

## EAST AYRSHIRE COUNCIL

### CABINET - 10 FEBRUARY 2010

#### REVENUE BUDGET 2010/11 – 2012/13

#### Report by Executive Head of Finance and Asset Management

### 1 PURPOSE OF REPORT

- 1.1 To consider the proposed General Services Revenue Budget for 2010/11 and indicative budgets for 2011/12 and 2012/13, to recommend to the Council resource allocations at department level, the Council Tax and the Council House rent increase for the financial year 2010/11.

### 2 BACKGROUND

- 2.1 The Cabinet on 13 January 2010 approved a draft revenue budget for 2010/11 for each Service for consultation purposes following consideration of a report by the Executive Head of Finance and Asset Management. Thereafter the draft budget was subject to public consultation.

### 3 RESULTS OF CONSULTATION

- 3.1 Public consultation was carried out between 11 January and 1 February 2010. Meetings were held with community and voluntary sector representatives, trade unions and departmental employee groups as shown;

| Date             | Meeting                                      |
|------------------|--|
| 23 November 2009 | Trade Unions                                 |
| 26 November      | Community & Voluntary Sector Representatives |
| 14 December      | Trade Unions                                 |
| 7 January 2010   | Trade Unions                                 |
| 17 January       | Community & Voluntary Sector Representatives |
| 21 January       | Educational & Social Services Employees      |
| 25 January       | Chief Executive's Office Employees           |
| 26 January       | Neighbourhood Services Employees             |
| 27 January       | Corporate Support Employees                  |
| 28 January       | Trade Unions                                 |

All of these meetings resulted in excellent two-way communication with a wide variety of questions and suggestions explored. In addition, 277 messages were received through the budget mailbox. In the main, the response from all sources has been well informed, positive and supportive and details of the feedback received from organisations and individuals are available on the Members Portal.

**3.2** A further meeting with the Community and Voluntary sector representatives will be scheduled before the end of February to provide an opportunity for two-way feedback on the process as well as the issues and ideas put forward and it will be important to continue with these consultation arrangements as spending proposals are developed for 2011/12 and beyond.

#### **4 SERVICE PRESSURES**

**4.1** Departments have highlighted a number of service pressures which, in line with the budget strategy, have not been taken into account in preparing the draft resource allocations. These include demands arising from legislative or policy issues, economic conditions, external demand and desirable service enhancement. Examples are set out below;

| <b>Service</b>                         | <b>Issue</b>   |
|--|--|
| <b>Educational and Social Services</b> | Significant increase in the number of Adult Care packages                                  |
|  | Increasing number of elderly care packages   |
|  | Capacity pressures within children and families  |
|  | New guidance on Teachers Maternity Pay   |
|  | The new Additional Support For Learning Act<br>Implementation of Curriculum for Excellence |
| <b>Neighbourhood Services</b>          | Street Cleaning and Waste Management   |
|  | Waste Collection Training  |
|  | Customer Contact Gateway Coordination  |
| <b>Corporate Support</b>               | Maintenance of new (national) e-planning system  |
|  | Reduction in Planning Income   |
| <b>Finance and Asset Management</b>    | Public Buildings Repairs and Maintenance   |
|  | Reduction in property rentals  |

**4.2** All departments and services can point to issues additional to the above arising from external demand and from aspirations on service levels and quality. It is the case however that such legitimate further demands in all services must be accommodated from a redesign of existing service models combined with a refocusing of resources to the highest priority areas whilst ensuring that statutory services are maintained. Executive Directors are expected to ensure that services are managed within overall departmental budgets and to take action to resolve any overspends arising during the year, with Cabinet consideration being required where changes to policy or service levels would be needed to do this.

## 5 USE OF FUNDING FLEXIBILITY

5.1 The report to the Cabinet on 13 January 2010 indicated that there remained a gap between estimated income and expenditure of £5.200m based on the information available at that time. Given the fact that there remained unfunded pressures and the significant level of savings forecast in the years beyond 2010/11, it was agreed that a full year savings package of £7m, equating to £6m in 2010/11, taking account of the variance between the school year and the financial year, be consulted upon. Since then the final position on Police and Fire Joint Board funding has been clarified and this has released a further £0.350m, subject to final approval by the relevant Joint Boards. This means that £1.150m of recurring revenue funding for 2010/11 remains unallocated at present.

### 5.2 Savings Package

There has been an unprecedented level of feedback gathered from the enhanced consultation arrangements including many ideas which can be taken forward in-year and for the future. There were also specific concerns expressed over the potential impact of certain of the proposals and in light of this the following changes are proposed to the package appended to the Cabinet Report of 13 January 2010:

**Music Tuition:** The principle of charging for music tuition appeared to be broadly acceptable to consultees but there was some concern over the impact of the level of charges. It is proposed therefore that for the academic year 2010/11, the Executive Director of Educational and Social Services be requested to bring forward an introductory charging structure which will produce a saving equivalent to 50% of the original proposal, i.e. £0.051m in a full year and £0.032m for 2010/11.

**Managerial Arrangements in Nursery Schools:** The proposal to review arrangements where a nursery school is adjacent to a primary school raised a number of concerns and the Executive Director of Educational and Social Services is currently examining both this and alternative options which would deliver a similar level of saving in this sector in a different way. The outcome and any resulting proposal will be presented to the Cabinet for consideration before the end of March 2010.

**Community Wardens:** The proposal to re-configure the Community Warden Service using fewer wardens attracted a range of responses from consultees. The key message appeared to be that, whilst acknowledging the difference in roles, given the choice, people believe that an enhanced police presence would deliver a better contribution to community safety. Whilst it is proposed to proceed with the reduction in wardens and reconfiguration of the service, discussions will be held with Strathclyde Police to explore other options and a report presented to the Cabinet by the Executive Director of Neighbourhood Services before the end of March 2010.

**Council Publications:** A number of respondents indicated that they considered that there could be alternatives to some of the Council's regular publications including "Headlines", "Eastwords", "The Guide" and the Tenants' Calendar which would result in lower costs and reduced environmental impact. Executive Directors have confirmed that reviews of the nature, number and method of publication of marketing and performance information will be carried out within their non-specific savings lines with recommendations being brought forward to the Cabinet as necessary.

**Reduced Leisure Services Grant Payments:** There has been some adverse reaction to the proposal to reduce grant payments within Leisure Services. Given the scale of reduction in Council funding, it is not considered unreasonable that grant receiving bodies be required to take similar action to review services and priorities. It is accepted that such measures may take time to develop and implement however and it is proposed that the reduction in this budget line in 2010/11 be limited to 5% rising to the original 10% for 2011/12. This would reduce the saving in 2010/11 by £0.019m. It may be that different levels of reduction for different organisations would be appropriate and the Executive Director of Neighbourhood Services will bring forward a paper to the Cabinet before the end of March, showing how this saving can be achieved taking account of the services provided by the individual organisations.

**Meals at Home:** Whilst the proposal to reduce the subsidy on meals by 50% or 40p was generally accepted, there was a view that more notice of the change would be helpful and it is therefore proposed to delay the increase until Monday 31 May 2010. This reduces the saving by £0.010m.

**Fireworks Display:** There were views that ending the Fireworks Display could have an impact on Community Safety but that the cost was difficult to justify in the current financial climate. It is proposed that the viability of reducing the cost from £0.020m to £0.010m with the difference being made up from additional income be explored, with the Executive Director making proposals to the Cabinet before the end of June 2010.

### **5.3 Concordat Commitments**

#### **Class Sizes**

In December 2009, the Cabinet Secretary for Education and Lifelong Learning acknowledged the very difficult financial position in which councils find themselves for 2010/11 and beyond, and confirmed to Cosla that the Government's overriding commitment related to increasing the number of children in primaries 1, 2 and 3 who are educated in class sizes of 18 or less to 20% across Scotland. In 2009/10, the Council committed savings of over £0.500m which accrued from falling school rolls to employ additional teachers for primaries 1 to 3. This resulted in the proportion of children in classes of 18 or less increasing from 7% to 40%. The proposed budget for 2010/11 adds a further £0.050m to this budget line to ensure that progress can continue to be made, recognising that intake levels and placing requests can result in adverse movements year to year.

### **Free School Meals**

In return for meeting the new class sizes target, the Cabinet Secretary has indicated that the commitment to the expansion of free school meals could be met for example by councils providing a free meal in those schools that are in the 20% most deprived communities in a council area. The meal can be breakfast, brunch or lunch. Work is being finalised on how best this commitment can be delivered within East Ayrshire.

### **Early Years Education**

As part of the revised Concordat Commitment, Councils will require to provide free pre-school education to all children from their third birthday and affirm their commitment to the jointly devised Early Years Framework. The achievement of this would require additional funding of £0.030m per annum and it is proposed that this sum be added to the Educational and Social Services resource allocation to ensure that this is achieved.

### **Council Tax Freeze**

The three year settlement covers the years 2008/09 to 2010/11 and in all three years an element of grant is retained centrally by the Scottish Government which can only be accessed by councils who choose to freeze council tax levels. The grant attached to this Concordat commitment equates to a 3% council tax increase. It would therefore be necessary to increase council tax by more than 3% to generate any additional funding. It is therefore proposed that council tax for 2010/11 is again frozen at 2007/08 levels.

## **5.4 Local Priorities**

As indicated at section 4 above, there are a number of cost and demand pressures within departments which they will require to resolve by re-prioritising or re-designing services. The Children and Families Social Work Service is progressing a plan for service re-design ensuring that the use of existing resources is maximized. The service aims to improve outcomes for children by supporting them to live with their families when it is safe and appropriate to do so. In turn, the longer term aim is to reduce the number of children who are looked after and accommodated by the Council. Given the level and type of current externally procured provision and the increasing level of demand being experienced however, the plan requires to be supported by additional investment. It is proposed therefore that £0.500m of the unallocated funding be provided to Educational and Social Services, specifically to enable that plan to be progressed. Taking account of implementation timescales, this would equate to £0.700m in a full year. The Executive Director would be asked to present a paper to the Cabinet before the end of March 2010 showing how this funding will be used in 2010/11 to achieve that objective.

These changes would reduce the unallocated funding level for 2010/11 by £0.601m to £0.549m.

## 6 FUTURE YEARS

- 6.1 At this stage there remains much uncertainty over how quickly and by how much an incoming UK government will seek to reduce public spending. The most optimistic forecast, based on the work done by the Centre for Public Policy in Regions (CPPR), suggests that savings of £10m will be required in each of the years 2011/12 and 2012/13. For illustrative purposes, the allocation to departments, based on a pro-rata distribution, is shown below;

| Service                            | Budget Reduction<br>2011/12<br>£m | %   | Budget Reduction<br>2012/13<br>£m | %   |
|------------------------------------|-----------------------------------|-----|-----------------------------------|-----|
| Educational and Social Services    | 7.382                             | 4.3 | 7.353                             | 4.3 |
| Neighbourhood Services             | 1.500                             | 4.3 | 1.519                             | 4.3 |
| Corporate Support                  | 0.695                             | 4.3 | 0.696                             | 4.3 |
| Finance & Asset Management Service | 0.423                             | 4.3 | 0.432                             | 4.3 |
| <b>Total</b>                       | <b>10.000</b>                     |     | <b>10.000</b>                     |     |

- 6.2 The Cabinet noted that the approach to reducing spending beyond 2010/11 would be to undertake a new Strategic Review of the Revenue Budget (SRRB2) with appropriate external expert support. Proposals on how this will be done will be brought forward for consideration by the Cabinet. A number of areas for examination have been flagged up during the consultation period and these will be developed further as part of that process where appropriate. Examples include:

- Better use of paperless technology
- Rationalisation of under-occupied schools
- Reduction in the number of property assets and co-location of services wherever possible
- More efficient use of vehicles
- Identification of opportunities to share services with other organisations

- 6.3 The Fairer Scotland Fund allocation for 2010/11 of £4.589m is no longer ring-fenced and Cabinet agreed on 16 December 2009 to review the use of this funding during 2010/11 in conjunction with the Community Planning Partnership. The process for this review is currently being developed.

## 7 RESERVES AND BALANCES STRATEGY

- 7.1 The proposed strategy on the sources and utilisation of Reserves and Balances is set out in Appendix 1.

7.2 The position of the balances of these funds at 31 March 2010 together with the currently forecast movements in 2009/10 are shown below;

| <b>Fund</b>                  | <b>Balance at<br/>31 March<br/>2009</b> | <b>Net Change<br/>Forecast<br/>2009/10</b> | <b>Forecast<br/>Balance at<br/>31 March 2010</b> |
|------------------------------|---|--|--|
| <b>Statutory Funds</b>       | <b>£m</b>                               | <b>£m</b>                                  | <b>£m</b>  |
| Capital Fund                 | 15.712                                  | (1.060)                                    | 14.652   |
| Renewals and Repair          | 6.569                                   | (0.460)                                    | 6.109  |
| <b>Total Statutory Funds</b> | <b>22.281</b>                           | <b>(1.520)</b>                             | <b>20.761</b>                                    |
| <b>General Fund Balances</b> |   |  |  |
| Earmarked                    | 20.408                                  | (6.370)                                    | 14.038   |
| Uncommitted                  | 6.601                                   | 2.588                                      | 9.189  |
| <b>Total General Fund</b>    | <b>27.009</b>                           | <b>(3.782)</b>                             | <b>23.227</b>                                    |

7.3 The projected level of uncommitted General Fund balance at 31 March 2010 is £9.189m. The minimum balance in terms of the Council's Reserves Strategy is £6.788m with a maximum level of £13.575m. A number of the actions being proposed to generate savings may involve voluntary severance packages. These will be pursued where they result in spend to save opportunities with the costs being met from uncommitted revenue balances.

## 8 CAPITAL FUND

8.1 The Council may approve the transfer of amounts to the Capital Fund and that Fund can be used to repay debt. In line with the decision of the Cabinet of 11 February 2009, it is planned that £2.500m will be used in 2010/11 and in 2011/12 to repay an element of debt charges to smooth the anticipated impact on the Revenue Budget of the acceleration of the capital programme. This position will be reviewed at the end of each year to take account of actual capital spend.

## 9 PROPOSED DEPARTMENTAL ALLOCATIONS

9.1 The table below takes the above proposals into account in arriving at revenue allocations for 2010/11;

| <b>Service</b>                      | <b>Allocation<br/>2009/10<br/>£m</b> | <b>Allocation<br/>2010/11<br/>£m</b> | <b>Change over<br/>Previous<br/>Year</b> |
|-------------------------------------|--------------------------------------|--------------------------------------|--|
| Educational and Social Services     | 175.423                              | 177.611                              | 2.188                                    |
| Neighbourhood Services              | 33.980                               | 33.693                               | (0.287)                                  |
| Police, Fire, Valuation Board & SPT | 33.563                               | 28.272                               | (5.291)                                  |
| Corporate Support                   | 15.969                               | 15.788                               | (0.181)                                  |
| Finance & Asset Management Service  | 52.515                               | 57.074                               | 4.559                                    |
| Other Non-Departmental Items        | 23.365                               | 26.400                               | 3.035                                    |
| Unallocated                         | -                                    | 0.549                                | 0.549                                    |
| <b>Net Expenditure</b>              | <b>334.815</b>                       | <b>339.387</b>                       | <b>4.572</b>                             |
| <b>Net Income</b>                   | <b>334.815</b>                       | <b>339.387</b>                       | <b>4.572</b>                             |

**9.2** These are global service allocations designed to allow service level budgets within departments to be prepared on the basis of Service Plans which reflect the objectives and priorities of the Community Plan The outcome of this will be reflected in Finance and Service Strategy reports to be presented to the Cabinet for approval in due course.

**9.3** It should be noted that the figures shown for 2011/12 and 2012/13 are highly speculative at this point and depend on the outcome of Spending Reviews at both UK and Scottish Government level to be carried out over the next year.

## **10 SETTING THE COUNCIL TAX**

**10.1** On the basis of the proposals set out in this report the Band D Council Tax for 2010/11 would remain at £1188.99 and Council Tax for all Bands would be;

| <b>Band</b> | <b>2010/11</b> | <b>2009/10</b> | <b>2008/09</b> | <b>2007/08</b> |
|-------------|----------------|----------------|----------------|----------------|
| <b>A</b>    | <b>792.66</b>  | 792.66         | 792.66         | 792.66         |
| <b>B</b>    | <b>924.77</b>  | 924.77         | 924.77         | 924.77         |
| <b>C</b>    | <b>1056.88</b> | 1056.88        | 1056.88        | 1056.88        |
| <b>D</b>    | <b>1188.99</b> | 1188.99        | 1188.99        | 1188.99        |
| <b>E</b>    | <b>1453.21</b> | 1453.21        | 1453.21        | 1453.21        |
| <b>F</b>    | <b>1717.43</b> | 1717.43        | 1717.43        | 1717.43        |
| <b>G</b>    | <b>1981.65</b> | 1981.65        | 1981.65        | 1981.65        |
| <b>H</b>    | <b>2377.98</b> | 2377.98        | 2377.98        | 2377.98        |

The most cost effective and efficient method for the payment of Council Tax, for both the Council and individuals, is direct debit. The Council will continue to actively promote the take up of this payment method and it is proposed to introduce greater flexibility by allowing payments being made via this option to be spread over 12 monthly instalments rather than 10. This would mean a Band D taxpayer paying around £119 per month over 10 months being able to opt to pay around £99 per month over 12 months.

## **11 HOUSING REVENUE ACCOUNT**

**11.1** The budget consultation included a proposal to amend the Rent Increase Policy to ensure that the original intention of the DTZ Piedad report to achieve the Scottish Housing Quality Standard by 2015. This would mean that rents would be increased annually by the greater of RPI plus 1% or 3.5% plus the additional costs for new house building. Consultation with tenant representatives indicated widespread support for the Council's commitment to achieve the 2015 target and to new council housing and the consequent amendment of the policy.

**11.2** Taking account of the requirement for a 3.9% saving in controllable budget lines in the Housing Revenue Account the increase proposed for 2010/11 is therefore £1.53 over 52 weeks or £1.66 over the 48 week payment cycle.

**11.3** It is also proposed that given the level of inflation it is recommended that there is no increase for Lock-Up and Garage Site rentals.

## **12 RECOMMENDATIONS**

It is recommended that Members recommend to the Council:

- (i) that the Band D Council Tax level for 2010/11 should be set at £1188.99;
- (ii) that the option to pay council tax by direct debit over 12 months be offered;
- (iii) that the Resource Allocations shown at paragraph 9.1 of this report be approved;
- (iv) that the changes to the budget and savings package consulted upon be amended as proposed in section 5 of this report;
- (v) that the rent increase policy be amended as set out in paragraph 11.1;
- (vi) that a council house rent increase for 2010/11 of £1.53 per week over a 52 week period be approved;
- (vii) that for 2010/11 there is no increase for Lockups and Garage Site charges;
- (viii) approve the Reserves and Balances Strategy set out in Appendix 1; and
- (ix) otherwise note the contents of this report.

Alex McPhee

**Executive Head of Finance and Asset Management**

4 February 2010

### **LIST OF BACKGROUND PAPERS**

**NIL**

Members wishing further information should contact Alex McPhee, Executive Head of Finance and Asset Management, Telephone (01563) 576300.

## RESERVES AND BALANCES

## APPENDIX 1

| FUND                     | SOURCES OF FUNDS  | UTILISATION OF FUNDS  |
|--------------------------|---|---|
| Capital Fund             | Credited with all net capital receipts except where these are related to the overall funding package for a specific project.  | It is recommended that over the next two years appropriations of £2.5m be applied to repay an element of debt charges to reduce the impact on the Revenue Budget of the acceleration of capital expenditure. The position will be reviewed on an annual basis to take account of actual capital spend and the level of borrowing support within the grant settlement.   |
| Renewal and Repairs Fund | Credited other funds available at the Council's discretion including HRA surpluses and savings in debt charges.   | Available for use on capital or revenue expenditure on council assets.  |
| Departmental Balances    | Departmental bottom line underspends not arising from windfall savings. "Windfall" savings include, for example, pay awards being less than budgeted. Such savings will be removed from departmental budgets during the year. | Available for use on non-recurring or fixed term projects or to assist in aligning services with resources available over the three year budget period. Departments should hold no more than 4% of revenue expenditure by the end of the three year period. Accordingly where balances significantly in excess of this are held and not identified for future anticipated liabilities or projects, the Cabinet may consider transfer of the excess to the uncommitted General Fund balance for use in other areas. An annual review of departmental balances will be carried out following the audit of accounts. |
| General Fund Balances    | Year end underspends not attributed to departmental balances.   | Value to be between 2% and 4% of annual budgeted expenditure although it may be prudent from time to time to build up funds in excess of the minimum level to meet known or predicted financial pressures, for example in relation to termination costs and reductions in grant funding. Funds in excess of the limits could be made available for one off expenditure items or fixed life contributions.   |
| PPP Earmarked Balance    | Credited with surplus PPP related funding including Grant in advance of need, in-year savings specifically arising within the PPP account and additional appropriations made by the Council.                                  | Used to meet the fluctuations in the PPP Unitary Charge payments throughout the life of the contract. However, the contract is based on assumptions for RPI and RPIX together with assumed energy cost inflation and accordingly transfers to and from the balance may take place to adjust the balance for these or other phasing issues.  |