

**South Ayrshire Council**

**Report by Chief Financial Officer  
to South Ayrshire Council  
of 19 February 2026**

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**Subject: 2026-27 Budget Update and Medium-Term Financial Plan**

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**1. Purpose**

- 1.1 The purpose of this report is to provide a final update on the anticipated 2026-27 budget gap and to seek approval of the Council's updated Medium Term Financial Plan 2026-27 to 2030-31.

**2. Recommendation**

**2.1 It is recommended that the Council:**

- 2.1.1 notes the revised anticipated budget gap for 2026-27 of £8.370m as identified in Table 3 at 4.5.2, prior to the agreement of any savings or Council Tax uplifts;**
- 2.1.2 note the results of the recent 2026-27 'Budget Builder' consultation, attached as Appendix 1;**
- 2.1.3 considers and approves the Medium-Term Financial Plan (MTFP), attached as Appendix 2;**
- 2.1.4 notes the potential cumulative five-year budget gap ranges from £20.6m to £28.6m based on the various key planning assumptions and two alternative Council Tax uplift scenarios; and**
- 2.1.5 agrees that the Council's new Workforce Plan, due to be brought for approval in March 2026, includes a specific targeted percentage reduction in the Council workforce.**

**3. Background**

- 3.1 At its meeting on 27 February 2025, the Council approved the 2025-26 General Services Revenue Budget and 2025-26 to 2036-37 Capital investment programme.
- 3.2 The approved 2025-26 General Services Revenue Budget proposals included an update of the Medium-Term Financial Plan (MTFP) which provided a revised budget gap assessment for the period 2026-27 to 2029-30.
- 3.3 Since February several reports have been presented to Council relating to the 2026-27 budget:

- 3.3.1 the 2026-27 Budget Strategy and Budget Update was presented to Council on 6 November and sought approval of a revised budget strategy for the 2026-27 budget, noted various updates to the 2026-27 contributing budget factors and also sought approval of various 2026-27 resource pressures requests. The estimated budget gap at that time, prior to the agreement of any savings or Council Tax uplifts, was estimated to be £15.339m;
- 3.3.2 the 2026-27 Budget- Fees and Charges uplift proposals were presented to Council on 11 December but the report was deferred to the Council meeting of 19 February 2026 (this meeting) for further consideration. The report seeks agreement on the level of change to be applied to a variety of fees and charges levied by the Council for the 2026-27 financial year; and
- 3.3.3 two Capital investment review reports have been presented to Council in September 2025 and December 2025 seeking revisions to the twelve-year capital investment programme with the intention of reducing future investment and associated debt charges costs.

3.4 A budget consultation – budget builder was launched on the 5 December and remained open for access until 30 January 2026.

3.5 The Scottish Government announced its 2026-27 budget on the afternoon of 13 January 2026, with the Local Government detailed settlement being received the following day.

#### 4. Detail

4.1 **Local Government settlement update** - The grant settlement for 2026-27 was announced by the Scottish Government on 13 January 2026 with individual draft Council revenue and capital allocations provided in Finance Circular 1/2026.

4.2 South Ayrshire Council's draft estimated Aggregate External Finance (AEF) available funding for 2026-27, is as shown in table 1:

**Table 1 – AEF 2026-27**

<b>General Revenue Grant £m</b>	<b>Non-Domestic Rate income £m</b>	<b>Specific Grants £m</b>	<b>Total AEF Revenue £m</b>	<b>Capital £m</b>
252.441	56.618	4.412	<b>313.471</b>	8.514

4.3 For planning purposes it had been assumed that local government funding would be on a flat cash basis in comparison to 2025-26. Table 1 shows a total revenue AEF of £313.471m which is £5.716m in excess of the previously assumed amount, after removing any directed spend funding to be passported to the Health & Social Care Partnership. In addition, the General Capital Grant is £0.514m in excess of the previously assumed 2026-27 amount.

4.4/

#### 4.4 **Budget gap update**

As noted in 3.3.1 above, in November 2025 the budget gap for 2026-27 was estimated to be £15.339m prior to any savings or Council Tax uplifts. Since consideration of the Budget Strategy and Budget Update in November 2025, several factors and assumptions have changed that requires the indicative budget gap for 2026-27 to be updated.

##### **Pay assumptions (for noting)**

4.4.1 Pay-related costs are a major component of the Council's overall expenditure and represent 50% of Council net spend each year. Detailed post by post analysis of the payroll budget has been undertaken in recent months, resulting in required increases on previous assumptions of £0.771m to ensure appropriate pay budgets are in place for 2026-27.

##### **Council Tax chargeable property assumptions (for noting)**

4.4.2 The level of increase for Council Tax each year is at the discretion of Council however the estimate of number of chargeable properties that will apply in 2026-27 has been recalculated using January 2026 information. This recalculation results in a small increase in additional base income of £0.004m estimated for 2026-27, prior to any agreed uplift percentage.

##### **Capital Programme review (December 2025 Council – for noting)**

4.4.3 A review of the General Services Capital Investment Programme was recently undertaken with the results being considered by Council on the 11 December 2025. Approval of the changes recommended in the December Council report have resulted in revisions to the anticipated increases in debt charge in future years. For 2026-27 this means a downward revision (or saving) of £0.443m

##### **Packaging Extended Provider Responsibility (for noting)**

4.4.4 In November 2025 an assessment of the income to be received through this UK scheme was undertaken to determine the likely amount due in 2026-27, pending confirmation from the UK Government. The UK Government has now written to Councils informing them of the income due in 2026-27. The confirmed amount is £0.352m greater than expected resulting in a revision to the previously anticipated income.

##### **Common Good – introduction of new management arrangements (for noting)**

4.4.5 In May 2025 Council approved alterations to the management of Common Good Funds as from 1 October 2025. These changes have now been implemented and an assessment of the full year 2026-27 financial impact for the Council has been undertaken. An additional £0.250m has been incorporated in to 2026-27 to meet the anticipated increased cost of this new arrangement.

**New Capital programme investment – subject to approval (shown elsewhere on this Council agenda)**

4.4.6 As part of the budget setting process for 2026-27 Council require to consider any new capital investment activity for inclusion in the Councils twelve-year capital investment programme. The Capital Asset Management Group (CAMG) have recently considered such requests from all directorates and the recommendations of the CAMG are identified in the Capital Budget 2026-27 to 2037-38 report shown elsewhere on this Council agenda. Should the recommendations in that report be agreed then the associated reduction in debt charges of £0.779m require to be incorporated in to 2026-27.

**2026-27 Fees and charges uplifts – subject to approval (shown elsewhere on this Council agenda)**

4.4.7 Proposed uplifts to certain fees and charges are contained in the 2026-27 Budget – Fees & Charges uplift proposals report shown elsewhere on this Council agenda. Should the recommendations in that report be agreed then the associated increase in income of £0.696m requires to be incorporated in to 2026-27.

**4.5 Updated 2026-27 Budget Gap**

4.5.1 Table 2 below updates the indicative budget gap for 2026-27 position taking in to account the majority of factors outlined in 4.1 to 4.4.

**Table 2 – Updated 2026-27 Budget Gap (Feb 2026)**

	£m	£m
<b>2026-27 budget gap (Nov 25)</b>		<b>15.339</b>
<b>Pre budget 2026-updates</b>		
Pay assumptions	0.771	
Council Tax chargeable properties	(0.004)	
Capital Programme Review (Dec 25)	(0.443)	
Packaging Extended Provider Responsibility	(0.352)	
New Common Good arrangement (May 25)	0.250	<b>0.222</b>
<b>Local Government settlement impact</b>		<b>(5.716)</b>
<b>2026-27 budget gap (Feb 26)</b>		<b>9.845</b>

4.5.2 As noted in 4.4.6 and 4.4.7 there are two matters that are subject to Council approval and are considered elsewhere on this Council agenda. If the recommendations in those reports are agreed then the impact on the budget gap will be as noted in Table 3 below.

**Table 3/**

**Table 3 – Items subject to Council approval – revised budget gap**

	£m	£m
<b>Budget gap from Table 1</b>		<b>9.845</b>
New Capital Investment impact (Feb 26)	(0.779)	
Fees & Charges uplifts (Feb 26)	(0.696)	<b>(1.475)</b>
<b>2026-27 final budget gap</b>		<b>8.370</b>

#### 4.6 **Budget Gap - Council Tax and Savings options**

The budget gap identified in Table 2 and 3 above requires to be bridged in order to have a legally balanced budget for 2026-27. Per required legislation, Council Tax uplifts for 2026-27, which have yet to be formally set, require to be confirmed no later than 11 March 2026. The setting of Council Tax uplifts should be considered alongside agreeing the selection of savings options sufficient to ensure the mitigation of the budget gap in full.

#### 4.7 **Budget consultation 2026-27 – ‘Budget Builder’**

4.7.1 In early December 2025 a 2026-27 budget consultation was launched and remained open for a period of two months, closing on 30 January 2026.

4.7.2 For 2026-27 a new ‘Budget Builder’ approach was undertaken where members of the public could access an online form and build their own balanced budget. By selecting a level of Council Tax uplift alongside choices over the level of fees & charges increases and selecting savings percentages from different directorates, they could address the anticipated budget gap of £15.339m. In total 122 members of the public took up the opportunity to build a budget. The results of the consultation are shown in Appendix 1.

#### 4.8 **Medium Term Financial Plan**

4.8.1 The purpose of the MTFP, contained in Appendix 2, is to provide a clear understanding of the expected resources that will be available in the short and medium term to deliver Council priorities. It plays a vital part of decision-making and forms the basis of the Council’s stewardship over taxpayers’ funds.

4.8.2 The MTFP has been developed based on several key influencing factors and using eleven key planning assumptions, as outlined in Appendix 2.

4.8.3 Two alternative budget gap forecasts for the new five-year period, 2026-27 to 2030-31 are provide, based on two Council Tax uplift scenarios:

- (i) a Current planning scenario assumes an 8% uplift for 2026-27 followed by 6% uplifts for the remaining 4 years of the plan; and
- (ii) an Optimistic scenario assumes an 8% uplift for all years of the plan

- 4.8.4 The anticipated budget gap position based on the two alternative Council Tax scenarios over the next five years, is provided in the Table 4 and 5 below:

**Table 4 - CT Scenario (Current planning assumption uplift)**

	2026-27 £m	2027-28 £m	2028-29 £m	2029-30 £m	2030-31 £m	Cumulative £m
<b>Budget gap</b>	2.4	9.9	6.4	5.0	4.9	28.6

**Table 5 - CT Scenario (Optimistic uplift)**

	2026-27 £m	2027-28 £m	2028-29 £m	2029-30 £m	2030-31 £m	Cumulative £m
<b>Budget gap</b>	2.4	8.3	4.6	2.8	2.5	20.6

- 4.8.5 The years through to 2031 will be challenging financially, given the available funding anticipated. Managing the financial pressures whilst seeking to deliver the Council's priorities will be difficult.
- 4.8.6 A number of workstreams are being progressed through the Transformation Programme and it is essential that these projects release cashable savings to drive cost reductions within service provision. As this alone will not achieve the level of savings needed within the timescale required to bridge the entirety of the identified budget gaps, savings options will continue to be developed for Member consideration.
- 4.8.7 A major component of this savings activity will inevitably be linked to workforce change as around 50% of Council net spend each year is in relation to pay. It is therefore recommended that the Council's new Workforce Plan, due to be brought for approval in March 2026, include a specific targeted percentage reduction in the Council workforce and further include a mechanism for a structured approach to reducing the workforce and the associated cost over the lifetime of the plan

## **5. Legal and Procurement Implications**

- 5.1 There are no legal implications arising from this report.
- 5.2 There are no procurement implications arising from this report.

## **6. Financial Implications**

- 6.1 The anticipated funding gap for 2026-27 is currently estimated to be £8.370m, prior to the application of any Council Tax uplift or savings options. The Council will require to set a balanced budget for 2026-27.

## **7. Human Resources Implications**

- 7.1 Not applicable.

## **8. Risk**

8.1 **Risk Implications of Adopting the Recommendations**

8.1.1 There is a risk that the Council, on adopting the recommendations, fails to take the necessary actions to address the anticipated funding gap.

8.2 **Risk Implications of Rejecting the Recommendations**

8.2.1 There is a risk that Council fails to recognise the potential financial climate and does not take appropriate steps to manage the situation accordingly resulting in service interruption and reputational damage to the Council.

9. **Integrated Impact Assessment (incorporating Equalities)**

9.1 The proposals in this report do not require to be assessed through an Integrated Impact Assessment.

10. **Sustainable Development Implications**

10.1 **Considering Strategic Environmental Assessment (SEA)** - This report does not propose or seek approval for a plan, policy, programme or strategy or document otherwise described which could be considered to constitute a plan, programme, policy or strategy as defined by the Environment Assessment (Scotland) Act 2005.

11. **Options Appraisal**

11.1 An options appraisal has not been carried out in relation to the subject matter of this report although various options have been considered as part of the key assumptions when assessing future possible financial outcomes.

12. **Link to Council Plan**

12.1 The matters referred to in this report contribute to Priority 4 of the Council Plan: Efficient and effective enabling services.

13. **Link to Shaping Our Future Council** Yes  No

13.1 Not applicable.

14. **Results of Consultation**

14.1 A public budget consultation exercise has been undertaken during December 2025 and January 2026, the results of which are included in Appendix 1 to the report.

14.2 Consultation has taken place with Councillor Ian Davis, Policy Lead for Finance and Corporate Services, and the contents of this report reflect any feedback provided.

14.3 Various Member, Officer and Trade Union budget briefings have been undertaken throughout 2025-26 ensuring a transparent and informed budget process with and the contents of this report and the budget in general reflect any feedback provided.

15. **Next Steps for Decision Tracking Purposes**

15.1 If the recommendations above are approved by Members, the Chief Financial Officer will ensure that all necessary steps are taken to ensure full implementation

of the decision within the following timescales, with the completion status reported to the Cabinet in the 'Council and Cabinet Decision Log' at each of its meetings until such time as the decision is fully implemented:

<b>Implementation</b>	<b>Due date</b>	<b>Managed by</b>
Incorporate information contained in this report as part of the Council 2026-27 budget setting meeting	5 March 2026	Chief Financial Officer

**Background Papers**    **Report to South Ayrshire Council of 6 November 2025 – [2026-27 Budget Strategy and Budget Update](#)**

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**Date: 27 January 2026**

### Budget Consultation 2026-27– Budget builder results and analysis

#### 1. Background

- 1.1 The Council conducted a budget survey during December 2025 and January 2026 (closing date 30 Jan) to gather public input on financial priorities, service charges, and potential cost-saving measures.
- 1.2 For 2026-27 a new 'Budget Builder' approach was undertaken where members of the public could access an online form and build their own balanced budget and provide views on how to address the anticipated budget gap of £15.339m.
- 1.3 A total of 122 responses were received and Annex 1 provides detail of the output from the budget builder submissions. The thematic analysis of the responses identified is provided in section 2 to 4 below.

#### 2. Overview

- 2.1 The Budget Builder consultation captured residents' views on how South Ayrshire Council should balance its 2026/27 budget through a combination of Council Tax increases, fees and charges increases, and service savings. Overall, responses demonstrate a pragmatic acceptance of the need for additional income, coupled with a clear desire to protect frontline services such as Education and Health and Social Care.

#### 3. Analysis of results

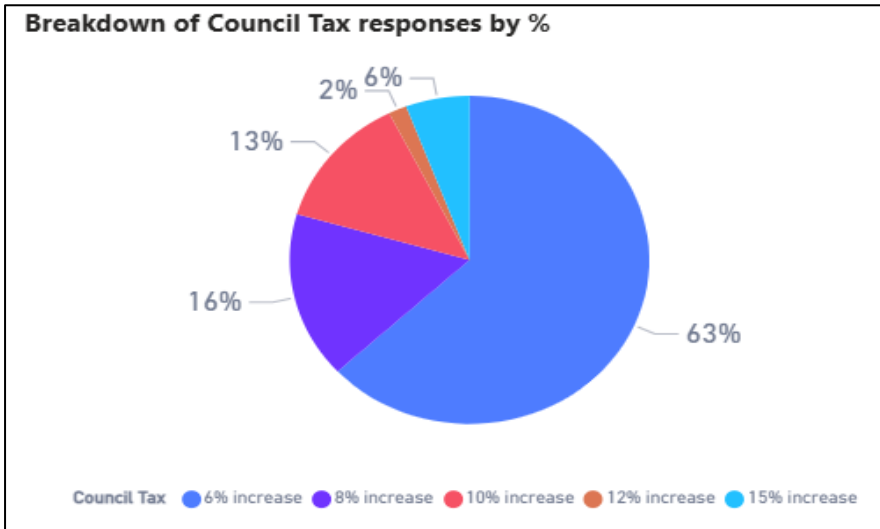
- 3.1 **Council Tax Preferences** - There was a clear centre of gravity around a 6% Council Tax increase, selected by 63% of respondents. Just over a third of respondents (37%) supported an increase of 8% or more, while 21% supported increases of 10% or above. The average preferred increase was therefore 7.5%. The analysis suggests the strongest support is for a Council Tax rise in the 6 to 8% range.
- 3.2 **Fees and Charges** - Respondents showed a strong preference for flexibility in fees and charges. Nearly half (48%) selected a 'varying rates' approach (between 2.5% and 10%), compared with 30% favouring a flat 2.5% increase and 22% favouring a flat 5% increase. This suggests a preference for differentiated fees, not uniform uplifts.
- 3.3 **Service Savings – Key Themes** - The highest tolerance for savings was in Communities and Transformation (average selected saving of 10%) and Enabling Services (8%), indicating support for efficiencies and transformation in corporate and support functions. Moderate savings were supported in Housing, Operations & Development and Roads. In contrast, respondents strongly favoured protecting Education and the Health and Social Care Partnership, with only minimal savings (around 2% on average) supported in these areas. The table below provides information on the range of saving percentages preferences.

Directorate	Public support	Working range	Rationale
Education	0%: <b>18%</b> , 1%: <b>45%</b> , 3%: <b>37%</b>	<b>1–3%</b>	Strong public preference to <b>limit reductions</b> to minimal efficiencies only.
HSCP	0%: <b>21%</b> , 1%: <b>37%</b> , 3%: <b>42%</b>	<b>1–3%</b>	Similar protection signal as Education; appetite capped at light efficiencies.
Communities & Transformation	0%: <b>6%</b> , 5%: <b>33%</b> , 10%: <b>36%</b> , 20%: <b>25%</b> ( $\geq 10\% = 61\%$ )	<b>10–15%</b>	Clear tolerance for <b>double-digit</b> savings; scope for phased delivery up to 20%.
Roads	0%: <b>36%</b> , 5%: <b>38%</b> , 10%: <b>26%</b>	<b>5–10%</b>	Support for <b>moderate</b> efficiencies, centred near the middle of the 5–10% band.
Housing, Operations & Development	0%: <b>7%</b> , 5%: <b>49%</b> , 10%: <b>43%</b>	<b>5–10%</b>	Similar to Roads: public preference clusters in the <b>mid-single digit to 10%</b> range.
Enabling Services	0%: 5%: <b>42%</b> , 10%: <b>57%</b>	<b>5–10%</b> ,	Majority explicitly back <b>10%</b> ; midpoint skews lower due to sizeable 5% cohort—consider <b>setting 10%</b> with phasing.

#### 4. Implications for Budget Setting

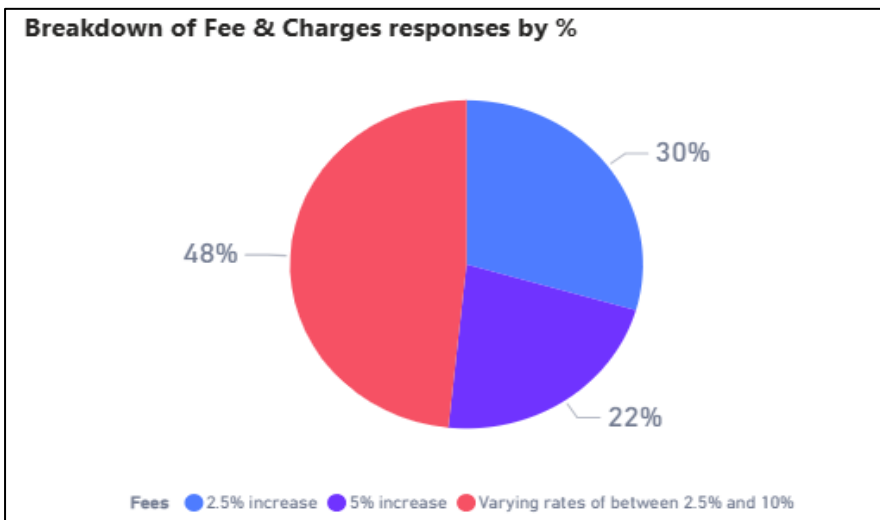
- 4.1 The consultation supports a balanced budget strategy built around a 6% to 8% Council Tax increase, targeted increases in fees and charges, and a focus on efficiencies in back-office and transformation areas. There is a clear public preference to prioritise the protection of frontline and statutory services.
- 4.2 In terms of the approach to savings:
- 4.2.1 Protect front-line services: Keep Education and HSCP within the 1–3% range by prioritising low-impact efficiencies (process improvement, demand management, non-pay savings).
  - 4.2.2 Go deeper where tolerance exists: Set Enabling Services at 10% (phase delivery across financial years if needed); position Communities & Transformation at the 10–15% range.
  - 4.2.3 Operate in the mid-range savings target for operational services: Target Roads and Housing, Operations & Development within a 5–10% envelope, sequencing initiatives to protect statutory compliance and service standards.

## Annex 1 – Consultation results



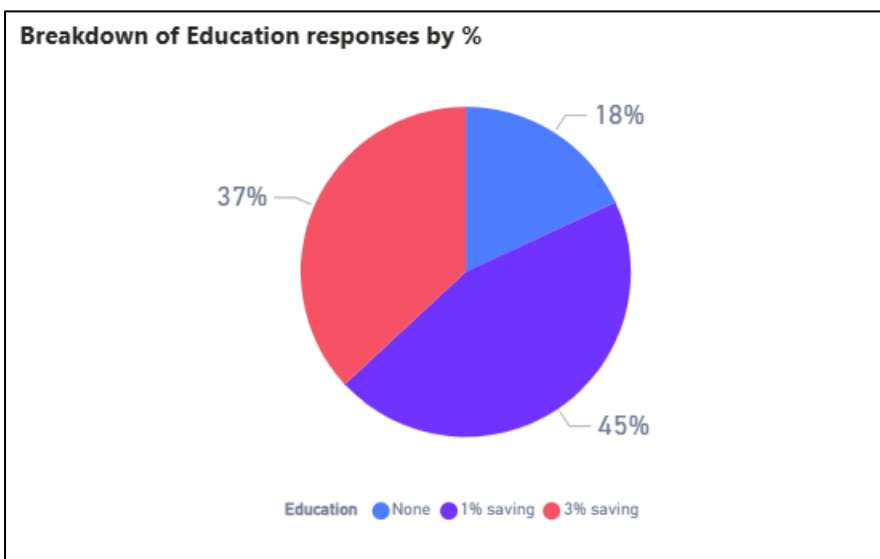
Five possible Council Tax uplift options were provided to choose from to generate additional income:

- 6%
- 8%
- 10%
- 12%
- 15%



Three possible options for Fees & Charges uplifts were provided:

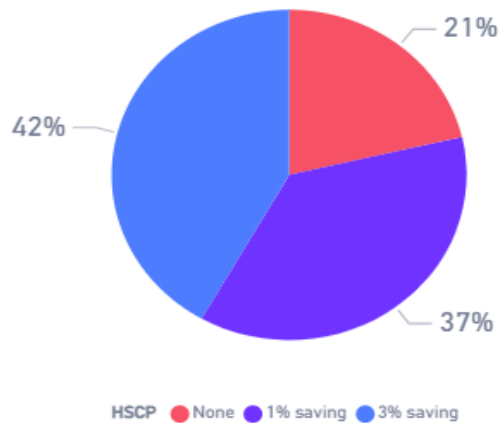
- 2.5% across all charges
- 5% across all charges
- Varying rates for selected charges



Three potential Education savings targets were provided for selection to reduce costs:

- No saving
- 1% saving
- 3% saving

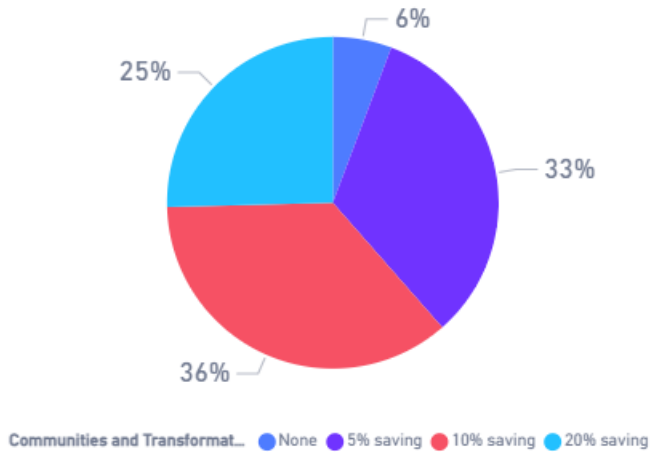
**Breakdown of HSCP responses by %**



Three potential HSCP savings targets were provided for selection to reduce costs:

- No saving
- 1% saving
- 3 % saving

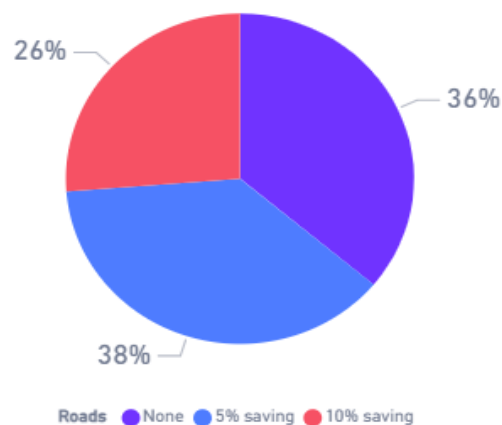
**Breakdown of Communities and Transformation responses by %**



Four potential Communities & Transformation savings targets were provided for selection to reduce costs:

- No saving
- 5% saving
- 10% saving
- 20% saving

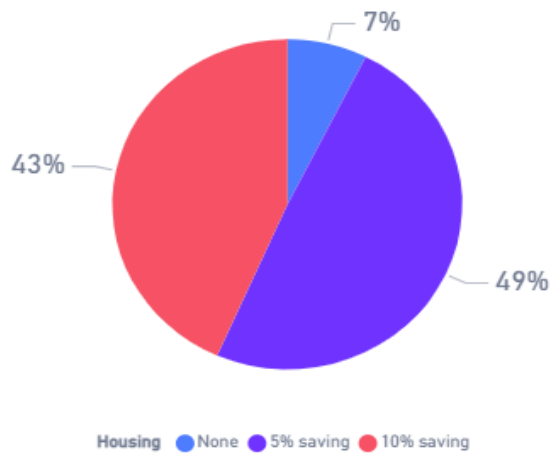
**Breakdown of Roads responses by %**



Three potential Roads savings targets were provided for selection to reduce costs:

- No saving
- 5% saving
- 10% saving

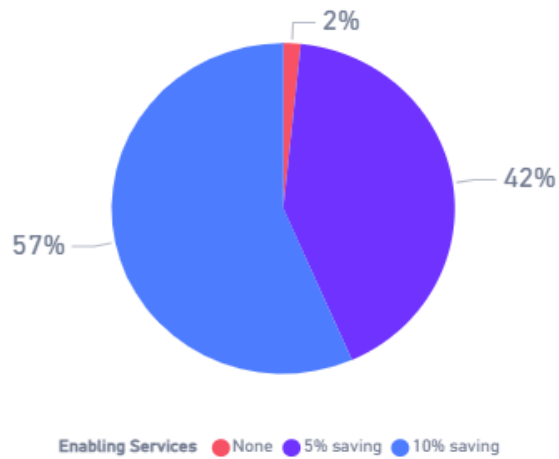
**Breakdown of Housing responses by %**



Three potential Housing, Operations & Development savings targets were provided for selection to reduce costs:

- No saving
- 5% saving
- 10% saving

**Breakdown of Enabling Services responses by %**



Three potential Enabling Services savings targets were provided for selection to reduce costs:

- No saving
- 5% saving
- 10% saving

# Medium Term Financial Plan 2026-27 to 2030-31 (5 years)

Appendix 2

February 2026



RESPECTFUL  
SUPPORTIVE



**South Ayrshire Council**  
**Medium Term Financial Plan 2026-27 to 2030-31**

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# 1. Introduction

The purpose of the Medium-Term Financial Plan (MTFP) 2026-27 to 2030-31, 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.

## Medium Term Financial Plan

Local authorities continue to operate in a very challenging and uncertain environment with public sector funding not keeping pace with the increasing costs and demand for services.

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 2026-2031 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 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.

The scale of this challenge will inevitably have an impact on the range and level of services delivered by the Council, and this will require to be managed within the context of its statutory and regulatory responsibilities.

## Transformational Change Programme

As a main driver in addressing the financial challenges, the Council will progress its transformation programme at scale and pace over the short, medium and longer term, and this activity to be incorporated in the Council's Medium-Term Financial Plan and aligned to the key priorities set out within the Council Plan 2023-2028.

## **Workforce Planning**

Pay-related costs are a major component of the Council's overall expenditure and represent around 50% of Council net spend each year. It is clear that in order to address the financial challenges outlined in this plan and reduce costs to allow the Council to remain within the expected funding envelope over the next five years (the period of this plan) then the Council's new Workforce Plan, due to be brought for approval in March 2026, will be a key contributor to this desired outcome by providing a structured approach to reducing the workforce and the associated cost.

## **Financial Forecast risk**

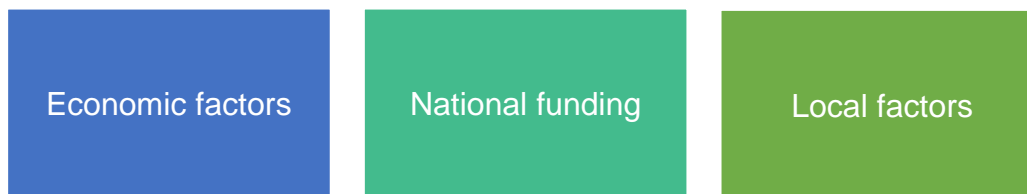
The plan is prepared at a point in time and relies on a series of assumptions and estimates.

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**

Funding for public services is linked to the performance of global and national economies and through the volatility in financial markets. UK Government fiscal policy and Bank of England Monetary policy decisions have a significant influence on local government finance whether it is through the level of Block grant available to Scotland, or the purchasing power associated with this funding within the context of inflation and the level of interest rates.

#### **Inflation**

The Consumer Price Index (CPI) measure of inflation rose by 3.4% in the 12 months to December 2025. This is significantly below the peak of 11.1% in October 2022 but is above the Bank of England (BoE) target of 2%. Latest forecasts project Inflation will fall closer to 2% in the first half of 2026. The central bank had previously only expected inflation to fall closer to 2% in early 2027. Moving forward this should have the effect of stabilising costs across various commodities and importantly, where contracts are linked to inflation indices, this should minimise any increases.

#### **Interest Rates**

The Bank of England (BoE) Monetary Policy Committee met on 18 December 2025 and voted to reduce the bank base rate by 0.25% to 3.75%. This is the lowest it has been since February 2023. It is projected that the base interest rate may reduce further during 2026, however, this will very much depend on inflation being at or around the 2% BoE target. From a Council borrowing perspective, through the Public Works Loans Board, the rates available are linked to the performance of government bond yields (Gilts). The landscape, however, remains quite uncertain. Any reduction in the cost of borrowing would help alleviate some of the pressures in delivering the capital programme.

### **National Funding**

#### **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. Aggregate external finance (General

Revenue Grant and Non-Domestic Rates income) accounted for 80% in 2025-26, leaving the balance funded from local Council Tax income and the utilisation of Council reserves.

With 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. This continues to place a disproportionate level of pressure on the other Council budgets. This poses significant challenges within the context of trying to deliver effective services to communities, since the burden of savings falls disproportionately on services not protected in the same way.

In addition the Scottish Government published its Scottish Spending Review 2026 in January 2026 which continued to focus on the Scottish Government's four key priorities by enabling Councils to take action to reduce child poverty, strengthen local economic growth, accelerate progress towards net zero and drive continuous improvement in public services through reform, collaboration, and more efficient delivery.

Contained within this publication was the stated intention to provide funding for Local Government on a flat cash basis for the period to 2028-29. This represents a significant real terms reduction for Local Government in Scotland.

***Key Planning Assumption 1: 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.***

## **Public Sector Pay Settlements**

Pay-related costs are a major component of the Council's overall expenditure and represents around 50% 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 has fallen back in recent months and is predicted to fall further in the coming year, this will not mitigate the risk that exists in local government.

Pay negotiations during 2025-26 established an agreed uplift for 2025-26 of 4% for SJC staff and 4.25% for SNCT staff (from August 2025) followed by an agreed uplift for 2026-27 of 3.5% for SJC staff and 3.25% for SNCT staff (from August 2026).

The issue of reducing class contact time for SNCT staff remains unresolved at present with teacher unions balloting staff in relation to potential strike action. Any agreement in relation to this issue would require significant Scottish Government funding to be put in place.

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 resulted in a significant planned reduction from the previous 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. At the most recent Strathclyde Pension Fund Board meeting in November 2025 it was suggested that for planning purposes, contributing bodies should assume a contribution rate of 15% for the lifetime of the next triennial valuation period, 2027-28 to 2029-30.

***Key Planning Assumption 2: For planning purposes, a rate of 3.5% has been assumed for pay uplifts in 2026-27 followed by a 3% uplift over the remaining lifetime of the plan.***

***Key Planning Assumption 3: For planning purposes pension contributions have been set at 17.5% for 2026-27 followed by an assumed rate of 15% over the remaining lifetime of the plan.***

## **Local Factors**

### **Council Plan Priorities**

It can be challenging to align funding and priorities during a period of financial constraint. Funding is necessarily 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**

Setting Council Tax is the main fiscal lever local authorities have directly in their control.

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, followed by a further Council Tax freeze in 2024-25.

For each 1% increase in Council Tax rates, the Council can raise approximately £0.745m 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 Council Tax increases.

***Key Planning Assumption 4: For planning purposes Council Tax rates will be kept at 2025-26 levels with different uplift options presented to demonstrate the impact on Council finances***

## **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 unprecedented 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 economic uncertainty means that attempting to model inflation rates is challenging.

The impact of inflation, despite the rate moving towards the target level of 2%, 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 2026-27 and beyond.

As part of the 2026-27 Budget Strategy and Budget Update report considered by Council in November 2025, £3.240m of inflationary uplifts and other resource pressures were approved for inclusion in the 2026-27 budget.

***Key Planning Assumption 5: For planning purposes the inflationary uplift for 2026-27 has been established based on the amounts approved by Council in November 2025, followed by inclusion of an assumed uplift amount of £3.500m for each of the remaining years of the plan.***

## **Revenue Implications of Capital Investment Decisions**

The current Capital Investment Programme was approved by Council in February 2025 covering the period from 2025-26 through to 2036-37, 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.

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

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 Council undertook two separate reviews of the capital investment programme during 2025-26 resulting in a reduction in planned spend and an associated reduction in debt charge implications over the period of the investment plan.

A revision to the twelve-year investment plan is being considered at Council of 19 February 2026 to add any further new projects recommended for inclusion in the plan.

***Key Planning Assumption 6: For planning purposes the updated 2025-26 to 2036-37 Capital Investment Programme presented to Council in December 2025 is being used in relation to debt charge estimates extrapolated across the period of the plan. In addition draft changes to be considered at Council of 19<sup>th</sup> February in terms of updating the investment programme are also incorporated.***

### **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 2025-26 the Council is contributing £107.2m 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 also benefited 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 reduced its planned contribution by an appropriate amount in 2024-25 and maintained this reduced amount in 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 for 2026-27.

During 2025-26 a number of Grant Aided Expenditure (GAE) Local Government settlement factors have been updated as is normal practice and will impact on the amount that the Council will receive through the General Revenue Grant for 2026-27. This year several Social Care factors have been updated to reflect current source data that will have a significant impact across many Health and Social Care Partnerships across Scotland with a number of partnerships gaining significant funding, and others losing funding to a greater or lesser degree. Early assessment of these changes suggested that South Ayrshire would likely receive a reduced allocation in 2026-27 due to the implementation of these changes.

The Local Government draft settlement for 2026-27 saw a reduction in South Ayrshire core Social Care allocation of £3.6m compared to 2025-26. This reduction has been mitigated due to the effect of the floor calculation adjustment whereby additional funding has been allocated to smooth the effect of this change. This is prior to any additional funding added by the Scottish Government to the settlement for Social Care issues.

**Key Planning Assumption 7: For planning purposes the Council's contribution to the HSCP will continue on a flat cash basis, subject to GAE changes and any Scottish Government directed spend.**

## Fees and 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 Council has traditionally included the requirement to increase locally set charges by at least the consumer price index rate each year. Recent evidence suggested that this approach was impacting on the demand for services in certain areas, therefore a more flexible approach is now in place, 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.

Council considered a Fees and Charges uplift report at its meeting of 19<sup>th</sup> February 2026 which presented various uplift option for Members to agree. Based on a prudent assumption that only Option1 proposals are agreed, then additional income of £0.696m is expected to be generated in 2026-27 and is included in the plan. This targeted approach will continue across all remaining years of the plan.

**Key Planning Assumption 8: For planning purposes the assumed increase in income proposed (Option1) in the Council paper of 19 February 2026 will be included, with a further uplift allowed in all remaining year of the plan.**

## Transformation Activity

In March 2024 the Council approved the establishment of a Transformation Board with the board being chaired by the Chief Executive as the officer ultimately responsible for the transformation of the Council.

The Council's delivery of a programme of transformational change - 'Shaping Our Future Council' - has been developed to address improvement and transformation across four identified priority areas:

**Fig 2/**

**Fig 2 – transformation priority areas**



Project approval by the Transformation Board requires the inclusion a benefits realisation proposal. Cashable benefits will be incorporated as part of the plan.

**Key Planning assumption 9:: Include cashable benefits from the approved transformation projects, profiled in future years of the plan when the impact is expected to occur.**

### **Spend to Save capital investment activity**

During 2025-26, the Council has considered and approved capital investment opportunities within several Sports and Leisure facilities that are expected to generate additional income beyond the investment cost. In addition the Council is progressing with an Ayrshire Growth Deal commercial build project that is expected to generate surplus income beyond the cost of the investment.

It is therefore prudent to incorporate the net income expected to be generated from this investment activity, profiled in future years when the impact of the investment is expected to occur.

**Key Planning assumption 10:: Include the anticipated net income benefits from the approved and planned spend to save capital investment activity, profiled in future years of the plan when the impact is expected to occur.**

### **Savings Activity – Transformation programme, savings options and workforce reduction**

A number of workstreams are being progressed through the Transformation Programme and it is essential that these projects release cashable savings to drive cost reductions within service provision, as noted in the Transformation programme section above. As this alone will not achieve the level of savings needed within the timescale required to bridge the entirety of the identified budget gaps, savings options will continue to be developed for Member consideration.

A major component of this savings activity will inevitably be linked to workforce change as around 50/% of Council net spend each year is in relation to pay. It is therefore recommended that the Councils new Workforce Plan, due to be brought for approval in March 2026, include a specific targeted percentage reduction in the Council workforce and further include a mechanism for a structured approach to reducing the workforce and the associated cost over the lifetime of the plan.

**Key Planning Assumption 11: Note the remaining budget gap in plan, update the plan when new information becomes available whilst seeking to identify and implement new savings proposals for future years.**

### 3. Summary of five-year financial position

The previous MTFP approved in December 2024 highlighted that, for the five-year period, 2025-26 to 2029-30, a cumulative budget gap was estimated of £40.0m. This was subsequently updated as part of the 2025-26 budget approved in February 2025, whereby the budget gap for the remaining four-year period of the plan was estimated at £26.3m.

Based on the eleven Key Planning Assumptions contained in Section 2, which are provided in more detailed in Appendix 1, the budget gap forecast for the new five-year period, 2026-27 to 2030-31, is shown below based on two Council Tax scenarios:

#### Council Tax scenarios

Two Council Tax uplift scenarios have been modelled to provide a comparison between the current planning assumption for Council Tax uplifts and an optimistic budget gap outcome based on an increased Council Tax uplift each year, depending on potential future decisions. As identified in appendix 1:

- a **Current** scenario assumes an 8% uplift for 2026-27 followed by 6% uplifts for the remaining 4 years of the plan; and
- an **Optimistic** scenario assumes an 8% uplift for all years of the plan.

On applying the two Council Tax scenarios the budget gap is revised accordingly:

**Fig 3 – Five-year budget gap – CT Scenario (Current planning assumption uplift)**

	2026-27 £m	2027-28 £m	2028-29 £m	2029-30 £m	2030-31 £m	Total gap £m
Income (based CT uplift of 8% in 2026-27 followed by 6% thereafter each year)	396.263	399.515	405.108	411.065	417.409	
Expenditure	398.674	409.397	411.547	416.036	422.318	
<b>Budget gap</b>	<b>2.411</b>	<b>9.882</b>	<b>6.439</b>	<b>4.971</b>	<b>4.909</b>	<b>28.612</b>

**Fig 4: Five-year budget gap – CT Scenario (Optimistic uplift)**

	2026-27 £m	2027-28 £m	2028-29 £m	2029-30 £m	2030-31 £m	Total gap £m
Income (based CT uplift of 8% for all year)	396.263	401.129	408.580	416.605	425.438	
Expenditure	398.764	409.397	413.161	419.507	427.919	
<b>Budget gap</b>	<b>2.411</b>	<b>8.268</b>	<b>4.481</b>	<b>2.842</b>	<b>2.481</b>	<b>20.583</b>

Based on Fig 3 and 4 above, the anticipated budget gap, based on the assumptions contained in Section 2 above and expanded in Appendix 1, ranges from **£20.583m** to **£28.612m**, depending in the two Council Tax scenarios identified.

## 4. Reserves Policy

Local authorities are permitted to establish reserve funds as part of their responsibility for ensuring that sound financial management arrangements are in place. The purposes of reserve funds are as follows:

- As a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing;
- As a contingency to mitigate against the impact of unexpected events or emergencies; and
- As a means of building up funds to meet known or anticipated future commitments.

### Useable Reserves Policy

**To maintain uncommitted general reserves of between 2% and 4% of the following year's net expenditure.**

This will mean that the Council continues to maintain its reserves at a level which meets CIPFA's best practice guidelines. At this level there will be an inbuilt flexibility for the Council, over the period of this Strategy, to use a level of reserves, as appropriate, to meet particular pressures.

**To consider, on a regular basis, contributing resources to augment currently held committed funds.**

This will mean that the balances held in following funds will be maintained at a level that will allow the Council to meet known or anticipated future commitments.

- (i) Workforce Change Fund - This fund is used mainly to meet the severance and other employee-related costs arising from the Council's Efficiency and Improvement measures undertaken. The level of contribution requires to be reviewed annually as part of the budget setting process to ensure that the Council has sufficient funds available to support further service redesign over the forthcoming years;
- (ii) Transformation Fund - The transformation of the Council is a long-term commitment to ensure services continue to meet the needs of residents now and in the future. To enable the Council to deliver the vision for transformation, new activity will require to be implemented. It is recognised that the design, development and implementation of this activity may require upfront investment to enable the realisation of benefits. New activity will require to focus on one or more of our priority themes: our workforce, our technology, our assets and our delivery model. The Council has established a Transformation Fund to provide enabling funding for transformation activity; and
- (iii) Election Fund - this fund is used to support expenditure associated with local Council elections. The Scottish Government provides some financial support to Councils for local elections but does not fully provide for all associated costs of running the election. The Council therefore requires to set aside funds to supplement government funding.

**To contribute a proportion of the Council Tax raised from second homes each year to the Affordable Homes fund.**

The Council amended its policy in relation to Unoccupied Properties and Second Homes with effect from 1 April 2018. The amendment while increasing charges in relation to these types of properties retained the requirement to ring-fence a proportion of the income raised for the purchase or building of new social housing, either by the Council itself or local housing associations.

In addition, the Council agreed further changes to increase Council Tax charges for all Second Homes with effect from 1 April 2024 by 100% (double the standard charge) subject to regulations being approved by the Scottish Parliament and further agreed that 50% of additional income generated from charging double Council Tax on Second Homes should be allocated to the delivery of social housing or to fund other incentives such as the Empty Homes initiative or the Social Letting Service.

**To set aside or commit other such resources as determined either by the cabinet or Council to meet other pressures or initiatives as required.**

This will mean that resources may be set aside to be used to finance expenditure not included in original revenue budgets for a given year which it is deemed appropriate to incur, and which is out with the level of service provided for in the approved revenue budget.

**To maintain two statutory funds as empowered under Schedule 3 of the Local Government (Scotland) Act 1975 as follows:**

- (i) Repairs and Renewal Fund; and
- (ii) Capital Fund

### **Review of Reserves**

An annual review will be undertaken, as part of each annual budget process, to assess the existing reserves and funds and the use made of them over the preceding year and to determine appropriate future use in line with the Council Plan and the MTFP.

### **Use of Reserves to support Financial Resilience**

For financial resilience purposes the council may need to consider using a proportion of unearmarked and earmarked Useable Reserves over the life of the MTFP.

The overall level of financial resources available to the council is finite and therefore any continued use of reserves cannot be sustained in the longer term without placing the council's financial position at risk unless a clear and sustainable plan exists to maintain or replenish reserves through savings or income generation.

## Appendix 1 – Key Planning Assumptions financial impact

The section below expands each of the eleven key planning assumptions outlined in Section 2 of the Medium-Term Financial Plan in order to identify the likely financial impact of each.

**Key Planning Assumption 1: 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.**

The primary source of funding for the delivery of Council Services is the Scottish Government through the allocation of general revenue grant, specific grant, and the distribution of national non-domestic rates income. Fig 6 shows the breakdown of funding sources for South Ayrshire in 2026-27, sourced from the draft Local Government Settlement contained in Finance Circular 1/2026.

The Scottish Government published its Scottish Spending Review 2026 in January 2026. Contained within this publication was the stated intention to provide funding for Local Government on a flat cash basis for the period to 2028-29. This is a significant real terms reduction for Local Government in Scotland.

Historic evidence suggest that the actual Local Government settlement will change over the years, likely an increase but without robust evidence of this outcome, the prudent approach is to assume that the overall funding level will remain static over the period of the plan.

**Fig 5 – Scottish Government grant funding**

	2026-27 £m	2027-28 £m	2028-29 £m	2029-30 £m	2030-31 £m
General Revenue Grant	252.441	252.441	252.441	252.441	252.441
Non-Domestic Rate Income	56.618	56.618	56.618	56.618	56.618
Specific Grant	4.412	4.412	4.412	4.412	4.412
<b>Total Scottish Government grant</b>	<b>313.471</b>	<b>313.471</b>	<b>313.471</b>	<b>313.471</b>	<b>313.471</b>

**Key Planning Assumption 2: For planning purposes, a rate of 3.5% has been assumed for pay uplifts in 2026-27 followed by a 3% uplift over the remaining lifetime of the plan.**

**Key Planning Assumption 3: For planning purposes pension contributions have been set at 17.5% for 2026-27 followed by an assumed rate of 15% over the remaining lifetime of the plan.**

Fig 6 below shows the current planning assumptions for increases in pay:

**Fig 6 – Pay uplift assumptions**

	2026-27 £m	2028-27 £m	2027-28 £m	2028-29 £m	2029-30 £m
Pay uplift	19.044	7.970	7.727	8.140	7.859

It should be noted that the £19.0m uplift in 2026-27, which appears to be an outlier when compared to future years' uplifts, is due to a greater pay inflation uplift of 3.5% in 2026-27 than in later years and to the pension contribution rate increasing to 17.5% in 2026-27 and then dropping down to 15% from 2027-028 onwards.

**Key Planning Assumption 4: For planning purposes Council Tax rates will be kept at 2025-26 levels with different uplift options presented to demonstrate the impact on Council finances**

Council Tax income equates to approximately 20% of the council's funding each year. It is therefore an extremely important lever for raising additional funding and an important consideration for budget planning purposes.

Two Council Tax uplift scenarios have been modelled to provide an optimistic and a pessimistic budget gap outcome, depending on potential future decisions.

- a **pessimistic** scenario assumes an 8% uplift for 2026-27 followed by 6% uplifts for the remaining 4 years of the plan, and
- an **optimistic** scenario assumes an 8% uplift for all years of the plan.

Fig 7 below shows the different levels of income that could be achieved depending on if an increase of 8% is applied across all years of the plan of 8% in 2026-27 followed by 6% thereafter.

**Fig 7 – Council Income scenarios**

Year	Pessimistic		Optimistic	
	Estimated CT income £m	Year on Year increase £m	Estimated CT income £m	Year on Year increase £m
<i>Base 2025-26</i>	74.833	-	74.833	-
2026-27	80.792	5.959	80.792	5.959
2027-28	86.044	5.252	87.658	6.866
2028-29	91.637	5.593	95.109	7.451
2029-30	97.594	5.957	103.194	8.085
2031-32	103.938	6.344	111.967	8.773
<b>Total Income</b>		<b>29.105</b>		<b>37.134</b>

**Key Planning Assumption 5: For planning purposes the inflationary uplift for 2026-27 has been established based on the amounts approved by Council in November 2025, followed by inclusion of an assumed uplift amount for the remained of the years of the plan.**

Many of the Council's contracts, such as the schools PPP contracts, 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 recent economic uncertainty means that attempting to model inflation rates is challenging. Inflation has been easing over the year, but the rate still remains above the Bank of England target rate but recently hitting its 2% target.

The current planning assumptions for Inflation/Contractual pressures assumed in the updated Medium Term Financial Plan is shown in Fig 8 below

**Fig 8 – Current Inflation/contractual planning assumptions 2026-27 to 2030-31**

	2026-27 £m	2027-28 £m	2028-29 £m	2029-30 £m	2030-31 £m
<b>Total</b>	<b>3.240</b>	<b>3.500</b>	<b>3.500</b>	<b>3.500</b>	<b>3.500</b>

**Key Planning Assumption 6: For planning purposes the updated 2025-26 to 2036-37 Capital Investment Programme presented to Council in December 2025 is being used in relation to debt charge estimates extrapolated across the period of the plan. In addition changes agreed at Council of 19<sup>th</sup> February in terms of updating and extending the investment programme are also incorporated.**

The current Capital Investment Programme was approved by Council in February 2025 covering the period from 2025-26 through to 2036-37. 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.

The Council undertook two separate reviews of the capital investment programme during 2025-26 resulting in a reduction in planned spend and an associated reduction in debt charge implications over the period of the investment plan.

Fig 9 show the updated planned General Services Capital investment programme and associated planned borrowing to finance the investment over the period 2026-27 to 2030-31 based on the latest Capital Budget considered at Council of 19<sup>th</sup> February 2026.

**Fig 9 - Planning capital investment and borrowing**

	2026-27 £m	2027-28 £m	2028-29 £m	2029-30 £m	2030-31 £m
<b>Total capital investment</b>	<b>97.302</b>	<b>82,017</b>	<b>46.938</b>	<b>24.797</b>	<b>11.433</b>
<b>Planned borrowing</b>	<b>72.141</b>	<b>38.141</b>	<b>15.781</b>	<b>4.488</b>	<b>3.183</b>

Fig 10 below shows the current planning assumptions for debt charges over the period 2026-27 to 2030-31 based on the planned borrowing to finance the capital investment plan shown in Fig 9.

**Fig 10 – Debt charge implications**

	2026-27 £m	2027-28 £m	2028-29 £m	2029-30 £m	2030-31 £m
Principal	6.432	7.071	7.419	7.840	8.269
Interest	13.041	15.671	15.995	15.728	15.129
Expenses	0.314	0.308	0.306	0.298	0.288
Investment income	(1.740)	(1.695)	(1.606)	(1.561)	(1.447)
<b>Total</b>	<b>18.047</b>	<b>21.355</b>	<b>22.114</b>	<b>22.305</b>	<b>22.239</b>
<b>Movement from previous year</b>	<b>(0.156)</b>	<b>3.308</b>	<b>0.759</b>	<b>0.191</b>	<b>(0.066)</b>

Revenue debt charge uplifts are driven by the level of planned borrowing in terms of principal repayments and assumptions around interest rates at which the borrowing is taken. In recent years, the Council has continued to increase the level of capital investment which increases the level of principal repayments in a period of higher-than-normal interest rates, resulting in significant increases in borrowing costs, hence the reason for two programme reviews undertaken during 2025-26.

***Key Planning Assumption 7: For planning purposes the Council's contribution to the HSCP will continue on a flat cash basis, subject to GAE changes and any Scottish Government directed spend.***

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.

Traditionally the Council has provided contributions on a flat cash basis, varied by additional amounts included in the Local Government settlement for changes to Grant Aided expenditure factors and the passporting of new funding provided by the Scottish Government through the settlement.

In 2025-26 the Council varied this arrangement to provide additional funding of £0.725m to the partnership beyond the additional sums contained in the settlement. This additional funding was provided in recognition of the shortfall in funding provided by the Scottish Government for changes to national insurance contribution rates and additional funding for general pressures.

In 2025-26 the Council is contributing £107.2m for delegated services to the HSCP. Fig 11 below details the expected contribution to the partnership taking account of the various movements in the 2026-27 Local Government settlement.

**Fig 11- HSCP contribution**

	2026-27 £m	2027-28 £m	2028-29 £m	2029-30 £m	2030-31 £m
Base contribution	107.158	114.822	114.822	114.822	114.822
Pension rate increase	3.754	-	-	-	-
Share of SG 2025-26 pay funding	0.345	-	-	-	-
GAE reductions	(3.576)	-	-	-	-
Floor mitigation (GAE changes)	3.576	-	-	-	-
New SG directed funding	3.565	-	-	-	-
<b>New contribution</b>	<b>114.822</b>	<b>114.822</b>	<b>114.880</b>	<b>114.880</b>	<b>114.880</b>
Movement from previous year	<b>7.664</b>	-	-	-	-
Percentage increase	<b>7.2%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>	<b>0%</b>

While in the years from 2027-28 it appears that there is no uplift in contribution from the Council (i.e. flat cash) it is highly likely that the Scottish Government will continue to provide additional funding for several national commitments, such as the Real Living Wage.

The recently published Scottish Government’s Scottish Spending Review 2026 indicates a real terms uplift of over the period 2026-27 to 2028-29.

Any additional funding received by the Council for these purposes will be passported through to the partnership. For planning purposes neither any potential additional income (received through the Councils General Revenue Grant allocation), nor any contribution increase has been factored in to the Council MTFP due to the cost neutrality of the adjustment.

**Key Planning Assumption 8: For planning purposes the assumed increase in income (Option1) proposed in the Council paper of 19 February 2026 will be included, with a further uplift allowed in all remaining year of the plan.**

Fig 12 below shows the current planning assumptions for increases in Fees and Charges implemented through the targeted approach:

**Fig 12 – Fees and Charges uplift**

	2026-27 £m	2027-28 £m	2028-29 £m	2029-30 £m	2030-31 £m
Fees and Charges	0.696	0.500	0.500	0.500	0.500

**Key Planning assumption 9: Include cashable benefits from the approved transformation project as part of the annual budget setting process.**

In March 2024 the Council approved the establishment of a Transformation Board with the board being chaired by the Chief Executive as the officer ultimately responsible for the transformation of the Council. Activity of the Board is monitored through reporting to the Service and Partnership Performance Panel and through regular update reports to Cabinet.

The transformation Board has agreed a number of initiatives that are anticipated to bring cashable benefits to the Council. Fig 13 below provides a profile of the expected timing of these cashable benefits for inclusion in the Medium-Term Financial Plan.

**Fig 13 – Transformation cashable benefits**

	2026-27 £m	2027-28 £m	2028-29 £m	2029-30 £m	2030-31 £m
Procurement Review	0.500	0.250	-	-	-
Solar Farm project	-	(0.150)	0.350	0.050	-
Business Support model	0.222	-	-	-	-
Early Payment discount scheme	0.065	0.040	-	-	-
Revised CRA/HRA recharging mechanism	-	0.200	-	-	-
<b>Total</b>	<b>0.787</b>	<b>0.340</b>	<b>0.350</b>	<b>0.050</b>	<b>0.000</b>

**Key Planning assumption 10: Include the anticipated net income benefits from the approved and planned spend to save capital investment activity, profiled in future years of the plan when the impact is expected to occur.**

An initial assessment of recently approved capital investment Spend to Save opportunities within several Sports and Leisure facilities and the Ayrshire Growth Deal Commercial build project has been undertaken to identify the potential additional net income or reduced cost generated beyond the investment cost (debt charges). Fig 14 below provides a profile of the expected timing of this additional net income for inclusion in the Medium-Term Financial Plan.

**Fig 14 – Spend to Save benefits**

	2026-27 £m	2027-28 £m	2028-29 £m	2029-30 £m	2030-31 £m
Troon dry side development	-	0.270	0.082	-	-
Citadel development	-	0.650	0.260	-	-
Troon Pool eco project	-	0.035	-	-	-
AGD commercial build	-	-	-	0.828	-
<b>Total</b>	<b>0.000</b>	<b>0.955</b>	<b>0.342</b>	<b>0.828</b>	<b>0.000</b>

**Key Planning Assumption 11: Note the remaining budget gap in plan, update the plan when new information becomes available whilst seeking to identify and implement new savings proposals for future years.**

The overall impact financial impact of the various planning assumptions identified in the plan are outlined in Fig 15 (Current planning assumption CT scenario) and Fig 16 (Optimistic CT scenario) to establish the potential overall cumulative budget gap over the period of the five-year plan.

**Fig 15 – Budget Gap (Current planning assumption CT scenario)**

	2026-27 £m	2027-28 £m	2028-29 £m	2029-30 £m	2030-31 £m
Scottish Government Grant	313.471	313.471	313.471	313.471	313.471
Council Tax	<b>80.792</b>	<b>86.044</b>	<b>91.637</b>	<b>97.594</b>	<b>103.938</b>
Reserves	2.000	-	-	-	-
<b>Total anticipated income</b>	<b>396.263</b>	<b>399.515</b>	<b>405.108</b>	<b>411.065</b>	<b>417.409</b>
Base budget	370.365	396.414	<b>400.753</b>	<b>405.583</b>	<b>411.525</b>
Pay uplifts	19.044	7.970	7.727	8.140	7.859
Contract/inflation uplift	3.240	3.500	3.500	3.500	3.500
Debt Charges increase	(0.156)	3.308	0.759	0.191	(0.066)
HSCP uplift	7.664	-	-	-	-
Fees and Charges uplift	(0.696)	(0.500)	(0.500)	(0.500)	(0.500)
Transformation – cashable benefits	(0.787)	(0.340)	(0.350)	(0.050)	-
Spend to Save initiatives	-	(0.955)	(0.342)	(0.828)	-
<b>Total planned expenditure</b>	<b>398.674</b>	<b>409.397</b>	<b>411.547</b>	<b>416.036</b>	<b>422.318</b>
<b>Budget gap</b>	<b>(2.411)</b>	<b>(9.882)</b>	<b>(6.439)</b>	<b>(4.971)</b>	<b>(4.909)</b>

Fig 15 – on the assumption that each year the highlighted budget gap is dealt with by reducing costs or increasing income then the cumulative budget gap of the five-year period is **£28.612m**. This is on the assumption that Council Tax is uplifted by 8% in 2026-27 and then by 6% in each of the following four years of the plan.

For the more optimistic scenario, Council Tax is uplifted by 8% across all years of the plan. This generates additional cumulative income for the Council of £8.029m. Fig 16 below shows the annual impact of this change. The higher Council Tax uplift means that the annual savings requirement (or budget gap) is lower each year so the cost base stays higher in the following year. The cumulative budget gap for the five-year period is **£20.583m**, a net cumulative gain of £8.029m, the equivalent of the additional Council Tax generated

**Fig 16/**

**Fig 16 – Budget Gap (Optimistic CT scenario)**

	2026-27 £m	2027-28 £m	2028-29 £m	2029-30 £m	2030-31 £m
Scottish Government Grant	313.471	313.471	313.471	313.471	313.471
Council Tax	<b>80.792</b>	<b>87.658</b>	<b>95.109</b>	<b>103.194</b>	<b>111.967</b>
Reserves	2.000	-	-	-	-
<b>Total anticipated income</b>	<b>396.263</b>	<b>401.129</b>	<b>408.580</b>	<b>416.665</b>	<b>425.438</b>
Base budget	370.310	396.414	<b>402.367</b>	<b>409.054</b>	<b>417.126</b>
Pay uplifts	19.044	7.970	7.727	8.140	7.859
Contract/inflation uplift	3.240	3.500	3.500	3.500	3.500
Debt Charges increase	(0.156)	3.308	0.759	0.191	(0.066)
HSCP uplift	7.664	-	-	-	-
Fees and Charges uplift	(0.696)	(0.500)	(0.500)	(0.500)	(0.500)
Transformation – cashable benefits	(0.787)	(0.340)	(0.350)	(0.050)	-
Spend to Save initiatives	-	(0.955)	(0.342)	(0.828)	-
<b>Total planned expenditure</b>	<b>398.674</b>	<b>409.397</b>	<b>413.161</b>	<b>419.507</b>	<b>427.919</b>
<b>Budget gap</b>	<b>(2.411)</b>	<b>(8.268)</b>	<b>(4.581)</b>	<b>(2.842)</b>	<b>(2.481)</b>