

EXECUTIVE COUNCIL

CONFIDENTIAL

Title of Report: Budgetary Procedures 2010/11 onwards

Paper No: 210/09

Date of Meeting: 17 September 2009

Report of: Director of Finance

Purpose

1. This report has been prepared to allow Honourable Members to consider the process to be followed for the preparation of the budget for the next financial year.

Recommendation

2. Honourable Members are recommended to:
 - a) Endorse the budget process as outlined in the report
 - b) Endorse the strategy of producing departmental expenditure savings of 3% per annum

Summary of Financial Implications

3. There are no direct financial implications from the adoption of the recommended budget process in this report but there will be financial implications resulting from future action as part of the budget process for 2010/11

Background

4. The process for preparing the budget for the 2009/10 financial year will once again need to be comprehensive. The process will commence early, with initial budget figures being submitted to the Treasury by 31st October this year. This will allow the submissions to be considered by officers more comprehensively prior to the formal consideration by Members at the Standing Finance Committee budget meetings. In addition, the budget process will be integrated with the revision of departmental business plans (and ultimately the Islands Plan). This report sets out in more detail the process that will need to be followed to achieve this and the extent to which departmental managers will need to be involved in the process.

5. The budget process for the next financial year is of course complicated by the fact that there will be a general election in November. By that time the process will be underway and last year the returns had been received from departments and the Star Chamber process had commenced. Therefore, although a new Assembly may have a different view, it is important to ensure that the process is commenced, with an overall initial strategy for budget formulation that may be reviewed at a later stage.
6. The management structure of FIG is changing as a result of the review of government and the appointment of strategic directors. The role of GMT will therefore also need to develop in relation to the budget and budget monitoring. It is important that input is forthcoming at a strategic level; both in the determination of the initial strategy and also as the process progresses. Similarly, with the increasing devolution of budget accountability and responsibility, there are areas where additional input will be needed from heads of service rather than (or in addition to) individual directors.

Medium Term Financial Plan (MTFP)

7. The Medium Term Financial Plan (MTFP) was originally developed to provide budget headroom for the Island Plan developments and allow FIG to continue to be financially viable without reliance on the volatile revenue from fishing licences in particular, Illex). Following the global economic crisis last year and the decline in financial markets, the MTFP criteria were relaxed to compensate for the reduction in investment returns and provide a modest investment in the economy in the short/medium term. Nevertheless, it is considered that the longer term aspirations of the government's financial plans remain reasonable. A rational approach to next year's budget process would therefore be to continue the spirit of the current MTFP.
8. Based on the projections produced last year, the following budget surpluses/deficits are forecast over the life of the current MTFP. These are compared with the MTFP targets:

	2009/10 £M	2010/11 £M	2011/12 £M	2012/13 £M	2013/14 £M
Projected Surplus/(Deficit)	(1.7)	(1.0)	0.5	1.0	1.0
MTFP Target	(2.0)	(1.0)	-	1.0	2.0
Excess/(Shortfall)	0.3	-	0.5	-	(1.0)

9. On the face of it, it appears that the position is reasonable. As long as departmental expenditure is at or below the projections and departmental revenue is at or above the projections the MTFP will be achieved. However, it should be noted that the projections include no allowances for inflation or pay awards. They also assume that the level of total revenue will be maintained. This will rely on financial markets recovering as originally anticipated and that fishing licence revenues will continue at a level of £13.8M (whereas the total received last year was only around £11M).

10. It should also be noted that the budgeted expenditure/income figures have not recently been achieved in practice. Illex revenue has not been achieved and investment returns have been disappointing. The unaudited provisional out-turn for last year is a deficit of £3.7M. The initial approved budget anticipated a surplus of £441K.
11. It is therefore suggested that a process similar to that followed last year should be followed. This will include early submission of departmental estimates so that budget proposals can be considered by the Star Chamber, GMT and members at an early stage. It is also suggested that the current MTFP targets should be advanced by a year to maintain a 5 year forecast. This will result in the following MTFP targets:

2010/11	1M Deficit
2011/12	Break even
2012/13	£1M Surplus
2013/14	£2M Surplus
2014/15	£3M Surplus
12. The MTFP will then be reconsidered by the new Executive Council early in the New Year.

Budget Process

13. The lengthy budget process is necessary to allow consideration to be given to the overall situation by members and corporate managers at an early stage. Elected Members appeared to be happier with the longer (and more detailed) process and, apart from some improvements in the level of detail provided, have expressed a desire to see a similar process. This has been discussed with the Government Management Team (GMT) and they are supportive of this approach.
14. GMT also debated the emotive subject of ‘target savings’. It is accepted that these are a somewhat arbitrary part of the budget process and take no account of corporate priorities. However, as noted earlier, there will need to be reductions in expenditure if the MTFP targets are to be met and it may be necessary to encourage new revenue raising initiatives unless significant service reductions are contemplated. Since the process generally worked well last year, GMT recommends that 3% departmental savings should again be sought as a target.
15. It will also be necessary to ensure that business plans are revised and submitted at the same time as the initial estimate proposals. This is to ensure that the service priorities are reflected in both documents.
16. The early receipt of draft budget submissions will allow significant ‘pre-processing’ to be carried out by officers, prior to the formal budget process involving Members. The practical process, in the form of spreadsheets and supporting documentation, will be almost identical to that used in previous years. This will mean that managers will be involved in a familiar process rather than Treasury staff reinventing the wheel and forcing further change onto the staff involved.

17. The 'Star Chamber' process will be employed on a corporate basis. Each manager will be required to meet with the Chief Executive and Treasury staff to justify their budget submission and explain any variations and developments. They will also be tasked with preparing alternative scenarios and development of service options, aimed at reducing expenditure. The intention of this process is that a range of service options will be produced that will facilitate discussions by Members during the formal budget process in the New Year.
18. A summary timetable for the budget process is attached at appendix A. Depending upon practical implementation some of the dates may change but the process is driven to an extent by the timing of Executive Council and Standing Finance Committee meetings.

Service Policy Reviews

19. The budget process followed last year also included a programme of Service Policy Reviews (Green/White papers). Some of them have been completed (or at least the papers have been) but others are ongoing. These will need to continue to be progressed (eg Tax & Fiscal Policy alongside the Economic Development Strategy and Rural Development Strategy; and health service financing).
20. In addition, a new programme of Service Policy Reviews will need to be initiated, alongside the usual budget strategy. At the Budget Select Committee, 2 specific reviews were agreed:
 - Fisheries Research/Science
 - Use of FIG Vehicles

Members may of course have views on other service policy review areas.

Conclusions

21. In summary, the following conclusions can be drawn:
 - It can be assumed that financial constraints will need to continue
 - The last few years have seen unanticipated deficits
 - There will be a need for continued frugality
 - We need to reduce bottom line spending/MTFP targets
 - GMT/Heads of Service should have a greater role in the budget process
 - The Service Policy Review process should continue
 - An early start to the process is again essential

Financial Implications

22. There are no direct financial implications of endorsing the strategy for the production of budgets for future financial years but there may be future implications depending upon the recommendations ultimately produced as part of the budget process.

Legal Implications

23. There are no direct implications from this report but there may be future implications depending upon the recommendations ultimately produced as part of the budget process.

Human Resource Implications

24. There are no direct implications from this report but there may be future implications depending upon the recommendations ultimately produced as part of the budget process.

2010/11 SUMMARY BUDGET TIMETABLE

30 Sept 2009	Distribution of circular and spreadsheets to departments
30 Oct 2009	All budget submissions to be returned to Treasury
2 Nov 2009	Initial Treasury review of submissions commences – (Round 1)
1 Dec 2009	Star Chamber review meetings commence(Round 2)
w/c 18 Jan 2010	Capital Working Group
29 Jan 2010	Issues/queries from Star Chambers (round 2) resolved and submissions cleared
w/c 15 Feb 2010	Meetings with Councillors – politically sensitive proposals/ Green paper proposals
SFC 26 Feb 2010	Draft Capital Programme considered by Members
w/c 15 Mar 2010	Subvention bodies meet with Members to present budget proposals
w/c 5 Apr 2010	Two day review of budgets by Members (HoS may be required to attend)
ExCo 23 Apr	Budget Policy Paper to Members
SFC 23 Apr 2010	Follow up review with Members
w/c 24 May 2010	Budget Select Committee/Legislative Assembly week