

REPORT TO: POLICY AND RESOURCES COMMITTEE 30 MARCH 2010

SUBJECT: FORWARD STRATEGY

BY: CHIEF EXECUTIVE

1. REASON FOR REPORT

1.1 To ask the Committee to approve a strategy to meet current and future financial pressures.

2. RECOMMENDATION

2.1 It is recommended that the Committee considers the proposals within this report and approves the following strategy for dealing with the financial pressures which the Council will face over the next few years. The financial situation will be managed by :-

- a) Maximising efficiency and effectiveness of current services
- b) Reviewing the number of projects and priorities
- c) Managing and controlling growth of expenditure
- d) Reducing management and supervision costs
- e) Reviewing the School Estate
- f) Disposing of excess properties
- g) Service re-design
- h) Withdrawing from or reducing activities which make a limited contribution to agreed outcomes
- i) Sharing services with other bodies
- j) Increasing charges & reducing subsidies
- k) Maximising the contribution of the voluntary sector
- l) Reducing service levels in other areas

2.2 This strategy will be the platform for a series of reports and investigations. Reports will be submitted to appropriate Committees over the next few months.

2.3 It will be important that staff and communities are kept informed and consulted regarding many of these issues and consultation arrangements will be a feature of all future reports.

3. THE FINANCIAL SITUATION

3.1 The current recession is having a significant impact on the UK economy with the UK economy and public sector finances faring worse than the majority of other developed countries.

- 3.2 The UK Government's additional borrowing to support financial institutions and current levels of public sector spending has increased debt payments. The public sector borrowing requirement has increased dramatically from £36 billion in 2007/08 to £175 billion in 2010/11. While there has been some marginal improvement in the past month, without major Government intervention, analysts believe there is the prospect of an international crisis of confidence in the UK economy. A 'sterling crisis' would significantly increase the interest which the government will require to pay on borrowing which in turn would lead to even greater budget pressures.
- 3.3 Over the short, medium and longer terms, the UK Government will need to significantly reduce public spending, increase taxes or apply a combination of both measures to reduce the national debt. This projected reduction in public spending will have a significant impact on the amount of money available throughout the UK's public sector.
- 3.4 The Scottish public sector is facing the biggest squeeze on budgets since devolution with the current financial year, 2009/10, being the peak year in real terms for public spending for some time to come. The overall Scottish budget will be significantly lower in real terms by 2013/14 than it is currently. Reductions of this size will present a major challenge to the public sector in sustaining services.
- 3.5 Firm future Government grant figures will not be known until the next UK Comprehensive Spending Review is undertaken. It is anticipated that the 2011/12 to 2013/14 spending review will take place following the UK general election, which must be held by June 2010.
- 3.6 Cosla, local authority Chief Executives, Directors of Finance and the Improvement Service have together produced a suggested common planning assumption for Government funding for Scottish local authorities over the three years of the next spending review period. Their recommendation is that local authorities should assume that the starting point for financial planning for 2011/12 to 2013/14 is a 12% real terms reduction in Scottish government grant funding over this period. Funding reductions of this magnitude will have major implications for the Council and will present significant challenges in producing a robust financial strategy.
- 3.8 In addition to the funding pressures identified, there will also be other factors outwith our control and an increased demand for public services which will affect service affordability. The main factors are identified as:
- Uncertainty over future funding for flood alleviation schemes
 - The outcome of the Strategic Defence Review in late 2010
 - Increasing demand for care of the elderly
 - Out of area placements
 - Inflationary increases in areas such as energy, fuel and food.

- Increases in the number of children who have additional support needs
- Increasing number of looked after children
- An increase in pay costs of £280,000 in 2011/12 as a result of a rise in national insurance contributions;
- The requirement to invest to meet carbon targets and efficiencies;
- Additional cost of waste treatment, recycling and landfill;
- Increases in the number of secondary school pupils staying on at school due to the economic downturn.

3.9 The Council's budget will need to accommodate all of the above pressures.

3.10 It should also be noted that budget reductions are likely to continue over the medium to long term and Sir John Elvidge, the Permanent Secretary of the Scottish Government, has recently indicated that funding may reduce in real terms by as much as 20% by 2017.

3.11 On this basis, the Council may require budget to make budget savings in the order of £40 million over the period to 2017. The actual budget gap over the period may be greater or less, however the £40 million assumption is the best working assumption available at present.

4. PROPOSED STRATEGY

4.1 Although the issues which the Council faces are far more challenging than ever before, the Council has always been soundly managed financially and has made planned and prudent use of available finances.

4.2 The Council's key priorities are set out in the Single Outcome Agreement which is an amalgamation of council priorities, government policy, legal requirements, service improvements and other local priorities.

4.3 For most of the past year, the Administration group have met on a weekly basis to review detailed budgets and identify savings for the 2010/11 budget. It is now clear that the financial situation is so serious that it would be beneficial for the Council to review budgets and identify opportunities to reduce expenditure on an ongoing basis. The corporate management team have considered the position and have identified a number of areas where it is considered that expenditure can be reduced with the minimum of impact on service users.

4.4 The proposed strategy is to retain our current approach, and to concentrate our reduced resources on delivering key priorities. This can be done by:

- a) Maximising efficiency and effectiveness of current services

- b) Reviewing the number of projects and priorities
- c) Managing and controlling growth of expenditure
- d) Reducing management and supervision costs
- e) Reviewing the School Estate
- f) Disposing of excess properties
- g) Service re-design
- h) Withdrawing from or reducing activities which make a limited contribution to agreed outcomes
- i) Sharing services with other bodies
- j) Increasing charges & reducing subsidies
- k) Maximising the contribution of the voluntary sector
- l) Reducing service levels in other areas

4.5 It must be recognised that any programme to address a shortfall of £40 million will inevitably require to draw on efficiencies (reductions in expenditure which do not have a significant impact on services provided), increases in charges and service changes (reductions in expenditure which have a negative impact on services provided).

4.6 Maximising efficiency and effectiveness of current services

A significant amount of savings will be delivered from the Council’s efficiencies and modernisation strategy - “Designing Better Services”. Progress to date on the current project can be summarised as follows :-

Theme	Project	Progress to date
1	Core project	<ul style="list-style-type: none"> • Route all calls through the Contact centre • Use technology to reduce travel time, improve work allocation methods, reduce requirements for desk space, rationalise filing of data and automate processes.
2	Property	<ul style="list-style-type: none"> • Reduce number of offices required in Elgin • Provide the infrastructure for new ways of working i.e. hot-desking • Review offices and depots outwith Elgin
3	Procurement	<ul style="list-style-type: none"> • Increase the volume of purchases made via contracts • Decrease the number of staff involved in procurement
4	Vehicle Utilisation	<ul style="list-style-type: none"> • Standardise vehicle requirements, increase utilisation and thereby reduce the size of the vehicle fleet. • Pool cars to be used to replace mileage allowances

4.7 Reviewing the number of projects and priorities

The Corporate Management Team and Senior Management teams are currently reviewing how both current projects and the pressure for new projects can be better managed within a corporate framework.

4.8 Managing and controlling growth of expenditure

It is important that we concentrate on controlling expenditure in areas where there is currently pressure for growth and where budgets have been under pressure on a recurrent basis.

4.9 Reducing management and supervision costs

An exercise is currently underway to identify the further issues that Members wish to address before management structures are re-considered by the Council. A review of all levels of management and the configuration of services will be next stages of this review.

4.10 Reviewing the School Estate

The Council could operate with many fewer primary schools than at present. This applies not only to rural areas but also larger towns as many schools are operating significantly below capacity. Legislation has now changed so that closures do not require to be referred to the Minister and a report on this matter will be submitted to Council.

4.11 Disposing of excess properties

A pilot project has identified the potential for significant rationalisation of properties. The pilot study is being extended to cover a wider range of towns.

4.12 Service re-design

While the Designing Better Services Project is concentrating on this issue, there are other areas where practices can be standardised across the Council and savings opportunities released.

4.13 Withdrawing from or reducing activities which make a limited contribution to agreed outcomes

There are still areas of service within the Council which are outwith our statutory remit and these activities require to be closely scrutinised.

4.14 Sharing services with other bodies

The council is actively examining the scope for shared service provision with public sector partners. As reported previously to the Council, we have been working with the Aberdeen City, Aberdeenshire, Highland, Argyll and Bute and Islands Councils to share revenues and benefits services. Further opportunities will be explored in terms of sharing services with Highland, Aberdeen City and Aberdeenshire Councils.

Work will also be undertaken with NHS Grampian colleagues to examine potential for further integration within existing CHCP arrangements.

4.15 Increasing charges & reducing subsidies

Direct charges, at the point of service use, are made for a whole variety of council services. They are currently a major source of funding to the council. In closing the potential budget gap there is the option of increasing existing charges (or reducing subsidies) which will result in prices which more closely reflect the cost of service provision. In addition it is possible to introduce new charges for discretionary services, or to reinstate charges which were previously abandoned.

As well as charges, the Council will require to decide the future direction in relation to council tax increases.

4.16 Maximising the contribution of the voluntary sector

There have previously been discussions concerning the establishment of a base for voluntary organisations which would allow efficiencies to be generated. We pay the rental for a number of organisations and this cost could potentially be saved by establishing a voluntary sector hub. We would also aim to maximise the contribution of the voluntary sector (including volunteering) through gaining increased value for the money the council pays to voluntary organisations and by encouraging the public to become active in volunteering.

4.17 Reducing service levels in other areas

Although the strategy has sought to minimise the impact on direct services, inevitably, to bridge the significant budget gap some service reductions will require to be considered.

5. CONSULTATION PROPOSALS

- 5.1 To ensure that the Council's approach to the forthcoming budget pressures is as effective as possible, and identifies all feasible means of balancing the budget, it is essential that all of the council's stakeholders- including citizens, service users, community councils and forums, staff and trade unions- appreciate the council's financial position and have an opportunity to contribute ideas on how the council should approach the challenges faced.
- 5.2 The consultation exercise for the 2010/11 budget was welcomed by the community and it will be important that we build on that exercise. If the strategy is agreed then a number of investigations will be undertaken and it will be appropriate to look at how budget proposals can be subjected to consultation with stakeholders. At this stage, it would also seem reasonable to plan for a further round of consultation meetings with the community later this year.

6. THE WIDER SITUATION

- 6.1 It is clear that the funding reductions are of a magnitude that the Council will find it extremely difficult to make sufficient savings without impacting on services and staffing levels to a worrying degree.
- 6.2 In addition to the changes which the Council can make to help address the challenges which it will face, it has been suggested that the Government will require to assist by reviewing their spending priorities for local councils. The type of actions that the Government will need to consider include the following –
- a move from universal services (which are provided to everyone within certain groups) to targeted services (which are provided only to those in special need, or who can not reasonably afford to provide the service themselves)
 - reductions in national standards for service provision
 - more, or increased, user charges for service delivery
 - a review of current Council Tax freeze arrangements.
- 6.3 Discussions have also started nationally regarding the future shape of public services. It is generally accepted that there are too many public bodies in Scotland and that there is scope to rationalise their numbers, particularly when such substantial financial savings require to be made across the country.
- 6.4 A recent report by SOLACE concluded that there needs to be a consensus on how public services will be delivered across Scotland and that building such consensus means a wide ranging debate about what we want our public services to look like in future years. Future reform should not be a simple re-drawing of boundaries but rather ensuring that public services are configured in the best possible way to improve outcomes for local communities.
- 6.5 The report also coincided with another report from the Fraser of Allander Institute which warns of the possibility of a double dip recession. Price Waterhouse Coopers who commissioned the report, said that expenditure needed to be reduced “around 25 per cent over the next few years” to help address Councils’ funding constraints. It also questions how long many public services can remain “free”.

7. SUMMARY OF IMPLICATIONS

(a) *Single Outcome Agreement/Service Improvement Plan*

Delivery of SOA outcomes will be facilitated by concentrating our reduced resources on delivering key priorities

(b) Policy and Legal

The Council is required to set a balanced budget on an annual basis.

(c) Resources (Financial, Risks, Staffing and Property)

The Council requires to plan for a real terms reduction of £20 million for the three years to 2013/14. In addition there is a possibility that the local government finance settlement for 2010/11 may be reopened. Over the period to 2017 it is estimated that real terms savings of £40 million may be required.

Property rationalisation will be a key element in the strategy.

(d) Consultations

The proposals have been agreed by the Corporate Management Team.

8. CONCLUSIONS

- 8.1 Firm government funding figures in relation to the next Spending Review period (2011/12 to 2013/14) will not be known until later in 2010. However based on current assumptions, the council will require to find budget savings of £20 million by 2013/14 and, potentially £40 million by 2017.**
- 8.2 The situation is so serious that we need to plan ahead as to how we will deal with the shortfall in finance while continuing to deliver essential services to the community.**
- 8.3 To assist elected members, officers have developed a proposed strategy and have identified the types of efficiencies and changes to charges and service provision which may be required to address the gap.**

Author of Report: Alastair Keddie
Background Papers:
Ref: