

**BUDGET STRATEGY 2012-15**

Joint Report by Chief Executive and Director of Finance and Corporate Resources

PURPOSE OF REPORT To provide an update on the development of the Comhairle's Budget for 2012-15

COMPETENCE

- 1.1 The Comhairle is under a legal duty to set a balanced budget. In doing so the Comhairle must observe proper accounting practices and make arrangements which secure best value. A local authority must maintain an appropriate balance among the quality of the performance of its functions; the cost to the authority of that performance; and the cost to persons of any service provided by it for them on a wholly or partly rechargeable basis. In maintaining that balance a local authority shall have regard to efficiency, effectiveness, economy and the need to meet the equal opportunity requirements.

SUMMARY

- 2.1 The Comhairle agreed an overall approach to the 2012-15 budget at its meeting on 31 March 2011. Since then officers have taken forward the first three areas of the strategy and section 4 of this Report provides a status update.
- 2.2 The Scottish Parliamentary Elections on 5 May 2011 saw the election of a majority SNP Government and whilst this may mean some changes from the financial plans the SNP set out in the last Parliament. It is reasonable to assume at this stage that their indications of a flat settlement for Local Government for 2012/13 will be retained.
- 2.3 However, the application of this will be important for the Comhairle. Members will recall that a 2.6% reduction in funding for Local Government in 2011/12 translated into a 3.9% reduction in funding for the Comhairle following the setting of a 4.5% floor (amounting to £15m).
- 2.4 At this stage it is not clear what a flat settlement will mean for Local Government in Scotland and the Comhairle. Even if the total sum available for Local Government does not change to take account of inflation the settlement may translate to a much larger reduction for the Comhairle, through the application of the Floor mechanism, would be likely to require a different set of policy choices to achieve a balanced budget. COSLA and the Scottish Government have just started work reviewing the distribution for 2012/13 and the Comhairle will continue to engage in this process at both political and official level.
- 2.5 The Comhairle's agreed strategy is to plan for a 5% year on year funding gap. Based on the initial £118.4m budget this would amount to £5.9m for 2012/13. This would appear to be broadly in line with a floor set at the same level as in 2012/13.
- 2.6 The present estimates of inflation and demographic change costs are £2.2m which is the shortfall the Comhairle would have to address under a flat budget. It is submitted that savings of this order should be achievable through a challenging efficiency programme.
- 2.7 Planning for a year of further reductions of the order of 5%, a sum of around £3.7m would need to be found through a combination of alternative service delivery and service reductions, and could include a reduction in employee costs and the capital programme.
- 2.8 The Comhairle will be faced with difficult policy choices in setting the 2012/13 budget. These choices are likely to include changes to service delivery and service provision over and above an ongoing programme of 2% efficiencies, with possible effects on Comhairle structures and employee costs. In achieving a balanced budget the Comhairle will also have to seek to balance its essential roles of service provider, community leader and external representative for the Outer Hebrides.
- 2.9 The next stage of the process for Members will be a seminar in late June 2011 which will be followed by evaluation of service choices for 2012/13.
- 2.10 It is recommended that the Comhairle note progress to date with the budget strategy and agree to continue to engage with the Scottish Government on future distribution of funding.

RECOMMENDATIONS

3.1 It is recommended that the Comhairle:

- (a) note progress with the development of the 2012/13 budget; and
- (b) agree to continue to engage with COSLA and the Scottish Government in relation to the distribution of funding.

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UPDATE

4.1 The Comhairle's strategy proposed five distinct areas to achieve the savings required:

(i) HR Strategy

The HR strategy was agreed in March 2011 and implementation has now started.

Applications for voluntary severance from both teaching and non-teaching staff were invited and the final date for submissions was 20 May 2011. As anticipated the interest was lower than in the first round. The outcomes will be assessed by the end of June 2011 and savings identified will be set against the budget gap.

Separately work has been going on to identify opportunities to reduce costs through a reduction in overtime. The objective is to seek to realise savings of around £0.2m from 1 April 2012 to contribute to the budget gap.

(ii) Operational Efficiencies

In May 2011 the Diagnostic Pathways Programme Board agreed to establish an officer group to take a lead in determining what realistic savings might be achieved through the remainder of the projects. It is envisaged that an implementation plan and savings achievable will be recommended to the Comhairle in August 2011.

Following the conclusion of the voluntary severance exercise departments will consider what scope there is to improve the efficiency of existing services.

Operational efficiency savings will also include the savings arising from the agreed changes to the school estate that will be implemented in June 2012.

(iii) Alternative Service Delivery

This area is closely linked to the HR Strategy and will be taken forward in terms of this Strategy.

Areas that are being explored in this regard are:

- The establishment of a leisure trust or other arms length bodies;
- Joint working with Community Planning partners; and
- Delivery of services through the voluntary sector specifically in relation to travel, waste and care services.

Reports on these options will be presented to the Comhairle as the proposals are developed.

(iv) Income Generation

This area will include a review of charging and Revenue income optimisation and will form part of the Member evaluation of service choices.

(v) Service Choices

Savings that cannot be realised through the first four options will require reductions in revenue or capital budgets through service choices. The process for achieving these savings will include community engagement meetings and budget seminars which, as agreed at the last meeting, will be open to the public.