

EAST AYRSHIRE COUNCIL

SPECIAL POLICY AND RESOURCES COMMITTEE – 24 JANUARY 2006

DRAFT ESTIMATES 2006/07 - 2008/09

Report by the Executive Head of Finance

1 PURPOSE OF REPORT

To seek as a basis for consultation the approval of Members of the Draft Estimates for 2006/07 to 2008/09 for General Services which will enable the Council to consult on the budget strategy prior to the declaration of the Council Tax for 2006/07 on 9 February 2006.

2 PROPOSED BUDGET STRATEGY

2.1 Base Estimate

The departmental Revenue Estimates for the current year as approved by the Council on 10 February 2005 will be used as the base for 2006/07.

2.2 Adjustments to Base Estimate

Additions will be made to the Base Estimate to take account of the following issues:

(a) Pay Inflation

An allowance for pay awards based on current information will be included in departmental allocations as will provision for known changes to employers pension and National Insurance contributions and the estimated cost of annual increments.

(b) Price Inflation

Price inflation will only be applied to areas where there is a specified contract requirement to increase prices.

(c) Trading Services Contracts

Indexation of internal trading services contracts will be in line with the methodology previously approved by the Policy and Resources Committee which takes account of the relative impact of pay and price increases.

(d) Strathclyde Passenger Transport and Joint Boards

Strathclyde Passenger Transport and the Joint Boards for Police, Fire and Valuation have provided indicative figures for 2006/07 to 2008/09. Any amendments to these will be taken account of prior to finalising the overall budget.

(e) Debt Charges

Debt charges will take account of the additional costs arising from the Council's capital programme and currently forecast interest rates and will be net of savings secured from debt rescheduling.

(f) Energy Costs

The energy savings targets excluded in departmental budgets for 2005/06 have not yet been fully achieved although the Executive Director of Development and Property Services intends that they will be once all appropriate initiatives and systems are in place. It is proposed that of the £0.845m excluded from departmental budgets for 2005/06, 0.295m should now be permanently removed from the budget. It is proposed however that it might be prudent if the remaining £0.550m is retained as a provision pending full achievement of the savings targets and the position monitored during the 2006/07 financial year.

(g) Single Status

It is intended that a Single Status agreement will be implemented in 2006/07. Allowance will be made in the 2006/07 budget for this.

(h) Contingency Sum

The sum previously included in the budget for contingency of £0.650m will be removed and the General Fund Balance drawn upon if exceptional unforeseen circumstances result in significant additional costs in any area.

3 SHARED NATIONAL/LOCAL PRIORITIES

- 3.1** The three year grant settlement indicated that an allocation had been made to enable certain shared priorities to be taken forward by councils. Increases in GAE lines for 2006/07 and 2007/08 are not however fully matched by increases in grant and additions to departmental budgets to recognise the requirement to take these initiatives forward will mirror the actual grant increase.
- 3.2** The allocation of Quality of Life Funding to departments for 2005/06 to 2007/08 was determined by the Policy and Resources Committee in February 2005.

4 REVENUE CONSEQUENCE OF CAPITAL EXPENDITURE

Capital schemes can result in ongoing revenue consequences. Unless specific approval of the revenue consequences of any individual project has previously been granted by the Policy and Resources committee no cognisance of these costs has been included. It is assumed that departments or service committees will reprioritise existing resources if required.

5 TRADING SERVICES

Some services have indicated that proposals will be presented to service committees to take advantage of the flexibility available in the Local Government Scotland Act 2003 which removes the need for certain services to be accounted for as trading services. It is intended however that business plans will continue to be prepared in the normal way and cognisance will only be taken of any changes once they have been approved. Executive Directors should ensure that there is no detrimental impact upon the Council's overall financial position arising from any proposed changes.

6 EXPENDITURE REDUCTIONS

6.1 The national grant settlement anticipates that councils will make year on year expenditure reductions by increasing efficiency and reconfiguring services. The Scottish Executive has indicated that they expect this of all public bodies including their own civil service departments. The Efficient Government Initiative suggests that public sector organisations should specifically examine the areas of;

- Procurement
- Asset Management
- Shared Support Services
- Managing Absence
- Streamlining Bureaucracy

6.2 Whilst there may well be savings which departments could make in these areas it is not proposed to allocate targets against them in advance but to encourage services to examine these areas when determining their strategies to achieve overall departmental expenditure reduction targets. It will be necessary however where options for savings in these areas are identified that a system of measuring the achievement of them is also put in place.

6.3 The achievement of significant savings from these areas in the longer term is likely to require additional "spend to save" activity in the shorter term particularly within the Department of Corporate Support.

- 6.4** The three year budget approved last year continued the practice of applying a lower level of expenditure reduction targets in Education and Social Work budgets in order to reflect the Council's priorities as set out in the Community Plan. It is proposed that the cash values of targets previously indicated be confirmed given that departments will have been planning ahead on this basis. As in previous years there is a presumption that in all departments administration costs will be examined before any effect on existing services is considered. Where any modification to existing policy for service delivery is envisaged then this will be a matter to be considered and determined in the first instance by the appropriate service committee. Experience indicates that savings have arisen on salary lines in certain areas as a result of natural delays in the vacancy management processes which arise for a variety of reasons. Such savings are non-recurring and whilst helpful in the short term they may mask longer term difficulties. In order to ensure that these do not impinge upon the ability of departments to plan and deliver essential services and that all possible options are considered it is proposed to put in place more structured vacancy management arrangements involving senior officers from all departments.
- 6.5** The proposed levels of expenditure reduction targets for 2006/07 are shown below and the draft service allocations for 2006/07 shown in the table at paragraph 9 have already been reduced by these amounts.

Service	2006/07	
	%	£m
Education	2.9%	2.833
Social Work	2.9%	1.311
Neighbourhood Services	4.0%	0.884
Development and Property Services	4.0%	0.530
Central and Corporate Services	4.7%	0.442
Total		6.000

7 COUNCIL TAX

The Council announced indicative Council Tax levels for 2006/07 as part of last year's budget. An increase of 4.9% was indicated and this has been included in the draft budget for planning purposes for all three years. Estimated changes in house numbers, discounts and exemptions based on past experience have also been taken account of. Any change to the assumed increase would affect the Unallocated Balance/Funding Gap shown in the bottom line of the table at paragraph 9. The financial effect of varying the proposed increase by + or - 1% would be + or - £0.421m

8 GOVERNMENT GRANT

- 8.1** A three year grant settlement was announced by the Scottish Executive in 2004 and has been updated and confirmed for 2006/07 and 2007/08. In determining indicative figures for 2008/09 a similar pattern of increase in grant levels has been assumed. This will only be confirmed in December 2007 however. The funding assumptions in this report are based on information in Finance Circular 9/2005. Council Tax and Housing Benefit Subsidy Grant is based on an assumption, for planning purposes only, of annual increases in Council Tax of 4.9% and a rent increase of August RPI +1% which equates to 3.8% or £1.78 per week. The strategy on rent levels was determined by the Housing Committee in April 2005. It is also proposed that Lock-Up rentals will increase by 15p per week and Garage Site rentals by £0.99p per annum.
- 8.2** An initial review of the comparative spending patterns of other councils using the limited amount of data available indicates that it might be helpful to carry out more detailed analysis with a view to determining whether East Ayrshire receives its fair share of national resources and how effectively those resources are applied when compared with other similar councils. In order to ensure that the results of this work can be seen to be independent and consistent it is proposed that the services of Professor Arthur Midwinter who is currently engaged as the Council's "critical friend" as part of the statutory Best Value process should be retained given his familiarity with both the local and national position in these matters.

9 NET POSITION

- 9.1** The table below illustrates the draft allocation to departments based on the above.

Service	Proposed Draft Allocation 2006/07 £m	Increase %	Proposed Draft Allocation 2007/08 £m	Increase %	Proposed Draft Allocation 2008/09 £m	Increase %
Education	93.496	0.72%	97.209	3.97%	100.926	3.82%
Social Work	43.704	7.99%	47.123	7.82%	49.382	4.79%
Neighbourhood Services	20.894	0.67%	22.297	6.71%	23.430	5.08%
Development & Property Services	19.038	7.47%	20.005	5.08%	21.032	5.13%
Corporate Support	8.859	-0.54%	9.359	5.64%	9.870	5.45%
Police & Fire	29.623	2.81%	30.766	3.86%	31.499	2.38%
Other Non-Departmental Items	73.590	7.54%	81.112	10.22%	78.376	-3.37%
Net Expenditure	289.204	4.06%	307.871	6.45%	314.515	2.16%
Net Income	291.780	4.67%	301.279	3.26%	307.991	2.23%
Unallocated/(Funding Gap)	2.576		(6.592)		(6.524)	

"Other Non-Departmental Items" includes Insurance, Debt Charges, Supporting People, and Housing & Council Tax Benefit Payments.

- 9.2** It should be noted that there are a significant number of general assumptions included and departments continue to refine their figures. The position may be subject to change before the budget is finalised therefore.

9.3 The figures for 2006/07 include the savings allocated per the table at paragraph 7 and show that £2.576m would remain available for allocation to services. For 2007/08 and 2008/09 a funding gap of £6.592m and £6.524m respectively is shown based on current grant settlement information. Representations are being made to the Scottish Executive by COSLA in this regard. The final position and the allocation of these amounts between financial years and between departments will depend on decisions to be made following the consultation period.

10 RESERVES AND BALANCES

10.1 The Council's Reserves Strategy confirms that the uncommitted General Fund Balance should be no less than 2% and no more than 4% of budgeted expenditure which equates to between £6m and £12m. The current forecast level at 31 March 2006 is £13m.

10.2 Whilst the balance is forecast to be slightly above the maximum permitted level there is a potentially significant impact from the requirement to settle equal pay claims and it would be prudent to have that issue resolved before determining whether any proportion of balances should be utilised over the three year budget period.

10.3 The appendix to this report sets out the range of statutory reserves and balances held by the Council.

11 TIMETABLE FOR COMMITTEE AND COUNCIL CONSIDERATION

11.1 From experience it is clear that certain consultation methods are more successful than others. With this in mind it is proposed that the following consultation opportunities should be put in place;

- A telephone "Budgetline"
- An internet Budget Forum
- A budget information leaflet
- A budget meeting with trade unions
- A budget meeting with Community Representatives

11.2 An additional innovation proposed is a live interactive web forum with the Leader of the Council from 4pm to 8pm on Monday 30 January 2006.

11.3 The consultation period would run from 24 January 2006 until 7 February 2006 with the Policy and Resources Committee Meeting of 8 February 2006 finalising the budget taking account of feedback received during the consultation period.

- 11.4** That meeting would make recommendations on departmental resource allocations and council tax levels to be considered by the Council at a special meeting on 9 February 2006 which is the common council tax setting date recommended by COSLA.

12 RECOMMENDATIONS

It is recommended that the Committee: -

- 12.1** approve, as a basis for consultation, the foregoing budget strategy and resulting estimates;
- 12.2** approve the proposals and outline timetable for consultation and finalisation of the budget as detailed in Section 11 of the report;
- 12.3** otherwise note the contents of this report.

Alex McPhee
Executive Head of Finance

AMcP/JP
18 January 2006

LIST OF BACKGROUND PAPERS NIL

Members wishing further information should contact Alex McPhee, Executive Head of Finance, (01563) 576300.

APPENDIX - STATEMENT OF RESERVES AND BALANCES

In addition to a General Fund, Scottish councils may hold three other statutory reserve funds namely a Capital Fund, a Renewal and Repair Fund and an Insurance Fund. The Council has previously formally established these funds.

Capital Fund

This can be credited with proceeds from the disposal of assets together with any other sums that the Council may determine. It can only be used for financing capital expenditure or the repayment of loans fund principal. £5.5m of the balance is initially committed to the PPP project with the Fund to be replenished with the proceeds from the sale of surplus land once the existing school buildings have been vacated.

Renewal and Repair Fund

This may be credited with any sums that the Council determines. It can be used to finance repairs, maintenance, replacement and renewal of fixed assets. Trading Services are able to transfer to this fund a proportion of any surplus in excess of the budgeted surplus in any given year. Any surplus balance on the Housing Revenue Account (HRA) at year-end has also been transferred to the Fund for use in future years.

Insurance Fund

This may be credited with any sums that the Council determines. It can be used to defray any loss where the Council could have insured against a loss but chose not to and for paying premiums on insurance policies. It would be prudent in the medium term to add to the balance to allow a greater proportion of risk to be self insured and thus reduce annual insurance premiums. Any definite proposal would be made as part of the final accounts approval process.

General Fund

In cases where an authority wants to set aside funds for a specific purpose outwith the three statutory fund areas above it may choose to earmark a portion of the General Fund. Following the decision in October 2002 to allow departments to carry forward year-end balances such departmental balances have effectively been treated as earmarked reserves within the General Fund. This is designed to eliminate year-end "spend-up" and promote longer term financial planning.

In addition a level of uncommitted balance has been built up over the last few years in line with the advice of the external auditor. This has arisen from central areas for example reduced debt charges, improved trading services performance and increased council tax yield. The Council's Reserves Strategy sets a minimum level of 2% or £6m. There are no plans within the budget strategy to utilise the uncommitted balance but the decision of the Emergency Powers Committee of 17 January 2006 in relation to Equal Pay Compensation Payments will require a drawdown of £8.2m and this is reflected in the table below.

LEVEL OF RESERVES AND BALANCES

The position of the balances of these funds at 31 March 2005 together with the currently forecast movements in 2005/06 are shown below;

Fund	Balance at 31 March 2005	Net Change Forecast 2005/06	Forecast Balance at 31 March 2006
	£m	£m	£m
Statutory Funds			
Capital Fund	5.255	0.675	5.930
Repair and Renewal Fund	2.311	0.311	2.622
Insurance Fund	1.446	0.000	1.446
Total Statutory Funds	9.012	0.986	9.998
General Fund Balances			
Earmarked	7.336	0.276	7.612
Uncommitted	9.510	-3.925	5.585
Total General Fund Balance	16.846	-3.649	13.197