

## **EAST AYRSHIRE COUNCIL**

### **SPECIAL POLICY AND RESOURCES COMMITTEE – 23 JANUARY 2007**

#### **DRAFT ESTIMATES 2007/08**

#### **Report by the Executive Head of Finance**

### **1 PURPOSE OF REPORT**

- 1.1** To seek as a basis for consultation the approval of Members of the Draft Estimates for 2007/08 for General Services which will enable the Council to consult on the budget strategy prior to the declaration of the Council Tax for 2007/08 on 8 February 2007.

### **2 PROPOSED BUDGET STRATEGY**

#### **2.1 Base Estimate**

The departmental Revenue Estimates for the current year as approved by the Council on 9 February 2006 will be used as the base for 2007/08.

#### **2.2 Adjustments to Base Estimate**

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

##### **(a) Pay Inflation**

Salaries and Wages for non-teaching staff will be inflated at 2.5% and for teaching staff at 2.25% in line with known agreements. It is the case that negotiations on Teachers' pay may be re-opened if inflation continues at current levels. It is anticipated however that the Scottish Executive would provide additional funding for any enhanced deal. Provision for known changes to employer's pension and National Insurance contributions and the estimated cost of annual increments will also be included.

##### **(b) Price Inflation**

Price inflation will only be applied to areas where there is a specific 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. Trading accounts are now only maintained for Building and Works, Roads, Vehicle Maintenance and Street Lighting operations.

**(d) Strathclyde Passenger Transport and Joint Boards**

Strathclyde Passenger Transport and the Joint Boards for Police, Fire and Valuation have provided indicative figures for 2007/08. 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**

For 2007/08, The Authorities Buying Consortium (ABC) has advised that electricity contract prices will increase by 27.5% and gas by 35.1%. This amounts to £0.742m and it is proposed that energy budgets for 2006/07 will be inflated by the level of the new price increases.

The 2006/07 budget included an energy savings requirement of £0.845m. Of this £0.550m was held centrally as a contingency against departments not being able to achieve the reduction in usage. Various energy savings initiatives and investment have been undertaken across the Council's property portfolio over the last two years to assist in the achievement of the target. A lack of baseline data however has made it difficult to quantify the reduction in energy usage and the detailed financial effect. It is the case however that forecast adverse budget variances relating to energy costs for 2006/07 are currently £0.180m. It is proposed therefore that this sum be allocated from the contingency amount, with the remaining saving of £0.370m being available to reduce the impact of the 2007/08 price increase indicated above.

**(g) Single Status**

It is anticipated that a Single Status agreement will be implemented with effect from 1 April 2006. The allowance made in the 2006/07 budget for this will be adjusted to reflect the more detailed calculations which can be done as the proposals are developed.

## **(h) Council Management Restructure**

The Council on 7 December 2006 approved a new management structure which results in a net annual saving of £0.300m. It was agreed that this sum would be used for service enhancement or limiting the Council Tax.

### **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 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**

- 4.1** 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 EXPENDITURE REDUCTIONS**

- 5.1** 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

- 5.2** Efficiencies can fall into two definitions. Cash releasing efficiency gains are where an efficiency measure generates actual cash saving to the Council by delivering the same service with less money. Non-cash or time releasing efficiency gains are efficiencies where Council services deliver additional or higher quality services with the same money. The quantification of these can be difficult to measure however.
- 5.3** There is an expectation that the Council will be able to demonstrate the progress it is making in the defined areas and in other areas where both cash releasing efficiencies and non-cash efficiencies are being achieved.
- 5.4** In order to allow departments to plan ahead, the Policy and Resources Committee on 8 February 2006 set indicative efficiency savings of £7.000m for 2007/08 and details of the allocation across departments and services is shown in the table at paragraph 5.8 below. Circumstances have changed since the February 2006 however.
- 5.5** The Special Policy and Resources Committee of 16 October 2006 noted that recurring additional income and cost reductions in non-departmental budget lines of £1.450m had been identified; a management restructure referred to above was approved; and the Local Government Finance Settlement announced on 13 December 2006 included additional funding in recognition of a number of current and future pressures
- 5.6** These budget adjustments and additional resources would allow the indicative savings targets to be restricted to more modest levels which might be expected from departments on an ongoing basis from initiatives linked to the Efficient Government Agenda for example. The table below suggests a level of 1.5% for front line services and 2.7% for the functions currently provided by the Department of Corporate Support.
- 5.7** It is important that flexibility is available within departments throughout the year to ensure that innovative measures to improve efficiency are encouraged and that opportunities can be taken as they arise to reduce costs or improve services. It is proposed therefore that Executive Directors should identify how the necessary efficiency improvements have been achieved in a report to Members at the year end. Whilst all services will require to determine initial plans to achieve the expenditure reductions necessary this strategy will ensure that these can be changed as circumstances and opportunities arise during the year. Where it is the case that Executive Directors propose changes to existing policies or service levels these would of course be presented to Members for consideration in the normal way.

- 5.8** 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 8.1 have already been reduced by these amounts.

| Service                              | Indicative Efficiency Saving* |              | Proposed Efficiency Saving |              |
|--------------------------------------|-------------------------------|--------------|----------------------------|--------------|
|                                      | %                             | £m           | %                          | £m           |
| Educational Services                 | 3.4                           | 3.286        | 1.5%                       | 1.539        |
| Social Services                      | 3.6                           | 1.570        | 1.5%                       | 0.707        |
| Department of Neighbourhood Services | 4.1                           | 1.367        | 1.5%                       | 0.541        |
| Department of Corporate Support      | 4.1                           | 0.466        | 2.7%                       | 0.315        |
| Finance Service                      | 6.1                           | 0.179        | 2.7%                       | 0.081        |
| Asset Management Service             | 4.2                           | 0.132        | 1.5%                       | 0.067        |
| <b>Total</b>                         |                               | <b>7.000</b> |                            | <b>3.250</b> |

\* based on a reapportionment of Development & Property Services Budget

## 6 COUNCIL TAX

- 6.1** The Council announced indicative Council Tax levels for 2006/07 as part of last year's budget. An increase of 4.9% was indicated but the mid-year review of the budget together with additional resources for Local Government referred to above means that a lower figure can be proposed. For planning purposes 2.0%, which is less than half of the current Retail Price Index (RPI) of 4.4%, has been used in this paper. Estimated changes in house numbers, discounts and exemptions based on past experience and collection of previous years arrears have been taken account of. A bad debt provision of 5% has been applied. This is under review however in light of improving collection rates and consideration of best practice guidance from COSLA and CIPFA which will become available during the budget consultation period. Any reduction in the provision would release resources either to enhance services or limit Council Tax.
- 6.2** The Band D Council Tax for 2007/08 would therefore be £1194.75. This equates to an increase of £23.76 for the year or 59p per week over the 40 week payment cycle. The majority of houses in East Ayrshire are in Band A and the equivalent increases would be £15.84 and 40p per week.
- 6.3** The financial effect of varying the proposed increase by + or – 0.1% would be + or - £0.044m

## 7 GOVERNMENT GRANT

- 7.1 A three year grant settlement was announced by the Scottish Executive in 2004 and has been updated for 2007/08 based on the recent statement by the Minister. Council Tax and Housing Benefit Subsidy Grant is based on an assumption, for planning purposes only, of an increase in Council Tax of 2.0% and a rent increase of August RPI +1% which equates to 4.4% or £1.98 over 52 weeks (£2.14 per week over the 48 week payment cycle). The long term strategy on rent levels was determined by the Housing Committee in April 2005. It is also proposed that Lock-Up rentals will increase by 18p per week and Garage Site rentals by £1.19 per annum.

## 8 NET POSITION

- 8.1 The table below illustrates the draft allocation to departments based on the above including the proposed efficiency savings.

| Service                              | Allocation<br>2006/07<br>£m | Proposed<br>Draft<br>Allocation<br>2007/08<br>£m | Change<br>over<br>Previous<br>Year |
|--------------------------------------|-----------------------------|--|------------------------------------|
| Educational Services                 | 95.761                      | 101.088  | +5.6%                              |
| Social Services                      | 43.642                      | 46.401   | +6.3%                              |
| Department of Neighbourhood Services | 33.614                      | 35.562   | +5.8%                              |
| Police, Fire, Valuation Board & SPT  | 34.658                      | 33.417   | -3.6%                              |
| Department of Corporate Support      | 11.782                      | 11.970   | +1.6%                              |
| Finance and Asset Management Service | 53.411                      | 53.486   | +0.1%                              |
| Other Non-Departmental Items         | 15.050                      | 15.849   | +5.3%                              |
| Net Expenditure                      | 287.918                     | 297.773  | +3.4%                              |
| Net Income                           | 287.918                     | 300.723  | +4.4%                              |
| Unallocated                          | 0                           | (2.950)  |                                    |

*"Other Non-Departmental Items" includes Insurance, Debt Charges and Trading Services Surpluses...*

- 8.2 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.
- 8.3 The use of the unallocated sum of £2.950m will be determined taking account of representations and feedback received during the consultation process.

## **9 RESERVES AND BALANCES**

- 9.1** 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 2007 is £8.548m although, depending on the actual outturn, it may be recommended that up to £1.750m be transferred to the Insurance Fund as part of the strategy to reduce future premiums.
- 9.2** Appendix 1 to this report sets out the range of statutory reserves and balances held by the Council.

## **10 STRATEGIC REVIEW OF THE REVENUE BUDGET**

- 10.1** The Strategic Self Assessment carried out as part of the Best Value Audit process identified a need to carry out a strategic review of the revenue budget and this committee agreed on 8 February 2006 to engage the services of Professor Arthur Midwinter to direct this process. The Accounts Commission included the strategic review action in the Improvement Agenda as part of its Best Value and Community Planning audit report, as endorsed by Council at its meeting on 20 September 2006.
- 10.2** The aims of the Strategic Review of the Revenue Budget were firstly to determine whether East Ayrshire receives its fair share of national resources and secondly to ensure that those resources are used effectively in terms of achieving Community Plan priority objectives.
- 10.3** The work done on grant levels identified areas where the Council's share of GAE appeared to be lower than expected in terms of population and deprivation levels. Acceptance of the case made to the Executive in relation to Childcare Strategy will mean the Council will receive additional annual GAE allocation of around £200,000 from 2008/09 onwards. Further representations in relation to Education Deprivation funding are currently being considered and a favourable outcome on this may mean a further increase of around £350,000 per annum.
- 10.4** With regard to confirming whether resources are used effectively in terms of achieving Community Plan priority objectives, the first stage examined areas where spending in East Ayrshire appears to be significantly higher than expected with a view to identifying the reasons for this. This was done by comparing budgets with GAE and highlighting areas where spend was more than £0.500m or 10% above GAE.

Written and verbal information was requested from services on these areas with a view to determining whether this was caused by Council policy decisions, higher levels of need in East Ayrshire or the GAE values being too low. Information collected included the statutory requirement for the activity, the level of service being provided, the main cost drivers, comparisons of Statutory Performance Indicators with other councils, the contribution made by the activity to the Community Plan and whether and how efficiency gains could be made. This work resulted in a wealth of information being collated for both groups of activities which was then analysed by Professor Midwinter. On the basis of his analysis, he then identified activities where a reallocation of resources might be considered in the medium term. All of this information now needs to be carefully considered by Executive Directors and the Corporate Management Team with conclusions and recommendations then being presented to Members.

- 10.5** The exercise has been much more time consuming than initially envisaged reflecting, in part, the additional work required in assisting with the protracted exchange of correspondence with the Scottish Executive on GAE assessment issues and completion of the work will cost £9,600 more than the indicative costs of £32,000 previously advised to this committee. The Professor's input has been extremely valuable, not least in respect of the success in securing additional funding of around £0.200m per annum from 2008/09.
- 10.6** The next stage in the process is to determine whether there are services which are not currently being provided at all, or which if augmented in preference to those identified in the first part of the process, would result in a better outcome in terms of the Community Plan priorities. It is also desirable to extend the scrutiny work of stage 1 to other services and activities. The timetable for this work will enable decisions to be made ahead of the 2008/09 budget.
- 10.7** It would be very helpful to retain the services of Professor Midwinter for this next stage and Appendix 2 sets out the proposed scope of the work for 2007 and 2008. The indicative input is 90 days at a cost of £36,900.

## **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;

| <b>Medium</b>                                  | <b>Proposed Date</b>          |
|--|-------------------------------|
| Budget information leaflet                     | 23 January to 6 February 2007 |
| Telephone "Budgetline"                         | 23 January to 6 February 2007 |
| Internet Budget Forum                          | 23 January to 6 February 2007 |
| Budget meeting with Trade Unions               | 25 January 2007               |
| Budget meeting with Community Representatives  | 26 January 2007               |
| Live interactive web forum with Council Leader | 31 January 2007               |

- 11.2** The consultation period would run from 23 January 2007 until 6 February 2007 with the Policy and Resources Committee Meeting of 7 February 2007 finalising the budget taking account of feedback received during the consultation period.
- 11.3** That meeting would make recommendations on departmental resource allocations and council tax levels to be considered by the Council at a special meeting on 8 February 2007 which is the common council tax setting date recommended by COSLA.

## **12 RECOMMENDATIONS**

It is recommended that Members:

- 12.1** approve, as a basis for consultation, the foregoing budget strategy and resulting estimates;
- 12.2** approve the proposal to retain the services of Professor Midwinter as indicated in section 10 above;
- 12.3** approve the proposals and outline timetable for consultation and finalisation of the budget as detailed in Section 11 of the report;
- 12.4** otherwise note the contents of this report.

Alex McPhee  
**Executive Head of Finance**

AMcP/DMW  
17 January 2007

### **LIST OF BACKGROUND PAPERS NIL**

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

## 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 and a maximum level of 4% or £12m.

## LEVEL OF RESERVES AND BALANCES

The position of the balances of these funds at 31 March 2006 together with the currently forecast movements in 2006/07 are shown below;

| Fund                              | Balance at<br>31 March 2006 | Net Change<br>Forecast<br>2005/06 | Forecast<br>Balance at<br>31 March 2006 |
|-----------------------------------|-----------------------------|-----------------------------------|---|
|                                   | £m                          | £m                                | £m                                      |
| <b>Statutory Funds</b>            |                             |                                   |   |
| Capital Fund                      | 8.376                       | 3.883                             | 12.259                                  |
| Repair and Renewal Fund           | 2.901                       | 0.072                             | 2.973                                   |
| Insurance Fund                    | 3.250                       | 1.617                             | 4.867                                   |
| <b>Total Statutory Funds</b>      | <b>14.527</b>               | <b>5.572</b>                      | <b>20.099</b>                           |
| <b>General Fund Balances</b>      |                             |                                   |   |
| Earmarked                         | 8.565                       | 0.397                             | 8.962                                   |
| Uncommitted                       | 8.548                       | 0                                 | 8.548                                   |
| <b>Total General Fund Balance</b> | <b>17.113</b>               | <b>0.397</b>                      | <b>17.510</b>                           |

|            |  |  |
|------------|--|--|
| <b>1</b>   | <b>Strategic Review of the Revenue Budget<br/>Assessment of Consultant Input 2007/2008</b>   |  |
| <b>1.1</b> | The Council's experience to date in having Professor Midwinter assist officers in undertaking the Best Value Improvement Agenda work on the Strategic review of the Revenue Budget has been very positive and successful. If the Professor's input is to be retained, the plan of work for the next stage would be as set out below.   |  |
|            | <b>Item</b>  | <b>Indicative Timescale</b>  |
| <b>2</b>   | <b>Review of Grant-Aided Expenditure Estimated Input - 25 Days</b>   |  |
| 2.1        | Advising the Executive Head of Finance regarding GAE, providing briefing notes on the implications for the Council on papers coming before the 3 Year Settlement Group (3YSG), all with a view to maximising East Ayrshire Council's share of GAE.   | Ongoing according to Three Year Settlement Group Workplan                  |
| 2.2        | Examining the case for an alternative measure of sparsity which would overcome the current paradox in GAE, where it appears that the Council is being penalised on both rural and urban indicators when calculating GAE on certain service programmes. Assisting the Executive Head of Finance to draft a submission from the Council to the 3YSG, seeking a review of this indicator during the next Spending Review cycle. | Initial data available March 2007<br><br>Submission available by June 2007 |
| <b>3</b>   | <b>Review of Current Spending Programmes Estimated Input - 30 Days</b>   |  |
| 3.1        | The absence of a specific GAE line for Central and Corporate services means that a different approach is needed to review the level of spending on these services. The intention is to test the level of savings possible within Central and Corporate Services by means of a workgroup approach. Professor Midwinter would provide the external challenge for this process.   | February 2007 – June 2007  |
| 3.2        | A further 28 GAE lines would be reviewed in 2007 for comparison with budgets. The Professor's involvement would be to advise the Council in the review process, providing external challenge to Executive Directors' submissions, and draft strategic recommendations for consideration by the Corporate Management Team, and for presentation to Elected Members.   | February 2007 – October 2008   |

| Item  | Indicative Timescale         |
|---|------------------------------|
| <b>4 Review of Future Spending Proposals Estimated Input – 25 Days</b>  |                              |
| 4.1 The Strategic Review of the Revenue Budget is designed to demonstrate alignment of budgets with Council priorities and consequently spending proposals from departments which might enhance Equality and Sustainability, and improve services need to be developed and assessed in comparison with existing activities. It would be helpful to have consultancy support to advise the Council regarding this review process, providing external challenge to assist departmental submissions, and drafting recommendations for the Chief Executive. | February 2007 – October 2007 |
| <b>5 Scottish Executive Initiatives Estimated Input – 10 Days</b>   |                              |
| 5.1 It would be helpful and prudent to build in some consultancy time, to advise the Council on new Initiatives from the Scottish Executive including public sector reform, monitoring Efficient Government and outcome agreements for which specialist expertise is deemed necessary.  | Ad Hoc as required           |
| <b>6 Costs</b>  |                              |
| 6.1 The consultancy daily rate for 2007 is £410 and so the total cost if all of the days were required would be 90 days x £410 = £36,900.   |                              |