

## **EAST AYRSHIRE COUNCIL**

### **SPECIAL POLICY AND RESOURCES COMMITTEE – 16 OCTOBER 2006**

#### **REVIEW OF THE REVENUE BUDGET 2006/07**

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

## **1 PURPOSE**

- 1.1** To review the position of the General Services Revenue Budget for 2006/07 and to allow consideration of possible virements to departmental resource allocations.

## **2 BACKGROUND**

- 2.1** In determining the revenue budget for 2006/07 in February 2006, Members noted that there remained uncertainty over the costs for Equal Pay Compensation and Single Status and a prudent approach was taken with the intention to review the position once these issues were clarified and the audit of the 2005/06 accounts had been completed.
- 2.2** Equal Pay Compensation payments have now been accepted by the vast majority of relevant employees in the Cleaning, Catering and Care services. It is understood that there may be further claims but the legitimacy and possible financial consequences of these can not be quantified at present.
- 2.3** The audit of the 2005/06 accounts has now been completed and only minor changes to the final outturn have been agreed.

## **3 CONSIDERATION**

- 3.1** There are two main areas which Members may wish to examine to determine whether any virement to departmental resources allocations are appropriate. These are: -
- (a)** Use of Revenue Balances for one-off or time limited expenditure
  - (b)** Savings generated in the current financial year as forecast at Period 4

## **4 OUTTURN POSITION 2005/06**

The position with regard to General Fund Revenue Balances at 31 March 2006 is outlined below.

#### 4.1 General Fund Surplus

	Uncommitted Balance £m	Departmental Balances £m	Departmental Commitments £m	Total £m
Balance Brought Forward	9.510	4.729	1.419	15.658
2005/06 Balance	(0.962)	2.333	0.084	1.455
<b>Outturn Position 2005/06</b>	<b>8.548</b>	<b>7.062</b>	<b>1.503</b>	<b>17.113</b>

The Council's Reserves Strategy requires that uncommitted balances be held at between 2% and 4% of net budgeted expenditure. This equates to between £6m and £12m. On this basis £2.5m could be utilised on a one off basis.

#### 4.2 Detail of Departmental Balances

	Balance Brought Forward £m	2005/06 Balance £m	Balance as at 31/3/06 £m
Educational Services <sup>1</sup>	0	0.900	0.900
Social Services <sup>2</sup>	0.859	0.004	0.863
Neighbourhood Services <sup>3</sup>	1.077	0.226	1.303
Development & Property Services <sup>4</sup>	1.324	0.378	1.702
Corporate Support <sup>4</sup>	1.369	0.825	2.194
Central Services	0.100	0	0.100
	<b>4.729</b>	<b>2.333</b>	<b>7.062</b>

<sup>1</sup> The Education balance related to schools balances (£0.562m) and funding received for Surestart and Literacy & Numeracy which had not been spent by the year end.

<sup>2</sup> The Social Work balance is being used to support general Social Work services in the current year.

<sup>3</sup> Balances accruing to Neighbourhood Services have been partly committed for the support of community leisure facilities and other departmental priorities.

<sup>4</sup> Both Development & Property Services and Corporate Support have set out plans to utilise a significant part of their balances on one-off projects.

#### 5 **BUDGET POSITION 2006/07**

Based on information provided at Period 4, there are a number of areas where costs have been reduced or income increased on an ongoing basis. The sources of these funds are: -

### 5.1 Pay Awards

The assumption in the budget was that the pay award for non-teaching staff would be 3%. A two year deal has been agreed at 2.5% per annum. This together with other minor issues releases £0.350m per annum.

### 5.2 Benefits Subsidy

Improvements in Administration of Benefits which mirror the objectives of the DWP have resulted in consistently higher subsidy recovery over the last few years. There has been no recent indication from the DWP that the basis of subsidy calculation will change in the short term and a reduction in net costs of £0.300m for 2006/07 was projected at Period 4.

### 5.3 Pension Provision

Actuarial reviews have now been completed and funds set aside to accommodate potential additional costs are higher than required. This releases £0.200m per annum.

### 5.4 Debt Charges

The re-profiling of capital expenditure together with high levels of balances and lower than budgeted interest rates means that the costs of borrowing are currently forecast to be £0.400m less than budgeted in 2006/07.

### 5.5 Energy Contingency

In constructing the budget for 2006/07, no allowance was made for energy price increases on the basis that energy efficiency works being co-ordinated by the Executive Director of Development and Property Services were intended to reduce usage and costs by the value of the price increase which had been estimated at 40% or £0.845m. In order to protect the overall financial position however a provision of £0.550m was held centrally in case the actual in-year savings fell short of the target. Work is currently in progress to ascertain the level of savings which energy efficiency works will deliver and the services to which these will accrue and when these figures are verified Members will be in a position to decide how the £0.550m should be distributed. Initial advice from colleagues in Development and Property Services indicates the following position;

Service	Target Saving £m	Indicative Forecast Saving £m	Difference £m	Potential Share of Contingency
Educational Services	0.442	0.304	0.138	0.180
Social Services	0.066	0.022	0.044	0.060
Neighbourhood Services	0.112	0.061	0.051	0.070
Development & Property Services	0.225	0.036	0.189	0.240
Corporate Support	0.000	0.002	-0.002	0.000
<b>Total</b>	<b>0.845</b>	<b>0.425</b>	<b>0.420</b>	<b>0.550</b>

The potential share of the £0.550m contingency is based on difference between the target and the forecast. These values are still in the process of verification by Internal Audit however and the final position will be reported to the Policy and Resources Committee in due course.

## 5.6 **Council Tax Collection**

In addition to the savings highlighted above, collection of previous years' arrears is better than anticipated generating additional one-off income of £0.800m. This may allow the bad debt provision included in the budget to be reduced by 0.5% releasing £0.200m on a recurring basis.

Source of Funds	Value £m
Pay Awards	0.350
Benefits Subsidy	0.300
Pension Provision	0.200
Debt Charges	0.400
Council Tax	0.200
<b>Total</b>	<b>1.450</b>

Whilst some of these funds will be available on a recurring basis Members will wish to take that into account as part of the 2007/08 budget process and use made of them to cover ongoing costs in 2006/07 will require to be reconsidered in February 2007 as part of the overall prioritisation of resources available.

## 6 **OVERALL VALUE OF FUNDING AVAILABLE**

6.1 The sums available can be summarised as follows: -

Item	£m
Reduce Balances to Minimum Levels	2.500
Council Tax Arrears Collection 2006/07	0.600
Potentially Recurring Savings	1.450
Energy Efficiency Contingency	0.550
<b>Total</b>	<b>5.100</b>

## 7 **POSSIBLE USES OF FUNDS**

7.1 There are a number of areas where additional resources could be utilised both to protect and to enhance front line services: -

- (a) There are a range of issues being highlighted within budget reports for Education and Social Services where demand and other external price pressures are contributing to adverse variances. For Education at Period 4 this was forecast at £1.5m and for Social Work £1.0m. Whilst Executive Directors tend to take a very prudent view at this point in the financial year, there are specific areas within both services where the level of spend is largely outwith the Council's direct control. These include;

- Higher costs of SEN transport following the collapse of Swift (0.352m)
- Removal of grant support for Quality Improvement and Psychological Services (£0.266m)
- Increased costs of Social Work client transport (£0.195m)
- Increased Foster Care costs (£0.390m)
- The demand and cost of external placements including secure accommodation (£0.387m); and
- The loss of income following recent guidance on charging for Personal Care (£0.254m)

- (b)** The regeneration of town centres and improvements to the environment are high on the Council's agenda and additional funding could assist early progress in these areas.
- (c)** Neighbourhood Services have initiated a programme to deliver leisure diversionary facilities across the authority which could be accelerated by additional funding.
- (d)** Departments may have other projects requiring one-off or fixed term funding which could be progressed quickly with additional allocations.

**7.2** Given that any allocation would be additional to the original budget it is proposed that any unutilised amounts would not be carried forward as departmental balances at the year end but an appropriate adjustment would be made to return any such sums to the General Fund uncommitted balance to allow members to determine uses for future financial years.

**7.3** Given the timing of the review and the above conditions it is important that decisions can be made quickly to ensure early implementation of initiatives. It is proposed therefore that authority be delegated to Executive Directors in consultation with relevant committee chairs to determine the optimum utilisation of any funds allocated with the proviso that the strategic priorities of the Community Plan are observed in all cases. It should be noted however that the application of these funds by departments for recurring expenditure will not imply an automatic allocation in the 2007/08 budget and an assessment of corporate and departmental priorities will be required in the usual way.

## **8 RECOMMENDATIONS**

It is recommended that Members:

- 8.1** note the financial position for the current year and the audited year end position for 2005/06;
- 8.2** determine whether a virement of funds should be made to departments to address externally driven expenditure pressures and/or to progress priorities and if so the relative distribution of these to the departments;

- 8.3** where funds vired, delegate authority to determine their utilisation to Executive Directors in consultation with relevant committee chairs; and
- 8.4** otherwise note the contents of the report.

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Executive Head of Finance

AMCP/DMW  
10 October 2006

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

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