
Corporate Scrutiny Committee**9th June 2025**

Report of the Director of Finance

BUDGET SETTING PROCESS AND SCRUTINY**Summary**

1. This report outlines the Council's approach to budget setting and some suggestions as to how the Committee could carry out budget scrutiny.

Background

2. Members will be aware of the current state of Local Government finance nationally with rising demand and inflationary pressures creating significant challenges in many Councils. A Spending Review is currently underway, with 3 year departmental spending plans expected to be announced on 11th June 2025. This announcement will be followed by a comprehensive consultation paper with a response from Government in early Autumn. Individual Council allocations are expected in late November / early December.
3. It is expected that the 3 year settlement will also encompass the fair funding review, updating allocations for the most up to date indicators or need and latest population figures. Whilst this certainty for local government finances is welcomed, the Government has been clear that their intention is to redistribute funding towards areas with higher deprivation. It is against this backdrop of continuing uncertainty and increasing costs that the Council will need to begin the process of setting its 2026/27 budget.

Annual Budget Setting Process

4. Every council must have a balanced and robust budget for the forthcoming financial year and also a Medium Term Financial Strategy (MTFS) which projects forward likely income and expenditure over the next 3 years. Due to income constraints and the pressure on service

expenditure through increased demand and inflation, projected expenditure is usually higher than projected income.

5. Whilst such budget gaps are common in years two and three of the MTFS, the requirement to approve a balanced and robust budget for the immediate forthcoming year means that efforts need to be made to ensure that any budget gap in the next financial year is closed. This is achieved by making proposals to reduce expenditure and/or increase income. Clearly all stakeholders will be concerned with any potential effect that these financial decisions have on service delivery.
6. The annual budget report outlines the proposals that will be taken forward and includes an overarching Equalities Impact Assessment that attempts to look at the cumulative impact of the budget. A number of the individual proposals will also require their own assessments and consultation with service users which will be undertaken separately at the appropriate time.
7. There is a significant amount of legislation around local authority financial planning and budgeting.
8. The Local Government Act 2000 states that it is the responsibility of the full council, on the recommendation of the Executive, to approve the budget and related council tax demand.
9. The Local Government Act 2003, section 25 requires the council's Section 151 officer to report to the council on the robustness of the estimates made and the adequacy of the proposed financial reserves assumed in the budget calculations.
10. The Local Government Finance Act 1988, section 114 requires the Section 151 officer to report to all of the authority's councillors if there is or is likely to be unlawful expenditure or an unbalanced budget. The council must meet within 21 days to consider the report and during that period the authority is prohibited from entering into new arrangements that will cause money to be spent.
11. Failure to set a legal budget may lead to intervention from the Secretary of State under section 15 of the Local Government Act 1999.
12. In relation specifically to scrutiny, Statutory Guidance on Overview and Scrutiny (2024) was issued by the Department for Levelling Up, Housing

and Communities which provides updated guidance on how councils should conduct scrutiny, including financial scrutiny.

13. There is also Best Practice Guidance issued by the Local Government Association (LGA) and Centre for Governance and Scrutiny (CfGS) and this emphasises the importance of early and ongoing involvement in the budget cycle and the need for clear lines of enquiry, public engagement, and cross-party collaboration.
14. The following paragraphs outline the annual budget setting process.

April to July

Estimate revenue income and expenditure over at the next 3 years, updating for previous years outturn position and any other information available.

July to September

Identify any new budget pressures

Calculate forecast budget gap (difference between forecast expenditure and forecast income)

Chief Officers and Heads of Service start detailed work to identify new efficiencies and savings proposals

Consider any capital projects needed

Begin discussions with Executive Members as to the level and type of savings required

October to December

Budget consultation with residents, partners and community groups, including reports to scrutiny

Finalise budget proposals with the Executive, including potential impacts and risks

Review budget in light of Local Government Provisional Settlement and update budget assumptions for any Government announcements

January

Revenue and capital budgets considered by Executive

February

Revenue and capital budgets debated at Full Council. Council Tax is set.

Analysis and Options

15. There are a number of reasons why financial scrutiny is important.
 - i. To ensure there are clear links between budget setting and strategic plans
 - ii. To identify evidence based options for reducing costs, generating income or introducing new models of delivery
 - iii. To challenge how resources are allocated, used and their impact
 - iv. To provide an additional and transparent challenge to the Executive's management of Council's finances
16. The Centre for Governance and Scrutiny publication "Finance scrutiny: a guide for members" provides advice on financial scrutiny and in particular makes the point that scrutiny of the Council's budget isn't about analysing data or querying individual budget lines on a spreadsheet. Scrutiny adds value from reviewing and challenging the assumptions and choices that sit behind the figures.
17. This can include reviewing how resources are allocated, monitoring how they are used and examining their impact. This is about following through from budget development and planning to delivering of a budget and oversight of that budget in-year. Usually, Scrutiny will be able to do this by exception, looking at financial information throughout the year which will also cover ensuring savings are being delivered once the budget is approved.
18. Another area would be to check how the budget is allocated to achieve strategic and operational objectives and service planning. Targets on performance should be aligned with the budget available to deliver them. This allows scrutiny to understand the council's financial choices in the context of its overall goals.
19. One proposal could therefore be for the Committee to form a smaller task & finish style group to hold informal meetings to scrutinise the budget at 3 points, which could be:
 - i. Reviewing the MTFS and the budget process
 - ii. Before public consultation, helping to shape the proposals being consulted on

- iii. After public consultation, reviewing the outcomes and making suggestions to Executive about how to proceed
- 20. This would result in a summary report that would be published and presented to Executive by the Chair of the Committee.
- 21. The working group would be supported by the Director of Finance and the Assistant Director, with other officers contributing as required.
- 22. Corporate Scrutiny Committee could also scrutinise the quarterly Finance & Performance reports presented to Executive throughout the year. This would allow the Committee to follow the budget through from development to delivery as outlined in paragraph 17 above.
- 23. Alternatively, members of the committee could consider the contents of this report and determine other options to deliver budget scrutiny.

Council Plan

- 24. The Medium Term Financial Strategy aims to ensure that, as far as possible, resources are aligned to the Council's priorities.

Recommendations

- 25. Members are asked to consider the contents of this report and agree how they want to proceed with budget scrutiny for the 2026/27 budget process.

Reason: To provide assurance that the Council is managing its budget effectively.

Contact Details

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Report Approved	<input checked="" type="checkbox"/>	Date	23/05/2025
Wards Affected: List wards or tick box to indicate all			All <input checked="" type="checkbox"/>

For further information please contact the author of the report	

Background Papers:

Centre for Governance & Scrutiny - Financial Scrutiny: a guide for members
<https://www.cfgs.org.uk/wp-content/uploads/2023-12-11-Finance-Scrutiny-guide.pdf>

Annexes

None

Abbreviations

MTFS Medium Term Financial Strategy