

**Report to:** Cabinet  
Overview and Scrutiny Co-ordinating Committee

**Date:** 30 July 2009  
17 August 2009

**Subject:** Budget Principles and Timetable for 2009/10 Budget

**Report of:** Executive Director of Business Support Services

**Contact officer:** Paul McKeivitt X2237

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**Purpose / summary:** To confirm the strategic budget timetable and to consider revised budget principles in line with the budget strategy.

**Alternative options considered and reason for selecting the one recommended:** An approved timetable underpins the effective management of the statutory budget process. This together with the introduction of three year departmental budgeting is seen as best practice in the Audit Commission Key Lines of Enquiry.

**Recommendation / decision:** To agree the principles and the timetable for the 2010/11 budget process.

**Key Decision:** This report does not involve a key decision.

**Risks / Implications:**

Financial:	Part of the Council's Budget Framework
Staffing:	None
Policy:	Budget Framework
Equal Opportunities - Has a Diversity Impact Assessment been conducted?	A diversity impact assessment is not necessary at this stage, However, equality and diversity implications have been considered when producing this report.
Wards affected:	All – Borough wide budget strategy

**Property Implications – Does the proposal involve a reduction, addition or change to the Council's asset base or its occupation?**

No

**If yes, have the property implications been agreed with the Corporate Property Officer?**

N/A

**Does this proposal have significant implications for the Council and the local**

**population?**

A diversity impact assessment is not necessary at this stage, however, equality and diversity implications have been considered when producing this report.

**Does this proposal involve a new policy or procedure or significant changes to an existing policy or procedure?**

A diversity impact assessment is not necessary at this stage, however, equality and diversity implications have been considered when producing this report.

Has the Service Director - Borough Solicitor confirmed that the recommendations within this report are lawful and comply with the Council's Constitution? **Yes**

Has the Service Director - Corporate Services confirmed that any expenditure referred to within this report is consistent with the Council's budget? **Yes**

Are any of the recommendations within this report contrary to the Policy Framework of the Council? **No**

**For Cabinet reports only :**

Categorisation of the report:	<b>x</b>
Discussion leading to a decision	<b>x</b>
Monitoring	
Sharing for corporate understanding	

	<b>x</b>
Discussion	
Decision	
Information	

**Tracking/Process:**

	Consultation	Ward Members	Partners
	Strategic Management Team 14th July 2009		
Panel	Overview & Scrutiny	Cabinet	Council
	17th August 2009	30th July 2009	

There are no Background Papers to this Report within the meaning of Section 100D of the Local Government Act 1972.

Proper Officer D J SMITH

Date \_\_\_\_\_

## **1. Setting the Scene**

This report sets out the timetable and principles we will look to follow when setting the 2010/11 budget. In the last few years a number of improvements in the budget setting process have been successfully introduced. Best practice requires the resource allocation process to be a continuous cycle linking our strategic plans – the corporate and departmental plans across the authority and our community plan – through the issues paper, growth / service pressures, reductions / scenario planning and the setting of the budget, Council Tax, capital programme, and prudential borrowing, final accounts and performance reporting. We have been recognised by the Audit Commission in the past as an example of notable practice in this area. It is our intention to continue to improve upon these standards during the 2010/11 process.

## **2. Medium Term Financial Plan approved in March 2009**

This document is the fundamental element of our 3 year financial planning process. It is based on a 2% Council Tax increase for 2009/10, and 2010/11 in line with our plan when CSR 07 was set. It also has indicative increase of 2% for 2011/12 when the next spending regime comes into effect.

This included future levels of growth set via the budget challenge process (see below), and included estimates of the appropriate inflation uplifts in line with government targets which included pay at 2%, non contractual prices at 2% and income at 3.5%. The long term aim has been to balance both capital and revenue budgets without the use of reserves or balances and over the last few years we have achieved a much closer togetherness of these various elements.

Elsewhere on the Agenda is a revised medium term financial forecast which reflects the 2008/09 outturn position on spend and reserves, and this forecast will be updated regularly to reflect changes in issues affecting the budget.

## **3. Growth / Service Pressures**

We used a three year plan to allocate growth and funding for service pressures to cover the period of CSR 07. This reflected the certainty we could make in our assumptions about the level of grant we would receive from 2008/09. Additional resources were allocated using the approach developed in 2007/08. This more rigorous approach introduced a budget challenge process. Our planning process indicated scenarios of growth, standstill and reduction, with additional resources being allocated for Adult Services and Environmental Improvements. The process included details of performance and costs as part of a challenge process to assist in aligning strategic objectives, performance and resources. Cabinet Members, Directors, the Chief Executive, and the Leader met to discuss service performance, service pressures, the scope for savings and the scope for service improvement if additional resources were allocated. The intention is to repeat these successful arrangements for the 2010/11 process with the Service Director Corporate Services also included in the process if there is capacity.

#### **4. Reductions / Scenario Planning**

As with growth we initially planned our service reductions over the three years from 2008/09. This too is centred on a Budget Challenge process to review options for reductions, service pressures and growth – aiming to link performance and finance.

Additional budget pressures mainly due to the economic downturn meant that further savings were required to achieve our plan of a 2% Council Tax rise. This led to development of an alternative strategy to fund this gap. We looked corporately at areas of spend we could reduce to bridge the gap. This led to agreement that salary increments would be departmentally self funded in 2009/10, and a 25% reduction would be made to supplies and services budgets within departments.

This year it is recommended that we look at our efficiency programme and include these projects within our budget to fund any shortfall. In addition to help with the budget process this will embed our improvement programme and help us manage our efficiency targets. This will require close programme management of these areas. Any residual shortfall will require a revisit of our initial budget scenario planning.

#### **5. Consultation**

We continue to use the Citizen's Panel and web questionnaire as part of our consultation process. The Citizen's Panel were also asked to indicate their priorities for the 2009/10 budget. The results of this survey and of a similar questionnaire relating to the budget and Council Tax on the Council's web site identified priorities for improvement. Living in a place where citizens feel safe for instance was a higher priority than affordable housing.

We have consulted upon the format of our accounts, in summary form, and sought to improve the leaflet dispatched with the Council Tax and this year consultation will also take place on the Corporate Report for 2008/09.

All opposition groups will continue to receive a separate briefing on the budget.

This year we will look to include the Townships in our consultation process, and I am currently speaking to our Community Engagement Team to agree on the best way to deliver this.

#### **6. Performance Management**

The budget booklet has been replaced by an all embracing [financial plan](#) this year and includes capital and revenue spending plans as well as key service challenges together with performance indicators. Looking at performance is one of our criteria in selecting growth and reduction options. The Budget Monitoring process will, as last year, be submitted with clear linkage to supplementary performance based information as this is a recommended requirement in the Audit Commission's Key Lines of Enquiry.

## 7. Longer term budgeting

The Council's priorities for improvement are set out in the [Corporate Plan](#) and are linked to high level objectives around people, communities and places. There is also recognition of the need to strengthen our longer term planning linked to Central Government's own planning cycle. We have increased the Medium Term Financial Plan from 3 to 5 years to pick up some of step cost increases we can foresee from some of the major projects we are committed to.

Funding the Council's Capital Programme is an important part of the Revenue Budget strategy. The Medium Term Plan contains the revenue consequences of all new programmed major investments that have been approved for inclusion in the Council's capital investment programmes. In addition, the forecast reflects the changing costs of all previous borrowings, provision for debt repayment and fall out of debt where appropriate. This ensures that the revenue forecast and capital investment strategies are linked and reflect the financial consequences of service priorities, as stated in the Corporate Plan.

In addition, under the Gershon efficiency review the Council needs to identify in a much more formal structured way, its business efficiencies planned during the budget cycle and to report on how these have been achieved. We are currently looking at how we embed the value for money process within the budget and service planning cycles more explicitly so that it is part of an ongoing process. We will look to progress this during the year, and have included in the budget process.

## 8. Provisional Timetable for 2009/10

The first stage is the final accounts for 2008/09. This has provided an opportunity for Cabinet to review reserves and provisions, against known and likely risks. The second stage included elsewhere on the agenda is to revise our forecast for 2009/10

30 <sup>th</sup> July 2009	Cabinet receive Medium Term Financial projection updated for outturn / agree budget principles and timetable – timetable and MTFS will also go to Overview and Scrutiny on 17 <sup>th</sup> August 2009
August – November	Detailed budget preparation proceeds in accordance with principles and guidance from Cabinet
10 <sup>th</sup> September 2009	Executive Briefing – discussion on budget outlook and principles – Issues Paper draft
15 <sup>th</sup> September 2009	Growth, Service pressures, Savings and scenario submission by Departments to Service Director Corporate Services
22 <sup>nd</sup> September 2009	Strategic Management Team consider growth proposals and service pressures (including Wigan Leisure and Cultural Trust) in context of the MTFS and revised Issues Paper
20 <sup>th</sup> October 2009	Further discussion of budget at SMT
October – November	Look to consult with Local Strategic Management Group to identify cross sector issues and highlight these in the budget process. Also ensure that this links with the efficiency process.

Late November / early December	RSG settlement – report to Cabinet on RSG – SMT discuss scenarios and pressures in the light of grant settlement. This will also link in the VFM group being established to embed the efficiency agenda.
Week commencing 14th November 2009	Initial meetings with Trade Unions; Initial Schools Forum / Head teachers meeting on Schools Budgets
19th November 2009	Cabinet – initial consideration of draft budget including WLCT subsidy / revenue savings / growth
Early January 2010	Estimate made of the surplus or deficit on the Collection Fund.
February 2009	Precept and levy notifications received
4th February 2010	Cabinet propose Council Tax and Budget
18th February 2010	Cabinet propose Council Tax and Budget
18th February 2009	Joint meeting of Overview and Scrutiny and Cabinet to consider Council Tax and Budget
3rd March 2010	Special Budget Council

Consultation with representatives of Business Ratepayers will also need to be added in to the timetable.

The Arms Length Management Organisation Fee, HRA budget and rents will be set on a separate timetable. Two parts are proposed – setting the rent and then determining the detail of the HRA budget. Because of the need to give tenants notice of the rent rise we need to determine the rent level at the January Council meeting. More detailed consideration of the HRA income and expenditure can then take place along side the General Fund budget timetable.

Early November 2009	Draft HRA subsidy determination – provisional could be delayed
19th November 2009	Cabinet consider implications for rents of the subsidy determination and receive HRA budget briefing
17th December 2009	Joint meeting of Overview and Scrutiny Committee and Cabinet consider rent rise
6th January 2010	Council determines rent rise
18th February 2010	Cabinet propose Council Tax and Budget
18th February 2010	Joint meeting of Overview and Scrutiny and Cabinet to consider detailed HRA Budget
3 <sup>rd</sup> March 2010	Special Budget Council including HRA budget

## 9. Budget principles

Appendix A sets the principles which we propose to use to prepare the 2009/10 budget and these are firmly based on principles that have served the process well

over many years. There are no significant changes to report and therefore Cabinet are asked to endorse these budget principles.

## **10. Conclusion and Recommendations**

The Council's budget strategy has continually built upon Government priorities, as expressed through the annual Comprehensive Spending Review and RSG Settlement, but also responded to the concerns of residents as expressed in consultation exercises

The Council has an established three-year budget planning cycle so that the consequences of budget decisions may be reflected in the medium term plan.

The budget strategy as developed via the budget challenge process includes the views of citizens, stakeholders and partnerships. The wider membership being consulted where necessary with key formal decisions being taken by the Cabinet within the Council's approved Budget Framework.

Cabinet is asked to determine the approach for the budget setting process, to confirm the strategic budget timetable and to endorse the budget principles.

### Principles of Budget Preparation

This section contains the principles that were submitted to the SMT on 14th July then Cabinet on 30<sup>th</sup> July for approval. These principles are to be used in the budget preparation process for the 2010/11, 2011/12 & 2012/13 Estimates.

#### 4.1 Objectives

To provide a consistent and authorised approach to the preparation of the Revenue Estimates and to eliminate unnecessary overbidding against limited resources.

To provide a standard budget analysis of expenditure and income which is consistent with the Best Value Accounting Code of Practice (BVACOP), promotes accountability and transparency of ownership and supports efficient budget monitoring arrangements as described in the Audit Commission Use of Resources assessment.

To ensure that budgets and performance in service delivery are demonstrably aligned and can be monitored.

#### 4.2 Principles

##### 4.2.1 General

Budgets will be developed from the 2009/10 approved original and published budget.

New reductions generated by management initiatives and submitted as part of the budget reduction process should NOT be included in the 2009/10 Draft Estimates until approved by Cabinet.

All approved growth & reductions will be incorporated into the final published budget.

The Service Director - Corporate Services (BSS) and his professional staff will determine the most appropriate budgeting and accounting treatment to secure standard, consistent, best practice having regard to statutory returns, management information requirements and efficient budget monitoring arrangements.

##### 4.2.2 Exemplification of “across the board” expenditure reductions

Where the Authority exemplifies across the board reductions, the basis of the calculation will be:

Controllable expenditure defined as expenditure on employees, premises, transport, supplies & services and payments to 3rd parties, net of internal recharges (including computing, telecommunications and insurance), significant grant aided expenditure (such as Learning Disability Resettlement, Personal Social Services Grant, and Health Improvement contributions, Education grants etc.), leasing charges and recharges to Capital accounts and Fire Authority. This calculation will exclude the Schools Budget which cannot contribute to any reductions exercise.

### **4.2.3 Inflation**

Budgets to be prepared at estimated out turn for pay and prices (there is no central inflation contingency).

Business Rates - Estimate to be adjusted in accordance with notified rate in the £ and transitional relief.

All inflation factors will be determined by the Service Director - Corporate Services (BSS) and input centrally to budget files. Adjustment will be made to the base pay budgets for any underprovision in pay award inflation in 2009/10. Pay awards for Teaching and non teaching staff will be provided in accordance with the national agreements or determined by professional judgement as necessary.

Normally, no adjustment will be made to the 2009/10 base estimate for any under-provision of price inflation. In the case of over provision of inflation in 2008/09 (particularly on items such as energy contracts which are volatile and agreed with suppliers part way through the year) the base may be re-assessed. Currently, a general provision of 0.75% has been set for prices. It is recognised that the volatile state of the national economy means that late decisions about inflation provisions may be necessary and so these will be kept under review in the period leading up to budget preparation.

Service Director - Corporate Services (BSS) will determine inflation on DSO charges having regard to estimated future fluctuations in cost prices.

### **4.2.4 Establishment Budgets**

Establishment budgets for all employees to be prepared on the basis of approved staffing levels and supported by appropriate staffing statements.

Working papers submitted to the Service Director - Corporate Services (BSS) should clearly identify vacant posts, provision for regular overtime, redundancy-related costs and assumptions on turnover/slippage.

Slippage included in base budgets should be carried forward and reviewed. Any need to reinstate or reduce the deduction will be treated as growth.

### **4.2.5 Income**

Statutory charges to be increased in accordance with regulations etc.

Volume changes to be identified separately from inflationary increases.

Increases in locally determined income in line with inflation to be reported by Chief Officers and approved by Cabinet with the main budget. Where this would result in uncompetitive charges, reports should identify options.

For the year 2010/11 the inflation rate for locally determined income has initially been set at 1.5%.

### **4.2.6 Savings**

Full year effect of approved 20010/11 savings to be included. Proposals will be required to replace one-off savings offered in 2008/09 as part of the 2010/11 reductions exercise.

#### **4.2.7 Variations**

All other budget variations to be self-financing within the budget of appropriate service department. No additional provision will be made in the Medium Term plan unless explicitly approved by Cabinet through the service pressures exercise.

#### **4.2.8 Growth Bids**

The process for submitting bids has been rationalised and form part of the scenarios provided as part of the budget challenge process. This ensures growth bids are demonstrably aligned with the Council's priorities through the use of a consistent and challenging pro forma.

An example of the pro forma is included in Appendix B. There is a need to show the business case with supporting relevant non financial/performance data.

#### **4.2.9 Use of 2008/09 underspendings carried forward into 2009/10**

It is assumed that approvals to carry forward underspendings from 2008/09 will be discharged in 2009/10 unless specifically identified and reported as otherwise.

#### **4.2.10 Use of Reserves & Provisions**

A report on the intended use of any reserves & provisions under the control of the Chief Officer should be included in the report when the Cabinet considers all budgets. There are different accounting rules regarding the use of provisions and reserves which need to be observed in framing the budget.

### **4.3 Other Issues**

#### **4.3.1 Central Support Recharges**

A standard client list for use across the Authority has been determined between the providers and customers.

There is a Best Value Accounting Code of Practice requirement that full allocation of the costs of support services should be made to ensure that the financial position & transactions of the Council are presented fairly.

#### **4.3.2 Corporate and Democratic Core**

A separate activity budget exists within the Audit, Governance and Improvement Review Committee named 'Corporate & Democratic Core'. This activity will be charged with defined corporate management costs. Costs of Corporate and Democratic Core are therefore accounted for as a separate service and not apportioned further.

The C.I.P.F.A. statement on Best Value Accounting Code of Practice in Local Authorities in Great Britain defines the corporate and democratic core as comprising of Democratic Representation and Management and Corporate Management Costs

### **4.3.3 Capital Charges**

The Best Value Accounting Code of Practice requires capital charges to be included in the definition of total cost in order to calculate cost based Performance Indicators. Capital Charges will be analysed at the appropriate activity or cost centre level in order to achieve this compliance.

The use of revenue resources to fund capital expenditure is a matter for central determination by the Service Director - Corporate Services (BSS) in accordance with Accounting practice and the budget strategy. Direct Revenue Financing (DRF) must be shown separately on the budget summary and is not a cost of service.

There is no provision in accounting practice for Capital Resources (Capital Grants or Receipts) to fund expenditure which is of a revenue nature. The Service Director – Corporate Services (BSS) will decide on any uncertainties in this area.

### **4.3.4. Budgeting for Grant related expenditure and other best practice**

Departments are required to make their best estimates of the subjective analysis of grant supported expenditure and not support grant income by a one-line miscellaneous expenditure budget line. Such practice distorts the analysis of budgets for statutory returns, top down management information critical to decision making and subsequent budget monitoring reports. In particular it is important to estimate employees who are supported by grant funding regimes for the purposes of proper monitoring and ensuring well planned strategies for the termination or withdrawal of grant.

Negative expenditure budgets are not permitted – where these reflect contributions or recharges they should properly be accounted for through the appropriate income budgets.

Departments are encouraged to have regard to the volume of budget records created and their materiality. Every budget account code must be linked to a complex reporting structure and is therefore demanding of resource in terms of system power and staff support.

## **4.4 Specific Accounts**

### **4.4.1 Individual Schools Budget**

A statement on the development of the Individual Schools Budget under Fair Funding is to be provided by the Director of Education to the Children and Young People Panel and the Cabinet. The introduction of the Dedicated Schools Grant means that expenditure funded by the grant, both in schools and centrally, must be separately identified in the corporate financial system for the purposes of efficient budget preparation and monitoring.

There will be a presumption that the DSG will meet the quantum required and will not be supplemented by Council Tax. The DSG funded budgets will be treated as ring fenced for the purposes of Council Tax calculations and any over/under spending arising will be carried forward to count against next year's DSG budget.

### **4.4.2 D.S.O. Budgets**

DSO budgets must be prepared separately under the same guidelines, reflecting business plans, tendering strategies, partnership agreements and contract prices, as appropriate. Recharges to client budgets must be prepared at an early stage so that General Fund expenditure budgets can be updated to reflect DSO income estimates. It is essential that DSO budgets are prepared, monitored and managed for the financial year to ensure that the internal financial objectives are achieved, consistent with the provision of quality services.

The Best Value Accounting regime does not require us to anticipate significant DSO surpluses because of the distorting effect they may have on cost based performance indicators. DSO budgets will be assessed corporately with the completion of the aggregate Service Budgets and any significant surpluses addressed against client budgets.

DSO budgets must be submitted annually to the appropriate Contract Management Group and to the Best Value Review Panel. The submission should include a statement confirming that client budgets contain matching provisions for the income expectations in the DSO budgets.

Inflation indices for DSO budgets will be calculated centrally. DSO price increases will be made effective from 1st April, with the exception of changes to school meal charges, which will be effective from 1<sup>st</sup> August.

#### **4.4.3 Housing Revenue Account**

The HRA is “ring-fenced” and there is no net cost or contribution to the General Fund.

The preparation of the HRA budget will follow the principles applicable to the General Fund.