

ANGUS COUNCIL

RESOURCES AND CENTRAL SERVICES COMMITTEE – 16 JUNE 2005

PREPARATION OF THE 2005/2009 FINANCIAL PLAN AND  
2006/07 GENERAL FUND CAPITAL BUDGET

REPORT BY THE DIRECTOR OF FINANCE

**ABSTRACT**

This report appraises members of the main stages in the Financial Plan process and seeks approval of the proposed approach to the preparation of the 2005/2009 Financial Plan and 2006/07 General Fund capital budget.

**1. RECOMMENDATIONS**

It is recommended that the committee:

- a) note the contents of this report for its interest; and
- b) approve the approach to the Financial Plan preparation process as set out in Section 5 of this report.

**2. INTRODUCTION**

In accordance with the Council's Financial Regulations, the 2005/2009 Financial Plan preparation process will commence in due course. The setting of the Council's 2006/07 General Fund capital budget is an integral part of this process. Detailed budget guidance will be issued to all council departments in late July / early August requiring departmental submissions to be prepared and submitted to the Finance department by late September / early October 2005.

This report outlines the process for the preparation of the 2005/2009 Financial Plan and highlights the key stages in the preparation timetable. A copy of the indicative timetable for the 2005/2009 Financial Plan process is attached at Appendix A.

**3. THE PRUDENTIAL CODE**

The 2006/07 capital budget will be the third budget to be prepared under the new Prudential Code regime.

The key objectives of the Prudential Code are to ensure that the capital investment plans of local authorities are affordable, prudent and sustainable, as well as being consistent with and supporting local strategic planning, asset management planning and proper option appraisal.

Members will be aware that under the Prudential Code the level of capital expenditure is no longer the key influence within the setting of the Financial Plan, rather the affordability and sustainability of the revenue consequences of capital investment decisions are now the key influences and the 2005/2009 Financial Plan will be prepared in this context. A report setting out the various indicators relating to the 2005/2009 Financial Plan will be submitted to the Council Tax setting meeting which is intended will take place in February 2006.

#### 4. POLICY LED BUDGETING

It is essential that in the preparation of the 2005/2009 Financial Plan, linkages between proposed departmental capital programmes and corporate / departmental service plans and policy priorities / objectives can be clearly demonstrated. This was highlighted as an area for improvement as part of the Best Value Audit and will be an important factor during the setting of the 2006/07 revenue and capital budgets.

#### 5. CAPITAL RESOURCES

The actual capital resources available to the Council in 2006/07 will be addressed during the Financial Plan process. However the following commentary may be made at this time on the principal sources of funding for the Council's capital budget.

##### Borrowing

The majority of the Council's capital expenditure is, and will continue to be, funded through borrowing. Whilst the Council will no longer be constrained by an annual borrowing limit (as under the old Section 94 Consent regime), it will be limited by the level of associated capital financing costs the revenue budget can support.

It should be noted however that the government retains the power to impose capital borrowing limits both nationally and on individual local authorities if required.

##### Capital Grants

The Scottish Executive has made a number of capital grants available to support and assist with the funding of certain specific government initiatives through its Spending Review 2004. The amounts Angus Council have been allocated (so far) in relation to these initiatives in 2006/07 are:

<u>Programme / Capital Grant</u>	<u>2006/07</u> <u>£m</u>
<u>Education</u>	
Schools Fund	2.176
<u>Planning &amp; Transport</u>	
Cycling, Walking & Safer Streets	0.187
Private Sector Housing Grant (current baseline)	0.522
<u>Roads</u>	
20mph Speedzones and Homezones	0.239

Further grant funding may also be available with regard to, for example, Air Quality Monitoring, Contaminated Land and the Public Transport Fund, although specific allocations have yet to be announced.

##### Capital Funded from Current Revenue

Capital Funded from Current Revenue (CFCR) is the funding of capital expenditure directly from the Council's revenue budget. Consideration will be given to CFCR funding requirements during the 2006/07 budget process.

##### Capital Receipts

The Council can augment its capital resources through the generation of capital receipts which effectively reduces the financial input required of the Council. This can be through the securing of contributions from funding partners or more general receipts, such as the sale of assets.

## Assessment of Available Resources

With the implementation of the Prudential Code, it is no longer necessary to determine a finite level of capital resources available to constrain the maximum level of the Council's capital expenditure. Rather the Council must now determine the capital financing costs which will be generated by the borrowing associated with the capital expenditure proposed and the affordability and sustainability of these costs and any other costs in terms of the Council's overall revenue budget. The inextricable link which now exists between the revenue and capital budgets means it is impossible to wholly finalise one budget without full consideration of the effects on the other. In order to sustain the level of capital financing costs associated with capital expenditure additional income or savings may need to be found in the revenue budget.

## **6. FINANCIAL PLAN PREPARATION PROCESS**

### Financial Plan Submissions

Financial Plan preparation guidance will be issued to departments in late July / early August. Each council department will, in consultation with Finance department staff, prepare their proposals for capital expenditure from 2006/07 up to and including 2008/09 as well as undertaking a review of their 2005/06 programmes. Departmental Financial Plan submissions will require to be returned in late September / early October for consideration by the Capital Budget Sub Group, Budget Strategy Group and Budget Review Groups over the period October to December. Thereafter the Financial Plans may be subject to further revision by departments during December 2005 and January 2006.

### Capital Project Appraisals

Since its inception in March 2000, Angus Council's system of Capital Project Appraisal (CPA) has provided valuable information to aid the Capital Budget Sub Group in determining those priorities to be taken forward by the Council. The introduction of the Prudential Code and its emphasis on asset management planning, strategic planning and option appraisal has presented the opportunity to revise and update the CPA Guidance Manual and improve the robustness of the CPA process as a whole.

The exercise to review and update the Guidance Manual has been completed and Finance officers are currently in the process of finalising the revised guidance to allow its distribution to chief officers for use during the financial year 2005/06 CPA cycle. Report 760/05 on this agenda provides details of the revisions made to the system of Capital Project Appraisal and related guidance.

### Capital Budget Sub Group

The Capital Budget Sub Group (CBSG) is an officer group chaired by the Chief Executive and concentrates on the strategic and budget co-ordination issues relating to the Financial Plan process. The CBSG takes its broad direction from, and acts in an advisory capacity to, the Budget Strategy Group. The first meeting of the CBSG has been set for 16 August 2005.

### Budget Strategy Group

The Budget Strategy Group (BSG), a member / officer group chaired by the Leader of the Council, will determine the broad budget strategy and direction for the 2005/2009 Financial Plan and 2006/07 capital budget. The BSG's initial consideration of issues relating to the 2005/2009 Financial Plan will take place at their meeting of 14 November 2005.

### Review and Validation Process

In accordance with Section 5.6 of the Council's Financial Regulations, each departmental Financial Plan submission is subject to a validation process to ensure compliance with the budget guidance issued by the Director of Finance and to ensure that the information which is submitted to the various budget groups is as accurate and comprehensive as possible.

Following completion of the validation process, it is intended that each service committee will be provided with a summary of their respective department's draft capital budget submission in the November/December committee cycle.

#### Budget Review Group

The Budget Review Group (BRG) – an officer based group chaired by the Chief Executive – provides a formal forum for discussion of the key budget issues between officers prior to the budget meetings with conveners and vice-conveners. The BRG is also required to consider departmental service planning intentions in conjunction with the budgets to ensure there is consistency between them. It is intended that BRG meetings will take place on 5 and 7 December 2005.

#### Special Service Committees

The Special Service Committees anticipated to be held in February 2006 to consider the revenue budget will also consider the Financial Plan submissions revised in light of the adjustments arising from the CBSG and BRG meetings.

### **7. FINANCIAL IMPLICATIONS**

There are no direct financial implications arising from this report.

### **8. HUMAN RIGHTS IMPLICATIONS**

There are no human rights implications as a result of this report.

### **9. CONSULTATION**

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

### **10. CONCLUSION**

This report represents the starting point for the preparation of the 2005/2009 Financial Plan and 2006/07 capital budget process. Further reports regarding the preparation of the Financial Plan will be brought forward as required, as the budget cycle progresses.

DAVID S SAWERS  
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.

INDICATIVE TIMETABLE FOR COMPLETION OF THE 2005/2009 FINANCIAL PLAN

Date	Action
16 June 2005	Report submitted to the Resources and Central Services Committee on the preparation of the 2005/2009 Financial Plan
Late July / early August	Director of Finance issues guidance to all Chief Officers on the preparation of departmental Financial Plan submissions
16 August	Capital Budget Sub Group (CBSG) meet to plan for 2006/07 and beyond
Late September / early October	Draft Financial Plan submissions to be returned by chief officers to the Director of Finance
26 October	CBSG meet to consider departmental Financial Plan submissions and advise BSG accordingly
14 November	BSG meet to consider proposals made by CBSG at its October meeting
November / December	Provisional base budget reports presented to service committees
5 and 7 December	Budget Review Group meetings consider key budget issues prior to the budget meetings with conveners and vice-conveners
December 2005 / January 2006	Departments informed of BSG / CBSG decisions and revise Financial Plan submissions as necessary
9 January	BSG meet to review updated capital budget position
16 and 18 January	Member / Officer meetings held to finalise 2006/07 departmental capital budget
24 January	BSG meet to confirm provisional capital budget position following decisions taken at Member / Officer meetings
w/c 6 February	Special Service Committees consider departmental revised Financial Plan submissions
March / April	Preparation of the 2006/07 Final Revenue Budget Volume (incorporating updated Provisional Capital Budget 2006/07) and Budget Guide
June / July / August	Finance department co-ordinate the preparation of 2006/07 Final Capital Budget Volume (incorporating departmental capital monitoring budgets for 2006/07) on availability of final actuals for 2005/06