

Review of the Budget and Policy Framework

Report of Scrutiny Sub-Committee C

November 2009



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BACKGROUND INFORMATION

1. At their meeting on June 22 2009, members of this sub-committee considered proposals for scrutiny reviews for inclusion in their work programme for the coming year. They agreed to take as their first topic “What is the true meaning of the budget and policy framework?” and a report on the budget and policy framework was presented to members at their meeting on July 20 2009.
2. The July report set out the requirements of the Local Government Act 2000 and associated Regulations (the Local Authorities (Functions and Responsibilities) (England) Regulations 2000) in relation to the role of council assembly and executive in setting the budget and the policy framework and also looked at government guidance on what the term ‘budget’ includes. It also addressed reallocation of monies within the budget and outside the budget framework.
3. The report then considered the format and level of detail of information presented on the annual revenue budget including reserves at Southwark and also at Westminster.
4. Members agreed to focus further attention on the budget rather than the policy framework and identified a number of areas for further consideration.
5. Issues identified for further consideration were: format and detail of revenue budgets; scrutiny of budget proposals and improved consideration by council assembly; approval of the capital programme; and use of reserves. However, before considering these areas, it may be helpful to set out the context of the budget framework from statutory, regulatory and local perspectives.

CONTEXT

Budget framework

Statutory context

6. The Local Government Act 2000 sets out provisions for political management structures for local authorities, including their executives and executive arrangements. It empowers the Secretary of State to make regulations in respect of the allocation of responsibilities for functions between the executive and the full council.
7. The subsequent associated regulations, the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 (“the Regulations”) require the “adoption or approval of the budget and any plan or strategy for the control of the local authority’s borrowing or capital expenditure (the capital plan)” to be carried out by full council. The Regulations also provide that the executive has overall responsibility for preparing the draft budget for submission to the full council to consider.

Regulatory context

8. Guidance issued by the Office of the Deputy Prime Minister (the predecessor of the Department of Communities and Local Government until May 2006) in June 2002, the *New council constitutions: guidance to English Authorities*, states that the term 'budget' is used to encompass the budget requirement (as provided for in the Local Government Finance Act 1992), all the components of the budget such as the budgetary allocations to different services and projects, proposed taxation levels and contingency funds (reserves and balances) and any plan or strategy for the control of the local authority's borrowing or capital expenditure.
9. The Guidance goes on to say that the executive should ensure that councillors outside the executive have the opportunity to put forward proposals to them for the budget and should consult overview and scrutiny committees regularly in the process of preparing the draft budget. Within this basic framework, it is up to each council to determine the details of the process.

Local context

10. Further information is set out in the paragraphs which follow, but in summary, budgetary responsibilities are reserved by the council's constitution as follows:

Council assembly

- agrees the budget and determines the level of local taxation
- makes decisions on the control of the council's borrowing requirement and the treasury management strategy

Executive

- implements the budget within the resources approved by the council
- approves the council's capital strategy and programme.

11. Responsibility for agreeing the budget and determining the level of local taxation is reserved to council assembly in line with the Regulations referred to previously by part 3A of the council's constitution which sets out council assembly's role and functions. This part also provides the following definition of the budget:

"The budget includes the allocation of financial resources to different services and projects, proposed contingency funds including reserves and balances, the council tax base, setting the council tax and decisions relating to the control of the council's borrowing requirement, the treasury management strategy and the setting of virement limits."

12. More information about the budget is contained in Part 4 of the council's constitution which sets out rules including the budget and policy framework procedure rules. These confirm that once the budget (and policy) framework has been adopted by the full council, it is the executive's responsibility to implement it within the resources approved by council, again in line with the Regulations referred to previously.

13. Other matters covered by the budget and policy framework procedure rules include decisions outside the budget or policy framework, including urgent ones, and in-year changes to the policy framework.
14. As stated above in paragraph 13, the council's revenue budget is approved by council assembly. Council assembly is also responsible for "decisions relating to the control of the council's borrowing requirement [and] the treasury management strategy" (see definition in paragraph 13). This is in line with the Regulations which require that full council should approve 'any plan or strategy for the control of the local authority's borrowing or capital expenditure'. However, this need not include the council's capital strategy and programme, and this is currently one of the plans and strategies to be approved by the executive under part 3B of the constitution.
15. In terms of the council tax base and setting the council tax, the council's financial standing orders in part 4 of the constitution give effect to the statutory position and set out the council's timescales. Thus the council has to approve the council tax base by 31 January for the following financial year, i.e. by 31 January 2010 for 2010/11. The overall council tax, including the impact of the GLA precept, has to be set at a meeting on or before 1 March each year for the following financial year.
16. Although not explicitly mentioned in the council's constitution, housing rents and schools budgets are subject to locally determined consultation procedures. In the case of housing rents, although there is no statutory requirement to consult with tenants, the council's secure tenancy agreements with its tenants include a provision requiring such consultation "before seeking to vary the sums payable for rents and other charges". In addition to this, consultation is also undertaken with Area Forums and the Home Owners Council, before recommendations are made to the executive for its approval of changes to rents and other charges. In relation to schools budgets, consultation is undertaken through the schools' forum.
17. A matrix of current decision making responsibilities is set out in the table below:

	Council Assembly	Executive	Scrutiny	Others	Audit & Gov'nce C'ttee	Schools Forum
Council tax (incl general fund)	Y	Y				
Housing Revenue Account (HRA)		Y		Y		
Capital programme		Y				
Housing Investment Programme (HIP)		Y				

	Council Assembly	Executive	Scrutiny	Others	Audit & Gov'nance C'ttee	Schools Forum
Statement of accounts					Y	
Revenue monitoring		Y				
Capital monitoring		Y				
Dedicated Schools Grant (DSG)						Y

Recommendations:

18. Budget recommendation formatting

- i. That the budget presentation to council assembly should include a high level analysis by service area for each directorate.
- ii. In light of the complexity and resources required at present to provide the same budget analysis for each executive portfolio, the executive invite the finance director to review options to provide this information as part of the budget report to council assembly in future years.
- iii. The executive is invited to clarify the responsibility for monitoring financial performance under each executive portfolio.

19. Scene setting report

- iv. We invite overview & scrutiny committee to arrange a budgetary scene setting meeting shortly after the November Executive meeting, providing an opportunity for the executive member and director of finance to involve back bench members so that at that stage there is wide understanding of the budgetary process and financial situation facing the council.
- v. We invite overview & scrutiny committee to consider the merits of an informal overview & scrutiny committee at a later stage of the budget setting process.

20. Approval of the capital programme

- vi. We invite the executive to take further advice on the construction of the following wording in the Local Authorities (Functions and Responsibilities) (England) Regulations 2000, regarding the provision that full council carries out the "adoption or approval of the budget *and any plans or strategy for the control of the local authority's borrowing or capital expenditure (The Capital Plan)*.

- vii. We invite the executive to submit to council assembly for their approval at least once every four years, and as necessary in the event of a significant change in circumstances, a programme for capital expenditure.

21. Use of reserves

- viii. We invite the executive to address issues around definition, build up, and in particular draw down from the council's various reserves, and an improved system for the monitoring of such matters.
- ix. We invite the executive to consider whether an upper limit should be put on the sole authority of the finance director to authorise draw downs from reserves.
- x. We invite the executive to consider the merits of referring any of these matters relating to reserves to the audit and governance committee for its consideration and advice.

Scrutiny Sub-Committee C

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