

FALKIRK COUNCIL

Subject : REVENUE BUDGET 2009/10 – 2010/11
Meeting : POLICY & RESOURCES COMMITTEE
Date: 11 February 2009
Author : CHIEF EXECUTIVE AND DIRECTOR OF FINANCE

1. INTRODUCTION

- 1.1 In December, the Scottish Government provided details of the updated provisional funding allocations for the financial year 2009/10.

2. LOCAL GOVERNMENT FINANCE SETTLEMENT

- 2.1 In line with previous years, the proposed settlement figures were submitted to Policy & Resources Committee on 13 January 2009 (Appendix 1). The provisional figures showed the amount of grant being made available to Falkirk is £288.669m. This figure includes an additional £1.82m if the Council Tax is held at the 2008/09 level.
- 2.2 There have been a number of adjustments to the provisional funding level notified in December 2007 of £285.269m which at that time represented a 5.5% increase in grant. However, the movement in grant does not represent a like for like increase as it includes a number of changes. For example, the changes include an additional £0.861m in respect of additional resources for Free Personal Care; a transfer from Capital of £0.982m in respect of the Schools Fund and £0.971m in respect of the transfer of the Business Gateway from Scottish Enterprise.
- 2.3 Notwithstanding these adjustments the figures will show Falkirk Council having the 9th largest increase in grant, reflecting in the main our continuing growth in population. However, due to the increasing number of cost pressures facing the Council, the preparation of the budget has been the most difficult in recent years.
- 3. PROGRESS ON CONCORDAT BETWEEN THE SCOTTISH GOVERNMENT AND LOCAL GOVERNMENT**
- 3.1 Last year in reaching the financial settlement, a Concordat setting out the terms of a new relationship between the Scottish Government and local government was agreed and is attached (Appendix 2) for ease of reference.

3.2 Members will recall the new relationship is represented by a package of measures, the key elements of which are:-

- ❑ Settlement based on partnership
- ❑ No structural reform of local government during the term of this Parliament
- ❑ Move to a Single Outcome Agreement (SOA) for every Council based on an agreed set of national outcomes
- ❑ New performance reporting system
- ❑ Reduced ring-fencing
- ❑ No top-slicing of efficiency savings

These represented significant changes at that time with arrangements put in place to jointly oversee and monitor the new measures.

3.3 Over the last year one of the most significant developments has been the introduction of Single Outcome Agreements. Appendix 3 details Falkirk's first SOA and as we approach the end of its first year in operation, it will continue to be refined in relation to progress on targets, performance and achievements. We are scheduled to have a revised/refreshed SOA in consultation with our Community Planning partners by the end of February 2009. The development plans for SOA's from 2009/10 mean that community planning and partnership working will be much more significant for councils.

3.4 In relation to the specified set of national commitments progress (pages 4 and 5 of the Concordat) has been achieved in a number of areas including:-

- ❑ Freezing council tax rates
- ❑ Additional police officers
- ❑ Expanding pre-school provision
- ❑ Kinship Care/Care Home Fees
- ❑ Efficiency savings achieved to date

The two most difficult areas have been in relation to:-

- ❑ Reducing class sizes in P1 to P3 to a maximum of 18
- ❑ Providing free school meals for all P1 to P3 pupils from August 2010

In respect of reducing class sizes, there is no additional money provided in the settlement and the Concordat states that the pace of implementation will vary across authorities depending on local circumstances and needs. This is especially true in Councils like Falkirk who have an increasing population. For school meals the high level 2010/11 budget includes a provision for introducing free school meals although it remains to be seen whether this is sufficient.

Notwithstanding these difficulties, we believe it is fair to say that councils have played their part in this new partnership arrangement.

4. CORPORATE PLAN

- 4.1 The Revenue Budget preparations link up the development of the SOA and the Council's Corporate Plan. The Plan (Appendix 4) sets out what the Council wants to achieve in terms of its top goals:-
- ☐ Further developing a thriving, sustainable and vibrant economy
 - ☐ Continuing to improve the health, safety and well-being of our citizens and communities
 - ☐ Increasing our efforts to tackle disadvantage and discrimination in all its forms; and
 - ☐ Enhancing and sustaining an environment in which people want to live, work and visit
- 4.2 In line with this year's improvements in further developing links between the budget process and corporate and service plans, updated Service Plans for 2009-11 will be submitted to Members around April to ensure that budget and service planning are aligned to meet our goals and values. In addition, as mentioned above the development of the SOA also has a significant bearing not only on the Council but also our Community Planning Partners. Given also the recent high profile issues within local government e.g. child protection, financial management, there will be a continuing need to further improve our governance and risk management arrangements throughout the Council.

5. CONSULTATION

- 5.1 The budget strategy also acknowledges the need to ensure proper consultation with recognised Trade Unions, particularly given the tight financial constraints that the Council faces together with the significant downturn in the economy during the last year of which the Council is not immune. In addition, community engagement was undertaken using the Council's Internet site throughout January 2009. The responses again generally indicated support for a continued Council Tax freeze.

6. BUDGET STRATEGY

- 6.1 The Administration's budget strategy has been formulated on the basis of a number of cost pressures facing the Council:-
- ☐ Single Status/Equal Pay
 - ☐ Further 2% Efficiency Savings to be found
 - ☐ Revenue implications of the capital programme, (e.g. new schools, library)
 - ☐ New Schools (NPDO) project affordability gap
 - ☐ Continuing significant rising costs as a consequence of an increasingly elderly population, looked after children and homelessness in particular
 - ☐ General price changes particularly in pay awards, energy (+70%), and Landfill Tax
 - ☐ Reduction in Income e.g. Planning Fees due to the deteriorating economic climate, and
 - ☐ Reduction in Council Tax income due to the slowing down in house building

- 6.2 To further expand on some of these pressures, equal pay continues to represent one of the largest financial risks facing the Council with a consequential impact on the Council's financial strategy. There is a £4m provision in the Council's Accounts to meet further potential liabilities but it remains to be seen what the full impact will be. Members will also note from the Concordat the continuation of efficiency savings set at 2% per annum. Furthermore, the opening of the four new schools (NPDO) will require c£3m additional resources next year to meet the affordability gap. In respect of rising costs, as an illustration, energy costs alone will add some £3m to next year's budget while Landfill Tax increases will add an additional £0.4m. Pressures on Social Work and Education budgets arising from both caring for the elderly and looked after children continue to increase significantly, as has the increase in homelessness.
- 6.3 Taking all of these factors into account there is an estimated budget shortfall of c£9.5m which requires to be addressed in order to continue to freeze the Council Tax for a second year.
- 6.4 The Administration's budget strategy has necessarily required all areas of expenditure and income to be subject to detailed scrutiny, to bridge the budget shortfall including:-
- Asking Directors to identify efficiency savings of 2% (c£7.0m) with minimum effect on service delivery
 - Seeking similar efficiency savings from the Joint Boards (c£0.8m)
 - Recognising pay and other inflationary pressures only where absolutely necessary (savings c£0.4m)
 - Maximising income through a review of fees and charges where appropriate (£0.7m)
 - Further reducing borrowing costs by a target of £0.4m though prudent treasury management assisted by the very recent and unprecedented reduction in interest rates aimed at stimulating the economy

In respect of the efficiency savings, Services have each been allocated a target and asked to identify and monitor such savings ensuring they are equality compliant particularly in the key areas of:-

- Procurement
- Workforce Planning
- Asset Management
- Streamlining Bureaucracy
- Best Value Service Reviews/Diagnostic Project

within the overall objective of protecting service delivery and avoiding any compulsory redundancies.

Members will receive reports on the efficiency savings being achieved in line with the requirement to produce an Efficiency Statement for submission to the Scottish Government at the year end.

6.5 On a more positive note the Budget Strategy also takes into account additional investment in the Council's priority areas of:

- ❑ New Schools including their expansion for community use
- ❑ Care for the Elderly following the Sutherland Report
- ❑ Carers Support & Kinship care
- ❑ Economic Development including for example a revenue contribution to the Helix project and a range of measures agreed by Council in December to assist businesses during the economic downturn
- ❑ Additional and accelerated Capital Investment projects detailed in the three year Capital Investment Programme to assist the local economy,

as well as additional resources to deliver key government policies and programmes specified in the Concordat. These are highlighted further in the Service Budgets below.

7. SERVICE BUDGETS

Appendix 5 sets out the Draft Revenue Budget by Service and the following sections summarise the main elements in each.

Education

The Education Services budget next year is set to increase by £13.504m to £155.563m. After deducting efficiency savings of £3.083m, this represents an increase of 7.34%. Of this £13.504m, some £4.546m (or 34%) of the increase relates solely to pay and price inflation. The budget includes £6.338m to account for the opening of the four new secondary schools. This has been partially offset by additional Scottish Government funding of £3.862m. In addition, an increase in employer contributions for teachers has required the budget to be increased by £0.850m. Scottish Government funding for this increase totalled £0.514m. Furthermore, an additional c£0.1m from the c£1.6m additional investment provided in the current year has been allocated to this Service in recognition of spending pressures.

Increases in Fees & Charges in respect of School Meals and Childcare have been reflected within the budget. However, even with these price increases, Falkirk Council will still have one of the lowest School Meal charges of any local authority in the United Kingdom. Members should also note that a provision of £0.250m has also been made to extend entitlement to free school meals to all primary and secondary pupils in receipt of maximum child tax credit and maximum working tax credit from August 2009 in accordance with the Concordat.

The Service has been allocated an efficiency target of £3.083m. Proposals to attain this target include workforce planning aimed at realigning core teaching provision with the recent pupil census (£0.745m) and reviewing the arrangements for allocating teachers (£0.800m). In addition, savings will be attained through reassessing the arrangements in place for delivering projects previously funded by the National Priorities Action Fund (£0.668m), review funding provided to partner agencies (£0.050m), review secondary school devolved budgets (£0.600m) and general procurement savings across the Service (£0.220m).

Social Work

The Social Work budget is set to increase by £5.738m to £70.857m. After deducting efficiency savings of £1.232m, this represents an increase of 6.92%. Almost half of this increase is pay and price inflation for staff costs and the purchase of care from external providers. The budget also includes provision for an additional £0.860m Scottish Government funding in response to the Sutherland review of Free Personal Care, £0.207m for Carers Support and £0.112m for Kinship Care. Furthermore, an additional £1m from the c£1.6m additional investment provided in the current year has been allocated to this Service in recognition of spending pressures.

The efficiency savings target for Social Work Services amounts to £1.232m and the main areas of anticipated savings are, Procurement savings arising from the revised framework for purchasing care at home and housing support, the extension of in-house childrens' residential facilities, and a review of transport planning across the Service.

Proposed increases to fees and charges are also included in the report.

General Fund Housing

The General Fund Housing budget is set to increase by £1.046m to £12.939m. After deducting efficiency savings of £0.050m, this represents an increase of 8.37%. The most significant factors in this increase are pay and price inflation and reduced housing benefit subsidy. The efficiency savings target for General Fund Housing is £0.050m and it is anticipated that this will be achieved through Procurement savings. Furthermore, an additional £0.5m from the c£1.6m additional investment provided in the current year has been allocated to this Service in recognition of spending pressures on services to the homeless.

Development Services

The Development Services budget is set to increase by £1.165m to £25.906m. After deducting efficiency savings of £0.680m, this represents an increase of 1.96%. Provision for pay and price inflation accounts for more than half of this and there is also provision of £0.4m for increased landfill tax levels. Although the allocation from the Zero Waste Fund, which is intended to help expediting progress towards the 2013 Landfill directive target, has been confirmed at £0.510m for the current year, the Scottish Government has still to decide the allocation 2009/10, although it is hoped that this information will be available soon.

The Efficiency Savings target for Development Services is £0.680m and the main areas of anticipated savings are Procurement efficiencies in waste strategy and roads operations and Workforce Planning.

Proposed fees and charges are also shown.

Community Services

The Community Services budget next year is set to increase by £1.657m to £23.035m. After deducting efficiency savings of £0.910m, this represents an increase of 3.49%. Of this £1.657m, some £1.055m (or 63%) of the increase relates solely to pay and price inflation.

It is proposed that consideration be given to the future of the park gallery. It is suggested that officers prepare a report setting out options for the relocation of the contemporary arts and craft space with a view to reducing operating costs.

Budgets have been increased by £0.483m to open the four new secondary schools for enhanced community use and to provide revenue funding for the sports hall at the old Denny High School. In addition, funding has been increased by £0.120m to account for the revenue consequences of the Helix Project.

Increases in fees and charges including Sport & Recreation, Crematorium and burial grounds are also reflected within the budget. Charges for lair purchase, interments and cremations have been increased by 10% to bring them more into line with, although still below, the national average.

The Service has been allocated an efficiency target of £0.910m. Proposals to attain this target include improved workforce planning (£0.518m) and procurement arrangements (£0.392m).

Corporate & Neighbourhood

The Corporate & Neighbourhood Services budget is due to increase by £0.475m to £11.824m. After deducting efficiency savings of £0.611m, this represents a reduction of 1.2%. Of this £0.475m, some £0.327m (or 69%) of the increase relates solely to pay and price inflation. The Service has been given an efficiency savings target of £0.611m and intends to meet it by generating savings through Workforce Planning, Increased Income and increased surpluses within Trading Accounts.

Trading Accounts

Members should note that both of the Council's Statutory Trading Organisations are budgeted to make a surplus for 2009/10.

Miscellaneous

The Miscellaneous budget is set to increase by £1.583m to £8.647m, a rise of 22.41%. The principal reason for this is a drop of £1.1m in interest earned on internal balances, which is a result of the significant drop in interest rates which has occurred in the past few months.

Police

The Central Scotland Joint Police Board has approved spending plans for next year which require net expenditure of £55.556m. This is almost equal to the current year's net budget as a result of additional funding from the Scottish Government to meet steeply-rising pension cost pressures and the transfer of certain responsibilities to the Scottish Police Services Authority. As in recent years, the budget is set at the Grant Aided Expenditure level to maximise the 51% ring-fenced grant payable by government towards the cost of police services.

In recognition of the tight financial environment for the public services in Scotland, the Force is continuing with a vigorous improvement agenda which seeks to focus resources on front-line operations. Specific measures which are generating both cash and time-releasing savings include reductions in overtime, attendance management initiatives, centralisation and the reorganisation of management structures. These efficiencies are being achieved against a backcloth of increasing community demands on the service and the impact of new duties on offender management, child protection and licensing.

After taking account of police grant of £27.837m the amount to be requisitioned on constituent authorities is £27.719m. Falkirk Council's share is 51.7% and amounts to £14.330m. The indicative requisition for 2010/11 is £15.464m although this is subject to change in terms of Scottish Government funding for pensions.

Fire & Rescue Services

Spending on the Fire & Rescue Service next year has been set at £17.402m, an increase of around 3.3%. Reserves of almost £0.6m have been applied again next year to dampen the significant impact of pension cost pressures.

In recognition of the requirement to identify efficiency savings on an annual basis, the Chief Fire Officer has identified savings amounting to some £0.28m. The most significant element of this sum arises from the deletion and review of middle-management posts, a review of the retained duty system and operational reviews of Engineering Services and Occupational Health arrangements.

The Scottish Government is providing additional funding directly to Councils to meet the impact of higher commuted sums for staff retiring and contribute to the steeply rising pensions burden. It has been agreed that the Board should recover this funding from Councils and the resultant amount to be requisitioned from constituent authorities is £18.001m, of which Falkirk's share is £9.415m. Indicative requisitions for the years 2010/11 and 2011/12 are £9.912m and £9.790m respectively.

8. RESERVES

- 8.1 The Council began the year with General Fund reserves of £6.289m, of which £0.5m was deployed in setting the 2008/09 budget.
- 8.2 The latest assessment of financial performance in the current year indicates that spending could be around £1.2m higher than planned, with Social Work and Homelessness continuing to be major areas of concern. If the overspending is not addressed this could reduce our general fund reserves to circa £4.5m or lower at the end of March 2009. Directors have been instructed to incur only expenditure which is essential, in order to bring expenditure more into line with the approved budget.
- 8.3 Having regard to the Council's strategy on the level and use of Reserves which suggests it would be prudent to retain an uncommitted General Fund balance of between c£5.5m and £7.5m, we do not believe that there is scope to deploy any Reserves next year. Indeed, the Reserves position could be further eroded by the potential outstanding liability in respect of equal pay claims. The clear message is that the financial risk facing the Council from equal pay claims cannot be overstated, as is the importance therefore of controlling expenditure not only during the remainder of the current financial year but for the following years in order that our Reserves do not plummet significantly below the £5.5m minimum outlined in the Reserves Strategy.
- 8.4 The Council has other earmarked balances as at 31 March 2008 mainly in respect of the Housing Revenue Account (£7.2m) and the New Schools Project Fund (£15.0m) required as a build up to meeting the future capital injection liability of £24m due in 2011, which in the current economic climate of diminishing capital receipts represents a considerable challenge. The other earmarked funds as at 31 March 2008 include the Insurance Fund (£2.8m), Repairs and Renewals Fund (£2.8m) and the carry forward of Devolved Schools budgets (£6.2m)

9. COUNCIL TAX 2009/10

- 9.1 After taking into account the additional funding being made available to Councils to freeze Council Tax, the 2009/10 Budget can be summarised as follows:-

Total Net Expenditure (see Appendix 5)	£'000 330,198
Less: Scottish Government Grant (excl. Ring-fenced Grants)	271,048
Balance to be met from Council Tax	59,150
Council Tax yield of £1	55,280
Therefore, Band D Council Tax	£1,070

- 9.2 Consequently, if Members agree the proposed Revenue Budget for 2009/10, the Band D Council Tax figure will be “frozen” at the current year’s level of £1,070. The following table sets out the amount to be paid by each Band.

	No of Chargeable Dwellings	% of Houses in Band	Ratio to Band D	Annual Council Tax
Band A	21,773	31.7	6/9	713.33
Band B	18,451	26.9	7/9	832.22
Band C	6,068	8.8	8/9	951.11
Band D	7,984	11.6	9/9	1,070.00
Band E	7,836	11.4	11/9	1,307.78
Band F	4,518	6.6	13/9	1,545.56
Band G	1,968	2.9	15/9	1,783.33
Band H	54	0.1	18/9	2,140.00
TOTAL	68,652	100.0		

A summary of our current position in relation to Band D Council Tax levels throughout Scotland is detailed in Appendix 6. This shows we have the 5th lowest Council Tax in Scotland, the second lowest in mainland authorities, and the proposed nil increase will ensure we continue to have one of the lowest Council Tax levels in Scotland.

Members will note that Scottish Water have announced increases in charges of 3.7% for next year.

10. FINANCIAL YEAR 2010/11

- 10.1 Councils are also required to publish, along with their Council Tax levels for 2009/10, an indicative Council Tax figure for the following year 2010/11.
- 10.2 The indicative budget for 2010/11, based on all relevant information available at this time, suggests that net expenditure will grow to c£350.75m. It is likely therefore that efficiency savings of around £7m will be required.
- 10.3 Members will note that there is no updated provisional grant figure for 2010/11 available at this time pending confirmation of the impact on the Scottish budget of the UK wide additional efficiency savings target of £5bn contained within the Chancellor’s Pre-Budget Report of 24 November 2008. Clearly, however, along with the other cost pressures highlighted in this report, and with the UK economy now in recession, there are enormous challenges ahead to try and achieve a third successive Council Tax freeze. Cosla are presently in dialogue with the Scottish Government in relation to identifying the additional cost pressures facing Councils and exploring any areas of flexibility that could be made available to Councils during this unprecedented economic downturn.

11. CONCLUSIONS

- 11.1 The budget for 2009/10 has proved significantly more challenging than in recent years. The additional cost pressures highlighted in this report, together with the unexpected severity of the economic downturn, of which local government is not immune, has resulted in an extremely difficult budget. The prime aims have been to preserve jobs and maintain high quality services to our community. We know that significant challenges lie ahead, particularly to ensure expenditure is controlled within the tight budgets set, especially in the escalating pressure areas of Social Work and Homelessness. We will also have to continue to meet the ongoing 2% efficiency savings which inevitably become more difficult each year to achieve, while the potential costs of Equal Pay claims remain uncertain. At the same time however we will be judged on our governance arrangements and progress made with the Concordat including the Single Outcome Agreement and the goals set out in our corporate, community and service plans. For the first time in many years our Reserves are being stretched which makes it even more important to control expenditure next year. Looking further ahead, 2010/11 will be even more challenging as we wait to find out the extent of additional efficiency savings that will have to be found as part of the £5bn efficiency drive announced by the Chancellor. Nevertheless, this budget for the second year recommends a nil increase in Council Tax, and includes a number of service improvements and measures to assist the local economy during the current recession. Therefore, we believe Council Tax payers will continue to be provided with best value high quality services while still having one of the lowest Council Tax levels in Scotland.

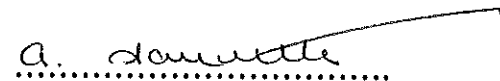
12. RECOMMENDATIONS

The Policy & Resources Committee recommends to Falkirk Council that:

- 12.1 Council accepts the Draft 2009/10 Budget in this Report.
- 12.2 Estimated Expenditure for the financial year 2009/10 be set at £347.279m before ring-fenced grants of £17.081m, leaving net expenditure of £330.198m.
- 12.3 Council levy the following Council Tax for the year 2009/10:
- (a) A Council Tax to be paid in respect of a chargeable dwelling in Band D of £1,070, representing a nil increase in Council Tax
 - (b) A Council Tax to be paid in respect of a chargeable dwelling in each of the other valuation bands in accordance with Section 74 (1) of the Local Government Act 1992 (as set out in paragraph 9.2).

- 12.4 Council accepts the Indicative Council Tax levels for the financial year 2010/11 of £1,070, a nil increase as detailed in this Report, representing the best information available at this time.
- 12.5 Chief Officers be instructed to deliver Services within the Revenue Budget allocated for each Service.


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Chief Executive


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Director of Finance

Date : 3 February 2009

LIST OF BACKGROUND PAPERS

1. Scottish Government Finance Circular No 5/2008 dated 11 December 2008.

Any person wishing to inspect the above background papers should telephone Falkirk (01324) 506300 and ask for Mr A Jannetta.