Making a Difference Every Day

Medium Term Financial Plan 2024-25 to 2028-29 (5 years)

November 2023

THE SOUTH AYRSHIRE WAY

RESPECTFUL • POSITIVE • SUPPORTIVE

South Ayrshire Council

Medium Term Financial Plan 2024-25 to 2028-29

Contents

1. Introduction

The purpose of the Medium-Term Financial Plan (MTFP) 2024-25 to 2028-29, is to provide a clear direction on how the Council will manage its financial resources in the medium term to ensure they are deployed effectively to achieve Council Priorities and outcomes and should be seen in the context of the Council Plan and various other strategies and plans in place across the Council. The MTFP plays a vital part of decision-making and forms the basis of the Council's stewardship over taxpayer's funds.

The Council Plan

The Council plan focuses on three Key Priorities and Outcomes within the context of Our Purpose, Vision and Values:

Our Purpose
To Serve South Ayrshire

Our Vision
To make a difference every day

Our Values
Respectful, Positive, Supportive, Proud and Ambitious

Priorities and Outcomes:

The Council's priorities and outcomes place an emphasis on the connection between our places and the wellbeing of our communities and environment. The place-based approach recognises that every area has a different blend of physical, social, and economic characteristics that influence each other and aims to address complex problems that no service alone can solve. The priorities provide a common framework, aimed at promoting a shared understanding that encourages services and partners to work collaboratively to achieve improved outcomes and wellbeing for our communities.

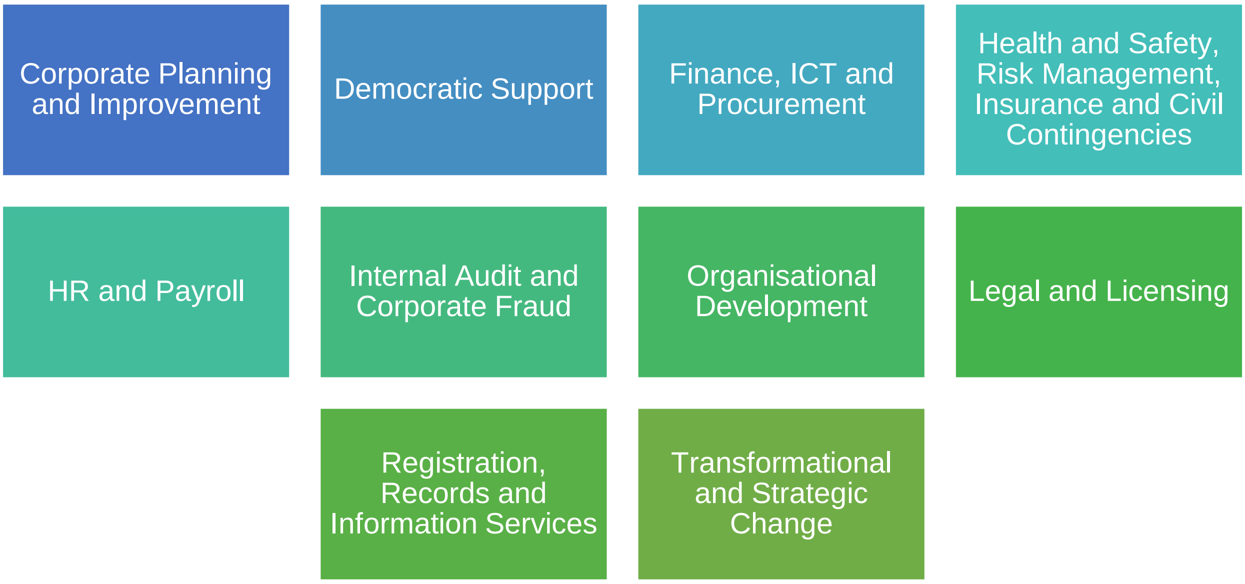
Priority One - Spaces and Places

Priority Two - Live, Work, Learn

Priority Three - Civic and Community Pride

Enabling Services

We would not be able to achieve successful outcomes for our communities without the support of our enabling services. While rarely involved in frontline service delivery, it is critical that these services continue to be run efficiently and effectively to allow our outcomes and priorities to be achieved. Our enabling services include:



Medium Term Financial Plan

Given the extent of financial challenges ahead, it is essential that the MTFP enables the Council to develop a better understanding of the wider policy and financial environment within which it operates and ensure that it can identify and respond flexibly to opportunities and threats and manage and mitigate risks whilst ensuring that financial resources are contributing to achieving Council priorities and outcomes. The principal objectives of the Financial Plan are to:

- Outline the Council's high level financial position over the years 2024-2029 based on a range of assumptions.
- Identify the key influential issues that have been considered in developing the plan.
- Ensure that limited available resources are focused on delivery of the Council's three priorities.
- Provide a financial planning platform for a sustainable revenue budget and capital investment programme which will support the Council's priorities.
- Ensure that the Council is fully aware of the financial challenges and uncertainties that it faces and is in the strongest possible position to deliver the best possible quality and range of services within available resources.
- Increase both organisational awareness and wider community understanding of the Council's financial position and the challenges it is facing over the medium term in balancing and delivering against its budget.

Financial Forecast risk

The plan is prepared at a point in time and relies on a series of assumptions and estimates. During 2022, the economy shifted dramatically from a period of relative stability, low inflation and interest rates to a period of extreme volatility, cost of living pressures and increasing interest rates. 2022 demonstrated how global events, such as the conflict in Ukraine, can have a massive impact at a local and individual level. At a UK level, the focus has been on reducing inflation, mainly through increases to the bank base rate. Whilst inflation is starting to slow, it remains well above the target level, with the Bank of England expecting a return to 2% inflation in early 2024. All of this demonstrates the uncertainty that remains within the global economy,

The assumptions on which the financial projections are built upon are the best estimate of the likely future movement in the financial environment. The actual outcome will no doubt differ from the various assumptions however they will continue to be kept under review and updated as appropriate.

2. Financial Outlook – Key factors and assumptions

There are several key factors affecting the financial position and financial sustainability of the Council over the medium term as shown in Fig 1 below.

Fig 1 – key contributing factors

Economic factors	National factors	Local factors

Economic factors

2020 to 2022 will undoubtedly be seen as the years when everything changed. An unprecedented government intervention in response to the Coronavirus pandemic brought about global changes in how we live our lives and the corresponding consequences on business and the economy. Following closely behind this saw the conflict in Ukraine impact significantly on inflationary pressures especially around electricity and gas prices, contributing to the ongoing cost of living crisis which is increasing the demand on council services.

The economic outlook is exceptionally challenging with UK government borrowing at its highest level since the mid-1940s. The rise in borrowing costs means that the cost of servicing the government debt is at its highest since the 1980s. In addition, the UK Government faces the same rising demand for services and associated costs, alongside pressures to tackle climate change. The combination of these pressures may have a negative impact on all public sector spending and in recent years, most of the pressure has fallen to "unprotected budgets" which includes local government.

In May 2023 the Scottish Government published its latest Medium Term Financial Strategy (MTFS) along with the Scottish Fiscal Commission's forecasts. The main points arising from the MTFS were:

Fig 2 – Scottish Government MTFS main points

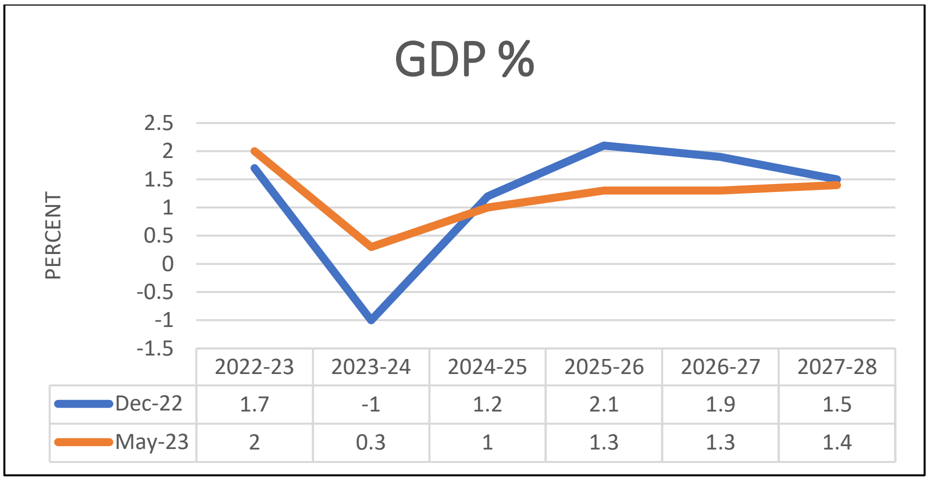
The Scottish Resource Budget is increasing up to 2027-28 in both cash and real terms	Spending is expected to outgrow funding leading to a growing Scottish Govt. funding gap	Capital budgets are expected to see a cash and real terms decline each year to 2027-28

The Scottish Government recognises that difficult spending decisions lie ahead. With a focus on tackling poverty, areas like childcare and social security are likely to be prioritised which could have a negative impact on 'unprotected' areas within local government. Further detail on the potential impact on Local Government funding is provided in the 'Other Factors' section below.

The Scottish Fiscal commission published their economic and fiscal forecast in May 2023 (updated June 23). The headline message from the forecast was that economic growth (measured by Gross Domestic Product) for 2023-24 is expected to be higher than forecast in December 2022 but thereafter growth will be slightly slower than previously predicted as highlighted in Fig 3 below.

Higher living costs affect everyone, but there are particular pressures on lower-income households, as they spend a larger share of income on essentials such as energy and food. Higher interest rates add to the costs of mortgages and other forms of debt for some households. However, Scotland has lower average house prices and lower average household debt as a share of income than the UK as a whole, so higher interest rates will tend to have a smaller effect in Scotland.

Fig 3 – GDP %



Economic (GDP) growth in the current financial year (2023-24) is higher, and +ve rather than -ve, than was forecast last December, but thereafter is a little slower than previously projected.

Source: The Scottish Fiscal commission – Scotland's Economic and Fiscal Forecasts – May 2023

Energy prices have fallen back more quickly than expected, leading to slightly lower expectations for inflation and interest rates in the near term. This contributes to the marginally improved forecast for short-run GDP. Living standards, however, are still likely to fall this year because the overall rate of inflation – now reflecting a broader range of price rises than just energy – will continue to outpace growth in nominal household disposable incomes. Latest CPI projections are shown on Fig 4 below.

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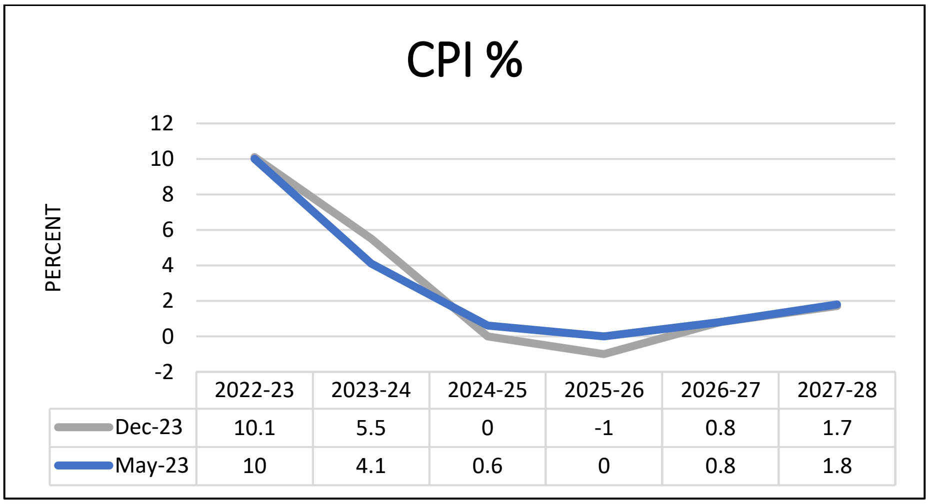
Fig 4 – CPI %



Annual Consumer Price Index (CPI) inflation has come down from its peak of around 11 per cent in 2022 Q4 and is still expected to drop sharply over the course of this year, broadly on track with predictions from December 2022.

Source: The Scottish Fiscal commission – Scotland's Economic and Fiscal Forecasts – May 2023

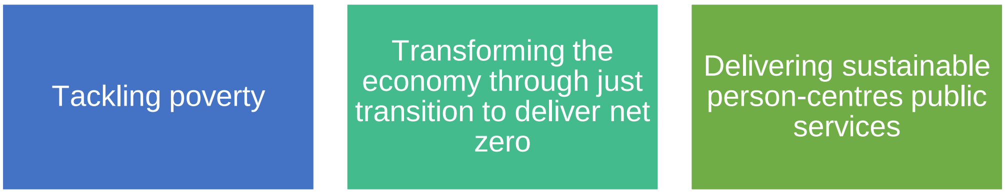
Economic Growth and tax receipts have a direct effect on the amount of funding that the Government has available to spend. The relatively low growth projected suggests challenging settlements for the public sector.

National Factors

The Verity House Agreement

The Scottish Government and CoSLA (Convention of Scottish Local Authorities) signed the Verity House Agreement on 30 June 2023. This Partnership Agreement is a high-level framework document that sets out a shared vision for a more collaborative approach to delivering shared priorities, with a focus on:

Fig 5 – shared priorities



The document emphasises the need for regular and meaningful engagement between local authorities and the Scottish Government and respect for each other's democratic mandate.

The agreement states that "powers and funding for Local Government will be reviewed regularly to ensure adequacy and alignment with effective delivery of outcomes". The agreement also states that "from this point onwards, the default position will be no ringfencing or direction of funding, unless there is a clear joint understanding for a rationale for such arrangements for example where quantum needs to be assessed over a transitional period to ensure the costs are accurately understood. Additionally, current funding lines and in-year transfers will be reviewed ahead of the draft 2024-25 Budget Bill, with a view to merging into General Revenue Grant funding (more details will be set out in the Fiscal Framework)".

It is anticipated that the Fiscal Framework will be available in late 2023, but it is not available at the time of writing.

Local Government Funding

The primary source of funding for the delivery of Council Services is the Scottish Government through the allocation of general revenue and capital grants, and the distribution of national non-domestic rates income. Fig 6 shows the breakdown of funding sources for South Ayrshire in 2023-24. Aggregate external finance (General Revenue Grant and Non-Domestic Rates income) accounted for 78% in 2023-24, leaving the balance funded from local Council Tax income and the utilisation of Council reserves.

Fig 6 – Council funding sources 2023-24

With over four fifths of the Council's net revenue funding being received in this way it is simple to see why UK and Scottish Government policies and economic forecasts impact on the level of Council funding.

The funding of Local Government in Scotland is one that is driven strongly by the impact of national policy and commitments. Ring-fencing (or Directed Funding), national policy initiatives and protections in education and health and social care continue to grow creating increasing protection. As a result, more and more must be delivered from an ever- decreasing portion of the budget.

The Scottish Governments Medium-Term Financial Strategy (MTFS) published in May 2023 demonstrates that the fiscal environment has become even more challenging than when the Resource Spending Review (RSR) was published (May 2022).

Key Assumption1: For planning purposes a flat cash approach has been assumed for Scottish Government grant funding for all years of the plan, plus or minus any confirmed or anticipated funding changes.

Directed Funding

As local authorities have faced a progressively challenging financial position, the nature of Scottish Government funding has come under increasing scrutiny. A key area of focus has been on ring-fenced or directed support, i.e., directed funding, where funding is provided for a specific purpose set out by the Scottish Government. There are conflicting views of the amount of funding that is directed, as illustrated in Audit Scotland's Local Government in Scotland Overview 2023:

Fig 7/

Fig 7 – Directed spending views

Scottish Governments View	• **Only the specific revenue grant is formally ring-fenced to fund identified policies. Other funding commitments are directed for national policy commitments but are not formally ringfenced.** • In 2021/22, the specific revenue grant was £776 million, representing seven per cent of total revenue funding for local government. This included funding for early learning and childcare expansion, Pupil Equity Fund and criminal justice social work.
COSLA's View	• **Includes the specific revenue grant plus obligations created by current and past Scottish Government policy initiatives and fixed obligations such as loan charges.** • In 2021/22, COSLA estimated that these represented 65 per cent of local government revenue funding. As part of their estimate COSLA include all school teaching staff costs (due to the national commitment to maintain teacher numbers), all adult social work costs devolved to IJBs alongside other policies such as universal Free School Meal provision for P1–5.
Accounts Commission's View	• **We include the specific revenue grant and funding outlined in local government finance circulars and Scottish Government budget documents as being directed for national policy initiatives.** • For 2021/22, we estimated that ring-fenced and directed funding totalled £2.7 billion, representing 23 per cent of total revenue funding for local government. A large amount of this was to support elements of education and social care service provision.

Source: Accounts Commission - Local Government in Scotland Overview 2023

CoSLA have been seeking changes to the Scottish Government approach to funding local authorities, noting that each year a higher proportion of funding is 'directed', reducing Local Government flexibility. It is anticipated that the Fiscal Framework will start to address this issue. However, it must be understood that where flexibility is granted, local authorities will still have to take difficult decisions to cease or reduce existing services which have, up till now, been funded through directed funding.

Scottish Government Consultation on Council Tax

The Scottish Government has undertaken a consultation on Council Tax changes. The consultation closed on 20 September 2023. The proposal under consultation would see those houses in bands E to H paying a higher level of Council Tax than is currently the case. The aim of this is to try and make Council Tax more progressive, i.e., taking a higher percentage of tax from people who have higher incomes. The proposals contained in the consultation have not been incorporated into the projections contained within this Medium-Term Financial Plan.

In addition to this consultation the First Minister, in his speech at the recent SNP Party conference in October 2023, announced a Council Tax freeze for 2024-25 with the aim of the intervention being to support all households in the face of the ongoing cost of living crisis. There was no prior engagement with COSLA before the announcement. COSLA has a well-established position on Council Tax; that it is a local tax and should be set locally.

Council tax was frozen between 2007-08 and 2016-17 and then again in 2021-22. Over this period, it is estimated that the successive years of freezes mean that the Council Tax base is significantly smaller (around £600m) across Scotland than it could have been, had the decision been left to Councils.

The gearing effect of the smaller tax base means that each subsequent increase in Council Tax raises less income than would have been the case without the freeze. A revenue substitute into General Revenue Grant at year one of a freeze still results in a long-term reduction.

Discussions held after the announcement between the Scottish Government and COSLA have confirmed that the intention of the Scottish Government is to fully fund the compensation that would be required to implement such a freeze and further that if Leaders agreed to the freeze, then a figure would be negotiated between COSLA and the Scottish Government.

Further details on the potential implications of this announcement at a local South Ayrshire Council level, is provided in the Local Factors Section on Council tax income below.

Public Sector Pay Settlements

Pay-related costs are a major component of the Council's overall expenditure and represents 49% of Council net spend each year. The Council's financial planning requires to take account of likely future pay settlements and other pay-related costs.

Pay increases for employees are negotiated at a national level. Public sector pay will be a significant risk going forward and, while inflation is expected to fall back to 2% over time, this will not mitigate the risk that now exists in local government.

Employees of South Ayrshire Council are members of the Strathclyde Pension Fund or the Scottish Public Pension Agency. Both pension schemes routinely review employer pension contributions. The most recent triennial review of the Strathclyde pension Fund has resulted in a significant planned reduction from the current contribution rate of 19.3% to 6.5% for both 2024-25 and 2025-26, followed by a subsequent increase up to 17.5% for 2026-27, with the assumption that this final 2026-27 rate will be maintained during the remaining lifetime of the strategy.

This temporary reduction in contribution rate is projected to result in significant savings for the Council in 2024-25 and 2025-26, however this will only be a temporary effect until the contribution rate reverts to more normal levels in 2026-27.

Key Assumption 2: For planning purposes, a rate of 3% over the lifetime of the plan has been assumed in relation to pay uplifts.

Key Assumption 3: For planning purposes estimated savings in pension contributions will be spread over a two-year period, 2024-25 and 2025-26, until the contribution rate reverts back to 17.5% in 2026-27.

Local Factors

Council Plan Priorities

It can be challenging to align funding and priorities during a period of financial constraint. Funding is targeted at core services, for example provision of schools, and essential works such as roads maintenance and a clear link to Council priorities is not always obvious. In addition, service savings must be identified, and no service area can be fully protected from budget reductions, making it sometimes difficult to demonstrate the link between decisions and priorities.

Future budget decisions require to balance the Council Plan priorities with the challenges around financial sustainability and the needs of the local communities.

Council Tax Income

This is the main fiscal lever that local authorities have, setting the Council Tax.

Councils have discretion to increase Council Tax levels however this has been capped or severely limited on a number of occasions through conditions contained in the annual local government settlement. The cap on Council Tax increases was introduced in 2017-18, following a nine-year Council Tax freeze, from 2008-09. The initial cap condition was absolute in cash terms at 3%. Councils were then given the flexibility to increase their Council Tax for 2019-20 and 2020-21 by 3% in real terms, which equated to increases of 4.79% and 4.84% respectively however this was followed with a further freeze on Council Tax increases in 2021-22, funded through additional Council Tax freeze funding. Council Tax levels were increased in 2022-23 by 2.9% and then by 5% in 2023-24.

As outlined in the National Section above, it is likely that the combination of the potential outcome of the recent Council Tax consultation and the recent Scottish Government announcement of a freeze on Council Tax increase for 2024-25, will inevitably impact on the potential income that can be raised through Council Tax sources.

For each 1% increase in Council Tax rates, the Council can raise approximately £0.680m in income. This ability to raise income through Council Tax is important as any increase is mainlined into the base income for the following year and has a compound effect on future years income levels. Various Council tax uplifts have been modelled in the Section 4 (budget Strategy) to demonstrate the impact that different decisions may have on Council finances.

Key Assumption 4: For planning purposes Council Tax rates will be uplifted by 5% for each year in the plan.

Inflationary/Contractual Pressures

Budgets have traditionally not been routinely increased to reflect inflationary pressure as pressure of this type remained at a relatively low risk levels, however recent national and international events, such as the war in Ukraine, gas and electricity price increases, the general cost of living crisis have all created an unprecedent level of uncertainty which has resulted in levels of inflation not seen for many decades.

Many of the Council's contracts, such as the Schools PPP contract, have direct links to inflation indices and will require to continue to be funded. However, the lack of certainty in future years forecasts, due to the recent economic uncertainty means that attempting to model inflation rates is challenging.

Inflation has in recent months begun to ease, with the Bank of England expecting a return to 2% inflation in early 2024 as demonstrated in Fig 4 CPI % in the Economic Outlook Section above.

The impact of inflation, particularly at such recent high levels, means that significant pressure is placed on service budgets as goods and services cost more and the purchasing power of existing budgets is diminished. Moreover, the need to provide inflationary uplifts for specific contracts, will inevitably lead to further budgetary pressures in 2024-25 and beyond.

Key Assumption 5: For planning purposes an estimate of inflationary uplift for 2024-25 has been calculated based on latest information, followed by inclusion of 75% of the 2024-25 uplift amount for the remained of the years of the plan. The reduced amount in later years of the plan is to account for the anticipated reducing inflationary pressure.

Revenue Implications of Capital Investment Decisions

The Council's Capital Investment Plan is considered by Council at the same time as both the revenue budget. This is to ensure there is a clear linkage between the longer-term capital investment decision making and the associated revenue impact for the Council; the resultant debt charges estimated for the period of the approved capital investment programme require to be incorporated into future financial considerations.

Consequently, when there is sustained pressure on the revenue budget this in turn causes pressure in capital finance and in the management of the capital programme and the debt and borrowing requirement that arises from it.

The current Capital Investment Programme was approved by Council in March 2023 with General Fund expenditure of around £447m planned from 2023-24 through to 2034-35 The programme contains a range of projects including new and refurbished schools, Information Technology expenditure, roads and infrastructure expenditure and planned expenditure as part of the Council's Ayrshire Growth deal agreement.

Given the scale of the financial challenges that lie ahead for the public sector it is prudent to review the overall quantum of the capital programme and the ability of the council to identify recurring debt charge budget increases.

The affordability of the capital programme will be assessed as part of the 2024-25 budget process and will inform the next iteration of the capital programme that will be presented to Members for consideration in March 2024.

Key Assumption 6: For planning purposes the latest 2024-25 Period 6 monitoring report projections in relation to debt charges has been extrapolated across the period of the plan.

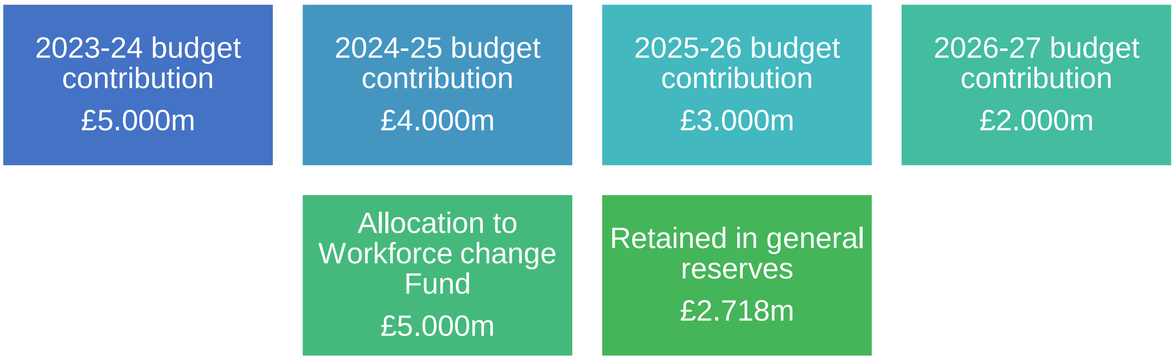
Service Concession Arrangements Flexibility

The Scottish Government's 2022 Resource Spending Review contained details of a Service Concession Arrangement flexibility that related to the Council's PPP schools.

The flexibility permitted councils to undertake internal accounting changes that extend the period over which the principal repayment of the unitary charge can be made which results in a one-off credit to the Council and ongoing annual savings for a period of time. In the remaining years following the end of the SCAs, the rescheduled debt repayments continue until the debt liability has been extinguished.

The Statutory Regulation was published and issued to councils in September 2023 and implementation of the flexibility was agreed in a report to Full Council December 2022. Council agreed that the one-off retrospective saving of £21.718m would be utilised as follows:

Fig 8 – Use of retrospective saving



Applying £14.000m of the retrospective saving to help balance the budget over the four-year period 2023-24 to 2026-27 provides the opportunity to buy some time for the Council during which the Council needs to refocus and redesign services to achieve permanent savings to reduce the overall revenue cost base of the council.

Furthermore, given the significant budget gaps projected it is inevitable that service reductions will be required in the short to medium term and, noting that 49% of Council annual spend is on employee costs, it is likely that less staff will be required to operate the reduced levels of service being provided. Therefore, a further £5.000m of the identified retrospective saving has been earmarked as a contribution to the Councils Workforce Change Fund with the purpose of providing funding to meet any severance and other employee-related costs arising from any service reduction measures undertaken.

> ***Key Assumption 7: For planning purposes the agreed use of the PPP retrospective savings will remain in place for the period of the plan.***

Health and Social Care Partnership (HSCP) contribution

The Integration Scheme sets out the Integrated Joint Board's (IJB) responsibility for financial planning and management of the HSCP's resources. The IJB operates its own Budget Working Group that considers information on anticipated pressures and proposed savings options to inform the allocation of resources delegated to the IJB. Many of the cost pressures experienced by the partnership are similar to those of the Council, such as contract inflation and pay inflation but with the added demographic pressure of an ageing population.

In 2023-24 the Council is contributing £96.3m for delegated services to the HSCP.

In recent years the local government financial settlement has included additional funding for social care with the caveat that the funding should be passported through to the partnership by Councils.

As noted in the Public Sector pay settlement section above, the HSCP will also benefit from the reduced pension contribution rate (down from 19.3% to 6.5%) for all council employees in the partnership, with the cost base for the partnership reducing accordingly. The Council can reduce its planned contribution by an appropriate amount in 2024-25 and 2025-26 with no detrimental effect on service provision. The Council's contribution will require to increase in 2026-27 when the pension contribution reverts to new 17.5% level.

Key Assumption 8: For planning purposes the Council's contribution to the HSCP will continue on a flat cash basis, subject to any Scottish Government directed spend, but will be reduced by an appropriate amount for 2024-25 and 2025-26 to compensate for reduced pension contribution rates. In 2026-27 the contribution will be increased accordingly when the pension rate increases to 17.5%.

Fees & Charges

The Council raises income by charging for some of the services it provides. There is a degree of flexibility for the Council as to what level many charges are set at. However, any increases in charges for services need to recognise the relationship between price and demand and the resultant impact on the local economy.

The net budget for 2023-24 included income from external fees and charges (excluding Social Care) of £13.9m. Some elements of this relate to charges that are set at a national level through statutory or regulatory measures such as Planning and Licensing fees however many of the remaining charges such as cremation fees, swimming charges, school meal charges etc are set at a local level by the Council.

The Council has traditionally included the requirement to increase locally set charges by at least the consumer price index rate each year. Recent evidence suggests that this approach is impacting on the demand for services in certain areas, therefore a more flexible approach is now suggested, where each Service determines the most appropriate change to pricing structures in order to maximise demand for its service provision. It is anticipated that specific budget recommendations will be brought forward as part of the budget setting process each year. The potential to raise additional income will come from increasing current charges or through the introduction of new charges.

Key Assumption 9: For planning purposes any increase income to be included in the budget through changes to pricing or the introduction of new charges will be included as part of the savings or efficiency measures rather than assuming a flat increase for all locally set charges.

3. Summary of five-year financial position

The previous MTFP approved in November 2022 highlighted that, for the three-year period, 2023-24 to 2026-27, a cumulative budget gap was estimated of between £28.7m for the best-case risk scenario, £37.8m for the mid-case risk scenario and £49.5m for the worst-case risk scenario.

This new MTFP has been extended to cover a five-year period and, based on the 9 Key Assumptions contained in Section 2 which are collectively detailed in appendix 1, the budget gap forecast for the five-year period, 2024-25 to 2028-29, is shown below:

Figure 9 – Five-year budget gap (scenario based)

	2024-25 £m	2025-26 £m	2026-27 £m	2027-28 £m	2028-29 £m	Total gap £m
Income (based on 5% CT increase each year)	344.3	347.0	350.0	352.2	356.7	
Expenditure	347.8	351.2	371.0	361.9	364.2	
Budget gap	**3.5**	**4.2**	**21.0**	**9.7**	**7.5**	**45.9**

The budget gap is the difference between the anticipated income and expenditure of the Council. Further detail on the factors that make up the projected Income and expenditure can be found in Appendix 2.

The relatively small budget gaps in the first two years of the plan (compared to later years) are predominantly based on the fact that the pension contribution rate for the Strathclyde Pension Scheme, is being reduced significantly from 19.3% to 6.5% in 2024-25, however as previously explained, this reduction is only temporary for a two-year period, thereafter the rate will increase to 17.5%, significantly increasing costs in year three, resulting in a much larger budget gap than in the two preceding years.

Given the significant requirement for savings over the next five years it is essential that a budget strategy is agreed that recognises the fluctuating levels of the projected budget gaps and establishes appropriate plans and associated actions needed to meet the required savings targets.

4. Budget Strategy 2024-25 to 2028-29

The scale of uncertainty and the need for significant savings means that the Council will require to address the situation and consider options for budget savings over the short, medium, and long-term timescale if a balanced budget is to be maintained.

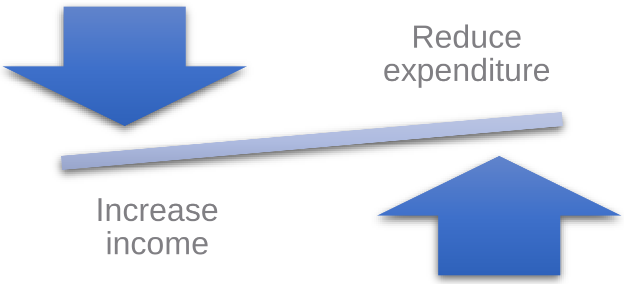
Should nothing change then future Service demands and cost pressures will significantly outstrip the resources available. The Council will need to continue to improve its productivity and efficiency in order to maintain and improve the Services provided, as well as continue to prioritise its spending. Decisions will have to be taken that will lead to funding reductions in lower priority areas to enable funding to be maintained elsewhere.

Whilst projections of Scottish Government core funding for local government are at best stagnant in cash terms, and reducing in real terms, councils still must meet ongoing and increasing cost commitments.

Bridging the Budget Gap

Section 3 of the report identifies a budget gap of £45.9m over the five-year period 2024-25 to 2028-29. Effectively there are only two ways to bridge this gap.

Fig 10 – bridging the budget gap



In reality the Council will have to do both and there are three main variables that impact on the budget gap.

Fig 11 – budget variables

Council Tax Strategy

Council Tax income equates to approximately 20% of the councils funding each year. It is therefore an extremely important lever for raising additional funding and an important consideration for the budget strategy.

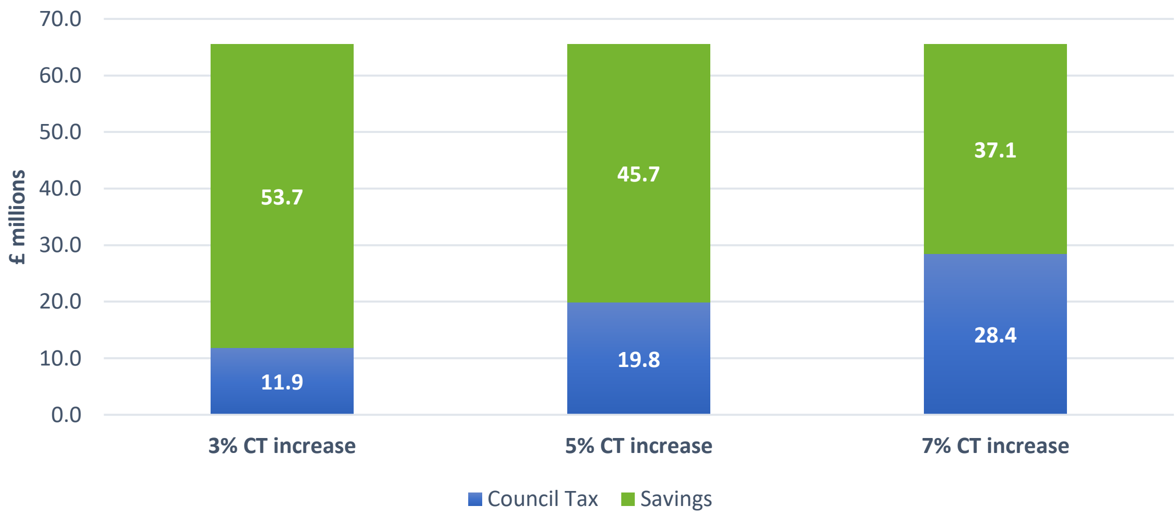
As part of this MTFP, the impact of a 3%, 5% and 7% increase has been modelled to understand the impact of increasing Council Tax as opposed to finding savings through reduced service delivery. Fig 11 below shows the different levels of income that could be received dependant on which rates is applied across each year of the plan.

Fig 12 – Council Income options

	3% increase		5% increase		7% increase	
Year	**Estimated CT income £m**	**Year on Year increase £m**	**Estimated CT income £m**	**Year on Year increase £m**	**Estimated CT income £m**	**Year on Year increase £m**
Base 2023-24	67.2	-	67.2	-	67.2	-
2024-25	69.3	2.1	70.6	3.4	72.0	4.8
2025-26	71.6	2.3	74.4	3.8	77.3	5.3
2026-27	74.0	2.4	78.4	4.0	83.0	5.7
2027-28	76.5	2.5	82.6	4.2	89.1	6.1
2028-29	79.1	2.6	87.0	4.4	95.7	6.6
Total Income		**11.9**		**19.8**		**28.5**

The five-year budget gap information provided in Section 3 of the MTFP is based on a 5% increase each year of the plan. Should the uplift be varied to either 3% or 7% it would have the effect of either increasing (by £7.9m) or decreasing (by £8.7m) the projected five-year budget gap of £45.9m as shown in Fig 13 below.

Fig 13 Council Tax increase compared to level of savings required



When the Council Tax charge is increased, more households become eligible for Council Tax Reduction (CTR). At the end of financial year 2022-23 approximately 13.8% or 7,536 of chargeable properties were eligible for CTR. Of these the majority (93.4%) were in relation to Bands A to D.

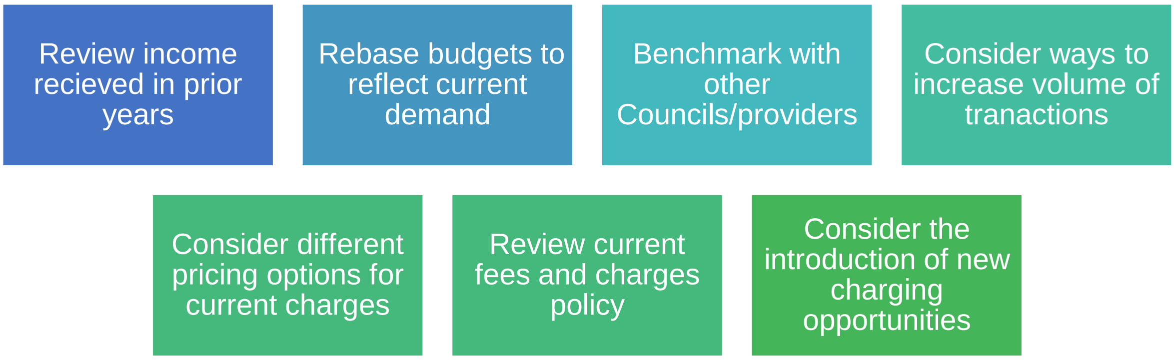
The increase applied for 2024-25 and beyond is subject to Council approval however any decision regarding the level of increase in Council Tax will have direct impact on the level of savings needed to bridge the anticipated budget gap. Savings in whatever form they are agreed will inevitably impact on the level of service provided to the public.

Fees & Charges Strategy

The Council receives income of around £13.9m (excluding HSCP) from fees and charges. Some of these charges are set on a statutory basis where the Council has no ability to change the rates set, however most fees and charges are set by the Council.

In order to maximise income generation opportunities available to the Council a review of current charges should be instigated alongside consideration of areas where new charges could be introduced. The review should initially focus on the most significant income streams and include the elements identified in Fig 14. This will include the exploration of new opportunities for income generation where possible where none are currently in place.

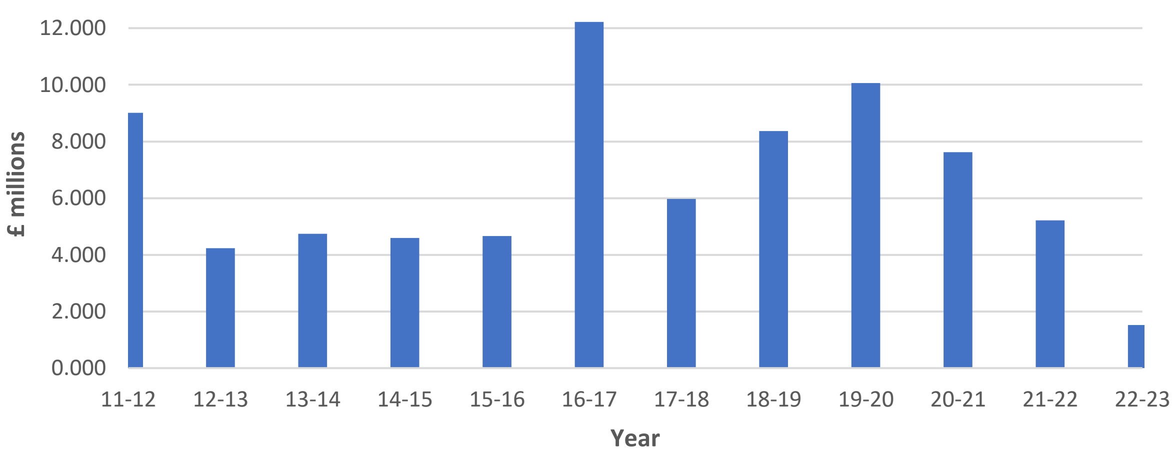
Fig 14 - Income review considerations



Service Savings Strategy

The modelled funding gap of £45.9m represents around 13% of the current 2023-24 net budget. This is a significant level of savings that need to be achieved. The Council has a proven track record in achieving annual savings delivering just over £78.2 million in the period since 2011-12 (inclusive of HSCP savings).

Fig 15 – savings achieved since 2011-12



Further savings of £7.5m have also been included in the 2023-24 budget (inclusive of HSCP) and work is ongoing to ensure the targeted savings are achieved.

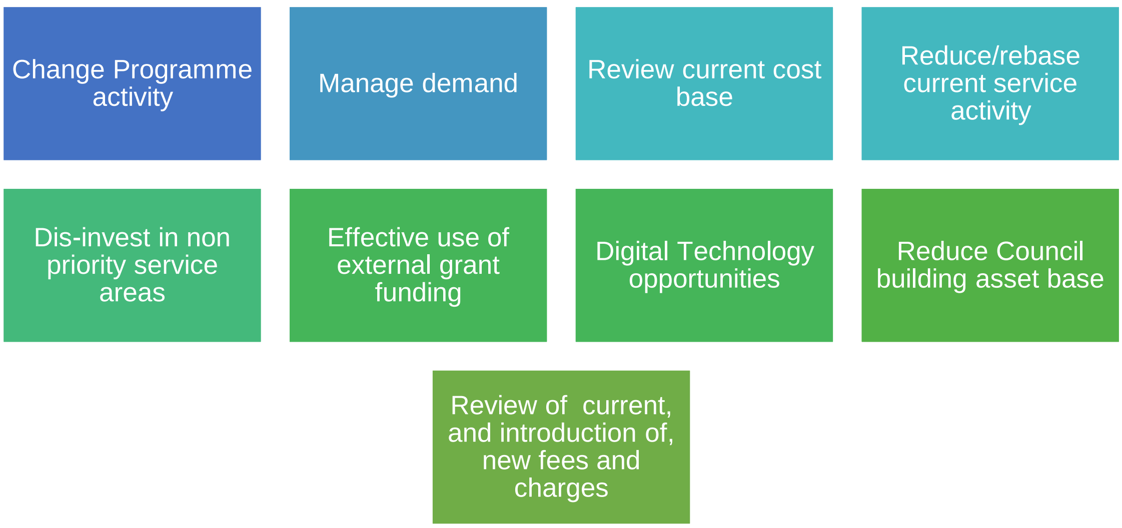
In addition to achieving savings of £78.2 million, a total of £17.2 million of useable reserves have been applied up to the end of 2022-23 to support the achievement of a balanced budget each year. A further £6,1m is being utilised in 2023-24.

In recent years, Enabling Services i.e., those that generally don't provide front line services, have been significantly reduced through budget savings and efficiencies. It is becoming evident that there is now limited scope to reduce these areas further without a significant negative impact on the services they provide to the frontline service providers.

Education Services, the largest service in the Council has in recent years been relatively protected from significant budget reductions either through local priorities or more recently through Scottish Government policy requirements, enforced through the threat of financial sanctions. Given the scale of the expenditure in Education Service, £126.4m in 2023-24 or 55% of the Councils overall net budget, excluding HSCP (39% if HSCP is included), it is not possible to get to a financially sustainable position without significant savings in this area of spend. The ability to achieve savings in this area will be dependent on Scottish Government decisions, particularly in relation to teacher numbers.

As identified in Section 3, the level of savings to be achieved in 2024-25 and 2025-26, £3.5m and £4.2m respectively, is relatively low compared to the £21.0m required in 2026-27. It is therefore essential that Members agree as part of the 2024-25 budget, not only a package of savings proposals that can be achieved in the short term in 2024-25 but also agree a Programme of Activity that identifies areas of work that the Council commits to commencing now to ensure the savings are available in later years. This Programme of Activity could include, but is not limited to the following:

Fig 16 – Programme of Activity



Any future decision made in relation to this activity should be clearly linked to the achievement of Council Priorities, with the foundation for this being to support the Council's duty to set a prudent, sustainable budget and to maintain appropriate levels of service provision to the public in line with the Council's legal obligations and agreed priorities.

Whilst acknowledging the likelihood of continued limitations in funding settlements and increasing cost pressures, the Council needs to continue to strive to achieve its key financial objectives including delivering a robust, sustainable, and balanced budget.

Although the Budget Strategy covers the five-year period until 2028-29, given the uncertainty around the financial planning landscape within which the Council operates, the Strategy will be subject to an annual refresh to ensure that it remains appropriate and relevant and enables the Council to respond to any future financial challenge.

Appendix 1 – Key Assumptions

The following key assumptions have been used to establish the estimated budget gap for the five-year period 2024-25 to 2028-29.

Key assumption	Detail
1 – Scottish Government grant funding	A flat cash approach has been assumed for Scottish Government grant funding for all years of the plan, plus or minus any confirmed or anticipated funding changes.
2- Pay uplifts	A rate of 3% over the lifetime of the plan has been assumed in relation to pay uplifts.
3 – Pension contributions	Estimated savings in pension contributions will be spread over a two-year period, 2024-25 and 2025-26, until the contribution rate reverts back to the higher rate of 17.5% in 2026-27.
4 – Council tax	Council Tax rates will be uplifted by 5% for each year in the plan.
5 – Inflationary pressure	An estimate of inflationary uplift for 2024-25 has been calculated based on latest information, followed by inclusion of 75% of the 2024-25 uplift amount for the remained of the years of the plan. The reduced amount in later years of the plan is to account for the anticipated reducing inflationary pressure.
6 – Debt Charges	The latest 2024-25 Period 6 monitoring report projections in relation to debt charges has been extrapolated across the period of the plan.
7 – PPP service concession retrospective saving	The agreed use of the PPP retrospective savings will remain in place for the period of the plan.
8 – HSCP contribution rate	The Council's contribution to the HSCP will continue on a flat cash basis, subject to any Scottish Government directed spend, but will be reduced by an appropriate amount for 2024-25 and 2025-26 to compensate for reduces pension contribution rates. In 2026-27 the contribution will be increased accordingly when the pension rate increases to 17.5%.
9 – Fees & Charges	Increase in income to be included in the budget through changes to pricing or the introduction of new charges will be included as part of the savings or efficiency measures rather than assuming a flat increase for all locally set charges.

Appendix 2 – Budget gap - Income and Expenditure breakdown

The table below incorporates the various Key Assumptions provided in Appendix 1.

	2024-25 £m	2025-26 £m	2026-27 £m	2027-28 £m	2028-29 £m	Key Assumption ref.
Income						
Scottish government funding	269.6	269.6	269.6	269.6	269.6	**1**
Council Tax (5% uplift each year)	70.6	74.4	78.4	82.6	87.0	**4**
Use of PPP retrospective saving	4.0	3.0	3.0	-	-	**7**
Total Income	344.3	347.0	350.0	352.2	356.7	
Expenditure						
Base expenditure (assumes prior year saving achieved)	342.0	343.3	347.3	350.1	352.7	
Pay movement	(3.1)	2.6	18.6	6.2	6.3	**2 & 3**
Inflationary pressure/Contract increase	6.0	4.5	4.5	4.5	4.5	**5**
Debt charge increase	2.9	0.8	0.6	1.1	0.7	**6**
Total Expenditure	347.8	351.2	371.0	361.9	364.2	
Budget gap	**3.5**	**4.2**	**21.0**	**9.7**	**7.5**	