

EAST AYRSHIRE COUNCIL

CABINET – 24 OCTOBER 2007

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 progress update on the Council’s Best Value Improvement Agenda action item No.1 – ‘Effective Use of Resources’.

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 is 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 (under the previous Administration) 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 (as part of the new Administration) 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 requires a progress report on our SRRB work to come to Cabinet on 24 October 2007 (i.e. this report); and for a further progress report to Cabinet on 5 December 2007.
- 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 progress report deals with all three actions set out at paragraph 2.2 above, as taken forward by the Strategic Review of the Revenue Budget (SRRB) Working Group.
- 2.9 The contents of this report were discussed and approved by the Council's Corporate Management Team at its meeting on 10 October 2007.

3. PROGRESS UPDATE

- 3.1 Professor Arthur Midwinter, the Council's Independent Adviser on the Strategic Review of the Revenue Budget exercise, has prepared two papers setting out progress achieved thus far. He also sets out the range of tasks to be taken forward in order that his final report on the matter can be discussed at Cabinet on 5 December 2007.
- 3.2 **Paper 1 - Progress Report on Expenditure Baseline Reviews**, sets out the current position on the fundamental review of Council spending for all service programmes with spend of 10% or more above GAE Assessments. Appendix 2 to Paper 1 also sets out our Framework for Budgetary Reallocation, again setting out progress as we seek to further develop our integrated service planning and budgeting processes, in line with core Council business and Community Plan Priorities.
- 3.3 **Paper 2 - Progress Report on Grant Aided Expenditure**, sets out the outcomes from the detailed review of GAE Assessments and related Grant for the Council's various spending programmes.

3.4 The high level messages contained in Professor Midwinter's two papers 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;
- fundamental to our SRRB strategy was to compare the Council's spending on services with its expenditure needs as measured by Grant Aided Expenditure (GAE) – and we have done this;
- the Professor draws Members attention to the fact that the Council's spending excess over its GAE assessment (£16.412m for 13 Service Programmes 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;
- in forming his views, the Professor has reflected on local and national benchmarking in relation to needs assessment;
- 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 - these programmes were set savings targets of either 5% or 2%, depending on the scale of spending in excess of GAE, and in total amounting to a savings target of £3,804,000;
- we have a further, 4 'Group B' Service Programmes identified where the degree of spend over GAE Assessment levels was less in cash terms, and given less stretching targets of 3% or 1%, and in total amounting to a savings target of £321,000;
- recognising that there is no specific GAE for Central and Corporate Support Services, a target equivalent to 10% of the functional departments target was set, giving a savings target of £417,000;
- so, the combined savings target set for our Stage 1 SRRB exercise for the 13 GAE programmes amounts to £4,542,000 (i.e. £3,804,000 + £321,000 + £417,000);
- the Professor emphasises that spending for most of 13 GAE programmes will remain in excess of GAE Assessments, even after the savings are made, although further expenditure reduction should occur by incremental drift caused by not receiving any share of GAE increases over the next Spending Review cycle, and the position will require to be monitored closely;
- costed proposals for meeting the £4,542,000 savings targets are well advanced; detailed proposals, along with Professor Midwinter's comments on them, will be presented to Members in a further report to Cabinet, currently scheduled for 5 December 2007;
- Members are asked to note that these savings proposals are supplementary to any efficiency savings required by the Scottish Government, and will in the main result in a reduction in service;
- a similar review of the remaining 28 GAE Service Programme assessments (see Appendix 1 - Stage 2 Work), representing around 29% of the total budget is currently in progress - these are not programmes which are spending significantly above GAE – indeed some are under spending – so there will be only limited scope to set savings targets and to release resources for other Council priorities (again, Professor Midwinter will report to Cabinet on these reviews on 5 December 2007); and

- the final part of our Stage 2 SRRB work requires consideration of and proposals for the redistribution of expenditure reductions arising from our Stage 1 work (plus any savings from Stage 2) - this involves the preparation of spending bids from departments, which identify services that are either not currently being provided at all; or which could be augmented in preference to those subject to savings targets (again, Professor Midwinter will report to Cabinet on these reviews on 5 December 2007).

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 additional childcare strategy GAE 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.

3.5 In the period leading up to 5 December 2007 when the final report on the exercise is 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.

4. FINANCIAL IMPLICATIONS

4.1 The net effect of the proposals set out in this report and in the accompanying attachments will be cost neutral, as any savings secured from the SRRB exercise will be redistributed to spending programmes in line with Council and wider Community Planning aims and objectives.

5. COMMUNITY PLANNING IMPLICATIONS

5.1 Redistributing 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 procedures in place for 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 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;

(ii) In consultation with the Corporate Management Team, request that the Chief Executive and Professor Arthur Midwinter (Independent Adviser on the SRRB review), report back to Cabinet at its meeting scheduled for 5 December 2007 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;

(iii) Request a further report in due course on the outcomes from our case for improved Education Deprivation Funding;

(iv) Request a further report in due course on the outcomes from our case for more meaningful secondary measures when considering rural/urban issues for GAE programmes;

Fiona Lees
Chief Executive
17 October 2007

FL/JC/LP

LIST OF BACKGROUND PAPERS

1. Various SRRB working papers and underlying records in support of the high level contents of this report.

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

BEST VALUE IMPROVEMENT AGENDA
ACTION No. 1 – EFFECTIVE USE OF RESOURCES

PROGRESS REPORT ON EXPENDITURE BASELINE REVIEWS

PROFESSOR ARTHUR MIDWINTER

1. This exercise began in 2006, in the recognition that the 2007 Spending Review will result in a very tight settlement for local government finance. Since then, inflation has risen from 3% to 4.8%, and the new Administration is committed to a three year freeze of council tax.
2. In practice, a three year freeze of council tax would require the Scottish Government to provide additional grant to meet the full cost of any increases in expenditure to be confident of delivery. Beyond this, any funding of further service developments would require to be funded from existing Council baseline funds or reserves. Any savings arising from our Strategic Review of the Revenue Budget (SRRB) exercise will therefore be available to reinvest in spending priorities – as intended by the last Council – or could contribute to council tax restraint. The importance of this exercise to the Council's finances has therefore increased as the fiscal context has tightened.
3. The approach to the Baseline Review exercise (Stage 1 Work) was to compare the Council's spending on services with its expenditure needs as measured by GAE. This seeks to assess the cost to each council of providing a standard level of service. This was used as a preliminary benchmark to more detailed considerations, as a means to identify service budgets which had greater capacity for savings. Members should be clear that the Council's spending excess over its Grant Aided Expenditure (GAE) assessment is funded wholly by council taxpayers, and therefore a key driver of council tax levels.
4. Secondly, the Council's excess over GAE was compared to the position across Scotland as a whole, to ensure that overspending was not a national problem, reflecting inadequate provision of GAE by the Executive. At 3% above GAE, the Council's position is consistent with most councils in Scotland. Nevertheless, any reduction of this excess would wholly benefit taxpayers. The 3% excess is an average, and there is considerable variation above and below GAE Assessment levels.
5. Thereafter, the Council's spending/service levels were compared with North Ayrshire Council and the Scottish average, as East Ayrshire Council's expenditure needs assessment was close to both.
6. In the Challenge Group discussions set up to discuss spending and services levels, Executive Directors arguments about distinctive local cost factors – such as population geography – were considered and taken into account.
7. As a result, two programmes were excluded from the exercise, namely Children Social Work Services and Economic Development, which were recognised as programmes which were under funded across Scotland in terms of GAE.

8. The end result was 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. These programmes were set savings targets of either 5% or 2%, depending on the scale of spending in excess of GAE.
9. Further, 4 'Group B' Service Programmes were identified where the degree of spend over GAE Assessment levels was less in cash terms, and given less stretching targets of 3% or 1%. The combined value of the 13 'Group A and B' programmes is £16.4m over GAE Assessment levels.
10. In addition, as there is no specific GAE for Central and Corporate Support Services, a target equivalent to 10% of the functional departments target was made, which is pro rata to their share of the East Ayrshire Council budget. This resulted in a total of £4,587,000 savings targets, composed of £3,804,000 from Group A; £321,000 from Group B; (Groups A & B combined = £4,125,000) and £417,000 (being 10.1% of Groups A & B) from Central and Corporate Support services. It should be noted that the Groups A & B figures exclude amounts for Gaelic Education, as explained at paragraph 12 below.
11. The next stage of this process is to convert these targets into savings proposals that spell out the impact on service outputs to Elected Members for their consideration. To ensure these are feasible and that they can be implemented, and will not prevent the Council from meeting its statutory obligations, Executive Directors were asked to identify any element of their respective Groups A and B service budgets which is 'uncontrollable' in the sense of being a specific requirement of statute. In fact, there are few cases where statutory duties are defined so precisely that an exact figure can be derived for the budget, and so the Council has considerable discretion over its spending levels.
12. This exercise did reveal, however, that the apparent overspend on Gaelic Education, which is a Specific Grant within GAE, resulted from how staff costs are recorded. The Council only receives grant for the Gaelic component of Education, and conventional teaching costs should be charged against either Primary or Secondary Teaching Staff costs. When these costs are reallocated, the overspend on Gaelic Education will be eliminated and so its savings target should be removed from the list. This now results in a revised gross savings target of £4.542m.
13. The levels of spending in excess of GAE Assessments (£16.412m) and savings targets (£4.125m) are such that spending for most of these programmes will remain in excess of GAE Assessments, even after the savings are made, although further expenditure reduction should occur by incremental drift caused by not receiving any share of GAE increases over the next Spending Review cycle. The Council should monitor the changing position after the new GAE Green Books are published for 2008/09, 2009/10 and 2010/11.
14. In addition, Executive Directors were asked to identify specific, costed proposals for meeting their savings targets, which reflect their professional view of how best to meet the target with least impact on service provision. The savings proposals, along with my comments on them, will be presented to Members in my final report later this year. Members should note that these proposals are supplementary to any efficiency savings required by the Scottish Government, and will in the main result in a reduction in service. Hard times require hard choices.
15. The second stage of the exercise requires me to carry out a similar review of the remaining 28 GAE Service Programme assessments (Stage 2 Work), representing around 29% of the total budget. These are set out in Appendix 1. These are not programmes which are spending

significantly above GAE – indeed some are under spending – so there will be only limited scope to set savings targets and to release resources for other Council priorities. Workbooks have been prepared for each of these programmes and are under discussion with officers at this time. I have to report to the Council on these reviews before Christmas 2007.

16. The final part of my Stage 2 work on the Strategic Review of the Revenue Budget process is the redistribution of expenditure reductions arising from our Stage 1 work. This involves the preparation of spending bids from departments, which identify services that are either not currently being provided at all; or which could be augmented in preference to those subject to savings targets.
17. In developing a strategic approach to the budget, it is necessary to show that spending proposals contribute to the Council's wider obligations; are linked to the aims and objectives set out in the East Ayrshire Community Plan; and of course to departmental objectives. In this case, councils have statutory duties to promote equality and sustainability.
18. The equality agenda requires councils to avoid discrimination against specific disadvantaged groups in terms of access to employment; and also through ensuring equality of access to public services.
19. In practical terms, this translates into a recognition that such groups have a greater degree of dependency on public services, and this will require additional resources, e.g. extra teachers in schools in deprived communities, being allocated to relevant programmes, or in free access or discriminatory pricing for low income households in charging for council services.
20. The sustainability agenda requires councils to demonstrate positive action to conserve energy, recycle waste, and to reduce water consumption etc. This is particularly relevant in capital expenditure, but can also be a relevant factor in decisions regarding, for example, the rationalisation of service provision, or in transport policy.
21. The strategic approach recommended last year is set out in greater detail in the supplementary paper, a framework for resource allocation (Appendix 2). In this round, departments must submit a strategic statement outlining their package of proposals – and not simply a list of spending bids – in which priorities are planned and the rationale for such ranking provided. This must show clearly how the package will advance equality and sustainability. The Council is required to report its progress with these crosscutting issues under its Best Value arrangements.
22. These proposals, together with options for savings and growth will then be presented to Members later this year in my final report with my recommendations for change for your consideration. The Council may also wish to monitor strategic progress prior to the next Best Value Audit process.

Professor Arthur Midwinter
15 October 2007

**EAST AYRSHIRE COUNCIL
STRATEGIC REVIEW OF THE REVENUE BUDGET – STAGE 2**

List of Baseline Budget Reviews for 2007/08

Education GAE

- Primary Teaching Staff Costs
- Secondary Teaching Staff Costs
- School Non-Teaching Costs (including Property)
- School Hostels and Clothing
- Community Education
- Adult Literacy
- Residual FE Travel and Business
- Childcare Strategy
- Sure Start

Social Work GAE

- Social Work Services for the Home-Based Elderly
- Residential Accommodation for the Elderly
- Social Work Services for People with Disabilities
- Independent Living Fund
- Remaining Social Work Services
- Mental Illness Specific Grant
- DWP Transfer – Residential Allowance
- Free Personal and Nursing Care for the Elderly
- Care Home Fees

Roads and Transport GAE

- Winter Maintenance
- Support for Buses

Leisure and Recreation GAE

- Parks and Open Spaces
- Sports Facilities and Swimming Pools
- Remainder of Leisure Recreation

Cleansing and Environmental GAE

- Environmental Health

Other Services

- Homelessness
- Civil Protection
- Supporting People
- Money Advice

Professor Arthur Midwinter, 18 September 2007

EAST AYRSHIRE COUNCIL

STRATEGIC REVIEW OF THE REVENUE BUDGET

BEST VALUE IMPROVEMENT AGENDA
ACTION No. 1 – EFFECTIVE USE OF RESOURCES

FRAMEWORK FOR BUDGETARY REALLOCATION

REPORT BY PROFESSOR ARTHUR MIDWINTER

1. A key element of my remit is to advise the Chief Executive on how the Council could develop a more strategic and more rigorous approach to the budget process, in line with the Council's commitment to Audit Scotland in the Best Value review. The objective in this paper, therefore, is to produce an illustrative model of how a strategic approach could improve on current practice. This would assist the process of reallocating the resources released as a result of the previous exercise of appraising current patterns of expenditure. This identified a number of GAE spending programmes in which the Council's expenditure was significantly above its assessed needs. The current exercise considers how proposals from departments to utilise the funding available over a four-year spending cycle should be processed.
2. The Community Plan process, in addition to core Council services, provides a comprehensive planning framework for service delivery and joint working to meet community needs. It establishes six key challenges facing East Ayrshire, and service department activities contribute directly to some and indirectly to others because of the interdependence of needs and issues in the environment. Indeed, all Council activities contribute directly to the Community Plan. Part of my role is to offer guidance on how the Council can further develop its strategic framework, which sets criteria to assist in assessing priorities for budgetary allocation.
3. The Community Plan covers the activities of the Council and its partners, whilst the annual budget provides the resources to fund the Council's core services. The Council operates an incremental process with requirements for efficiency savings in the budget and some redistribution of resources to recognise Council pressures and priorities. This exercise supplements that process by providing a method for aligning resources with the guiding principles and priorities in the Community Plan.
4. This exercise recognises that resources are likely to be constrained in the next Spending Review (SR 2007), and that reprioritisation will be necessary to further progress the Community Plan objectives, by cutting some programmes to enhance other programmes. Efficiency savings alone will not suffice to permit progress with key objectives.
5. This exercise is self-financing, and resource neutral. It supplements the budget process by redistributing funding between programmes over a four year cycle, and integrating the financial changes on an annual basis. This requires the development of a framework of strategic priorities for the review process, because whilst all departmental programmes contribute to service improvement and some of the Community Plan objectives, the proposals

must also meet strategic cross-cutting issues identified in the guiding principles in the Community Plan – namely promoting equality and promoting sustainability. These two principles are also crosscutting themes against which the Council must show progress under Best Value and Community Planning.

6. Equality and Sustainability are complex issues that require corporate responses. These wider policy criteria help to assess the relative merits of departmental proposals in promoting strategic as well as functional objectives. One of the clear findings of the SRRB GAE based review is that in some cases, the Council under spends relative to GAE on core services, such as teaching, whilst is overspends on support functions such as school transport. Similarly, it overspends on social work casework, whilst under spending on services for the elderly and it spends nothing on additional teachers for deprivation, whilst under spending on homelessness, and it spends well above GAE overall on roads and transport (+16%) and cleansing and environment (+44%) compared with 3.7% in total.
7. This suggests an imbalance in the current pattern of provision and that more effective targeting of resources to prioritise equality and sustainability is needed to make progress on the Community Plan commitments.
8. It is necessary, therefore, to create a workbook template that ensures the efficiency and effectiveness of the proposals in promoting Community Plan objectives.
9. Service Departments will therefore require to provide:
 - a) a statement of the functional objectives it is seeking to meet;
 - b) evidence of the need for such expenditure, including gaps in current provision;
 - c) an assessment of what the additional resources will buy; i.e. what outputs/outcomes it will deliver;
 - d) an analysis of which Community Plan challenges this proposal will contribute to, and how;
 - e) a statement of how this proposal will help to tackle equality/sustainability, quantified in terms of impact; and
 - f) robust costing of the proposal.

Service Departments will therefore be required to submit:

- g) a strategic statement of how its proposals as a package will provide equality and sustainability.
10. The issues of equality are complex. The conventional approach has been to suggest that improving service provision overall is the way forward, as disadvantaged groups have greater dependency on public services. In practice, this is not the case, as higher socio-economic groups tend to make greater use of public services. Proposals should therefore be explicit over how inequality and disadvantage will be targeted.
11. The challenge of sustainability is also complex, and of growing relevance in public policy. The main thrust so far in local government has been to reduce waste and increase recycling. Innovative proposals and targeted investment which reduce use of resources, energy or the need for travel, or which reduce environmental damage, would be relevant.

12. It is important to stress the need for rigour, for a strong evidence-base to underpin proposals, as conventional professional advice will not suffice.
13. The approach outlined above will meet the Audit Scotland's recommendation that East Ayrshire Council should better integrate its service planning and budgeting processes, in line with core Council business and Community Plan priorities (i.e. Best Value Improvement Plan: Action No.1, Effective use of Resources).
14. Finally, I would recommend that the Council again use a workbook / workgroup process to consider proposals for redistribution of resources released, with a report with recommendations to CMT, prior to referring the proposals to the political process.

Professor Arthur Midwinter
27 November 2006, revised 18 September 2007

EAST AYRSHIRE COUNCIL

STRATEGIC REVIEW OF THE REVENUE BUDGET

BEST VALUE IMPROVEMENT AGENDA
ACTION No. 1 – EFFECTIVE USE OF RESOURCES

PROGRESS REPORT ON GRANT AIDED EXPENDITURE

PROFESSOR ARTHUR MIDWINTER

1. A key element of my work for the Council is advising the Executive Head of Finance regarding the development of Grant Aided Expenditure (GAE) assessments, which forms the basis of the Council's Revenue Support Grant.
2. In my initial review of East Ayrshire's GAE, I identified four areas of concern to the Council – budget based treatments; education deprivation; sparsity and density indicators; and measurement problems in street cleaning and childcare strategy. All four aspects have an adverse effect on East Ayrshire Council's needs assessment, and hence on its level of grant.
3. The last of these has now been dealt with by the Scottish Executive. In the case of street cleaning, correspondence with the Executive revealed the cause of East Ayrshire Council's low allocation is the low level of urban road mileage, which was concealed within the current composite indicator. However, the Executive has accepted there was a measurement error in the case of childcare strategy, and this has been corrected. The Council's GAE will be increased by over £200,000 per annum from 2008/09.
4. In the case of tourism, museums and art galleries, planning and non-roads lighting, the Council also receives low allocations. In these services, the GAE's are budget-based, which means that authorities shares of GAE are based on their share of spending. These low allocations, therefore, reflect the Council's relatively low level of expenditure.
5. Since these were first identified, the Executive has announced it will carry out a review of all budget-based GAE's, with a view to replacing them with a 'needs' based formula. So far, no changes have been made. This review will be carried over into the next 3 Year Settlement Working Group (3YSG) work programme, following the 2007 Spending Review in November 2007. We shall continue to monitor developments and make representations through the Executive Head of Finance, who is a member of 3YSG.
6. In the case of education deprivation, the Council proposed replacing the current deprivation indicator, which is based on pupils entitled to free school meals (FSME), with a more comprehensive and more robust indicator, the Scottish Index of Multiple Deprivation (SIMD).
7. The Executive later produced a paper which went some way towards addressing East Ayrshire Council's concerns, by recommending a composite indicator based on FSME and

SIMD, which would have brought additional resources to the Council. However, this proposal was not accepted by the 3YSG.

8. Since the change of Administration in May 2007, the Council has written to the new Finance Secretary John Swinney MSP on 13 September 2007, asking him to reconsider this issue.
9. In the case of sparsity and density indicators, the Council is in the anomalous position of losing from both the sparsity and density indicators. The Council has been advised by the Executive to raise this matter through COSLA in the new 3YSG, and has proposed replacing the current sparsity indicator, the % of the population living in settlements of less than 1,000, with an alternative indicator using a 3,000 population threshold. East Ayrshire Council has a below average score on the <1,000 indicator, but an above average score on the >3,000 indicator. The case for such a change is a strong one, as the original measure was proposed by an external consultant, but since then the Executive has described the <3,000 measure as its 'core definition of rurality' in its updated Urban Rural Classification report of 2005/06. This would also increase your GAE, and will be discussed in the next 3YSG.
10. Finally, I would want to alert the Council to the possibility of a more fundamental review of GAE over the next Spending Review cycle, prior to the planned reform of local taxation. The Council should, therefore, take every opportunity to press its case in the context of a new Administration, and be prepared to respond robustly to any further reviews of GAE treatments from 2008 onwards.

Professor Arthur Midwinter
18 September 2007