

# **EAST AYRSHIRE COUNCIL**

## **SPECIAL POLICY AND RESOURCES COMMITTEE – 27 JANUARY 2005**

### **DRAFT ESTIMATES 2005/06 - 2007/08 - GENERAL SERVICES**

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

#### **1 PURPOSE OF REPORT**

- 1.1** To seek, as a basis for consultation only at this stage, the approval of Members of the Draft Estimates for 2005/06 TO 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 2005/06 on 10 February 2005.

#### **2 TIMETABLE FOR COMMITTEE AND COUNCIL CONSIDERATION**

- 2.1** From experience it is clear that the most effective means of consultation is the telephone "budgetline" and internet forum and it is proposed that these be put in place by the Executive Director of Corporate Support. It is proposed that the Policy and Resources Committee Meeting of 8 February 2005 will finalise the budget taking account of feedback received during the consultation period.
- 2.2** That meeting would make recommendations on departmental resource allocations and council tax levels to be considered by the Council at a special meeting on 10 February 2005 which is the common council tax setting date recommended by COSLA.

#### **3 DRAFT ESTIMATES 2004/05 – 2007/08**

It is proposed that the following issues be taken into account in formulating the draft budget for consultation purposes.

##### **3.1 Base Estimate**

The departmental Revenue Estimates for the current year as approved by the Council on 12 February 2004 will be used as the base for 2005/06.

## 3.2 Additional Resources

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 contributions and the estimated cost of annual increments.

### (b) Price Inflation

In common with previous years it is proposed that price inflation will only be applied to areas where there is a specified contract requirement to increase prices.

### (c) Trading Services Contracts

This committee agreed on 1 February 2002 the basis on which client charges should be increased. The methodology 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 2005/06 to 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 as well as forecast interest rates and will be net of savings secured from debt rescheduling.

### (f) Energy Costs

The contract for the supply of Electricity and Gas arranged by the Authorities Buying Consortium (ABC) is due for renewal with effect from 1 April 2005. ABC has indicated to constituent councils that current market prices indicate that an increase of up to 40% may result. This equates to £0.845m and this has been accounted for centrally at this stage. It may be however that departments could be challenged to reduce energy usage to absorb any increase. Support for such action could be provided by Technical Services section of the Department of Development and Property Services.

### **(g) Single Status**

Agreement has been reached with the Trade Unions that Single Status should be implemented in full from 1 April 2006. Allowance will be made in the 2006/07 budget for this.

### **(h) Contingency Sum**

The sum included in the budget for 2003/04 for contingency of £0.650m has been continued for all three years. It is proposed that none of this is specifically ring-fenced.

## **3.3 Shared National/Local Priorities**

The three year grant settlement indicated that an allocation had been made to enable certain shared priorities to be taken forward by councils. Contrary to the practice in the previous three year settlement, increases in GAE lines for 2006/07 and 2007/08 are not fully matched by increases in grant and it is proposed that additions to departmental budgets to recognise the requirement to take these initiatives forward should mirror the actual grant increase.

The Scottish Budget published in October 2004 for 2005/06 to 2007/08 included reference to a number of new issues for which funding may be forthcoming. It is proposed to add these to the relevant departmental budgets once the level of individual council funding is confirmed.

The allocation of Quality of Life Funding for 2003/04 to 2005/06 was determined by this committee in February 2003. It is proposed that consideration of the use of this funding stream for 2005/06 to 2007/08 is undertaken as part of this budget setting process taking account of responses to the consultation exercise.

## **3.4 Community Regeneration Fund**

This replaces the former Social Inclusion Partnership (SIP) and Better Neighbourhood Services (BNSF) funding and it is assumed that expenditure will match funding and is therefore wholly discounted for the purposes of budget and council tax setting at this stage.

## **3.5 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.

### 3.6 Trading Services

Business plans are currently being prepared and figures have been included based on performance in previous years. Onsite Services are involved in a number of tendering exercises and if they are not successful, the surplus from that operation may reduce by £0.100m. A prudent approach is proposed and the estimated surplus reduced accordingly. If the contracts are won then the actual surplus would deliver a future benefit. The final figures from approved business plans will be included when available.

### 3.7 Expenditure Reductions

The national grant settlement anticipates that councils will make year on year expenditure reductions by increasing efficiency or reconfiguring services. The Scottish Executive has indicated that they expect this of all public bodies including their own civil service departments.

In order to reflect the Council's priorities it is proposed that a lower level of expenditure reduction targets be required in Education and Social Work budgets. There is a presumption that in all departments administration costs will be examined before any effect on existing services is considered. Gains may be able to be made through management action. 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.

The proposed levels of expenditure reduction targets for 2005/06 indicated in the 2004/05 -2005/06 budget approved by the Council on 12 February 2004 are shown below and the draft service allocations for 2005/06 shown in the table at paragraph 3.10 have already been reduced by these amounts.

Service	2005/06	
	%	£m
Education	3.1%	2.939
Social Work	3.1%	1.291
Neighbourhood Services	4.4%	0.895
Development and Property Services	4.4%	0.553
Central and Corporate Services	4.8%	0.456

### 3.8 Council Tax

The Council announced indicative Council Tax levels for 2005/06 as part of last year's budget. An increase of 4.9% was proposed 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 3.10.

### 3.9 Government Grant

A three year grant settlement has been announced by the Scottish Executive and the funding assumptions in this report are based on information in Finance Circular 8/2004. Council Tax and Housing Benefit Subsidy Grant is based on an assumption, for planning purposes only, of increases in Council Tax and Rent of 4.9%. The final figure for these lines will be adjusted when the actual increases are determined by the Council.

### 3.10 Net Position

The table below illustrates the draft allocation to departments based on the above. It will be noted that for all front line service departments the position for next year would be one of having an overall budget increase by comparison with this financial year

Service	Proposed Draft Allocation 2005/06 £m	Increase %	Proposed Draft Allocation 2006/07 £m	Increase %	Proposed Draft Allocation 2007/08 £m	Increase %
Education	91.867	4.2%	94.789	3.2%	98.097	3.5%
Social Work	39.793	5.3%	43.855	10.2%	47.007	7.2%
Neighbourhood Services	48.560	6.3%	50.316	3.6%	52.382	4.1%
Development & Property Services	15.331	6.3%	17.195	12.2%	17.953	4.4%
Corporate Support	9.079	1.7%	9.466	4.3%	9.933	4.9%
Quality of Life Funding	1.634	16.5	1.171	-28.3%	1.168	-0.3%
Other Non-Departmental Items	70.997	-0.4%	79.716	12.3%	78.969	-0.9%
Net Expenditure	277.261	3.7%	296.508	6.9%	305.509	3.0%
Net Income	278.761		290.508		300.009	
Unallocated/(Funding Gap)	1.500		(6.000)		(5.500)	

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

3.11 It should be noted that the figures shown are prepared for consultation and discussion only and 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.

The figures for 2005/06 include the savings allocated per the table at paragraph 3.7 and show that £1.5m would remain available for allocation to services. For 2006/07 and 2007/08 a funding gap of £6m and £5.5m respectively is shown. The final figures and the allocation of this between financial years and between departments will depend on decisions to be made following the consultation period.

### **3.12 Reserves and Balances**

A note of uncommitted Reserves and Balances held by the council is shown in Appendix A. The strategy proposed for consultation does not involve any application of balances in any of the years at this stage.

## **4 RECOMMENDATIONS**

It is recommended that the Committee: -

- 4.1** approve, as a basis for consultation, the foregoing estimates;
- 4.2** note the outline timetable for finalisation of the budget as detailed in Section 2 of the report;
- 4.3** otherwise note the contents of this report.

Alex McPhee

**Executive Head of Finance**

AMcP/JP

21 January 2005

### **LIST OF BACKGROUND PAPERS**

**NIL**

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

## APPENDIX A

### Reserves and Balances

CIPFA guidance requires the inclusion of certain information on balances and reserves in reports to Members on the budget process and this is shown below.

Audit Scotland has previously indicated that Councils should have a revenue balance sufficient to cope with unforeseen events and it is generally accepted that a target level is 2% of net expenditure which would amount to about £6.0m for this Council. The Council's own External Auditor has also indicated that the current uncommitted General Fund balance level of £4.333m is reasonable. The currently projected position is that this balance is likely to increase by the year end. Whilst at this stage there is no proposal to budget to increase the balance, all opportunities which would allow it to be enhanced should be taken. In addition to the General Fund Balance the Council holds statutory reserve funds for Renewals and Repairs, Insurance and Capital.

#### **Renewal and Repairs Fund**

The balance on the account at April 2004 was £1.586m arising from appropriations from the Housing Revenue Account (£1.122m) and from Trading Services (£0.464m). Current projections indicate that there will be additions to the fund from these sources in the current year. Withdrawals from the fund require the authority of the Policy and Resources Committee. There are no specific plans in the budget either to utilise or to increase the level of the balances.

#### **Insurance Fund**

The Insurance Fund is used to pay insurance premiums and policy excesses. The size of the fund is governed by the level of premiums charged by the Council's insurers and the level of policy excess accepted. The longer term strategy is to increase the levels of self insurance and excesses and so reduce insurance premiums paid. It would not be prudent to do this before having some assurance on our ability to control losses. The new CCTV monitoring centre for example will assist in achieving that.

#### **Capital Fund**

Capital Receipts from the sale of Council property are credited to the Capital Fund and the availability of the fund can be taken into account in the capital investment financing decisions. Capital Receipts for 2004/05 are currently estimated at £2.750m. No figures are currently available for 2005/06.

Fund/Reserve	Forecast balance at 1 April 2004 £m	Forecast additions 2004/05 £m	Budgeted Net Additions/(With- drawals) 2005/06 £m	Forecast balance at 31 March 2006 £m
General Fund –Uncommitted	4.333	0.749	Nil	5.082
General Fund - Committed	3.577	1.133	Nil	4.710
Renewal and Repairs Fund	1.586	0.309	Nil	1.895
Insurance Fund	1.272	nil	Nil	1.272
Capital Fund	2.638	2.750	N/A	5.388