

DERBYSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

27 February 2019

Report of the Director of Finance & ICT

BUDGET MONITORING ARRANGEMENTS

1 Purpose of the Report

To provide Members with details of the latest budget monitoring arrangements.

2 Information and Analysis

Details of the Council's budget monitoring protocols and developments have previously been reported to Audit Committee.

Departments are required to meet monthly with the Director of Finance & ICT and provide details of their latest budget monitoring position. The information is generally presented in a consistent format by all departments, showing the year to date position and the projected outturn for the year, together with a brief summary of the major variances.

To ensure that the arrangements remain robust, reporting requirements and timescales are set out in the Budget Monitoring Policy, a copy of which is shown at Appendix One. The Policy is widely distributed to departmental Finance Managers.

The Accountancy and Budgetary Control audit undertaken by Audit Services earlier this year concluded that Budget Monitoring arrangements are embedded and generally operating effectively.

Following review of the policy in February 2019, the following changes have been made:

- The schedule of meeting dates between the departmental Finance Manager and the Director of Finance & ICT has been updated.
- The timetable for reporting the monitoring position to Cabinet and Cabinet Member portfolios has been updated.
- An explicit requirement to show significant use of earmarked reserves to support general spending has been added.
- An explicit requirement to list any significant items of one-off income included in the forecast has been added.

- The format in which the monitoring of budget savings is presented has been changed. The prescribed layout requires that the current year budget reductions target is clearly identified, any targets not achieved in prior years are also identified, the expected value of reductions from new and ongoing savings initiatives are presented, along with a forecast of the extent to which those savings are expected to be achieved by the financial year-end.
- A requirement to list additional budget “pressures” provided to the portfolio in the year, separated into ongoing and one-off allocations and how these are being used, has been included.
- A requirement to identify and quantify the factors which might negatively impact on the portfolio’s outturn position from that forecast has been added.
- A definition of the meaning of budget savings and how their delivery must be measured and reported has been included.
- A requirement to provide an analysis of debts owed to the Council has been introduced, in accordance with changes made to the Financial Regulations effective from April 2019.

A new governance arrangement is currently being developed to plan and assess the viability of savings initiatives and to provide ongoing detailed review of their progress delivery. Details of this proposed arrangement will be the subject of a future Cabinet/CMT report.

Consideration is also being given to the incorporation of performance data into the budget monitoring report to provide a more complete view of departmental outcomes. This will be the subject of a further report to this meeting where appropriate.

3 Considerations

In preparing this report the relevance of the following factors has been considered - financial, legal and human rights, human resources, equality and diversity, health, environmental, transport, property, social value and prevention of crime and disorder considerations.

4 Officer's Recommendation

To note the details of current budget monitoring arrangements.

PETER HANDFORD

Director of Finance & ICT

Budget Monitoring Policy 2019-20



February 2019

Objectives and Importance of Budget Monitoring

The Director of Finance & ICT is responsible for providing appropriate financial information to enable budgets to be monitored effectively by budget holders and to report to Cabinet and Council on variances.

It is the responsibility of the Director of Finance & ICT to ensure that each Strategic Director is given timely information on each budget heading for which they are responsible, to enable them to fulfil their budgetary responsibilities and manage expenditure/income. Budget Monitoring ensures that relevant managers are made accountable for their elements of the overall budget and resources are used for their intended and agreed purpose.

It is the responsibility of each Strategic Director to keep within their overall budget; it is the responsibility of finance staff under the direction (either directly or indirectly) of the Director of Finance & ICT to monitor these budgets and to supply this information to departmental senior officers, to assist in the management of their budget.

It is important that variances against budgetary targets are identified and explained. The Council can then identify changes in trends and resource requirements.

Budget monitoring is a means of identifying and managing possible over and underspends and will include a forecast for the year. This will enable corrective action to be taken for any problem areas during the year.

Frequency of Budget Monitoring

This note sets out the procedure for the monitoring process. Monitoring ideally should be done monthly, the first one being at period 3 (June).

At the very least, significant or problem areas within each department must be monitored, with a revised forecast provided, or assurance should be provided that the forecast remains the same as previously reported.

A departmental monitoring statement should be completed after each period end, after "actual to plan" and "plan to plan" have been copied over to the new period. A series of meetings has been arranged, with the Director of Finance & ICT, to briefly discuss the latest budget monitoring position following each period end. A report should be drafted outlining the controllable departmental budget position, together with brief details of the main variances. A copy of the report should be forwarded to the Director of Finance & ICT (copy to Finance Manager, Technical), prior to the meeting. The following table gives guidance as to when these meetings should take place.

Monitoring Period		Meetings with Director of Finance & ICT
P3	Jun 2019	w/c 22 July 2019
P4	Jul 2019	w/c 26 Aug 2019
P5	Aug 2019	w/c 23 Sep 2019
P6	Sep 2019	w/c 28 Oct 2019
P7	Oct 2019	w/c 25 Nov 2019
P8	Nov 2019	w/c 30 Dec 2019
P9	Dec 2019	w/c 27 Jan 2020
P10	Jan 2020	Not required
P11	Dec 2020	Not required
Outturn	Mar 2020	TBC

The Strategic Director for each department also has a regular 'One to One' monthly meeting with the Director of Finance & ICT to discuss variances, with particular reference to proposed budget reductions.

Meetings have not been arranged with the Director of Finance & ICT for periods 10 and 11 as the position is unlikely to have moved significantly from that reported at period 9, however, if there has been a significant movement in the forecast position from period 9, a meeting with the Director of Finance & ICT should be arranged. Portfolio monitoring statements are expected to be reported regularly to the appropriate Cabinet Member after consultation with the relevant budget holders at periods 3, 5, 7 and 9.

Monitoring should be based on controllable budgets using the controllable cost element hierarchy (ZRCON). It should be agreed and balanced to the controllable budget on the ledger (plan version 'C').

A full summarised Council revenue monitoring report will be submitted to Cabinet. This will occur 4 times a year and will normally report at periods 3, 5, 7 and 9, in addition to the year end outturn. The timetable for this is as follows:

Monitoring Period	Complete By	Report to Cabinet Member	Summarised Report to Cabinet
3 - June 2019	End July 2019	Within August 2019	12 September 2019
5 - August 2019	End September 2019	Within October 2019	21 November 2019
7 - October 2019	End November 2019	Within December 2019	16 January 2020

Monitoring Period	Complete By	Report to Cabinet Member	Summarised Report to Cabinet
9 - December 2019	End January 2020	Within February 2020	12 March 2020
12 + Special Periods Outturn	May 2020	Within June 2020	Within July 2020

All reports to the Cabinet Member will be in the format set out in Appendix A.

Including the formal monitoring process outlined above, as a minimum, the following should be undertaken:

Periods 3,5,7,9	<ul style="list-style-type: none"> • Detailed monitoring including a statement of over/underspend • A reconciliation of budget to plan version 'C' • Controllable totals agreed to ledger • All budget virements included to agree plan version 'C' with Council budget • All significant variances identified and explained • Significant use of earmarked reserves to support general spending must be clearly identified • Significant items of one-off income identified • Report to Cabinet Member, including a statement on the current debt position
Periods 4,6,8,10,11	<ul style="list-style-type: none"> • Summary of monitoring e.g. problem areas • Statement of assurance that there is no deviation from the previously reported forecast
Period 12	<ul style="list-style-type: none"> • Outturn report based on Period 14, including a statement on the current debt position

Budget Savings

The Council is required by the Local Government Finance Act, 1992, to set a balanced budget. In the circumstance where funding is forecast to be insufficient to meet current levels of expenditure with the addition of cost pressures, savings will be required in order that expenditure does not exceed income.

When the annual revenue budget is set, this results in the establishment of a savings target for the Council as a whole. This target is allocated as a budget reduction between the Council's departments and subsequently between Cabinet Member portfolios.

Savings initiatives are planned programmes, activities and services reductions designed to reduce net expenditure over an implementation period. The expected value of these reductions and the profile should have been identified for every savings initiative.

The value of savings forecast to be delivered within the year should be reported in the monitoring reports and the savings actually delivered should be measured and reported within outturn reports. Savings are not made by merely allocating a reduction in budget to a service. For this purpose, the value of savings achieved is defined to be the actual reduction in net expenditure in the current financial year, compared to the previous financial year, resulting from planned programme actions taken in respect of the service(s) affected by the initiative. If a saving has been achieved based on this definition, but a service still overspends in another area, then it is possible to both achieve a saving and overspend overall on a service. This measurement should be adjusted for the effect of one-off items of funding and/or ongoing allocations of budget for cost pressures.

Where the value of savings achieved is less than the portfolio's savings target, this will result in a shortfall in the savings achieved. This shortfall will be rolled forwards and added to the savings targets allocated to that portfolio in future years. Any shortfalls rolled forwards from previous years must be clearly identified and reported.

Debt Position

The current debt position will also be disclosed within the monitoring report. As information on debts owed to the Council is collected on a departmental rather than portfolio basis, the whole department's debt position will be reported to the most significant portfolio, in terms of income, which that department reports to. These will be as follows:

- Adult Care's debt position will be reported to the Adult Care portfolio.
- Children's Services' debt position will be reported to the Young People portfolio.
- Economy, Transport and Environment's debt position will be reported to the Highways, Transport and Infrastructure portfolio.
- Commissioning, Communities and Policy's debt position will be reported to the Council Services portfolio.

It is expected that Exchequer Services will provide this data to departmental finance teams for inclusion in their monitoring reports, upon request. This will ensure consistency in the production of this information.

DERBYSHIRE COUNTY COUNCIL

CABINET MEMBER

(Date)

**Joint Report of the Strategic Director of <Department>
and the Director of Finance & ICT**

**BUDGET MONITORING 20Y1-Y2 – PERIOD X (as at 31 Month 20Y1)
(<PORTFOLIO>)**

1. Purpose of the Report

To provide the Cabinet Member with an update of the Revenue Budget position of the <name> portfolio for 20Y1-Y2 up to the end of <Date> (Period X).

2. Information and Analysis

(2.1) Forecast Summary

The net controllable budget for the <Name> portfolio is £X.XXXm.

The Revenue Budget Monitoring Statement prepared at period X indicates that there is a projected year-end overspend of £X.XXXm.

This overspend will be supported by the use of £X.XXXm of earmarked reserves. After the use of these reserves the forecast position is an overspend of £X.XXXm.

In addition to any use of earmarked reserves, the forecast outturn position includes the following significant items of one-off income:

- £X.XXXm – One-Off Income Item 1 Description
- £X.XXXm – One-Off Income Item 2 Description

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The significant areas which make up this projection are shown in the table below:

	Controllable Budget £m	Projected Actuals £m	Forecast Over/(Under) Spend £m
Item 1 Description	X.XXX	X.XXX	X.XXX
Item 2 Description	X.XXX	X.XXX	X.XXX
Other minor balances	X.XXX	X.XXX	X.XXX
Total	X.XXX	X.XXX	X.XXX
Use of Reserve 1 Description	(X.XXX)	0.000	(X.XXX)
Use of Reserve 2 Description	(X.XXX)	0.000	(X.XXX)
Total After Use of Reserves	X.XXX	X.XXX	X.XXX

(2.2) Key Variances

2.2.1. Item 1 Description, over/underspend £X.XXXm
<Explanation of reason for item 1 variance>

2.2.2. Item 2 Description, over/underspend £X.XXXm
<Explanation of reason for item 2 variance>

(2.3) Budget Savings

Budget reductions totalling £X.XXXm were allocated for the year. Further reductions allocated in prior years, totalling £X.XXXm, had not been achieved and were brought forward to the current year. This has resulted in total reductions to be achieved of £X.XXXm at the start of the year.

The value of the savings initiatives which have been identified for implementation in the current year is £X.XXXm. In addition, there are £X.XXXm of savings initiatives identified in previous years which had not been achieved at the start of the year, but that are still expected to be achieved within the year.

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The shortfall between the total reductions expected to be achieved and the identified savings initiatives at the start of the year is £X.XXXm.

It is forecast that £X.XXXm of savings will have been achieved by the year-end. The table below shows performance against the target.

Identified Savings Initiatives	Budget Reduction Amount £m	Forecast to be Achieved by the end of 20Y1-Y2 £m	(Shortfall)/ Additional Savings Achieved £m
Initiative 1 Description	X.XXX	X.XXX	X.XXX
Initiative 2 Description	X.XXX	X.XXX	X.XXX
Total of Identified Savings Initiatives	X.XXX	X.XXX	X.XXX
Shortfall/(Surplus) of Identified Savings	X.XXX/ (X.XXX)		
Total Savings Target	X.XXX	X.XXX	X.XXX

Budget Reductions	£m
Prior Year B/f	X.XXX
Current Year	X.XXX
Total Savings Target	X.XXX

(2.4) Growth Items and One-Off Funding

The portfolio received the following additional budget allocations in 20Y1-Y2:

2.4.1 Item 1 Description - £X.XXXm ongoing, plus £X.XXXm one-off

<Explanation of how additional budget for Item 1 is being used>

2.4.2 Item 2 Description - £X.XXXm ongoing, plus £X.XXXm one-off

<Explanation of how additional budget for Item 2 is being used>

APPENDIX A**(2.5) Risks**

There is a risk that the following issues could negatively impact on the portfolio's forecast outturn position reported in the Forecast Summary above:

Service	Risk	Sensitivity* £m	Likelihood 1 = Low, 5 = High
Service 1 Description	Explanation of what the risk is	X.XXX	X
Service 2 Description	Explanation of what the risk is	X.XXX	X
Service 3 Description	Explanation of what the risk is	X.XXX	X

*Sensitivity represents the potential negative impact on the outturn position should the event occur.

(2.6) Earmarked Reserves

Earmarked reserves totalling £X.XXXm are currently held to support future expenditure. Details of these reserves are as follows:

Reserve Description	Amount £m
Reserve Name 1	X.XXX
Reserve Name 2	X.XXX
Total Earmarked Reserves	X.XXX

APPENDIX A**(2.7) Debt Position**

The profile of the debt raised, relating to income receivable by services within the <name> department, is as follows:

0 - 30 Days £m	31 - 365 Days £m	1 - 2 Years £m	2 - 3 Years £m	3 - 4 Years £m	Over 4 Years £m	Total £m
X.XXX	X.XXX	X.XXX	X.XXX	X.XXX	X.XXX	X.XXX
X.X%	X.X%	X.X%	X.X%	X.X%	X.X%	100.0%

In the year up to the end of <Date> the value of debt that has been written off totals £X.XXXm.

3. Financial Considerations

As detailed in the report.

4. Other Considerations

In preparing this report the relevance of the following factors has been considered: financial, legal, prevention of crime and disorder, equality of opportunity; and environmental, health, human resources, property, social value and transport considerations.

5. Key Decision

No.

6. Call-In

Is it required that call-in be waived in respect of the decisions proposed in the report? No.

7. Background Papers

Held on file within the <name> Department. Officer contact details – <name>, extension 3XXXX.

APPENDIX A

8. Officer Recommendations

That the Cabinet Member notes the report.

**<Name>
Strategic Director
<Department>**

**Peter Handford
Director of Finance
& ICT**