

ANGUS COUNCIL

POLICY & RESOURCES COMMITTEE – 19 JUNE 2001

THREE YEAR BUDGETING – KEY ISSUES AND PROPOSED WAY FORWARD

Report By The Director Of Finance

ABSTRACT

The purpose of this report is to outline the key issues associated with the continued development of three year budgeting within Angus Council and to recommend a proposed way forward.

1. RECOMMENDATION

It is recommended that the Committee approves the way forward for three year budgeting within Angus as outlined in this report.

2. BACKGROUND

The impetus for “three year budgeting” came from the very first Best Value guidance document issued to Scottish Councils by the Best Value Task Force in 1997. The Task Force saw three year budgeting as being more than the preparation of financial budgets over a three year period and recommended that Councils develop a more integrated approach to service planning and budgeting on a three year (medium term) basis.

On the back of the Task Force recommendations the CIPFA Directors of Finance Section established a working group of officers to pull together a comprehensive guidance document entitled “Integrating Strategic Planning and Three Year Budgeting”. Angus Council Finance officers made significant contributions towards that guidance and it has been used to both inform developments within Angus to date and in preparing this report.

Until recently one of the main barriers to making three year service planning and budgeting a reality was the non-availability of firm three year settlement information from the Scottish Executive. The Executive’s influence over the Council’s finances is well known (they determine around 80% of general fund income and have increasingly hypothecated new resources) but in recent years knowing the Executive’s policy intentions has become equally important to planning and budgeting at the local authority level. The abolition of Expenditure Guidelines is also relevant as it creates new flexibility for Councils in planning ahead.

Now that the Executive have provided Councils with a firm financial settlement for the three year period 2001/02 to 2003/04 it is considered appropriate that Angus Council review what progress has been made to date with the implementation of three year service planning and budgeting and, more crucially, consider how it wishes to move forward in this area.

3. CURRENT APPROACH TO REVENUE BUDGET PREPARATIONCurrent Approach

The Council’s approach to revenue budget preparation has from the outset involved preparing departmental budgets in accordance with a strict budget timetable and clearly defined guidance. The main features of the current approach are as follows:-

- Departmental budgets are prepared on an incremental basis by rolling forward the previous years budget and adjusting (up or down) to reflect changing circumstances;
- Growth from one years budget to the next is restricted with, in the main, only a few unavoidable cost pressures being “allowable”;

- Some flexibility has been permitted within the budget process for corporate priorities and matters of policy by, for example, use of a policy led budgeting framework, spend to save initiatives, agreed service developments, etc.;
- A clear process exists which allows service Directors to bring to the attention of elected members and other senior officers current and future budget pressures impacting on their services;
- A two stage officer review process is used covering technical issues (TVG) and more strategic issues (BRG);
- A member / officer review process exists involving every department and their respective conveners and vice conveners to consider budgets, savings and other issues.

Advantages

The Council's current approach to revenue budget preparation has worked well since the first budget was produced for financial year 1996/97 and is now familiar to all involved. The main advantages may be summarised thus:-

- Detailed scrutiny of the proposed budget of every area of Council service;
- Detailed consideration of budget pressures and issues;
- Maximum flexibility on decision making – key decisions can be left until relatively late in the budget process;
- Formulation of budget strategy is more straightforward – main focus is on the year upcoming and all relevant information for making decisions is normally available;
- The inclusive nature of the current approach means that elected members and service directors have ownership of the process.

Disadvantages

Whilst the current approach has served the Council very well to date it does nevertheless have a number of disadvantages. These are as follows:-

- The main concentration has been primarily on the upcoming year which does not lend itself to a more strategic medium term approach to service or financial planning;
- There has been insufficient certainty on the budget to be available into future years to allow conveners and their service directors to plan ahead effectively;
- Savings and other decisions may be more focused on short term rather than sustainable solutions;
- It is a resource intensive process covering June – April and involving most elected members and many officers;
- The current approach can create a situation where the budget is to some extent driving policy rather than policy decisions influencing how resources are to be utilised.

The advantages and disadvantages of the current approach form a benchmark against which the proposed way forward may be assessed.

4. PROGRESS TO DATE IN ANGUS COUNCIL

It is important that the proposed way forward for three year budgeting outlined later in this report takes account of the progress the Council has made to date in developing its approach to medium term planning. The Council already has in place the 3 key components of a robust medium term planing and budgeting process, viz.;

- A three year corporate plan;
- Departmental service plans covering a three year period;
- Revenue and capital budget projections covering a three year period.

The Council has also received positive feedback from the external auditors through the Performance Management and Planning (PMP) process to the effect that Angus is making good progress in comparison to most other Scottish local authorities in delivering a medium term planning and budgeting process.

Despite having the various components for medium term planning in place further work is required to link the components together more effectively so that they are consistent in all key respects e.g. the financial consequences of the developments detailed within departmental service plans should be consistent with their three year revenue and capital budgets.

5. ISSUES FOR CONSIDERATION

A number of other issues require to be considered in the context of taking forward three year budgeting. These are discussed below.

Fixed Settlement Periods

The Scottish Executive have recently concluded their spending review exercise and have given Councils a firm financial settlement for the next 3 years (2001/02 to 2003/04). The key issue here, however, is that the Executive intend adopting a process of fixed rather than rolling 3 year settlements. This means that Councils are unlikely to have their financial settlement allocations for financial years 2004/05, 2005/06 and 2006/07 confirmed until November / December 2003. The informal indications are however that more limited information on the spending plans of the Executive for 2004/05 and 2005/06 may be available sometime during the 2002 calendar year. These issues suggest that if Councils wish to have a fully rolling three year budget programme they may need to prepare the budget figures for later years in the absence of definitive information from the Executive. A three year rolling budget would be more useful in the context of medium term planning but it will be difficult to make this work in practical terms in the absence of information from the Executive. It is considered, therefore, that in the meantime Angus Council should pursue three year budgeting on a fixed rather than rolling basis in line with how Scottish Executive financial settlements will be made.

Housing Revenue Account Budgets

General Fund departments make up the bulk of Council services. However, it will be important for any revisions to the budget process for these departments to be applicable to the Housing Revenue Account budget also. At present the HRA budget is prepared in a similar fashion to general fund departments and is subject to the same member and officer review processes. To some extent achieving a three year budget for housing which is linked to the department's service plan should be more straightforward given that it's a self contained service in financial terms.

Capital Budget

Three year budgeting applies as much to the capital budget as it does to the revenue budget. The Council has for many years prepared its capital budget on a medium term basis by looking at the spending plans for the forthcoming three years on a rolling basis. Whilst 3 year capital budgets are, therefore, already prepared it will be necessary to improve the links between the capital budget and the corporate and service plans to ensure consistency between them. There is also a need to ensure that the full revenue consequences of capital investment decisions are better understood prior to projects being committed. These linkage issues are being addressed to some extent through the Capital Project Appraisal process but will require to be further developed as part of three year budgeting.

6. PROPOSED WAY FORWARD

Summary

In light of the above it is considered both necessary and opportune for the Council to further develop its approach to medium term planning and budgeting for the period 2001/02 to 2003/04 (i.e. the latest spending review period, this being the key constraint).

Following consultation the most appropriate way forward for the Council is considered to be :

- to firstly develop a full budget strategy for a 3 year period wherein indicative budget envelopes would be allocated to services based on parameters of confidence; and
- thereafter adopt a slightly less detailed budget scrutiny and review process for the purposes of setting the Council Tax.

This approach would mean preparing a fairly definitive budget strategy for the period 2002/03 to 2003/04 (2001/02 having already been concluded) over the coming months which would effectively result in all of the key budget decisions for 2002/03 and 2003/04 being made. Thereafter, the Council would undertake a more simplified budget preparation and review process in order to set the 2002/03 Council Tax and then, the following year, the 2003/04 Council Tax.

Development of the Budget Strategy

This approach envisages key budget strategy decisions being made to the extent that high level budget totals or "envelopes" would be given to each department based on their relative priority. Budget envelopes need not guarantee an allocation of resources through the application of parameters of confidence to assure departments a set percentage of their budget envelope once the budget was actually set. Each department would subsequently be required to deal with budget pressures / develop the service within the allocated budget envelope.

Under this approach the key budget strategy decisions would be based on the Council's corporate priorities, as set out in the Corporate Plan, and departmental priorities as envisaged in service plans. This approach would see the draw down of the corporate plan to specific targets from which departmental service plans and budget strategy for 2002/03 and 2003/04 would be developed together over the next few months. This will help ensure that there is both a link and a consistency between corporate plan, service plans and budgets.

The Council's budget strategy for 2001/02 is already in place and although in less detail a broad budget strategy for years 2 & 3 (2002/03 and 2003/04) for the purposes of setting indicative Council Tax levels has also been formed. Nevertheless key decisions remain in respect of years 2 & 3 in terms of critical budget matters including the level of savings to be made and how these may be spread across departments, final Council Tax levels, contributions to special funds, development of other policy initiatives, etc. The proposed approach to budgeting in future would require these key decisions to be taken over the next few months in order that the budget envelopes (and any parameters of confidence which would apply) for each department may be established with relative certainty.

Clearly it would be unwise for the Council to set a budget for years 2 & 3 and then rigidly stick to this regardless of changing circumstances which may arise. The need for some flexibility must therefore remain. The use of parameters of confidence in establishing budget envelopes should assist in this regard. It must be noted however that the purpose of committing to a firm and detailed budget strategy for years 2 & 3 and allocating budget envelopes for each department thereon is intended to give service directors the ability to plan ahead with greater certainty. If this is to be effective a far lesser degree of flexibility will exist when it comes to finalising the Council Tax than is presently the case under the annualised budget preparation process.

Budget Scrutiny and Review

This approach would still involve retaining a relatively detailed budget scrutiny and review process whereby budget envelopes could be adjusted in light of discussions through the review process. This would ensure that members and officers remained fully aware of the issues affecting different services and would allow the implications of policy decisions to be more readily assessed. Retention of a more detailed scrutiny process may highlight opportunities where budget strategy could be altered without impacting on a departments service plan. e.g. a particular budget pressure may be less than anticipated thereby creating some headroom.

It is nevertheless thought that the scrutiny and review processes under this approach could be lessened to some degree in comparison to current arrangements by replacing the formal TVG process with a less formal technical verification process and amending the BRG process to consider service plan intentions along with the budget (all in the context of the Council's pre-determined budget strategy for those years). Given that the budget strategy will have been set some months earlier the BRG and Member / Officer budget meetings process should be more straightforward. Ultimately this approach may have only a marginal impact on the level of workload in comparison to current arrangements but it should mean that the workload falls in such a way as to more readily facilitate medium term service planning and budgeting.

Advantages

The main advantages of the proposed way forward are considered to be as follows:-

- It encourages a more strategic approach to service planning and budgeting;
- It provides conveners and their service directors with much more certainty on the resources to be available to them in future years which in turn should allow them to plan ahead more effectively;
- Savings and other decisions should be focused on achieving sustainable solutions;
- It should be slightly less resource intensive overall for both members and officers;
- The use of budget envelopes will allow policy priorities to have much more influence on how the restricted resources available to the Council are to be allocated to particular services i.e. the budget should become more policy focused than in previous years.

Disadvantages

The main disadvantages of the proposed way forward may be summarised as follows:-

- There will be less flexibility to change the budget strategy when it comes to setting the year 2 and then the year 3 Council Tax than exists under the current annualised approach;
- The Councils plans for years 2 & 3 could be somewhat devalued if circumstances change radically in the intervening period e.g. a change of UK government, stock market crash, etc. There is however little the Council can do about this.

Although listed as a disadvantage, a loss of flexibility when it comes to setting the Council Tax is a necessary by-product of moving to a medium term approach to budget planning. In effect this loss of flexibility cannot realistically be overcome if the Council wishes to give greater certainty on financial resources to those involved in the planning of service delivery.

Although the proposed way forward represents a fairly radical departure from how the Council currently prepares its budget, and as can be seen has a few potential drawbacks as well as several benefits, it is firmly believed that its adoption would provide a means of delivering a more integrated approach to three year service planning and budgeting. In turn this will hopefully translate into more informed planning, and ultimately delivery, of the key services the Council is here to provide.

Appendix A sets out in more detail some of the key changes to current arrangements which are envisaged if the recommended way forward is agreed. Appendix B sets out a high level timetable covering the period April 2001 to June 2003 which helps illustrate the impact of the proposed approach on the various components of a three year planning and budgeting mechanism.

7. CONSULTATION

The Chief Executive and Director of Law and Administration have been consulted in the preparation of this report.

8. HUMAN RIGHTS IMPLICATIONS

There are no human rights implications arising directly from this report.

9. CONCLUSION

The Council has been working hard to try to minimise the disadvantages inherent within the framework of the annual budget preparation cycle but this can only go so far. Even with the improvements which have been made the current approach to budgeting makes it more difficult to achieve robust service planning on a medium term basis. The proposed way forward set out in this paper is seen as a solution for the period up to 2003/04 and it may be necessary to review the position again in light of experience and possible changes in the local government environment occurring over that period.

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Director of Finance

NOTE: No background papers, as defined by Section 50D of the Local Government (Scotland) Act 1973 (other than any containing confidential or exempt information) were relied on to any material extent in preparing the above Report.

IL/SJM, 13 June 2001
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Taking Forward Three Year Budgeting In Angus Council

Proposed Main Changes To Current Arrangements

Budget Strategy Group

A new Budget Strategy Group (BSG) would be created comprised of key elected members (e.g. Leader, Depute Leader, Finance & IT Convener and Vice Convener) and key Chief Officers (Chief Executive, Director of Finance, Head of Corporate Finance). To a large extent this grouping already exists (albeit more informally) and has been one of the main vehicles for taking budget strategy decisions in recent budget cycles. What is proposed is that this grouping be formalised with an agreed remit and membership, etc.

The main remit of this group would be to set revenue and capital budget strategy for the period to 2003/04 including the setting of budget envelopes for departments, the approach to budget savings to be adopted, any contributions to funds and balances, Council Tax decisions, etc. This group would also make the key decisions in setting the annual revenue and capital budgets for 2002/03 and 2003/04.

Meetings of the Budget Strategy Group would be on an as needed basis though it would be probably be necessary for the group to meet a few times in the next few months in order to form the Council's budget strategy for the period to 2003/04.

Technical Validation Group (TVG)

The formal TVG process would be replaced with a less formal verification process which scrutinises key budget issues without the need for a process of formal meetings. A more detailed budget preparation and validation checklist would be introduced as a means of confirming that key figures are verified and that the Director of Finance's budget guidance has been followed. Most Council departments have found the TVG a useful forum for discussion of technical issues. It is still therefore likely that some form of meeting will be required to discuss key technical issues. What is being suggested is that these meetings be informal, arranged only where necessary and have an agreed agenda of issues which need to be discussed specific to the department concerned.

The simplification of the process of technical validation of budgets will be assisted by reducing wherever possible the amount of information currently collected and verified. The technical process of preparing detailed budgets for financial ledger and budget monitoring purposes will still be necessary so no significant changes to this process are envisaged. Departments will continue to be encouraged to use the financial ledger for the purposes of building up draft budgets.

Capital Budget Sub-Group (CBSG)

The Capital Budget Sub-Group of the BRG would continue to consider the specific and often complex issues associated with the Councils Financial Plan and Capital Budget. However instead of being guided by the BRG as at present the CBSG would take its broad direction from the Budget Strategy Group. The CBSG would therefore become a sub-group of the BSG rather than the BRG. Although the CBSG would be guided by the BSG, in practice, the CBSG would act in an advisory capacity to the BSG.

Budget Review Group (BRG)

An officer based BRG would continue to exist but would be simplified by the fact that most key budget strategy decisions will already have been taken by the BSG. The BRG would, as it does at present, provide a formal forum for discussion of key budget issues between officers prior to the budget meetings with conveners and vice-conveners. As with the technical validation process it should be possible to simplify the current BRG process to make it less time consuming for all those involved. It is thought appropriate for the BRG to consider departmental service planning intentions at the same time as budgets to ensure a consistency between the two. This would require amendment to the timetable for preparing service plans.

It is also proposed that there would be merit in the BRG co-ordinating a strategic approach to the various resource management matters that will inform the Council's budget considerations. Such matters will include Human Resources, Property and Information Technology / E-government and may require specific consultation with appropriate Chief Officers.

Budget Meetings With Conveners and Vice-Conveners

These budget meetings have been used as the forum to make the final decisions affecting departmental revenue and capital budgets since the Council began and appear to have worked well. It is proposed that this process be continued whereby conveners, vice conveners and their department heads would meet with the members of the Budget Strategy Group in order to finalise the annual revenue and capital budgets.

Possible High Level Budget / Service Planning Timetable

	Corporate Plan	Service Plans	Revenue & Capital Budget Strategy	Setting of Annual Budget	Capital Budget
2001					
A	(Drill down of high level targets within (the Corporate Plan continues				
P			(Finance prepare departmental budget (projections (assessment of needs) for (2002/03 and 2003/04 as a basis for discussing (budget envelopes and overall budget strategy		
R					
I					
L					
M					
A	(Angus Council Corporate (Plan used to inform (budget strategy decisions	(Service Plans for 2001/02 to 2003/04 (submitted to service committees. (Service Plan intentions for 2002/03 and (2003/04 will be indicative only , since (the budget strategy for those years (will still have to be finalised			(2000/01 Final Actuals become (available to inform 2001/02 and beyond (capital budget
Y					
J			(BSG discuss initial budget strategy options (for 2002/03 and 2003/04 based on Finance (projections. First draft of budget strategy (determined. Any further work to be done (over the recess period identified	(Budget preparation guidelines for (2002/03 revenue budget reported to (F & IT Committee	(CBSG meets to begin planning ahead (for 2002/03 and 2003/04 and advises (the BSG of issues to be taken into (account in forming the capital budget (strategy
U					
N					
E					
J					
U					
L					
Y					
A					
U					
G					
U					
S					
T					
S					
E					
P					
T					
O					
C					
T					
O					
B					
E					
R	(Service Plan intentions for financial (years 2002/03 and 2003/04 revisited in (light of budget strategy established for (those years	(Report outlining key elements of budget (strategy for 2002/03 and 2003/04 submitted to (Policy & Resources for information / approval. (This would stop short of declaring "everything" (but would set out budget envelopes, etc for (each service committee	(Depts amend 2002/03 budgets, identify (savings, etc in light of confirmed budget (strategy	(Depts determine 2002/03 budgets in (detail, compare to budget envelope set (and identify extent of surplus available / (further savings to be made. Significant (issues arising identified for discussion (at BRG	(Budget preparation guidelines for (2002/03 capital budget reported to (F & IT Committee
N					
O					
V					
D					
E					
C	(Preparation of Draft Service Plan (covering the period 2002/03 and (2003/04 begins in earnest	(Reports submitted to service committees for (their information confirming budget (envelopes set for the depts under the (committee's control and highlighting (pertinent issues arising	(Simplified BRG papers prepared (BRG meetings take place	(Simplified BRG papers prepared (BRG meetings take place	
2002					
J					
A					
N					

{ 2002/03 Departmental budgets finalised
{ and 2002/03 Council Tax set
{ Provisional 2002/03 Capital Budget Set

{ Progress against the Corporate Plan
{ reviewed with a view to this
{ Informing 2003/04 budget strategy
{ update and preparation of service
{ plans 2002/03 - 2003/04
{
{ Work continues on draft service plans
{
{
{
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{

{ Budget projections and strategy for 2003/04
{ reviewed in light of 2002/03 final budgets set
{ Changes should be relatively at margins
{ 2004/05 issues considered in broad terms
{ in the absence of information from S. Exec

{ Service Plans covering the period
{ 2002/03 and 2003/04 finalised in light
{ of 2002/03 final budgets and updated
{ budget strategy for 2003/04
{
{ Budget Strategy for 2003/04 Finalised in time
{ to inform setting of 2003/04 detailed budgets

{ Budget preparation guidelines for
{ 2003/04 revenue budget reported to
{ F & IT Committee
{
{ CBSG meets to review where necessary
{ the capital budget strategy for 2003/04
{ and advises the BSG of issues arising

{ Budget Guidance issued by Director of
{ Finance based on confirmed budget
{ strategy

{ Depts determine 2003/04 budgets in
{ detail, compare to budget envelope set
{ and identify extent of surplus available /
{ further savings to be made. Significant
{ issues arising identified for discussion
{ at BRG

{ 2003/04 Draft Departmental Budgets
{ savings proposals, etc reviewed and
{ validated by Finance prior to submission
{ to BRG meetings. Review / validation
{ process undertaken in liaison with dept
{ on an informal basis
{
{ CBSG meets to discuss draft dept
{ capital budget proposals and advise
{ BSG on any issues arising

{ Service Plan intentions for financial
{ year 2003/04 revisited in light of
{ budget strategy established for that
{ year

{ Simplified BRG papers prepared
{ BRG meetings take place
{
{ Simplified BRG papers prepared
{ BRG meetings take place

{ Preparation of Draft Service Plan
{ for 2003/04 begins in earnest
{ Consideration given to 2004/05 issues
{ as far as this can be done in the
{ absence of any budget information

F E B M A R C H A P R I L M A Y J U N E N E J U L Y A U G U S T S E P T O C T O B E R N O V D E C

J	(M/O Budget Meetings held to finalise	(M/O Budget Meetings held to finalise
A	(the revenue and capital budget	(the revenue and capital budget
N		
F	(2003/04 Departmental budgets finalised	(Provisional 2003/04 Capital Budget Set
E	(and 2003/04 Council Tax set	
B	(Progress against the Corporate Plan	
	(reviewed with a view to progress	
M	(Informing future budget strategy	
A	(and preparation of 2003/04 service	
R	(plans	
C	(Work continues on draft service plans	
H	(
	(
A	(
P	(
R	(
R	(
M	(
A	(
Y	(
	(
J	(Likely Earliest Date For Scottish Executive	
U	(to indicate spending intentions for the period	
N	(2004/05 to 2006/07	
E	(
	(
	(Service Plans for 2003/04 finalised in	
	(light of 2003/04 final budgets	
	(

Notes

The Budget Strategy (envelopes, etc) would be determined with reference to the Corporate Plan but should also recognise departmental initiatives identified in service plans. I.e. the determination of departmental budgets is not envisaged to be purely a top down process influenced solely by the Corporate Plan

For 2002/03 the annual budget will need to be kicked off before the high level strategy for that year is finalised, this shouldn't create too many problems

Finalisation of service plans is dependant upon more than simply the budget available to the service, consultation with users will be necessary. The results of Senior Staff personal appraisals may also be relevant as will consideration of the progress made on the previous years plan. These issues will need to feed into the above timetable for preparation of service plans

