

Agenda Item No 4(e)

DERBYSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

27 May 2020

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 attached 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 March 2020, 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.

- Full in-year revenue monitoring reports submitted to Cabinet Member and the summarised in-year Council revenue monitoring report submitted to Cabinet has been reduced from four to three times a year.
- The report periods have been updated to June (Period 3), September (Period 6) and December (Period 9) in order that they can be aligned with wider performance reporting.
- An explicit requirement to report savings initiatives that started in a previous year, but are ongoing in the current year, has been added.
- An explanation that savings targets brought forward from previous years should include both reductions allocated to service budgets but not yet achieved and reductions not yet allocated to a service has been added.
- An explanation that the shortfall in the achievement of a portfolio's savings target stated in the outturn report is expected to reconcile to the budget reductions brought forwards, reported in the following year's monitoring reports, has been added.
- A requirement to detail, for each growth and one-off item, how much has been spent to date and what impact the additional funding has had on the variance between forecast actual and budgeted expenditure.

The inclusion of performance information in the monitoring report is also being considered.

3 Considerations

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

4 Background Papers

Papers held in Technical Section, Finance & ICT, Room 137, County Hall.

5 Officer's Recommendation

To note the details of current budget monitoring arrangements.

PETER HANDFORD

Director of Finance & ICT

Budget Monitoring Policy 2020-21



March 2020

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 Executive 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 Executive 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 2020	w/c 27 July 2020
P4	Jul 2020	w/c 24 Aug 2020
P5	Aug 2020	w/c 21 Sep 2020
P6	Sep 2020	w/c 26 Oct 2020
P7	Oct 2020	w/c 23 Nov 2020
P8	Nov 2020	w/c 28 Dec 2020
P9	Dec 2020	w/c 25 Jan 2021
P10	Jan 2021	Not required
P11	Dec 2021	Not required
Outturn	Mar 2021	TBC

The Executive Director for each department also has a regular 'One to One' bi-monthly meeting with the Director of Finance & ICT to discuss variances, with particular reference to proposed budget reductions. If a department's budget position is giving cause for concern, or there are there are any other concerns, the meetings will be more frequent.

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, 6 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 3 times a year and will normally report at periods 3, 6 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 2020	End July 2020	Within August 2020	10 September 2020
6 - September 2020	End October 2020	Within November 2020	10 December 2020

Monitoring Period	Complete By	Report to Cabinet Member	Summarised Report to Cabinet
9 - December 2020	End January 2021	Within February 2021	11 March 2021
12 + Special Periods Outturn	May 2021	Within June 2021	Within July 2021

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 3,6,9	<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 4,5,7,8,10,11	<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.

The complete delivery of a saving initiative may span more than one year. An initiative which was planned to start in a previous year but had not been fully delivered at the start of the current year must continue to be reported; the achievement of these initiatives should be measured against the total budget reduction forecast for that initiative, less the value of savings achieved in previous years.

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. These shortfalls will comprise of both a portfolio's savings targets which had not been allocated to a service and that portion of a savings target which had been allocated to a service, but had not yet been achieved, at the start of the year.

A shortfall in the savings achieved, compared to the total savings target, reported within the outturn report for a portfolio will be the value of budget reductions brought forward from previous years which is reported the following year in that portfolio's monitoring report.

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 Executive 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>

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<Detail of what has been spent on item 1 to date and the impact that the additional funding has had on the variance between forecast actual and budgeted expenditure on this item>

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>

<Detail of what has been spent on item 2 to date and the impact that the additional funding has had on the variance between forecast actual and budgeted expenditure on this item>

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:

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

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

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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.

8 Officer Recommendations

That the Cabinet Member notes the report.

**<Name>
Executive Director
<Department>**

**Peter Handford
Director of Finance
& ICT**