

## AGENDA MANAGEMENT SHEET

**Name of Committee**

**Cabinet**

**Date of Committee**

**21 July 2005**

**Report Title**

**2006/2007 Budget Process**

**Summary**

The report seeks member's approval to the suggested budget process for 2006/2007.

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**Would the recommended decision be contrary to the Budget and Policy Framework?**

No.

**Background papers**

None

### CONSULTATION ALREADY UNDERTAKEN:-

Details to be specified

Other Committees

☐ .....

Local Member(s)

☐

Other Elected Members

☒ Cllr Mrs Tandy, Cllr Roodhouse – for information

Cabinet Member

☒ Cllr Farnell – for clearance  
Cllr Stevens – for information  
Cllr Cockburn – for information

Chief Executive

☐ .....

Legal

☒ David Carter – amendments incorporated

Finance

☒ David Clarke - reporting officer

Other Chief Officers

☐ .....

District Councils

☐ .....

Health Authority

☐ .....

Police

☐ .....

Other Bodies/Individuals ☐ .....

**FINAL DECISION NO**

**SUGGESTED NEXT STEPS:**

Details to be specified

Further consideration by this Committee ☐ .....

To Council ☒ Council will approve the 2006/7 Budget at its meeting in February 2006

To Cabinet ☐ .....

To an O & S Committee ☒ O & S Committees will receive details of 2006/7 budget pressures and proposed service developments in Autumn 2005 and will scrutinise service budget in detail in March 2006

To an Area Committee ☐ .....

Further Consultation ☐ .....

## Cabinet - 21 July 2005

### 2006/2007 Budget Process

### Report of the County Treasurer

#### Recommendation

Members are asked to comment on and approve the 2006/2007 budget process as outlined in paragraph 5.3 of the report.

## 1 Introduction

- 1.1 The purpose of this report is to seek members' comments on and approval to a suggested revenue and capital budget process for 2006/7. The process proposed aims to build on the 2005/6 budget process retaining those areas that went well and proposing developments in those areas where it is felt the process could be improved upon. There are also a number of other changes suggested that, if accepted, will further develop medium term budgeting at both a corporate and departmental level. The suggested process has been considered by COMT and their comments have been incorporated into this report. Subsequent to members' approval of the process detailed guidance will be issued to departments.
- 1.2 Throughout this report and in developing the proposals for the 2006/7 budget process it has been assumed that the Party Groups will wish to continue with producing their own budget resolutions rather than working towards a single resolution.

## 2 Objectives of the Budget Process

- 2.1 The medium term objectives for the budget process were agreed by Cabinet in July 2004:
  - To have a budget setting process that provides services with firm allocations for three years and creates a clear environment to allow departments to plan and manage changes to services in a structured way.
  - For budget allocations for both revenue and capital to flow from the corporate business plan and departmental service plans to the extent that the budget is a by-product of an efficient and clearly prioritised planning process.

- For revenue and capital allocations to be considered side-by-side allowing real options for alternative and transformational patterns of service delivery to be developed and for any prioritisation to be from a single priority listing.
  - For the budget to be specified in terms of outputs and service delivery targets rather than the current focus on input costs.
- 2.2 These objectives remain relevant and any proposals for changes to the process should move the authority towards achieving these medium term objectives.

### **3 Key Developments arising from the 2005/2006 budget process**

3.1 Development of the budget process is done on a step-by-step basis with incremental progress being made each year. The starting point for looking at future developments are those issues arising from the 2005/6 budget process that, if improved, will move the authority nearer to achieving the medium term objectives. These are:

- To further develop the effective scrutiny of budget pressures.
- To provide members with further opportunities opportunity to redirect money to priority service areas in a structured way.
- To further develop links to the corporate business plan and service plans so that it is clear what the budget is expected to deliver in service terms and plans do not include developments for which the resources are not available to deliver.
- To ensure consistency of the information presented both over time and between different audiences and to ensure a clear purpose to all information produced.
- To prepare and consider the capital programme and revenue budgets simultaneously at all stages of the process to create a balanced approach that increases flexibility and allows maximum value to be obtained from the resources available.
- To integrate the need to deliver cost effectiveness improvements as part of the budget process with the new “efficiency planning” agenda required under Gershon.
- To simplify the way budget amendments are produced on Council Day. Members would consider the original budget resolutions from the Party Groups in the usual way. Subsequent to this members would only consider a brief version of the resolution consisting of the base budget, spending allocations and funding sources until a budget is agreed. At this point a full budget resolution would be prepared for formal approval.

## 4 Budget Environment

4.1 However, whilst we can have medium term objectives for the budget process itself and can identify the next key development steps, the environment in which the budget process operates also directly influences our funding and spending priorities. The influences, that need to be respected, in developing the 2006/7 process include:

- **One-off RSG Supplement:** The grant settlement for 2005/6 for Warwickshire included £2.9 million of one-off grant allocated by the Chancellor to try and keep council taxes down. Unless this money becomes permanent we will be starting the 2006/7 budget process with an in-built shortfall equivalent to a 1.6% council tax rise. Until the provisional 2006/7 Revenue Support Grant Settlement is announced in late November we will not know if this money is to be on-going.
- **Capping:** The threat of capping for local authorities has, for the past two years, been back on the government's agenda as a way of controlling local authority spending. It is unlikely that the Government is going to retreat from the threat to continue to cap authorities and therefore serious consideration will need to be given to ministerial statements on capping.
- **Three-year Grant Settlements:** The government is proposing the introduction of three-year grant settlements from April 2006. It is not yet known in any detail how these will operate. However, the consultation papers outlining the proposals have indicated that the increased certainty for local authorities on future funding levels may be accompanied by a requirement for local authorities to publish greater detail about three-year tax and spending plans. Further information is unlikely to be available before November 2005.
- **Dedicated Schools Grant:** The government's proposals for Dedicated Schools Grant, if enacted, will result in a fundamental shift in local government funding as schools become wholly funded by a grant from central government. The proposals will increase still further the separation between schools and the rest of the local authority. Again it is likely to be November before any details of the new arrangements are confirmed.
- **CPA Use of Resources Assessment:** The new CPA Use of Resources assessment framework places a much greater emphasis on medium term planning. There is a need to identify, quantify and manage any developments that may impact on the finances of the authority and to incorporate them into both corporate and service business plans as well as them being integral to the authority's medium term resourcing and spending plans. The assessment also makes a judgement on the extent to which decisions on revenue and capital spending are made jointly.
- **Children Act:** The Children Act will need to include a requirement to align budgeting with the single Children's Plan and Commissioning Strategy. This is likely to mean that the budget process will need to separately consider the resource position for adult and children's social care.

## **5 Proposals for the 2006/2007 Budget Process**

- 5.1 In line with the objectives the “ideal” budget process is one that looks in some detail over the medium term and is fully integrated with service planning. Significant strides have been made in this area over the last few years and the introduction of three-year grant settlements will bring the possibility significantly nearer.
- 5.2 The focus of the 2006/7 budget process is therefore to develop further the cohesive approach and set the principles by which we can deliver an effective integrated medium term budgeting and service planning process.
- 5.3 Combining this focus with the developments arising out of the 2005/6 budget process and the constraints of the budget environment in which we are operating, the proposed 2006/7 budget process is set out below. The remaining sections of this report go on to consider the key changes in more detail.
- Capital and Revenue budgets continue to be produced to a single unified timetable. A proposed timetable is outlined at Appendix A.
  - A single set of forms is produced for each department for both revenue and capital. These aim to give a clear focus on outputs and service delivery, to enable more effective evaluation of capital and revenue side by side and improve the links to the corporate objectives and business plan. Separate sets of forms are proposed for adults and children’s social services to reflect the implications of the Children Act. (This is reflected in changed portfolios of the new Overview and Scrutiny Committees).
  - The scrutiny of bids for revenue resources is simplified, replacing the current three categories of bids with only two – proposals explicitly covered by existing policies and proposals not explicitly covered by existing policies.
  - Any bids for resources to fund “proposals not covered explicitly by existing policies” will require a full appraisal form to be completed similar to that already used for the bids for inclusion in the capital programme. Again this would further increase the degree of synergy between the capital and revenue budget processes.
  - Departments are required to detail the additional resources required for both revenue and capital for three years, with the bids for resources identified for 2007/8 and 2008/9 forming the starting point for the budget deliberations in those years.
  - The Chief Executive and County Treasurer will work with each of the political groups to examine the relationship between their budget and service strategy.

- Members will be provided with briefings on, for example, the process itself, efficiency savings and the categorisation of bids for resources, as well as the key elements of the budget environment to ensure a common understanding of the key issues.
  - The base budget review process is refocused with a greater emphasis given to the developing value for money agenda.
- 5.4 What this paper does not yet include is a process for identifying the medium term efficiency plan required to deliver a comprehensive medium term financial plan. This is also required for both “Gershon” and the CPA Use of Resources assessment. A further report will be brought to Cabinet on this issue shortly.

## **6 Base Budget Review Process**

- 6.1 The budget process used by the County Council follows a traditional incremental approach, where detailed consideration is focused on additional spending needs. Alongside this there remains a need to look at the existing budget to ensure the authority is delivering value for money. Following the reintroduction of capping, the developing efficiency planning agenda and the revised CPA Value for Money assessment, the need to look at the base budget in more depth is now becoming central to the way forward.
- 6.2 Members have previously agreed the base budget would be scrutinised by a combination of departmental cost effectiveness targets and a base budget review process. Both elements would release resources from the current budget for redirection from lower priority areas to front line and higher priority areas of service.
- 6.3 Last year we did the planned groundwork to implement a base budget review process through the introduction of departmental activity analysis. For 2006/7 it is proposed that this work is supplemented by a corporate value for money assessment. As the CPA Value for Money assessment is likely to focus on how the authority uses the information in the Value for Money profiles issued by the Audit Commission it is therefore imperative that this information is used but is refined to include performance data, quality of life measures, comparative statistics and spending trends to produce a more sophisticated value for money assessment. This assessment would then be considered by COMT and then the Budget Working Group prior to more detailed activity analysis and any consequent service reviews.
- 6.4 The Audit Commission Value for Money profiles only relate to front-line services. For our refined internal value for money assessments the impact of support services on the cost and performance of front-line services will be specifically considered.

## 7 2006/2007 Scrutiny Process

7.1 Scrutiny of department's bids for additional resources currently takes place in a number of forums. It is proposed that this scrutiny, within departments, by the Treasurer's Department and then by the Budget Working Group remains unchanged. The focus of any scrutiny would continue to be the consistent categorisation of bids and ensuring the information provided in support of any bid gives a clear picture of the service impact.

7.2 For a number of years bids for additional revenue resources have been categorised in three ways - standstill pressures, unavoidable service developments and desirable service developments. On occasion this has led to confusion and misunderstandings particularly over the definition of "unavoidable" and what the resulting actions of the service department would be if funding for an unavoidable development were not forthcoming.

7.3 It is therefore proposed that a revised, simpler classification of bids is used. For 2006/7 it is proposed that there will only be two categories of bid:

7.4

- **Proposals covered explicitly by existing policies.** This would include:
  - External and unavoidable changes in costs and income
  - Specific demographic changes. These would be agreed in detail and inclusion would depend on whether there is an immediate and obviously visible degradation in service level if funding is not provided.
- **Proposals not covered explicitly by existing policies.** This would include:
  - Other demographic changes
  - Changes in the law where there are additional **duties** placed on the authority
  - New statutory **powers**
  - Developments according to local or central government priorities
  - Innovations

7.5 Both the classification of bids and developing an understanding of the potential service impact can continue to be undertaken without any comment, from a political perspective, as to whether bids are likely to be funded. Again it is proposed that adults and children's social services are considered separately.



- 7.6 Subsequent to the considerations of the Budget Working Group any proposals would then go forward in the usual way to Overview and Scrutiny Committees to bring all proposals into the public arena and to allow all members and the public to let their views be known.

DAVID CLARKE  
County Treasurer

Shire Hall  
Warwick  
29 June 2005

## Draft 2006/2007 Budget Timetable

A fully detailed timetable has yet to be produced, but the key milestones of the budget process are shown below:

July	<ul style="list-style-type: none"> <li>♦ COMT/members approve the budget process</li> <li>♦ Initial forecast of available revenue resources produced for members</li> <li>♦ Detailed budget guidance and timetable circulated</li> <li>♦ Corporate Capital Group consider capital budget process and capital resource forecasts</li> </ul>
July-September	<ul style="list-style-type: none"> <li>♦ Party Groups consider their budget and service strategies</li> <li>♦ Services prepare budget pressures and development bids</li> </ul>
September	<ul style="list-style-type: none"> <li>♦ Resource forecasts updated for consultation on changes to formula grant and the impact of Dedicated Schools Grant</li> <li>♦ Capital and Revenue service pressures and development bids finalised</li> <li>♦ Budget Working Group review Value for Money profiles</li> <li>♦ Cabinet approve the 2006/7 Budget consultation process</li> </ul>
October	<ul style="list-style-type: none"> <li>♦ Budget Working Group vet pressures/development forms for revenue and capital</li> <li>♦ COMT budget strategy proposals agreed</li> </ul>
November	<ul style="list-style-type: none"> <li>♦ Budget consultation undertaken</li> <li>♦ Cabinet/O&amp;S reports on budget pressures and proposed developments</li> <li>♦ Provisional RSG Settlement</li> </ul>
December	<ul style="list-style-type: none"> <li>♦ County Council sets schools indicative budget</li> <li>♦ Members seminars/star chambers</li> </ul>
January	<ul style="list-style-type: none"> <li>♦ Cabinet receive feedback reports on public consultation and the scrutiny of budget pressures</li> <li>♦ Taxbase and surplus on collection finalised</li> <li>♦ Political groups release resolutions</li> </ul>
February	<ul style="list-style-type: none"> <li>♦ County Council agrees medium term budget capital programme and council tax</li> </ul>
March	<ul style="list-style-type: none"> <li>♦ O&amp;S Committees/Cabinet approve detailed service estimates</li> </ul>