

**HUNTINGDONSHIRE DISTRICT COUNCIL**

**Title:** Zero Based Budgeting

**Meeting/Date:** Overview & Scrutiny Panel (Economic Well-Being)  
4<sup>th</sup> December 2014

Cabinet  
11<sup>th</sup> December 2014

**Executive Portfolio:** Resources: Councillor J A Gray

**Report by:** Head of Resources

**Ward(s) affected:** All Wards

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**Executive Summary:**

For a number of years the Council has been consistently underspending its General Fund revenue budget and following the completion of the 2012/13 Annual Financial Report this was recognised by the external auditors who recommended that the Council should undertake a budget rebasing exercise following the principles of Zero Based Budgeting (ZBB). Cabinet gave its approval to this exercise in July 2014.

ZBB is an outcome lead, bottom-up process that will allow the Council to review, understand and reconstruct its services so it can deliver them to an agreed standard, rather than accepting current delivery as the norm and incrementally increasing budgets year-on-year.

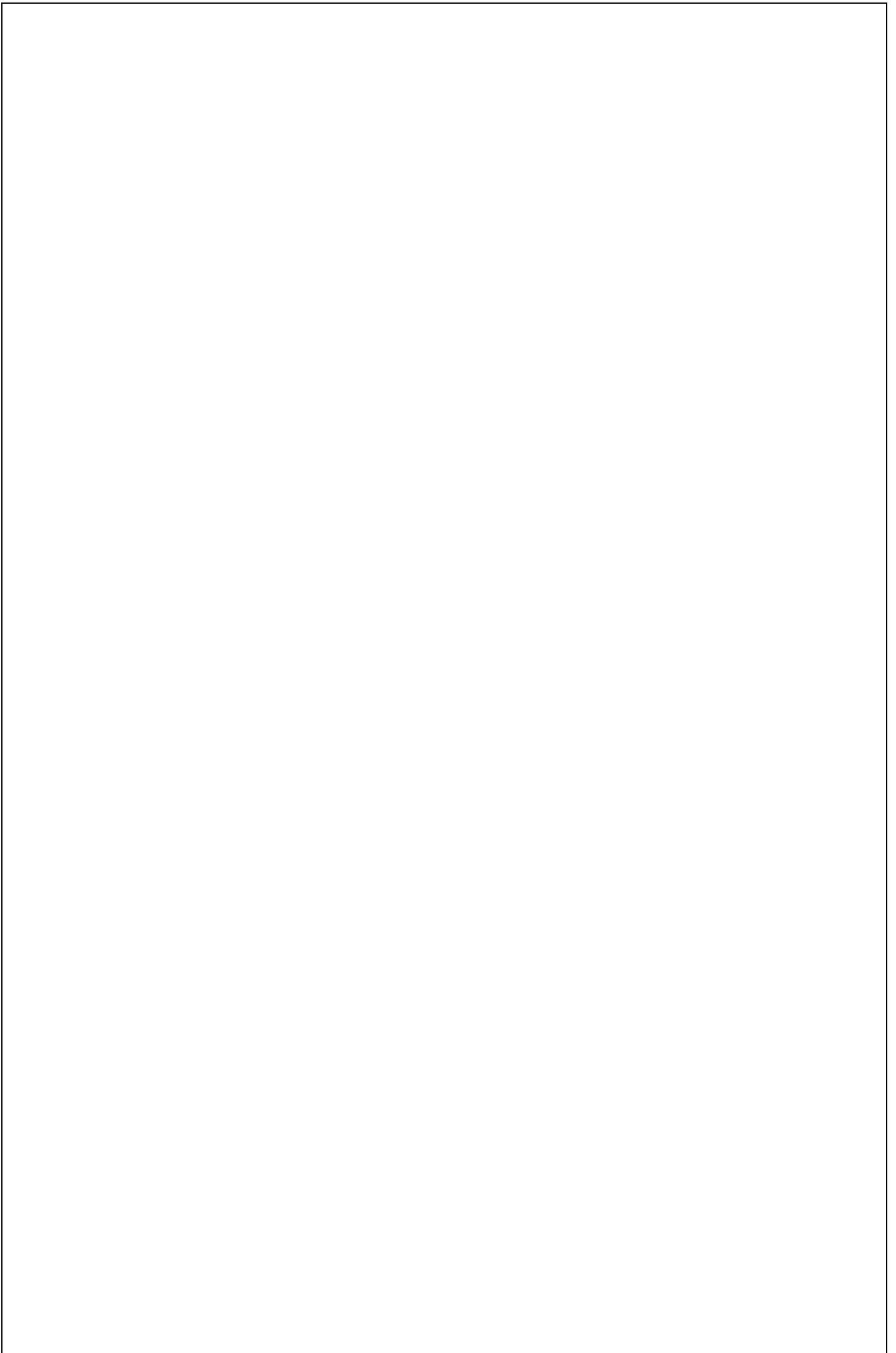
Considering that the government is not expected to announce its 2015/16 local government funding proposals until mid-December, it was discussed at the previous Panel that this month's meeting would receive a report that gave an:

- update on the ZBB process to date; including any findings,
- outline on how the ZBB process would go forward,
- give the Panel the opportunity to scrutinise the Cabinet on their considerations in respect of the governance arrangements and political oversight of the ZBB process.

**Recommendation(s):**

It is recommended that Overview and Scrutiny provides comments to Cabinet in respect of the:

- ZBB process for the setting of the 2015/16 Budget and the Medium Term Financial Strategy and the "process" findings and "savings" to date, and
- The revised timetable for the completion of all other Council services by November 2015 in preparation for the setting of the 2016/17 Budget and the Medium Term Financial Strategy.



## 1. PURPOSE

- 1.1 To update members in respect of actions to date in respect of the Zero Based Budgeting (ZBB) process in preparation for the setting of the 2015/16 Budget and the Medium Term Financial Strategy. In addition, to provide political oversight of the governance of the process and to inform members of the revised ZBB timetable.

## 2. ZERO BASED BUDGETING

### Time line of actions to date

- 2.1 A detailed commentary on the actions to date in respect of ZBB is shown in **Appendix 1** and a summary is shown below:

- **September 2013**
  - The Council's external auditors recommend that a ZBB process is undertaken.
- **July 2014**
  - Cabinet approved the application of ZBB as the primary tool in the setting of the Council's budget.
- **August 2014**
  - Appointment of external resource to lead and support the ZBB process.
- **September 2014**
  - General ledger restructured to reflect the new management structure.
  - ZBB process determined, including the identification of the five ZBB heavy reviews and the ZBB light process.
- **October 2014**
  - Services commence their ZBB heavy reviews and a cross-cutting review commenced (i.e. cost of employees across all services).
- **November 2014**
  - Internal scrutiny of service ZBB submissions, including a Professional Officer Review (peer challenge) and a Cabinet led Star Chamber review.

### ZBB Proposal and Evaluation

- 2.2 As noted in paragraph 2.1, the five services who were selected to undertake ZBB heavy reviews submitted their budget proposals by the end of October and these are shown in Table 1 below. In summary, on a direct service basis there is an anticipated net saving of £0.916m (-25.9%) when the 2014/15 Updated Budget is compared to the proposed 2015/16 draft budget. However this reduces to a net saving of £0.196m (-2.45%) when corporate costs are taken into account.

Table 1		ZBB Service reviews – Initial proposals from services			
Service Review Area		2014/15	2015/16	Variance	
		Updated budget £000	Draft Budget £000	£000	% (-saving/+cost)
Operations	Car Parks	(1,153)	(1,222)	(69)	-6.0
Operations	Green Spaces	1,280	1,272	(8)	-0.6
Community	Environment Health	1,867	1,728	(139)	-7.4
One Leisure	Leisure Centres	(34)	(375)	(341)	-1,002.9
Resources	Direct Services	1,580	1,221	(359)	-22.7
<b>Total for Direct Services</b>		<b>3,540</b>	<b>2,624</b>	<b>(916)</b>	<b>-25.9</b>
Resources	Corporate Costs	4,612	5,332	720	+15.6
<b>TOTAL</b>		<b>8,152</b>	<b>7,956</b>	<b>(196)</b>	<b>-2.4%</b>

2.3 The Corporate Costs represent, in the main, uncontrollable items of expenditure. The main items that have contributed to the increase in Corporate Costs include:

	£000
• Pension Contribution	356
• Minimum Revenue Provision	369
• Insurance Costs	61
• Audit Fees	-27

2.4 On the 19<sup>th</sup> November, there was a Peer Challenge of each of the ZBB Heavy service budget proposals noted in para 2.2. Relevant Heads of Service were “cross-examined” by the Head of Resources, the Accountancy Manager and representatives from Pixel Financial Management (Pixel FM have been appointed to provide external financial scrutiny). Following the Peer Challenge, further increases in savings of £70,000 have been achieved [Operations (Green Spaces) and One Leisure of £47,000 and £23,000 respectively]. This has increased the overall net saving from 2.4% to 3.3%, a service-by-service summary is shown in Table 2 below.

Table 2		ZBB Service reviews – Post “Professional Officer Review” (Peer Challenge)			
Service Review Area		2014/15	2015/16	Variance	
		Updated budget £000	Draft Budget £000	£000	% (-saving/+cost)
Operations	Car Parks	(1,153)	(1,222)	(69)	-6.0
Operations	Green Spaces	1,280	1,225	(55)	-4.3
Community	Environment Health	1,867	1,728	(139)	-7.4
One Leisure	Leisure Centres	(34)	(398)	(364)	-1,070.6
Resources	Direct Services	1,580	1,221	(359)	-22.7
<b>Total for Direct Services</b>		<b>3,540</b>	<b>2,554</b>	<b>(986)</b>	<b>-27.9</b>
Resources	Corporate Costs	4,612	5,332	720	+15.6
<b>TOTAL</b>		<b>8,152</b>	<b>7,886</b>	<b>(266)</b>	<b>-3.3</b>

### Consequential By-Products of ZBB

#### ➤ Establishment/Staff Cost Budgets

2.5 Through the ZBB process, it has been identified that there has not been, in recent years, any reconciliation between the “FTE” Establishment List maintained by Human Resources and the Salaries Budget. The Council’s establishment is effectively owned by each Head of Service but should be monitored by both Human Resources and the Accountancy Team to ensure that the:

- Total FTE and related salary costs are “in sync”.
- Number of employed staff does not exceed that approved by the Council.

2.6 The review of the FTE Establishment List and the Salaries Budget has identified that there is a difference of only £26,090; however of the total salaries budget £0.725m (4.0%) is included for posts that are vacant, this is shown below

➤ FTE held by Human Resources:	709
	<b>£</b>
➤ Equated cost of FTE held by Human Resources	18,027,194
➤ Equated cost of Establishment included in the 2014/15 Original budget:	18,053,285
➤ Variance between “establishments”:	<b>26,090</b>

Of the FTE Establishment held by Human Resources, vacant posts that are excess to service requirements equate to £724,852.

It should be noted that, this:

- excludes One Leisure, IMD & Sports & Lifestyles.

- represents base salaries only, it ignores the impact of employers pension and national insurance.
- saving may be included within the ZBB heavy and light reviews, so careful consideration will be given to avoid any double-counting.

2.7 Considering the lack of reconciliation and the use of “vacancy” budgets, the following is recommended:

- That an ongoing reconciliation process is developed between the Corporate Office and Resources to ensure that both the Human Resource and Salaries Budget are “in balance”.
- That actual expenditure is compared to the budgeted “cost of employment” and reported to the Employment Panel on a quarterly basis.
- That if a service wishes to use an employee saving to fund the use of Interim or Consultancy services, then this is approved by the relevant Corporate Director.
- That the Code of Financial Management is enhanced to prohibit the use of “employee budgets” to finance “non-employee” related expenditure.

➤ **Revised Budget Timetable for 2015/16**

2.8 Due to central government’s 2015/16 funding proposals not being announced until Christmas 2014, a revised budget preparation timetable is being followed for the setting of the 2015/16 budget. The key dates and actions are noted in Table 3 below.

<b>Table 3</b>	<b>2015/16 Budget and Medium Term Financial Strategy – Budget Timetable</b>
November 25 2014	Cabinet “Star Chamber” – review of the ZBB Heavy services.
December 19 2014	Provisional “Local Government” Finance Announcement.
December 23 2014	DRAFT 2015/16 Budget & MTFS Complete.
December 24 2014	Executive Leadership (Leader, Deputy Leader and Portfolio Holder for Resources) - Issue of DRAFT 2015/16 Budget & MTFS.
January 08 2015	O&S Panel (Economic Well-Being) – Consider DRAFT 2015/16 Budget & MTFS.
January 22 2015	Cabinet - Consider DRAFT 2015/16 Budget & MTFS
February 05 2015	O&S Panel (Economic Well-Being) – Consider FINAL 2015/16 Budget & MTFS.
February 12 2015	Cabinet - Consider FINAL 2015/16 Budget & MTFS.
February 25 2015	Full Council – Consider Final 2015/16 Budget & MTFS.

### **3. ZERO BASE BUDGETING – NEXT STEPS**

- 3.1 Originally the proposal was that all Council services would be reviewed over a 3-year budget setting cycle. However, Cabinet has expressed a concern in that they would like a faster process so the Council can get to a new base budget as quickly as possible.
- 3.2 Members will know that they have started to receive quarterly performance information. A true ZBB process should “rebase” using “outcome/output” indicators as the means to determine the level of service – thereby allowing resources to be allocated accordingly. Unfortunately the Council does not have such indicators for all services to a consistent standard. Therefore, the first step in developing a performance based ZBB process is that by the end of March 2015 services will have produced a “basket of outcome/output” indicators as part of their service plans for 2015/16.
- 3.3 Thereafter, between April and November 2015 all those services that have not been subject to the ZBB heavy process as part of the 2015/16 budget setting process will be reviewed in time for the budget setting process for the 2016/17 Budget and Medium Term Financial Strategy.
- 3.4 By speeding up the process, this will have direct resource implications on the:
- Resources Team, in that Accountancy will be involved in preparing the statutory Annual Financial Report between March and September 2015.
  - All services, in that they will be continuing with “business as usual” but also directly delivering their ZBB reviews.
- 3.5 It is therefore expected that external resources will be required to support both Accountancy and the Councils wider services so their respective service objectives and those of ZBB will be achieved within the timescales required. At this time the resources required have not been evaluated but they will be financed from the Councils Special Reserve and reported to the Panel and Cabinet in a future report.

### **4 LEGAL IMPLICATIONS**

There are no direct legal implications arising from this report.

### **5 RESOURCE IMPLICATIONS**

ZBB is a new approach to setting the Council’s budget. It is too early in the budget cycle to give a fair estimate of what the Council’s budget will be for 2015/16, this will be better known in January 2015, but when the ZBB review of all services is complete in November 2015, it is anticipated that this will go a good way to meeting the Council’s financial objectives.

### **6 REASONS FOR THE RECOMMENDED DECISIONS**

- 6.1 It is recommended that Overview and Scrutiny notes the report and recommends the report to Cabinet.

### **7. LIST OF APPENDICES INCLUDED**


Appendix 1 – Timescale of Zero Based Budgeting – Actions to Date  
Appendix 2 – Key Dates for the Setting of the 2015/16 Budget & MTFS

## **BACKGROUND PAPERS**


Working papers in Financial Services

## **CONTACT OFFICER**

Clive Mason, Head of Resources

 01480 388157

David Ablett, Interim Accountancy Manager

 01480 388026



Timeline of Zero Based Budgeting - Actions to Date			
2013	2014		
September	July	August	September
<p>The Councils external auditors, PricewaterhouseCoopers recommended that the Council should undertake a ZBB review of its budget because it had, for a number of years, continued to underachieve its approved budget.</p>	<p>Following the appointment of the new management team, Cabinet approved the application of ZBB to its budget setting process. In this way, the Councils services could be “rebased” so the cost of service delivery could be determined.</p>	<p>An Interim Consultant was appointed to lead on the ZBB process, along with a specialist Financial Management consultancy that has expertise in strategic service review and local government strategic finance</p>	<p>The general ledger was restructured so it accurately reflected the new management structure and provide a foundation for the ZBB modelling that would be required.</p> <p>The ZBB process to be employed at the Council was determined so there could be effective mapping of service costs and income.</p> <p>A ZBB “flyer” was circulated to all members and services; the aim being to give a “heads-up” of the ZBB process, including a timetable for the entire ZBB “rebased” process. The flyer also included the disclosure of the five ZBB “Heavy” services; namely:</p> <ul style="list-style-type: none"> <li>• Operations: <ul style="list-style-type: none"> <li>o Car Parks;</li> <li>o Open Spaces</li> </ul> </li> <li>• Community: <ul style="list-style-type: none"> <li>o Environment (and Community Engagement)</li> </ul> </li> <li>• One Leisure: <ul style="list-style-type: none"> <li>o Whole service</li> </ul> </li> <li>• Resources: <ul style="list-style-type: none"> <li>o Whole service</li> </ul> </li> </ul>

Timeline of Zero Based Budgeting - Actions to Date		
2014		
October	November	
<p>The five ZBB “Heavy” services (Green Spaces, Car Parks, Environmental Health, One Leisure and Resources) commenced their review; this involved complete remodelling of the 2014/15 forecast outturn and the new base for the 2015/16 budget. In addition:</p> <ul style="list-style-type: none"> <li>• the ZBB “Light” process commenced, which entails a table-top review to identify easy to remove budget excess.</li> <li>• Cross-cutting review to identify “all service” budget excess e.g. Vacant posts within the approved Establishment</li> </ul>	<p>Review and internal scrutiny of ZBB "Heavy" reviews</p>	<p>"Professional Officer Review" of the ZBB Heavy services</p> <p>Star Chamber reviews of ZBB Heavy services.</p>

**Key Dates for the Setting of the 2015/16 Budget & MTFS**

<b>Date</b>	<b>Task</b>
November 19 2014	Peer Review
November 26 2014	Cabinet "Star Chamber"
December 03 2014	Autumn Statement 2014
December 10 2014	Exec Leaders & Portfolio Holder for Resources receive Outline Report on Results of ZZB Heavy & Lights
December 15 2014	Issue of DRAFT Budget (based on Autumn Statement) to Exec Leadership
December 19 2014	Provisional "Local Government" Finance Announcement
December 23 2014	DRAFT 2015/16 Budget & MTFS Complete
December 24 2014	Executive Leadership (Leader, Deputy Leader and Portfolio Holder for Resources) - Issue of DRAFT 2015/16 Budget & MTFS
December 30 2014	O&S Panel (Economic Well-Being) - Issue of DRAFT 2015/16 Budget & MTFS
January 08 2015	O&S Panel (Economic Well-Being) – Consider DRAFT 2015/16 Budget & MTFS
January 14 2015	Cabinet - Issue of DRAFT 2015/16 Budget & MTFS
January 22 2015	Cabinet - Consider DRAFT 2015/16 Budget & MTFS
January 31 2015	O&S Panel (Economic Well-Being) - Issue of FINAL 2015/16 Budget & MTFS
February 04 2015	Cabinet - Issue of FINAL 2015/16 Budget & MTFS
February 05 2015	O&S Panel (Economic Well-Being) – Consider DRAFT 2015/16 Budget & MTFS
February 12 2015	Cabinet - Consider FINAL 2015/16 Budget & MTFS
February 19 2015	Full Council – Issue of Final 2015/16 Budget & MTFS
February 25 2015	Full Council – Consider Final 2015/16 Budget & MTFS