

DEVELOPING NEW WAYS OF DELIVERING SERVICES

LOCAL AUTHORITY SAVINGS PLANS

EAST LoTHIAN COUNCIL

I refer to the recent letter to our Chief Executive from Kevin Stewart the Convenor of the Local Government and Regeneration Committee regarding the enclose the East Lothian reply.

Regards

Anthony Gillespie
Finance Manager

1. *Can you describe the approach that your local authority has taken to both short-term and long-term budget planning since the onset of the financial crisis? For example, has your local authority taken a “zero-based” approach, or has it set out a range of options for savings? Please supply any relevant supporting documentation, for example copies of any budget planning exercises etc.*

A number of reports to Council and to elected members have highlighted to effect of current economic conditions. I have included an example of these. The agreed approach is built into the Financial Strategy with the Council working on the basis of a three year revenue budget – aiming to move into balance within this period.

When we consider the more detailed budgets a mixture of approaches have been taken. A number of units and departments have undertaken ‘zero-based’ budgeting approaches. In addition, each year, the Council will consider a range of options for savings. I enclose a link to the 2013/14 budget papers which shows those savings which have ended up in the final budget.

http://www.eastlothian.gov.uk/meetings/meeting/5243/east_lothian_council

2. *Can you describe the consultation that your local authority undertook on your budget plans, both with stakeholders, and the general public?*

The Council undertook an extensive public consultation as part of its 2012/13 budget preparation. I have enclose a web-link to some relevant documents

http://www.eastlothian.gov.uk/downloads/file/3694/spending_choices

3. *How have the outcomes of your consultation fed into and influenced your budget plans?*

I cannot answer this question as the final say on the specific budget savings are decided by elected members.

4. *What involvement has there been from external consultants/advisers in your budget planning, and what influence has this involvement had on your final plans?*

There has been no involvement by external consultants.

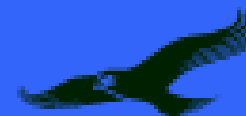


Budget Planning beyond 2010

Council Meeting 25th August 2009
David Spilsbury – Head of Finance

Agenda

- ◆ Background
- ◆ What this means to East Lothian Council
- ◆ The current financial position
- ◆ Future cost pressures
- ◆ What we need to do
- ◆ Conclusions & Questions



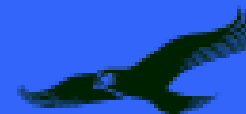
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Background

- Members will be aware that the current economic environment is likely to lead to reductions in the level of funding directed towards local authorities.
- Purpose of this presentation is to;
 - Examine the possible scale of the reduction as it relates to East Lothian;
 - Identify some of the longer term financial pressures
 - Identify some of the options available;and
 - Agree strategic and systematic approaches to deal with the reductions

Background

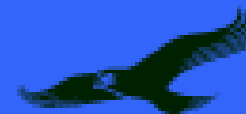
- Under the current way in which local authorities are financed government grant typically makes up almost 75% of net income;
- In 2009/2010 East Lothian expects to receive £166.6 million in government grant – Revenue Support Grant and Non Domestic Rate income.
- The original notification from the Scottish Government indicated that this would rise to £174.9 million in 2010/11 (assuming a Council Tax freeze). This is an increase of 4.98%



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Background

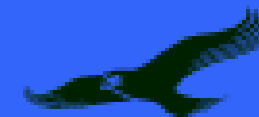
- However, we know know hat the 2010/2011 grant settlement will be reduced to allow for the £500 million efficiency saving which will levied against the Scottish Block Grant.
- At present there has been no notification on how this will be split between elements of the Scottish budget.
- Grant settlement figures previously circulated have been withdrawn.



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What this could mean to East Lothian

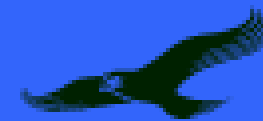
- ✦ The East Lothian share of the £500 million will depend on which services Scottish ministers decide to protect and whether cuts are made in other areas.
- ✦ For 2010/11 there are various scenarios possible
 - ✦ If cuts subsumed in other areas – nil cut in budget;
 - ✦ If all Scottish budget areas share in cuts - £2.7 million cut in East Lothian grant;
 - ✦ If Health excluded - £4.6 million cut to be anticipated



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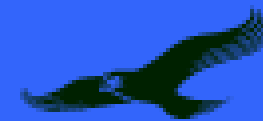
- This equates to a cut of between 1.6% - 2.8% of expected income initially in 2010/11.
- However, this is only likely to be the start of a longer term trend as the economic downturn results in a tightening of public spending in period beyond 2010/11;
- The April 2009 budget means that reduced tax revenues, growth in social security, higher debt repayments and the protection of spending on other priorities such as health & overseas development all combine to reduce sums for local government.



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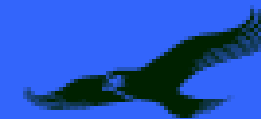
What this could mean to East Lothian

- Analysis suggests that in real terms i.e. excluding inflation there will be a cumulative reduction of between 12% and 15% in local authority funding in the four years up to 2013/2014.
- This is subject to many variables – not least the overall economic situation.
- This equates to a 3%-5% cut every year. Since inflation is currently around 2% this will mean at best a 'stand still' budget every year.
- To put this in perspective the past seven years have been relatively benign to local authorities. In the case of East Lothian real term growth i.e. after inflation has averaged 3.7% each year.



What this could mean to East Lothian

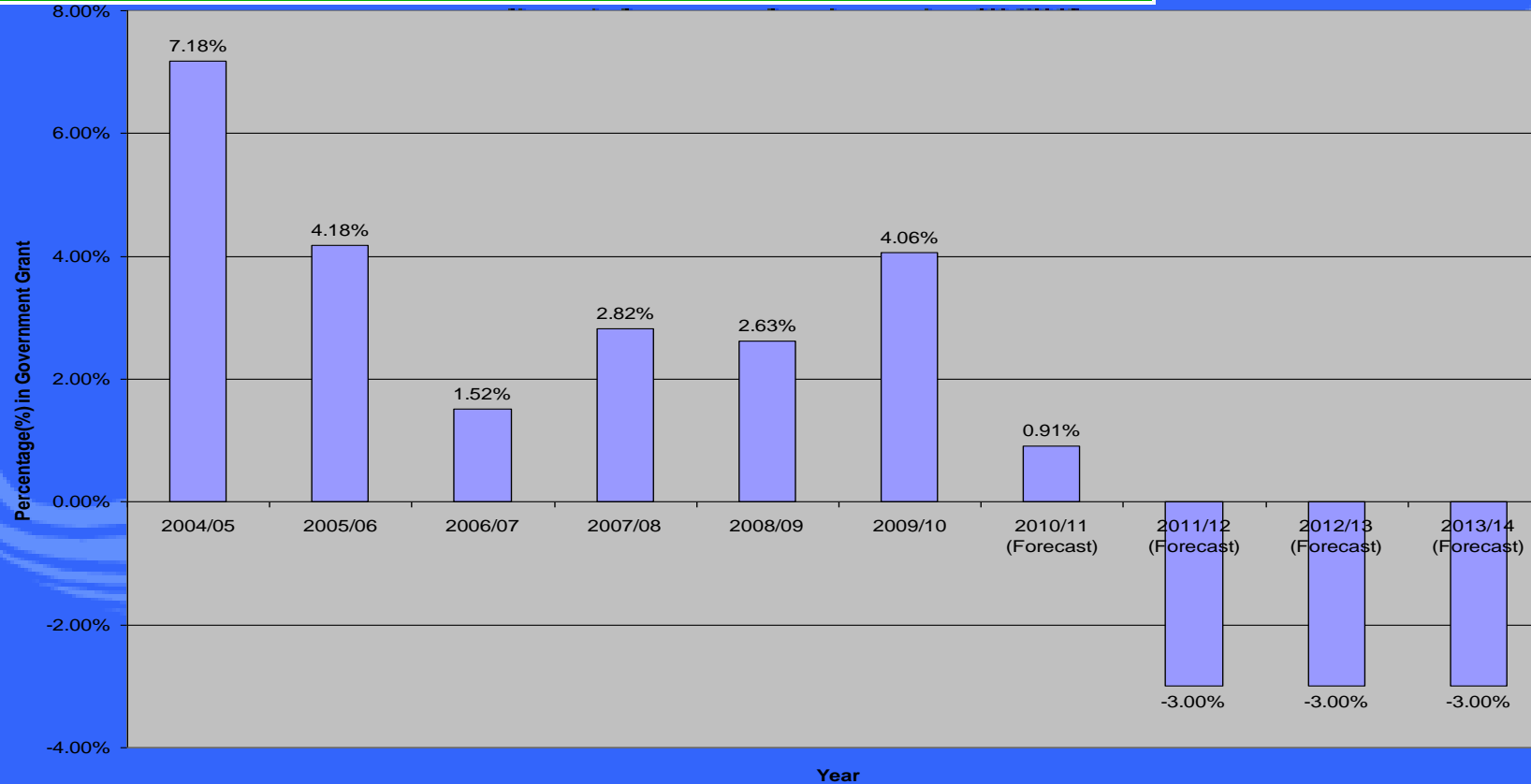
- This is a significant contraction in
- Capital budgets are likely to be even more severely affected.



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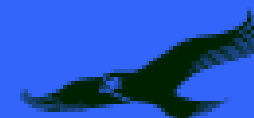
What this could mean to East Lothian

Change in Government Grant Income since 2004/2005



The current financial position

- The year-end accounts presented earlier highlighted available reserves of £5.8 million. This represents 8 days of cover for gross expenditure.
- The current (2009/2010) budget assumes that £3.2 million of these reserves will be used in the year. At present I have no reason to believe that these amounts will not be required at the end of the year.
- Ultimately however this means that the Council is not balancing current spending with current income – this creates a further issue in relation to future budgets

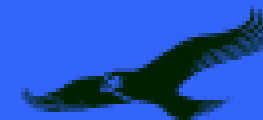


The current financial position

- In addition, while financial management across the various Groups & Units is generally good, there are a number of areas which have long standing and underlying financial issues. These include;
 - Amenity Services (£130k)
 - Independent School Fees (£250k)
 - Homelessness (£100k)
- The 2009/2010 budget, with the expectation of efficiency savings gives the various Groups less of a margin of error compared to previous budgets. I would expect further issues to emerge as the year progresses;
 - Waste Services – the expectation of special uplift income have been set high;
 - Neither Community Services not Education have identified how, in the longer term, the current 2009/10 efficiency savings will be made.

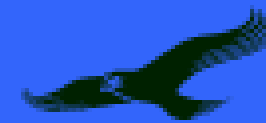
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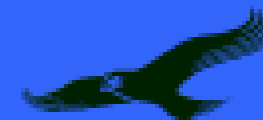
- ✦ Finally, the recent growth we have seen in council tax income is coming to an end.



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Future cost pressures

- ♦ As well as factoring in funding reductions it is also likely that the planning for 2010 and beyond will have to reflect spending priorities established at a national and international level.
- ♦ Within East Lothian we have seen real term increases averaging 5% across services such as Older Persons, Children's Services, Homelessness and Waste. I see no prospect that this is likely to decrease over the medium term.
- ♦ School rolls – which have been relatively static over the past three year – are forecast to rise by over 5% in the next two years.



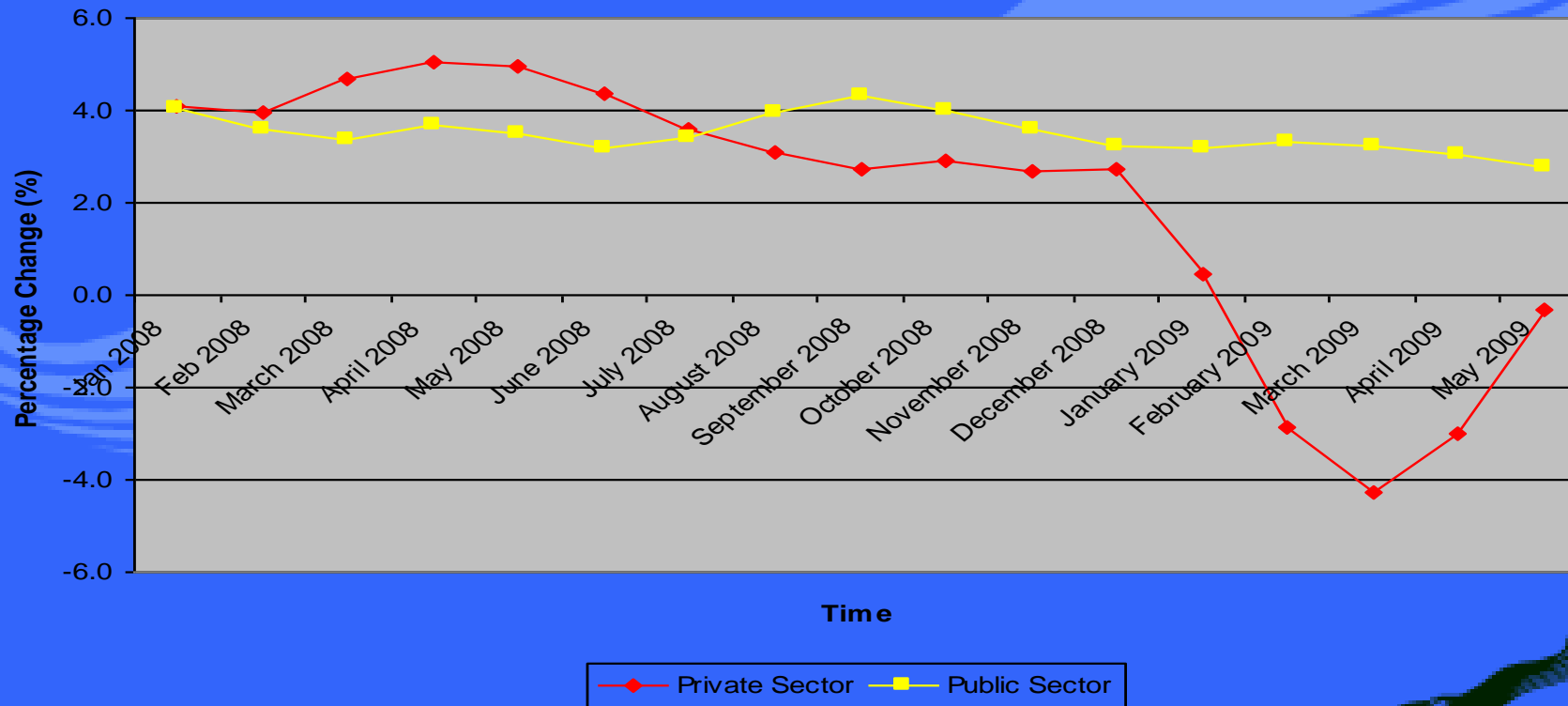
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Future cost pressures

- Employee pay comprises almost 50% of our current cost base. In general terms public sector pay has remained relatively resilient over the economic downturn. This has been illustrated in the graph overleaf
- As it stands there are grounds for assuming this will continue since;
 - The cost of making good pension deficits will increase from £1.3 million to £2.2 million each year from 2011. This alone will add 0.7% to wage inflation
 - Scale increases – mostly as a result of single status implementation will add a further £1.5 million in 2010/11. This equates to an increase in the pay bill of 1.9%.

Future cost pressures

Three monthly Percentage (%) Change in average earnings
(Source: Office for National Statistics)



What we need to do

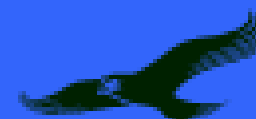
- ◆ Acknowledge the scale of the problem facing the Council.
- ◆ Accept that we are beyond the concept of efficiency savings. The environment beyond 2010 is likely to mean reductions in services/real term cuts.
- ◆ Converse with the public. Convince them that the generalised approach of 'No Cuts' is not an option.
- ◆ Investigate an 'East Lothian Way' for dealing with the problems faced – cross party co-operation

What we need to do

- Rigorous focus on core priorities and areas where demand growth will come.
 - Back to the drawing board for all revenue and capital plans for 2010 and beyond.
 - Assumption that no growth items in 2010 and beyond budgets.
 - Speed up investigations into new ways of delivering services.
- Prepare for the worst – Departments to start work on identifying how budgets can be cut by 3% each year in the four years from 2010/2011
- Agree that all current staff restructures approved through Members Library need to identify a medium term reduction in cost.

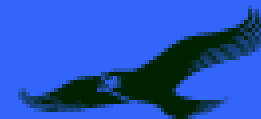
What we need to do

- Directors draw up plans to rectify existing problems in specific budget areas;
 - Amenity Services
 - Homelessness
 - Independent School Fees.
- Keep working on the figures.



Questions & Conclusions

- ◆ If you have been affected by any of the slides in this presentation please contact your Section 91 Officer.



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