

Revenue Budget Update

Budget Group

14 September 2011

1 Purpose of report

- 1.1 The purpose of this report is to provide a summary of the revenue budget agreed by Council in February and an update on progress towards the implementation of savings plans. It also provides an update on the Spending Review for 2011 and how it may impact on the Council's long term financial plan and budget process going forward.

2 Summary of Revenue Budget

- 2.1 The Council agreed a budget in February 2011 which contained a detailed savings plan for the next 3 years and provided a balanced position in 2011/12, a small contingency in 2012/13, and a balance of savings to be found in 2013/14. The following table summarises the total of pressures funded, savings approved and balancing position in each of the three years.

	2011/12 £000	2012/13 £000	2013/14 £000
Additional Funding for service pressures (incremental)	5,535	1,226	300
Savings (incremental)	(31,697)	(23,381)	(13,218)
(Contingency)/Shortfall	0	(2,264)	15,346

- 2.2 The Scottish Government only announced detailed local government grant figures for 2011/12. The budget for 2012/13 and 2013/14 uses an assumed level of grant funding which will be updated following the Spending Review announcement in September 2011 and notification of detailed grant figures in December 2011. In the meantime it should be noted that the following key assumptions have been incorporated into the Council's long term financial plan.

- Government grant remains static in 2012/13 and a reduction of just under 1% in 2013/14;

- 3% increase in council tax per annum or the equivalent in government grant;
- Pay freeze for 2012/13 and 2% thereafter;
- Inflation provisions which vary but generally around 2%;
- Provision for demographic growth of £6.4m in 2012/13 and a further £7.6m in 2013/14.

3 Spending Review 2011

- 3.1 The Scottish Government Spending Review 2011 is currently underway. It is expected to set out the Scottish Government's budget for the remaining 3 years (2012/13 to 2014/15) of the current UK Spending Review period. Parliamentary timescales indicate that the last date on which the Spending Review can be announced is 21 September 2011. This will provide a total funding figure for local government, with individual Council figures being issued in December. Whilst the budget is expected to cover a three year period it is not yet clear whether detailed figures will be provided at individual Council level for all three years.
- 3.2 It has been suggested that the Scottish Government will seek to reflect, in some way, the recommendations of the Christie Commission but this is likely to be manifested after year one of the settlement. However there are some elements of public sector reform emanating from the UK Government which will impact on the Scottish Budget, the main changes being Pensions Reform and Welfare Reform.
- 3.3 Although the Hutton Review has made recommendations in relation to public sector pension schemes, the UK Government has, in parallel, signalled its intention to increase employee contributions by 3.2% over a three year period from April 2012. This policy is not supported by the Scottish Government. However funding from UK Treasury to the Scottish Government includes a savings assumption of £230m on the basis that this will be applied.
- 3.4 The DWP is currently consulting on removal of the contracted out rebate for national insurance. This is the rate which is paid by both employees and employers when the employee is a contributing member of the pension scheme. This is a lower rate than the contracted in rate and, if implemented, will have a direct impact on the Council's budget. Employers currently receive a rebate of 3.7%, with a reduction of 0.3% from this level having previously been agreed to come into effect from April 2012. The UK Government's consultation on the future of the State Pension scheme, however, contains one option under which the remaining 3.4% would be phased out over a three-year period. When considered alongside knock-on effects on the Pension Fund, full loss of the existing rebate could result in an additional annual liability of some £13 million by 2014/15.
- 3.5 The implications of the Welfare Reform Bill, currently making its way through the UK Parliament, are complex and far reaching and there will be costs

associated with the transition and ongoing reductions in funding, e.g. there is expected to be a 10% reduction in funding for council tax benefit, amounting to some £50 million across Scotland. It is too early to assess the impact on the local government budget but the planned implementation from April 2013 means that this will be an important factor in the Spending Review 2011.

- 3.6 The SNP manifesto includes specific commitments in relation to the Council Tax freeze and grant distribution.
- 3.7 There is a commitment to freeze Council Tax for the period of the Parliament. Council Tax has been frozen for four years with £280m now built into the local government settlement. It remains to be seen what provision will be made in the settlement for future years but CoSLA will want to ensure that this funding is additional.
- 3.8 There is also a commitment to introduce a new funding floor to ensure that no local authority receives less than 85% of the Scottish per capita average in terms of revenue support. The impact of the 85% floor will not be known until the grant distribution formula is fully calculated. However it has been modelled on the 2011/12 distribution and this showed that two Councils would benefit from the second floor, Edinburgh gaining by approximately £23m and Aberdeen by approximately £3m. The reason for the dramatic gain for Edinburgh is because a significant element of the grant distribution relates to school pupil numbers and since Edinburgh has a high percentage of children attending private school, relative to the total population, Edinburgh therefore receives a relatively lower average grant. Civil servants have indicated that, if additional funding is provided for this second floor, it will be evident in the Spending Review report.
- 3.9 Finally, approval has been given by John Swinney MSP for Scottish Government officers to commence discussions with COSLA on refining the details of a Business Rates Incentivisation Scheme (BRIS). The scheme is expected to be based on a 50:50 share between Scottish and Local Government of additional income from business rates growth beyond an agreed target. Any additional income would be retained for 5 years after which it would be built into the target baseline. It is anticipated that this scheme will apply from the current financial year. It is too early to quantify the impact on this for the Council.

4 Potential Pressures on the Budget

- 4.1 The Council Management Team has undertaken to manage departmental budget pressures as they arise and to do so, on a sustainable basis. However there are some potential pressures which may arise from external or Council decisions. The following have been identified:
- Increased class contact time savings of £6.16m (£4.106m 2012/13 and £2.054m 2013/14) are reliant upon changes to teachers' terms and conditions. The review of teachers' terms and conditions is being taken forward by the McCormac Review.

- The decision of the Council on 2 September 2011 in relation to the tram project.
- A report on the Council's approach to winter weather was approved by the Policy & Strategy Committee (to be confirmed following meeting) and this contained a recommendation that the winter weather budget be increased by £0.5m per annum.
- A report on Gaelic Education is to be considered by Council on 27 October 2011. The impact on the revenue budget depends upon which option is chosen and whether Scottish Government funding is provided for the capital costs. A part year cost is expected in 2012/13 with the full year cost in 2013/14 ranging between £279k and £598k.
- As previously mentioned, the impact of removal of the contracted national insurance rebate could amount to up to £13 million by 2014/15, including £5.1 million in 2012/13;
- Increases in energy costs in the current year are estimated to result in an overspend of £1.5m, compounded by a further similar level of increase due in 2012/13.

5 Additional Savings

- 5.1 When budget savings were considered by the Council there were a number of savings which were expected to be delivered through the ABM programme. The financial objectives established for the programme however are intended to release a higher level of savings. Indications from both the internal improvement plans and external bidders suggest that higher savings can be achieved. The Council is expected to take a decision on the ABM business cases for Environment and Integrated Facilities Management in October. Corporate and Transactional Services is currently going through the second phase of dialogue in parallel with a strategic review.

6 Budget Approach

- 6.1 The Budget Approach for this year will largely be determined by the outcome of the Spending Review 2011 and the impact this has on the financial plan for the next three years. If the outcome of the Review is in line with projections it may be possible to revise the budget for 2012/13 without too much disruption. However if the Review is worse than expected and the pressures highlighted in sections 3 and 4 are realised, there will be a need to identify further savings and/or accelerate savings from 2013/14.
- 6.2 It is also the case that the remaining gap in 2013/14 of £15m will require to be closed and, given the new pressures, this will require further savings to be identified. Looking forward beyond 2013/14 the economic outlook remains difficult and further savings will be required for 2014/15 and beyond.
- 6.3 Work is now underway to move towards an outcomes approach to budget prioritisation and this is intended to support future budget decisions from 2013/14 onwards.

- 6.4 In view of the forthcoming local elections in May it is unrealistic to expect that budget decisions can be taken in February 2012 which would largely impact from 2013/14. A preferable approach may be to prepare future savings options for consideration by the new Council after next May.
- 6.5 It is therefore proposed that a further report is prepared once the Spending Review is announced and the long term financial plan is reviewed. This will provide an assessment of the revised budget balances and the extent to which any new funding gap could be met from ABM savings and other corporate adjustments. In parallel it is proposed that departments commence an exercise to identify the areas in which savings could be identified.

7 Recommendations

- 7.1 It is recommended that members note this report and that a further report is prepared following the Spending Review with an update of the long term financial plan and an assessment of additional savings which could be achieved in the next two years.
- 7.2 It is also recommended that Directors commence an exercise to identify potential savings opportunities which could be further developed for consideration following the election in May 2012.

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Appendices

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Wards affected n/a

Single Outcome Agreement n/a

Background Papers n/a

