

EAST AYRSHIRE COUNCIL

CABINET - 21 JANUARY 2009

BUDGET 2009/10 – 2011/12

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 2009/10 to 2011/12 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 11 February 2009.

2 BACKGROUND

- 2.1 The Cabinet on 19 November 2008 approved a budget strategy and consultation timetable which envisaged the Council meeting to set the level of Council Tax for 2009/10 on 12 February 2009. The budget consultation which was approved by the Cabinet sees the process beginning immediately after today's meeting.
- 2.2 The Scottish Government set out its Revenue Grant proposals on 11 December 2008.
- 2.3 The Capital Investment strategy was approved by the Cabinet on 14 January 2008 and the Draft Capital Programme will be considered elsewhere on the agenda of this meeting.

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 a new 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, underpinned by a range of local indicators. Through the Concordat, Councils are committed to supporting progress at national level, through the achievement of outcomes at a local level.
- 3.3 The new working relationship is supported by a package of measures, again endorsed by the Scottish Government and COSLA. Both parties believe that the process will lead, over time, to significant benefits for users of local services across Scotland.
- 3.4 East Ayrshire's SOA sets out the outcomes that Community Planning Partners are seeking to achieve. The intended outcomes reflect local needs, circumstances and priorities; and they are relevant to the national outcomes agreed in the Concordat.
- 3.5 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 to 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 required the budget set by the Council in February 2008 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 inflation of 2.5% from April 2009. Provision for known changes to employers' pension and National Insurance contributions, together with the estimated cost of annual increments due have also been included.

4.1.2 Price Inflation

Price inflation has been applied to the base estimate where there is a related specific contract requirement.

4.1.3 Significant Trading Organisations

Indexation has been applied to the internal trading accounts (Building and Works and Roads Contracts) in line with the method previously approved by the Policy and Resources Committee which reflects the relative impact of pay and general prices increases on the service. Service reviews of Roads Contracts, Vehicle Maintenance and Street Lighting trading operations are currently being undertaken and may result in the removal of trading operations status.

The decision by Cabinet on 2 July 2008 to amalgamate existing housing and Building and Works services to create a new single business unit for housing improvement works and repairs effective from October 2009 will result in increased resources being available to the Housing Revenue Account (HRA) and a corresponding reduction in the financial resources available to the Council's General Fund.

4.1.4 Unavoidable Cost Increases

This will include, for example, full year costs of initiatives implemented during 2008/09 and other obligations.

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

The Joint Boards for Police, Fire and Valuation together with Strathclyde Partnership for Transport have provided indicative levels of required funding for 2009/10 which should be confirmed by them prior to 11 February 2009.

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 2008/09 energy budgets were increased significantly to reflect additional costs and further provision has again been made to the budgets based on the gas and electricity prices procured for 2009/10.

4.2 CONCORDAT COMMITMENTS

The outcome of the review of former ringfenced grants reported to Cabinet on 25 June 2008 released £1m of recurring funding following the removal of ring fencing and the associated monitoring arrangements. The Cabinet agreed on 17 December 2008 that £0.050m of this be used to help address Fuel Poverty across East Ayrshire. It is proposed that the remaining funding be applied to assist the delivery of Concordat commitments which are summarised in the following table.

COMMITMENT	IMPLEMENTATION DATE	COST 2008/09	FULL YEAR COST
Kinship Carer Allowances	April 2010	0.000	0.271
Extend Free School Meals to those in receipt of maximum tax credits*	August 2009	0.174	0.244
Free School Meals for all in P1 to P3	August 2010	0.000	0.652
Care Home Quality Framework*	April 2009	0.160	0.160
Carers Support – Extra Respite	April 2009	0.043	0.065
Extension of Pre School Hours Provision from August 2010	August 2010	0.000	0.816
Freeze Council Tax at 2007/08 Level	April 2009	0.000	0.000
Reduce Class Sizes	As Opportunities Arise	0.076	N/A
Increase Free Personal Care Payments	April 2009	0.057	0.057
Increase opportunities for vocational learning	April 2009	0.000	0.000
Total		0.510	2.265

*Dependent on unknown variables. Held centrally meantime

It can be seen that the total cost of the commitments in a full year will be £2.265m but for 2009/10 the cost will be £0.510m. It is proposed that the balance of £0.440m be held centrally and released in 2010/11 to offset the full year cost.

4.3 ECONOMIC DOWNTURN

4.3.1 The 2008/09 Budget included a contingency sum of £0.500m which was used to offset part of the increase in energy prices and has ensured that service levels have not suffered as a result of this external pressure. Given the challenges facing the global and local economy and the uncertainty that this introduces it is proposed that this sum continues to be included in the budget to be used to address issues which may arise as a result of the emerging economic conditions. It is difficult to predict and quantify the form these will take but the areas of Planning Income, Council Tax Collection, Commercial Property Lease Income, Leisure Income, Homelessness Expenditure and Benefits Expenditure could all be affected.

4.3.2 The acceleration of capital spend towards the early years of the 10 year plan will result in additional borrowing costs being incurred earlier than previously planned. In order to smooth the impact on the Revenue Budget it is proposed to utilise £6.000m from the Capital Fund to repay an element of debt charges. The sums proposed for the three years are £1.000m/2.500m/2.500m. 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.

4.3.3 In evaluating tenders for contracts the scoring matrix will include credit for organisations who afford opportunities to apprentices and skillseekers with a view to ensuring that a well trained workforce is available once the economy enters the up-cycle.

- 4.3.4 There may be a desire to retain certain existing staff, for example in Planning, whose skills will be important when the economy begins to recover and it may be that deployment on key preparatory regeneration projects funded by uncommitted balances could be considered during the year.

4.4 BUILDING LEARNING COMMUNITIES – PPP SCHOOLS

2009/10 is the first full year when all of the schools built as part of the Council's Building Learning Communities project will be operational. Whilst the budget is included within Educational and Social Services it is proposed that it is specifically earmarked with any favourable variance being retained to offset future PPP costs. In addition, it is proposed that an annual transfer to this earmarked balance be made from 2010/11 as part of the budget setting process with the accumulated balance being held to offset anticipated costs in the final years of the contract.

4.5 STRATEGIC REVIEW OF THE REVENUE BUDGET

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. The effects are shown below.

	Total £m	08/09 £m	09/10 £m	10/11 £m	11/12 £m
Spending Reductions					
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
Spending Increases					
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

These adjustments have been included in departmental budgets.

- 4.5.1 An announcement of an award of £0.378m for 2008/09 from the Zero Waste Fund has been received from the Scottish Government with further allocations promised from 2009/10 and 2010/11. In general terms this funding is intended to help expedite progress towards the 2013 Landfill Directive target but further guidance is expected from the Scottish Government and COSLA on the type and range of initiatives which should be pursued. The Cabinet agreed on 17 December 2008 that the Council's share of the costs of project management and consultancy for the proposed project for a long-term waste treatment facility for residual municipal wastes arising in Ayrshire should be met from this allocation. It is proposed that the balance of this sum be carried forward.

5 LOCAL PRIORITIES

- 5.1 A number of potential cost increases highlighted by departments have not been able to be accommodated at this stage. These include demand and price pressures arising in areas of care of the elderly, adult care packages and child protection which are currently estimated at £1.660m. Significant pressures are also evident in the areas of homelessness, planning and economic development and building maintenance. No provision has been included for these at this stage. A sum of £1.500m remains unallocated however to allow Members to recognise these and other local priorities, and decisions on the final allocation of this amount can be made taking account of pressures highlighted and feedback from the consultation process.

5.2 It can be seen from the table at paragraph 6 that inclusion of the factors above results in a requirement to generate savings of £5.500m or 2.45% is required for 2009/10. The continuous pursuit of efficiencies to release resources for priority areas is established practice within the Council and whilst these targets are challenging they are considered to be achievable. Where a department requires to propose changes to policies or service levels to achieve the savings required such proposals will be presented to the Cabinet for approval.

5.3 Savings will be delivered through a range of actions including;

- Full year effects of previous years investment
- Maximising the utilisation of assets
- Focusing resources on activities which deliver key service objectives
- Adjusting service levels to reflect current need and/or demand
- Business Review of specific services to achieve reduced costs which do not impact on service levels or council policies
- Closer integration of services within departments
- Utilisation of alternative funding
- Procurement where a strategy is in place including electronic purchasing to maximise savings potential
- Absence Management where a sustained reduction in absence will allow staffing establishments to be reduced
- Reviewing overtime levels across all services
- Streamlining Bureaucracy through
 - the implementation of Shared Services Diagnostic projects for which business cases are being developed, These include Central Purchasing, Document Imaging, IT Support to Schools and Review of clerical and administrative support functions across the Council.
 - Reviewing the Council's management structure immediately below Chief Officer level
 - rationalisation of service delivery boundaries to improve integration of services to the public and avoid duplication
 - review of service and location management resources where appropriate
 - identification of shared services opportunities both within the Council and with other organisations
- Review of policies and procedures for charging for services

Further details of how savings might be achieved against the themes indicated are shown in Appendix 2.

6 PROPOSED RESOURCE ALLOCATION

Service	Base Budget £m	Pay, Prices, etc £m	Baseline Adjusts £m	SRRB £m	Review of Ringfenced Grants £m	Concordat Issues £m	Total £m	Efficiency Targets £m
Educational and Social Services	161.810	8.827	1.551	0.210	(0.496)	0.260	172.162	(3.978)
Neighbourhood Services	38.435	1.503	1.227	(0.063)	(0.492)	-	40.610	(0.964)
Police, Fire, AVJB & SPT	32.780	0.490	0.262	-	-	-	33.532	-
Corporate Support	12.882	0.643	2.056	(0.073)	(0.012)	-	15.496	(0.330)
Finance & Asset Management Service	50.551	2.264	-	(0.074)	-	-	52.741	(0.228)
Central Services	3.816	0.435	-	-	-	0.740	4.991	-
Other Non Departmental	16.746	2.306	-	-	-	-	19.052	-
Unallocated for Local Priorities	-	1.500	-	-	-	-	1.500	-
Net Expenditure	317.020	17.968	5.096	-	(1.000)	1.000	340.084	(5.500)
Net Income	317.020						334.584	-

6.1 The baseline adjustments represent Scottish Government funding adjustments following the 2008/09 finance settlement contained within Finance Circular 5/2008 and include the Fairer Scotland Fund (£4.621m), specific Police and Fire grants and other minor adjustments.

7 COUNCIL TAX

7.1 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 2009/10 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.

8 FUTURE YEARS' POSITION

8.1 Indicative allocations for future years have not been issued by the Scottish Government. Indicative budgets have been calculated for 2010/11 and 2011/12 and summary details are provided in the following table.

Service	2010/2011		2011/2012	
	Revenue Estimates	Efficiency Targets	Revenue Estimates	Efficiency Targets
	£m	£m	£m	£m
Educational and Social Services	175.990	(3.577)	178.974	(3.573)
Neighbourhood Services	41.196	(0.880)	42.004	(0.882)
Police, Fire, AVJB & SPT	34.306	-	34.937	-
Corporate Support	15.750	(0.336)	15.897	(0.334)
Finance & Asset Management	54.424	(0.207)	56.207	(0.211)
Central Services	6.377	-	8.053	-
Other Non Departmental Items	20.906	-	21.982	-
Net Expenditure	348.949	(5.000)	358.054	(5.000)
Net Income	343.949	-	353.054	-

- 8.2 There has been an indication that Scottish Councils may be required to contribute to the likely £500m savings target for the public sector in Scotland in 2010/11 which will arise from proposals in the recent Pre-Budget Report published by the Chancellor of the Exchequer. Up to £170m of this could fall to be found by Local Government. This would mean an additional spending reduction for East Ayrshire Council of around £4m in 2010/11 and would require a complete review of Council priorities for future years.
- 8.3 In compiling these figures a range of assumptions have been made and they illustrate however that there will continue to be a year-on-year requirement to achieve efficiency savings of at least 2% and departments should be encouraged to take a longer term view when identifying potential areas for savings.
- 8.4 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 are likely to increase as these pressures are incorporated within the budget.

9 FAIRER SCOTLAND FUND

- 9.1 The Fairer Scotland Fund introduced last year replaced a number of programmes including the Community Regeneration Fund, Working for Families, the Social Inclusion element of the Changing Children's Services Fund, Community Voices, Financial Inclusion, Workforce Plus and More Choices, More Chances. The fund is referred to Community Planning Partnerships and the distribution formula for 2009/10 and 2010/11 based on the Scottish Index of Multiple Deprivation (SIMD) and the resulting figures 2009/10 and 2010/11 are £4.621m and £4.589m respectively. The allocation is ringfenced for 2009/10 with ringfencing being removed in 2010/11.
- 9.2 It may be that the Community Planning Partnership will wish to review the use of these funds from 2010/11 onwards to ensure that new factors which could emerge from the economic downturn for example are taken into account.

10 HOUSING RENTS

- 10.1 The strategy on rent levels, which was determined by the Housing Committee in April 2005, is to increase rents by the August Retail Price Index plus 1%. It is important in terms of meeting the Council's target of every house meeting the Scottish Housing Quality Standard by 2015 that the increased level of resources that this strategy generates is available to the Housing Service. For 2009/10 this would represent an increase of 5.8% or £1.915m. This equates to £3.05 per week over 48 weeks or £2.82 over 52 weeks. The strategy does not make allowances for generating any of these additional resources from efficiency savings.
- 10.2 It is proposed however that the need to make efficiency savings should be extended to the Housing Revenue Account and requiring a 2.45% saving in controllable budget lines would reduce costs by £ 0.394m. The value of additional resources which would need to come from a rent increase would therefore be reduced to £ 1.521 which equates to 4.6% or £ 2.24 over 52 weeks (£ 2.43 per week over the 48 week payment cycle)
- 10.3 The investment levels for 2009/10 will see 1,100 new kitchens and bathroom installations, 800 new central heating systems and over 600 new replacement windows. In addition it is anticipated that 50 new council houses will be constructed across East Ayrshire.
- 10.4 It has been the practice that the four free rent weeks each year fall two at the beginning of July and two over the Christmas period. There would be an advantage in terms of collection rates for the July weeks to be moved to the last two weeks in March each year and it is proposed that this change be included and discussed as part of the consultation process.

11 SIGNIFICANT TRADING OPERATIONS

- 11.1 The creation of a new single business unit for housing improvement works and repairs effective from October 2009 will result in additional resources being available to the Housing Revenue Account (HRA) in 2009/10. The full year impact of this change will occur in 2010/11.

12 RESERVES AND BALANCES STRATEGY

- 12.1 The proposed strategy on the sources and utilisation of Reserves and Balances is set out in Appendix 1.
- 12.2 The position of the balances of these funds at 31 March 2008 together with the currently forecast movements in 2008/09 are shown below;

Fund	Balance at 31 March 2008	Net Change Forecast 2008/09	Forecast Balance at 31 March 2009
Statutory Funds	£m	£m	£m
Capital Fund	16.984	(1.920)	15.064
Renewals and Repair Fund	6.355	(0.106)	6.249
Total Statutory Funds	23.339	(2.026)	21.313

General Fund Balances			
Earmarked	26.630	(4.955)	21.675
Uncommitted	6.197	3.093	9.290
Total General Fund Balance	32.827	(1.862)	30.965

Whilst balances are within the parameters set out in the Council's Reserves and Balances Strategy there remain a number of unquantifiable future obligations including Equal Pay claims, potential termination costs to deliver long term savings, the effects of the recession and the Chancellor's Pre Budget Report.

13 RECOMMENDATIONS

- 13.1 It is recommended that Members
- (i) approve the proposals set out in this paper, including those detailed in Appendix 2, as a basis for consultation;
 - (ii) approve the Reserves and Balances Strategy set out in Appendix 1;
 - (iii) 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
AMcP/JB
16 January 2009

LIST OF BACKGROUND PAPERS NIL

Members wishing further information should contact
Alex McPhee, Executive Head of Finance and Asset Management, (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 three years appropriations of £1m/£2.5m/£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 with a proportion of trading services surpluses and 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 liabilities, for example in relation to Equal Pay. Funds in excess of this 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 may take place to adjust the balance for these or other phasing issues.

SAVINGS THEME	POSSIBLE ACTIONS
Full year effects of previous years investment	Reduce landfill charges for waste Reduce expenditure on books given previous supplementary spending Maximise use of CCTV
Maximising the utilisation of assets	Close unused facilities Pilot use of data network for telephone calls
Focusing resources on activities which deliver key service objectives	Reduce the number of classroom assistants by natural wastage taking account of falling school roles Review initiatives introduced to drive up educational attainment Reduce employee travel costs Reduce subscriptions to external bodies to ensure benefit equates to cost
Adjusting service levels to reflect current need and/or demand	Review spending from Community Safety Local Action Fund to eliminate duplication Review service levels in Community Learning and Development Review Seasonal Staffing needs
Business Review of specific services to achieve reduced costs which do not impact on service levels or council policies	Review of Roads and Transport management functions Reduce staffing whilst improving efficiency Review how Continuing Professional Development is delivered Review Property cleaning operations Review how Quality Improvement is facilitated Review Housing Support Services Review Community Planning and Community Support alignment Reduce dependence on external consultants

SAVINGS THEME	POSSIBLE ACTIONS
Closer integration of services within departments	Review deployment of peripatetic workers within early years establishments
Utilisation of alternative funding	Charge appropriate fees for Capital related work
Procurement where a strategy is in place including electronic purchasing to maximise savings potential	Renegotiate contracts Outsource financial guardianship work
Reviewing the Council's management structure immediately below Chief Officer level	Review to be carried out during the year by the Chief Executive
Review need for overtime working	Review to be carried out of all services
Rationalisation of service delivery boundaries to improve integration of services to the public and avoid duplication	Review how Learning Partnerships are integrated with new Children and Families service
Review of service and location management resources where appropriate	Review school management structures
Identification of shared services opportunities both within and outwith the Council	Review marketing operations within departments and across the Council Review how Outdoor Learning is delivered in conjunction with Leisure Services and other bodies Remove vacant post in Emergency Planning following establishment of new All Ayrshire service Implement central purchasing Introduce document imaging Review IT support to schools Review clerical and administrative support functions across the Council
Review of policies and procedures for charging for services	Review options for the rationalisation of fees and charges including charging for services not currently charged for