LONDON BOROUGH OF HARROW

Budget Guidelines

2004-05 Revenue and Capital Budgets

&

Medium Term Budget Strategies 2004-05 to 2006-07

July 2003

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A. Introduction & Overview

1. Introduction

Who Should Read These Guidelines?

1.1 These guidelines have been approved by Members and are for:

- Members involved in the budget process including Cabinet, Portfolio Holders, Overview and Scrutiny and the Budget Review Working Group;
- The Corporate Management Team (CMT) to monitor progress and compliance with the process and the timetable;
- Executive Directors and Departmental Management Teams to ensure adequate service planning, information, communication and budgeting processes are in place to support the process;
- Heads of Service and service managers to prepare their budget proposals consistent with these guidelines;
- Finance Staff to ensure proposals are consistent with the guidelines; and
- Committee Services staff for meeting and agenda planning.

What is the Purpose of the Guidelines?

1.2 These guidelines **explain the revenue and capital budget and medium term financial planning processes** to develop and agree the 2004-05 revenue and capital budgets and Medium Term Budget Strategies (MTBS) for 2004-05 to 2006-07.

1.3 The guidelines aim to ensure consistency and fairness in the development, presentation and consideration of budget proposals within the Council's corporate priorities.

1.4 The guidelines also **provide the 'ground-rules' in the preparation of budgets** and budget proposals which must be complied with.

1.5 These guidelines may have to be adapted to changing circumstances during the process.

1.6 Any doubt in the interpretation of the guidelines should be referred to the Interim Director of Finance via the department's Finance Manager.

1.7 The guidelines aim to cover key principles and may not be exhaustive. Any need for further guidance of a corporate nature should also be referred to the Interim Director of Finance via the department's Finance Manager.

Other Guidance for Senior Finance Managers

1.8 Senior Finance Managers also need to apply this guidance in conjunction with:

- Budget monitoring guidance to ensure budget monitoring during the year picks up issues for next years budget and the MTBS;
- Technical Financial Guidance issued by Corporate FMA; and
- Government guidance with implications on the budget and MTBS.

Political Guidance

1.9 Political guidance will also be required at various key points within budget development including:

- Resource/Council Tax levels or scenarios;
- Financial objectives and priorities;
- Service objectives, standards, improvement targets and priorities.

1.10 The process is designed to assist members in this process by the provision of good information upon which to provide the guidance to officers. At 3 key stages:

- In September/October prior to the Options and Impact Analysis;
- In December prior to the publication of the detailed draft budget and MTBS; and
- In February, after consultation but prior to budget and Council Tax setting.

1.11 However, it is important that a continuous dialogue between members and officers is maintained throughout the process.

Developing the Guidelines

1.12 The process for developing the 2003-04 budget and the Council's first and initial Medium Term Budget strategy involved considerable improvements in financial planning, including:

- maintaining and improving current services with more realistic budgets in key service areas to minimize the risk of service delivery being affected by the go/stop nature of spending experienced in previous years;
- agreeing an initial MTBS but recognizing this may need to be reviewed in the light of implementing the 2003-04 budget
- reducing the reliance on reserves and establishing a minimum prudent level of reserves of £4m and an optimal level to support a MTBS of £7m;

- bringing back capitalised highway maintenance into the revenue budget in a phased way;
- meeting existing and new statutory obligations and those in the Local Public Service Agreement;
- passporting the increase in the Schools Formula Spending Share to the Schools Budget;
- providing for implementation of the New Harrow Project, focusing on the roll out of the clean and green initiative (subject to evaluation), restructuring the Council' service delivery and improving investment in ICT; and
- moving back to cash limited budgets

1.13 Improvements in budget monitoring during 2002-03 have also helped to minimise the go/stop nature of spending during the year.

1.14 These guidelines aim to build on this improvement in a number a ways:

- understanding current performance and costs to inform priorities;
- establishing clear policy, service and improvement priorities)and what is not a priority) to link resources to service delivery;
- incentivising the approach to efficiency savings;
- introducing invest to save funding with pump priming from the capital programme;
- reviewing past financial performance to inform future budgets;
- integrating the capital and revenue budget processes;
- improving the presentation of information to members and stakeholders;
- improving the consultation process.

Approval and Review

1.15 These guidelines have been approved by Cabinet in July 2003.

1.16 The guidelines will be subject to revision during the year to clarify the process and ensure its compatibility with the current planned improvements in service planning and performance management.

1.17 These guidelines will be reviewed on an annual basis by CMT and the Cabinet.

Effective Working

1.18 The process contained in these guidelines is not a formula that delivers ‘the right answer’ to the budget.

1.19 The process depends wholly on effective working, openness, sense of clear priorities and communication between members, Executive Directors, Heads of Service, service managers and corporate and departmental financial support services.

1.20 The process will only link resources to corporate priorities and service delivery effectively if officers and members:

- make an open assessment of current service delivery, ‘tell it how it is’;
- take an evidence based and transparent approach (rather than a defensive) approach which explains clearly where, for example, higher costs are linked to higher levels of service or where performance is poor but costs high;
- are committed to identifying and implementing best practice both in terms of service effectiveness and efficiency;
- are precise and realistic about how services contribute to the Council’s strategic objectives. Some services are important and mandatory but compared to other services may not contribute as much or as directly to the Council’s strategic objectives; and
- are explicit about priorities, savings and alternative provision options and have the commitment to implement difficult decisions.

And Finally…

1.21 The revenue and capital budgets and MTBS will always need to strike a balance between spending, value for money, the interests of service users and affordability for Council Tax payers.

1.22 To maximize what the Council and your services can achieve we need to:

- ensure services are provided efficiently and consistent with best practice - the more we improve our efficiency the more services we can continue to provide to more people; and
- optimise other income consistent with service objectives.

1.23 Even then we may not be able to provide all of the services we wish to within an affordable Council Tax. Therefore having clear priorities about what can be achieved within the Council Tax will be vital.

2. <u>Overview of Process and Key Milestones</u>

Putting Financial Processes into Context

2.1 Figure 2.1 shows how the medium term financial planning and budget preparation processes are to be linked progressively with other developing processes within the Council.

2.2 Figure 2.1: Key Corporate Processes to Drive the Budget and MTBS

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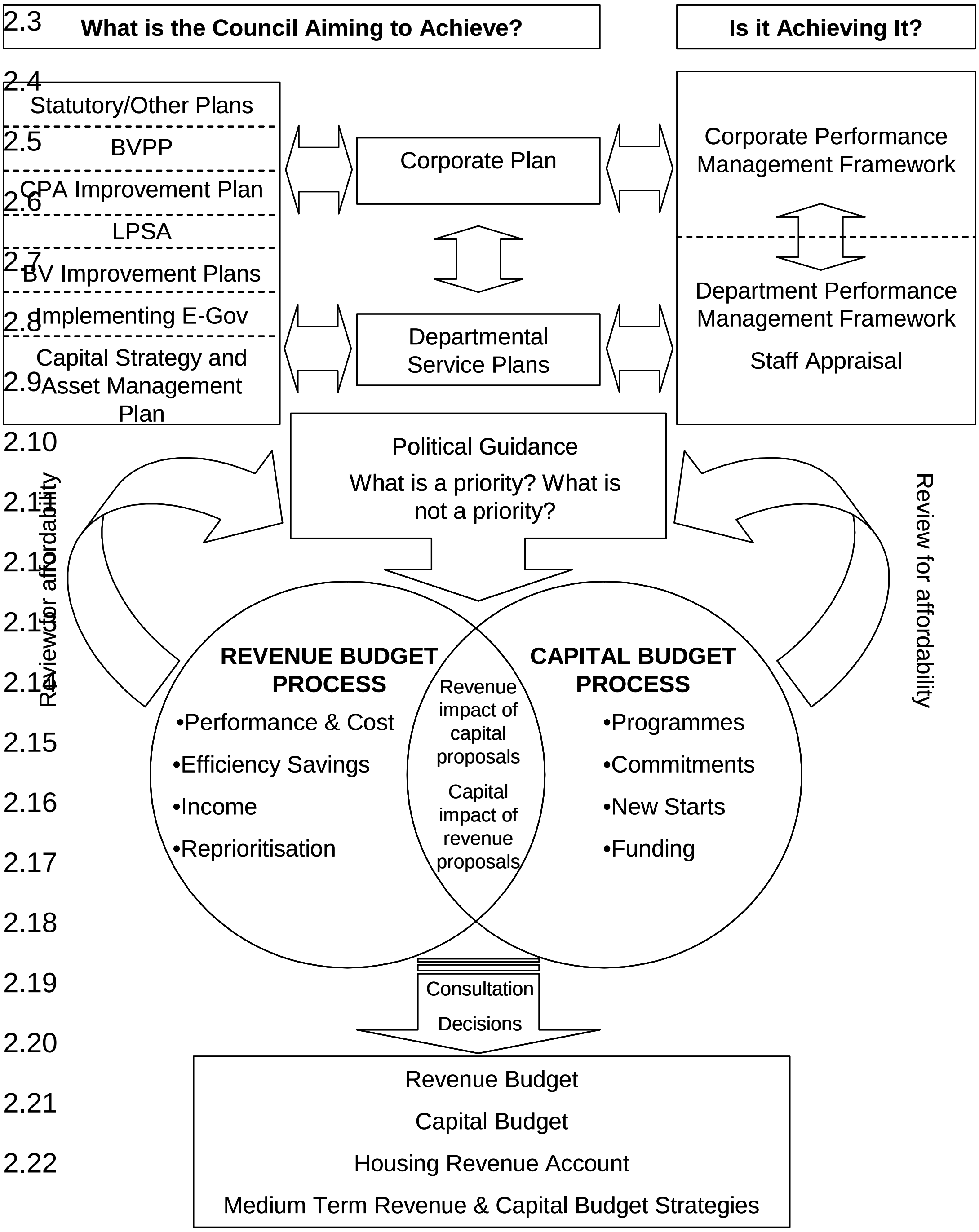

The Process for the Revenue Budget and MTRBS

2.23 Figure 2.2 outlines the revenue budget process showing the key reviews and preparation of information by Executive Directors and their managers and key political decision points (in bold boxes). Section C of these guidelines provides detailed guidance on each of the key stages of the process.

2.24 Figure 2.2: Proposed Approach to Developing the Revenue Budget and MTRBS

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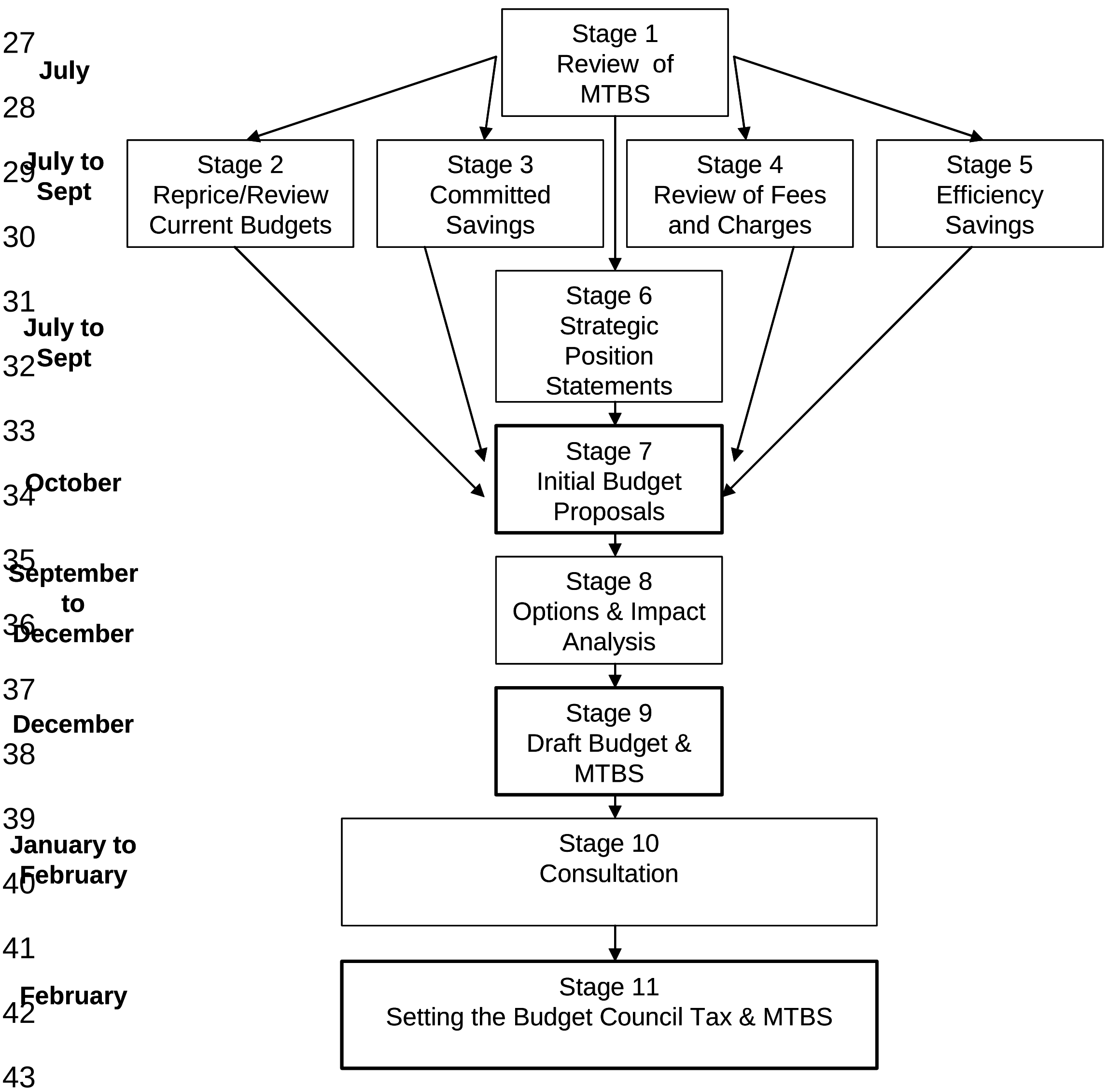
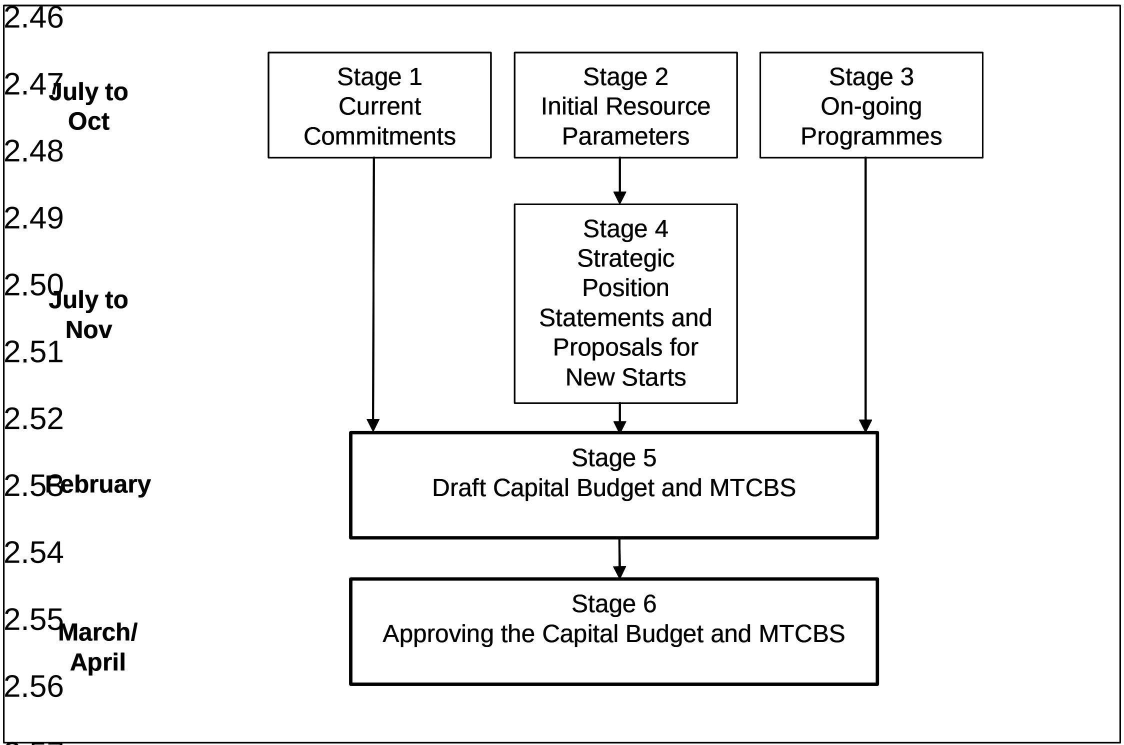


The Process for the Capital Budget and MTCBS

2.44 Figure 2.3 outlines the capital budget process showing the key reviews and preparation of information by Executive Directors and their managers and key political decision points (in bold boxes). Section D of these guidelines provides detailed guidance on each of the key stages of the process.

2.45 Figure 2.3: Proposed Approach to Developing the Capital Budget and MTCBS



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Key Milestones

2.58 Figure 2.4 outlines the key milestones in the process.

2.59 Figure 2.4: Key Milestones & Activities in Developing the Revenue & Capital Budgets

BUDGET TIMETABLE 2004-05	
Key Milestones	**Activities**
15th July 2003	Cabinet considers and proposes to Council Service & Financial Planning process and timetable for 2004-05. Cabinet approves Budget Guidelines.
July 2003	CMT/Executive Directors with individual Portfolio Holders review current MTRBS and roll out to a further year (2006-07). External Audit review of current MTRBS.
July – August 2003	CMT/Executive Directors with individual Portfolio Holders agree proposed Policy Budget Headings for the purposes of improved budget presentation, the preparation of strategic position statements and the scheme of virement.
July – end Sept 2003	CMT/Executive Directors with Individual Portfolio Holders: ▪ reprice/review current budgets; ▪ identify target/committed savings; ▪ fees and charges; ▪ identify efficiency savings; ▪ prepare and analyse strategic position statements.
July – end Oct 2003	CMT/Executive Directors with Individual Portfolio Holders: ▪ develop initial capital resource parameters; ▪ establish current capital programme commitments; ▪ analyse on-going programme budgets in the capital programme; ▪ develop potential bids for new starts in the capital programme.
9th September 2003	Cabinet approves approach to consultation on budget, Council Tax and MTBS.
October/November 2003	CMT/Executive Directors with Individual Portfolio Holders undertake Options and Impact Analysis on basis of priorities (and what is not a priority) and draft high level budget proposals initial bids for new starts in the capital programme arising from the analysis of strategic position statements
15th October 2003	Cabinet considers: ▪ review of MTRBS; ▪ agrees base budget; ▪ efficiency savings; ▪ fees and charges; ▪ high level budget proposals arising from analysis of strategic position statements.
23rd October 2003	Council approves budget timetable.
11th November 2003	Cabinet considers: ▪ initial capital resource parameters ▪ current capital programme commitments; ▪ on-going programme budgets in the capital programme; ▪ initial bids for new starts in the capital programme.
1st week December 2003	Provisional Finance Settlement received.

BUDGET TIMETABLE 2004-05	
Key Milestones	**Activities**
2nd week December 2003	Cabinet receives details of the provisional finance settlement and refines proposed budget for consultation. Briefing Note to Members on provisional finance settlement and briefing BRWG (with open invitation to other Members).
16th December 2003	Cabinet approves draft budget and MTRBS for consultation (including the schools budget to be advised to the Secretary of State and to school governing bodies). Cabinet approves Council Tax Base.
23rd December 2003	Latest date to approve budget consultation material.
29th December 2003 to February 7th 2004	Receipt of capital settlement including Single Capital Pot Consultation period (6 weeks).
13th January 2004	Cabinet approves deficit/surplus on Collection Fund. Cabinet recommends to Council 2004-05 Council Tax Base for Tax Setting purposes. Cabinet reconsiders and recommends to Council the proposed schools budget (if necessary)in the light of further information and recommends to Council.
22nd January 2004	Council agrees the proposed amount of the schools budget for notification to the Secretary of State. Council agrees 2004-05 Council Tax Base for Tax Setting purposes.
27th January 2004	Overview and Scrutiny to consider initial budget proposals.
By 31st January 2004	Executive Director (Business Connections) to notify precepting and levying bodies of Council Tax Base. Executive Director (People First) gives notice of the Council's determination of the schools budget to the Secretary of State and to the governing bodies.
End January 2004	Final finance settlement received.
Mid-February 2004	Details of GLA Precepts and other levies received
17th February 2004	Cabinet: ▪ Receives details of the finance settlement; ▪ Receives responses from consultation; ▪ Considers budget proposals including advice on robustness of estimates and adequacy of balances; ▪ Recommends 2004-05 revenue budget, Council Tax and MTRBS to Council; ▪ Considers Draft 2004-05 capital budget and MTCBS.
26th February 2004	Council approves: ▪ 2004-05 revenue budget and MTRBS 2004-05 to 2006-07; ▪ 2004-05 Council Tax; ▪ Housing Revenue Account budget and rents 2004-05 (if applicable – ALMO).
End February 2004	Council Tax billing begins.
By end March 2004	Schools and budget managers notified of budgets.
20th April 2004	Cabinet approves capital budget 2004-05 & MTCBS.

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Member Processes

2.61 Figure 2.4 outlines the key member processes in considering revenue budget proposals based on the current decision making processes and working groups.

2.62 Figure 2.4: Outline Member Processes for Developing the Revenue Budget and MTRBS

Key Stage	**Officer Milestone**	**Consideration by:**				
		Individual Portfolio Holders	**BRWG**	**Overview & Scrutiny Committee**	**Cabinet**	**Council**
Stage 1 Review of MTRBS	End Aug	Mid Sept	Oct/Nov	-	Oct	-
Stage 2 Re-price/Review Current Budgets	Mid Sept	End Sept	Oct/Nov	-	Oct	-
Stage 3 Committed Savings	Mid Sept	End Sept	Oct/Nov	-	Oct	-
Stage 4 Review of Fees and Charges	Mid Sept	End Sept	Oct/Nov	-	Oct	-
Stage 5 Efficiency Savings	Mid Sept	End Sept	Oct/Nov	-	Oct	-
Stage 6 Strategic Position Statements	End Aug	End Sept	Oct/Nov	-	-	-
Stage 7 Initial Budget Proposals	-	End Sept	Oct/Nov	-	Oct	-
Stage 8 Options & Impact Analysis	Mid Nov	End Nov	-	-	-	-
Stage 9 Draft Budget & MTRBS	Mid Nov	End Nov	Jan	Jan	Dec	-
Stage 10 Consultation	-	-	-	-	Jan	-
Stage 11 Setting the Budget Council Tax & MTRBS	-	-	-	-	Feb	Feb

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2.64 Figure 2.5 outlines the key member processes in considering capital budget proposals based on the current decision making processes and working groups.

2.65 Figure 2.5: Outline Member Processes for Developing the Capital Budget and MTCBS

Key Stage	**Officer Milestone**	**Consideration by:**				
		Individual Portfolio Holders	**BRWG**	**Overview & Scrutiny Committee**	**Cabinet**	**Council**
Stage 1 Current Commitments	End Sept	End Oct	Jan	-	Nov	-
Stage 2 Initial Resource Parameters	End Sept	-	Jan	-	Nov	-
Stage 3 On-going Programmes	End Sept	End Oct	Jan	-	Nov	-
Stage 4 Strategic Position Statements and Proposals for New Starts	End Sept	End Oct	Jan	-	Nov	-
Stage 5 Draft Capital Budget and MTCBS	-	Jan	March	March	Feb	-
Stage 6 Approving the Capital Budget and MTCBS	-	-	-	-	April	-

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B. Guidance Common to Revenue and Capital Budgets

3. Responsibilities of Executive Directors

3.1 Executive Directors are responsible for ensuring:

- adequate processes are in place within departments to complete the process according to the agreed timetable, including discussion and agreement of priorities at departmental management teams;
- arrangements to develop proposals with other departments and partners where this will produce an improved, more ‘joined-up’ service and or improve efficiency;
- the development of proposals with the relevant Portfolio Holders;
- adequate, complete and accurate information is provided as required by the process and that arrangements are in place to quality assure the information provided or to identify the uncertainties involved;
- adequate arrangements are in place to test the robustness and deliverability of proposals, including a risk assessment of major proposals;
- proper consultation with other departments or partners that may be affected by departmental proposals and the resolution of issues arising; and
- adequate consultation arrangements for specific stakeholder groups are in place.

4. Price Base

4.1 All revenue and capital proposals and the MTRBS and MTCBS will be at outturn prices for the relevant year i.e. estimated inflation is to be added for each of the relevant years.

4.2 For planning purposes:

- revenue budget implications should be inflated by 3% for pay and 3% for prices per annum; and
- capital works budget should be inflated by factors shown in Appendix C. *(Drafting Note: To be advised by Property and Development, HITS and FMA).*

4.3 The ‘standstill budget’ 2004-05 to be prepared by the end of September 2003 will be at outturn prices 2004-05. In general budgets should be inflated by 3% for pay and 3% for prices unless special inflation factors are notified by FMA or agreed with the Council’s Chief Financial Officer as shown in Appendix C. *(Drafting Note: To be advised by Property and Development, HITS and FMA).*

4.4 In previous year inflation has only been applied to budgets where the inflation is unavoidable (for example, inflation is built into contracts or by negotiated with external suppliers). For 2004-05 inflation is to be applied to all budgets in accordance with the inflation factors shown in Appendix C. *(Drafting Note: To be advised by Property and Development, HITS and FMA).*

4.5 Inflation factors will be reviewed by the Council's Chief Financial Officer annually as part of the review of these guidelines.

C. Revenue Budget & MTBS Guidance

5. Overspending in 2003-04

5.1 In 2003-04 the Council has re-introduced cash-limited budgets. All departments must stay within their cash limited budgets.

5.2 Overspending on individual budgets within departmental cash limits must be contained within the overall departmental cash limit either through management or policy action. In addition, where overspends on individual budgets are on-going, sustainable (i.e. on-going) compensatory savings must be found within departmental budgets.

5.3 One off-overspending on individual budgets, where this is unavoidable, may be met by one-off compensatory savings.

5.4 During the year departments must apply the principles established during 2002-03 for corrective action in the budget monitoring process, namely:

- to take management action to contain spending within the overspending budget on a sustainable basis in a way which does not affect policy or service standards;
- to take management action to contain spending within another budget to compensate for overspending budget on a sustainable basis in a way which does not affect policy or service standards;
- to take policy action to contain spending within the overspending budget on a sustainable basis. this may affects policy or service standards and must have cabinet approval;
- to take policy action to contain spending within another budget to compensate for overspending budget on a sustainable basis. this may affects policy or service standards and must have cabinet approval; and
- only after all these actions have been exhausted to propose virement.

5.5 Overspending of a departmental budget in 2003-04 and future years will be automatically carried forward as a first call on the 2004-05 budget unless the Cabinet decides otherwise on an exceptional basis.

6. Restructuring of the Council

6.1 The Council is committed to a fundamental restructuring of its operations to become more focused on responsive, ‘joined-up’ service delivery at a local level. While this provides opportunities it will also bring uncertainty and risk into the financial planning process.

6.2 A financial protocol for the development of new organisational proposals will be developed by CMT by the end of August. This will include the development of ‘financial envelopes’ which represent the *maximum* limits within which proposals for new structures/service delivery must be developed.

6.3 Depending on how advanced proposals are for the re-organisation of the Council it may be possible to produce the final budget on the basis of the Council's new structure.

6.4 In the early stages of the budget process (up until the Strategic Position Statements), it is inevitable that budgets and budget proposals will be developed and presented within the current departmental structures. The Strategic Position Statements provide an opportunity to define performance and service and resource changes under the new structure.

7. Policy Budget Headings and Presentation of Information

7.1 Budget planning has traditionally occurred on a departmental basis which may not reflect adequately the key policy and service areas within the Council and makes it difficult to explain to decision-makers and the public the proposed budget changes, what the Council is aiming to achieve, and what services are being provided to whom and to what standard.

7.2 Executive Directors must review the presentation of their budgets with their finance managers, the Chief Executive, Chief Financial Officer and Portfolio Holders. The review should include the following considerations:

- a better identification of key policy and service areas for budget presentation;
- a better identification of key policy and service areas for the council's Scheme Of Virement which is part of the Constitution; and
- consistency with CIPFA's Best Value Accounting Code Of Practice which may provide a reasonable starting point for the review.

7.3 This will assist:

- Executive Directors in structuring their departmental schemes of delegation consistent with new management structures and accountabilities for service and financial performance
- it will also provide a more appropriate set of budget headings for the council's Scheme Of Virement;
- in the better presentation of budget information for decision-making and consultation; and
- in providing a structure for the preparation of Strategic Budget Statements – a key part of the budget/service planning process. A Strategic Position Statement should be provided for each Policy Budget Heading of which there should be no more than 50-60 in total

across the Council to make the process manageable, focused and strategic.

7.4 The review should be completed by the end of July 2003 and agreed by mid August 2003.

8. Analysis of Change

8.1 The analysis of budget changes required is similar to that used in the 2003-04 budget process with small modifications and is shown in Figure 8.1.

Figure 8.1: Analysis of Revenue Budget Changes

Category of Change	Explanation
Growth - Base Budget Changes	Reductions/increases in current base budget resulting from the review of 2002-03 outturn and implementation of 2003-04 budgets. These changes should be included in the 'standstill budget' for each year of the MTRBS.
Inflation – Pay	Estimated increases in pay expected in annual pay awards. If relevant the part and full year effect of pay awards must be shown. This should exclude incremental drift or the results of re-gradings or re-structuring which must be met be compensating savings. These changes should be included in the 'standstill budget' for each year of the MTRBS.
Inflation – Prices	Estimated increases in prices for goods, services etc. The inflation factors provided in Appendix C must be used or specific exceptions agreed with the Chief Financial Officer. These changes should be included in the 'standstill budget' for each year of the MTRBS.
Changes in Taxation, Pensions, Single Status, national pay structures	Includes changes in national taxation, employer pension contributions, implementing single status and changes in national pay structures. Corporate FMA in conjunction with departmental finance colleagues and the Head of Personnel will provide estimates of these items. These changes should be included in the

Category of Change	Explanation
	‘standstill budget’ for each year of the MTRBS.
Growth - Full Year Effects of Policy Decisions in 2003-04 and previous years	The savings/costs arising from policy decisions implemented part way through the year. These changes should be included in the ‘standstill budget’ for each year of the MTRBS.
Efficiency savings	Savings that provide the same level of service to the same number of people at less cost.
Increases in Fees and Charges	Additional income arising from proposed or agreed increases in external fees and charges or the introduction of new fees and charges
Growth - Demographic Changes	Increase in the demand for services arising from demographic growth in a client group. Clear evidence of such an increase must be provided to support such growth.
Growth - Legislative Change – EU/UK Ratified	Net additional costs/savings/specific grant or FSS (above that assumed in the MTRBS) arising from the introduction of EU legislation ratified by the UK.
Growth - Legislative Change – UK	Net additional costs/savings/specific grant or FSS (above that assumed in the MTRBS) arising from the introduction of UK only legislation including changes resulting from government circulars and court cases which set national precedents.
Transfer of Functions	Net additional costs/savings/specific grant or FSS (above that assumed in the MTRBS) arising from the transfer of function to or from the Council.
Growth – Grants ceasing	Net additional costs arising from grants ceasing after full evaluation of the projects being funded.
Growth - Revenue Consequences of the Capital Programme	Net running costs or savings (excluding capital financing costs) arising from capital schemes.
Improvements in Service – Local Public Service Agreement	The revenue costs (including capital financing charges) of implementing the LPSA.
Improvements in Service –	Additional costs of improving priority

Category of Change	Explanation
Local Priorities	services.
Improvements in Service – Introduction of New National Standards	Additional costs of improving services to new national standards.
Reprioritisation of the Budget	Reductions in budgets and service levels.

8.2

9. Stage 1: Review and Update of the Current MTRBS

9.1 The current Medium Term Revenue Budget Strategy (MTRBS) provides a key starting point for the 2004-05 budget and to roll forward the MTRBS to cover a three year period up to 2006-07. As such the current MTRBS needs to be reviewed early in the proposed budget process (by the end of July) in the light of:

- more up to date information from within the Council and from central government;
- the Council's emerging Corporate Plan, service planning and performance management framework; and
- the implementation of the 2003-04 budget.

9.2 Given that the current MTRBS is the Council's first, Members will review the Strategy in the light of the implementation of the 2003-04 budget (the first year of the current MTRBS), changing circumstances and refined priorities.

9.3 In reviewing and considering its budget, Council Tax for 2004-05 and its MTRBS for 2004-05 to 2006-07, the Cabinet and Council will need to strike a balance between spending, value for money, the interests of service users and those of the Council Tax payer.

9.4 Executive Directors with their Portfolio Holders should review their Medium Term Budget Revenue Budget Strategies by the end of July 2003. For the purposes of this review the cash limits (at 2003-04 prices) represent the maximum financial envelope for the review i.e**. the review must stay within the current maximum financial envelopes. These financial envelopes will be reviewed as the process proceeds.**

9.5 This initial high level review must consider:

- over-provision within the current MTRBS as well as under-provision in terms of demographic, legislative and other growth;
- the latest information from central government about grants, transfers of functions, initiatives, introduction of national standards and any associated funding;

- the achievability of committed savings in the full year or issues arising from the implementation of the 2003-04 budget;
- the full year effects of previous years' decisions;
- the addition of a new year to the MTRBS i.e. 2006-07; and
- the provisional outturn for 2002-03 and emerging issues in 2003-04.

9.6 The review is to present information in two parts:

- the changes to the current issues in the MTRBS showing current and revised provisions within the MTRBS and an explanation of the changes, including the extension of the MTRBS to 2006-07; and
- new issues which may need consideration as part of the budget and MTRBS process, detailing the item and giving an initial estimate of the amount over the period 2004-05 to 2006-07.

9.7 Corporate FMA will provide a format for the consistent presentation of this information.

9.8 Corporate FMA, with departmental finance colleagues, will review the resource assumptions in the current MTRBS by end July 2003 and again update these by the end of September 2003.

9.9 There will be a further opportunity to update the MTRBS as a result of Stage 2 of the process before reporting to Cabinet in October 2003.

10. Stage 2: Re-pricing/Review of Current Budgets

10.1 The objective of this stage of the process is to identify the budget to deliver current services to current standards within the current levels of efficiency with clarity and robustness. This will represent 'the standstill budget'. (See figure 8.1 for the items included in the Standstill Budget). The Standstill Budget will need to provide a firm starting point for the rest of the budget process.

10.2 Executive Directors with their Portfolio Holders should review thoroughly their standstill budgets for 2004-05, including:

- the provisional outturn for 2002-03; and
- the implementation of the 2003-04 budget and early budget monitoring information.

10.3 The review should have as much emphasis on over-provided budgets as well as under provided budgets. The review must be contained within the cash limits of the current MTRBS.

10.4 The review should involve all relevant service/budget managers.

10.5 The review should be completed by mid September and agreed by CMT by the end of September 2003.

10.6 This more detailed review will be used to refresh the MTRBS for Cabinet in October 2003.

11. Stage 3: Securing Current Targeted Savings

11.1 There are two areas of committed savings/increased income contained within the – the top management structure and procurement savings.

11.2 The Executive Director (Business Connections) will need to identify the procurement programme to achieve the targeted level of procurement savings.

11.3 These reviews should be completed by mid September and agreed by CMT by the end of September 2003.

12. Stage 4: Review of Fees and Charges

12.1 Each Executive Director shall ensure there is a full review of all *external* fees and charges for 2004-05. The review shall include:

- a summary of all fees and charges and total income budgets for 2003-04 (itemising charges for income budgets in excess of £100,000 and grouping all other income budgets);
- identify the cost of the relevant service and any subsidy involved in 2003-04 for all income budgets in excess of £100,000;
- a minimum increase in fees and charges in line with inflation of 3% (or higher if a rounded charge is required for ease of collection) in 2004-05 where fees and charges are set by the Council;
- proposals to reduce any subsidy to cover the full cost of the relevant service either for 2004-05 or if the subsidy is large in a phased way within the period of the MTBS (where fees and charges are for the Council to set);
- a comparison of fees and charges with outer London Boroughs, all London and other neighbouring Council's for income budgets in excess of £100,000;
- consideration of introducing new charges for existing discretionary services (in accordance with the Draft Guidance on the Use of the Proposed General Power to Enable Local Authorities to Charge for Discretionary Services and on the Calculation of Charges, ODPM, March 2003 – see Appendix B);

- consideration of funding new discretionary services from fees and charges (in accordance with the Draft Guidance on the Use of the Proposed General Power to Enable Local Authorities to Charge for Discretionary Services and on the Calculation of Charges, ODPM, March 2003 – see Appendix B);
- an assessment of the impact of any introduction of or increase in fees and charges on demand/sales/take-up; and
- identify any implications for other services, for example, cashiers in collecting additional coinage.

12.2 Any proposals to reduce fees and charges or not to increase them by 3% should be accompanied by compensating savings within the relevant department's budget.

12.3 The pro-forma at Appendix D provides a means of presenting this information to members consistently.

12.4 The review should be completed by mid September and agreed by CMT by the end of September 2003.

12.5 The summary information will also be used to produce a directory of fees and charges.

13. Stage 5: Efficiency Savings

13.1 For clarity, efficiency savings are savings arising from the provision of the same standard of service at less cost. It is therefore important that in preparing the Strategic Position Statements service standards, targets and outcomes are clearly identified.

13.2 Improving efficiency is a key element of continuous improvement and demonstrating Best Value. It is also a key element in determining the level of reductions which may have to be implemented to balance the budget within any proposed Council Tax.

13.3 CMT may consider introducing efficiency targets against which to explore potential savings.

13.4 Executive Directors need to identify efficiency savings within their departments. CMT also needs to agree a list of potential cross departmental efficiency savings to investigate.

13.5 Improved efficiency may be achieved through:

- improved business processes;
- more joined-up service delivery;

- alternative provision e.g. the voluntary sector, working jointly with other public bodies or the private sector.

13.6 25% of any efficiency departmental efficiency savings identified in the year may be used for re-investment in services (including funding growth proposals) within the current or any revised MTRBS cash limits.

13.7 The 25% of cross service efficiency savings (with the exception of procurement savings) will be shared pro rata to the savings in each Directorate or differently if the relevant Executive Directors agree otherwise.

13.8 It is recognised that in some instances improved efficiency may need investment. Proposals therefore need to be accompanied by an Invest to Save Scheme proposal under the capital programme.

13.9 Proposals will also need to identify staff implications.

13.10 The review should be completed by mid September and agreed by CMT by the end of September 2003.

13.11 The Strategic Position Statements give Executive Director's a further opportunity to identify more medium to longer term opportunities for efficiency savings.

14. Stage 6: Strategic Position Statements

14.1 This is the most vital stage in a budget process which aims to link resources to corporate priorities and service delivery. The purpose of this stage is to provide members and officers with information about:

- the overarching objective of the service and the contribution of services and functions to the Council's Corporate Plan objectives;
- service standards, volumes, outputs, outcomes, performance and cost information about current services;
- the nature and cost of mandatory and discretionary services;
- an overview of the strategic issues for the service;
- strategic opportunities to improve performance, reduce costs, target resources more effectively, reduce or disinvest from services (but not necessarily including detailed proposals at this stage).

14.2 This stage of the process is designed to provide a focus for future stages of the process in terms of priorities for service improvement within less, the same or more resources, better targeting of resources to need, and areas of potential disinvestment in services to fund higher priorities.

14.3 Wherever possible the information needed for this stage will be drawn from existing sources (i.e. service plans, best value reviews, best value performance indicators, best value inspections, local performance indicators and existing management systems). Clearly as these processes improve the information available in future years it will be possible to build stronger links to resources and service delivery.

14.4 The format of the Strategic Position Statements can be found at Appendix G. The SPS are intended to be crisp statements of policy, targets, performance and key opportunities for improvement, change and reprioritisation.

14.5 This stage of the process needs to be completed by the end of September 2003.

14.6 It is recognized that some services may not have all the information available to them and to some extent the process for 2004-05 will not be ideal. The Strategic Position Statements will identify the areas where information is lacking and where new arrangements need to be put in place. This is consistent with the Council's developing approach to service planning and performance management.

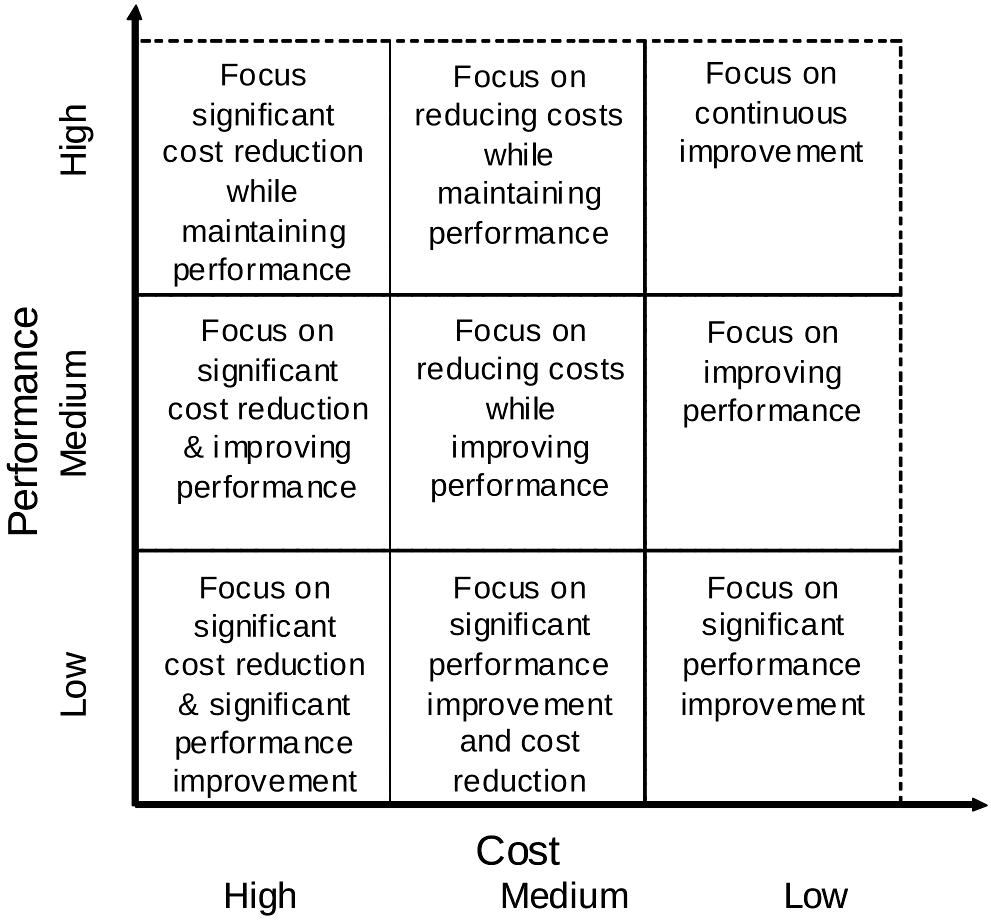
15. Stage 7: Further Political Guidance (initial Budget Proposals)

15.1 This stage of the process is designed for members to prioritise services and activities according to their strategic importance. This will be conducted under the Protocol for Member/Officer relations.

15.2 The purpose is to provide political guidance and clear parameters for identifying options for improved service delivery and efficiency, relative priorities and maximizing the contribution to meeting strategic objectives. Such parameters help to avoid an across the board 'bidding for growth' process that places little weight on improving effectiveness and efficiency within the same or less resources.

15.3 The focus of further work, particularly the options and impact analysis, will depend on the current performance and cost of the service. Figure 15.1 illustrates the different focus for services depending on their current cost and performance.

Figure 15.1: Strategic Position Statements: Focus for Options Analysis

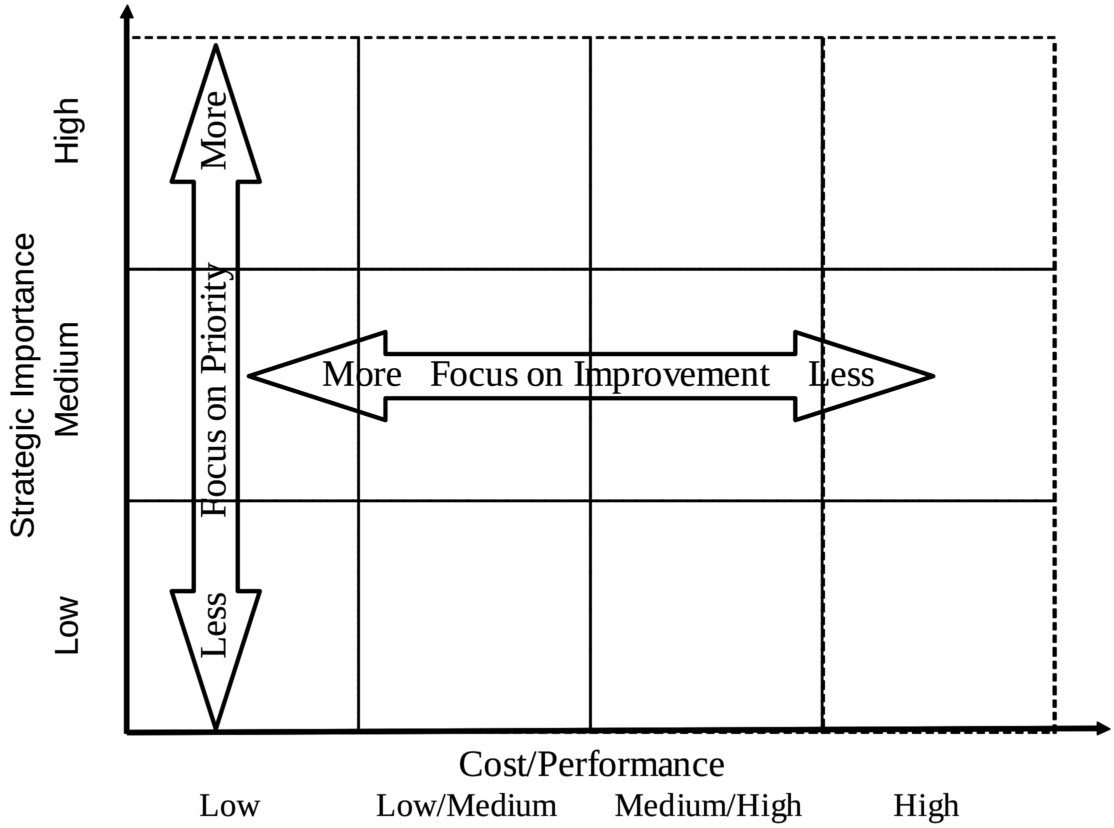


15.4 Performing all of the Council's current services as well as and as efficiently as the best will not ensure that the current pattern of services matches the Council's strategic objectives or that the services with the most impact on those objectives are prioritised in future years.

15.5 Therefore the process also aims to assist in the further development of the service and strategic priorities in the Corporate Plan which together with current cost and performance imply a set of parameters for developing the options and impact analysis in specified services.

15.6 As a tool, the approach aims to place each service or activity in a matrix as shown in Figure 15.2.

Figure 15.2: Strategic Importance and Current Performance Matrix



15.7 The position of the service on the cost/performance axis is derived from the strategic position statement as follows:

High Performing	Low Cost/High Performance
Medium-High Performing	Medium Cost/Medium Performance Medium Cost/High Performance Low Cost/Medium Performance
Low/Medium Performing	High Cost/ Medium Performance Medium Cost/ Low Performance High Cost/High Performance Low Cost/Low Performance
Low Performing	High Cost/Low Performance

15.8 Possible high level parameters for developing the options and impact analysis, depending on the current cost and performance of a service or activity and its strategic importance, are shown in Figure 3.

Figure 15.3: High Level Parameters for Option and Impact Analysis

Strategic Importance \ Cost/Performance	Low	Low/Medium	Medium/High	High
High	Service plan to: Improve performance and reduce costs in a short period of time Consider reinvestment of savings/additional resources to achieve strategic objectives.	Service plan to: Improve performance and/or reduce cost significantly Consider reinvestment of savings/additional resources to achieve strategic objectives	Service plan to: Improve performance and/or reduce cost Consider reinvestment of savings/additional resources to achieve strategic objectives	Develop service plan to: Maintain current cost and performance Consider additional resources to achieve strategic objectives.
Medium	Service plan to: Improve performance and reduce costs in a short period of time No additional resources	Service plan to: Improve performance and/or reduce cost significantly No additional resources	Service plan to: Improve performance and/or reduce cost No additional resources	Service plan to: Maintain current cost and performance No additional resources
Low	Service plan to: •Restrict to mandatory level with improved performance & reduced cost in short term OR •Discontinue the service Consider redirecting resources released to higher priorities or take as savings	Service plan to: •Restrict to mandatory level reducing cost significantly OR •Discontinue the service Consider redirecting resources released to higher priorities or take as savings	Service plan to: •Restrict service to mandatory level reducing cost OR •Discontinue the service Consider redirecting resources released to higher priorities or take as savings	Service plan to: •Restrict service to mandatory level maintaining low cost OR •Discontinue the service Consider redirecting resources released to higher priorities or take as savings

15.9 At this stage, the Cabinet will also consider the initial budget proposals at its meeting in October 2003.

16. Stage 8: Preparing Options and Impact Analysis

16.1 The focus of further work, particularly the options and impact analysis, will depend on the current performance and cost of the service and relative priorities.

16.2 The output from the Options and Impact Analysis will be a series of options to:

- improve performance and improve efficiency within existing or lower resources;
- improved targeting of resources to need;
- opportunities to reprioritise resources from lower to higher impact/priority services and activities by varying current levels of service and where it can be clearly demonstrated resources are the key cause of performance being in need of improvement; and
- discontinuing lower impact services.

16.3 Each option will need show the revenue budget impact, investment needs from the capital programme and the impact on performance and strategic objectives over a three year period.

16.4 Clearly such an Option and Impact Analysis will need to be conducted in line with the Protocol for Member/Officer Relations, particularly those relating to the development of a budget by a political group.

16.5 This stage needs to be completed by the end mid-November 2003.

16.6 The format for the Options and Impact Analysis is contained in Appendix H.

17. Stage 9: Draft Budget and MTBS

17.1 The Cabinet will approve the draft budget and MTRBS for consultation (including the schools budget to be advised to the Secretary of State and to school governing bodies) at its meeting on 16th December 2003.

18. Stage 10: Consultation

18.1 The Executive Director (Business Connections) will report to the September meeting of the Cabinet detailing the possible ways forward to improving the consultation process.

19. Stage 11: Setting the Budget and Council Tax and Approving the MTBS

19.1 The Cabinet will consider the outcomes of the budget consultation and recommend a budget and MTRBS at its meeting in February 2004.

19.2 The full Council will approve the 2004-05 budget, MTRBS and Council Tax at its meeting on 26th February 2003.

D. Capital Investment Programme Guidance

20. Capital Strategy and Asset Management Plan

20.1 The Council's Asset Management Plan (AMP) has been approved by the Cabinet at its meeting on 15th July 2003. The Capital Strategy will be updated shortly. The Capital Strategy and AMP should drive the development of the capital investment programme for 2004-05 and the Medium Term Capital Budget Strategy (MTCBS) in terms of priorities.

20.2 Copies of these plans can be obtained from:

- Capital Strategy – John Fenwick or Anne Edwards, Corporate FMA – Ext 2166 or 2170;
- Asset Management Plan – David Kerrigan Ext. 2877 or David Ball ext 2928

20.3 The detailed development of the capital investment programme for 2004-05 and the MTCBS during 2004-05 will also serve to inform the updating of the Council's Capital Strategy and Asset Management Plan (AMP) in July 2004.

21. Structure of the Capital Investment Programme

21.1 The current capital investment programme is structured into 5 blocks as shown in figure 21.1.

21.2 Figure 21.1: Current Structure of the Capital Investment Programme

Block A	
Capitalised Expenditure	
	Highways
	Schools' Repairs
	Traffic Management
Block B	
Annual Rolling Programmes	
	High Priority Maintenance Works
	Adaptations to Homes of the Disabled (Private & Council Homes)
	Disability Discrimination Act Works
	Improvement Grants
	Health and Safety Works
Block C	
New Harrow Project Schemes	
Block D	
Asset Management Plan Projects	
Block E	
Specific Funding	

21.3 Developments in the structure of the Capital Investment Programme for the forthcoming year include:

- developing a medium term capital budget strategy (MTCBS);
- revised capital investment criteria to address the currently perceived bias towards savings and external funding (to be developed);
- amalgamation of the capitalised maintenance and rolling annual programmes blocks;
- the establishment of a separate Invest To Save Block with its own appraisal criteria to encourage investment in schemes that produce cash revenue savings or prevent additional spending already contained in the revenue MTBS and at a minimum maintain current service standards but ideally improve service delivery;
- the establishment of a small block for small capital schemes of up to £50,000 each which are not in any other blocks in order to respond flexibly during the year, for example, where essential equipment fails. Authorising spending from this block will be delegated to the Executive Director (Business Connections) in consultation with the Council's Chief Financial Officer;
- the ability of managers to establish regular contributions from their revenue budgets for the replacement of assets (particularly equipment);
- additional information to improve the monitoring of the physical and financial progress of the scheme year on year rather than at total scheme cost level; and
- a prioritised reserve list of schemes for addition to the capital programme should additional resources be available.

21.4 The future structure of the capital programme is shown in Figure 21.2.

21.5 Figure 21.2: Future Structure of the Capital Investment Programme

Block A Annual Rolling Programmes Highways Maintenance (LBH Funding) Schools' Repairs Flood Prevention Traffic Management High Priority Maintenance Works (Asset Management Plan) Adaptations to Homes of the Disabled Disability Discrimination Act Works ICT Investment Programme Improvement Grants Disability Discrimination Act Programme Health and Safety Works
Block B New Harrow Project – Public Realm Schemes (Committed Schemes and New Starts)
Block C Other Asset Management Plan Projects (Committed Schemes and New Starts)
Block D Specific Funding (Committed Schemes and New Starts)
Block E Invest to Save (Committed Schemes and New Starts)
Block F Small Schemes (less than £50,000)

21.6 The current review of financial regulations will also propose improvements in terms of the ability to accelerate schemes in the event of unavoidable slippage in another scheme and to streamline the approval of additional schemes during the year with specific funding and with no additional funding implications on the capital and revenue budgets and MTBS.

22. Scheme Appraisal

General

22.1 All programmes and individual schemes over £50,000 must be appraised in accordance with the approved criteria for corporately prioritising capital schemes as shown in Appendices K to O to this guidance.

22.2 The appraisal will be carried out prior to submitting bids to central government or as part of setting the Capital Investment Programme budget. However it is recognised this may not always be possible, for example:

- time is needed to develop detailed programmes and priorities within those programmes; or
- new opportunities arise during the year from additional external funding of for self-financing schemes.

22.3 The requirement for an appraisal applies to:

- current but contractually uncommitted schemes (which will usually just need an updating);
- all proposed new schemes;
- self-financing schemes (where capital expenditure is above £50,000); and
- individual schemes above £50,000 contained within the programme block.

Exception For Externally or Specifically Funded Schemes Subject to Other Bidding Processes

22.4 The only exception to the requirement for appraisal is for schemes *wholly* funded by external specific capital funding (e.g. specific capital grants, lottery funding, supplementary credit approvals) on condition that:

- an appraisal of at least equivalent rigour has been undertaken during the bidding process for the funding;
- appropriate approval for the bid has been received from the relevant Portfolio Holder (where there is no additional call on either the revenue or capital resources of the Council) or Cabinet (where there is an additional call on either the revenue or capital resources of the Council); and
- detailed information is provided about individual schemes, revenue consequences, cash flows and project milestones to the Corporate Financial Management and Accountancy team within the timetable for the rest of the capital programme (if possible).

Corporate Funding Group

22.5 Scrutiny and moderation of the appraisals and the implied priorities will be undertaken by the Council's Corporate Funding Group prior to submission to CMT and Members.

Authorisation For Capital Spending

22.6 The authorisation for incurring spending will only be deemed to be given if the scheme:

- has been fully appraised;

- is a named part of the approved capital programme agreed by the Cabinet (or Portfolio Holder if additional schemes have no additional call on either the revenue or capital resources of the Council);
- is within budget;
- has an agreed cost plan, project plan, project manager and risk management plan; and
- complies with any other provisions in the Council's Constitution, including financial regulations.

22.7 Financial regulations will be clarified to reflect the above as part of the current review of financial regulations.

Which Block is my Scheme In and Which Appraisal Form Do I Use?

22.8 Appendix I gives guidance on which block schemes should be in and which appraisal form to use when preparing proposals for the capital investment programme (see exception in 22.4).

22.9 A scheme could fit into more than one block, for example, it is 'self-financing' and generates savings in the revenue budget. Please liaise with Anne Edwards (Ext 2170) of Corporate FMA (Ext 2170) for guidance.

Where Can I Get Help?

22.10 Preparing capital scheme proposals can be complex and may need the advice of several different professionals. Appendix P (to be inserted) gives details about where you can get help in preparing proposals for the capital investment programme.

Summarising Proposals

22.11 Appendix I provides Executive Directors the means to summarise all their capital programme proposals. Corporate FMA will produce similar corporate summaries at the key milestones in the process.

23. Revenue and Further Capital Consequences of Capital Schemes

23.1 All proposals must identify the revenue budget consequences of the proposal in the short and medium term. This includes:

- additional running costs associated with the scheme, including the additional part and full year costs of the proposal over the period of the forthcoming MTRBS (and beyond if these are significant). This must include provision for the day to day maintenance requirements arising from the scheme;

- savings within the current budget or MTRBS to fully or partially accommodate these additional costs; and
- further capital consequences of major capital schemes i.e. the need for major capital maintenance in the medium (3 years) to long term (10 years).

23.2 The documentation provided for submissions to the Capital Investment Programme is designed to capture this information which is essential for Members' decision making and for monitoring purposes should the scheme be agreed.

24. Stage 1: Current Commitments and Uncommitted Schemes and Phasing

24.1 The aims of this stage are:

- to ensure there are improvements in the planning, monitoring (financial and physical progress) and risk management of current schemes by collecting information similar to new schemes proposed for the future capital programme;
- to be clear about the objectives of current schemes; and
- to provide information about current uncommitted schemes in order to review the priority of those schemes against new proposals.

24.2 For schemes currently committed in the capital programme, Executive Directors working with Property and Development and Harrow IT Services must provide the information contained in Appendix K to this guidance by 30th September 2003.

24.3 Committed means schemes that have been contractually committed or will be contractually committed by the end of the financial year 2003-04.

24.4 For uncommitted schemes within the current capital programme, Executive Directors must provide the information contained in Appendix M to this guidance by 30th September 2003.

25. Stage 2: Determining Resource Parameters (Prudential Code)

25.1 The capital financing system for local authorities is very likely to change for 2004-05. The Prudential Code for Capital Finance in Local Authorities will radically change the system of capital funding by abolishing central government control over borrowing via credit approvals to a prudential system whereby authorities decide how much they can afford to borrow in the medium and long term using a set of prudential indicators.

25.2 The key to the new system is the affordability of borrowing and the running costs/savings of investment in terms of its impact on the revenue budget and the Council Tax.

25.3 Draft Regulations are expected in July 2003 and further guidance from CIPFA is expected in September 2003.

25.4 It is proposed that initial resource parameters are developed in the light of the new regulations and Prudential Guidelines for the Cabinet to consider those parameters for planning purposes at its meeting on 11th November 2003. The initial parameters may involve a number of scenarios.

25.5 However, this uncertainty should not prevent the review of current schemes (Stage1), establishing on-going programmes of investment (Stage 2) and identifying potential new schemes (Stage 3).

25.6 In addition, borrowing is only one source of funding capital spending and further information is required in order to establish some initial capital resource parameters and firming up those parameters in the lead up to Members making decisions.

Capital Receipts

25.7 Executive Director (Urban Living) will need to provide an estimate of capital receipts over the period of the MTCBS (2004-05 to 2006-07) based on a systematic review of the Asset Register. The review should balance the operational needs of services and the retention of assets for strategic and investment needs with opportunities for the disposal of surplus assets.

25.8 The estimate of capital receipts must be prudent and include proposed individual disposals and a contingency plan of alternative disposals should the target level of capital receipts be in danger of not being achieved.

25.9 For each major capital receipt (over £250,000) a risk assessment should be completed.

25.10 For each major capital receipt (over £250,000) the following information should be provided:

- the month and year the capital receipt is realistically expected, taking into account market conditions, planning and secretary of state consents required, planning conditions etc; and
- key milestones in the disposal process, for example, pre-marketing, marketing the property, tendering, acceptance of tender, exchange of contracts, completion, receipt of consideration.

25.11 An initial estimate is needed by 30th September 2003 with a revised estimate by the end of October 2003 and a firm estimate by 31st December.

25.12 The information collected at this stage should greatly assist Property and Development Services, Corporate FMA, CMT and Members plan and monitor the capital budget and MTCBS.

Other Resources

25.13 Executive Directors need to provide an initial estimate of the level of bids to be made to government departments and other partners and an initial assessment of the likely level of resources which could realistically be awarded. This includes specific capital grants, supplementary credit approvals and any information provided to government departments in respect of the single capital pot.

25.14 It is recognised this process may be difficult given the radical changes in the capital funding system but the process is valuable in starting the planning process.

25.15 An initial estimate is needed by 30th September 2003 with a revised estimate by the end of October 2003 and actuals and/or firm estimates by 31st January (subject to announcements being made by this stage).

26. Stage 3: Establishing On-Going Programmes of Investment to Maintain Current Assets

26.1 The capital budget and MTCBS will need to balance the maintenance of existing assets, programmes to meet statutory responsibilities with the enhancement of existing assets and new projects. Overall the MTCBS will need to be affordable in terms of the impact on the Council Tax.

26.2 Block A within the capital programme is intended for year on year programmes of investment for example capital repairs and maintenance of current assets, ICT investment, and programmes to meet statutory obligations such as health and safety and the requirements of the Disabilities Discrimination Act.

26.3 Each programme must be clear about its objectives in precise policy terms over the medium to long term. For example, the submissions need to explain:

- what can be achieved in crisp, precise policy terms within the current programme budget (together with any relevant revenue budgets) if it is maintained over 3, 5 and 10 years. For example, all Council properties will comply with the DDA by April 2004 OR the condition of local roads will be classed as good by 2008;
- what can be achieved through an enhanced programme in crisp, precise policy terms together with up to 2 options (above the current budget) at different levels of annual investment over a 3 year period

and if this higher level of investment is maintained over 5 and 10 years; and

- the basis of the above assessments e.g. systematic condition surveys or a needs assessment.

26.4 A submission does not have to include options for enhanced capital provision.

26.5 Submissions should be made using the appraisal form in Appendix L to this guidance by 30th September 2003.

27. Stage 4: Proposals for New Starts 2004-05 to 2006-07

27.1 The current scope for new schemes within a MTCBS is uncertain.

27.2 Executive Directors should identify potential new starts in the capital programme for starts in 2004-05, 2005-06 and 2006-07 in line with the Council's corporate priorities.

27.3 Executive Directors need to be as precise as possible about:

- the need for a scheme;
- how many people it affects;
- the improvement in service and its impact on national and local performance indicators; and
- how (in crisp policy terms) the project contributes to the Council objectives.

27.4 For consistency, the proposals need to be in the format provided at Appendix M for most schemes, Appendix N for Invest To Save Schemes and Appendix O for small schemes (under £50,000).

28. Stage 5: Draft Capital Budget and MTCBS

28.1 The draft capital budget and Medium Term Capital Budget Strategy (MTCBS) will be prepared by Corporate FMA and considered by the Cabinet in February 2004 alongside recommending the revenue budget and Medium Term Revenue Budget Strategy (MTRBS) to the full Council.

28.2 This is to ensure the revenue budget consequences of the capital budget and MTCBS are properly considered before approval.

29. Stage 6: Approving the Capital Budget and MTBS

29.1 The capital budget and MTCBS will be approved by the Cabinet in April 2004 in the light of approval of the revenue budget and MTRBS and consideration by the Budget Review Working Group (BRWG) and Overview and Scrutiny Committee (O & S) during March 2004.