

EAST AYRSHIRE COUNCIL

CABINET – 24 JANUARY 2008

STRATEGIC REVIEW OF THE REVENUE BUDGET (SRRB) – PROGRESS UPDATE REPORT (*Best Value Improvement Agenda: Action No. 1 – ‘Effective Use of Resources’*)

Report by Chief Executive

1. PURPOSE OF REPORT

- 1.1 To provide Cabinet with a second progress update on the Council’s Best Value Improvement Agenda action item No.1 – ‘Effective Use of Resources’. Professor Arthur Midwinter has completed his independent strategic review of the Council’s revenue budget and his report, including budget savings and spend proposals has is now complete.
- 1.2 This report considers the final part of our Stage 2 SRRB work, requiring consideration of and proposals for the redistribution of expenditure reductions arising from our Stage 1 and 2 work. It also considers spending bids from departments, identifying services that are either not currently being provided at all; or services that could be augmented in preference to those subject to savings proposals.

2. BACKGROUND

- 2.1 The Accounts Commission’s September 2006 report on the Council’s Best Value and Community Planning arrangements, identified under the heading of ‘Effective Use of Resources’, the need to “ensure maximum efficiency across Council services, maintain accurate information on activity costs and redistribute resources in line with community plan priorities, and to address recommendations arising from the current spending review.”

The Council’s strategy for taking this matter forward was to undertake a comprehensive Strategic Review of the Council’s Revenue Budget process; done over two stages. At its meeting on 8 February 2006, under the previous Administration, the Council’s Policy and Resources Committee approved the appointment of Professor Arthur Midwinter as Consultant and Independent Adviser to the SRRB exercise. Professor Midwinter’s consultancy appointment was extended at a Special Meeting of the Policy and Resources Committee on 23 January 2007.

- 2.2 At its meeting on 7 February 2007, the Policy and Resources Committee set out three specific actions to address ‘Effective Use of Resources’:
 1. By March 2007: Carry out a fundamental review of Council spending (all departments to contribute to the process and the Corporate Management Team to consider and make recommendations on the final outcomes for all service programmes with spend of 10% or more above GAE assessments).
 2. By March 2007: Carry out a detailed review of GAE and related Grant for the Council’s various spending programmes (Professor Arthur Midwinter was commissioned to act as

Independent Adviser on this review; the Strategic Review of the Revenue Budget Working Group is chaired by the Chief Executive)

3. By March 2008: Integrate Service Planning and Budgeting processes, in line with core Council business and Community Plan Priorities (existing arrangements to be reviewed and strengthened). NB – this action cross cuts also with our Best Value Improvement Agenda action point number 2.2 – to ‘further develop consistent service plans across the Council’.

- 2.3 A detailed SRRB ‘work-in-progress’ update session was held with the Council Leader and Committee Chairs on 13 December 2006.
- 2.4 Also, a summary of progress made with the SRRB exercise was presented to a Special Meeting of the Policy and Resources Committee on 23 January 2007, convened to discuss the General Services Draft Estimates for 2007/08
- 2.5 A further detailed SRRB ‘work-in-progress’ update session was held with the Council Leader and Depute Leader on 21 May 2007.
- 2.6 At its meeting on 3 October 2007, Cabinet approved the strategy and timetable set out for the preparation of the Council’s next three year Revenue Budget and five year Capital Plan. The strategy required that a progress report on our SRRB work be considered by Cabinet on 24 October 2007. Cabinet duly considered the progress report at that meeting and requested that a further progress report on the expenditure reduction proposals accruing from the Stages 1 and 2 GAE reviews, together with redistribution proposals to be considered in line with the Council’s Budget Strategy for 2008/09 to 2010/11 be presented to a future Cabinet when the strategic review of the revenue budget exercise was completed. This is the further progress report.
- 2.7 Work in progress as at 31 March 2007 demonstrated clearly that the Council’s Improvement Agenda objectives and timeline for ‘carrying out a detailed review of GAE and Grant’ and ‘carrying out a fundamental review of Council spending’ had been met. That said, and with the experience learned from the process, the need for such fundamental reviews will now be a standard feature of the Council’s business, timed to coincide with the Scottish Government’s periodic Spending Reviews. Our strategic budget review work to date now places the Council in an excellent position to respond positively to Spending Review 2007, as it impacts on the three year revenue budget process, commencing in 2008/09.
- 2.8 This further progress report founds on Professor Arthur Midwinter’s ‘Final Savings / Spending Proposals’ report dated 18 December 2007, set out in full as an attachment to this report.
- 2.9 This report should be read alongside the Executive Head of Finance & Asset Management’s report ‘Budget 2008/09 – 2010/11, also being considered by Cabinet at its meeting on 24 January 2008.
- 2.10 The contents of this report have been discussed and approved by the Council’s Corporate Management Team.

3. PROGRESS UPDATE

3.1 Professor Arthur Midwinter, the Council's Independent Adviser on the Strategic Review of the Revenue Budget exercise, has prepared three papers setting out progress achieved thus far.

- Paper 1 - Progress Report on Expenditure Baseline Reviews – (*considered by Cabinet on 24 October 2007*): which set out the findings on the fundamental review of Council spending for all service programmes with spend of 10% or more above GAE Assessments;
- Paper 2 - Progress Report on Grant Aided Expenditure - (*considered by Cabinet on 24 October 2007*): which sets out the outcomes from the detailed review of GAE Assessments and related Grant for the Council's various spending programmes;
- Paper 3 – Final Savings / Spending Proposals: setting out final recommendations arising from the strategic review exercise – professor Midwinter's paper is an attachment to this report.

3.2 By way of background and continuity, the high level messages contained in Professor Midwinter's first two papers and considered by Cabinet on 24 October 2007, are as follows.

On Expenditure Baseline Reviews:

- the importance of our SRRB strategy to the Council's finances has increased as the fiscal context at national level has tightened;
- the Professor draws Members attention to the fact that the Council's spending excess over its GAE assessment (£16.412m for Groups A & B; including £13.7m for the 13 Service Programmes (£500,000 or more over GAE) covered as part of the stage 1 work) is funded wholly by council taxpayers, and therefore a key driver of council tax levels;
- overall, the Council spent at a level of 3% above its GAE Assessment, broadly in line with the rest of Scotland; this is funded by council tax, so the budget is in balance, i.e. there is no funding shortfall within this total, albeit there are significant variations above and below GAE levels;
- we have 9 'Group A' GAE Service Programmes identified as spending significantly higher than Service Level GAE, with no clear evidence of distinctive local need factors driving the excess;
- we have a further, 4 'Group B' Service Programmes identified where the degree of spend over GAE Assessment levels was less than £500,000;
- any savings proposals arising from the SRRB exercise are supplementary to any efficiency savings required by the Scottish Government, and will in the main result in a reduction in service; and
- our Stage 2 work reviewed a further 28 GAE Service Programme assessments, representing around 29% of the total budget.

On Grant Aided Expenditure:

- Professor Midwinter identified four areas of concern to the Council, have an adverse effect on East Ayrshire Council's needs assessment, and hence on its level of grant:
 - budget based treatments (for Tourism, Museums, Art Galleries Planning; and Non Roads Lighting);
 - education deprivation;
 - sparsity and density indicators; and
 - measurement problems in street cleaning and childcare strategy;

- we have secured an additional childcare strategy GAE calculation which should increase our share of funding in excess of £200,000 per year from 2008/09;
 - budget based treatments are under review;
 - on education deprivation, we continue to press our case with the Scottish Government; and
 - on sparsity and density indicators, we continue to press our case with CoSLA.
- 3.3 In the period leading up to 5 December 2007 when the final report on the exercise was due to be presented to Cabinet, the Chief Executive and Executive Directors will have discussions with portfolio holders on any new key issues emerging from the exercise.
- 3.4 Professor Arthur Midwinter, the Council's Independent Adviser on the Strategic Review of the Revenue Budget exercise, has prepared his third keynote paper, setting out his proposals on 'Final Savings / Spending Proposals arising from his review. His full report is set out in the attachment to this report.
- 3.5 The high level messages contained in Professor Midwinter's third paper are as follows:
- the SRRB exercise has been treated as a cost-neutral exercise - in the light of the broadly standstill settlement in terms of spending on services provided by the Scottish Government, the potential for budgetary realignment identified by the exercise will help the Council meet the requirement in the Concordat to meet ongoing pressures within the total amounts provided in the SSR 2007 finance settlement;
 - the maximum potential for savings from Stage 1, Group A & B service programmes services was assessed at £4.542m over four years;
 - the review confirmed that the services identified during the Stage 1 exercise as spending significantly in excess of GAE represented the programmes with the greatest scope to reduce spending; the Professor could not recommend any savings targets for the Group C programmes;
 - East Ayrshire Council's spending needs assessment is close to the Scottish average;
 - overall, East Ayrshire Council spends below the Scottish average on both Primary and Secondary Teaching Staff Costs;
 - Education spent well above GAE on School Transport, at 42% above the Scottish average - there is no evidence of higher needs/costs in East Ayrshire; simply that a more generous service compared with National minimum standards is provided;
 - Education also spent above GAE on both Nursery Teaching Staff Costs and Special Education;
 - there is strong evidence that the Education budget could to be realigned to give greater priority to core school budgets (Teaching Staff Costs and Non Teaching Staff and Property Costs), that can enhance educational attainment, and to programmes which promote equality of opportunity, such as Education Deprivation and School Hostels and Clothing Allowances; there is little evidence to support the high level of spending incurred on School Transport;
 - pressures on both Children's and Social Work Services for the Elderly budgets are expected to grow in the next few years;
 - the Social Work share of the budget should increase over the next few years;
 - there is no strong financial or policy grounds for the significant degree of spending over GAE in a whole range of Neighbourhood Services programmes, such as Waste Collection, Waste

Disposal, Street Cleaning, Roads Maintenance and Burial Grounds in particular - this Department's share of the budget should fall in the next few years;

- a more realistic approach to charging for services is necessary, especially in Neighbourhood Services - the evidence is such that in most services where charging is practical and standard practice in local government, the Council's levels of charges are well below the Scottish average;
- a more realistic charging strategy would raise more funds, reduce net spending and could target subsidies directly on low-income households; and
- the SSR 2007 concordat settlement provides no extra resources for growing demographic pressures on existing programmes, such as Social Work Services for Children and the Elderly.

3.6 Whilst the maximum level of savings for re-distribution was assessed at £4.542m, committing additional expenditure at this level before securing the savings would introduce a significant level of risk to the Council's financial strategy. The savings proposals have been the subject of detailed discussion with Executive Directors and it has been concluded that savings should be focused on areas where a deliverable strategy can be identified to achieve them. The challenges involved in securing the savings should not be underestimated however. Departments will have a parallel requirement to make efficiency savings and may examine some of the other areas highlighted in the SRRB as part of these. The spending proposals are designed to take account of the Council's commitment to equality and sustainability, whilst adhering to key issues highlighted including the need to increase the number of teaching staff and to increase the Social Work share of the budget. Taking this together, budget savings proposals amounting to £1.687m are recommended as follows:

- Pre-School Education - £350,000;
 - Waste Collection - £100,000;
 - Street Cleaning - £100,000;
 - Burial Charges - £50,000;
 - Roads Maintenance - £500,000;
 - Central Finance - £295,000; and
 - Corporate Support - £292,000.
- Budget spending proposals amounting to £1.687m are recommended as follows:
 - Additional Teachers - £787,000;
 - Mainstream Funding for CHIP Van - £100,000;
 - Social Work Infrastructure - £400,000;
 - Environmental Hit Squads - £200,000; and
 - E&SS Outwith Placements – £200,000.

4. FINANCIAL IMPLICATIONS

- 4.1 The net effect of the proposals set out in this report and in the accompanying attachments are cost neutral, as the savings proposals identified from the SRRB exercise are matched with redistributed to spending programmes in line with Council and wider Community Planning aims and objectives.
- 4.2 This contents of this report supplement the contents of The Executive head of Finance's 'Budget 2008/09 – 2010/11' report also being considered by Cabinet at its meeting on 24 January 2008.

5. COMMUNITY PLANNING IMPLICATIONS

- 5.1 The outcomes from the SRRB exercise recommend a redistributing of resources to spending programmes in line with Council and wider Community Planning aims and objectives.

6. LEGAL AUTHORITY / POLICY IMPLICATIONS

- 6.1 The Local Government in Scotland Act, 2003 introduced new statutory duties relating to Best Value and Community Planning. This brings responsibility for working towards identifying clear priorities for spending our resources in a way that best responds to the needs of our communities, both in the short and longer terms. The outcomes from our Strategic Review of the Council's Revenue budget allows the Council to be better organised to identify and deliver on our priorities, whilst at the same time, allowing us to operate in a way that drives continuous improvement across all our activities.

7. RECOMMENDATIONS

- 7.1 Cabinet is asked to:

- (i) Endorse and approve:

- the further progress made in taking forward the Strategic Review of the Revenue Budget, all in accordance with the Council's Best Value Improvement Agenda and as set out in the report and accompanying attachments; and
- the action taken by Officers in accordance with the remit and scope of work agreed by the Policy and Resources Committee at its meetings on 8 February 2006 and 23 January 2007; and the actions set by Cabinet at its meeting on 24 October 2007;

- (ii) Agree the expenditure reduction and new redistributed spending proposals set out in the report and to instruct the Executive Head of Finance to consolidate these when drawing up the Council's Revenue Budget Strategy for 2008/09 to 2010/11; and

- (iii) Request a further report in due course on proposals for a cross cutting review of the Council's policies on Charging for Services.

Fiona Lees
Chief Executive, 16 January 2008
FL/JC/LP

LIST OF BACKGROUND PAPERS

1. Three workbooks, for Groups A ,B and C Service Programmes.
2. One workbook for Group C Service Programmes.
3. One workbook for Budget Spending Proposals.

Any person wishing to inspect the background papers relative to this report, or any other information in connection with the report, should contact John Clayton, Head of Corporate Development and Communication, on Tel No 01563 576165

Implementation Officer: Chief Executive

EAST AYRSHIRE COUNCIL

STRATEGIC REVIEW OF THE REVENUE BUDGET (SRRB)

FINAL SAVINGS / SPENDING PROPOSALS

REPORT BY PROFESSOR ARTHUR MIDWINTER

Background, Purpose and Methodology

1. The Strategic Review of the Revenue Budget (SRRB) exercise commenced in 2006 with a number of key objectives. It was recognised that the Local Government Finance Settlement in the Scottish Spending Review 2007 (SSR 2007) would be a tight one, and that to make progress with the Council's strategic priorities, it would be necessary:
 - a) to maximise East Ayrshire Council's share of Grant Aided Expenditure (GAE); and
 - b) to review current baseline expenditure across Council services;both with a view to maximising the resources available for reallocation to other Council / Community Planning priorities.
2. There has been progress in increasing the Council's GAE assessment, as reported to Cabinet on 24 October 2007. The review of grant distribution conducted by Scottish Executive officials and COSLA advisers in the 3 Year Settlement Group (3YSG) is now complete, and will report shortly. Any further developments in GAE will be reported as necessary.
3. In the case of the baseline expenditure review, it was recognised that to generate sufficient headroom in the budget to fund priorities, then reductions in existing spending would include both service reductions and efficiency savings.
4. The approach adopted to identify scope for redistribution was through benchmarking, which is now a well-established technique under the Best Value guidance. The approach was to identify spending levels which seemed disproportionately high for deeper scrutiny and evaluation.
5. The first stage of the benchmarking process compared East Ayrshire Council's spending with its GAE assessments. GAEs are built up on the basis of historic baselines, service developments and cost increases, although COSLA, in discussion with the Scottish Executive, often disputes the resultant total. The final GAE represents the Executive's view of what each Council needs to spend to provide a similar level of service.
6. Highlighting excess spending over GAE is an 'alarm bell' approach, which identifies possible cause for concern and further investigation. Excess spending over GAE can reflect the under-assessment of the costs of providing a standard level of service across Scotland, as occurred with Children's Social Work Services last year, where over spending was widespread across Scottish Councils.

7. Secondly, excess over GAE can reflect distinctive local need / cost drivers not reflected in GAE. Needs assessment is not a comprehensive technique that identifies all such factors. Rather, it is a simplified model based on a few key factors, statistically validated. These must be outwith the control of authorities – such as sparsity or poverty.
8. Thirdly, the excess may reflect local policy decisions to provide an above standard level of service. Our objective was to take account of these factors, so that only over spend based on local discretion would be identified for possible savings. It would then be for Elected Members to decide whether to maintain such high levels of spend, or seek to reallocate funding to other priorities.
9. The second stage of the benchmarking process involved the compilation of comparative information on spending and service levels for other authorities. Initially, we used Clackmannanshire, North Ayrshire, and West Dunbartonshire; those which provided the closest fit with East Ayrshire Council in terms of population, geography and poverty.
10. This showed East Ayrshire Council spends more than Clackmannanshire, less than West Dunbartonshire, and around the same as North Ayrshire, which is what we would expect on the basis of their relative spread of need factors, and is consistent with their relative GAE assessments. East Ayrshire Council also records assessed needs and spending levels close to the Scottish average.
11. As the benchmarking process progressed, it became clear that there were problems with the accuracy of the financial data for West Dunbartonshire, and in the light of East Ayrshire Council's strong correlation on need and total spending with North Ayrshire Council and the Scottish average, it was decided to rely on these two comparisons on service spending levels.
12. The Council's Corporate Management Team endorsed this approach. The baseline expenditure review then operated through working groups scrutinising position papers from Executive Directors, setting out the Council's statutory duties for each service area, the relevant cost drivers, service levels, and a record of East Ayrshire Council's performance against Accounts Commission SPIs and in other external inspection reports on Council services. Stage one reviewed Groups A & B service programmes; and Stage 2 reviewed Group C service programmes.
13. This report is structured over a critique of 6 specific areas of interest, with an overall conclusion:
 - Stage One – Groups A & B – Service Programmes (2005/06);
 - Stage Two – Group C Service Programmes (2005/06);
 - A Strategic Assessment of the Budgetary Position;
 - Budget Savings Proposals;
 - Budget Spending Proposals;
 - The Implications of the SSR 2007 Concordat; and
 - Conclusion.

Stage One – Groups A & B – Service Programmes (2005/06)

14. The 28 services selected for review were placed into two groups, A and B. In Group A, budgets were over spending GAE by £500,000 or more; whilst Group B overspent by 10% or more (up to £500,000). The review process identified a number of concerns.
15. Firstly, in Children's Social Work Services, there was a major over spend nationally, but at a much higher degree of excess than in East Ayrshire Council, and it was agreed that this service should be excluded from the need to make savings.
16. Secondly, a number of services over spending had GAE assessments based on authorities' budgets, as no agreed formulae for needs factors could be identified. Authorities' share of GAE therefore (perversely) reflects their share of local expenditure. Any reduction of expenditure arising from the baseline review would result in a loss of GAE and grant income. Services in this category comprised of Tourism; Museums and Art Galleries; Supported Employment; Administration of Housing Improvement Grants; Planning and Non-Roads Lighting.
17. Finally, there was a group of services which the review process revealed had GAE spending excesses distorted by issues of coding and accounting, and once these were taken into account, these services were removed from further consideration. These comprised National Priorities Action Fund; School Meals; School Security; and Supporting Young People Leaving Care.
18. This left a total of 13 Group A and 8 Group B services for which no cost or needs-based justifications for higher spending could be identified, and for which it was reasonable to assume scope for savings existed which, if achieved, would still leave the Council providing standard services or above. Savings were then set for these services, on the following basis.
19. For Group A Services, all over spends above GAE assessment exceed £500,000, and thus offer the greatest scope for savings. Their combined over spend was £13.7m (from the total Groups A & B over spend of £16.412m), whilst East Ayrshire Council's overall over spend over GAE was £7m in 2005/06, reflecting a large number of services with budgets less than GAE.
20. For Group A services with excesses over 50%, I proposed savings targets of 5% per annum. Council budgets are heavily committed and can only be changed slowly, and any savings secured would still result in spending levels above GAE – although the excess will fall over the four-year period set for the savings to accrue. I proposed these targets should apply for four years (i.e. 4 x 5%) but recognised there could be cases where it would be easier to make all the savings in year one – e.g. in School Transport.
21. For those with GAE excesses of between 10-50%, I proposed more modest savings targets of 2% per annum.
22. Group B services had much smaller over spends in cash terms. Recommendations for these services fell into three categories – 3%; 1.5% and standstill budgets. Further, as GAEs do not provide specific assessments for central and corporate services, I proposed that these budgets should make savings equivalent to 10.1%

of the proposed service total savings of £4.125m, namely £417,000; which makes a final proposed savings target over four years of £4.542m.

23. The services concerned were:
- a) **5%** - School Transport; Nursery Teaching Staff Costs; Waste Collection; Waste Disposal; Street Cleaning; and Burial Grounds.
 - b) **3%** - School Crossing Patrols; Gaelic Education.
 - c) **2%** - Special Education; Pre-School Education; Roads Maintenance.
 - d) **1.5%** - Trading Standards; Roads Lighting; and Miscellaneous Services.
 - e) Standstill budgets – Roads Client Functions; Libraries and Taxation.
24. The next stage of the process was the provision of detailed savings proposals to meet those targets, setting out the impact on service outputs for elected member consideration. It is necessary to ensure that the targets set are feasible and attainable, and will not result in the Council failing to meet its statutory obligations.
25. Executive Directors were therefore asked to identify any element of their budgets which were ‘uncontrollable’, in the sense that the specific amount of expenditure is inescapable in order to meet statutory duties. This exercise identified very few services which were unavoidable, even when service provision was obligatory rather than discretionary. The Council clearly has a significant degree of autonomy over how much it spends on obligatory services.
26. The exercise did reveal, however, that the apparent over spend on Gaelic Education, which is a specific grant, resulted from miscoding of costs. The Council only receives grant for the Gaelic component of education, and conventional teaching costs should be charged against either primary and teaching staff costs or secondary staff costs. When these costs are reallocated, the over spend is eliminated, and Gaelic Education’s target has now been removed from the list.
27. The background information for Elected Members is available in two workbooks, for Group A and Group B Service Programmes.

Stage Two – Group C Service Programmes (2005/06)

28. As part of my Stage 1 work, I identified a second tranche of 28 GAE service programmes that had not been subject to baseline expenditure review. Most of these were either spending slightly above GAE, or below GAE, at that time.
29. During discussions this year, it was agreed that because of the overlap between the four streams of funding for support for the elderly in residential accommodation, these should be combined for this exercise. These are Residential Accommodation; DWP Transfer Residential Allowance; Free Personal and Nursing Care; and Care Home Fees. This left a total of 25 GAE Group C Service Programmes for consideration.
30. The information set out in Table 1 shows that 18 of these programmes spend below GAE – some significantly so in percentage terms – whilst Table 2 shows that 7 were above GAE, but mostly by small sums of money, with the exception of Primary Teaching Staff Costs.

31. As with the Group A and B Service Programmes dealt with at Stage 1, the background information for Elected Members is presented in three workbooks, for Education, Social Work and Neighbourhood Services. Only Primary School Teaching Staff Costs records an over spend, whilst Secondary Teaching Staff Costs and Non-Teaching Staff and Property Costs record significant under spends.
32. The best indicators we have regarding teaching capacity are pupil-teacher ratios and class sizes. In the most recent version of 'Teaching in Scotland', there are only four authorities with higher pupil-teacher ratios than East Ayrshire: Perth and Kinross (12.4), Renfrewshire (12.9) South Lanarkshire (12.7) and West Lothian (12.4).
33. East Ayrshire Council's ratio of 12.2, is higher than both North Ayrshire Council (11.9) and the Scottish average of 12.0. Some 13 authorities have above average ratios. In terms of per capita spending, East Ayrshire Council spends 5% less than the Scottish average (see Table 3).
34. In terms of primary teaching staff costs, on which the Council spends above its GAE assessment, it also reports an above average pupil-teacher ratio, at 18.1 compared with 17.0 for North Ayrshire Council, and 16.3 across Scotland as a whole. Data on average class sizes is also available for primary schools, and again, East Ayrshire's score is above the average, at 24.4 pupils, compared with 25.1 for North Ayrshire, and 23.6 across Scotland as a whole. East Ayrshire spends 8% less than the Scottish average (see Table 3).
35. The other major cost item is the Non-Teaching Staff and Property Costs GAE, for which the Council spends £2.029m below its assessment. There are no service level indicators but despite the shortfall, East Ayrshire Council spends 21% above the Scottish average. In the circumstances, this does not suggest that this level of expenditure is excessive, but that under spend occurs across Scotland.
36. The other six education programmes show under spends ranging from £101,000 to £544,000. There is no comparative cost data for four of these programmes. For Childcare Strategy, the Council spends at the Scottish average, and for Sure Start, the spend is 33% below average, although the cash sum involved is small.
37. Whilst there is a significant under spend on Social Work Services for the Elderly, there is no suggestion from the Council's Officers that demand for such services is not being met. This is in stark contrast with Children's Social Work Services examined nationally last year. The over spend in Mental Illness reflects the composition of funding. The GAE is a specific grant, which only meets 70% of the costs. In these services, as with Education, I did not form the view from the benchmarking assessment that further scope for savings could be justified. The Council spends below average on three of the four services for which data is available, but above average on Residential Accommodation.
38. There is some statistical data on staffing levels. In Social Work, the Council employs 20% less staff per 1,000 population than the Scottish average (4.7 compared with 5.9) and 5% below the average for services for the Elderly (6.0 compared with 6.3); and 50% below average for Administration (0.3 compared with 0.6). In the case of Offender Services, it employs 20% more than the average (0.6 compared with 0.5). This does not suggest any overprovision in terms of a 'standard level of service'.

39. The Neighbourhood Services workbook reports minor over spending on the remainder of Leisure and Recreation; Winter Maintenance; and Civil Protection, and minor under spending on Parks and Open Spaces, Sports Facilities and Swimming Pools, Homelessness, Supporting People and Support for Buses.
40. Neighbourhood Services, in the main, covers services for which there is a high degree of discretion over service levels and spending. In the absence of service level indicators, average cost is the only comparative measure available. The cost data suggests that for Leisure Services in particular, the Council spends well below the Scottish average, but also that it sets charges for services well below the average. This suggests there is little scope for savings on the gross budget but there is considerable scope for increasing charges, leading to a reduced net cost of service provision, all without further reducing service provision.
41. The Environmental Health budget is set well below GAE, by £285,000 or 18%. It sets charges broadly in line with other authorities. Its comparative costs are considerably less than North Ayrshire, and the Scottish average. There are no service level indicators. The SPIs are largely concerned with 'process times' and the Council's performance is creditable, averaging 12th in Scotland, given its low expenditure on this service.
42. Overall, this review confirms that the services identified during the Stage 1 exercise as 'over spending' represented the programmes with the greatest scope to reduce spending. I could not recommend any savings targets for the Group C programmes. In general, services on which the Council spends above GAE are those for which it provides higher levels of service, and vice-versa.
43. The background information for Elected Members is presented in a workbook for Group C Service Programmes.

Strategic Assessment

44. The spending data and the service information gathered for this review provides a valuable basis for assessing the effectiveness of the strategic targeting of resources in the current spending pattern. Overall, East Ayrshire Council spent 4% below the Scottish average, at £1,998 per capita, compared with £2,087 across Scotland as a whole (2006/07). East Ayrshire Council's spending needs assessment is close to the Scottish average.
45. Table 4 sets out GAE / Budget data on a departmental basis as existed in 2005. Whilst the Council had an overall excess of expenditure over GAE of 3.4% or £6.7m for 2005/06 on its own services (i.e. excluding police and fire), the pattern between programmes varied significantly. Cleansing and Environmental Services recorded the largest excess over GAE at 45%, whilst only Social Work Services was in deficit, at minus 4%. This continues the trend noted in our Stage 1 work, based on 2005/06 results.
46. This relative low level of expenditure on Social Work may not be entirely consistent with the stated priority in the Community Plan to eliminate poverty and deprivation. Whether this represents an acceptable pattern of spending is for Elected Members to determine, but disadvantaged households tend to have greater need for social work services.

47. The East Ayrshire Community Plan provides a comprehensive framework of broad overarching themes, which service departments contribute to directly and indirectly. Allocating budgets at the margins, however, is necessarily selective and requires prioritisation. The strategic approach suggested in this exercise is to give greater priority to spending programmes that advance the Council's obligations under Best Value or Community Plan criteria to promote the crosscutting issues of equality of opportunity and sustainability.
48. Sustainability is mainly concerned with the conservation of natural resources, through activities that reduce energy consumption or recycle waste. Sustainability criteria are less well-developed than equalities criteria in practice. Executive Directors were asked to report how their current programmes and new spending proposals advance these strategic priorities.
49. The pattern of spending within departmental programmes requires assessments against such strategic criteria. In Education, East Ayrshire Council spent below GAE on some of its core elements, such as Secondary Teaching Staff Costs and Non-Teaching Staff and Property Costs; whilst only spending marginally above GAE on Primary Teaching Staff Costs. Overall, East Ayrshire Council spent below the Scottish average on both Primary and Secondary Teaching Staff Costs.
50. In contrast, Education spent well above GAE on School Transport, at 42% above the Scottish average. There is no evidence of higher needs/costs in East Ayrshire; simply that a more generous service compared with National minimum standards is provided. It also spent above GAE on both Nursery Teaching Staff Costs and Special Education.
51. The new Scottish Government is proposing to expand Nursery Education, so the existing spending gap is a matter for concern. The Council can expect a growth in the Nursery Education GAE, but if no additional resources are awarded this will reduce the scale of the excess expenditure.
52. Further, the current pattern of provision gives low priority to the Equalities agenda, as the Council does not provide any additional funding (made available through the Education Deprivation line in GAE) to schools in areas of social deprivation. It also spent below GAE on Schools, Hostels and Clothing, in part because the clothing allowance for children in low-income families has not been increased since 1996, and is now well below the sum required to purchase a school uniform.
53. In summary, my assessment is that there is strong evidence that the Education budget needs to be realigned to give greater priority to core school budgets (Teaching Staff Costs and Non Teaching Staff and Property Costs) that can enhance educational attainment, and to programmes which promote equality of opportunity, such as Education Deprivation and School Hostels and Clothing Allowances. I can see little evidence to support the high level of spending incurred on School Transport.
54. In Social Work services, I have made no recommendation for savings, but further work needs to be done after the budget to provide robust costings for the split over Casework and Administration for comparison with GAE. Pressures on both Children's and Social Work Services for the Elderly budgets are expected to grow in the next few years.

55. As Table 4 shows, Social Work was the only service programme that was spending below GAE (minus 4%). In the light of the equalities agenda, and the demographic pressures mentioned above, I would expect to see the Social Work share of the budget increase over the next few years.
56. On the other hand, I can see no strong financial or policy grounds for the significant degree of spending over GAE in a whole range of Neighbourhood Services programmes, such as Waste Collection, Waste Disposal, Street Cleaning, Roads Maintenance and Burial Grounds in particular. I would expect to see this Department's share of the budget fall in the next few years.
57. I have made no further recommendations for savings from the Group C programmes. As Tables 1 and 2 shows, most of them are well below their GAE assessment levels.
58. There is however, a key financial challenge that needs addressing across the range of Council services. A more realistic approach to charging for services is necessary. The evidence in the workbooks is such that in most services where charging is practical and standard practice in local government, the Council's levels of charges are well below the Scottish average.
59. The frequent explanations offered in defence of low charges are firstly, to help low-income households; and secondly, to remain competitive with other service providers.
60. These are not convincing arguments from a financial perspective. Whilst East Ayrshire does have a high level of poverty compared with the Scottish average – 16.7% compared with 13.9% - current charging policy means that low charges benefit the 83.3% of East Ayrshire Council's population who are not poor. A more realistic charging strategy would raise more funds, reduce net spending and could target subsidies directly on low-income households.
61. The current approach of keeping charges low penalises council taxpayers as it drives spending above GAE, which then falls wholly on council tax. There is therefore, considerable scope to reduce council tax through increasing charges to consumers.

Budget Savings Proposals

62. The benchmarking process identified a number of service programmes spending above GAE assessment levels. Further examination revealed a range of factors causing the excess in some programmes, resulting in their being removed from the list of savings targets. These are Children's Social Work Services, Planning and Economic Development, Gaelic Education, Tourism, Museums and Art Galleries, Supported Employment, Administration of Housing Improvement Grants and Non-Roads Lighting.
63. In addition, three of the Group B programmes were examined and recommended to face standstill budgets. These were above GAE assessment levels, but below average per capita expenditure for Scotland. The services concerned are Roads Administration, Libraries, and Taxation Services.
64. The remaining list of savings proposals targets (Table 5) was agreed in discussion with the Council's Corporate Management Team, to ensure that these are feasible and capable of implementation, and would not prevent the Council from meeting its statutory obligations. Executive Directors were asked to identify any elements of these budgets which are uncontrollable, in the sense of being a specific requirement in law. This exercise revealed that there are few cases where statutory duties are defined so precisely that an exact figure can be derived for the budget, and so in effect, the Council has considerable discretion in setting its spending levels on most services.
65. The savings proposals under consideration, therefore, are all capable of being delivered without breaching statutory obligations. In addition, Executive Directors were asked to identify specific cost proposals for meeting their savings targets, representing their professional judgement of how best to meet their targets with least impact on service provision. In most cases, reducing spending will require some reduction in service, but the achievement of these savings targets over a four year period, would still leave the Council funding and providing services above standard levels of services in these cases.
66. In short, the challenge is that the Council is spending significantly more on these services than the Government considers necessary to provide a standard service. Further, the Council also spends more than its comparators, and Executive Directors have not been able to provide any strong evidence of higher need for these services, or higher costs of delivery in most cases.
67. When this exercise began, the Council was anticipating a slowdown in funding growth to around 2% over this Spending Review cycle. The recent funding provision announced through the SSR 2007 Concordat has further tightened the budgetary position, as more of the additional funding is earmarked for tax reduction than that for new spending commitments. Nationally, £420m is being provided for the hoped for council tax freeze, but only £152.5m for spending commitments under councils' control. East Ayrshire's share of this will be around £3.5m in total, but only £870,000 will be available in 2008/09. New spending should now be restrained in recognition of this new situation.
68. Consideration was also given to the impact any savings would have on strategic policy issues. For example, cutting the school transport budget would reduce over spending, but could encourage greater car usage in school areas, causing both

increased traffic congestion and increased fuel consumption. Similarly, adverse public reaction to making savings in the budget for children with additional support needs could highlight this issue at a time when demand for such support is growing. The list of recommended savings totalling £1.687m is set out in Table 5, with summary details as follows

69. **Pre-School Education - £350,000:** The target saving is 7% of the budget, from an excess of 24% over GAE. The Executive Director proposes to meet the target by reviewing and streamlining management structures, entirely consistent with the Scottish Government's and indeed the Council's commitment to improve value-for-money in the public sector.
70. **Waste Collection - £100,000:** The savings target is 2.7% of the budget over 4 years. The Executive Director proposes to meet the target by more efficient deployment of resources. In East Ayrshire, the Council provides a free uplift service, whilst 18 authorities charge between £5 and £30 for uplifts, and 20 authorities charge between £5 and £35 for bulky uplifts. The Executive Director estimates that £212,500 could be raised through a £25 charge. My advice is that charges should also be reviewed where possible.
71. **Street Cleaning - £100,000:** The savings target is 6% of the baseline budget over 4 years. The Executive Director proposes to meet the target by more efficient deployment of resources. Income generation offsets 20% of overall costs, but no proposal to increase this is offered. My advice remains that increased income possibilities should also be pursued.
72. **Burial Charges - £50,000:** The savings target is 5% of the budget over four years, equivalent to only 10% of the excess over GAE. In this service programme, the Council is spending 165% above its GAE. It spends around three times higher than the national average. Its charges are well below the national average. The Executive Director proposes to meet the target by increasing charges to nearer the Scottish average.
73. **Roads Maintenance - £500,000:** The savings target (£344,000) was 7.5% of the budget over 4 years. The initial submission has been extensively rewritten, with a proposal from the Executive Director that this saving be increased to £500,000, with proposals to meet this through better asset management and utilising options for capital expenditure over revenue expenditure where this is possible.
74. **Finance - £295,000:** The target is 10.4% of the net budget, but only 3.5% of the gross budget. The Executive Head of Finance proposes to meet this saving through general efficiencies.
75. **Corporate Support - £292,000:** In line with the Finance savings target, the savings target for Corporate Support was initially determined pro rata to the savings targets set for the wider service functions, at 10.1% of their total initial target savings of £4,125,000, i.e. a savings target of £417,000 (including the Finance element). This is equivalent to 2.8% of the gross budget for Central and Corporate Support Services, as it is across the whole budget – not just the overspending programmes, as for services. The Executive Director of Corporate Support proposes to meet this saving through general efficiencies.

76. Whereas the initial intention was that the Finance and Corporate Support Services were intended to give up 10.1% (£417,000) of the total savings made by front line services, the higher amount now offered up (£587,000), when compared with the lesser amount now being offered up by front line services of £1.1m (£4.125m - £3.025m), means that Finance and Corporate Support Services are now contributing 35% of the savings now offered up for redistribution to priority service areas.
77. The background information for Elected Members is presented in a workbook for Budget Savings Proposals.

Budget Spending Proposals

78. The tightening budgetary context was one of the factors that prompted the SRRB Exercise. Our overall objective is to provide a package of budget options – for savings or growth – for Elected Members to consider. My assessment of them is both on financial grounds, and their contribution to the equalities and sustainability agendas, as required under the Best Value/Community Planning Challenge
79. At this stage, therefore, discussions with senior officers led to an agreement that any new spending proposals should be funded by savings within the base budget, and that the savings options generated by the SRRB exercise should be considered in more detail and reduced to the amount required to balance a package of savings with new spending.
80. The spending proposals recommended by CMT were also informed by an assessment of their impact on the equalities and sustainability agendas, as required under the challenge of Best Value criteria. Spending proposals totalling £5.7m were reduced to a more feasible figure of £1.687m over the four year cycle. The list of recommended spending proposals is set out in Table 5.
81. **Additional Teachers to Support Learning - £787,000:** This proposal is for funding to provide additional teachers in schools and for related additional supplies and services, at a total cost of £787,000.
82. The inability to deploy additional teachers in specific areas is a major gap in the Council's services, and inconsistent with the equalities agenda, as I have commented on in my earlier reports. Their provision would enhance the equality of opportunity agenda.
83. **Mobile Health Living Centre (CHIP Van) - £100,000:** The proposal is to mainstream the Community Health Improvement Partnership (CHIP) Van Mobile Health Living Centre, at a cost of £100,000. This undertakes a programme of community and outreach delivery of fitness testing and dietary analysis, within the most deprived communities. This will improve health and wellbeing.
84. **Social Work Infrastructure - £400,000:** This proposal is for £400,000 to allow the redesign and development of the children and families infrastructure in social work services, with an emphasis on early intervention and preventative intensive family support services.

85. It clearly sets out the growing pressure on this service and the national funding shortfall. As a service provided mainly to children from low-income households, it will support the equalities agenda.
86. At a cost of £400,000, this is a strong candidate for approval.
87. **Environmental HIT Squad - £200,000:** The funding proposal is for an Environmental Hit Squad to take over the duties of the CRF funded Hit Squad and Quality of Life Squad. The annual cost will be £200,000, and this would permit quick responses to fly tipping and dumping on council-owned land. This would support both the equalities and sustainability agendas.
88. **Outwith Placements - £200,000:** The final spending proposal is for an additional £200,000, recognising the budgetary shortfall in funding for young people who are placed in outwith the area establishments. These young people receive the complex care and educational support that they require to offer them the best chance to meet their potential.

This proposal also merits approval if funding permits.

89. This mix of savings and spending proposals (Table 5) has two consequences. Firstly, they increase the proportion of the Council's budget committed to equalities and sustainability objectives. Secondly, they reduce the share of the budget allocated to Neighbourhood Services, and increase the proportion allocated to social work, tackling the imbalance between need and expenditure in Table 4. They also produce a significant shift in resources from Central and Support services to the front line.

The Implications of the SSR 2007 Concordat

90. This SRRB exercise was initially devised as a mechanism to release resources for allocation to Council priorities, in the expectation that the UK spending plans would result in tight settlements for local government from 2008/09. In fact, the tightness expected from these plans has increased in the new SSR 2007 Concordat between central and local government, in that it gives greater priority to taxation over spending on service provision.
91. This section of my report provides a preliminary assessment of the implications of the SSR 2007 Concordat for East Ayrshire Council and this SRRB exercise. Firstly, although the settlement has been presented as increasing local government's share of the Scottish Budget, and the national increase is £385m over three years, £210m of this total is the funding for the council tax freeze.
92. By contrast, the additional amount provided for spending on services is only £175m, equivalent to £1.5% increase over 3 years, or 0.5% per annum. This increase is well below the average 5.4% increase in real terms in the Scottish Budget over the same 3 years.
93. In practice, the tax and spend commitments for which funding is provided are all from the Government's manifesto, and the agreement states that local government "will do what is required to ensure delivery of key government policies", including freezing council tax, increasing the number of police officers in communities, implementing the small business bonus scheme, reducing class sizes in primaries

1-3, increasing nursery provision by 50%, extending free school meals, providing allowances for kinship care, and delivering extra respite care.

94. Individual elements have not been costed, but their full cost greatly exceeds the £175m provided by the Government, as they would cost around £1 billion per annum. Moreover, the settlement provides no extra resources for growing demographic pressures on existing programmes, such as Social Work Services for Children and the Elderly.
95. We have treated the SRRB as a cost-neutral exercise. In the light of the broadly standstill settlement in terms of spending on services provided by the Scottish Government, this potential for budgetary realignment will help the Council meet the requirement in the Concordat 'to meet ongoing pressures within the total amounts provided'.
96. The background information for Elected Members is presented in a workbook Budget Spending Proposals.

Conclusion

97. The review has highlighted key areas of the budget with high levels of spending in comparative terms, and focused on those service programmes for which no satisfactory need/cost based explanations can be provided.
98. These service programmes have now been set savings targets, and made proposals for delivering savings over a four-year cycle. These permit the strategic realignment of the baseline budget, to strengthen the Council's position in terms of promoting equalities and sustainability as required under Best Value and Community Planning. The savings proposals have been supplemented by new spending proposals that would contribute to these crosscutting themes. This exercise provides the basis for better integrating planning and budgeting as part of the Council's commitment to improve its financial management in its response to the 'Effective Use of Resources' and 'Integrated Service Planning and Budgeting Processes' improvement agenda as set out in the Accounts Commission's September 2006 Audit report or the Council's Best Value and Community Planning arrangements.

Professor Arthur Midwinter
19 December 2007

EAST AYRSHIRE COUNCIL**STRATEGIC REVIEW OF THE REVENUE BUDGET
REPORT BY PROFESSOR ARTHUR MIDWINTER****GROUP C SERVICE PROGRAMMES**
SPENDING BELOW GAE IN 2005/06

<u>Service</u>	<u>£m</u>	<u>%age Below GAE</u>
Secondary Teaching Staff	1.026	4
Non Teaching Staff and Property Costs	2.029	10
School Hostels and Clothing	0.266	42
Residual Further Education and Travel, and Bursaries	0.101	55
Community Education	0.388	14
Adult Literacy	0.184	42
Child Care Strategy	0.185	22
Sure Start	0.544	41
Social Work Services for Home Based Elderly	5.129	43
Residential Care for Elderly	2.140	15
SWS for People with Disabilities	0.463	7
Remaining Social Work Services	0.277	16
Parks and Open Spaces	0.073	3
Sports Facilities and Swimming Pools	0.282	14
Homelessness	0.036	50
Supporting People	0.029	10
Support for Buses	0.145	14
Environmental Health	0.285	18

Professor Arthur Midwinter
17 December 2007

EAST AYRSHIRE COUNCIL
STRATEGIC REVIEW OF THE REVENUE BUDGET
REPORT BY PROFESSOR ARTHUR MIDWINTER

GROUP C SERVICE PROGRAMMES
SPENDING ABOVE GAE IN 2005/06

<u>Service</u>	<u>£m</u>	<u>%age Above GAE</u>
Primary Teaching Staff	1.036	5
Independent Living Fund	0.020	7
Mental Illness Specific Grant	0.139	30
Money Advice	0.006	4
Rest of Leisure and Recreation	0.136	9
Winter Maintenance	0.143	13
Civil Protection	0.126	101

Professor Arthur Midwinter
17 December 2007

EAST AYRSHIRE COUNCIL

STRATEGIC REVIEW OF THE REVENUE BUDGET

REPORT BY PROFESSOR ARTHUR MIDWINTER

SPENDING ON KEY SERVICES 2005/06

<u>Education</u>	<u>EAC</u> (£ per capita)	<u>NAC</u> (£ per capita)	<u>Scottish Average</u> (£ per capita)
Primary Teaching Staff	167	148	181
Secondary Teaching Staff	198	227	209
Non Teaching Staff/ Property Costs	232	184	192
Childcare Strategy	7	6	7
Sure Start	6	10	9
<u>Social Work</u>			
Home Based Elderly	68	39	67
Residential Accommodation for the Elderly	117	99	99
Social Work Services for People with Disabilities	18	17	28
Mental Illness	10	15	15
<u>Neighbourhood Services</u>			
Parks and Open Spaces	20	29	27
Sports Facilities and Swimming Pools	13	21	21
Other Recreation	10	N/A	9
Countryside	5	3	4
Tourism	1	3	2
Culture	4	8	10
Civil Protection	1	1	1
Winter Maintenance	9	3	10
Citizen Advice	1	1	1
Environmental Health	9	13	14

Professor Arthur Midwinter
17 December 2007

EAST AYRSHIRE COUNCIL**STRATEGIC REVIEW OF THE REVENUE BUDGET****REPORT BY PROFESSOR ARTHUR MIDWINTER****GAE / BUDGET COMPARISONS ON A DEPARTMENTAL BASIS**
(prior to new management restructuring 1 April 2007)

<u>Programme</u>	<u>Variance (£m)</u>	<u>%age</u>
Education	+ 1.6	+1.6
Social Work	- 2.0	-4.2
Roads and Transport	+ 1.6	+15.8
Leisure and Recreation	+ 0.4	+4.5
Cleansing and Environmental Services	+ 3.2	+45.0
Other Services	+ 1.9	+37.0

Professor Arthur Midwinter
17 December 2007

EAST AYRSHIRE COUNCIL

STRATEGIC REVIEW OF THE REVENUE BUDGET

REPORT BY PROFESSOR ARTHUR MIDWINTER

**FINAL PACKAGE OF SAVINGS / SPENDING PROPOSALS RECOMMENDED BY
CORPORATE MANAGEMENT TEAM**

	Total £m	08/09 £m	09/10 £m	10/11 £m	11/12 £m
<u>Savings Proposals</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
<u>Spending Proposals</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

Professor Arthur Midwinter
17 December 2007