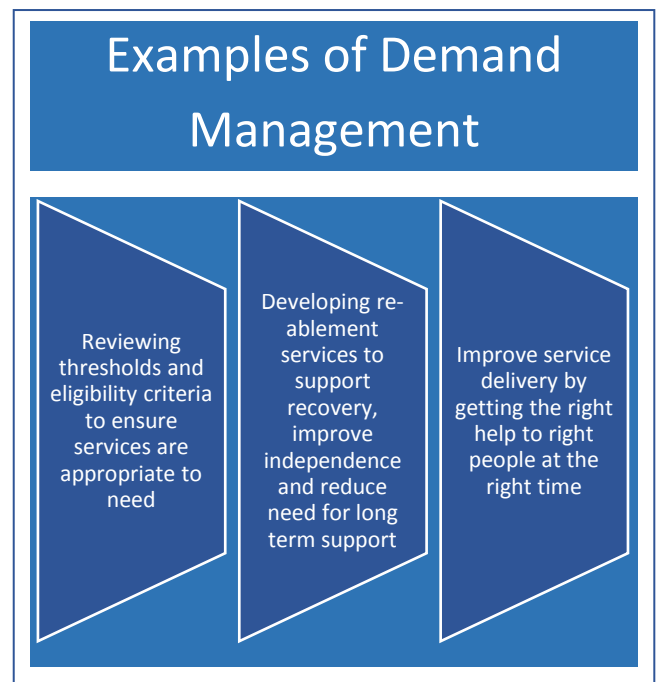
services together to support local communities and develop community wealth building through e.g. community asset transfers, whilst reducing the costs to the Council associated with its asset base.

Municipal entrepreneurship is the public sector response to taking a more business-like approach to service delivery which can support the delivery of high quality public services and can include a wide variety of solutions including increasing commercial viability of services, working with partners to deliver services through different operating models and securing additional income through innovative solutions.

(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 this 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. Last year through our community engagement we posed the undernoted questions: -



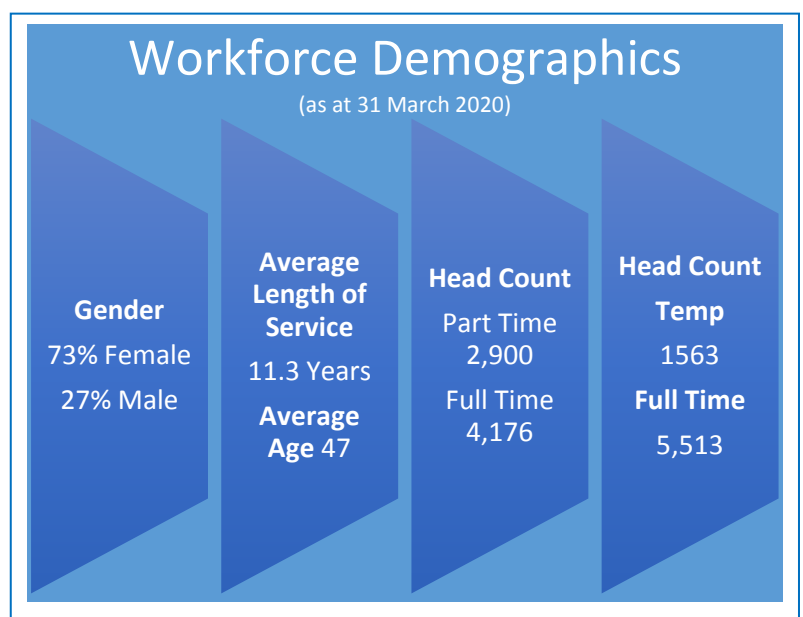
The locality place based model of collaborative working will be at the heart of how the Council, partner agencies and the 3rd sector work together in serving our communities.

Our Strategy – Impact on Our Workforce

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

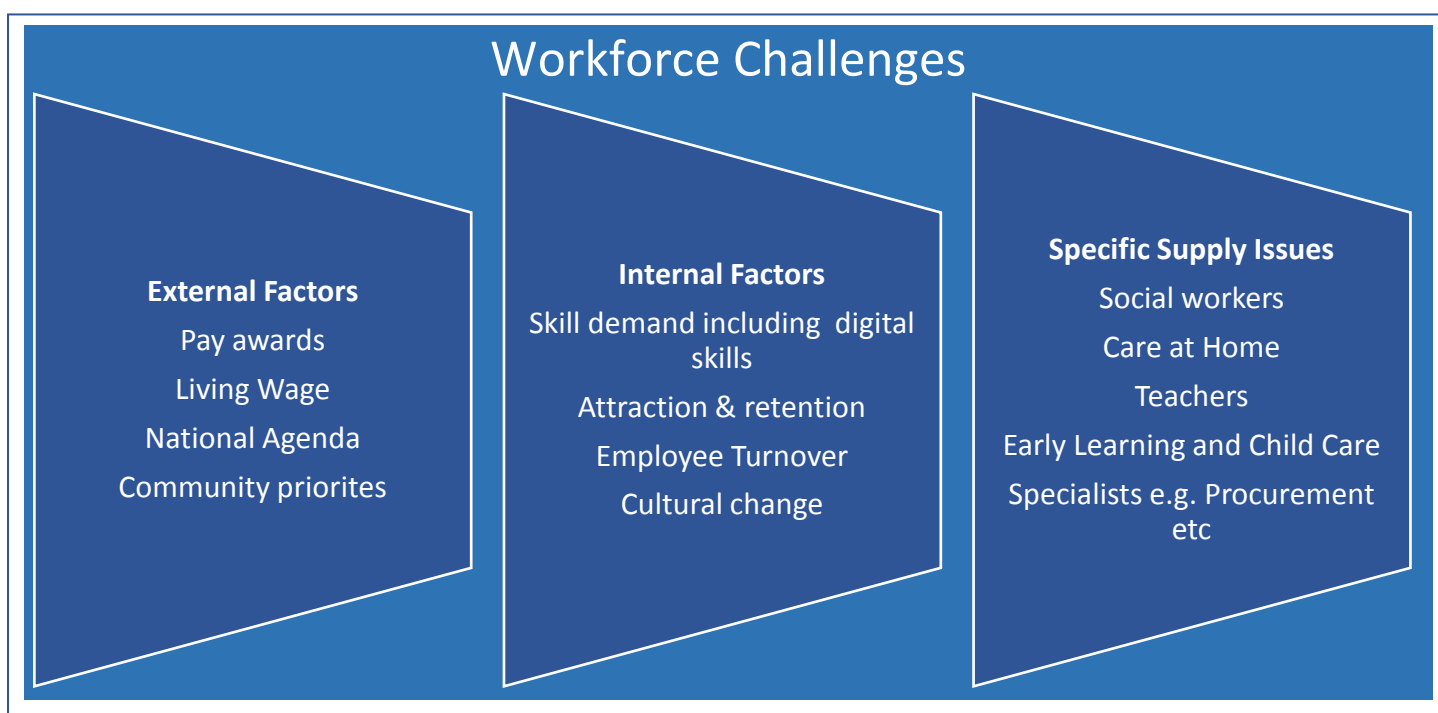
This successful period of organisational transformation has been achieved with a reducing workforce: since 2008, the workforce has reduced from 6,171 to 5,846.

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 2020, 43% 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 £40m. 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 68% of the Council's 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.

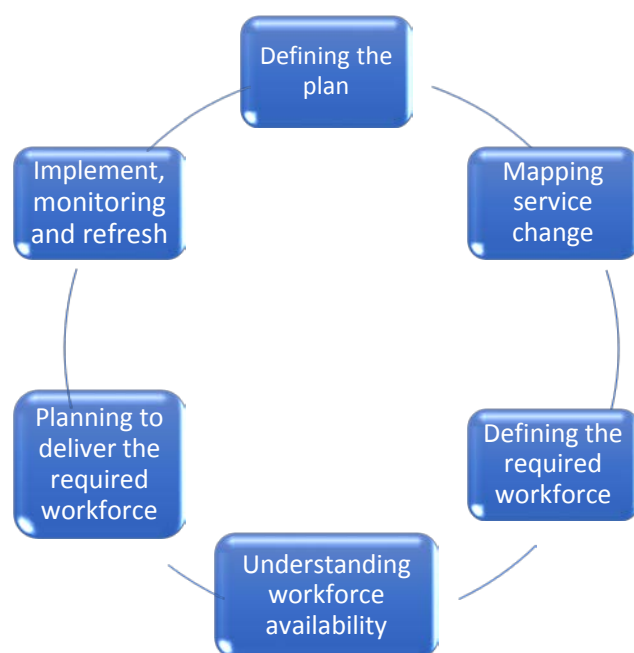


Six Step Methodology

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.

Risks

Impact of local and national factors over/under estimated

Over/under estimated cost and demand pressures

Failure to accurately forecast income sources

Failure to identify a future pressure such as change to a national policy

Impact of strategy on Partner Bodies and impact of their strategies on us

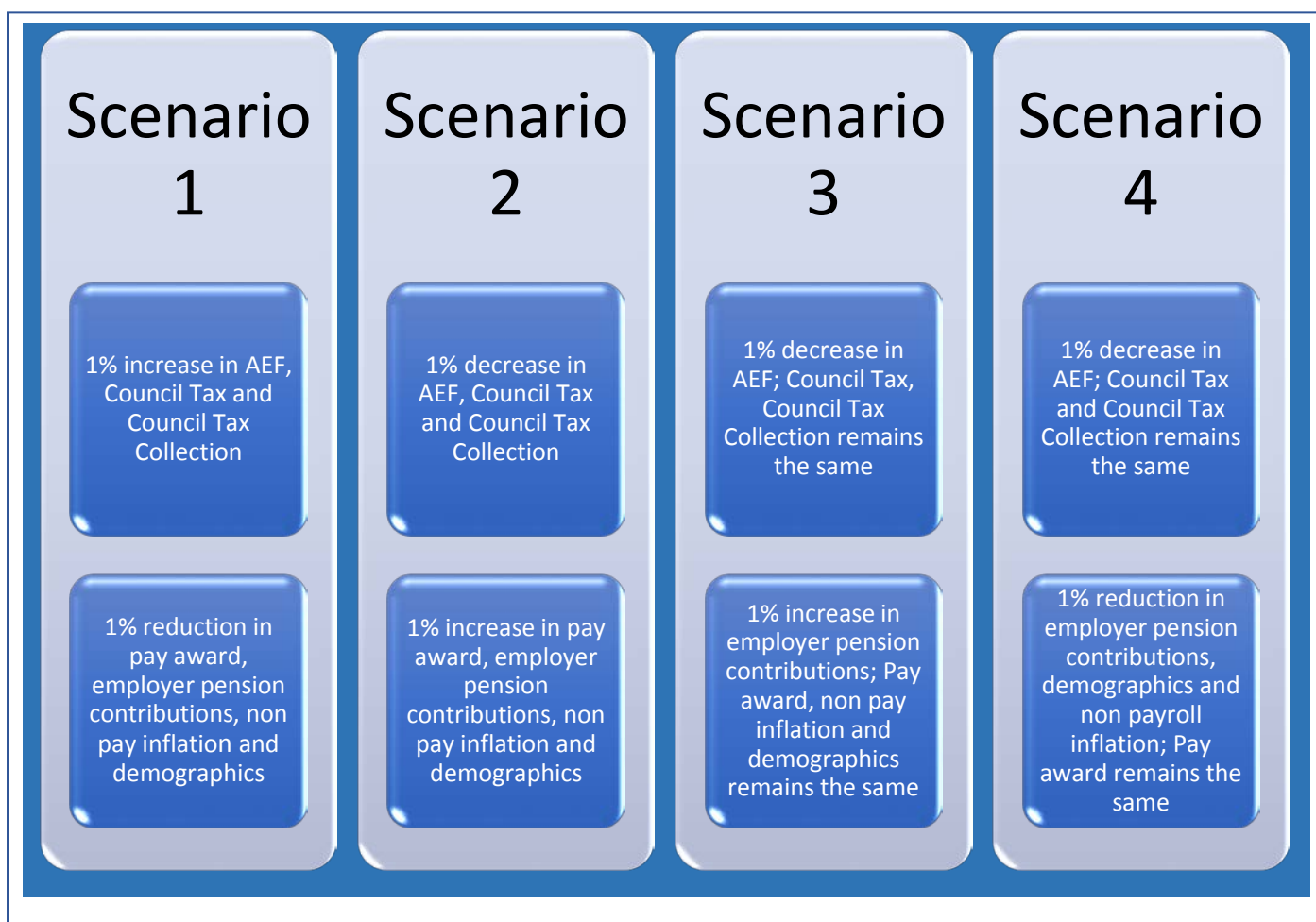
Public expectation about service delivery

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 £2.933m in 2021-22 and an increase of 1% in general inflation would increase costs by £1.732m.

Sensitivity Analysis	Change in Assumption	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
		£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's	£000's
AEF	Increase of 1%	-2933	-2899	-2860	-2827	-2788	-2749	-2711	-2673	-2635	-2598
Council Tax	Increase of 1%	-600	-620	-640	-661	-682	-706	-728	-752	-778	-803
Council Tax Collection Rate	Increase of 1%	-642	-663	-685	-708	-730	-755	-780	-805	-833	-860
Employee Costs - Pay Award	Increase of 1%	2559	2728	2807	2855	2909	2961	3019	3069	3127	3188
Employer pension contribution rates	Increase of 1%	1730	1795	1839	1861	1891	1916	1948	1971	2001	2034
Demographic	Increase of 1%	1049	1093	1130	1168	1206	1246	1287	1329	1371	0
General Non-Pay Inflation	Increase of 1%	1732	1782	1824	1869	1914	1961	2009	2058	2108	2158

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.

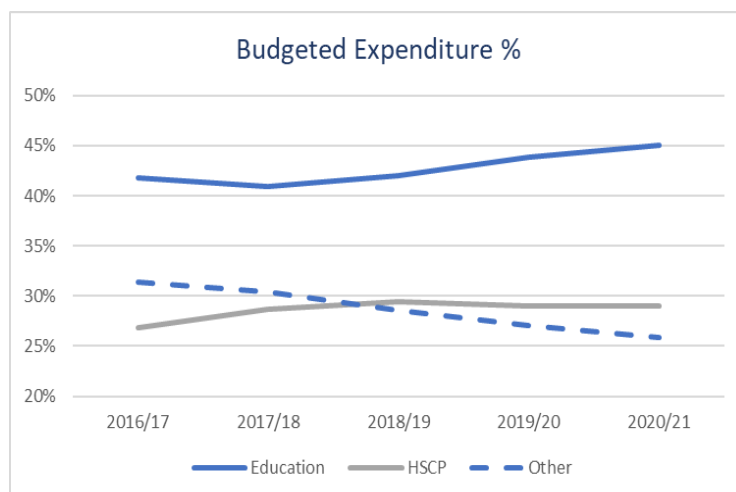
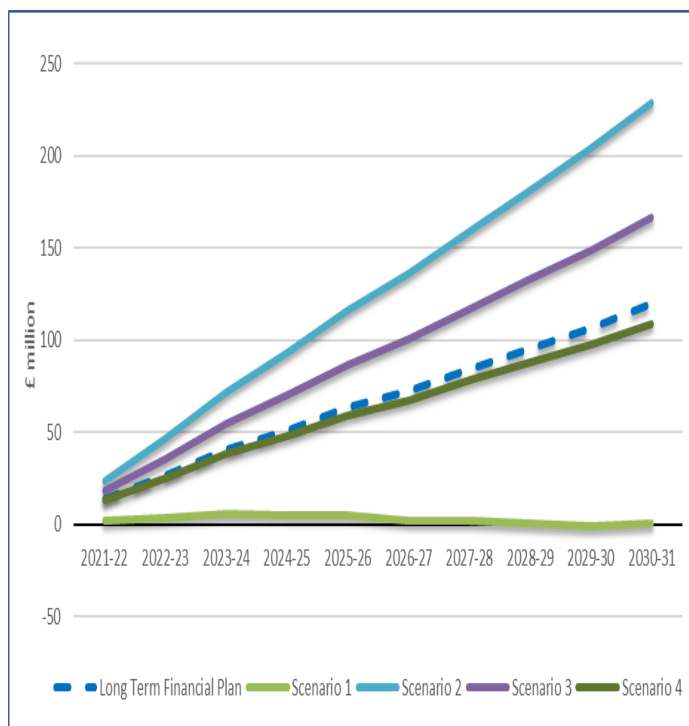
Scenario one forecasts based on all major assumptions improving with the Council receiving more income and cost increases reducing from the core assumptions. The impact of this would be to significantly reduce the funding gap from £120m over 10 years to £1m. The probability of this occurring is considered 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 £228m from £120m 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 £166m and under scenario four reduce to £109m.

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 £265m. 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.



WHAT DOES THE PLAN TELL US?

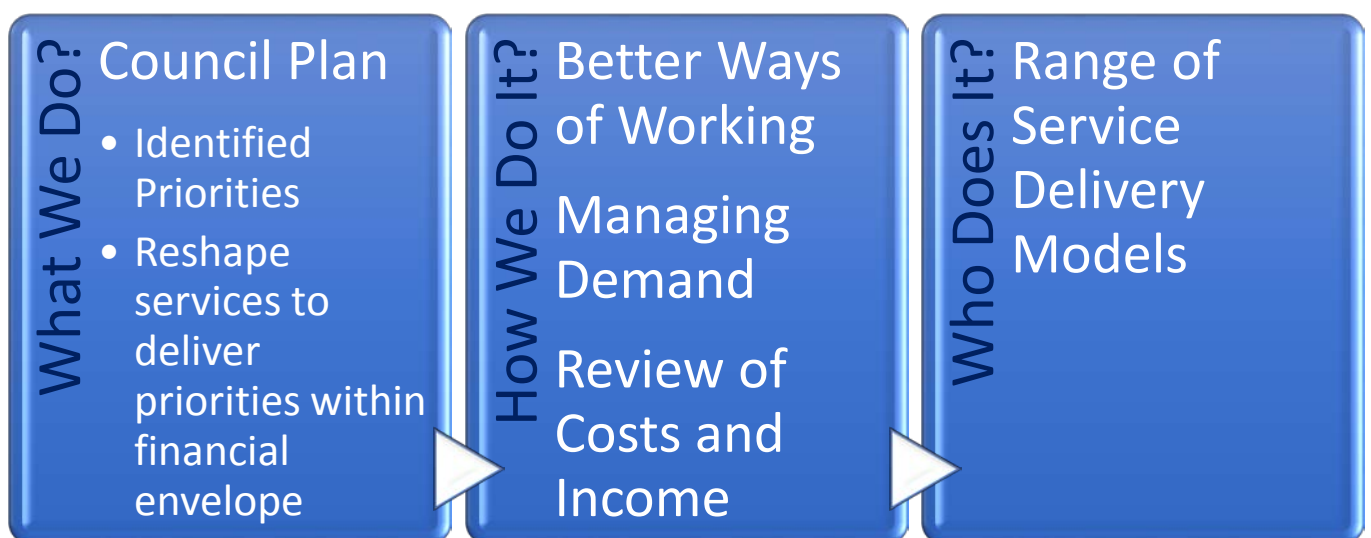
Conclusion

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 to 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 £120m over the next ten years which requires to be addressed by the Council. This is based on the best assumptions available and sensitivity analysis has 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

	2021-22	2022-23	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2029-30	2030-31
Income	£millions	£millions	£millions	£millions	£millions	£millions	£millions	£millions	£millions	£millions
Aggregate External Finance	-290	-287	-283	-280	-276	-272	-268	-265	-261	-257
Council Tax	-62	-64	-66	-68	-71	-73	-75	-78	-80	-83
Total Income	-352	-351	-349	-348	-347	-345	-344	-342	-341	-340
Expenditure										
Chief Executive	23	26	28	31	33	36	38	40	43	45
Communities	149	153	156	158	160	161	164	165	167	169
Health and Social Care Partnership	103	107	111	115	119	122	126	131	135	139
Place	65	67	70	72	73	75	78	80	82	84
Financing Charges	17	20	21	21	22	20	19	19	18	19
Other Expenditure	14	14	14	14	14	14	14	14	14	14
Total Expenditure	371	387	400	410	421	429	439	449	459	471
Other Planning Adjustments	-5	-10	-11	-11	-11	-11	-11	-11	-11	-11
Funding Gap	14	26	40	51	63	73	84	95	107	120