

THE EXECUTIVE

12 JULY 2005

REPORT OF THE BUDGET PROCESS SCRUTINY PANEL

DRAFT FINAL REPORT OF THE BUDGET PROCESS SCRUTINY PANEL	FOR DECISION
<i>Final Reports of Scrutiny Panels are submitted to the Executive in accordance with Paragraph 11 of Article 5B of the Constitution for consideration and, if necessary, response in a separate report or verbally to the Assembly.</i>	
Summary	
<p>This report details the Budget Process Scrutiny Panel's review of the Council's annual budget process.</p>	
<p>The Panel's work included an analysis of the annual budget timetable and the suite of reports presented to various Council meetings, the methods and degree of consultation on budget / financial issues and options for the development of the current systems and procedures.</p>	
<p>The Panel's recommendations are intended to build on the strong arrangements already employed by the Council and enhance the participation of key stakeholders in the annual budget process.</p>	
Recommendations	
<p>This Panel, in light of its investigations and representations received, make the following recommendations:</p>	
<ol style="list-style-type: none"><li data-bbox="140 1335 1453 1774">(1) That regular all-Member briefings be arranged to coincide with key stages in the Council's budget setting process, in order that information on aspects such as the key budget pressures faced by the Authority and the proposals for rent and Council Tax increases can be explained prior to any decisions being made by the Executive / Assembly. These briefing sessions should also cover aspects such as the basic principles which make up the annual budget process (along the lines of the presentation given to the Panel by the Head of Financial Services on 25 October 2004 in respect of the Council's Medium Term Financial Strategy and Budget Process), budget preparations for the next year including a wider debate on the Capital Programme and the proposed schemes for inclusion in the annual programme, the projected versus actual expenditure for the previous year and the main proposals / options for changes to the Council's budget for the next year;<li data-bbox="140 1809 1406 1989">(2) That the Director of Finance examine options to strengthen the current budget formulation methods with a view to introducing a greater 'challenge' aspect to the compiling of budget estimates, possibly by the introduction of an approach to 'zero-based' budgeting particularly for areas which have seen a great deal of change in recent years;<li data-bbox="140 2024 1433 2058">(3) That the Corporate Management Team (CMT), via its Service and Financial Planning	

Board, give greater emphasis to the need for cross departmental discussions and consideration of common budget issues in the light of the changing service demands and requirements;

- (4) The introduction of more formal procedures for detailed consultation between Finance officers and Heads of Service / budget holders to assist in the strengthening of arrangements for the identification of budget growth / savings across all Council services, and the on-going monitoring of budgets;
- (5) That additional arrangements be put in place so that all Members are made more aware of financial issues being considered by the Executive. This could be achieved through, for example, the better use of the Council's Modern.gov system (which the vast majority of Members have access to) and the inclusion in the "Member Matters" publication of a regular column on the Council's finances, including Housing Revenue Account issues, and details of forthcoming reports to the Executive on these issues;
- (6) That the new Lead Member with portfolio responsibility for the Council's financial planning and budgetary control considers support to the portfolio through the greater involvement of other Portfolio Holders. This could be achieved by inviting the other Portfolio Holders to relevant meetings of the Council's Resource Monitoring Panel and could be further assisted by non-Executive Members who are able to offer time, expertise and commitment to an in-depth review of a particular service or area, in conjunction with Portfolio Holders and relevant finance and service staff;
- (7) Establishing reporting arrangements for matters considered at informal meetings of the Executive and CMT to ensure that the information considered is presented in the 'public' domain as soon as possible (while having regard to the need to maintain confidentiality over specific issues under the provisions of Access to Information legislation);
- (8) That the arrangements for consultation with the Unions on budget issues be strengthened. In this respect, it is proposed that an approach be agreed by the Employees Joint Consultative Committee (EJCC) for briefing meetings at which the Unions can be advised of the Council's budget timetable for the year and the main aspects that are likely to underpin the Council's vision for the following year's budget, and to allow the Unions sufficient time to put forward proposals which they consider would help to achieve the Council's vision;
- (9) Implementing arrangements for presentations on the Council's finances and budget process to local residents through the established Community Forums, at least once a year to each Forum;
- (10) That greater use is made of the Council's Citizen magazine as a means of enhancing the communication with the local community on the Council's finances including Housing Revenue Account issues; and
- (11) That, whenever practical, publications relating to the Council's finances should be presented in a way that is easy to follow and understand and that authors should be conscious of the need for plain language. Where this may not be appropriate throughout, the summary introducing the document should clearly explain the purpose and content in a way that can be understood by everyone. For publications that are intended solely for the information of the general public (e.g. the Council Tax leaflet)

the availability of translations, braille, larger text etc. should be advertised.

Reason

To improve the Council's budget processes and enable greater transparency and consultation.

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1 Introduction

- 1.1 At its meeting on 28 April 2004 the Scrutiny Management Board (SMB) agreed to set up a Scrutiny Panel to examine the Council's annual budget process. The SMB set a timeframe for the scrutiny of three months.
- 1.2 Due to delays in settling the membership of the Panel and to avoid a long period of disruption as a result of the summer recess period, the Panel's first meeting took place on 4 October 2004. The Panel met on six subsequent occasions (25 October, 8 December, 19 January, 5 April and 9 and 26 May 2005).

2 Membership

- 2.1 The membership of the Panel comprised Councillors M Baker (Lead Member), B Cook, J Denyer, J Wainwright and L Waker.
- 2.2 Ian Bristow, former Managing Director of Welbeck Limited and board member of the Barking and Dagenham Chamber of Commerce, was the Panel's external representative.
- 2.3 Joe Chesterton, Head of Financial Services, Finance Department, was the lead service officer, Jennie Duffy, Head of Customer First, Corporate Strategy Department, was the independent scrutiny support officer and Alan Dawson, Democratic Services Officer, Corporate Strategy Department, provided administrative support to the Panel.
- 2.4 The Panel also invited Councillor Geddes, the then Deputy Leader with Executive portfolio responsibility for the Council's overall budget, to its meeting on 8 December to discuss aspects of the Council's budget process and monitoring. Panel representatives also met with three Departmental Heads of Service as part of a follow up exercise to a questionnaire survey that was undertaken.

3 Terms of Reference and Objective

3.1 The terms of reference of the Panel were:

- (i) To examine the annual budget (revenue and capital for both the general fund and the Housing Revenue Account (HRA)) process and, in doing so, to have particular regard to:
 - External and internal pressures and influences, including statutory requirements, and
 - Communication and consultations processes with the community, Members, senior management and trade unions
- (ii) In looking at communications, to be conscious of the need for plain language and to make sure that all stakeholders are able to understand the full impact of any savings and growth items before final decisions are taken
- (iii) In relation to consultations, to make sure that these are timely and sufficiently comprehensive
- (iv) Generally, to have regard to any equalities and diversity and health issues, and
- (v) To report back with any findings and any recommendations.

3.2 The Panel agreed that, in addition to these terms of reference, it would be helpful to set its own overall objective, outlining what it sought to achieve from this scrutiny, in order to provide a focus for the Panel's work. The Panel set the following objective:

"The outcome of the Budget Process Scrutiny Panel should be that Members feel fully included in the budget setting process and understand the outcomes. This should be reviewed annually through consultation and survey".

4 Background

- 4.1 In February / March each year, the Council is required to set its capital and revenue budgets for the next financial year. This process includes the setting of the Council Tax and rent levels and the approval of the Capital Programme and Medium Term Financial Strategy.
- 4.2 Barking and Dagenham Council is widely recognised as being a very prudent authority in terms of its financial management and is one of only a few debt-free authorities in the country, and the only one in London. However, with the ever increasing pressures on local government finance and the Authority's desire to maintain its debt-free position for as long as possible a more proactive and holistic approach to the budget setting process has been adopted in recent years.
- 4.3 Following the appointments of the Director of Finance, Julie Parker, and Head of Financial Services, Joe Chesterton, in May and October 2003 respectively, a comprehensive review of the Council's budget setting process was undertaken. From this review and building on the sound financial base that was already in place, new arrangements were introduced to establish a clearer strategic and operational timetable for the budget setting process and a more in-depth study of all aspects of

the Council's finances, including annual savings and growth options as well as new pressures stemming from legislation.

5. Annual Revenue and Capital Budget Position

5.1 In 2004/05, the Council's total revenue budget was £220.2m. Of this £115m was allocated to Education, £61.3m to Social Services and the remaining £43.9m to the Environmental Protection and Cultural Services (EPCS) block, which effectively covers all other Council services (such as highways, environmental services and administrative services).

5.2 The revenue funding for 2004/05 was met from the following sources:

Central Government Grant	= £177.1m
Council Tax	= £43.1m

5.3 Expenditure levels for Education and Social Services are heavily prescribed by Central Government and the Council has therefore felt constrained in its scope to move funding from these areas into EPCS services. However, the Panel concurs with the view that this policy should be reviewed in view of the increasing pressures being faced by services that are funded via the EPCS block and, therefore, welcomes the new approach that is being introduced for the 2006/07 budget.

5.4 The Council's planned Capital Programme for 2004/05 was approximately £92m.

6. Annual Budget Process Arrangements and Timetable

6.1 At the Panel's inaugural meeting, the Head of Financial Services explained the new arrangements that had been introduced for the 2004/05 budget following the review of the budget processes for 2003/04.

6.2 The new arrangements included:

- (i) The creation of a strategic and operational timetable (see Appendix A for details);
- (ii) Introduction of standard pro-formas for savings and growth options, which require the identification by Chief Officers of proposals, linked to the Council's Community Priorities, Balanced Scorecard etc. These are ultimately presented to the Executive for consideration as part of the next year's budget process;
- (iii) More detailed information on the available resources from Central Government and other externally funded bodies;
- (iv) A number of detailed briefings to the Corporate Management Team (consisting of the Council's Chief Officers);
- (v) A suite of reports for both the Executive and Assembly (see Appendix B for details);
- (vi) Consultation with the Political Groups, Unions and the local Chamber of Commerce;
- (vii) A thorough review and reprioritisation of the Council's 4-year Capital Programme; and
- (viii) Regular and detailed memorandums to Chief Officers on the process.

- 6.3 The Panel also noted additional steps that had been introduced as part of the preparations for the 2005/06 financial year. These included bringing forward the commencement of the annual budget setting process to July 2004 (previously it began in October), presentations to Departmental Management Teams on the Council's Medium Term Financial Strategy and overall budget process, and the creation of a Budget Challenge Team to look at savings and growth options presented by Chief Officers.
- 6.4 The Head of Financial Services explained that a basic set of principles are applied to the previous year's estimates in order that a general picture of the Council's budget for the next financial year can be gained in late Autumn / early Winter. This position has been helped by the Government's move towards 3-year financial plans although it was noted that the Formula Spending Share (FSS) allocation, which is announced in mid-November, is the key factor which underpins the Council's consideration of its detailed budgets.
- 6.5 The Panel acknowledged that significant progress had been made in the budget setting process, both in terms of the internal arrangements for preparing a prudent and timely budget and the proposals to improve the transparency of the process. However, the Panel was mindful of a number of views expressed regarding the need for the Council to commence the process even earlier in the year and was therefore particularly pleased to learn from the Head of Financial Services that steps were being taken to achieve this. The Panel also welcomed the commitment to the ongoing review of arrangements as part of a year-on-year improvement process.

7 Financial Reporting and Reviewing

- 7.1 The Finance Department produces a series of reports throughout the financial year as part of the ongoing review and monitoring of the current year's spending as well as in preparation for future years' estimates. In addition to monthly Departmental Monitoring reports for Chief Officers / senior managers, highlighting areas of over / under spending in the current year, monthly Budget Monitoring reports are presented to the Executive. Also, Financial Outlook reports, giving projections for future years budgets, have typically been considered at informal meetings between the Executive and the Corporate Management Team (CMT).
- 7.2 With regard to the Budget Monitoring reports to the Executive (which are generally presented within 6 weeks of the period to which they relate) the Panel agreed that whilst the level of information in these reports and their frequency may be considered sufficient for the purposes of the Executive, the current arrangements did not necessarily give non-Executive Members a proper opportunity to be involved in the Council's budget process. A particular issue was the decision taken a couple of years ago to no longer circulate hard copies of agendas for meetings of the Council's Executive, which contain the majority of reports on the Council's finances, to non-Executive Members. The Panel is therefore particularly welcoming of the re-introduction by the new Chief Executive of the circulation to all Members of a hard copy of Executive agendas.
- 7.3 In respect of the Financial Outlook reports on future years' budgets, the Panel were additionally concerned that these discussions had, generally, been held at informal meetings, thereby further reducing the capacity for non-Executive Members to be

involved in the process or, indeed, for the Council's Scrutiny process to have a role until such time as the issues were fed through the 'formal' reporting process.

- 7.4 The Panel also considered matters relating to the Council's Capital Programme. Issues had been raised at a meeting of the Council's Executive on 19 April 2005 by a non-Executive Member regarding the availability to all Members of the Council of information on all schemes included, or put forward for inclusion, in the Capital Programme. The Panel concur with the view that under current arrangements there is limited scope for all Members to be involved in the debate and decision-making process around the Capital Programme.
- 7.5 The issues referred to above were the subject of considerable debate and, consequently, the Panel has made a number of recommendations aimed at improving the current arrangements.
- 7.6 The Panel met with Councillor Geddes who, at the time, was the Council's Deputy Leader with Executive portfolio responsibility for the Council's overall budget.
- 7.7 The Panel noted that the Deputy Leader's portfolio included overall responsibility for all aspects of the Council's budget and financial planning and, in this position, Councillor Geddes met regularly with the Director of Finance and her staff in addition to chairing the monthly meetings of the Council's Corporate Monitoring Group and the Resource Monitoring Panels, which are held monthly for each of the Council's six service departments.
- 7.8 In respect of the flow of information and its consideration at various 'closed' meetings, Councillor Geddes stressed the importance of maintaining confidentiality, particularly when budget decisions are likely to have implications on service levels and in view of the fact that information can often change on a weekly basis as new factors come to light. The Panel accepted that there are sensitivities that need to be taken into account when dealing with such information and that it is, on occasions, appropriate to seek a strategic / political steer over an issue in order to progress wider proposals, but felt that this should not be to the detriment of a transparent approach to decision-making.
- 7.9 With regard to the Resource Monitoring Panels, the Panel noted that these meetings are chaired by the Portfolio Holder for the Council's financial planning and budgetary control (Councillor Bramley since May 2005) and do not include any other Member representation. As these meetings consider the latest information on the revenue budgets and monitor the implementation and achievement of savings and growth issues for individual service departments, the Panel considers that the process would benefit from the involvement of other Members and, in particular, the Portfolio Holders for the service under scrutiny at each meeting. The Portfolio Holder for financial planning and budgetary control would continue to retain overall responsibility for this aspect.

8 Housing Revenue Account

- 8.1 The Panel received information on the funding and expenditure arrangements in respect of the Housing Revenue Account (HRA), including the recent introduction by Central Government of a prescribed formula for the determination of Council house rent levels which largely dictates the level of Council rents in the Borough.

The Panel also noted details of the internal arrangements for the on-going review of the Council's HRA to ensure a long-term balanced budget.

- 8.2 The Panel is satisfied with the general arrangements, including the range of public consultation on the HRA, and welcomes the new report writing and Executive agenda circulation arrangements which will enhance the accessibility and availability of information for all Members. As an additional step to extend the dissemination of information on the HRA to both Members and the local community respectively, the Panel supports the publication of key information via clear and concise articles in the internal 'Member Matters' and external 'Citizen' publications.

9 Financial Publications

9.1 The Council currently produces the following annual publications:

- Budget Book (which includes the Capital & Revenue estimates)
- Medium Term Financial Strategy
- Council Tax Leaflet
- Statement of Accounts (Draft and Final Versions)
- Annual Investment Strategy
- Funding Strategy Statement
- Statement of Investment Principles

9.2 The Panel supports the principle that reports / publications relating to the Council's finances should be easy to follow and understand and that authors should be conscious of the need for plain language. In this respect, the Panel welcomes the revised report writing guidance for Council officers which is in the process of being finalised.

9.3 The Panel recognises that many of these publications are produced in accordance with guidance issued by the Chartered Institute of Professional Financial Accountants (CIPFA) and other statutory requirements which may, in effect, mean that the terminology used and way that the information is presented is prescribed. With this in mind, the summary introducing a document should clearly explain the purpose and content in a way that can be understood by everyone. For publications that are intended solely for the information of the general public (e.g. the Council Tax leaflet) the availability of translations, braille, larger text etc. should be advertised.

10 Consultation

10.1 A key aspect of the Council's budget preparations relates to the consultation arrangements that are in place. The Panel received details of the current arrangements but felt that it was important to gain an understanding of the views of key stakeholders as a means of challenging current perceptions.

10.2 Each of the four main Council Unions, namely Unison, APEX, GMB and T&GW, were invited to give their views on how they are consulted and suggestions for improving the system. The response from the General Secretary of the local Unison branch highlighted a number of issues associated with the timing of the discussions between the Council and Unions, the limited scope for the Unions to be involved in resourcing / spending decisions and the suggestion that the Unions

should be properly briefed on the overall Council budget and spending plans. The point was also made that the Unions are not only concerned with budget cuts that affect their members but also by resourcing decisions, which can have similar implications. The Panel supports the wider involvement of the Unions in the Council's budget setting processes and recommends that a way forward is agreed by the Employees Joint Consultative Committee (EJCC), which is made up of representatives from the Council and the four Unions.

- 10.3 The Panel also conducted a questionnaire survey of all Councillors and Departmental Heads of Service to gain an understanding of their perceptions and suggestions for improvements. The level of responses from Councillors was disappointing (less than 20% compared to the response rate from Heads of Service of over 50%). However, the feedback received from both sources provided the Panel with a basis on which to consider changes / improvements to the current arrangements and a number of recommendations have been made as a direct result of the questionnaire exercise. This exercise was further helped by an 'interview' process with three Heads of Service to discuss in more detail their responses to the questions posed in the survey.
- 10.4 The feedback from the Member and Heads of Service surveys and the interviews gave rise to a number of proposals to enhance the current arrangements. These included:
- (i) The early commencement of the debate around budget saving and growth issues based on the Council's key priorities - this would assist in the timely implementation of any new arrangements from the beginning of the new financial year rather than, as often happens under the current arrangements, any necessary changes being implemented part way through the year;
 - (ii) Greater emphasis being given by Chief Officers to the need for cross departmental discussions and consideration of common budget issues in the light of the changing service demands and requirements;
 - (iii) The introduction of more formal arrangements for detailed consultation between Finance officers and Heads of Service / budget holders to assist in the strengthening of arrangements for the identification of budget growth / savings across all Council services, and the on-going monitoring of budgets;
 - (iv) The reappraisal of the Council's current overall policies in relation to the funding of services in view of the increasing pressures being faced by services that are funded via the EPCS funding block;
 - (v) An examination of current budget formulation methods with a view to introducing a greater 'challenge' aspect to the compiling of budget estimates. In this respect, it was suggested that an approach to 'zero-based' budgeting could be one way to approach this, particularly for areas which have seen a great deal of change in recent years; and
 - (vi) The strengthening of Members' involvement and understanding of service budget issues.

11 Equalities and Diversity

- 11.1 The Panel is mindful of the need for all members of the local community to be able to understand the Council's work and its finances, which have an impact on everyone. A number of the Panel's recommendations will bring about improvements to the accessibility and availability of information to the community as a whole.
- 11.2 Key aspects of this can be achieved through the use of plain language and a clearer structure in Council reports and the availability of translations, braille, larger text etc. for publications that are intended solely for the general public (e.g. the Council Tax leaflet).

12 Conclusions

- 12.1 The Panel recognises that the Director of Finance, Julie Parker, and Head of Financial Services, Joe Chesterton, have been instrumental in introducing a range of strategic and operational improvements to the Council's budget processes since their appointments in 2003, building on the strong platform that their predecessors and the Council as a whole had put in place over many years. The Panel has made a number of recommendations in this report which it believes will further enhance these arrangements and place the Council in an even stronger position to approach the future challenges.
- 12.2 The Panel is mindful of the fact that the majority of concerns referred to in this report concentrate on the greater involvement and participation of non-Executive Members in the Council's budget setting process. However, this should not be perceived to be at the exclusion of other stakeholders in the Council's financial affairs, such as the local community, Trade Unions and businesses. The Panel is equally concerned that they too have a greater understanding of the Council's financial affairs. To this end, the Panel sees the expansion of non-Executive Members' role in this area as the means to a greater general understanding by the community of the Council's financial affairs.
- 12.3 The Panel wishes to place on record its thanks to everyone who has assisted in its work over the past eight months.

Background Papers used in the preparation of this report:

Public copies of agendas and minutes of the Budget Process Scrutiny Panel meetings held on 4 October, 25 October and 8 December 2004 and 19 January, 5 April, 9 May and 26 May 2005.

BUDGET PROCESS TIMETABLE 2004/05

July/August 2004	Early work on financial outlook by Officers.
August	Development of budget pressures by Officers
September/October	CMT and Executive consider initial Council financial position.
October/November	Executive confirms Budget Strategy, and priorities, for consultation in the light of discussions with Officers.
October/November	Budget savings options are produced by Officers for consideration by Executive Members.
October/November	Capital Programme review/new bids.
October/November	Consultation with relevant stakeholders to consider the Budget Strategy and options, and provide feedback to Executive.
November/December	Government announcements on resources.
December/January	Executive works up its initial detailed budget proposals.
January 2005	Housing Revenue Account budget and rent levels set.
25 January 2005	Report on resources and Base Budget position to Executive.
Late January/February	Possible consultation with other stakeholders on the detailed budget proposals
Late February 2005	Executive considers comments made on earlier proposals and agrees a budget to be referred to Council.
2 March 2005	Council agrees a budget, Council Tax, Capital Programme and a revised Medium Term Financial Strategy for 2005/06-2007/08.

REPORTS TO THE ASSEMBLY

Title of Report	Cycle	Date of Meeting
Council Tax Base Report	Annual	05/01/05
The Council's Budget 2005/06 to 2007/08	Annual	2/3/05
Treasury Management Annual Strategy & the Council's Prudential Indicators	Annual	2/3/05
Statement of Accounts 2004/05	Annual	27/7/05

REPORTS TO THE EXECUTIVE

Title of Report	Cycle	Date of Meeting
Provisional Out-turn 2003/04 Revenue and Capital	Annual	20/07/04
Procurement – Spend to Save – Progress Report	Six Months	7/9/04 and 15/3/05
Annual Treasury Statement of Accounts 2003/04	Annual	28/09/04
WM Annual Report	Annual	19/10/04
Budget Process 2005/06 – Outlook and Strategy	Annual	9/11/04
Passporting of School EFSS and take up of the Standards Fund Allocation 2005/06	Annual	21/12/04
Local Government Provisional Financial Settlement 2005/06	Annual	12/04 and later
Calculation & Setting the Council Tax Base 2005/06	Annual	21/12/04
Revised Budget 2004/05 & Base Budget 2005/06	Annual	25/01/05
The Capital Programme 2005/06 – 2008/09	Annual	22/02/05

Council Tax & Medium Term Financial Strategy	Annual	22/02/05
Treasury Management Annual Strategy Statement and the Council's Prudential Indicators	Annual	22/02/05
Annual Report on Review of Members' Remuneration	Annual	May 2005
Budget Monitoring Revenue & Capital *	Monthly	Monthly

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