Financial Strategy 2018 to 2022

June 2018

South Ayrshire Council

Five year Financial Strategy 2018/19 to 2021/22

Contents

1. Introduction

1.1 South Ayrshire Council in line with other Councils faces significant financial challenges and is required to operate within tight fiscal constraints for the foreseeable future due to the continuing difficult national economic outlook and increased demand for services. This Strategy recognises the Council's duty to set a prudent, sustainable budget, and seeks to provide a practical foundation for the provision of the best possible value for money in the delivery of Council services in the longer term.

1.2 This document seeks to provide a single Financial Strategy that brings together the strategic objectives of the Council detailed in the Council's Programme for Effective Governance and subsequent 2018 to 2022 Council Plan along with all the relevant financial information in a clear accessible document covering the four year period, 2018 to 2022.

1.3 The value of such a Strategy is that it enables the Council to develop a better understanding of the wider policy and financial environment within which it operates, identify and respond flexibly to changing contributing factors, manage and mitigate risk and ensure financial resources are directed towards achieving the Council's strategic objectives and outcomes.

1.4 The Council's strategic objectives for 2018 to 2022 are:

1.4.1 Effective Leadership that promotes fairness;

1.4.2 Reduce poverty and disadvantage;

1.4.3 Health and care systems that meet people's needs;

1.4.4 Make the most of the local economy;

1.4.5 Increasing the profile and reputation of south Ayrshire and the Council; and

1.4.6 Enhanced environment through social, cultural and economic activities.

1.5 This Financial Strategy is key to ensuring the achievement of these objectives and is about making sure sufficient resources are available to support their delivery. It is likely to provide assistance in identifying where resources will become stretched and encourage the identification of a more prioritised approach to future planning, having regard to financial constraints.

1.6 This document provides detailed information regarding the current financial position and also identifies issues that will impact in the longer term, so that the Council can plan ahead. Given the lack of clarity and uncertainty over future local government funding from the Scottish Government, the strategy includes several scenario based expenditure and projected funding forecasts.

1.7 As with any Strategy based on forecasts, its contributing factors will be subject to change over time, the Strategy will therefore be reviewed bi-annually so that the Council can respond proactively to any such changes.

1.8 The Financial Strategy encompasses the Council's General Fund revenue and capital accounts and also gives consideration to reserves and balances held. Considerations regarding the Housing Revenue Account (HRA) are channelled separately through the HRA business plan and rent setting Strategy which is subject to separate consideration and review.

1.9 This Financial Strategy will provide information and direction to the following range of stakeholders:

1.9.1 The Council, its Panels and Elected Members – to decide how available financial resources should be used;

1.9.2 Chief Officers, managers and employees – to help optimise the available resources;

1.9.3 The residents of South Ayrshire – to show how the Council's financial Strategy impacts on service provision;

1.9.4 Council tax payers – to demonstrate how the Council looks after public resources; and

1.9.5 Partners – to help identify opportunities for joint working and the financial constraints within which the Council operates.

1.10 It is essential to the success of the Strategy that longer term financial planning is viewed as a corner-stone of Council strategic and service planning.

2. Financial Strategy 2018 to 2022

2.1 *Executive Summary*

2.1.1 The Strategy recognises the continuing difficult economic climate and the need for tight fiscal constrain for the foreseeable future. **The fundamental basis for the Financial Strategy is 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 strategic objectives**.

2.1.2 The new Council Plan covers the period to 2022 and this Financial Strategy will be used to support the achievement of the objectives contained therein.

2.1.3 The medium to long term Financial Strategy, aligned to Council objectives, will enable the Council to continue to manage its financial resources in an effective way.

2.2 *Our Overall Financial Strategy*

2.2.1 **Set a prudent, sustainable budget in line with available resources, directed to delivering the Council's Strategic Objectives as contained in the Council Plan**.

This will mean that future budget setting – revenue and capital - will be set firmly in the context of the Council's strategic objectives and outcomes. Scrutiny of the Council Plan and the related Service and Performance Plans will influence decisions regarding service delivery and improvement.

2.2.2 **Set a level of Council Tax annually within the context of overall changing Local Government funding arrangements.**

This will mean that on an annual basis as part of the budget setting process consideration will be given to the draft settlement proposals having close regard to desired service outcomes to determine an appropriate and acceptable level of Council Tax to support a sustainable budget.

2.2.3 **Make appropriate provision for 'known pressures' and consider ability to achieve expected funding levels from various sources having regard to conditions and constraints, setting a prudent Council Tax bad debt provision**.

This will mean that on an annual basis as part of the budget setting process consideration will be given to any conditions attaching to the draft settlement proposals and the financial implications for the Council of accepting or not accepting those conditions. Additionally the Council will continue to set a prudent target on an annual basis for the recovery of Council tax based on collection level trends (in recent years this has been around 96%) and for Bad Debt Provision, (in recent years this has been set at 2.75%) having close regard to existing and anticipated economic pressures.

2.2.4 **Build in prudent provision annually as required to meet statutory obligations relating to anticipated pay awards or other liabilities, including taxation or pensions' liabilities**.

This will mean that the Council has sufficient funds available to meet these anticipated pressures. Proposals for changes to these elements of expenditure will continue to be closely monitored so that appropriate provision is maintained.

2.2.5 **Continue to invest in the assets of the Council over the period through an affordable and deliverable capital investment programme which reflects both available resources and delivery of Strategic Objectives and Outcomes.**

This will mean that the Council should maintain an effective long term Capital Investment Strategy based on the Council Plan and delivery of its Strategic Objectives. Consultation with Portfolio holders will play a key role in ensuring this process properly reflects the Council's priority investment areas and strategic objectives.

2.2.6 **Maximise income from fees and charges where possible but having regard to affordability for service users and impact on uptake and the local economy**.

This will mean that charges are recognised as an important source of income and are a means to help Councils achieve their objectives. The Council has put in place a clear basis for its charges through the introduction of a corporate charging policy. It is also appropriate to consider charges set by the Council for its services in the wider context of the local economy in relation to competitive pressures, local businesses and access to services by all sections of society.

2.2.7 **Continue to invest in business transformation and efficiency projects to deliver long term financial savings and service benefits, using uncommitted reserves, where appropriate, to supplement revenue expenditure commitments in the short term to allow longer term transformational change to take effect**.

In line with the Council's Programme for Effective Governance, progress a more ambitious Transformation agenda and develop a service review process which ensures honest and constructive challenge and ambitious and creative service improvements, using uncommitted reserves, where appropriate, to supplement revenue expenditure commitments in the short term to allow longer term transformational change to take effect.

This will mean that where improvement is identified but requires investment to enable its delivery ('Spend to Save') there is flexibility to make this happen. Any such expenditure should relate to delivery of the Council's Strategic Objectives and Outcomes, including transformational change projects to increase organisational efficiency.

2.2.8 **Maintain uncommitted reserves at a minimum of 2% 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.

2.2.9 **Public engagement and consultation should be a key factor in developing future service priorities, budget plans and savings.**

This will mean that our communities and our service users (as well as our staff and the Trades Unions through existing consultation processes) will have an opportunity to contribute to future debate in relation to service redesign, service delivery models and planned efficiencies.

2.3 *Financial Outlook*

2.3.1 With so many external influences impacting on the economy, forecasting remains very difficult. Brexit negotiations are ongoing but uncertainty still remains as to what the economic implications are. If there is a downturn in economic activity within the UK this could lead to further public sector expenditure restraint.

2.3.2 The Cabinet Secretary for Finance and the Constitution published the 2018/19 draft budget and the financial settlement for local government on 14 December 2017. In line with previous practice the draft budget was reviewed by the Scottish Fiscal Commission (SFC), which compiled forecasts for the devolved taxes and the wider Scottish economy.

2.3.3 The SFC produced more cautious economic growth forecasts than most commentators and anticipates rates of growth in the Scottish economy significantly lower than those for the UK forecast by the Office for Budget Responsibility[1].

2.3.4 The Accounts Commission recently published its report 'Local Government in Scotland: Challenges and Performance 2018'[2] and notes that:

(i) Councils are operating in a complex, changing and increasingly uncertain environment. The sector faces potentially significant change from the UK's decision to leave the European Union. The review of local governance announced by the Scottish Government and COSLA aims to give people more say in local

[1] Scottish Fiscal Commission – Scotland's Economic and Fiscal Forecast – December 2017
[2] Accounts Commission – Local Government in Scotland: Challenges and performance 2018

decision-making, and may have a significant impact on councils.

(ii) Council revenue funding from the Scottish Government has fallen in real terms by 9.6 per cent between 2010/11 and 2018/19. This has presented councils with a major challenge in delivering services and making savings. However, some national policies, and ongoing spending commitments such as pension and debt costs, mean there are limitations on where councils can make savings. Smaller service areas, which often include important regulatory functions, have seen the biggest budget reductions, while education and social care services take up a growing proportion of council spend.

(iii) Scotland's population is getting older, leading to increased demand for social care services and fewer working age people to fund public services. Population change brings different challenges to different councils and also has financial implications. Under current arrangements, some councils can expect to see Scottish Government funding fall further than others as their total population declines, while their older population grows and demand for services increases.

(iv) New legislation involves councils developing fresh approaches to community empowerment. There are some examples of good work taking place, including new ways in which councils consult with, listen to and work with local people and communities. However, they are still at the early stages of realising the ambitions of the Community Empowerment Act and there are signs that these approaches do not reach everyone. In 2016, only 23 per cent of adults agreed that they can influence decisions affecting their local area

2.3.5 The Accounts Commission[3] and the Scottish Government[4] have previously highlighted the services that have seen the biggest cuts in local government spend across Scotland since 2010/11 in real terms:

Table 1 – Cuts in spend 2010/11 to 2016/17

	Education	Environmental	Central	Culture and related	Non HRA Housing	Planning and Development	Roads and Transport	Social Work
% reduction	-6%	-7%	-39%	-19%	-35%	-34%	-28%	0%

2.3.6 The Accounts Commission forecast Education and Social Care to account for more of the Local Government budget going forward, rising from around 75% to 80% by 2025/26.

2.3.7 Commentators agree that the UK Government's current spending plans indicate that public spending will reduce each year for the foreseeable future. While it is extremely difficult to map the trajectory

[3] Accounts Commission – local Government in Scotland: Financial Overview 2016-17
[4] Scottish local Government Finance Statistics 2016-17

of public spending and grant funding it is agreed that the path will be downward.

2.3.8 The scale of uncertainty and the potential for significant funding cuts means that the Council will require to address the situation and consider options for budget savings in a very short timescale if a balanced budget for 2019/20 and for a number of years beyond is to be achieved. The situation is exacerbated if the Scottish Government continues to ring fence funding, or insist that certain outcomes are achieved. This means that there may be certain areas of the council budget, particularly in relation to Education and Social Care, where budget savings potentially cannot be achieved. This will mean that reductions in other budgets will require to be much higher.

2.3.9 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.

2.3.10 The Financial Strategy emphasises that action needs to be taken now to achieve future savings and that changes that are proposed and implemented move the Council towards the achievement of the Council Plan outcomes.

2.4 ***Financial Position - 3 Year Outlook***

2.4.1 In order to provide an understanding of the financial environment and context in which the high level Financial Strategy sits it is appropriate to provide information on the indicative financial position for the Council for the period of the Strategy, 2018 to 2022.

2.4.2 Due to the continued significant uncertainty regarding the level of grant funding receivable from the Scottish Government (SG), scenario based financial modelling has been undertaken based on a range of different funding scenarios. Three scenarios have been modelled as follows:

(i) **Scenario 1** – assumes SG grant funding **reduced annually by 3.0%.** Scenario 1 is intended to show a pessimistic view of sustained funding reductions for 2019/20 and beyond to provide an indication of the high end of likely savings required.

(ii) **Scenario 2** – assumes SG grant funding **reduced by 1.5% in 2019/20** followed by **reductions o**f **1.0%, 0.5%,** in the following years. Scenario 2 is intended to provide an indication of the likely savings required for a less pessimistic view with a diminishing reduction in the level of funding over the period.

(iii) **Scenario 3** – assumes SG grant funding is on a **flat cash basis** for each of the years in the forecast. Scenario 3 provides an indication of the likely required savings based on a more optimistic view of funding reductions beyond 2018/19.

Further information on the assumptions used in the scenarios is set out in detail in **Annex 3**.

2.4.3 The indicative 3 year revenue budget **gap** projections based on each scenario are as follows:

Table 2 – Forecast budget gap

	2019/20 £m	**2020/21 £m**	**2021/22 £m**	**Cumulative £m**
Scenario 1	13.827	14.815	14.604	**43.246**
Scenario 2	10.851	10.923	9.847	**31.621**
Scenario 3	7.874	8.933	8.854	**25.662**

2.4.4 It must be recognised that forecasts of funding and expenditure levels become more uncertain and subjective as these move beyond the initial years.

2.4.5 For modelling purposes it has been assumed that Council Tax will increase by 3% annually Should the Council choose not to increase Council Tax over the full period this would add a further cumulative **£6.000m** to the budget gap.

2.4.6 It is not possible to say with any certainty which, if any, of the scenarios will come to pass especially given the recent events encountered by the Scottish Government as they sought to secure support for the Scottish budget in the Parliamentary process, but it would not be unreasonable to assume that anywhere between **£25.7m** and **£43.2m** of savings will need to be delivered over the next three years.

2.4.7 In terms of the gaps identified, no further direct Scottish Government funding for the Health and Social Care Partnership (HSCP) has been assumed in the above scenarios and therefore any demand pressures for the Social Care element of the partnership will require to be carefully considered by the Council in conjunction with appropriate HSCP efficiency measures which may be limited given the growing demand and expectations for services.

2.4.8 This three year approach will enable the Council to give early consideration to forecast pressures in later years and take a measured approach to addressing them. It will also provide greater flexibility in financial planning by establishing a robust framework for the role of reserves in supporting planned expenditure and also considering how these reserves will be replenished.

2.5 ***Capital Investment Strategy***

2.5.1 The Council is required by regulation, to have regard to CIPFA's Prudential Code (revised 2017) under Part 7 of the Local Government in Scotland Act 2003. The prudential code requires authorities to have a Capital Investment Strategy that sets out the long-term context in which capital expenditure and investment decisions are made and gives due consideration to both risk, reward and impact on the achievement of priority outcomes.

2.5.2 The capital strategy is intended to give a high level overview of how capital expenditure, capital financing and treasury management activity contributes to the provision of services along with an overview of the implications for future financial sustainability.

2.5.3 **Annex 3** sets out in detail the capital Investment Strategy which supports the Council's General Services 8 year Capital investment Programme. The Council's Capital Investment Strategy also covers the Housing Revenue Account 5 year Capital Investment Programme which has been developed as part of the overall HRA business plan.

2.6 ***Treasury Management and Investment Strategy***

2.6.1 The purpose of a Treasury Management and Investment Strategy is to detail the planned activities for the treasury service in the forthcoming financial year. The Strategy for 2018/19 was approved by Council on 1 March 2018 and can be found at: www.south-ayrshire.gov.uk/budgeting/ (Treasury Management and Investment Strategy 2018/19).

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2.6.2 The Strategy sets out the basis for decision making in relation to managing the Council's cash flow position to ensure appropriate investment returns are achieved and ensuring that appropriate funding for budgeted capital investment plans during 2018/19 are in place and to ensure the relevant borrowings are in line with debt charge budgets.

2.6.3 The overall objectives for the Council's Treasury Management and Investment Strategy are :

Table 3 – Treasury Management objectives

For Borrowings	For Investments
to minimise the revenue cost of borrowings	to protect capital security of the invested funds
to manage the Council's cash flow	
to manage the borrowing repayment profile	to obtain the best market return available commensurate with protection of security and liquidity
to assess interest rate movements, and borrow/invest accordingly	
to monitor and review the level of variable rate loans held in order to take advantage of interest rate movements	
to identify and evaluate opportunities for debt rescheduling	

2.7 ***Reserves Strategy***

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

(i) as a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing;

(ii) as a contingency to mitigate against the impact of unexpected events or emergencies; and

(iii) as a means of building up funds to meet known or anticipated future commitments.

2.7.2 The existence and management of reserves is a fundamental aspect of any sound financial strategy. The Council's policy on reserves and provisions has been to maintain a minimum of 2% of its net General Services revenue budget in reserve to meet the potential cost of unforeseen liabilities, in line with the recommended approach from the Chartered Institute of Public Finance and Accountancy ('CIPFA'). This policy approach has enabled the Council to build up healthy reserves and provisions to meet the challenges of a contracting Scottish Government central funding environment.

2.7.3 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 this Financial Strategy.

2.7.4 **Annex 4** sets out in detail, the specific strategy for managing the reserves, balances and funds currently held by the Council

2.8 ***Financial Forecast Risk***

2.8.1 The assumptions which the financial projections are built upon are the best estimate at April 2018 of the likely future movement in the financial environment.

2.8.2 The use of scenario planning using a best case, worst case and mid-range estimate shows the likely impact of changes to these assumptions. Whilst the outcome will no doubt differ from the scenarios, they provide a useful illustration of the overall financial envelope.

2.8.3 The assumptions will continue to be kept under review and updated as appropriate.

Annex 1 - National and Local Influences

1. Introduction

1.1 The local environment within which the Council operates has changed significantly in recent years and will continue to change in the future due to the impact of national legislation and policy, demographic movements, economic factors, local priorities and developing customer expectations.

2. National influence

2.1 ***Gross Domestic Product and Inflation***

2.1.1 The Gross Domestic Product (GDP) is one of the primary indicators used to gauge the health of a country's economy. Usually GDP is expressed as a comparison to the previous quarter or year.

2.1.2 Real UK GDP grew by 0.3% in the final quarter of 2017 and GDP grew by 1.4% over the year as a whole. The OBR expects the level of GDP in 2022 to be marginally higher than it forecast at Autumn Statement 2017. The OBR now forecasts GDP growth of 1.5% in 2018, 1.3% in both 2019 and 2020, and then 1.4% in 2021 and 1.5% in 2022[5]

2.1.3 In the event of lower GDP growth, resulting in lower revenues, there are 3 options for the UK government:

(i) impose higher tax levels, although in the case of the biggest tax sources (IT/NIC/VAT) this conflicts with past election pledges;

(ii) increase borrowing, although this conflicts with the existing fiscal target; or

(iii) reduce spending, most likely on Departmental budgets.

2.1.4 UK inflation, as measured by the Consumer Prices Index (CPI) was 2.3% in the year to March 2018, a reduction from 2.8% in December 2017[6]. Higher inflation puts further pressure on services.

2.2 ***The Scottish Budget***

2.2.1 In Scotland, the spending available to Local Government is dependent on the Scottish Government's budget priorities. These include:

(i) A commitment to increase health spending by £500m more than inflation by the end of this parliament;

(ii) To maintain real terms spending on policing;

(iii) To double free childcare provision; and

[5] Office of Budget Responsibility March 2018 Economic and Fiscal Outlook Report
[6] Office of National Statistics

(iv) To invest an additional £750m in a school attainment fund.

2.2.2 Taking these commitments just on their own mean that over half the Scottish budget can be viewed as ‘protected’. When certain areas of expenditure are protected, ‘non-protected’ areas will shoulder a greater share of the burden. As an illustration, delivering on just four budgetary priorities - health, policing, childcare and educational attainment – could mean that ‘non-protected’ areas, such as Local Government, face real terms cuts of between 9% and 14% over the parliamentary term (2016-17 to 2020-21).

2.2.3 On top of this can be added other commitments and priorities like free higher education, tuition, college places, free personal and nursing care and funding for school education. The 2017 Programme for Government indicated that the government would lift the 1% pay cap which was then confirmed by the announcement in December 2017 by the Cabinet Secretary for Finance and the Constitution by the

The key features of the 2018-19 Pay Policy are:

(i) lifting the pay cap by providing a guaranteed minimum increase of 3 per cent for public sector workers who earn £30,000 or less;

(ii) continuing the requirement for employers to pay staff the real Living Wage;

(iii) a limit of up to 2 per cent on the increase in baseline pay bill for those earning above £30,000 and below £80,000; and

(iv) limiting the maximum pay increase for those earning £80,000 or more to £1,600.

2.2.4 All of this leaves the non-education elements of local government as the largest part of the budget which could be categorised as ‘non-protected’ – re-igniting the debate about the future of local government.

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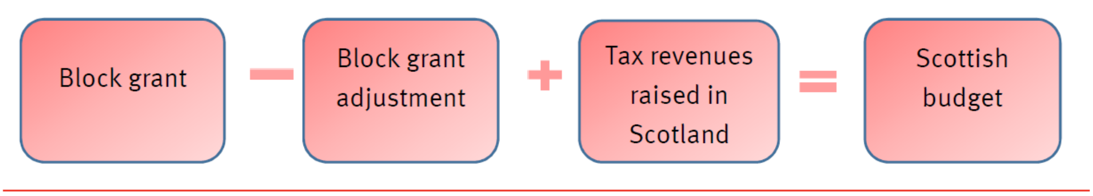
2.3 *New Fiscal Powers for Scotland*

2.3.1 The fiscal responsibilities of the Scottish Parliament are expanding rapidly, with new powers over taxation and welfare. Around 40% of devolved expenditure will now be funded by tax revenues collected in Scotland – a figure that will rise to 50% once VAT revenues are assigned. This makes the determinations of the Scottish budget significantly more complex than it has been in the past.

2.3.2 In the past, the resources available to the Scottish Government essentially depended on the block grant from Westminster. In future, in addition to the block grant itself, the resources available to the Scottish Government will depend on a complex interaction between the revenues from taxes transferred to the Scottish Government and the revenues from the equivalent taxes in the rest of the UK. The process is set out in the following diagram:

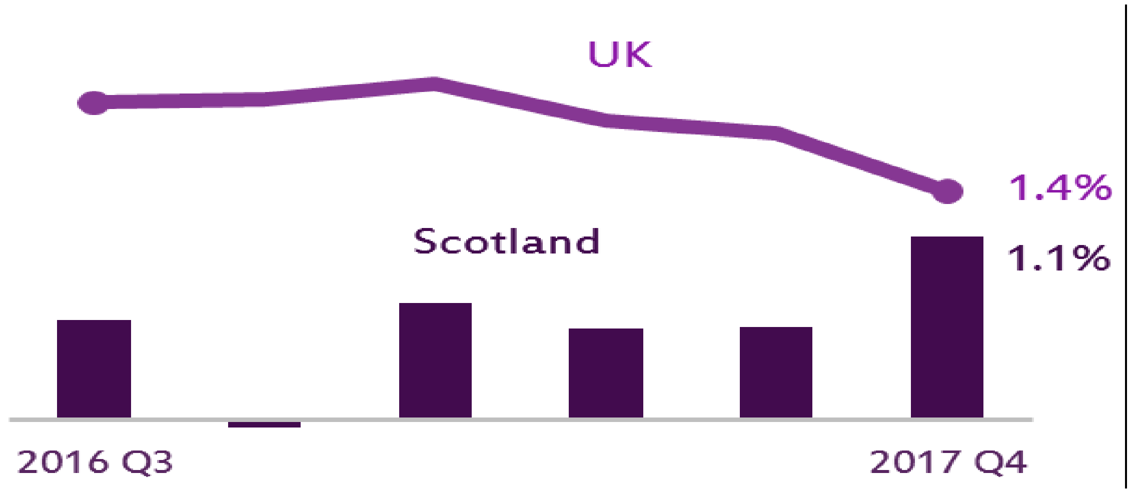
Diagram 1 – Fiscal Framework



2.3.3 Under the new fiscal framework, Scotland's budget will be no better and no worse off relative to the historic funding arrangement, provided growth in Scotland's devolved revenues matches the growth of comparable revenues in the rest of the UK. If Scotland outperforms the UK on this basis then resources will rise, if Scotland underperforms, resources will fall. These new fiscal powers come at a time when the Scottish economy remains fragile. Growth in Scotland has been much weaker than for the UK economy for most of the last two years. Annual Scottish Growth is currently 1.1% compared to 1.4% for the UK[7].

2.3.4 This differential inevitably increases the pressure on the Scottish Government budget plans as slow growth rates in the economy means slow growth in income tax revenues which in turn can effect income tax policy as the Scottish Government seeks to raise funds to meet public sector spending plans.

Diagram 2 – GDP growth comparison



2.3.5 In order to set its budget each year, and in order to undertake medium term financial planning, the Scottish Government will need forecasts of the Scottish revenues. The Scottish Fiscal Commission (SFC) has been established to make the Scottish forecasts. Twice each year, the SFC will make a 5-year forecast for each of the Scottish revenues, and for spending on the social security benefits being transferred to Scotland.

[7] Scottish Government – GDP (April 2018)

2.4 *Local Taxation*

2.4.1 A review of local taxation has been on the horizon for some time now and is a topic which is coming to the fore across the political spectrum and could feature in the 2019-20 Spending Review with consciousness around a new system of local taxation increasing.

2.4.2 Parliamentary Parties have already begun to question whether to continue with the current system of local taxation and we would expect to engage around their positions for the future of local taxation.

2.5 *Brexit*

2.5.1 The Scottish Government states in its methodology note on the devolved taxes published alongside the Draft Budget 2017-18 that the outcome of the EU referendum ‘inevitably increases the economic uncertainty faced in Scotland and in turn the future path of tax revenues’. It anticipates that the impact in the short-term is likely to be as follows:

(i) the depreciation of sterling pushes up inflation, which in turn depresses real wages and, coupled with an increase in economic uncertainty, depresses consumption;

(ii) increased economic uncertainty delays or suppresses business investment;

(iii) lower economic growth in the rest of the UK, Scotland’s largest trading partner, reduces intra-UK trade; and

(iv) this is partly offset by the depreciation in sterling providing a boost to Scotland’s international exports.

2.5.2 The Council will need to continue to closely monitor the consequences of the UK leaving the European Union. Particular areas of concern are: EU structural and investment funds; Ayrshire Growth Deal projects currently eligible for European funding; and effects of any changes in immigration policy on communities and the economy.

2.6 *Expansion of Early Learning and Childcare Provision to 1,140 hours*

2.6.1 From August 2014, all Local Authorities had a duty to increase provision to 600 hours for all 3 and 4 year old children and to introduce some flexibility on how entitlement was provided and also offer 2 year old children in workless/job seeking households 600 hours of early learning and childcare.

2.6.2 Further expansion of Early Learning and Childcare (ELC) will require the Council to provide 1,140 hours per year for every 3 and 4 year old and every entitled 2 year old with implementation by 2020. This will require further expansion of available facilities and a specific allocation of grant will be available from the Scottish Government to meet the costs of this new burden.

2.6.3 A specific element of the expansion of ELC will necessitate the recruitment and retention of further suitably qualified and skilled employees to support the expansion of the provision for eligible children. Current staffing levels within the Council will not support the delivery of this expectation. The workforce will not solely be required for local authority provision, but also from within independent and private childcare providers including child minders.

2.7 ***Education Governance Review***

2.7.1 On 15 June 2017, the Scottish Government published a proposals entitled ‘Education Governance: Next Steps’ which has broad ranging proposals that will fundamentally change the role of local government in the governance and management of education services.

2.7.2 There are a great many questions which are raised by the proposal document which remain to be clarified. This detail will be developed through engagement directly with the Scottish Government and via COSLA. Any financial implications will be considered once more is known.

2.8 ***Universal Credit***

2.8.1 Universal credit the new benefit for working-age people, replaces six benefits, merging them into one payment. It was designed to make claiming benefits simpler; to encourage people to manage their own finances effectively; and bring the benefit system in line with conditions that affect working people.

2.8.2 Universal Credit full roll out commenced within South Ayrshire in early February 2018. In anticipation of this the council put in place a number of mitigations and service adaptions to help claimants transit to the new benefit arrangement.

2.8.3 South Ayrshire, along with other authorities, continue to show continuing high levels of additional administrative costs directly attributable to the introduction of Universal Credit. These are primarily due to the lack of automation and the very significant increase in manual processes for councils particularly associated with the administration of Council Tax Reduction.

2.8.4 There is also more evidence of increased demands for both Scottish Welfare Fund crisis grants and discretionary housing payments arising from Universal Credit.

2.8.5 Early ‘go live’ local authorities in Scotland have experienced a variety of additional cost pressures, both direct and indirect as outlined in 2.8.3 and 2.8.4 above, and evidence also suggests local authorities continue to experience significant increase in rent arrears because of the impact of the Full UC service in its current state of development. These authorities also anticipate an increased level of debt which they will be unable to recover.

3. Local Influences

3.1. *Demographic and Population Changes*

3.1.1 The population of South Ayrshire is estimated to be 112,470, accounting for 2% of Scotland's total population. The population is made up of 52% female and 48% male. The percentages of the population under the age of 16 years and of working age are both below average. The percentage aged 65+ is above the Scottish average. Approximately 30% of South Ayrshire's population live in rural areas.

3.1.2 By 2039, the South Ayrshire population is projected to decrease by 2% compared to the population in 2014. The population of Scotland as a whole is projected to increase by 7%. The projected change in South Ayrshire is not evenly spread across the different age groups. South Ayrshire's younger population (0-15 years) is projected to decrease by 7% and its working age population by 11% in contrast to a 1% increase in Scotland for both age groups. The pensionable age population is, however, projected to increase by 21% in South Ayrshire and 28% across Scotland from 2014 to 2039 meaning the proportion of pensionable aged people in South Ayrshire will be 32% in 2039 as opposed to 26% in 2014. More dramatically, the number of people aged 75 and over is projected to increase by 85%, with major consequences for the demand for older people's services. Consequently, the dependency ratio (the ratio of those aged 16 to 64 to the number of those aged under 16 or 65 and over) is expected to increase from 66% in 2015 to 87% in 2039.

3.1.3 These anticipated changes to the population will have considerable consequences for the Council as it strives to ensure social, educational, housing and community services meet the needs of the community.

3.1.4 Demographic changes will have significant impact on services, particularly Education and Social Care, where there will be a need to actively manage the transition from current service delivery arrangements to new models that are built around the needs of the future population.

3.1.5 New demographic and social pressures are already generating a significant increase in the demand for Council services such as homecare for the elderly and care for vulnerable adults and children. There will be continuing work undertaken with our partners in the context of the emerging strategic planning for integrated health and social care services under the Public Bodies (Joint Working) (Scotland) Act 2014.

3.1.6 Many of the changes highlighted represent significant long term challenges that have major implications in terms of the finances required to address them, and the funding that may be available from Scottish Government in terms of our changing local demographics.

3.2 *Deprivation Factors*

3.2.1 The Scottish Index of Multiple Deprivation (SIMD) measures income, education, employment, health, crime, housing and access to services to establish an overall score for each data zone. There are 147 zones in South Ayrshire, 2.3% of the Scottish total.

3.2.2 The SIMD 2016 highlights that South Ayrshire had 12.4% of its residents living in the most deprived 15% of all data zones. This is a deterioration on the SIMD 2012 figures (11.6%) therefore there still remains a wide contrast in the prosperity of communities across South Ayrshire. The challenge for the Council is to provide high quality services for all, while specifically targeting additional resources in the communities with most need.

4. Local Priorities

4.1 *Programme for Effective Governance and Council Plan*

4.1.1 A new 2018 to 2022 Council Plan was approved by Council in March 2018, based on the administration's agreed Programme for Effective Governance. The Council Plan identifies the six strategic objectives which the Council plans to achieve with a focus on 'Our People, Our Place'.

4.1.2 The Council Plan will be supported by dedicated Directorate Plans for our People and Place directorates, as well as our Health and Social Care Partnership, that will detail what we will do to deliver the strategic outcomes by 2022.

4.1.3 Creating this clear focus is especially important given the Council's limited resources both in financial and staff terms. The Council Plan sets out for the community, through its strategic objectives and strategic outcomes, where effort and resources will be directed to both develop and improve services, and how this will be measured.

4.2 *Shared Services*

4.2.1 At its meeting on 8th March, 2012, the Council approved the establishment of an Ayrshire Shared Services Joint Committee to assume responsibility for all specific, agreed shared Council services in Ayrshire. To date three services have been agreed as coming under the remit of the Committee:

(i) Roads - functions to be carried out by Ayrshire Roads Alliance led by East Ayrshire Council.

(ii) Tourism – shared Ayrshire and Arran Tourism Team between East Ayrshire, North Ayrshire and South Ayrshire, led by South Ayrshire Council.

(iii) Ayrshire Civil Contingency Team - between East Ayrshire, North Ayrshire and South Ayrshire, led by South Ayrshire Council.

4.2.2 In October 2017 Council agreed to further explore options in relation to a Regional Partnership for Economic Development related services. Further detail on this and the Ayrshire Growth Deal is provided in 4.3 below

4.2.3 Further shared service opportunities may be considered as joint working arrangements can secure benefits in terms of economy, efficiency and effectiveness.

4.3 ***Ayrshire Growth Deal and Regional Partnership***

4.3.1 In September 2016, the three Ayrshire Authorities agreed to the submission of the Ayrshire Growth Deal (AGD) Strategic Business Case to the Scottish and UK Governments. The AGD would provide the Ayrshire authorities and partners with the opportunity to focus on the major interventions which would grow the economy and create employment within the region.

4.3.2 As part of the requirement to secure the Ayrshire Growth Deal there was a need to establish robust regional governance arrangements. Scottish Government requires private sector representation as well as expecting the structure to demonstrate strong leadership across public and third sectors, and to involve community planning partnerships and universities and colleges.

4.3.3 In October 2017, in recognition of this requirement, Council approved the establishment of an interim Ayrshire Development Board comprising Elected Members from the three Councils, South, North and East Ayrshire, who will oversee proposals to widen the participation by other stakeholders.

4.3.4 This area of work contributes to the strategic objectives within the Council Plan, Our People, Our Place, to make the most of the local economy and reduce poverty and disadvantage. The work, if successful, of both the Growth Deal and of the Regional Partnership, could result in more jobs and training opportunities for Ayrshire residents, and more effective ways of ensuring that those most in need benefit from an improving economy than have been achieved in the past. It should also result in better use of the money that the Council has available to spend on economic development services and on regulatory services. .

Annex 2 – Financial Forecast 3 Year Outlook

1. Introduction

1.1 The following section outlines the specific key issues impacting on council budget projections and provides a 3 year medium term forecast for the period of the Strategy for the General Fund.

2. Scenario planning

2.1 Due to the significant uncertainty regarding the level of grant funding receivable from the Scottish Government financial modelling has been undertaken based on a range of different funding scenarios. Sections 3 below provide detail on issues impacting on the modelling and Section 4 below provides detail on the range of scenarios modelled.

2.2 Whilst the outcome will no doubt differ from the scenarios, they provide a useful illustration of the overall financial envelope.

3. Specific Key Issues impacting on Council budget predictions

3.1 There are significant issues and uncertainties in some areas that will have a direct impact on the level of efficiencies required to achieve a balanced budget in future years. In addition to the National and Local influences outlined in Annex 1 there are specific key issues and concerns at this time, in summary:

3.1.1 ***Aggregate External Finance (AEF)*** - Approximately 80% of the Council's funding comes from the Scottish Government as Aggregate External Finance ('AEF'). Latest intelligence indicates that this level of support will be reducing for 2019-20 and for several years beyond, either as a result of a change in national priorities or the Council's relative share of the total Scottish local government funding package. This will have a direct impact on the Council's ability to finance the services it delivers.

The uncertainty in this area has been increased as a result of 'eleventh hour' additional revenue funding for Local Government announced in both of the last two financial years as part of deals agreed by the Scottish Government as they sought to secure support for the Scottish budget in the Parliamentary process. This additional funding was in reality just a smaller reduction rather than an increase in funding. It is not yet known if this additional funding will be base lined or if similar deals will be struck in future years, so planning for a reduction is still recommended.

3.1.2 ***Council Tax Income*** – In September 2016, the Scottish Government set out its plans to change, from 1 April 2017, the way the council tax charge is calculated for band E to H properties. In addition the Scottish Government also signalled the end of the council tax freeze and the allocation of additional grant to compensate councils for implementing the freeze. Councils are now free to increase council tax rates, capped at a maximum 3% (for 2017-18 and 2018-19).

3.1.3 ***Other Income Sources – Fees and Charges*** - The Council also 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.

3.1.4 ***Pay Settlements, National Insurance and Pension Costs*** - Pay-related costs are a major component of the Council's overall expenditure. The Council's financial planning requires to take account of likely future pay settlements and other pay-related costs beyond 2018-19 and the anticipated impact on the Council's budgets. Whilst indicative provision has been included in the draft projections in section 4 below, there is inevitable uncertainty pending conclusion of national negotiations.

It is anticipated that national insurance rates will remain at 2018-19 levels for 2019-20 and the foreseeable short to medium term. Again, prudent provision has been included in future years' modelling but this is subject to change.

Superannuation rates have been modelled in line with the projections issued by Strathclyde Pension Fund. The rate for employers is to remain at the current level of 19.3% for the next three year period.

3.1.5 ***Employee-Related Claims*** - Provision has been included in past years' budgets for all recognised and anticipated employee related pay claims where these arise from national issues. Any new potential areas of liability/ claim identified require to be carefully considered and provisions established if appropriate at the time.

3.1.6 ***New Statutory Burdens*** - It is assumed that any new statutory burdens will be fully resourced within the local government finance settlement, although this is not guaranteed.

3.1.7 ***Inflation Costs*** - Some 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. Going forward every effort is made to contain inflation pressures within existing budget levels, through procurement processes.

3.1.8 ***Other Cost pressures –*** An essential part of the financial modelling process is the identification of increases in service demand over and above current service budgets such as the cost impact of an ageing population, welfare reform changes and the shifting of the balance of care.

3.1.9 ***Revenue Implications of Capital investment decisions -*** In order 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 in to future financial considerations.

4. Budget Scenarios 2019-20 to 2021-22

4.1 The following 3 Scenarios provide analysis of the potential financial position the Council would likely face depending on various high level assumptions, as follows:

4.1.1 (i) **Scenario 1** – assumes SG grant funding **reduced annually by 3.0%.** Scenario 1 is intended to show a pessimistic view of sustained funding reductions for 2019-20 and beyond to provide an indication of the high end of likely savings required.

(ii) **Scenario 2** – assumes SG grant funding **reduced by 1.5% in 2019/20** followed by **reductions of 1.0%, 0.5%,** in the following years. Scenario 2 is intended to provide an indication of the likely savings required for a less pessimistic view with a diminishing reduction in the level of funding over the period.

(iii) **Scenario 3** – assumes SG grant is on a **flat cash basis** for each of the years in the forecast. Scenario 3 provides an indication of the likely required savings based on a more optimistic view of funding changes beyond 2018-19.

4.1.2 It has been assumed that Council Tax is increased by 3% per annum annually. Should the Council choose not to increase Council Tax at all over the three year period this would add a further cumulative **£6.000m** to the budget gap.

4.1.3 The base expenditure each year is set assuming that the prior year efficiency measures are achieved and incorporated into the base.

4.1.4 The main factors contributing to the additional spend requirements each year are:

(i) Early Learning and childcare expansion plan costs have been incorporated with the assumption that these will be fully funded by additional Scottish Government grant;

(ii) pay awards, increments, superannuation contributions; inflationary factors, demographic increases; and

(iii) key strategic objective investment (resource pressures)

4.1.5 No further direct funding from the Scottish Government for the HSCP has been assumed in the above scenarios and therefore any demand pressures for the Social Care element of the partnership will require to be either met by the Council or through efficiencies within the HSCP.

4.1.6 Is been assumed that fees and charges will be increase by inflation for each year of the forecast. For modelling purposes this has been set at 2% based on the UK's estimates for future CPI rates in the medium term.

4.1.7 The revenue implications (debt charges) of the new eight year capital investment programme approved in March 2018 have been incorporated in the forecast model.

4.1.8 The agreed contribution from reserves assumed in 2018-19 is for one year only with no further contributions during the modelling period.

4.2 **Scenario 1** – assumes SG grant funding **reduced annually by 3%**

Table 1 – Scenario 1 budget gap forecast

	2018-19 Base £m	2019-20 Forecast £m	2020-21 Forecast £m	2021-22 Forecast £m
Expenditure				
Roll forward budget	248.726	258.009	256.176	253.725
Early Learning and Childcare expansion	3.270	3.580	1.483	1.690
Health and Social Care cost pressures	6.206	3.823	4.152	4.482
Other budget pressures	7.848	5.917	6.079	6.246
Debt charges (linked to capital investment decisions)	0.628	0.466	0.957	0.454
Increased income (from increasing charges)	-	(0.300)	(0.306)	0.312)
SAC savings already agreed	(5.999)	(1.492)	-	-
HSC savings	(2.670)	-	-	-
Assumed expenditure	**258.009**	**270.003**	**268.539**	**266.284**
Funding				
Council Tax (incr. 3% pa)	53.765	55.815	57.763	59.777
Grant funding	202.735	200.361	195.962	191.902
Reserves contribution	1.510	-	-	-
Assumed funding	**258.009**	**256.176**	**253.725**	**251.680**
Budget Gap	**-**	**13.827**	**14.815**	**14.605**

Cumulative savings of **£43.246m** would be required over the three year period of this scenario.

4.3 **Scenario 2** – assumes SG grant funding **reduced by 1.5% in 2019-20** followed by **reductions of 1.0% and 0.5%** in the subsequent years.

Table 2 – Scenario 2 budget gap forecast

	2018-19 Base £m	2019-20 Forecast £m	2020-21 Forecast £m	2021-22 Forecast £m
Expenditure				
Roll forward budget	248.726	258.009	259.152	260.593
Early Learning and Childcare expansion	3.270	3.580	1.483	1.690
Health and Social Care cost pressures	6.206	3.823	4.152	4.482
Other budget pressures	7.848	5.917	6.079	6.246
Debt charges (linked to capital investment decisions)	0.628	0.466	0.957	0.454
Increased income (from increasing charges)	-	(0.300)	(0.306)	0.312)
SAC savings already agreed	(5.999)	(1.492)	-	-
HSC savings	(2.670)	-	-	-
Assumed expenditure	**258.009**	**270.003**	**271.516**	**273.152**
Funding				
Council Tax (incr. 3% pa)	53.765	55.815	57.763	59.777
Grant funding	202.735	203.337	202.830	203.527
Reserves contribution	1.510	-	-	-
Assumed funding	**258.009**	**259.152**	**260.593**	**263.305**
Budget Gap	**-**	**10.851**	**10.923**	**9.847**

Cumulative savings of **£31.621m** would be required over the five year period of this scenario.

4.4 **Scenario 3** – assumes SG grant funding is on a **flat cash basis** for each of the years in the forecast.

Table 3 – Scenario 3 budget gap forecast

	2018-19 Base £m	**2019-20 Forecast £m**	**2020-21 Forecast £m**	**2021-22 Forecast £m**
Expenditure				
Roll forward budget	248.726	258.009	262.129	265.560
Early Learning and Childcare expansion	3.270	3.580	1.483	1.690
Health and Social Care cost pressures	6.206	3.823	4.152	4.482
Other budget pressures	7.848	5.917	6.079	6.246
Debt charges (linked to capital investment decisions)	0.628	0.466	0.957	0.454
Increased income (from increasing charges)	-	(0.300)	(0.306)	0.312)
SAC savings already agreed	(5.999)	(1.492)	-	-
HSC savings	(2.670)	-	-	-
Assumed expenditure	**258.009**	**270.003**	**274.492**	**278.119**
Funding				
Council Tax (incr. 3% pa)	53.765	55.815	57.763	59.777
Grant funding	202.735	206.314	207.797	209.487
Reserves contribution	1.510	-	-	-
Assumed funding	**258.009**	**262.129**	**265.560**	**269.264**
Budget Gap	**-**	**7.874**	**8.933**	**8.854**

Cumulative savings of **£25.662m** would be required over the five year period of this scenario.

Annex 3 – Capital Investment Strategy

1. Introduction

1.1 This Capital Investment Strategy is a high level framework for the management of the Council's core assets and infrastructure and sets out broad principles for the development of the Council's capital strategies and plans. It sits alongside and is intrinsically linked to;

(i) The Council's Treasury Management and Investment Strategy; and

(ii) The Council's Asset Management Plans.

1.2 The Prudential Code for Capital Finance in Local Authorities was introduced on 1 April 2004. The Code replaced the previous cash spending limits determined annually by the former Scottish Executive and instead now enables Councils to set their own limits whilst ensuring that the investment plans are affordable, prudent and sustainable.

1.3 The Prudential Code provides a framework for the Council's longer-term financial planning and provides better integration and prioritisation between capital and revenue spending:

1.3.1 The Council's capital expenditure plans are no longer limited to the level of cash grants available from government and capital receipts from the sale of assets in any year. The Council focuses on more strategic planning by borrowing money over a number of years to augment its capital income, provided the resultant annual debt repayments can be accommodated within the revenue budgets for future years; and

1.3.2 The Council therefore has increased scope to plan for large projects and finance them, either by restricting capital investment in other years or by borrowing money to fund the initial outlays and identifying resources within the revenue budget to meet the resultant annual debt repayments.

1.4 In determining the affordability of its capital programmes, the Council is required to examine all the resources available to it and estimates of funding available in the future. Consideration also needs to be given to the inter-dependencies between the capital and revenue budgets, by recognising that capital investment may either, generate, avoid or reduce cost pressures on the revenue budgets depending on the nature of the investment. Similarly, revenue investment in asset maintenance may avoid or delay the need for capital expenditure.

1.5 The capital strategy is intended to give a high level overview of how capital expenditure, capital financing and treasury management activity contributes to the provision of services along with an overview of how risk is managed and the implications for future financial sustainability.

1.6 In order to ensure the Councils Capital Investment Strategy and associated capital investment plans are developed and maintained in accordance with sound governance arrangements, due diligence, best practice, and legislative requirements, council staff involved throughout the process are suitably qualified to undertake the roles and responsibilities required of them. Furthermore the Council has access to external advisors such as Link Asset Services who act as its external treasury management advisors.

2. Capital Investment Strategy

2.1 The Council recognises that a longer term financial plan for assets is vital to secure best value; this reflects the high value of these assets together with the longer time frame to secure, develop or dispose of assets. By carefully planning investment and taking a longer term approach the Council ensures that scarce resources are applied in a sustainable way that supports Council and partner priorities.

2.2 To enable this approach the Council will:

2.2.1 have sound governance arrangements in place to improve corporate asset management;

2.2.2 ensure the Council only retains and then maximises the use of assets which support its strategic objectives by utilising Asset Management Plans;

2.2.3 have a corporate approach to prioritisation of investment founded on a clear business case and clear criteria, with due consideration to whole-life costing and embedded post-project evaluation;

2.2.4 take a longer term approach to capital investment to allow a greater flexibility in the planning of significant capital investment which will ensure adequate preparation and planning in terms of operational service activity;

2.2.5 invest in Council General Services assets through an average of £30.4m per annum capital investment over the period of the programme, inclusive of an average of £5.4m per annum for ICT investment;

2.2.6 in accordance with the agreed HRA business plan invest in Council Housing Revenue Account assets through an average of £16.6m per annum capital investment over the period of the programme;

2.2.7 fund capital investment through a combination of Capital Grants, Capital receipts through the sale of council assets, Capital Funding from Current Revenue (CFCR), other contributions and through prudential borrowing;

2.2.8 where prudential borrowing is undertaken for investment it should be affordable, prudent and sustainable; and

2.2.9 consider any new specific economic regeneration capital investment opportunities and Ayrshire Growth Deal investment, not contained in the current 8 year capital Investment Programme, on the basis that any investment agreed by Council would require to be factored in to the programme and funded either through the allocation of funding from the ‘projects yet to be specified’ allowance held in 2022/23 and beyond, additional borrowing, reduced spend elsewhere within the programme, utilising unallocated general reserves or by seeking funding from external sources such as the UK or Scottish Government.

3. Governance Arrangements

3.1 Good practice recommends the need for a clear process for preparing and approving business cases as a key part of decision-making and continuous review of all major capital projects. Further that a detailed and robust business case for every project should be prepared. This should cover the intended aims and benefits, options appraisal, risk assessment and cost, time and scope targets.

3.2 The Leadership Panel of 30 September 2014 approved a revised approach to capital asset management planning and a revised remit and membership of the Capital Asset Management Group (CAMG), comprising senior officers representing all services, which is tasked with ensuring the effective management of the capital programme and the evaluation of any new bids brought forward.

3.3 The specific process and roles within the council are as follows:

3.3.1 The Council approves the medium and longer term capital programme as part of the annual budget setting process;

3.3.2 The Executive Leadership Team and the CAMG ensure officer coordination of corporate asset management and support the Council and Leadership Panel at chief officer and senior management levels;

3.3.3 Bids for capital for all new projects are considered on an annual cyclical basis and to accord with a timescale that aligns with the budget setting process each year. This will ensure that projects are considered against other Council corporate needs on a prioritised basis;

3.3.4 Investment projects are considered on a regular basis by the CAMG (chaired by the Director – Place) with a view to producing a Capital Project Business Case for each project:

3.3.5 The programme for assessment of business cases for projects is as follows:

(i) completed business cases are considered and assessed at the one time by the CAMG in September each year;

(ii) recommendations from the CAMG based on the scored templates are passed to the ELT for consideration;

(iii) proposals are presented to Elected Members for inclusion in the capital plan as part of the budget setting process for each year;

(iv) only projects in excess of £100,000 capital requirement will be subject to this process;

(v) Projects under £100,000 are prioritised and approved through a separate form submitted to the CAMG. These are considered and approved utilising a similar methodology for main capital bids. There may be various sources of funding utilised for works in this category of value including the Central Repairs Account and the Repairs and Renewal Fund; and

(vi) works required to be undertaken and proposed to be funded by the Repairs and Renewal Fund in excess of £100,000 will be considered for recommendation by the CAMG but will require formal approval by Leadership Panel.

3.3.6 A Capital Asset Sub Group (CASG) has also been established, chaired by the Service Lead – Assets Management and Community asset Transfer, with the remit to monitor the actual delivery of approved projects. The CASG provides regular updates to the CAMG to allow consideration of asset management and service delivery on a more strategic basis.

3.3.7 For ICT investment projects, to ensure appropriate decisions are made with respect to new and upgraded technology projects, a governing board is seen as an essential element of governance.

3.3.8 An ICT Technology Review Board (TRB) has recently been established. The review board manage and oversee the new rolling multi-year ICT investment programme, taking responsibility for reviewing and approving business cases for all significant technology-enabled investment decisions.

3.3.9 The review board comprises the Head of Finance and ICT; Digital Transformation Manager, the four Executive Managers; and the ICT Enterprise Architect. Other stakeholders would also attend as needed for specific projects or proposals. The TRB will report regularly to the Executive Leadership Team.

3.4 To ensure Members are fully apprised of progress on the Council's annual capital investment programme, regularly update reports are submitted to Leadership Panel on a quarterly basis.

3.5 In line with the CIPFA 'Guide to Asset Management and Capital Planning in Local Authorities' the Council has classified its assets into six categories. The plans and strategies are at various stages of completeness:

(i) Land and Buildings (including Common good) – complete

(ii) Housing - complete

(iii) Roads – complete

(iv) Open space – in development

(v) Fleet – concept stage

(vi) ICT – in development

3.6 Each asset plan/strategy aims to ensure that the Council holds the right assets and that they are fit for purpose in terms of condition, suitability, sufficiency and accessibility. In addition to the assets captured in the core asset plans, there is a range of initiatives, including town centre regeneration which do not sit within any of the core asset plans as the assets are not Council owned. The need for investment in these assets is recognised in the Council's capital investment programme.

4. Capital Investment Programme

4.1 Expenditure is classified as capital when it is incurred on the purchase or improvement of assets that have a long-term value to the Council, such as land and buildings and where benefit from the investment in the assets is for a long period of time.

4.2 The Council takes a long term approach to capital investment covering an eight year period for General Services and five year period for the HRA, both are updated annually. The longer term approach is desirable due to:

(i) the longer time frame required to define need and develop sound plans and business cases;

(ii) the need to ensure that all investment fits with the longer term Council objectives; and

(iii) the high cost of acquiring, developing and using assets and the need to ensure these are in use for the longest time period.

4.3 The longer term programme may be affected by a number of factors; the economy, inflation, availability of Scottish Government Grants, value and timing of capital receipts; and market condition impacting on the tenders submitted by contractors. The Programme is reviewed on an annual basis to ensure projects can continue to be delivered within available resources.

4.4 The approach to development of the annual Capital Investment Programme includes:

(i) a review of the current programme;

(ii) Identification of opportunities to reprioritise projects for which there is no current commitment;

(iii) review of the phasing of projects from a delivery and affordability perspective;

(iv) options appraisal of emerging Business Cases; and

(v) the need to extend lifecycle investment to protect core assets.

4.5 In developing proposals, lifecycle investment in current assets, requires to be considered to sustain these assets for future service delivery. Investment priorities are assessed against available resources, including additional prudential borrowing.

4.6 Given the longer term nature of the programme it is inevitable that high level estimates will be used for the schemes later in the programme. Following approval of the programme, these require to be developed to full schemes.

4.7 The Council agreed an eight year General Services Capital investment Program at its meeting of 1 March 2018 and noted that a review of the previous capital program had been undertaken which resulted in the re-profiling of a number of projects to better reflect current projected timelines and in some cases budgets increased or reduced to reflect more accurate anticipated project spend levels.

4.8 New additional strategic investment in ICT of £43.2m was brought forward for inclusion in the eight year investment program. ICT projects have been separated into those covering the following classes of ICT assets:

(i) End-User Computing – Devices and software such as personal computers, laptops, tablets, smart phones, printers, etc., which provide the user interface to other technology-based business processes, information and productivity tools.

(ii) ICT Infrastructure – Core technology such as Network communications, Servers, Storage, Operating Systems, Databases, etc., that enables and connects end-user computing to business systems. Infrastructure has been separated into that provided within our central data centres, and that installed at each of our operating sites (Wide-Area Network or WAN).

(iii) Business Systems - are the shared software applications that enable and automate business tasks, transactions and data, resulting in employees, customers, and other stakeholders being more efficient and effective, and processes more compliant.

4.9 A total General Services capital investment programme of £236.7m was proposed for the eight year period 2018-19 to 2025-26. A summary of planned expenditure is shown in table 1 below:

Table 1 – Approved General Services capital investment programme

General Services - Category of Investment	18-19 £m	19-20 £m	20-21 £m	21-22 £m	22-23 £m	23-24 £m	24-25 £m	25-26 £m	Total
Children and Families	15.6	19.2	18.8	12.4	8.1	-	-	-	**74.1**
Adults and Older People	0.5	0.6	0.6	0.5	0.5	0.5	0.5	-	**3.7**
Communities	15.1	9.9	4.9	4.8	2.3	-	-	-	**37.0**
Other Investment (buildings etc.)	10.6	11.8	4.0	3.7	3.2	15.1	14.3	16.0	**78.7**
ICT	6.9	4.7	3.9	6.4	3.5	3.7	6.5	7.6	**43.2**
Total	**48.7**	**46.2**	**32.2**	**27.8**	**17.6**	**19.3**	**21.3**	**23.6**	**236.7**

4.10 Contained within the latter years of the programme; within the 'Other Investment (buildings etc.)' category, is £46.5m of funding allocated to 'New Projects yet to be specifically identified' as follows:

Table 2 – New project funding – yet to be specifically identified

Other investments	18-19 £m	19-20 £m	20-21 £m	21-22 £m	22-23 £m	23-24 £m	24-25 £m	25-26 £m	Total
New projects yet to be specifically identified	-	-	-	-	1.1	15.1	14.3	15.9	**46.4**

4.11 This is to allow flexibility within the overall envelope of funding of the programme of investment to either:

(i) bring forward brand new projects during the period of the programme that have not yet been identified, or

(ii) to advance funding to meet increased cost of projects that are already approved within the agreed programme.

4.12 The Council agreed an £82.8m five year HRA Capital investment Program at its meeting of 14 December 2017, from 2018-19 to 2022-23. A summary of planned expenditure is shown in table 3 below:

Table 3 – Approved HRA capital investment programme

HRA	18-19 £m	19-20 £m	20-21 £m	21-22 £m	22-23 £m	Total
Total expenditure	24.0	20.2	18.3	12.1	8.2	**82.8**

5. Capital Investment Funding

5.1 In developing the capital investment programmes it is important to ensure the investment proposals are affordable now and in future. In determining the affordability, an estimate is made of available resources, giving due consideration to the inter dependencies between the capital and revenue budgets. Capital investment may generate, avoid or reduce cost pressures on the revenue budgets depending on the nature of the investment. Similarly, revenue investment in asset maintenance may avoid or delay the need for capital expenditure.

5.2 The main sources of funding for the Capital Investment Programme and how they are applied are as follows:

(i) Scottish Government Capital Grant - receivable from Scottish Government is a significant funding source for the General Services capital programme. Grant levels require to be closely monitored and updated and spending plans adjusted as appropriate, particularly recognising the long lead time associated with capital projects and the limited ability to reduce spending once projects have been initiated.

(ii) Capital Grant will be applied initially to short life assets.

(iii) Capital receipts - the Council’s ability to generate capital receipts from the sale of surplus assets has been adversely affected by the economic downturn. The assumptions underlying the forecasts will require to be kept under review and revisions made in the capital plans as appropriate.

(iv) Capital receipts may be used to enhance the core investment programme, recognising the risk around value and timing of capital receipts.

(v) Capital Funded from Current Revenue (CFCR) may be used where appropriate.

(vi) Earmarked funds or contributions from reserves may be used following agreement of either Leadership Panel or Council.

(vii) External funding, grants or partner contributions may be sought and accessed where appropriate.

(viii) Prudential Borrowing - the Prudential Code for Capital Finance in Local Authorities enables councils to set their own borrowing limits with a requirement to ensure that investment plans are affordable, prudent and sustainable. The Council can borrow over a number of years to augment its capital income, provided the resultant annual debt repayments can be accommodated within future years’ revenue budgets.

5.3 In support of the £236.7m eight year General Services capital investment programme approved in March 2018, the following estimates of income sources were approved;

Table 4 – General Services capital investment funding forecast

Category of funding	18-19 £m	19-20 £m	20-21 £m	21-22 £m	22-23 £m	23-24 £m	24-25 £m	25-26 £m	Total
Scottish government Grant	11.2	13.0	10.0	10.0	10.0	10.0	10.0	10.0	**84.2**
Capital receipts	0.2	0.2	0.3	0.3	0.2	0.2	0.3	0.3	**2.0**
Other income (grants/contributions/CFCR etc.)	2.0	-	-	-	-	-	-	-	**2.0**
Prudential borrowing	35.3	33.0	21.9	17.5	7.4	9.1	11.0	13.3	**148.5**
Total	**48.7**	**46.2**	**32.2**	**27.8**	**17.6**	**19.3**	**21.3**	**23.6**	**236.7**

5.4 In support of the £82.8m five year HRA capital investment programme approved in December 2017, the following estimates of income sources were approved:

Table 5 – HRA capital investment funding forecast

Category of funding	18-19 £m	19-20 £m	20-21 £m	21-22 £m	22-23 £m	Total
Scottish government Grant	1.9	0.5	0.6	-	-	**3.0**
Other income (grants/contributions/CFCR etc.)	13.6	7.6	7.7	6.7	6.7	**42.3**
Prudential borrowing	8.5	12.1	10.0	5.4	1.5	**37.5**
Total	**24.0**	**20.2**	**18.3**	**12.1**	**8.2**	**82.8**

5.5 Prudential borrowing will only be supported where provision is specifically made within the Council's medium term revenue financial plan. Charges to the General Fund will comply with relevant legislation and regulations ensuring a prudent approach is deployed. An annual review of the Loans Fund is carried out aligning the Council's borrowing decisions with investment decisions, the Council's debt profile and its revenue budget.

6. Revenue Impact of Capital Investment

6.1 In order 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 investment programme are calculated and approved as part of the annual budget setting process. The Following table provides detail of the debt charges approved in March 2018 for General Services:

Table 6 – General Services estimated debt charges

General Services	18-19 £m	19-20 £m	20-21 £m	21-22 £m	22-23 £m	23-24 £m	24-25 £m	25-26 £m
Principal	5.9	5.7	5.8	5.6	6.0	5.9	5.8	5.7
Interest	6.9	7.7	8.7	9.4	9.7	10.0	10.0	10.4
Expenses	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.2
Total	**13.0**	**13.6**	**14.7**	**15.2**	**15.9**	**16.1**	**16.0**	**16.3**

6.2 The Following table provides detail of the debt charges for the approved 2018-19 HRA and estimates of charges for 2019-20 to 2022-23:

Table 7 - HRA estimated debt charges

HRA	18-19 £m	19-20 £m	20-21 £m	21-22 £m	22-23 £m
Principal	1.1	1.2	1.3	1.4	1.5
Interest	2.5	2.8	3.2	3.5	3.6
Expenses	0.1	0.1	0.1	0.1	0.1
Total	**3.7**	**4.1**	**4.6**	**5.0**	**5.2**

6.3 The above 2018-19 debt charges are included within the overall Council revenue budget for 2018-19 and subsequent years estimated debt charges will be incorporated with in the longer term financial planning process.

6.4 As outlined in the Councils Treasury Management Strategy the level of borrowing required to finance the Capital Investment Plan is called the Capital Financing Requirement (CFR). The Council will be able to manage limits for borrowing based on what it thinks is prudent, affordable and sustainable through annually agreeing Prudential Indicators as part of the Annual Borrowing and Investment Strategy.

6.5 The level of capital investment and associated revenue cost impact will be kept under review on an annual rolling basis as part of the annual budget process, and through the agreed Capital Asset Management Planning process. Given the significant funding restrictions anticipated in the future, the level of annual investment in the capital programme may require to be re-evaluated for affordability.

Annex 4 – Reserves Strategy

1. Introduction

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

1.1.1 As a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing;

1.1.2 As a contingency to mitigate against the impact of unexpected events or emergencies; and

1.1.3 As a means of building up funds to meet known or anticipated future commitments.

2. Reserves Strategy

2.1 **To maintain uncommitted general reserves at a minimum of 2% 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.

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

This will mean that the balances held in following funds:

(i) Workforce Change Fund;

(ii) Efficiency and Improvement Fund; and

(iii) Election Fund.

will be maintained at a level that will allow the council to meet known or anticipated future commitments.

2.3 **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 whilst 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.

2.4 **To set aside or commit other such resources as determined either by the Leadership Panel 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.

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

(i) Repairs and Renewal Fund;

(ii) Insurance Fund; and

(iii) Capital Fund

3. General Fund Reserve Held (as at 31 March 2018)

In terms of the strategy and types of funds held as detailed in section 2 above, the following balances are held for each. All figures quoted are draft at present and are subject to the 2017/18 audit process.

3.1 ***Uncommitted*** **(Reserves Strategy ref: 2.1)** - The Council's adopted policy on reserves and balances has been to hold as a minimum, an unallocated sum of 2% of its net General Services revenue budget in reserve to meet the potential cost of unforeseen liabilities. This equates to between approximately £5.0m and £10.0m for 2018/19. The draft uncommitted balanced as at 31 March 2018 was £.7.825m, which is in line with the adopted policy.

3.2 ***Workforce Change*** **(Reserves Strategy ref: 2.2(i))** - 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. At 31 March 2018 a draft balance of £2.861m was held in this fund.

3.3 ***Efficiency and Improvement fund*** **(Reserves Strategy ref: 2.2(ii))** - In order to re-design and develop service provision to be more efficient and effective, proposals may require up-front investment in new technology, additional temporary staffing arrangements or the introduction of alternative work patterns etc. to enable the Council to secure efficiencies or maximise income in the longer term (i.e. 'Spend to Save'). This fund is used to provide short term enabling funding to assist in short term redesign arrangements. At 31 March 2018 a draft balance of £2.182m was held in this fund with known commitments at that time of £0.830m.

3.4 ***Local Election Fund*** **(Reserves Strategy ref: 2.2 (iii))** – 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. On expending the sums during each local election cycle the balance requires to be reinstated in the following years from unallocated reserves up to the date on the next local election. At 31 March 2018 a draft balance of £0.082m has been set aside as an initial contribution to the next local election following a £0.200m drawdown of resources to assist in funding the 2017 local election.

3.5 ***Affordable Homes*** **(Reserves Strategy ref: 2.3)** - this fund receives a proportion of the Council tax raised from second homes and is ring-fenced for the purchase or building of new social housing, either by the Council itself or local housing associations. At 31 March 2018 a draft balance of £1.580m was held in this fund with known commitments of £0.396m at that time. Funds will continue to be allocated to this fund on an annual basis from Council tax receipts.

3.6 ***Other resources set aside*** **(Reserves Strategy ref: 2.4)** – the Council holds a number of earmarked funds based on previous decisions taken by Leadership Panel or Council. The total balances held at 31 March 2018 across the various funds are listed in the table below:

Table 1 – Draft Earmarked reserves (as at 31 March 2018)

Commitments	**Balance as at 31 March 2018**
2018/19 Budget contribution	0.858
SG 2018/19 GRG funding	0.728
ICT change fund	0.175
Transform South Ayrshire	1.301
Invest in South Ayrshire	1.000
Community Halls Fund	1.000
Participatory budgeting	0.003
2017/18 earmarking	3.796
Flight Route Development	0.154
Ayrshire Growth deal	0.508
Prestwick Airport	0.060
Education - Glenburn temp accommodation	0.082
ESF Funding	0.721
Breakfast clubs	0.009
Ayr Ren - Town Development	0.079
Recycling contract (18/19)	0.652
Ayr Gaiety Partnership	0.190
Planned contribution to Funds (Repairs & Renewal and Capital Fund	3.000
Total Commitments	**14.316**

The above table includes further 2018/19 earmarked funds proposed as part of the final out-turn report presented to Leadership Panel in June 2018

4. Statutory Funds Held (as at 31 March 2018)

4.1 *Repairs and Renewals Fund*

This fund is mainly used to assist with abnormal repairs and maintenance to Council assets where these arise in an emergency situation and there is no mainline budget available or where the use of the fund was planned as part of the budget process. It may also be used to facilitate asset improvement and efficiencies. The draft balance at 31 March 2018 of £1.297m has accumulated from transfers at the end of financial years, with a further £1.500m to be added to the fund in 2018/19, as agreed by Council in March 2018 as part of the budget setting process. The revised balance of £2.797m is sufficient to meet current agreed commitments. However the adequacy of the fund will require to be kept under review to ensure that the fund is maintained at an appropriate level to support the drive for efficiency within the Council in the next few years.

Works requiring to be undertaken and proposed to be funded by this Fund below £0.100m require to be considered by the Capital Asset Management Group and formally approved thereafter by the Director - Place, as Chair of the CAMG. Works in excess of £0.100m will require to be considered by the Capital Asset Management Group and formally approved thereafter by the Leadership Panel.

Council, as part of the 2018/19 budget approved in March 2018 agreed a contribution of £1.500m from general unallocated reserves to the fund.

4.2 ***Insurance Fund***

The Council maintains an Insurance fund to meet the annual cost of Insurance premiums and payments in respect of uninsured losses. The Council budgets for annual contributions to the fund to ensure the balance on the fund is maintained at the approved level of £0.425m. The Council reviewed the adequacy of the balance held during 2016/17.

4.3 ***Capital Fund***

This fund was established during 2005/06 initially to support the Schools Public Private Partnership. The Capital Fund can be credited with capital receipts from the disposal of Council assets as well as direct contributions from revenue, as may be decided by the Council. The fund may be used to meet the costs of capital investment in assets and for the repayment of the principal element of borrowings. As part of its longer-term financial Strategy, the Council may consider developing a future plan to utilise this fund to support capital investment. As such a direct contribution from revenue to the capital fund of £1.500m was agreed as part of the 2018/19 budget approved in early March 2018 to assist in potential future capital investment requirements arising from the intended review of the current property portfolio.