

EAST AYRSHIRE COUNCIL

CABINET – 21 OCTOBER 2009

BUDGET 2010/11 – 2012/13 OUTLINE STRATEGY

Report by the Executive Head of Finance and Asset Management

1 PURPOSE OF REPORT

- 1.1 This report proposes a strategy for the preparation of the Council's three year revenue budget for 2010/11 – 2012/13.

2 BACKGROUND

- 2.1 It is a legal requirement that council tax bills for 2009/10 be calculated and issued to council tax payers in time for the first payment in April 2009. To achieve this it will be necessary for the Council to determine departmental revenue and capital allocations and set the Council Tax for 2009/10 during week commencing 8 February 2009. Between now and then, work is required in terms of calculating the future costs of existing and proposed service plans and the determination of relative priorities. The methodology for achieving this has been established and developed over a number of years.

- 2.2 Chief Executives and Directors of Finance commissioned Glasgow University's Centre for Public Policy for Regions (CPPR) to estimate the potential movement in the overall Scottish Government budget from 2009/10 to 2013/14. The CPPR report is based on two key assumptions:

- growth in the economy will match the Treasury forecasts from Budget 2009; and
- the Barnett formula will continue to determine the Scottish block allocation from the Treasury.

As the CPPR report itself notes, most independent UK and international forecasts following the 2009 budget imply growth rates below the Treasury forecast. In addition, there are risks arising from policy options at a UK level of a reduction in the relative size of the Scottish budget and acceleration of public expenditure cuts, to constrain the growth in UK national debt.

In light of all the available evidence, Chief Executives, Directors of Finance and the Improvement Service believe that the CPPR report may present an overly optimistic view and have recommended that councils may wish to adopt a more prudent scenario on the basis of a 12% real terms reduction on Scottish government grant funding over this period. This is believed to be a prudent estimate of known risks, rather than a worst-case scenario, with uncertainties on both the up-side and down-side of this assumption. After taking account of inflation, this represents a cash reduction of 4% over the three years. This takes no account of continuing demand and cost pressures which councils continue to be faced with.

This would translate to a £3.5bn real terms reduction over the four years which could mean a £30m reduction for this council by 2013/14.

- 2.3 It is evident therefore that East Ayrshire, in common with all Councils, face a significantly different financial landscape in the medium term to that which we have experienced recently.
- 2.4 In these circumstances, it is considered essential that the Council ensures that all stakeholders who will be affected by how the Council uses its resources are aware of the impact and gain an understanding of the actions which need to be taken to ensure that strategic priorities continue to be met and that they have an early opportunity to influence the decisions which the Council will require to make.

3 BUDGET DEVELOPMENT STRATEGY

- 3.1 As indicated above, Budget development arrangements are well established and have been refined over a number of years to ensure that financial resources are aligned to strategic priorities including;
- the adoption of the Community Plan as the Council's sovereign planning document;
 - a Strategic Review of the Revenue Budget, which moves resources between services over the four year period to 2010/11;
 - extensive public consultation as an integral part of the Council's annual budget process ensuring interactive communication of the financial position and plans to utilise resources to achieve objectives including options for both growth and efficiencies;
 - the inclusion in the annual budget of sums for local priorities allocated by the Council taking account of feedback from public consultation and priority areas highlighted by services in line with overall strategic objectives;
 - A Best Value Service Review programme which ensures that all services are comprehensively reviewed on a three year basis in line with national guidance;
 - the implementation of a service planning template that requires services to analyse the environment within which they operate, to identify strategies to ensure maximum contribution to relevant objectives within the community plan, and to describe how assets, human and financial resources will be deployed to achieve service objectives;
 - regular reporting of financial and service performance measures, including action required to deal with variances from budget, to the Cabinet and Governance and Scrutiny Committee over the course of the financial year by means of the Finance and Service Strategy Report.
- 3.2 The significantly changed financial environment that we will face from 2010/11 suggests that a further refinement of the Council's budget planning process is required to support the budget setting process. Proposed consultation arrangements for the 2010/11 – 2012/13 budget have been designed to continue to ensure that in determining service level budgets, key service users, community representatives and council employees have an opportunity to shape and understand their contribution to how the strategic vision and the strategies that contribute to its delivery can continue to be supported. In the new financial landscape, where budgets and/or services may need to be refocused to live within funding available, it is important that decisions on how services are prioritised and the risks involved in such decisions are well understood by those who will be affected both now and in the future.

3.3 It is of course important to note that whilst the views and ideas of the East Ayrshire community and Council employees are vitally important elements in the budget setting process, it is the responsibility of the Council to lead the process and to take the potentially difficult decisions on how to allocate resources. It is also the case that the Council's vision, plans and key priorities have already been clearly stated, are constantly reaffirmed and are widely known. The shared vision of Community Planning Partners is that

“East Ayrshire will be a place with strong, vibrant communities where everyone has a good quality of life and access to opportunities, choices and high quality services which are sustainable, accessible and meet people’s needs.”

3.4 The Council facilitated a 'Strategic Direction' workshop for Members in November 2008. From this process, three strategic commitments were identified that have become key priorities in the delivery of the Community Plan and the associated SOA, namely:

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

3.5 The adoption in 2003 of the Community Plan as the strategic corporate planning mechanism signalled the commitment of the Council to partnership working through the Community Planning process and this approach is designed to ensure:

- clarity of purpose and strategic direction;
- a clear and common basis for partnership working;
- a framework for achievement;
- a basis for rationalising the strategic landscape; and
- a focus for co-ordinated action.

3.6 The Community Planning Partnership has employed thematic action plans as the mechanism for delivering this vision.

3.7 The SOA 2008-11, which builds on the strategic priorities of the Community Plan, sets out the outcomes that Community Planning Partners, either individually or jointly, are seeking to achieve. These planned outcomes and impacts reflect local needs, circumstances and priorities; and are linked to the national outcomes agreed in the Concordat.

3.8 The vision, strategic direction and operational objectives are incorporated in the appropriate service plans, which are designed to ensure that service resources are deployed in a way that deliver service objectives aligned to Council priorities. The Council's performance management arrangements are being further developed using the Corvu system, to strengthen the challenge and review of service performance, by providing services with performance information, linked to national, corporate, departmental and thematic objectives. This will allow conclusions to be drawn and remedial action taken as required.

- 3.9 Having constructed a budget that reflects stated council objectives as set out in the Community Plan and Single Outcome Agreement it is vital that departments thereafter review service plans to take account of final decisions on revenue allocations and service levels making use of the new performance management arrangements available to detect variations from planned outcomes and allow action to be taken if required over the course of the year
- 3.10 As part of the budget process for 2009/10 – 2011/12, Strategic Review Groups led by appropriate Portfolio Holders were established. These have been successful in allowing detailed scrutiny and challenge of individual service elements of the relevant portfolio, and in ensuring the delivery of planned efficiency savings. It will be important to maintain the momentum that has been built up in these areas and given that the financial position is such that reductions in service levels is a possible outcome, it is proposed that the groups move to consider service options, scenarios and risks for 2010/11 – 2012/13 to ensure that full political, strategic and operational consideration is given to options in advance of them being proposed for wider public scrutiny.
- 3.11 It is also proposed the opportunity is again afforded to the three political groups for the engagement of an appropriately qualified and experienced facilitator to support strategic direction discussions to ensure the widest possible understanding and discussion of how the financial resources available to the Council could best be deployed.
- 3.12 Our framework, further strengthened by the enhanced engagement proposed with employees, community groups and partner organisations will ensure that decisions on financial and service planning for the coming years, at a time of severe financial constraints, will be closely linked and will be informed by all key stakeholders. This approach is designed to deliver clarity of purpose and responsibility and to ensure a level of ownership that will be vital if the Council is to continue to prosper and deliver its vision in the current climate.
- 3.13 The next Scottish Government Spending Review period will cover 2011/12 to 2013/14 and it is the Council has previously determined that a new Strategic Review of the Revenue Budget (SRRB2) should co-incide with that. The review methodology is being developed, taking account of the likely financial conditions, and it is proposed that external expert support again be engaged to assist the process

4 TIMETABLE

- 4.1 The level of grant receivable from the Scottish Government is a vital piece of information in the budget process. Current indications are that the figures for 2010/11 will be available at the end of October 2009.
- 4.2 A proposed timetable showing the key stages in the process is shown below and work on calculating the ongoing costs of current service levels including the impact of inflation and known pressures facing services in 2010/11 is currently in hand.

ACTION	DATE
Announcement of Grant by Scottish Government	End October 2009
Political Group consideration of Options	November 2008 – January 2009
Community and Employee Budget Workshops	November 2008 – January 2009
Cabinet consider draft budget	16 December 2009
Draft Budget Consultation	11 - 22 January 2010
Cabinet recommend budget and Council Tax level	10 February 2010
Council consider budget and set Council Tax level	11 February 2010

5 BUDGET DEVELOPMENT

5.1 The UK budget announced by the Chancellor in April 2009 has reduced the resources available to the Scottish Government for 2010/11 by £521m. The Scottish Budget confirms that the consequence for Local Government will be a reduction of £131m Revenue Funding and £43m Capital Funding in 2010/11. Distribution arrangements are being finalised but taking East Ayrshire's share as 2.5% would mean a reduction of £3.3m on previously announced Revenue Grant. Figures for future years will not be known until the end of 2010 but as indicated above these are likely to reduce annually in real terms.

5.2 Work on detailed service level budgets is currently in hand with "bottom-up" analysis of employee and supplies & services requirements being ascertained. For strategic planning purposes, simple assumptions can be made using the Scottish Budget announcement and the indicative three year figures previously approved in the knowledge that it is very likely that both spending and funding figures are very likely to change over the next few months as the actual position becomes clearer.

ASSUMPTION	£m
Indicative Budget Gap 2010/11 (Cabinet Paper 11/2/09)	5.9
Reduction in Grant	3.3
Updated Indicative Budget Gap	9.2

These figures assume that;

- Pay awards are not re-negotiated
- Demand Growth is absorbed by services
- Fees and Charges are increased by an average of 3%

5.3 Other pressures will be known only after detailed consideration and discussion with departments. Such pressures will include;

- Energy prices yet to be negotiated by Procurement Scotland;
- Changes to Contract Prices
- Fuel costs;
- Policy and Legislative pressures;
- Revenue consequences of specific capital and revenue projects;

6 EXPENDITURE REDUCTIONS

- 6.1 Based on a budget gap of £9.2m the straight pro-rata departmental allocation would be as follows

DEPARTMENT	%	£m
Educational and Social Services	3.9	6.7
Neighbourhood Services	3.9	1.5
Corporate Support	3.9	0.6
Finance and Asset Management	3.9	0.4
Total		9.2

- 6.2 The table below shows the 2009/10 revenue estimates expenditure by subjective category.

SUBJECTIVE CATEGORY	2009/10 REVENUE ESTIMATE £m	% of TOTAL
Employee Costs	171.4	44.2%
Property Costs	15.0	3.9%
Transport Costs	11.0	2.8%
Supplies & Services	38.5	10.0%
Third Party Payments	86.6	22.3%
Transfer Payments	47.9	12.3%
Debt Charges	17.4	4.5%
Total Expenditure	387.8	100.0%

- 6.3 It is proposed that consideration of how savings of this magnitude could be achieved are designed around the themes of;

6.3.1 Performance

The challenge is always to provide more for less and to maintain and even enhance the level of performance with reduced resources. The level of savings required is such however that over the three year period, service levels may require to be reduced. Before we reach that stage it will be important to ensure and be able to demonstrate that the organisation and all services currently provided are as efficient as they can be.

6.3.2 People

Given that nearly half of the Council's running costs are accounted for in Salaries and Wages costs, this is clearly an area that needs close examination. Whilst the Council does not have a formal policy on redundancy, clearly as a good employer, if redundancies are necessary in any re-design or re-prioritisation of services, this will be done in a managed way in accordance with our established workforce planning arrangements and in close consultation with trade unions.

6.3.3 Procurement

Scotland Excel has consistently advised that significant savings can be made by using nationally procured contracts. The challenge has been to quantify such savings and reduce budgets accordingly. It may be that work could be done with Scotland Excel to identify where savings are possible and to quantify these for 2010/11.

6.3.4 Property

It is essential that the use of high cost and low occupancy properties is reviewed in detail and action taken to reduce ownership and running costs wherever possible.

6.3.5 Priorities

If service reductions become unavoidable the relative priorities of services currently delivered will require to be assessed in terms of legal minimum requirements and their contribution to the Community Plan and SOA. As indicated earlier the mechanism for this will be the Strategic Review Groups but Heads of Service should look critically and imaginatively at the services they provide to ensure that a full range of options and scenarios can be considered by the Corporate Management Team and thereafter put forward for consideration.

- 6.4 The suggestions above are designed to initiate discussion and will of course be developed over the coming months taking account of feedback and discussion.

7 CONSULTATION AND ENGAGEMENT

- 7.1 Given the previously outlined need to actively consult and engage with stakeholders, meetings with key service users, community representatives and employee groups are proposed, to ensure that views on options available to the Council to allocate its resources and reprioritise its services can be facilitated and ascertained. These contacts will begin in November 2009.
- 7.2 The previously established arrangements for wider consultation by way of the Council's website will also be initiated in January 2010 as normal.
- 7.3 The Head of Housing will meet with representatives from the Tenants Federation and other tenant and residents groups to consult on rent levels for 2010/11.
- 7.4 The Cabinet on Wednesday 10 February 2010 would consider the final budget proposals and rent levels, taking account of feedback received during the consultation period and make recommendations on the 2010/11 rent levels, the revenue estimates departmental resource allocations and the level of Council Tax to be considered by the Council at a special meeting on 11 February 2010.

8 RECOMMENDATIONS

8.1 It is recommended that Members

- (i) approve the strategy, timetable and consultation arrangements set out in this report;
- (ii) agree that the support of an appropriately qualified and experienced facilitator to support strategic direction discussions be available to the three political groups;
- (iii) agree the arrangements outlined for enhanced engagement with employees, community groups and partner organisations;
- (iv) agree the engagement of external support for the SRRB2 process; and
- (ii) otherwise note the contents of the report

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29 September 2009

AMcP/JB

LIST OF BACKGROUND PAPERS Nil

Any person wishing further information should contact
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