1. The Council appreciates being afforded the opportunity to submit comments on the Scottish Spending Review and the financial issues affecting local government more generally. I hope that the following comments are of assistance in informing the committee’s consideration of these issues and, in this vein, would be happy to provide further detail if this would be helpful.

2. In February 2011, Council approved a two-year balanced budget (i.e. for 2011/12 and 2012/13) subject to confirmation of the precise level of grant funding for the second year. This budget was, in turn, based on the best-available information as to likely levels of grant support and included provision for increased service demand in a number of areas, as well as identifying additional sums to meet other cost pressures, over the period concerned. Substantial savings were also approved for delivery in 2013/14, making significant progress in addressing the overall savings requirement for that year. Development and subsequent approval of fully-costed and realistic savings plans in these circumstances was testament to the in-depth and systematic review of all areas of the Council’s activity that underpinned the process, safeguarding investment in key service areas whilst also responding to the increased demands resulting from demographic change. Over 75% of the total savings approved for 2011/12 to 2013/14 related to management de-layering or back-office efficiency and only 20% to service reduction or withdrawal. While not obviating the need for elected members to make difficult decisions, delivery of the savings is nonetheless proceeding on firm foundations at a time when overall Council performance, as measured by Statutory Performance Indicators and other external inspections, continues to improve.

3. Since February 2011, the Council has actively monitored delivery of the savings approved in the Budget whilst keeping its assumptions on future years’ grant income and expenditure pressures under similar scrutiny. Within this context, an updated three-year savings projection is being presented to the Finance and Resources Committee on November 1st. This update highlights the extent to which a range of primarily external factors has re-opened a substantial incremental funding gap in each of 2012/13, 2013/14 and 2014/15.

4. Some of the elements of this gap relate to decisions under consideration by the UK Government, such as Welfare Reform and prospective changes to the State Pension, under which the existing employer’s National Insurance contracting-out rebate would be phased out. Others are linked to the Scottish Spending Review (e.g. flat settlement including Council Tax freeze monies) and the associated implications it entails for councils (e.g. contribution to change funds) or, for example, the ability to deliver financial savings through nationally-agreed changes to teachers’ terms and conditions. The combined effect of such issues is compounded by wider inflationary pressures, most notably in respect of energy prices. This interplay of factors forms the backcloth to the Council’s budget considerations going forward.
The Spending Review provides a budget settlement for local government for the three-year period until 2015. The Committee would welcome your views on how helpful the three-year settlement is for your planning and management of

5. - your budgets over the next three years – whilst acknowledging that later years’ figures are necessarily indicative given the more general structural change affecting the public sector, after the one-year announcement for 2011/12, the return to a three-year timeframe is welcome. Upfront identification by the Scottish Government of key policy priorities over the three-year period (i.e. Council Tax Freeze, maintaining police numbers and teacher: pupil ratios), while entailing additional financial commitments, is also helpful. The key element, however, is arguably the authority-specific figures and as in previous years, these will not be available until early December – this remains a comparatively short timescale for setting a budget for the first year of the following three-year period;

6. - your relations with other public service providers, including private and third sector bodies – subject to the caveats above, the broad direction of travel provided by a three-year Settlement is helpful in conveying to partners the scale of financial savings required, with this forming the context to discussions about, for example, the role of the third sector in delivering the Council and partners’ objectives. A three-year timeframe also accords with the standard funding agreement terms used for supporting voluntary sector organisations.

7. The broad principles outlined above would similarly apply to the Council and partners’ Single Outcome Agreement, although it could be argued that there is an inherent conflict between fostering moves towards a stronger outcomes-based focus and commitments that, at least in their most immediate sense, are input-based i.e. police numbers and pupil:teacher ratios.

Increasing demand for services – What projections have you made in terms of the increasing demand on your Council for services, including interaction with other public service providers?

8. The Council’s Long-Term Financial Plan (LTFP) captures the main factors assessed to have a material financial impact on the Council’s budget. These factors include:

- Increasing numbers of older residents, particularly those aged 85 years and over, placing additional, acute demands on home care and residential services. Across Scotland as a whole, it is estimated that overall numbers in this client group will increase by 38% over the period from 2008 to 2018;
- Increasing numbers of residents with complex and long-lasting physical and mental disabilities;
- Increasing numbers of vulnerable children, heightening demand for social care services;
- Increasing numbers of pre-school age children, adding to demand for early years services and, in due course, primary and secondary places as they move through the school system.
9. Total additional financial provision of £6.4 million (around 0.6% of overall net expenditure) has therefore been included in the Council’s budget in 2012/13 in recognition of these factors, bringing cumulative additional funding in this area to almost £20 million over the period from 2010/11 to 2012/13. Recognising the continuing increase in demand that will be placed upon the Council’s services, similar additional levels of provision have been assumed in the coming years. In this context, it is worth emphasising that despite the recommendations of both the Independent Budget Review and Christie Commissions to review the current extent and affordability of universal free service provision, the Scottish Government has reaffirmed its commitment to this policy. Coupled with an ongoing Council Tax freeze, this is placing excessive strain on councils’ ability to respond to demographic- and other demand-led pressures.

10. At a more general level, continuing increases in the city’s population and growth in the proportion of single-person households are placing additional demands on services such as refuse collection; any resulting estimated financial impact of these factors is incorporated within the Council’s planning processes. Looking further ahead, there is an expectation that changes in the area of Welfare Reform may similarly result in increased demand for services across a number of areas, although assessing the precise impact remains at a formative stage pending greater detail of the UK Government’s proposals.

11. Besides increases in demand, heightened service expectations are placing additional calls on the Council and its partners’ services. Through prudent financial management, the Council has balanced its budget for the past four years, delivering some £117 million of efficiencies in the process, whilst also achieving marked improvements in performance as measured by Statutory Performance Indicators and external inspections. The ability to continue to reconcile these conflicting pressures will become increasingly difficult, however, and this will likely reinforce the need for greater service prioritisation.

Public Service Reform – Have you already planned any changes to the ways in which you provide services and work with other public sector bodies? If so, please provide examples.

12. Looking forward, a key aspect of the Council’s efficiency programme is the Alternative Business Models (ABM) programme, set up to examine the potential to deliver financial savings and service improvements either through working in partnership with external providers or increasing efficiency of internal services. Final recommendations on the three distinct workstreams across the areas of Corporate and Transactional, Environmental and Integrated Facilities Management services will be made to Council by the end of the year.
13. The Council continues to examine options to work more collaboratively with community planning partners both through its membership of the Edinburgh Partnership and with neighbouring authorities through ELBF, a separate partnership examining shared service opportunities across Edinburgh, the Lothian authorities, Scottish Borders and Fife Councils. Page 2 of the Council’s 2010/11 Annual Efficiency Statement outlines a number of further areas through which shared service opportunities are being examined.

Has your Council taken any steps to move from a resource-based distribution system to a system which is based on outcomes?

14. The Council’s consideration of the use of outcome budgeting is at an exploratory stage and it is watching with interest progress of the pilot involving community planning partners in Aberdeen and Fife. Evidence is being gathered with a view to considering introducing a pilot scheme for future years’ budgets.

Overall funding levels – How will the Draft Budget impact on your revenue income in 2012/13?

15. As mentioned above, the most important aspect of the Draft Budget is how it translates into allocations for individual local authorities and this will not be known until early December. It has been well documented that increases in demand are being experienced at a time when inflation is higher than it has been for several years. The overall backcloth of a “flat-cash” settlement with an associated commitment to freeze Council Tax, at the same time as encouragement (i) to contribute to the two Change Funds and (ii) to assume additional loans charges associated with the re-profiling of capital grant funding, therefore only serves to reinforce the need for an all-encompassing review of what the Council does and how it does it. These fundamental considerations underpinned the Council’s 2011/12 budget process and the intimation of a further series of real-terms funding reductions has only served to confirm the appropriateness of this strategy.

What do you see as the longer-term implications of the three-year settlement, including the implications of continuing the freeze on Council Tax?

16. The continuing freeze in the level of Council Tax reduces substantially the Council’s ability to supplement its overall level of expenditure to invest in service priorities, where these are not able to be funded through revenue savings and/or additional income. The freeze may in some respects also be seen to diminish local accountability by effectively taking outside an authority’s control the ability to vary local taxation.
Reducing expenditure – What plans do you have for ……?

- prioritising specific services and ring-fencing funding for them

17. The Council’s Budget decisions will continue to be informed by the Administration’s five key priorities of:

- investing in children and schools;
- supporting the city’s economic competitiveness;
- transforming care for the city’s older and most vulnerable residents;
- creating a greener, cleaner and safer Edinburgh;
- providing high-quality services in the most efficient and cost-effective manner.

18. In a number of specific capital projects, funding (usually capital receipts) will be ring-fenced for particular purposes. In general terms, however, the Council will not ring-fence funding other than is required by statute. The exception to this position is the maintenance of earmarked reserves to meet a number of specified known liabilities such as Equal Pay.

- discontinuing services or financial provision to external providers for services

19. The Council places considerable value on services provided through the third sector but recognises that, in common with all areas of Council expenditure, relevant spend needs to be scrutinised to ensure the delivery of best value for the city’s citizens. In the case of organisations formerly supported by employability-themed Fairer Scotland Fund monies, for example, an outcomes-based commissioning strategy, explicitly setting out the Council’s future purchasing intentions, has been developed. This strategy represents the vehicle by which the Council will seek to optimise service outcomes within a reduced overall level of financial resource.

20. This process operates under the overarching principles of the Council’s service prioritisation exercise. This exercise informs members’ consideration of the options available to deliver the element of required savings that, in the opinion of officers, cannot be met through back-office efficiency, streamlining of processes or management de-layering.

- achieving further efficiency savings in 2012/13

21. Audit Scotland’s February 2010 publication *Improving Public Sector Efficiency* outlined a series of recommendations for the Scottish Government and other public bodies in dealing with the effects of the recession at a time of increasing demand and real-terms reductions in public expenditure. These recommendations included adopting a priority-based approach to budgeting and spending, improving collaboration and joint working to deliver savings and remove duplication and undertaking more rigorous benchmarking processes. Having in 2009 developed a long-term financial plan within which opportunities to examine savings across the areas of property, procurement, processes, people, prioritisation and, latterly, investment in prevention could be
considered, the Council was already comparatively well placed to address these challenges. This process was further strengthened by the early identification of a £90 million savings requirement over the following three-year period. The so-called “6 Ps” framework continues to guide the development of all savings options.

22. The Council’s Budget Motion in February 2011 approved a number of savings measures for implementation in 2012/13. As mentioned in a preceding section, some 75% of the total approved savings represented management “de-layering” or back-office and/or other efficiencies. Measures employed include making better use of the Council’s property and vehicles, delivering savings in procurement and extending further initiatives such as the Council’s “re-ablement” project for home care services. Subject to the decisions of Council over the coming months, further savings delivered through the ABM programme will be used to address an element of the overall savings requirement in 2012/13 and the following years.

23. Given that the Council has reported over £117 million of efficiencies over the period from 2006/07 to 2010/11, however, the general ability to deliver further incremental savings is correspondingly much more limited.

- introducing new or increasing existing charges for services

24. The Council’s approved budget proposals in February 2011 did not rely heavily on new or increased charges to service users, although parking charges and residents’ parking permits were subject to an increase. Depending upon the level of future years’ savings requirements, however, this position may need to be reconsidered.

- further reducing staffing budgets

25. As the Council’s single largest cost, it is inevitable that consideration of budget savings involves systematic review of staffing budgets; overall Council staffing numbers fell by 600 in the year to April 2011, with reductions also apparent in agency staff and consultancy spend. Wherever possible, however, staff savings have been and will continue to be realised by streamlining processes through application of business process and “LEAN” techniques. Workforce plans have been put in place to ensure that the financial benefit of approved budget savings is delivered as quickly as possible whilst managing the required staffing reductions in a way that minimises redundancy and staff severance costs. In supporting this aim, the approach therefore promotes vacancy freezes, the removal of temporary and agency staff, Voluntary Early Release Arrangements (VERA) and active redeployment. Ongoing wage restraint also plays a role in cushioning the level of staffing reduction, although it is recognised that this cannot continue indefinitely.

- making savings in contracts and procurement

26. Going forward, the Council’s efficiency programme places considerable emphasis upon procurement, whether this be achieved through savings in third
party service provision or efficiencies in direct purchasing of goods and services. The Council is a member of Scotland Excel and has also taken advantage of Procurement Scotland’s contracts where these afford benefits over those available through existing arrangements. Some £6.4 million of procurement-related savings were approved as part of setting the Council’s budget for 2011/12, with work continuing to identify further sums in 2012/13 and future years.

27. The Council’s procurement activity has been subject to an annual Procurement Capability Assessment and while comparing favourably with other Scottish authorities, improvement actions have nonetheless been developed following each assessment. An on-going challenge remains limiting the extent of procurement activity outwith the more favourable terms offered by the Council’s negotiated contracts (so-called “Maverick” purchasing).

28. Procurement is included within the scope of one of the work streams of the Council’s ABM programme.

- outsourcing services

29. While the majority of services continue to be provided in-house, the Council has to some extent operated a “mixed economy” of service delivery for many years, working with the voluntary and private sectors in such areas as social care, kerbside recycling and nursery education. Contracts with private providers also govern the provision of ICT and some schools facilities management services.

30. As mentioned in preceding sections, the ABM programme is examining the potential to extend this working with external partners to a number of other areas. Approval of alternative arrangements will be subject to demonstrating clear benefits in terms of efficiency and service improvements relative to what could be achieved by the Public Sector Comparator (PSC), an internally-developed plan encompassing the “in-scope” services of the project. Given that the ABM programme covers only around 16% of the Council’s net expenditure, however, it is clear that this in itself will not be sufficient to meet the overall savings requirement.

Capital Spending – What impact has the reduction in capital spending had on your council’s on-going capital investment plan?

31. On the basis of projections intimat ed in the Spending Review announcement in September 2010, a substantial reduction in capital grant had already been assumed in rolling forward the Council’s Ten-Year Capital Plan to 2011/12. This said, on-going delays and reductions in the proceeds of asset disposals have compounded pressure on councils’ capital budgets. The implications of the Cabinet Secretary’s Spending Review announcement are currently being assessed although it is unlikely that new projects will be added to the Council’s capital programme at this stage.
Equal Pay – Have you made provision for potential settlement of equal pay claims and, if so, what proportion of your budget is this likely to represent? How many cases are still outstanding?

32. The Council introduced its Modernising Pay scheme in October 2010. There remains, however, a range of significant financial issues as a result of implementation that have implications for the Council’s overall financial strategy. As of March 2011, £90.5 million had either been paid out or provided to meet potential equal pay claims. From the date of implementation, employees whose new salaries and wages are lower than their previous earnings have a three-year pay protection period. This may result in further liabilities for the Council. The cost of the new scheme will have implications for future years and these liabilities have been taken into account in the Council’s financial planning processes.

Welfare Reform impact – Have you been able to quantify the additional burdens on your council that will result from the UK Government’s Welfare Reform Bill?

33. At this stage, the Council is maintaining a “watching brief” as to the potential impacts of the UK Government’s Welfare Reform programme. An indicative provision has been included within the Long-Term Financial Plan, however, to reflect the 10% reduction in Council Tax Benefit applicable from 2013/14, whilst at the same time acknowledging that an element of this loss may be offset by reductions in Housing Benefit costs.

34. Looking more widely, there is an expectation that further demands may be placed on Council services as a knock-on impact of changes to entitlement. These include increased Council Tax and rent arrears (and subsequent recovery activity), heightened volumes of debt advice enquiries and greater calls on disability-centred services as a result of the proposed parallel removal of the Independent Living Fund.

Are there any other areas of potential new legislation (European Union, UK Government or Scottish Government) that you think will add to the burdens on your council?

35. Besides Welfare Reform, the Council’s Long-Term Financial Plan includes provision for the potential full loss of the existing employer’s National Insurance contracted-out rebate as part of the UK Government’s proposed reforms of the State Pension. The potential impact of this loss is substantial – a sum equal to around 1.5% of the Council’s total net expenditure. Provision will also require to be made for projected increases in national Non-Domestic Rate poundages applicable to properties owned or used by the Council; this additional liability is estimated at some £2 million over the next three years.
36. Although not directly related to legislation, at least not at this stage, the impact of the McCormac Review’s recommendations on teachers’ contact time will also be kept under review; the Council’s budget for 2012/13 approved in February assumed delivery of savings of some £4.1 million in this area, with a further £2.1 million anticipated in 2013/14, realisation of which now looks in doubt.

37. On a more positive note, the potential ability of a Business Rates Incentivisation Scheme (BRIS), alongside revisions to arrangements for the sharing of water charge income between Councils and Scottish Water, to provide albeit modest levels of additional income is welcome.

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