

EAST AYRSHIRE COUNCIL

CABINET – 13 JANUARY 2010

BUDGET CONSULTATION 2010/11 – 2012/13

Report by the Executive Head of Finance and Asset Management

1 PURPOSE OF REPORT

- 1.1 To seek approval of a draft General Services Revenue Budget for 2010/11 to 2012/13 to be issued for consultation to all interested parties. The feedback received during the consultation process will be used to inform the Cabinet's final consideration of the Budget on 10 February 2010.

2 BACKGROUND

- 2.1 The Cabinet on 21 October 2009 approved a budget strategy and consultation timetable which envisaged the Council meeting to set the level of Council Tax for 2010/11 on 11 February 2010.
- 2.2 The Scottish Government's Revenue Grant proposals, which they had hoped to announce mid October, were delayed due to unforeseen circumstances and were published on 26 November 2009.

3 GRANT SETTLEMENT

- 3.1 The Concordat developed and agreed jointly by COSLA and the Scottish Government is regarded as a statement of joint intent, built on joint accountability. It sets out the working relationship between the Scottish Government and local government, based on mutual respect and partnership. In addition, it underpins the funding due to be provided to local government over the three years, 2008/09 to 2010/11.
- 3.2 Central to the Concordat, and to facilitate a more streamlined approach to external scrutiny and effective performance management, is the Single Outcome Agreement (SOA), based on the agreed set of national outcomes, supported by a range of local indicators. Through the Concordat, Councils are committed to supporting progress at national level, by the achievement of outcomes at a local level.
- 3.3 East Ayrshire's SOA, agreed with the Scottish Government, sets out the outcomes that Community Planning Partners are seeking to achieve which reflect local needs, circumstances and priorities and are relevant to the national outcomes included in the Concordat.

3.4 The Scottish Government's five Strategic Objectives are designed "to focus Government and public services on creating a more successful country, with opportunities for all of Scotland to flourish, through increasing sustainable economic growth." Specifically these are;

- 1 **Wealthier and Fairer** - Enable businesses and people to increase their wealth and more people to share fairly in that wealth.
- 2 **Healthier** - Help people sustain and improve their health, especially in disadvantaged communities, ensuring better, local and faster access to health care.
- 3 **Safer and Stronger** - Help local communities to flourish, becoming stronger, safer places to live, offering improved opportunities and a better quality of life.
- 4 **Smarter** - Expand opportunities for Scots to succeed from nurture through to life long learning ensuring higher and more widely shared achievements.
- 5 **Greener** - Improve Scotland's natural and built environment and the sustainable use and enjoyment of it.

4. DRAFT BUDGET

4.1 The strategy previously approved, adopted the budget set by the Council in February 2009 as a base to be adjusted for a range of unavoidable cost increases including pay and prices.

4.1.1 Pay Inflation

Employee cost estimates have been adjusted to reflect a provision for pay awards from April 2010. Provision for known changes to employers' pension and National Insurance contributions, together with the estimated cost of annual increments due have also been included. Teachers and Chief Officers have previously agreed three year deals with 2.4% and 2.5% respectively payable from April 2010. The indicative budget for 2010/11, prepared in February 2009, assumed a similar level of award to other Local Government employees but clearly the economic outlook and the level of inflation has deteriorated significantly since then. Trade Unions representing other Local Government employees have submitted a pay claim of 3% from April 2010 but Cosla has made clear that in the current financial climate an award above 1% would be unsustainable. In these circumstances it seems likely that Chief Officers would re-open negotiations and accept a similar level of award to that which may be agreed for other staff. The 2010/11 budget has therefore been compiled on the basis of Local Government Employee and Chief Officer pay awards being 1%. This reduces costs included in the indicative budget by £1.6m. In the event of the pay settlement being higher than 1%, savings targets would require to be increased accordingly and further cost reduction actions identified by departments.

4.1.2 Price Inflation

Price inflation has been applied to the base estimate where there is a related specific contract requirement. The fall in inflation rates has resulted in a revision by services of the uplifts required and results in costs in the indicative budget being reduced by £0.5m.

4.1.3 Housing Single Business Unit

Cabinet on 2 July 2008 approved the creation of a new single business unit for housing improvement works and repairs which is intended to result in increased resources being available to the Housing Revenue Account (HRA) and which means that the Statutory Trading Organisation surplus will no longer be available to the Council's General Fund.

4.1.4 Unavoidable Cost Increases

This will include full year costs of initiatives implemented during 2009/10 and other obligations.

4.1.5 Police, Fire and Valuation Joint Boards and Strathclyde Partnership for Transport

Funding based on previous grant levels has been included for the Joint Boards for Police, Fire and Valuation together with Strathclyde Partnership for Transport. Their final budgets are awaited and should be confirmed by them prior to 10 February 2010. There has been significant changes in funding for Police and Fire in relation to pension costs and, in addition, both organisations have indicated that savings packages are to be initiated from 2010/11. Draft reports show a reduction in precept for this council in excess of £0.350m for 2010/11. Further clarification is being sought in this regard however and this has not been taken into account in the overall budget at this stage. There may therefore be some movement in the final figures once the final position has been verified.

4.1.6 Debt Financing Costs

Provision has been made for the estimated costs of the current year's capital investment programme, together with the recurring costs from prior year investment in the Council's assets. The estimates take account of available forecasts in respect of interest rate movements provided by the Council's treasury advisors.

4.1.7 Energy Costs

The 2009/10 energy budgets were increased to reflect additional costs and further provision has again been made to the budgets based on the gas and electricity prices procured for 2010/11.

4.1.8 PPP Schools Funding

The provision of funding for PPP continues to be out of line with actual in-year commitments due to the need to take account of spending profiles within the Scottish Government. Budget provision for 2010/11 is £0.910m higher than required for unitary payments but there are indications that funding may be reduced by around £1.6m in 2011/12. Until final clarification is received, which may not emerge until the 2011/12 grant settlement, it is proposed to retain the £0.910m against future liabilities.

4.1.9 Zero waste Fund

An announcement of an award of £0.547m for 2010/11 from the Zero Waste Fund has been made by the Scottish Government. In general terms this funding is not ringfenced but is intended to help expedite progress towards the 2013 Landfill Directive target on which the Council has already made excellent progress. The Cabinet agreed on 18 November 2009 to extend recycling activities by improvements to the waste collection service using funding from this source. It is proposed that the balance be held centrally pending further evaluation.

4.1.10 Local Priorities

A number of potential demand and cost increases highlighted by departments for 2010/11 have not been able to be accommodated at this stage. These relate mainly to demand and price pressures arising in areas of care of the elderly, adult care packages and child protection. In addition all services can demonstrate a range of unmet pressures including demand and costs of Additional Support Needs in Education, roads maintenance, reduced planning fee income, and property maintenance. Members will be able to take a view on relative priorities and available funding following the consultation period.

4.2 CONCORDAT COMMITMENTS

4.2.1 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. The target for 2010/11 is to increase the percentage of children in this situation to 20% across Scotland.

4.2.2 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%.

- 4.2.3 In return for meeting the 20% target, the Minister has indicated that the commitment to the expansion of free school meals would be met by “councils providing a nutritious free meal to all children in primaries 1 to 3 in those schools that are in the 20% most deprived communities in a council area. A nutritious meal can be breakfast, brunch or lunch and will need to meet relevant nutritional standards.” In addition, whilst 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, there will be no legislation or regulation to require councils to expand pre-school provision. The Council has already taken steps which should mean that these national aspirations can be demonstrably met during the year but further guidance is being sought from Cosla and detailed analysis is being undertaken by colleagues in Educational and Social Services and the Community Planning and Partnership Unit to verify the position.
- 4.2.4 Clearly this Council is well ahead of the Minister's class sizes target and whilst the national target depends on other councils taking similar action, it is proposed to take advantage of the flexibility offered. This would reduce costs included in the indicative budget for 2010/11 by £1.3m.
- 4.2.5 The Local Government Finance Settlement includes an element of grant which will only be made available to the Council if Council Tax levels are frozen at 2007/08 levels. The value of grant available for 2010/11 is £1.471m. To generate income in excess of this level a Council Tax increase of more than 3% would be required. It has been assumed for the purposes of consultation that no increase will be applied.

4.3 NATIONAL POSITION

- 4.3.1 As indicated in the Budget Strategy report to the Cabinet on 21 October 2009, funding for local government in Scotland is forecast to reduce by 12% in real terms over the next few years. To achieve such a reduction in cost whilst continuing to provide statutory services and address key priorities it is likely that extensive service re-design will be required. This would involve transformational change with resulting costs including, for example, termination payments to staff and bridging finance to maintain services during the period of implementation. These costs would be incurred on a “spend to save” basis funded from the Council's uncommitted General Fund balance.
- 4.3.2 The 2009/10 budget included a contingency sum of £0.500m which was set aside to offset additional cost pressures arising for the economic downturn. No call has been made on this in 2009/10.
- 4.3.3 The acceleration of capital spend towards the early years of the 10 year plan results in additional borrowing costs being incurred earlier than previously planned. In order to smooth the impact on the revenue budget it was agreed to utilise £6.000m from the Capital Fund to repay an element of debt charges. The sums for the three years 2009/10 to 2011/12 are £1.000m/2.500m/2.500m.

4.4 STRATEGIC REVIEW OF THE REVENUE BUDGET

4.4.1 The Cabinet on 24 January 2008 agreed that resources should be redistributed over a four year period in line with recommendations made by Professor Arthur Midwinter following a Strategic Review of the Revenue Budget. These adjustments have been included in departmental budgets. The effects are shown below.

	Total £m	08/09 £m	09/10 £m	10/11 £m	11/12 £m
<u>Spending Reductions</u>					
Pre-School Education	0.350	0.086	0.088	0.088	0.088
Waste Collection	0.100	0.025	0.025	0.025	0.025
Street Cleaning	0.100	0.025	0.025	0.025	0.025
Burial Charges	0.050	0.011	0.013	0.013	0.013
Roads Maintenance	0.500	0.500	0.000	0.000	0.000
Finance	0.295	0.073	0.074	0.074	0.074
Corporate Support	0.292	0.073	0.073	0.073	0.073
Total	1.687	0.793	0.298	0.298	0.298

	Total £m	08/09 £m	09/10 £m	10/11 £m	11/12 £m
<u>Spending Increases</u>					
Additional Teachers	0.787	0.293	0.098	0.198	0.198
Mainstream CHIP Van	0.100	0.100	0.000	0.000	0.000
Social Work Infrastructure	0.400	0.100	0.100	0.100	0.100
HIT Squads	0.200	0.200	0.000	0.000	0.000
Outwith Placements	0.200	0.100	0.100	0.000	0.000
Total	1.687	0.793	0.298	0.298	0.298

4.4.2 The Council has previously determined that a new Strategic Review of the Revenue Budget (SRRB2) should coincide with The next Scottish Government Spending Review period which will cover 2011/12 to 2013/14.

5 OVERALL POSITION

5.1 The 2010/11 – 2012/13 Budget Outline Strategy approved by Cabinet on 21 October 2009 highlighted an estimated budget gap of £9.2m based on the indicative budget set in February 2009 and additional information available since then. The changes proposed in paragraph 4.1.1 (Pay), 4.1.2 (Prices) and 4.2.4 (Concordat) would reduce the gap by £3.4m. Removal of the Downturn Contingency indicated at paragraph 4.3.2 would provide further flexibility of £0.5m.

5.2 There are of course a range of demand and cost pressures not recognised in the budget at this stage and feedback from consultation both on these and on some of the savings measures that may be proposed mean that it would be prudent to continue to set challenging savings targets to ensure that flexibility remains available to the Council when setting the budget in February. In these circumstances it is proposed, at this stage, that full year equivalent savings of £7.000m be pursued for 2010/11. Given the circumstances highlighted in paragraph 4.3.1, it is proposed that a target be set for a reduction in management costs of £0.450m to be achieved from management restructuring which would be carried out by the Chief Executive.

5.3 The 2010/11 – 2012/13 Budget Outline Strategy report indicated that savings of 3.9% would be required to bridge the £9.2m gap and showed the impact on individual departments from a pro-rata distribution of savings. As indicated at paragraph 5.2 however, the savings required can now be reduced to £7m which equates to 3%. Following detailed examination of options by the Corporate Management Team bearing in mind the Council's key priorities in the delivery of the Community Plan and the associated SOA, namely:

- Improving Educational Attainment;
- Regenerating our Town Centres; and
- Building New Local Authority Housing;

it is proposed that full year savings required by Educational and Social Services be reduced to 2.4%, which would equate to 1.9% for 2010/11 taking account of the scholastic year, and that savings in Corporate Support and Finance and Asset Management be increased to 4%.

5.4 Proposals have been presented by Executive Directors which would achieve the departmental targets shown in the table below. The full year efficiency target for Education and Social Services is £4.104m but due to the variance between the scholastic and financial years, £0.875m of this will not be realised in 2010/11. Similarly, whilst the full year savings from management restructuring will be £0.450m, it is anticipated that the savings will begin to be achieved from July 2010 and that £0.325m will accrue in 2010/11.

Department/Service	Savings Target 2010/11 £m	% of Controlled Budget	Savings Target Full Year £m	% of Controlled Budget
Educational and Social Services	3.229	1.9%	4.104	2.4%
Neighbourhood Services	1.384	3.9%	1.384	3.9%
Corporate Support	0.662	4.0%	0.662	4.0%
Finance & Asset Management	0.400	4.0%	0.400	4.0%
Management Restructure	0.325	-	0.450	-
Total	6.000	2.6%	7.000	3.0%

- 5.5 Savings will be delivered essentially by a range of actions including focusing resources on activities which deliver key service objectives and adjusting service levels to reflect current need, demand and affordability. Appendix 1 provides an indication of the actions which are being considered and consulted on to deliver the cost reductions required.
- 5.6 The following table shows that £0.776m is available for redistribution in 2010/11 with a further £1.000m available in a full year (2011/12). This could be used to help meet pressures such as those indicated at paragraph 4.1.10 and/or to reduce the budget gap in future years.

General Services	2010/11 £m	Full Year £m	2011/12 £m Indicative	2012/13 £m Indicative
Net Expenditure	344.611	344.611	339.1	330.6
Net Income	339.387	339.387	329.1	320.6
Budget Gap	5.224	5.224	10.0	10.0
2010/11 Efficiency Target	(6.000)	(7.000)		
Unallocated Balance	0.776	1.776		

6 FUTURE YEARS' POSITION

- 6.1 Allocations for future years have not been issued by the Scottish Government. Indicative budgets have been calculated for 2011/12 and 2012/13 and indicative summary details are provided in the table above.
- 6.2 In compiling these figures a range of assumptions have been made following the work undertaken by Glasgow University's Centre for Public Policy for Regions (CPPR) and the forecasts above include a planning assumption of a 12% real terms reduction in the resources available to the Council between 2009/10 and 2013/14. The expenditure forecasts are at 2010/11 prices and assume that demand and other unavoidable growth will be only £1.5m or 0.4% per annum. Although the detailed figures will be subject to change once the 2011/12 to 2013/14 Spending Review is completed around late summer / autumn 2010, the table indicates that there will continue to be a year-on-year requirement to achieve significant expenditure reductions and a longer term view is essential when identifying potential areas for savings. As indicated at paragraph 4.4.2 the intended approach to this will include a new Strategic Review of the Revenue Budget (SRRB2).
- 6.3 It will be the case that Executive Directors will continue to identify departmental spending and demand pressures in these years and therefore the level of efficiency targets may well change as more accurate estimates of these pressures are incorporated within the budget.

7 COMMUNITY PLANNING

- 7.1 The Cabinet noted on 16 December 2009 the commitment by Community Planning Partners to carrying out a review of the Community Plan and related thematic Action Plans on a four-yearly basis. The next review requires to be carried out over 2010/11 to ensure that an updated Community Plan and revised set of Action Plans are ready for full implementation by 1 April 2011. As a result, Cabinet considered and endorsed the four-yearly review process at its meeting of 16 December 2009. It will be important for that review to take account of the very difficult financial position being forecast for the next four years and the relative position and approach of partner organisations in addressing this.
- 7.2 The Fairer Scotland Fund introduced by the Scottish Government in 2008/09 replaced a number of separate programmes and funding streams, including the Community Regeneration Fund, Working for Families, the Social Inclusion element of the Changing Children's Services Fund, Community Voices Programme, Financial Inclusion Fund, More Choices, More Chances and the New Futures Fund element of Workforce Plus. The fund for the first two years of the programme was ring-fenced and referred to Community Planning Partnerships.
- 7.3 The Fairer Scotland Fund allocation for 2010/11 is £4.589m and 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.

8 HOUSING RENTS

- 8.1 The strategy on rent levels, which was determined by the Housing Committee in April 2005 on the recommendation of DTZ Piedad Consulting, was that in order to achieve the Council's target of every house meeting the Scottish Housing Quality Standard (SHQS) by 2015, rents would be required to increase by RPI plus 1%. The DTZ report assumed an RPI of 2.5% or more together with the sale of 250 houses per annum.
- 8.2 The economic downturn has seen unprecedented fiscal intervention by the Bank of England aimed at shortening the duration of the recession. The effect of this action is that interest rates have been close to zero and other indices, including the rate of inflation (RPI) have fallen to less than zero. In addition house sales have reduced significantly.
- 8.3 It is essential that the SHQS is achieved by 2015 and in these circumstances it is proposed that the rent increase policy is revised to ensure that the original intention of the DTZ Piedad report is maintained. Rents would therefore increase annually by the greater of RPI plus 1% or 3.5% plus the additional costs for new house building. For 2010/11 this would equate to £1.78 over 52 weeks or £1.93 over the 48 week payment cycle.

- 8.4 In line with previous years it is proposed however that the need to make efficiency savings should continue to extend to the Housing Revenue Account as for General Services. A 3.9% saving in controllable budget lines is therefore proposed. This would reduce the increase to £1.53 over 52 weeks or £1.66 over the 48 week payment cycle.

Year	2007/08	2008/09	2009/10	2010/11
Increase	£2.14	£1.98	£2.43	£1.66

Rents continue to be lower than the levels set by neighbouring Councils and local registered social landlords as shown in the table below.

Council	Average Weekly Rent 2009/10 £
East Ayrshire	50.86
South Ayrshire	52.45
North Ayrshire	54.14
Scottish Local Authority Average (2009-10)	52.79
Registered Social Landlords (<i>Latest figures are for 2008/09</i>)	
Atrium	64.16
Cunningham	62.63
Shire	65.34

- 8.5 The investment programme for 2010/11 will deliver 920 new kitchens and bathroom installations, 700 new central heating systems and over 170 new replacement windows. In addition 40 new council houses will be constructed across East Ayrshire over the next two years.

9 REVIEW OF RENT POLICY

- 9.1 The basis of rent levels for individual properties has been eroded over time by a number of factors including flat rate annual increases and may benefit from greater transparency, particularly as new houses come on stream. This position has been the subject of comment from the External Auditor and it is proposed that a review of rent policy be undertaken with a completion date of December 2010 to allow the results to be taken into account in the 2011/12 budget.

10 RECOMMENDATIONS

10.1 It is recommended that Members

- (i) approve the proposals set out in this report as a basis for consultation;
- (ii) agree that a review of rent policy be carried out and completed by December 2010
- (ii) agree that whilst the contents of the report are subject to call in procedures in the normal way, the decision to issue the draft budget for consultation should not be subject to call in procedures due to the timescale.

Alex McPhee

Executive Head of Finance and Asset Management

6 January 2010

LIST OF BACKGROUND PAPERS

NIL

Members wishing further information should contact
Alex McPhee, Executive Head of Finance and Asset Management.

APPENDIX 1

SAVINGS THEME	POSSIBLE ACTIONS	£m
Maximising the utilisation of assets	Rationalisation of office accommodation and resultant efficiencies	0.077
Focusing resources on activities which deliver key service objectives	Reduce provision of educational foreign language assistants	0.051
	Cease funding for annual Fireworks Display	0.020
	Increase recycling activity by diverting greater quantity of waste from landfill	0.250
Adjusting service levels to reflect current need and/or demand	Up to 10% reduction in controllable budget lines	0.490
	Achieve the full year impact of previous review of secondary school management structures	0.251
	Align operational budgets with falling school rolls whilst maintaining or increasing numbers of P1 to P3 classes of 18 or less	0.320
	Remove early intervention budget	0.110
	Detailed review of budgets across departments	0.090
Business review of specific services to achieve reduced costs which do not impact on service levels or council policies	Savings achieved following Service Reviews including Roads, Legal, and Planning & Economic Development	0.310
	Reduce Community Warden Overtime Costs	0.020
	Review CATCH Walking Development	0.035
	Increased efficiency measures in Onsite – School Catering	0.174

SAVINGS THEME	POSSIBLE ACTIONS	£m
Obtaining maximum efficiency through alternative methods of working	Reduce use of B&B and review storage arrangements for Homeless service	0.043
	Reduce reliance on external fostering arrangements	0.185
	Rationalise Roads and Transportation stores operations	0.047
	Review Onsite Services to increase productivity	0.035
	Restructure following the Joint Ayrshire Technician Service	0.025
	Review of Golf provision	0.050
	Reduce Central school absence management cover and flexibility budgets	0.100
	Reduce facilities management costs	0.020
	Review cleaning arrangements in Community Centres	0.040
	Review GOALS initiative costs within Education	0.030
Deployment of Information Technology solutions releasing cash efficiencies	Introduce wireless circuits at reduced revenue cost	0.040
	Continuation of Voice over Internet Protocols with resultant efficiencies	0.020
	Review WAN link and adoption of single hardware arrangements	0.076
Core payments reduced reflecting the overall reduction in Scottish Government funding	Reduce grant support to external organisations made by Planning & Economic Development and Leisure Services	0.074
	Review funding arrangements for School:College link programme	0.035
Efficiencies achieved through a review of service provision	Review internal and external early years provision	0.117
	1% reduction in delegated schools budget provision over financial years without impacting on P1 - P3 class sizes	0.485
	Review S1/2 class sizes in certain subject areas	0.713

SAVINGS THEME	POSSIBLE ACTIONS	£m
Benefits achieved through effective workforce planning	Reduce overtime costs in Waste Management service	0.070
	Review Leisure Service to reduce staffing and overtime costs	0.210
	Rationalise staffing and training provision across Educational & Social Services	0.028
	Review staffing levels in Pest Control	0.025
	Review of Roads and Transportation employee costs	0.134
	Staff cost reductions following the Best Value Service Review of Finance and Asset Management	0.350
	Review promoted teaching posts structure through a teacher refresh programme	0.440
	Rationalise community warden service	0.244
	Review posts in Information Technology, Human Resources and Democratic Services	0.138
	Reduce fixed costs in Onsite Services	0.100
	Reduce central staffing budgets in Educational Services	0.053
	Reduce Quality Improvement staffing in Education	0.130
Review management structures across the Council	0.450	
Review of policies and procedures for charging for services	Review charges for catering services	0.010
	Increase cost of school meals above inflation	0.124
	Charge for Community Alarms and Homecare 52 weeks a year	0.020
	Reduce subsidy on Meals at Home	0.040
	Introduce charging for extra-curricular music tuition	0.101
TOTAL (FULL YEAR)		7.000