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<b>REPORT TO:</b>	<b>FINANCE &amp; MANAGEMENT COMMITTEE</b>	<b>AGENDA ITEM:</b>
<b>DATE OF MEETING:</b>	<b>15 FEBRUARY 2005</b>	<b>CATEGORY: RECOMMENDED</b>
<b>REPORT FROM:</b>	<b>CORPORATE SCRUTINY COMMITTEE</b>	<b>OPEN:</b>
<b>MEMBERS' CONTACT POINT:</b>	<b>CLLR S MURPHY (CHAIR OF THE CORPORATE SCRUTINY COMMITTEE)</b>	<b>DOC:</b>
<b>SUBJECT:</b>	<b>REVIEW OF THE BUDGET PROPOSALS</b>	<b>REF:</b>
<b>WARD(S) AFFECTED:</b>	<b>ALL</b>	<b>TERMS OF REFERENCE: FMO8</b>

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## **1.0 RECOMMENDATIONS**

1.1 That the Finance and Management Committee in making recommendations to Council on the budget proposals:

- receives this report
- initiates a review of the assumptions underlying base budgets as part of the 'shifting resources' project
- notes the intention of the Corporate Scrutiny Committee to review the scoring mechanism for service developments and new capital projects
- requires the provision of more detailed and timely financial and performance information on core spending in base budgets
- agrees a project plan and brief for the 'shifting resources project' (covering also the 'Gershon' efficiency review) by the end of April 2005
- notes the intention of the Corporate Scrutiny Committee to undertake special projects on consultation and the corporate plan/service plan/budget planning cycle; and, the extent of Policy Committee involvement in setting priorities and monitoring budgets
- requests Council to initiate a review of the Constitution to clarify the roles of Policy and Scrutiny Committees in the budget process and the required timetable
- establishes a structured training programme on financial planning and management for members (for delivery prior to the commencement of the 2006/07 budget round)

## 2.0 PURPOSE OF REPORT

2.1 The purpose of this report is to:

- outline the Committee's views on the development of the 2005/06 budget
- make recommendations in respect of arrangements for future budgets (including monitoring and management)

## 3.0 DETAIL

### Setting the scene

- 3.1 Under the Council's Constitution, the Corporate Scrutiny Committee is responsible for assisting the Finance and Management Committee to develop the budget strategy and annual budget and for scrutinising the performance of Council and/or Policy Committees in respect of financial management (Article 6).
- 3.2 In August, the Committee met with the Chair of the Finance Committee (Cllr John Wilkins) to discuss the nature of its involvement in the development of the 2005/06 budget and how the Committee's time could be used to best effect. Cllr Wilkins suggested that the Committee should not be constrained in its approach to the budget and that it would be acceptable to look at both the 'big picture' as well as specific aspects (Minute No. COS/10 of 23 August 2004 refers).
- 3.3 In the light of these comments, the Committee has chosen to focus on three main areas:
- arrangements for the development of the annual budget (including consultation with local people and other key stakeholders)
  - the alignment of resources with corporate and service priorities
  - budget monitoring and management

### Consideration by the Corporate Scrutiny Committee

- 3.4 Since the meeting with Cllr Wilkins, budget issues have been discussed on four occasions, as outlined below:

Date	Main topics
25 October 2004	Preparation of 'base' budgets, resources, key financial risks, the 'shifting resources' project, the 'Gershon' efficiency review and the budget timetable.
6 December 2004	Progress on preparing the budget, the Government's financial settlement), arrangements for service development bids (including the 'scoring' system), policy development, service planning and the 'shifting resources' project.
24 January 2005 <i>Special Meeting</i>	Changes in base budgets over time, monitoring and managing budgets, links between financial and service planning, shifting resources and the 'Gershon' review, and the consultation programme.
7 February 2005	Feedback on consultation with local people and other stakeholders, decision making by Policy Committees

- 3.5 Minutes of these meetings can (or will) be found in Council Minute Books Volumes 4, 5 and 6.
- 3.6 The Committee would particularly like to thank the Head of Finance and Property Services and the Deputy Chief Executive for their contributions.

### **Emerging Issues**

- 3.7 A number of key issues have emerged from our work:
- the robustness of assumptions underlying base budgets
  - the alignment of resources to corporate and service priorities
  - the budget timetable and arrangements for consulting local people and other stakeholders on spending priorities and proposals
  - the 'shifting resources' project and the delivery of the 'Gershon' efficiency savings
  - the role of Policy and Scrutiny Committees in budget development and financial management
  - Member training
- 3.8 These issues are discussed in more detail in the next section.

## **4.0 KEY ISSUES**

### ***Base budgets***

- 4.1 Members were advised that each year base budgets are substantially 'rolled forward' with adjustments made for inflation and known variations in income or expenditure. At present, the service development bidding process is the only way in which additional items can be introduced into the budget.
- 4.2 This means that base budgets are allowed to grow on an incremental basis with very little 'challenge' as to patterns of expenditure and with an in built tendency to maintain the status quo. Service developments, on the other hand, are the subject of a rigorous assessment process and yet typically they account for just 1% of the Council's expenditure.
- 4.3 The Committee considered that a more substantial review of core spending is required (which could be linked to work on the 'shifting resources' project mentioned later in this report).

### ***Alignment of Resources***

- 4.4 The Committee recognises the progress that has already been made in aligning financial resources with corporate and service plan priorities. The Council now has a three-year planning framework based on the Budget, the Corporate Plan and Service Plans, which are reviewed and rolled forward annually. Also, last year, the

'scoring system' for service development proposals was reviewed to give more weight in the assessment mechanism to corporate priorities.

- 4.5 However, more needs to be done to strengthen the linkages between service and financial plans and to make the Budget *'the Corporate Plan and Service Plans expressed in financial terms'*
- 4.6 Improving the 'robustness' of base budgets (mentioned earlier) is an important part of the process. The Corporate Scrutiny Committee is also committed to 'revisiting' the scoring mechanism for service developments, to ensure that it actually is delivering Council priorities. Further measures identified by the Committee to support improved outcomes relate to the availability of information and the adoption of an integrated corporate/service plan and budget planning cycle.
- 4.7 The following example illustrates the information issue. At one meeting, Members were advised that spending on Crime and Disorder (which is a Council priority) equated to 1% of total expenditure (around £400,000) in this year and next year's base budgets. Clearly, this does not convey the whole picture and when challenged, officers indicated that the figures did not reflect additional spending by the Crime and Disorder Partnership or the achievement of service delivery outcomes. Compared to items in the base budget, a large amount of information is made available on service developments.
- 4.8 Clearly, Members and managers need to have more detailed information (which links spending with outcomes) if they are to challenge and form judgements about the alignment of resources to priorities.
- 4.9 The Committee also considered that the adoption of an integrated corporate/service plan and budget planning cycle is necessary to ensure the alignment of resources to priorities. An example of such a cycle is illustrated in Annex A.
- 4.10 Underlying this model is the premise that the Corporate Plan sets the strategic direction for Service Plans as well as the longer-term horizons for financial planning. This is a two way process and the link between Service Plans and financial planning will then ensure that resources match priorities.

#### ***Budget timetable/Consultation***

- 4.11 The Committee noted that consultation on the budget proposals comprised presentations at Area Meetings and a meeting with Partners hosted by the Finance and Management Committee. These meetings took place in January and gave stakeholders very little opportunity of 'making a difference', given that the budget had to be finalised by the end of February. (This point was highlighted at the Parish Liaison Meeting and at several Area Meetings).
- 4.12 The Committee considered that consultation should be an integral part of the service and financial planning process and that it should start much earlier in the

cycle - with an initial round of consultation during the summer, followed by feedback and further consultation in November and December. Information gathered at these stages would also be used to shape/inform the Corporate Plan and Service Plans.

- 4.13 Members also identified the need to engage all sections of the community (including hard to reach groups) in the consultation process and to put in place arrangements to ensure an effective dialogue with Parish Councils.
- 4.14 The Committee will be undertaking a special project on consultation which will also examine relations with Parish Councils and the interface with the corporate/service plan and budget planning cycle.

### *Shifting Resources / 'Gershon'*

- 4.15 Last year, the Council agreed to initiate a process aimed at reducing the gap between income and expenditure and enabling resources to be refocused on new community priorities ('the shifting resources' review). This review will now be the main mechanism for delivering the Government's 'Gershon' efficiency targets, which require all Councils to achieve 2.5% efficiency savings year on year from 2005/06. (It may also need to address any implications arising from the current Lyons review of Council spending.)
- 4.16 Potentially, 'shifting resources' will have a major impact on the way in which Council services are planned and delivered now and in the future. It is imperative, therefore, that a project brief and plan is produced as soon as possible. This will need to set out (amongst other things) roles and responsibilities (between Members and managers and between Scrutiny and Policy Committees), timetables and arrangements for consulting employees, local people and other key stakeholders.

### *Committee roles and responsibilities*

- 4.17 The Council's Budget and Policy Framework Procedure Rules set out the arrangements for the development of the budget and include a requirement for the Finance and Management Committee in July of each year to publish a programme and timetable (Rule 1a). Further parts of Rule 1; provide more information about the respective responsibilities of Scrutiny and Policy Committees.
- 4.18 The Committee judged that the Rules were unclear and that they should be amended to give more guidance as to the nature of the budget process overall and the role of Scrutiny and Policy Committees. Scrutiny Committees need to 'add value' to the work of Policy Committees and to provide a measure of 'challenge' in terms of process and outcomes.
- 4.19 The Committee also explored the role of the Council's three Policy Committees in the development and management of budgets. It was noted that the Finance and Management Committee had overall responsibility for financial management and

control, and that a project to streamline decision-making and increase the involvement of members in policy development and review was nearing completion. Key to the new arrangements was the establishment of a work programme for each Committee, giving Members more control over their agendas and workload.

- 4.20 The Committee welcomed this initiative and plan to undertake a study later in the year that will examine the extent to which Policy Committees are involved in setting priorities and monitoring and managing budgets (including the use made of the new Financial Management System).

### *Member Training*

- 4.21 Last year, the Committee recommended that all Members should receive training in Council finances. This recommendation has not been implemented and should now be addressed as a matter of urgency.

## 5.0 CONCLUSIONS

- 5.1 This year, the Committee has chosen to focus in arrangements for the development of the budget rather than the contents of the budget as in previous years. The recommendations made in this report are intended to assist Members to challenge assumptions regarding base budgets; to ensure that financial resources are aligned to corporate and service priorities; to successfully implement the shifting resources project; and, to actively engage local people and other stakeholders in the budget process.