

South Ayrshire Council

Report by Chief Financial Officer to South Ayrshire Council of 6 November 2025

Subject: 2026-27 Budget Strategy and Budget Update

1. Purpose

- 1.1 The purpose of this report is to agree a revised Budget Strategy for 2026-27 and update the indicative 2026-27 budget based on the latest available information and recent actions taken. The report also seeks approval of Resource Pressures for inclusion in the 2026-27 budget.

2. Recommendation

2.1 It is recommended that the Council:

- 2.1.1 approves the revised Budget Strategy for 2026-27 as outlined in 4.1;
- 2.1.2 notes the various updates to the 2026-27 contributing budget factors as outlined in 4.3;
- 2.1.3 approves the various Resource Pressure requests detailed in [Appendix 2](#);
- 2.1.4 notes that various proposed fees and charges uplifts will be brought to Council in December 2025 for consideration and approval;
- 2.1.5 notes the revised estimated budget gap for 2026-27 of £15.339m, prior to the application of any Council Tax uplift as stated in 4.6; and
- 2.1.6 notes the high degree of risk and uncertainty that remains with many of the assumptions being made as outlined in 4.10 below.

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, based on the decisions contained in the 2025-26 budget proposals and various financial assumptions (as provided in [Appendix 1](#) to this report).

- 3.3 The cumulative anticipated budget gap at that time for the remaining four-year period of the MTFP including assumptions on future years' council tax increases was £26.296m, as follows:

Table 1 – MTFP budget gap (Feb 2025)

2026-27 £m	2027-28 £m	2028-29 £m	2029-30 £m	Cumulative £m
11.401	7.725	3.541	3.629	26.296

- 3.4 As is the case across all local authorities, the Council faces significant financial challenges for the foreseeable future due to the continuing tight local government settlements alongside which the ongoing difficult national economic outlook and increased demand for services is increasing the pressure on Council finances. It is therefore prudent to continue to refresh financial information and planning assumptions to ensure that the most up to date information is available to allow officers and Members to be fully informed when making budget decisions to ensure a legally balanced budget for 2026-27 and beyond.
- 3.5 During August, September and October a series of budget briefings have been undertaken by the Chief Executive and Chief Financial Officer. The briefings have encompassed a number of different stakeholders, including; Elected Members, Chief Officers, Senior Officers and Trade Unions. The purpose of the briefings was to explain the latest information and intelligence regarding the 2026-27 budget setting process and outline the scale of the challenge facing the council over the medium term. In addition, the briefings outlined a change of approach in setting future Council budgets through a proposed revised budget strategy.

4. Detail

4.1 Budget Strategy 2026-27

For 2026-27 Council Officers will prepare a budget pack with options to ensure Members are able to set a balanced revenue and capital budget at the budget setting meeting in February or March 2026. The Administration will bring forward a budget motion setting out the proposed measures to set a balanced budget with reference to the available options. Opposition groups may choose to support the motion, abstain or present an amendment in the form of a balanced budget proposal in line with Audit Scotland guidance. Officers will be available to support both the Administration and any Opposition Group intent on presenting a budget amendment to ensure proposals are competent, reflect audit guidance and achieve a balanced budget.

Budget Strategy: Stage 1 – Pre budget updates

Timeframe: October to December 2025

- Officers will bring forward savings proposals during the year prior to actual budget setting day as they are identified;
- Separate Management/ Operation Savings from Policy Savings that require political approval will be presented to ensure transparency for Members on decisions that have been taken;

- Resource Pressure requests for 2026-27 will be brought forward for approval;
- Fees and Charges proposed uplifts for 2026-27 will be presented for approval;
- Budget consultation undertaken and reported to members in advance of budget setting meeting; and
- Budget briefings will continue in advance of any required formal Council decisions.

Budget strategy: Stage 2 – Medium Term Financial Plan update

Timeframe – February 2026

- Final capital programme changes presented to finalise debt charge implications for the future year;
- Local Government Settlement update and revised budget gap presented to finalise anticipated budget gap for 2026-27;
- Revised Medium Term Financial Plan (2026-27 to 2030-31) presented based on latest information and assumptions; and
- Budget briefings provided in advance of any required formal Council decision making.

Budget Strategy: Stage 3 - 'Budget Day'

Timeframe: March 2026

- Officer's papers will present:
 - final budget gap position;
 - savings options;
 - Council Tax options;
 - Feedback from the Budget Consultation exercise
- Political Motions/ Amendments follow to present a balanced budget; and
- Budget briefings will be provided in advance of formal Council decision making.

4.2 This Budget Strategy will be key to ensuring the achievement of the Council's Strategic Priorities identified in the Council Plan are delivered within the resources available to support the delivery of key outcomes, whilst providing a clearer picture of the anticipated budget gap for 2026-27. It should however be noted that the actual budget gap will only be confirmed in mid to late January 2026, now that the Scottish Government has confirmed that the Scottish Budget will be announced on 13 January 2026, thereby delaying the receipt of the local government settlement until after that date.

4.3 The following matters address the **Budget Strategy: Stage 1 – Pre Budget updates**, as outlined in 4.1 above.

Since publication of the updated MTFP in February 2025, a number of factors and assumptions have changed that mean that the indicative budget gap for 2026-27 and beyond requires to be updated.

Pay assumptions (for noting)

- 4.3.1 Pay-related costs are a major component of the Council's overall expenditure and represent 50% of Council net spend each year. Budgeted increases of 3% were previously assumed for 2025-26 and 2026-27 but the actual pay uplift for local government employees has now been agreed at 4% in 2025-26 and 3.5% in 2026-27.
- 4.3.2 The extra cost (inclusive of all staff groups) in 2025-26 is estimated at £2.159m, with funding of only £1.659m being provided to meet this cost by the Scottish Government. This additional 1% cost beyond the budget amount in 2025-26 plus the 3.5% agreed for 2026-27 (which is a further 0.5% above the previously assumed amount) has a compound effect and increases the estimated budget gap for 2026-27 and beyond.
- 4.3.3 Teachers pay uplifts have yet to be agreed as latest information indicates that the two-year offer agreed by other staff groups has been rejected. Any agreement beyond the now assumed 4% in 2025-26 and 3.5% in 2026-27 is a significant risk which could further exacerbate the size of the budget gap if additional funding to meet any resultant gap is not provided by the Scottish Government.
- 4.3.4 The net impact of the changes described above is estimated to be an additional cost to the Council of £1.079m in 2026-27.

Council Tax chargeable property assumptions (for noting)

- 4.3.5 The level of increase for Council Tax each year is at the discretion of Full Council however the estimate of number of chargeable properties that will apply in 2026-27 has been recalculated using September 2025 information. This recalculation results in additional base income of £0.548m estimated for 2026-27, prior to any agreed uplift percentage.

Council Tax Single Person discount review (for noting)

- 4.3.6 A review of the Council Tax single person discount is being initiated with assistance from the Transformation team (last undertaken in 2019) which is anticipated to generate £0.520m of additional income in 2026-27.

Capital Programme review (Previously Agreed by Council)

- 4.3.7 A review of the General Services Capital Investment Programme was recently undertaken with the results being considered by Council on the 18 September 2025. Approval of the changes recommended in the September 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 £1.442m from the previously planned increase included in the February 2025 MTFP position.

Utilities price review (for noting)

- 4.3.8 A review of the Council's pricing expectations for Electricity and Gas has recently been undertaken to establish likely price changes impacting on 2026-27. The Council purchases its electricity and gas through the Scotland Excel collective purchasing agreement which, based on latest information, anticipates that prices to be paid in 2026-27 will reduce by 22% for Gas and by 2.8% for electricity from the prices paid in 2025-26. When applied across all council properties a saving of £0.750m is expected for 2026-27.

Procurement review (for noting)

- 4.3.9 The Transformation Board has recently commissioned Scotland Excel to undertake a Procurement review of all Council contracts. Working in tandem with the Council's own Corporate Procurement team, the review will identify where savings can be made. Based on experience working in other councils, Scotland Excel anticipate achieving a minimum saving of £0.500m in 2026-27.

Transformation programme (for noting)

- 4.3.10 The Transformation Board is progressing a number of other workstreams through its delegated governance arrangements that are anticipated to result in cashable savings for the Council in future years. The latest update on the timing of when these savings will materialise indicates that efficiency savings of £0.222m will be realised in the 2026-27 financial year.

Out-turn review (for noting)

- 4.3.11 A review of the 2024-25 financial out-turn is being undertaken to highlight any underspends contained in the service out-turn reports that can be identified for use as permanent savings in future years. All variances (favourable or adverse) of £10,000 or more are being reviewed firstly to determine if they were recurring or 'one-off' and then to determine whether they had already been identified as part of the 2025-26 budget exercise or part of any other review as outlined elsewhere in this report to avoid any double counting.
- 4.3.12 The review is currently ongoing and is considering both under and overspend outturn information. Any net benefit (saving) identified will be built in to future updates to Council per the budget strategy.

Other changes in assumptions (for noting)

- 4.3.13 In November 2024 the UK Government wrote to Councils informing them of a new income source provided directly to Councils relating to Packaging Extended Provider Responsibility. The amount outlined in the November 2024 letter from the UK Government was included in the budget for 2025-26 however a subsequent letter has now been received revising the amount likely to be received downwards in 2025-26 by £0.344m. This will impact on 2025-26 but will also require to be revised in 2026-27.

- 4.3.14 The introduction of International Reporting Standard 16 meant the remeasurement of the Council's three schools PPP financial accounting arrangements. Based on draft information, the impact of this remeasurement resulted in a financial benefit being built in to the 2024-25 financial year and beyond. On full implementation at the end of 2024-25 the amount of financial benefit was less than originally anticipated resulting in a detrimental impact of £0.805m now anticipated in the 2026-27 financial year.
- 4.3.15 As part of the 2025-26 budget, the Council agreed a small amendment, to provide funding of £0.125m per annum to directly contribute to tackle poverty and inequality in South Ayrshire. The agreement of this amendment results in a reduction in the 2026-27 planned removal of the contribution to reserves previously agreed of £4.053m to £3.928m.
- 4.3.16 As part of the Stage 1 budget strategy consideration process, a handful of savings opportunities have been identified that don't require a specific decision but can be taken now through the realignment of base budgets. It should be noted that any savings removed as part of Stage 1 will be netted off against any further Service proposal brought forward as part of the Stage 3 budget savings exercise to ensure savings are not double counted. A total of £0.520m has been identified to date through the following items:
- i) Realignment of brown bin income target £0.250m
 - ii) Realignment of ICT contracts £0.150m
 - iii) Realignment of procurement rebates £0.045m
 - iv) Realignment of employee benefit scheme income £0.075m

4.4 In addition to the various reviews and updates to assumptions outlined in 4.3 above two further matters are recommended for consideration and agreement to be applied in 2026-27.

2026-27 Resource Pressure requests (for agreement)

- 4.4.1 As part of the MTFP update in February 2025, resource pressures of £3.054m was included in the 2026-27 indicative budget gap. The majority of resource pressures relate to inflationary increases for current contract therefore a refresh of the information used to establish the £3.054m has recently been undertaken to determine any changes that require to be factored in the 2026-27 to ensure that appropriate resources are in place to meet expected service demands for current contractual arrangements.
- 4.4.2 [Appendix 2](#) provides updated information for a range of resource pressure, totalling £3.240m, an overall increase of £0.186m beyond the previously assumed level contained in the February MTFP for 2026-27. Should updated information or changes in circumstances require a revision to the Resource Pressures contained in Appendix 2, then this will be brought forward to Council for approval.

2026-27 Fees and charges uplifts

- 4.4.3 Traditionally Council agrees, as part of the annual budget in February each year, to increase a variety of fees and charges across various

service areas. For 2026-27 it is recommended that Council agree Fees and Charges uplifts before the February/ March budget meeting.

- 4.4.4 This approach will allow a longer lead in time for services to communicate changes to the public, allow further time for changes to systems to be implemented. This is particularly important as the delays in the Scottish Government budget and consequently confirmation of the grant figure to be received by the council will reduce the lead in time for changes to be implemented. This will also provide more certainty in what the expected remaining budget gap will be and therefore the level of savings that requires to be met in order to have a balanced budget for 2026-27.
- 4.4.5 A report will be brought to Council in December 2025 providing detail of the recommended uplifts for approval across a number of specific fees and charges.

Council Tax

- 4.5 As previously noted in 3.3, the anticipated budget gap for 2026-27, as stated in February 2025, was £11.401m. The budget gap of £11.401m included the assumption that Council Tax would be uplifted by 8% in 2026-27 which requires to be endorsed or amended as part of the 'budget day' considerations in March 2026. If this factor is removed from the indicative figure, then the budget gap increases to £17.302m. It should also be noted that the budget gap information includes approximately £6m of savings agreed for 2026-27 by council when setting its 2025-26 budget.

Updated 2026-27 Budget Gap

- 4.6 Table 2 below updates the indicative budget gap for 2026-27 position taking in to account all the factors outlined in 4.3 to 4.5.

Table 2 – Updated 2026-27 Budget Gap (Nov 2025)

	£m	£m
2026-27 budget gap (Feb 25)	11.401	
Remove Council Tax uplift assumption	5.901	17.302
Pre budget 2026-27 updates		
Pay assumptions	1.079	
Council Tax chargeable properties	(0.548)	
Council Tax single person discount review	(0.520)	
Capital programme review	(1.442)	
Utility price review	(0.750)	
Procurement review	(0.500)	
Transformation programme	(0.222)	
Out-turn review	TBC	
Other changes	0.754	(2.149)
Items subject to Council approval		
Resource Pressure increase (Appendix 2)	0.186	
Fees and Charges uplift (Report to Council in Dec)	TBC	0.186
2026-27 budget gap (Nov 25)		15.339

- 4.7 As noted in 4.5 above, the actual Council Tax uplift for 2026-27 has yet to be formally set and requires to be confirmed no later than 14 March 2026, per legislation. Table 3 below provides examples of the impact on the above November 2025 estimated budget gap based on different Council Tax uplift scenarios.

Table 3 – Council tax uplift scenarios

	6%	8%	10%	12%
Band D Rate (current £1,569.41)	£1,663.58	£1,694.96	£1,726.35	£1,757.74
Additional CT income	(£4.458m)	(£5.945m)	(£7.430m)	(£8.917m)
Revised budget gap	£10.881m	£9.394m	£7.909m	£6.422m

- 4.8 The revised budget gap in each scenario provides the current estimated level of savings required to be agreed to ensure a legally balanced budget for 2026-27. Savings proposals will be presented to Council per **Budget Strategy: Stage 3** as detailed in 4.1 above.
- 4.9 The average council tax increase for 2025-26 was 9.57% with the highest increase at 15.61% and the lowest 6%. For illustration only, a Council Tax up lift of circa 21% would be required in 2026-27 to meet the budget gap in full without savings. This level would be a significant outlier in Scotland reinforcing the need for the council to consider difficult savings decisions. The decision on which level of Council Tax increase is agreed is a matter for Elected Members to determine at the budget setting meeting.
- 4.10 As previously stated the revised budget gap is based on a reassessment of many contributing factors. There are a number of risks associated with the assumptions, as outlined below.
- 4.10.1 Interest rate risk – Despite recent Bank of England (BoE) reductions in base interest rates, Public Works Loan Board borrowing rates have remained higher than anticipated and have in fact been trending upwards in recent weeks. A small change in PWLB rates can have a significant impact on Council Debt charges therefore it is essential that the Capital Investment programme be reviewed again to ensure that only priority projects remain in the plan and any non-priority projects should be removed from the plan for the time being.
- 4.10.2 Inflation risk – The Consumer Price Index has continued to rise since the start of the calendar year and is now sitting at 3.8%, well above the BoE target rate of 2%. If CPI remains at this level or increases further, this means that significant pressure is placed on service budgets as goods and services cost more and the purchasing power of existing budgets is diminished.
- 4.10.3 Settlement risk – The primary source of funding for the delivery of Council Services is the Scottish Government through the allocation of the grant settlement. Scottish Government Council grant accounts for approximately 80% of Council funding therefore any change in the level of grant assumed will have a significant impact on the budget gap for 2026-27. As stated above, the 2026-27 local government settlement will be announced following the Scottish Budget on 13 January 2026.

- 4.10.4 Council Tax risk - 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. 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. The effect of these measures is not just in restricting income in those years but each cap or freeze has a compound effect on the council tax base that hasn't risen as it would have done if no restrictive measures had been applied.
- 4.10.5 Should the Scottish Government seek to implement a freeze or a cap on Council tax increases in 2026-27 this will have an almost catastrophic impact of the Council budget gap for 2026-27.
- 4.10.6 Teacher pay risk – As noted in 4.3.3, teacher's pay uplifts have yet to be agreed and any such agreement above the currently assumed 4% in 2025-26 and 3.5% in 2026-27 will inevitably impact on the estimated budget gap for 2026-27, unless it is accompanied by additional Scottish Government funding to meet any increase in full. There is also a risk that should the teacher's agreement be greater than that already accepted for other staff groups, then that may result in those negotiations being reopened with likely additional financial consequences for the council and local government in general.

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 coming financial year will be challenging financially, given the available funding anticipated and continuing cost pressures. Managing the financial pressures whilst seeking to deliver the Council's priorities will be challenging and will require some difficult decisions to be taken in order to have a balanced budget for 2026-27.
- 6.2 The anticipated funding gap for 2026-27 is currently estimated to be £15.339m, prior to the application of any Council Tax uplift. The Council will require to set a balanced budget for 2026-27.

7. Human Resources Implications

- 7.1 Not applicable.

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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. A reminder has been provided that Elected Member have a legal duty to set Council Tax and to establish a competent and balanced budget.

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 There has been no public consultation on the contents of this report. There will however be a public budget consultation exercise undertaken prior to the Council setting its budget for 2026-27.

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.

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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:

Implementation	Due date	Managed by
Proposals for 2026-27 Fees & Charges uplifts	11 December	Chief Financial Officer
Budget Strategy Stage 2 - Provide Medium Term Plan update to Council in February/March 2026	19 February 2026	Chief Financial Officer

Background Papers **Report to South Ayrshire Council of 27 February 2025 – [Revenue Estimates 2025/26, Capital Estimates 2025/26 to 2036/37 and Carbon Budget 2025/26](#)**

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Date: 28 October 2025

Medium Term Financial Plan 2026-27 to 2029-30 February 2025 Assumptions

Key assumption	Detail
Scottish Government grant funding	Flat cash has been assumed for Scottish Government grant funding for all years of the plan
Council Tax	Uplifted by 8% in 2026-27 followed by uplifts of 6%, 5% and 5% respectively in each of the remaining years in the plan
Pay uplifts	3% pay uplift has been assumed for the first two years of the plan followed by 2% uplift for the final two years of the plan
Pension contributions	The contribution rate reverts back to the higher rate of 17.5%.for all remaining years of the plan
Key priorities (Resource pressures)	Inclusion of a circa £3 million uplift for the remainder of the years of the plan.
Debt Charges	Based on the revised capital investment programme as included in the February 2025 budget papers
HSCP contribution rate	Flat cash basis, subject to any Scottish Government directed spend.
Savings	Inclusion of savings agreed as part of the 2025-26 budget but impacting on 2026-27 (£6.1m) and 2027-28 (£0.5m)

2026-27 Resource Pressure requests

Directorate	Detail	£
Chief Executive's	Revenues and Benefits – reduction in Department of Works and Pension grant income	39,518
	Trading Standards and Environmental Health – Glasgow Scientific Services contract	14,095
	Civil Contingencies – Loss of income recharges to Hunterston B/ EDF as they are now de-fuelled.	12,257
Total Chief Executive's		65,870
Communities and Transformation	Sports and Leisure – Supplies and Service increase	126,548
	Sports and Leisure – Software licensing contract increase	70,000
	ICT – Increase Cyber security team resource by two FTE to address current an evolving cyber threat landscape (50% recharged to capital)	50,624
	ICT – Fusion licensing and managed contract uplift	56,500
Total Communities and Transformation		303,672
Education	Transport costs - ASN contract increase	50,084
	Transport costs - Mainstream SPT contract increases	297,604
	Ayr Academy new build - unitary charge increase	45,779
	QMA new build - unitary charge increase	45,156
	PPP – unitary charge increase	610,052
	ELC – Real Living Wage uplift commitment	251,859
Total Education		1,300,534
Housing, Operations and Development	ARA – Payroll uplift	156,440
	ARA – Insurance premium increase	93,000
	ARA – Vehicle restrain system maintenance	15,000
	Asset Management – Central Repairs Account increased maintenance costs	100,000
	Facilities Management – Catering contractual price increase/income impact	100,000
	Neighbourhood Service – Transport Insurance increase	40,500

Directorate	Detail	£
	Neighbourhood Service – Vehicle Lease cost increase	289,306
	Neighbourhood Service – Fleet Maintenance contract cost increase	180,000
	Neighbourhood Service – Persistent Organic Pollutants contractual uplifts	74,263
	Neighbourhood Service – Green Waste Disposal contract uplift	20,973
Total Housing, Operation and Development		1,069,482
Corporate Items	External Audit – contract fee increases	18,172
	AVJB requisition amount increases	187,335
	Insurance premium – contract increase	150,000
	Scotland Excel – contract increase	4,829
	Non-Domestic Rates – poundage increases	100,000
	Strathclyde Passenger Transport requisition increase	40,000
Corporate Items total		500,335

Total Resource Pressures	3,239,893
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