

Print to add in the normal scrutiny front page header and footer design

BUDGET PROCESS SCRUTINY TASK GROUP

2006-07 Budget Process – Final Report



*Replacement
front cover image
needed*



INTRODUCTION

1. The Task Group consists of the following members:

(photographs to be inserted against the names below)

Mr Tony Molland (Conservative Member – Chairman)

Mr Patrick Coleman (Liberal Democrat Member)

Brigadier Robert Hall (Conservative Member)

Mr Ricky Rogers (Labour Member)

Mrs Bridget Wayman (Conservative Member) (until 16th May 2006?)

2. The Task Group was set up in November 2002 at the request of the Overview and Scrutiny Management Committee to review and comment on the revenue budget process of the County Council at key times during the year, including its monitoring arrangements.
3. The Task Group is a standing body, because of the continuing nature of its work and will annually renew its work programme until the Management Committee requests a disbanding or reconstitution of the Task Group.
4. This report details the Task Group's review of the 2006/07 revenue budget process.

INFORMATION RECEIVED

5. To review the 2006/07 budget process, the Task Group met to consider the following:

- the effectiveness of the Council's Medium Term Financial Strategy 2006 - 09
- the 2006/07 revenue budget process
- the 2006/07 revenue budget consultation process
- the effectiveness of revenue budget monitoring arrangements
- the effectiveness of the Best Value & Council Tax leaflet

Reports recording the Task Group's deliberations on these matters and the corresponding background papers can be accessed from the 'Public Documents' section of the Wiltshire County Council website at www.wiltshire.gov.uk.

The following members and officers were interviewed as part of the review:

- Leader of the Council
- Deputy County Treasurer
- (Former) Director, of the Department for Adult & Community Services (DACS)
- Assistant Director (Finance & Performance), DACS

INVESTIGATIONS UNDERTAKEN

Medium Term Financial Strategy

6. Each year, generally in September, a three year Medium Term Financial Strategy (MTFS) is revised and produced to reflect the County Council's priorities and objectives. Whilst not part of the budget process, the MTFS is used as a three year planning tool to assess available resources, in order for the budget process to begin. To assist services in improving the alignment of their budgets with the Council's priorities, there is an intention to revise the MTFS earlier on in future financial years.
7. Following recommendations from the Audit Commission in 2004 that the Council needed to strengthen its MTFS, the Finance Department asked the Audit Commission to run a workshop for officers and members focussing on examples of good practice, and how these could assist arrangements in Wiltshire. As a consequence, the Audit Commission's comments on the Council's new MTFS 2006 – 09 in the Annual Audit & Inspection Letter for 2005 were more positive:

“A brief review of the Council’s new medium term financial strategy suggests it represents a significant improvement on the previous version and amongst other things, provides a clear linkage between priorities and financial allocation into the medium term.”

8. The MTFS provides a context for the following year’s budget, and facilitates the devising of a Financial Plan, generally in October each year. This establishes a guideline budget for each department for the following financial year, and is based on the anticipated government finance settlement and the maximum Council Tax increase members are likely to want to see imposed.
9. The budget process for 2006/07 has strengthened links with service planning by ensuring that the corporate objectives and priorities in the Corporate Plan are recognised and included in the MTFS. In anticipating the finance settlement, school’s funding and specific grants, the MTFS assumed resources for 2006/07 would equate to £437m based on a floor increase in grant of 4%, and council tax of 5%.
10. As with resources, the costs of service delivery are subject to uncertainty and volatility, but the MTFS has quantified the main changes relating to:
 - (a) impact of inflation, in particular “super inflation” in specific areas
 - (b) volume changes in relation to pupils, waste management and social care
 - (c) changes in service delivery costs arising from legislation and NHS cost shunting
 - (d) changes in government funding mechanisms and specific grants
 - (e) additional funds required to meet corporate objectives and priorities
11. In approving the MTFS in October 2005, Cabinet recognised that, at that time, resources would not meet all the requirements and ambitions of the Corporate Plan, and therefore devised the following strategies for bridging the gap between costs of services and the resources available:
 - (a) keep under review the year on year targets which represent progress towards our goals
 - (b) critically analyse the other calls on the budget
 - (c) review the base budget and the scope to redirect resources to corporate goals
 - (d) critically analyse the commitments identified in the planning process to ensure they are robust, reasonable and unavoidable
 - (e) identify actions to address shortfalls in each of the three years of the strategy
 - (f) pursue efficiency savings of at least 2.5% per annum
 - (g) review the current level of fees and charges to ensure they are appropriate and realistic

- (h) review plans for the split of revenue and capital expenditure, to ensure the focus of investment is appropriate and reflects corporate goals

The Budget Process Scrutiny Task Group will continue to receive annual update reports on the MTFS, and will continue to monitor progress made on the strategies listed above (explain briefly how (Sandra and Tony ok with this?).

2006 / 07 Budget Process

12. In October 2005, Cabinet agreed a Financial Plan for 2006/07 which estimated that, based on increased government resources of 4% and a council tax of 5%, the revenue budget available would equate to £437m. However, it was acknowledged even at that early stage in the budget process that there were insufficient resources to fund all the goals and aspirations in 2006/07, and departments were asked to identify efficiencies, savings and to reprioritise services.
13. Detailed procedure notes on the 2006/07 budget process were issued to all services, which included the following timetable:

Table 1

23 rd September	Draft MTFS presented to Cabinet Liaison
21 st October	MTFS and Financial Plan to Cabinet
1 st November – 10 th November	Peer Challenge & validation of proposals
18 th November	Update to Corporate Management Board
11 th November – 2 nd December	Cabinet challenges
Mid November	Provisional FSS and RSG announced by government
16 th December	Consolidated Report to Cabinet
W/C 12 th January	Budget reports to Cabinet
20 th January	Cabinet
Mid January	Final FSS and RSG announced by government
3 rd February	Budget Recommendation approved by Cabinet
7 th February	County Council agree final budget
W/C 10 th January	Budget reports to Cabinet

14. The actual increase in revenue funding for all services, with the exception of schools, was only 2.1% for 2006/07, leaving the Council over £2m worse off than predicted. All local authorities were also restricted in terms of the extent to which they could raise council tax, which constrained Wiltshire County Council to set its rise in council tax for 2006/07 to 4.95%. Table 2 below outlines how the final settlement was calculated:

Need to include a line which highlights how late the finance settlement was confirmed, to justify recommendation 1

Table 2

	£ million
Gross Spending on Services	552
Specific Ring-fenced Grants and other funding	- 118
Leaves the Council with Net Spending on Services	434
New Funding Formula Removes Schools Budget from the funding settlement (now assigned to a Dedicated Schools Grant)	- 215
Actual Revenue Settlement Grant received	-56
As we were at the “floor”, a top up was granted	4
Leaving the Council to find from pre-cepting	159
This level of precepting generated a council tax increase	4.95%

15. The actual finance settlement for 2006/07 and provisional finance settlement for 2007/08 marks a significant change in the way that local government funding is allocated. The new approach no longer takes into account Formula Spending Shares (FSS) and their associated control totals, or the Assumed National Council Tax (ANCT).
16. Instead, what has been implemented is what has been labelled the “four block model”:

(a) Relative Needs Block

this replaces the concept of FSS with a formula, which is designed to measure need relative to other authorities. The formula for each specific service area is built on a basic amount per client, plus additional top-ups to reflect local circumstances. The top-ups take

account of a number of local factors which affect service costs, but the biggest factors are deprivation and area costs

(b) Relative Resource Block

this block is always a negative figure and represents the amount of grant an authority should forfeit for having a tax base above the minimum threshold. This takes account of an authority's ability to raise funds locally and removes grant from them accordingly

(c) Central Allocation Block

this block represents the balance of money left in the overall grant system, once account has been taken of the Relative Needs and Relative Resources of a local authority. The government shares this out on a per head basis.

(d) Floor Damping Block

the mechanism for damping grant changes remains the same as in the previous grant distribution system. Grant increases above the floor are scaled back and this creates a sum which can be used to pay for the floor. It is a circular process, where grant winners subsidise grant losers.

17. For Wiltshire County Council, the Local Authority Finance Settlement for 2006/07 meant an adjusted grant increase of **£1.215m**. Only two counties – East and West Sussex – received a lower increase of 2%. The actual grant increase would have been £4.2m higher if the settlement had not been subject to the floor damping block.

18. The new Dedicated Schools Grant (DSG) is estimated (to confirm at the beginning of June) to be £215.9 million for 2006/07, an increase of 5.9% on the previous year. £186.4 million of this is delegated to schools, with the remainder being spent on central schools budget items including Early Years, Special Educational Needs and Behaviour Support.

19. The amount of Specific Revenue Grants allocated to the Council per Department for 2006/07 included:

Table 3 (to complete – David Anthony – maybe Anne Buckland updating?)

Department	£m (2005/06)	£m (2006/07)
Children & Education	54.332	269.760*
Adult & Community Services	22.867	20.050
Environmental Services	1.997	2.189
Corporate & Library Services	2.587	2.354
TOTAL	81.783	294.353

** includes allocation for the DSG*

20. On being issued a provisional grant settlement for 2007/08, (2.7% increase for Wiltshire County Council) local authorities were also informed of the Government's expectation that indicative council tax increases be published for the same period. Whilst legislation has yet to be agreed on this, there is an expectation within the Comprehensive Performance Assessment for "good" local authorities to declare their intentions for council tax rates over the medium term. When confirming the budget and council tax for 2006/07, members were therefore also asked to agree an indicative council tax increase for 2007/08 as 4.7%.
21. In summary, the budget process for 2006/07 had to address the dilemma of a poor grant settlement, tight Government restrictions on council tax increases and significant service pressures, particularly relating to care services. Budget plans were concluded on the basis that:
- a) recovery measures had been identified in 2005/06 to rebalance services and provide more stability in future budget management
 - b) overspendings in 2005/06 would be written off by applying one-off contingency reserves of £5.5m
 - c) 2006/07 budgets would be down-sized where necessary in order to enable services to be operated within the resource levels allocated to them
 - d) an additional £1m was added to general balances, bringing the total to around £6.5m in April 2006, in recognition of the increased risks in health and social care
22. **However, reports to the April and May 2006 Cabinet meetings provided information to show that the above measures have not been achieved in DACS, and recorded a provisional 2005/06 revenue budget outturn for the Council as overspent by £3.858m. The May 2006 report provided an initial forecast of spending pressures in 2006/07 for DACS at a minimum of £7m over budget. A corporate recovery action plan has been devised in response to this forecast, which the Cabinet is seeking to implement as a matter of urgency. Service delivery and service user implications arising from the decisions, taken as a result of the recovery action plan, will be closely followed by a joint scrutiny member task group. Taking into account the detail included in the recovery action plan and the consequent effect on departmental revenue budgets, the Budget Process Scrutiny Task Group will continue to monitor 2006/07 budgets during the financial year, on a more regular basis than in previous years, subject to the Overview & Scrutiny Management Committee's approval of recommendation X of this report.**

Consultation

Public Consultation

23. Public consultation on the 2006/07 Revenue Budget was carried out at four evening meetings across the County, in Devizes, Trowbridge, Salisbury and Chippenham. The 30 – 40 attendees at each of these meetings, included parish and town councillors, panellists from the People's Voice and representatives from voluntary groups. The meetings consisted of a number of different activities, including an interactive question and answer session, a presentation on the budget and a priorities game, where attendees were invited to select their priorities for the Council.

24. The results of the priorities game are detailed below in Charts 1 and 2.

Chart 1

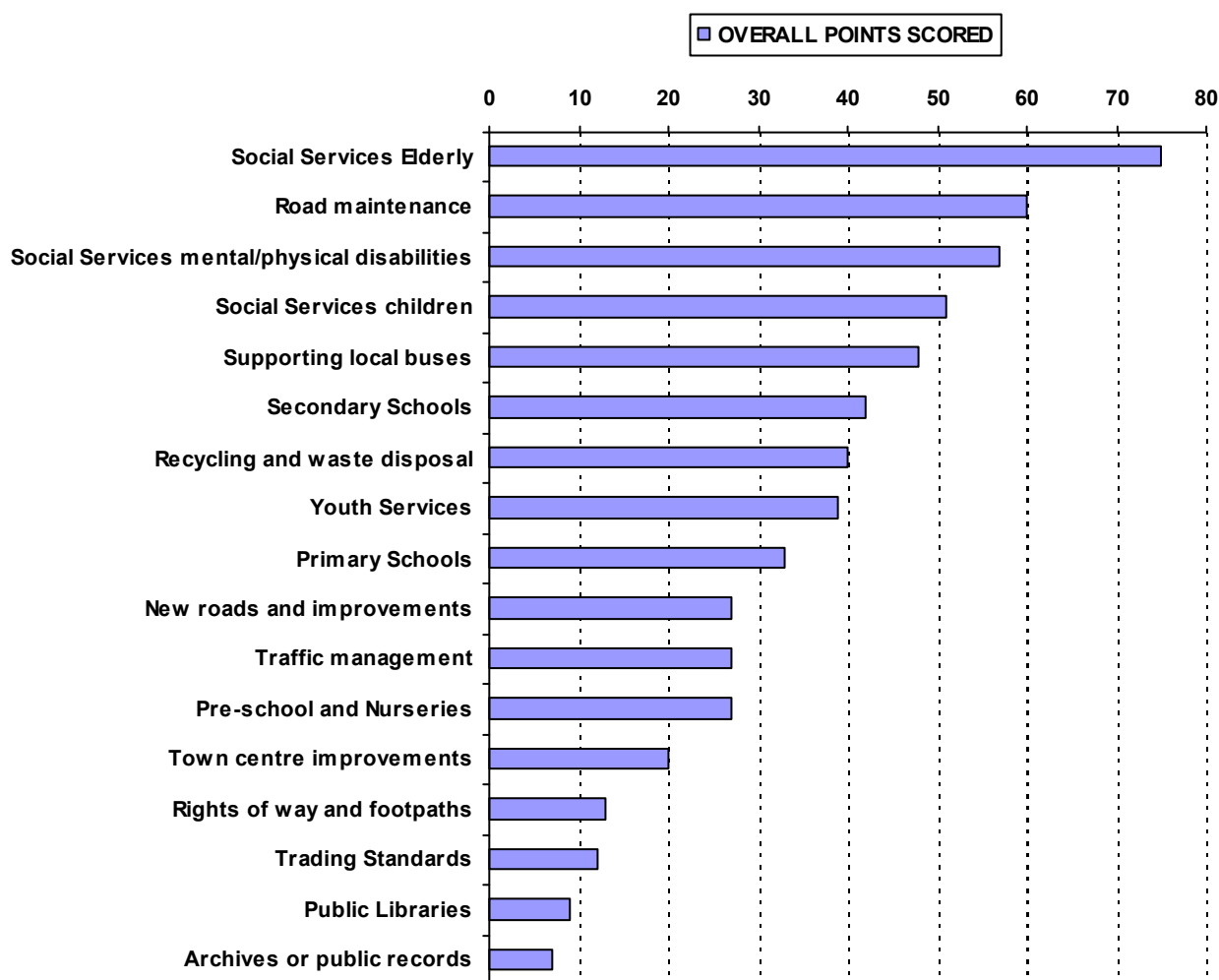
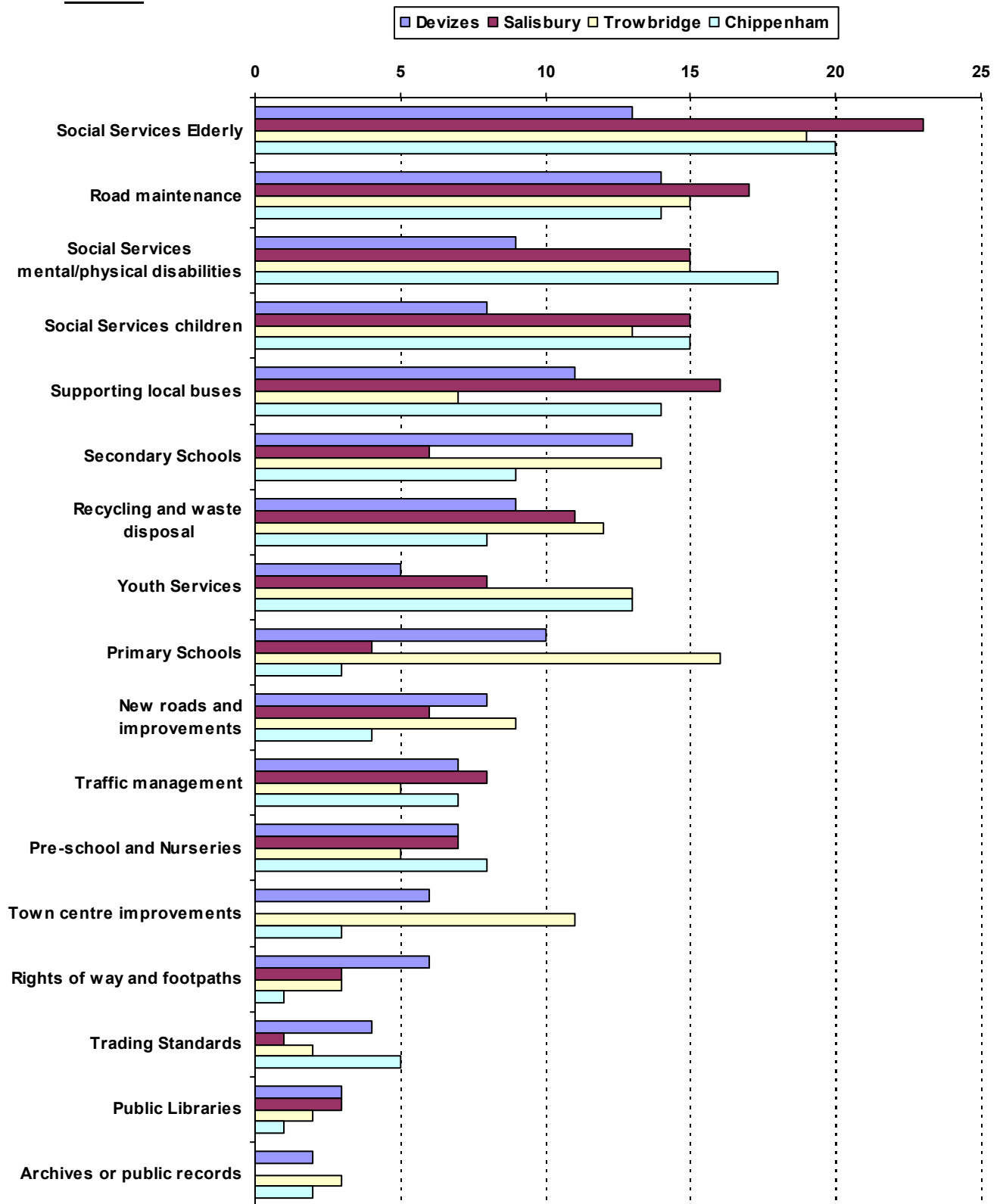


Chart 2



Consultation with Businesses

25. On the 18th January 2006, the Council hosted its annual meeting with the Wessex Association of Chambers of Commerce (WACC). This year, 15 members of the WACC attended to receive presentations from the Leader on the priorities of the Council's Corporate Plan, and from the Treasurer on the 2006/07 Revenue Budget.
26. On the 24th January, the Leader chaired the statutory formal consultation meeting with the business rates group. Unfortunately, no member of the business community attended this meeting. On the same day, the Leader chaired a budget consultation meeting with representatives from the Joint Trade Union Liaison Committee.
27. The Task Group believes that there is scope to improve the effectiveness of the Council's budget consultation activities and has requested the Scrutiny Support Officer to carry out some research into the methods adopted by other local authorities reputed for their good practice in budget consultation.
28. Over the last (?) years, further opportunity for consultation on the budget with members of the public and the business community has been made possible by a budget website page. **However, the Task Group has been informed that during the 2006/07 budget process, the website page was closed down, due to the disappointing level of interest in the page and subsequent lack of justification in renewing its licence. Instead, officers are pursuing the potential for the Council's corporate web site to include a budget consultation page in the future – any update on this???**

Consultation with Members

29. From October 2005, when Cabinet agreed the 2006/07 Financial Plan, the following activities took place to enable backbench member involvement in the budget setting process:

Table 4

Oct 2005 – Jan 06	-	<p>Advisory Panels’ consideration of various budget reports. Only the Children, Education & Libraries Advisory Panel received a report specifically referring to the 2006/07 budget. There is no Advisory Panel for Corporate Services.</p> <p>The Treasurer’s Budget Guidance Notes for 2006/07 included the following advice:</p> <p><i>“Departments are expected to ensure that Advisory Panel meetings are arranged to coincide with the budget timetable, where Advisory Panels are expected to propose priorities to Cabinet.”</i></p>
16 th Dec 2005	-	Members Seminar on the provisional revenue grant settlement for 2006/07. 8 backbench members attended this Seminar
Mid Jan 2006	-	A budget booklet was issued to all members, containing reports on the projected revenue spending for 2005/06, the provisional revenue grant settlement for 2006/07, and details of the preparation for the 2006/07 revenue budget so far
10 th Jan 2006	-	The Treasurer met with the Conservative Group to discuss the content of the Budget Booklet
24 th Jan 2006	-	The Treasurer met with members from the opposition groups to discuss the content of the Budget Booklet
3 rd Feb 2006	-	Members Seminar on the 2006/07 revenue budget proposals, which took place immediately prior to the Cabinet’s February meeting to agree its budget recommendations to Council. 10 backbench members attended this Seminar
7 th Feb 2006	-	County Council meeting to formally consider and agree the 2006/07 Budget

30. At the Members Seminar on the 3rd February and again at the Council meeting on the 7th February, concern was raised by the Leader of the Liberal Democrat Group and the Chairman of the Overview & Scrutiny Management Committee that insufficient opportunity had been given to backbench members to consider proposals for the 2006/07 revenue budget.

31. The Task Group has considered the detail concerning the extent to which backbench members were consulted on budget proposals during the 2006/07 process, and has evaluated the reasonableness of the claim that

this had been insufficient. Consequently, it considers that there is scope for more robust member challenge during the setting of the Council's annual revenue budget, and recommends the following process to facilitate this:

Table 5

May - Jul	-	Review / Publish the MTFS
Sept - Oct	-	MTFS & Draft Financial Plan to Departments to begin building their budget proposals. - <i>The Treasurer to highlight in the explanatory guidance which accompanies the MTFS and Draft Financial Plan, the amended budget process for 2007/08 and future years which now more fully engages with the Council's scrutiny committees. <u>The key implication being that a meeting of the Overview & Scrutiny Management Committee and the Children's Services Scrutiny Committee will each take place in between the Cabinet considering its draft budget proposals and these being agreed by Council.</u></i>
Oct	-	MTFS & Draft Financial Plan to Cabinet
Mid – Late Nov	-	Provisional RSG announcement from Government - Members Seminar to provide detail on the provisional settlement and implications for the Council's budget
Early Jan	-	Budget Booklet to all members
Early Feb	-	Final RSG announced
Early Feb	-	Cabinet meets to discuss its draft budget proposals
ASAP after Feb Cabinet meeting, and before the Council meeting	-	<u>Meetings of the main Overview & Scrutiny Committees to consider the draft budget proposals which relate to those services and departments for which each Committee has regard</u>
The 1 st , 2 nd or 3 rd week of Feb	-	Council to agree final budget, <i>taking into account the views of the main O & S Scrutiny Committees</i>

32. To support this process, the Task Group recognises that there will be a need for further training and officer advice to assist the Task Group members' understanding of often quite complex budget reports, and

recommends the following programme of training to be led and facilitated by the Treasurer and Democratic & Members' Services.

Table 6

September	-	How to carry out effective budget monitoring, particularly with regard to recovery action plans
October	-	A guide to the annual budget setting process
November	-	A guide to the Government's new revenue funding settlement arrangements
February - April	-	Mop Up sessions on budget scrutiny training, responding to members training requests

Budget Monitoring Arrangements

33. The Audit Commission recommended actions for the County Council in its Audit and Inspection Letter dated December 2005 that it "continue to actively manage the ongoing revenue position, ensuring in-year overspends are minimised, and that, in the medium term, revenue budgets are achievable".
34. Managing and monitoring the revenue position in 2005/06 was dominated by the projected overspending in two service departments, the Department of Adult and Community Services (DACS), which ended the year with a provisional overspend of £4.524m, and the Department of Children & Education, which ended the year with a provisional overspend of £2.177m.
35. As a result of prudent financial management in previous years, £5.5m of the total overspends from 2005/06 were offset by the use of a Revenue Budget Contingency Reserve. However, this offsetting came with a strong warning from the Treasurer that such contingencies could not be found in future years and that there was therefore no scope for any departmental overspend in the medium term.
36. To assist officers in being able to obtain and complete budget monitoring information more quickly and efficiently, a new online budget management reporting system was introduced in April 2006. This will also benefit those cabinet and scrutiny groups whose remit it is to carry out budget monitoring.
37. The Task Group received a report detailing the Council's arrangements for revenue budget monitoring in March 2006, as illustrated in Table 7 below. On evaluating the effectiveness of these arrangements, the Task Group voiced concerns with regard to the robustness of members' engagement in

budget monitoring at Advisory Panels, particularly due to the way in which it was assumed that the reports were to be considered simply “to note”, rather than to result in a recommendation to Cabinet.

Table 7

Cabinet & Advisory Panels	-	Receive monthly revenue budget and service standards monitoring reports
Chief Officers	-	Have responsibility to carry out budget monitoring and to include commentary in the monthly cabinet / advisory panel reports
Senior Officer Finance Forum (Department Accountants, the Treasurer & Deputy Treasurer)	-	Review the budget position on a monthly basis
Budget Process Scrutiny Task Group	-	Has a remit to review the Council’s revenue budget monitoring arrangements

38. Whilst the Task Group respects the need and right of the Cabinet and Advisory Panels to continue their budget monitoring activities, there may be scope for the Task Group to exercise a budget monitoring role particularly in the light of large overspends in 2005/06. This would not be to duplicate the efforts of the Cabinet and its Advisory Panels, but to initiate more in depth constructive challenge of budget lines and detail.
39. In order to be able to carry out a budget monitoring role, it is suggested that the Task Group meet more frequently than three times a year. Instead, members may consider that there is justification for the Task Group to meet on a bi-monthly timetable. This could then allow members the time and opportunity to closely follow the Cabinet’s monthly monitoring of budgets and to pose suitable challenges to Cabinet members and Chief Officers at an earlier stage than is currently possible. Individual members will also be encouraged and supported to research issues of concern between meetings. **The Deputy Chief Executive will be consulting with Chief Officers on this proposal at the Corporate Management Board meeting on the 7th June 2006.**
40. The suggestion is that the Task Group, whilst taking on a proactive budget monitoring role, would also retain its remit to take an overview of the effectiveness of the annual budget setting process. It will also continue to produce an annual report on its activities and findings, with recommendations to the Management Committee and Cabinet as appropriate.

Joint Performance and Spending Summary

Scope for a picture – take photo of leaflets in fan?

41. Each year, local authorities are required to publish performance information and financial information, including information on revenue spending plans, staffing levels, borrowing, capital spending and council tax bands.
42. This year, a Joint Performance and Spending Summary for each of the four districts was produced in partnership with the District Councils a number of town councils, the Wiltshire Police Authority and the Wiltshire Fire Brigade.
43. The cost of the summary has proved a sticking point between partners in previous years, with many unhappy that they did not know how much it would cost them until part way through the process. This year a budget was set using last year's cost, plus a notional figure to cover inflation, therefore all partners new of the level of their financial commitment at the start.
44. The production cost for this year's booklet came in under budget costing a total of £44,205 compared to last year's figure of £55,534. The main savings resulted from a reduction in design costs. The costs were apportioned along similar lines to last year but with a fixed cost per page for town councils to make the costs more transparent.
45. A coordinating group reviewed the design of the 2005/06 Summary and concluded that the 2006/07 Summary should have a cleaner, more consistent design, with fewer better quality images, more 'white space' and clear, easy to follow indexing. The font was also changed to improve the readability of the booklet. The content followed similar lines to previous years, as it was felt that the information was relevant and informative.
46. The 2006/07 Summary also contains the information that the Budget Process Scrutiny Task Group has requested in previous years, with the cost of producing the leaflet stated on the inside cover, a consistent location for the contents page, and the inclusion of a statement detailing that renewable resources are used for printing, and that it is a statutory document. Details of the Council's website pages on the budget are also included.
47. Joint working to produce the Summary has proved successful for the 2006/07 edition, with early agreements on budget, design and content making the process more straightforward.
48. possibly more to add following the Task Group June meeting?

PROPOSALS FOR FUTURE SCRUTINY

49. Subject to the agreement of the recommendations made in this report, the Task Group would like to include in its future work programme, the following main areas of activity:

- (a) to continue to carry out an overview of the annual revenue budget setting process, including consultation arrangements;
- (b) to carry out regular budget monitoring activities, at least 5 – 6 times a year;
- (c) to carry out ongoing budget monitoring activities, which will include use of individual Task Group members, consulting with other members and officers and conducting research as appropriate through the year;
- (d) to continue to monitor the budgetary position and financial management within DACS
- (e) to monitor the effectiveness of the Medium Term Financial Strategy;
- (f) to monitor the effectiveness of the Joint Performance and Spending Summary;
- (g) to pursue possible work programme links with the Performance Scrutiny Task Group;
- (h) to review the progress made in strengthening the link between community planning and service and financial planning; and
- (i) to review the progress of the implementation of previous recommendations made by this Task Group
- (j) to continue to produce an Annual Report

RECOMMENDATIONS

As a consequence of its investigations, evidence received and findings made, the Task Group has made the following recommendations.

2006/07 Revenue Budget Setting Process

1. The Leader of the Council is recommended to challenge the Minister for Communities and Local Government on the lateness of the government funding announcement each year (paragraphs 14 to 21 refer);

2006/07 Revenue Budget Consultation

2. The main Overview & Scrutiny Committees are recommended to meet each year in between Cabinet agreeing its draft budget proposals and Council considering those proposals, with a view to facilitating stronger backbench member involvement in the annual budget setting process (paragraphs 29 to 31 refer);
3. The Treasurer is recommended to provide a programme of training to improve the Task Group members' understanding of the budget process and of budget reporting (paragraph 32 refers);
4. The Scrutiny Support Officer is recommended to research the budget consultation methods used by the London Borough of Harrow Council, Oxford City Council and Torbay Council, noted for their good practice in this regard, in engaging with business groups and members of the public (paragraphs 25 – 28 refer);

Revenue Budget Monitoring

5. The Overview & Scrutiny Management Committee is recommended to assign the Budget Process Scrutiny Task Group a role in budget monitoring, as well as retaining its function of taking an overview of the effectiveness of the annual revenue budget setting process (paragraphs 33 – 40 refer);

General

6. Subject to recommendations (2) and (5) above being agreed, the Overview & Scrutiny Management Committee is recommended to
 - (a) amend the name of the Budget Process Scrutiny Task Group to reflect the Council's revised approach to budget scrutiny, to "Budget Scrutiny Task Group"; and
 - (b) review the Council's revised approach to budget scrutiny in 12 months time.

DECISION MAKING PROCESS

The Overview and Scrutiny Management Committee will consider the Task Group's recommendations on 9th June 2006. If the Management Committee endorses the recommendations they will subsequently be submitted to Cabinet on the 25th July for consideration.

