

Council Budgets 2011-14: Policy Overview

City of Edinburgh Council

10 February 2011

1 Purpose of report

- 1.1 This report describes the context for the main policy, service and financial considerations that will have an influence on the budget for the next three years (2011-14) and beyond.

Main Report

2 Economic Context

- 2.1 The financial and economic factors that underpin this Council budget are well known. The wider economic outlook during this budget period is characterised by:
- i. forecasts that the recent year on year growth in public expenditure is being replaced by what is likely to be several consecutive years of reductions in real terms;
 - ii. uncertainty over the rate of economic recovery that can be expected in Scotland;
 - iii. concerns over continuing high levels of unemployment and pressure on some employment sectors with particular reference to school leaver destinations in Edinburgh;
 - iv. continuing risks from increasing inflation and the impact this has on the wider economy, commodity prices and Council costs in areas such as energy; and
 - v. the possibility of increases in interest rates later in 2011 and through 2012.

2.2 In Edinburgh, the central issues of concern will include:

- i. the impact on citizens from rising inflation, forthcoming changes to tax credits and welfare benefits and the number who remain in relative poverty;
- ii. increased demand for Council services from demographic changes in areas such as social care, the elderly, disabilities and affordable housing;
- iii. progress on major developments and improvements in road and rail transport infrastructure; and
- iv. the performance of key sectors such as financial services, tourism and further education alongside the scope for growth in new areas such as bio-tech and renewables.

3 Financial Context

3.1 A number of reports were provided to the Council during 2010 on the impact that the wider financial context would have on the Council's finances, the Council's budget development process and the implications of the Spending Review. The early identification of an initial funding gap of £90m over three years has allowed a thorough examination of savings proposals to be made.

3.2 The Council agreed to the terms of the offer of Scottish Government funding when this was reported to the Council on 16 December. The report set out details on grant allocation, the changes to the Council's Long Term Financial Plan and commitments required by the Scottish Government as part of the funding settlement. The commitments have both ongoing service and financial implications for the Council including:

- i. the maintenance of the pupil – teacher ratio in P1-P3;
- ii. protection as far as possible of the number of teacher posts;
- iii. review of all aspects of the McCrone Agreement;
- iv. continuation of the commitments on Free Personal Care;
- v. the maintenance of police officers numbers across Scotland at 17,234;
and
- vi. the continuation of the council tax freeze during 2011-12.

3.3 A separate report to Council on 16 December described the risks associated with the delivery of the budget savings over the next three year period. There are some additional risks, associated with the settlement and the related commitments, which will be kept under review as part of the Council's budget and risk monitoring. The opportunity for savings arising from the outcome of negotiations on the review of the McCrone Agreement and the implementation of any changes by August 2012 are significant.

4 Council Performance

- 4.1 While the challenge presented by the financial and budgetary position has increased, the performance of many Council services has improved. Performance management practices are strong and there is a determination across the Council to continue to improve services to customers.
- 4.2 The report to Policy and Strategy Committee in November 2010 on a comparative analysis of Council performance in 2009-10 showed that Edinburgh maintained or improved its performance compared to other councils in 24 out of 31 indicators (77%). This follows the good progress that has been made in past years.
- 4.3 There is encouraging evidence of improvement and good performance across a number of areas:
- i. financial performance is strong. Departments contained expenditure within agreed budgets in 2009-10, current year revenue account monitoring shows a projected surplus and unallocated reserves have been increased;
 - ii. Social Work Inspection Agency (SWIA) and HMIE follow up inspections of Edinburgh's social work and social care services, and services to protect children and young people in the city, both reported substantial progress being made, while the Scottish Housing Regulator report on the inspection of housing services was very positive;
 - iii. good progress was made in the delivery of the Edinburgh Partnership SOA during 2009-10. More than half of the outcomes (52%) were assessed to be on schedule and 45% were making progress;
 - iv. the Council successfully completed Phase 1 of its internal change and improvement programme 'Achieving Excellence', and Phase 2 was launched in September 2010;
 - v. educational attainment results for 2009/10 showed that the four National Priority indicators measuring attainment by the end of S6 had shown continual improvement over the three year period;
 - vi. substantial progress has been made in key areas such as Modernising Pay, the Alternative Business Model (ABM) programme and in projects such as the Council's own homebuilding programme '21st Century Homes'. Urban centre improvements, the 'Wave 3' schools programme to build five new schools, and the flood prevention scheme are also advanced; and
 - vii. there was recognition of the Council's commitment to improvement through the growing number of Customer Service Excellence awards and through Investors in People accreditation.

4.4 This record of improvement has been achieved alongside the delivery of £22.1m of efficiency savings in 2009-10 and a number of major service changes.

5 Service demand and demographic pressures

5.1 The Council's Long Term Financial Plan (LTFP) 2011-14 contains provision for growth as a result of demographic changes in a number of areas:

- i. increasing numbers of elderly citizens;
- ii. increasing numbers of adults with either learning disabilities and / or physical disabilities;
- iii. increasing demand for services for vulnerable children;
- iv. early years nursery provision; and
- v. school pupil numbers.

5.2 Protection of budgets for schools and for vulnerable children and adults is recognition of both the priority given to these services and demand in these areas.

5.3 Looking beyond this budget period it has been suggested that, based on forecasts of future demand, the costs of providing social care for those over 65, will rise significantly. While 16.4 per cent of the Scottish population was over 65 in 2008, this is expected to increase by 21% by 2016. The number of citizens aged over 85, where the need for care is much greater, is expected to increase by 38% by 2016, with these trends expected to continue for the foreseeable future. This will occur at a time when overall resources are reducing and will have a sustained impact on the Council's resource planning.

5.4 Alongside demographic pressures the continuing shortage of affordable housing in the city remains a major concern. Recent data suggests that the shortfall has increased to an additional 16,000 affordable homes being required over the next 10 years. This increased requirement follows a period of unprecedented high levels of approvals and completions of new homes and is of great concern given that resource levels are now projected to decline by approximately 40% in future.

5.5 These pressures will be kept under review within the Long Term Financial Plan during 2011-12. However the forecast demographic changes, increases in demand and their cost implications clearly signal that there will be pressure for change to both the funding and service delivery arrangements for some of the Council's most important public services. The Council is addressing this through its budget prioritisation programme and through major service changes such as the Edinburgh Re-ablement Model for care services. However, the scale of the anticipated increased demand suggests there is an urgent need for a wider reappraisal at a national level of the need for different models of service delivery and whether or not existing funding arrangements are sustainable.

6 Responding to the Financial Challenge

- 6.1 The report to Council on the 2010-11 Budget in February 2010 described the need for the Council to prioritise services and withdraw or reduce levels of activity on some areas of Council business and service. This last year has seen this approach gather momentum and shape the 2011-14 budget proposals. The budget before Council has been developed on the basis of deliverable savings from across a wide range of areas; procurement, property, people, processes and the prioritisation of services. The outcome is that the balance of proposed savings from management delayering, efficiency and changes in back office functions compared to service reduction or withdrawal is on a ratio of around 3:1.
- 6.2 The Council's employee costs are over £500m, representing over 43% of the Council's General Fund and the requirement to reduce workforce costs forms an essential part of managing the budget gap during 2011-14. The Council's workforce, including teachers, reduced by 368 FTE (or 2.3% of the workforce) in the 12 months to November 2010. Significant reductions have also been achieved in the 12 months to November on the amount the Council spends on agency staff (£2m) and overtime costs (£1.3m). Spend on consultancy support reduced by over £2m in the first half of 2010-11 compared to the same period in 2009-10.
- 6.3 The savings proposals contained in this budget would result in further estimated reduction in the workforce of 1,200 during 2011-14. Workforce cost reduction is being managed across services in line with decisions about service prioritisation. A phased approach is being taken over the three year budget period through a combination of natural wastage, vacancy deletion, voluntary early release, redeployment, management delayering, pay restraint and redundancy.
- 6.4 The resource planning assumptions have been set out in the recent reports to Council and it is clear that cost reduction must be a key factor in informing the way that services are planned and delivered during 2011-14 and beyond. A broad based approach to cost reduction needs to continue with emphasis on:
- i. service prioritisation, resulting in some service withdrawal and reduction;
 - ii. alternative approaches to delivering major services;
 - iii. improved use of assets, including rationalisation and disposal of some property facilities and the merging or relocation of some facilities;
 - iv. continuing improvement in efficiency and productivity;
 - v. reduction in energy consumption;
 - vi. procurement, income generation, charges and reduced transaction costs;
 - vii. reduction in the workforce and changes in employee work styles; and

- viii. shared or merged service provision with other councils and partners, notably on an integrated service basis with local partners in Edinburgh.

7 Public Feedback

- 7.1 In looking at the public's view of what service and budget priorities there should be, the Council is able to draw upon feedback from two major public engagement exercises carried out in the last year.
- 7.2 In the 2010 Spring Residents Survey conducted for the Council by Ipsos Mori, 1,000 residents provided their opinion on the priorities for the city. (The results from the Autumn Edinburgh People's Survey will be reported shortly.) The top five priorities in the Spring Survey were:
 - i. reducing crime, disorder, anti-social behaviour and danger (74%);
 - ii. a strong economy with high levels of employment (53%);
 - iii. high quality schools and nurseries (50%);
 - iv. more effective transport arrangements with well maintained roads and pavements (46%); and
 - v. protecting children from harm and abuse (45%) and maintaining a clean and attractive city (45%).
- 7.3 While this list is familiar, residents placed more emphasis on the economy in spring 2010, than in previous surveys. In 2009 only 46% of residents felt this should be a top priority, making it about sixth in the rankings.
- 7.4 The main outcomes of the Council's public engagement programme on the budget, 'Our City – Our Future', were circulated to elected members in a Members Briefing in November, with a full account of the feedback from the engagement programme included in the report to Policy and Strategy Committee on 30 November 2010.
- 7.5 A significant number of residents and organisations took the opportunity to contribute to the budget debate. Despite some criticism of the questions and arrangements, the results provided important pointers to citizens' views on a broad range of budget issues. As with any engagement programme the balance of opinion varied between different groups and local and city wide events, but the feedback covered a number of significant potential service and policy choices for the Council during 2011-14. Full details were provided in the previous report but some of the main conclusions were:
 - i. many residents thought that the Council needed to deliver greater operational and organisational efficiencies before cutting or withdrawing services and it should prioritise service to those in greatest need and that some services should be protected;

- ii. introducing charges or increasing existing charges was not ruled out, with some views that they should cover costs and that there could be tiered charging to protect some groups;
 - iii. while the majority of respondents were in favour of delivering services differently, provided service standards, quality and accountability were protected, there were more concerns at local summits about services being delivered through other organisations and concerns about accountability;
 - iv. The introduction of additional recycling streams (such as food and plastic) was welcomed but the associated move to alternate weekly collections of residual waste met with a more mixed reaction.;
 - v. the Council should focus on delivering services at the times when and where they are most needed;
 - vi. early intervention and joined up working with partners should also be considered; and
 - vii. appropriate (small) increases in Council Tax would be acceptable, provided the Council was clear that funding was directed to priority front line services.
- 7.6 The feedback from the budget community engagement process and the residents' survey during 2010 has informed the Council's budget proposals.

8 Way Forward – the Strategic Direction of the Council 2011-14

- 8.1 The Council's record of improvement has been achieved alongside the delivery of substantial efficiency savings and service change. Services such as Home Care have been able to deliver improvement in customer satisfaction and better outcomes for users while delivering savings through service redesign. Further opportunities of this kind need to be developed.
- 8.2 The Alternative Business Model (ABM) Programme provides a major opportunity to change the way that some Council services are provided. While the annual expenditure on the core elements on the three ABM service groups is significant at £144m, it represents only around 16% of net revenue expenditure. Benefits realised from either internal service improvements or external providers therefore need to be combined with substantial contributions from a wide range of other sources.
- 8.3 Financial stability within the Council is always a high priority. The delivery of the necessary savings as part of the 2011-12 Budget will be supported by strong financial and budgetary control through regular monitoring, review of financial risk and the ongoing review of the Council Long Term Financial Plan.
- 8.4 Phase 2 of the Achieving Excellence programme will track improvement during 2011-12, based on the measures set out in the report in August 2010, with a full progress report provided for Policy and Strategy Committee on 22 February.

8.5 The Administration remains committed to the priorities set out in the budget motion in February 2010:

- i. investing in our children and our schools to ensure that every young person in Edinburgh has an equal opportunity to reach their potential and that our most vulnerable and at risk children are safe, secure and thriving;
- ii. supporting Edinburgh's economic competitiveness, promoting growth and investment and Edinburgh's festivals, events and cultural offering to build prosperity and quality of life for all residents;
- iii. transforming and improving care and protection for our increasing elderly population and our most vulnerable residents;
- iv. creating a cleaner, greener and more sustainable Edinburgh; and
- v. providing high-quality services in the most efficient and cost-effective manner.

8.6 These commitments feature strongly in the Edinburgh Partnership Single Outcome Agreement (SOA) and in 2010-13 Departmental Services Plans. The Edinburgh Partnership has reviewed the current SOA and is preparing a Bridging Document which will set out the partnership's main commitments during 2011.

9 Conclusions

9.1 The key features of the 2001-14 Budget described in this report are:

- i. the financial prospects facing the Council during 2011-14 and beyond and the prevailing wider economic conditions that affect Edinburgh and its citizens;
- ii. the feedback from the Budget Community Engagement process and other surveys during 2010 which informs the Council's budget and service proposals;
- iii. the Council's continuing commitment to strong financial management, improved efficiency and major initiatives such as the ABM programme;
- iv. the workforce and potential redundancy implications and public sector pay restraint; and
- v. the ongoing prioritisation of the Council's services alongside the support for budgets for schools and for vulnerable children and adults.

9.2 The Council is committed to providing high quality services in the most efficient and cost effective manner, but savings of £90m do require some service reductions which will be both noticeable and unpopular for some. The Council recognises that some service reductions will have a greater impact on some services than others. Decisions on reducing services have and will continue to be made based on full consideration of the impact on users and the potential alternatives that are available. Equalities impact assessments have been

completed for each relevant detailed budget proposal and this information has been provided to elected members. There has also been extensive consultation with affected equalities groups and individuals.

- 9.3 Looking forward, there are a number of developments and events which will potentially present a changing landscape during 2011-14 including:
- i. the Scottish Parliament elections on 5 May 2011 with the planned Referendum on the UK Parliamentary Voting System;
 - ii. the Scottish Local Government elections on 4 May 2012;
 - iii. The outcome of the Commission on the Future of Public Services (the Christie Commission) and proposed organisational changes to Police and Fire and Rescue services;
 - iv. The potential changes proposed by the Scotland Bill, particularly the potential impact of changes in Scotland's taxation and borrowing powers; and
 - v. The Council's response to the Scottish Government Report on Policies and proposals relating to Climate Change (Scotland) Act 2009 and the introduction of the Zero Waste (Scotland) Regulations 2011.
- 9.4 The Council will respond constructively to these developments and the other major challenges it faces to ensure it continues to meet its service, performance and financial objectives. The effects of the prevailing economic and financial conditions will persist during the next period and the pressure on departmental budgets that has characterised the preparation of this budget will continue. Difficult choices have been made in preparing the 2011-14 Budget and I have no doubt there will be a need to be make further decisions on changing some of the services that we and the public have been accustomed to.
- 9.5 Dialogue with partner agencies on the impact of budget reductions is particularly important during this period. Partnership responses to health improvement, services for older people and those aimed at prevention are at the centre of the debate about how partners in Edinburgh can achieve better outcomes, particularly in those areas where continuing inequalities remain such in health, employment opportunities and educational attainment.

10 Financial Implications

- 10.1 The financial implications arising from this report are fully covered in the accompanying reports on the Revenue and Capital Budgets 2011-14.

11 Environmental Impact

- 11.1 There are no adverse environmental implications arising from this report. Improved efficiency will contribute towards reducing the Council's carbon footprint.

12 Recommendations

12.1 It is recommended that Council:

- i. notes this report and the context for its budget decisions; and
- ii. recognises that both service delivery and priorities will continue to be subject to a changing environment during 2011-14.

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Appendices	None
Contact/tel/Email	Alex McGuigan, Corporate Services, 469-3966, alex.mcguigan@edinburgh.gov.uk
Wards affected	All
Single Outcome Agreement	Relevant to all elements of the Single Outcome Agreement
Background Papers	<ol style="list-style-type: none">i. Budget 2011-12 to 2013-14: Update and Implications of the 2010 Spending Review, City of Edinburgh Council 16 December 2010.ii. Revenue Budget 2011-14: Risks and Reserves, City of Edinburgh Council 16 December 2010.iii. Budget Development 2011-12 to 2013-14, Policy and Strategy Committee 30 November 2010.iv. Budget Development 2011-12 to 2013-14, City of Edinburgh Council 16 September 2010 (including Appendix 1 - Long Term Financial Plan.)v. Council Budget 2011-14, City of Edinburgh Council 27 May 2010.