

## BUDGET CONSIDERATION 2006/07

Report By: Chief Executive

### Wards Affected

County-wide

### Purpose

1. To respond to a request from the Chairman of Strategic Monitoring Committee for clarification of the role of Scrutiny in relation to the preparation of the annual revenue and capital budgets.

### Background

2. The consideration of the annual revenue and capital budget needs to be seen in the context of the Medium Term Financial Plan which was initially prepared for the period 2004/05 to 2007/08 and which recognised that investment in the order of £7 million would be required over the four year period. Priority is reflected in the Plan as set out in Appendix 1 which is an extract from the revenue budget report to Council made in March, 2005.
3. The position is made more complicated by the uncertainty surrounding the position regarding central government support. The initial planning in relation to the 2005/06 revenue budget was based on the Comprehensive Spending Review (CSR) 2004. At face value, it did seem likely that there would be some conflict between the need for investment in services reflecting the Council's priorities, the settlement itself and the balancing need to counter increases in council tax. In the event, the significant savings on which the Council consulted based on the Comprehensive Spending Review 2004 were offset by a number of injections into the revenue budget, the majority of which were expressed at the time to be for the financial year 2005/06 only.
4. The further influencing factor is the Comprehensive Performance Assessment (CPA). Although the Council maintained its position as a "Good" authority at the last review, the revised methodology reflected in CPA 2005 could see this performance re-assessed at the "Fair" level. The Council faces significant expenditure pressures if it is to maintain its performance in relation to the Environment block of services and still further investment if it to improve its performance in relation to Social Care (Adults) and Social Care (Children). Whilst it is important that the Council continues to examine areas for efficiency and for service improvement, it needs to continue to apply resources to achieving its priorities through its Corporate Plan and Medium Term Financial Strategy.
5. Other performance considerations include the Local Public Service Agreement (LPSA). Such performance reward grant as is received, in the two years starting in 2005/06, will be available to assist in securing wider performance gains in non-LPSA services in addition to additional pump priming the second round of LPSA. The regular LPSA reports have been prepared on the assumption that all PRG earned from LPSA1 will be invested in LPSA 2. The one-off nature of this grant means that it

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Further information on the subject of this report is available from  
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is inadvisable to use it to offset council tax increases or fund recurring spending commitments.

6. The clear pressures on the budget over the remainder of the Medium Term Financial Plan period to 2007/08 make the alignment of budget resources to the Council's objectives absolutely essential. The recent announcement of the postponement of the Comprehensive Spending Review until the summer of 2007 would indicate little if any change to the underlying resourcing of the Council through Government grant until at least 2008/09. The current consultation on formula grant allocation may however have an impact on the level of Revenue Support Grant. With limitations placed on the ability to raise additional resources through council tax, a re-alignment of existing patterns of spending will also be required. Although the Service Improvement Project will remain a key driver in re-engineering the way services are delivered, a more fundamental review of base budget provision will also be required. The review will need to reflect a number of elements to ensure that it is robust and challenging including:
  - the statutory requirement to provide current services or otherwise and the *level* of statutory provision in some high profile services
  - the extent to which current service provision contributes to the key priorities of the Council as reflected in the forthcoming Corporate Plan for 2006 - 2009
  - opportunities to redirect spending on service areas which are not considered to be a high corporate priority to higher priority areas
  - opportunity to increase income by reviewing charges including charges for discretionary services where appropriate
  - the identification of efficiency savings within services with no visible impact on service performance.
7. The capital programme must not be seen in isolation to the revenue budget and the Council has made an initial commitment to £5 million of prudential borrowing in each of the next three years. In the context of budgetary constraints, the focus of capital spending to those projects that deliver significant gains in terms of corporate priorities becomes even more important. Cabinet recently considered the Council's Capital Strategy setting out the key principles for the use of capital resources. The impact of capital investment in securing long term revenue savings is also very important.

## **Budget Panel**

8. The Council has now approved the use of a Budget Panel as a means of providing detailed analysis of the budget and budget pressures. Given the financial challenges of the 2005/06 budget, it was agreed that that process would continue to provide the base for budget consideration but that a more inquisitorial approach would be adopted. Once the broad financial parameters within which the budget was to be set were established by Cabinet, then the Budget Panel would examine the base budget and relevant cross cutting issues of each Directorate with both the Director and relevant Cabinet Member(s) being required to justify expenditure, to describe the service pressures and to react as to how the budget might be confined within the known financial parameters.

9. To that end, the Council took the following action:
- it appointed a Budget Panel with a membership as indicated later in this report (paragraph 11)
  - it agreed that a higher profile be given to the role of Cabinet Member(s) in receiving representation from other Members of the Council on their own priorities for the revenue budget. That could either be in written form, or by pre-arranged appointment. *NB There was very little activity on the part of other Members of the Council to feed into that process.*
  - wider briefings of all Members of the Council, perhaps most appropriately through seminars be undertaken. It was agreed that the most effective timing for those seminars would be after the CSR 2004 announcement and after the announcement of the 2005/06 settlement in late November.
10. It has been consistently accepted that the Budget Panel formed to undertake the examination of the individual budget presentations should be representative of political groups, the Executive and Scrutiny.
11. It was also important that the group should be contained to a size which would enable the “inquisitorial” approach to be effective. The membership established for the 2005/06 budget was the Leader of the Council, the Chairman and Vice-Chairman of the Strategic Monitoring Committee and the four political group leaders with no substitutes being permitted. Two of the group leaders, namely the Leader of the Council, Councillor R.J. Phillips, and the Leader of the Liberal Democrat Group, Councillor T.M. James, were appointed both by virtue of their group leadership and office. It was, therefore, agreed that the Leader of the Council appoint up to two further members, neither of whom should hold a major service portfolio. It was also recommended for the first time in considering the 2005/06 budget that trades unions representatives be invited.
12. Past procedure has been for the Budget Panel to report on its findings and make initial recommendations to Cabinet for consideration. That maintained the principle that responsibility for the recommendations on the budget to Council ultimately lie with the Executive itself although it should be subject to Scrutiny prior to consideration by Council. The opportunity has been retained, therefore, as with previous years, for the Strategic Monitoring Committee to offer views on the budget prior to Cabinet making its recommendations to Council. In earlier years, the opportunity was given to individual Scrutiny Committees to contribute to the budget process. However, that had the effect of establish a list of irreconcilable demands from individual Scrutiny Committees which the Strategic Monitoring Committee then had to balance against the available finance. It was not felt therefore in those previous years that that method of working contributed significantly to the budget process.

## **2006/07 And Beyond**

13. It is important that the budget process does not concentrate solely on 2006/07 revenue and capital budgets. It is also important that the Budget Panel takes into account the medium term financial planning needs of the authority both in terms of its capacity to finance the longer term programme and also in relation to the impact on services. The Budget Panel will, therefore, require spending needs to be addressed wherever practicable over a three year period. In the current circumstances, given

the postponement of the Comprehensive Spending Review, it is realistic to focus that programme primarily on the financial years 2006/07 and 2007/08. There are a number of important reasons for this approach.

- The need to align expenditure within a strategy for council tax and the priorities within the Corporate Plan.
- The need to plan expenditure in a way which is consistent with both the newly signed LPSA2 and the proposed Local Area Agreement.
- To ensure that the Council can plan both increases and decreases in service delivery levels in line with likely resources, incorporating the responsible use of the Council's Reserves.
- To ensure that future expenditure implications of current decisions are reflected at an early stage in the budget.
- To ensure that if the Council should wish to take advantage of the flexibility afforded by the recent introduction of prudential guidelines for borrowing in support of capital spending, that this can be financed as part of the longer term revenue budget.

## Conclusion

14. The current process established for the consideration of the revenue and capital budget does give a significant role to Scrutiny both through the membership of the Budget Panel itself but also through the process of formal consultation with the Strategic Monitoring Committee. It is important to note, of course, that the Strategic Monitoring Committee includes within its membership the Chairman and Vice-Chairman of each of the Scrutiny Committees. It is important to constantly review whether or not the Budget Panel process is enabling the right input to the revenue and capital budget and it is important that that should be subject to regular review. The appointment of Mrs. Sonia Rees as Director of Resources provides the opportunity for a fresh look to be taken at the current method of compiling the budget. Given the current budget timetable and the likely announcement of the settlement towards the end of November, it would not be possible to undertake such a review in time to contribute to the 2006/07 revenue budget. What is therefore proposed is that the Director of Resources be asked to undertake a prompt review of the budget process and to bring recommendations forward to both Cabinet and Strategic Monitoring Committee for the conduct of the revenue budget for 2007/08.

## RECOMMENDATION

**THAT the Strategic Monitoring Committee considers how it might clarify its role in relation to the revenue and capital budget process for 2006/07 and participates in a review of that process in time for the financial year 2007/08 following the appointment of the Director of Resources.**

## BACKGROUND PAPERS

- None identified

**EXTRACT FROM REPORT OF THE MEETINGS OF CABINET  
CONSIDERED BY COUNCIL ON 11TH MARCH, 2005**

8. A number of priorities emerged from last year's budget considerations with a number of principles being established in setting the current year's revenue budget and the MTFP. These are as follows:
- (a) The underlying principle of the medium-term financial strategy is that the Council would intend to maintain the real purchasing power of current revenue budgets throughout the life of the plan period.
  - (b) An acceptance that the Education budget will largely be driven by a national agenda which has seen investment in Education above the level of inflation throughout the life of this Council. The emphasis within that investment is on passporting cash to schools. The Council wish to support that approach whilst recognising that that does create difficulties for funding central support for schools, particularly in a Council with Herefordshire's characteristics.
  - (c) There will be a need to continue to strengthen the Social Care budget through the medium-term financial plan period if the Council is to maintain improvement in this key area of its performance. This is particularly true in the area of care for older people where the Council spends significantly below its FSS.
  - (d) The Council has been postponing investment in Information and Communications Technology (ICT), partly because of its poor and inconsistent inheritance but also because of the difficulty of making judicious investment in those areas based on the occupation of existing accommodation. Investment cannot however be further postponed without the Council risking failure in the way it works and delivers services to the public.
  - (e) The Council needs to address its performance in relation to highways, transport, planning and waste. This will require prudent investment and the generation of that investment may require the Council to support significant changes in the pattern of provision.
  - (f) There is a need to continue to resource activity, which is of direct benefit to the community. Past inspections have led to criticism of levels of investment in adult learning and libraries. The Council needs to maintain resources for these services if it is to continue to offer them. If it is unable to maintain those minimum levels of service then it needs to consider in some cases whether to continue to maintain the services at all in some areas.
  - (g) The Council needs to continue to strive for efficiency. It would be foolish to pretend with an organisation of the size of the Council, delivering the range and breadth of services that it does, always maintains 100% efficiency. There is however a recognition that the amount which can be driven out by traditional approaches to improving efficiency are unlikely to be sufficiently significant to support the Council's medium-term financial plan. Cabinet has therefore agreed to look at two specific projects as an alternative to traditional approaches to economies and efficiencies. These approaches are now

embodied in the work through the Service Improvement Programme and Procurement initiatives. That is not to say, however, that the traditional approaches would not continue.

The Service Improvement Programme (SIP) - this programme is intended to take a fundamental look at the way in which the Council operates. It will seek to address the prospects for savings by entirely changing operational process. It is believed that there are significant opportunities for efficiency savings. Cabinet has agreed in principle to pursuing this approach, ensuring that savings generated are freed to support the Council's MTFP rather than individual Directorate and Departmental activity.

- (h) Accommodation - the Council's current occupation of accommodation is inefficient both in terms of the actual occupation of space but also in terms of maintenance and loss of staff time. Again Cabinet has approved in principle a process for managing the accommodation requirements of the Council in a way that will be at least cost neutral and hopefully over the planned period will make a modest revenue return for reinvestment.
- (i) In addition, Cabinet considered the extent it wishes to resource any additional borrowing required as a consequence of the Prudential Guidelines. The MTFP reflects a provisional spend of £5,000,000 per annum. The position will be reviewed annually.