

Review of Financial Planning and Monitoring

City of York Council

Audit 2008/09

Date

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The Statement of Responsibilities of Auditors and Audited Bodies issued by the Audit Commission explains the respective responsibilities of auditors and of the audited body. Reports prepared by appointed auditors are addressed to non-executive directors/members or officers. They are prepared for the sole use of the audited body. Auditors accept no responsibility to:

- any director/member or officer in their individual capacity; or
- any third party.

Introduction and Background

- 1 Financial planning and monitoring is a key element in delivering strategic objectives, and continually improving services.
- 2 The Audit Commission's discussion paper World Class Financial Management, published in 2005, referred to financial planning as dominating the financial cycle in public authorities. Reflecting that

"It consumes a significant amount of time, effort and resources, but often results only in a relatively minor shift of resources at the margins"

- 3 Financial planning and monitoring have featured heavily in the Audit Commission's Key Lines of Enquiry (KLOE) for the use of resources assessments in the past few years, and will continue to be strongly represented in the new 2008/09 KLOE supporting the CAA organisational assessment.
- 4 Our assessment of the financial planning and monitoring in the last two years has been that the Council is only meeting minimum standards, and that there is much room for improvement. In particular, in the last two years there have been significant amounts of unexpected underspends at the year end, and these have been considerably larger than the level forecast at the end of January in the year.
- 5 In recent times there has been an increasing focus on financial planning and monitoring from the Audit Commission and CIPFA, with publications such as World Class Financial Managementⁱ, and Improving Budgeting: Modernising the Cycleⁱⁱ. These focus public bodies on challenging the existing methods of planning and monitoring, and champion a more progressive approach.
- 6 As the Council embeds its single improvement plan, within which it has identified the need to improve the budget setting and monitoring approaches, having a modern, responsive and effective financial planning and monitoring framework will be crucial in ensuring that the council can deliver its strategic priorities and respond to the financial challenges that will be presented.

ⁱ Audit Commission November 2005

ⁱⁱ CIPFA March 2008

Audit approach

- 7 The scope and objectives of our review are set out in the project brief, and focused on two key elements of financial management:
 - Financial planning and
 - Financial monitoring.
- 8 Primarily the work concentrated on the arrangements relating to the annual budget, but also made connections to the medium term financial strategy, the corporate and service planning processes, and risk management as appropriate.
- 9 The review included obtaining an understanding of how you set and monitor the annual budget through interviews with key officers in the Directorates and Corporate Finance, and a review of documentary evidence. This included considering the process at different levels and stages, from budget holder involvement, through departmental reviews, corporate involvement and direction, and the role of Members. Strengths and weaknesses of the arrangements were then identified, and form the basis of this report.
- 10 The outcomes of this review will inform our use of resources assessment for 2008/09 and an initial view of the council's arrangements against the 2008/09 KLOE is included in this report.

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Main conclusions

- 11 The Council has an established and well understood financial planning and monitoring system in place. The design of the system is geared towards identifying and monitoring efficiencies and savings in a very detailed and methodical way on a service by service level, rather than focusing on more corporate wide and cross directorate efficiencies.
- 12 The Council has recognised the difficulties in continuing with this approach and taken positive action by recently employing an efficiency partner to look for savings across the Council, as well as beginning to review and revise the existing financial planning and monitoring arrangements.
- 13 Our review of the financial planning and monitoring arrangements acknowledges these proposed changes, but has also identified a number of additional areas for improvement to be considered, and these are outlined in the relevant sections below.
- 14 There are two Use of Resources KLOE directly relevant to financial planning and monitoring;
 - KLOE 1.1: Does the organisation manage its finances effectively to deliver its strategic priorities and secure sound financial health?
 - KLOE 1.3: Is the organisation's financial reporting timely, reliable and does it meet the needs of internal users, stakeholders and local people?
- 15 Based on the areas relevant to financial planning and monitoring on which each KLOE focuses, our initial view on the Council's arrangements (for 2008/09) is summarised in Appendix 1.
- 16 We have made a number of recommendations in the report, to strengthen the arrangements, and these are summarised in the Action Plan at Appendix 2. We shall discuss these with officers and agree the action plan.

Financial Planning Findings

- 17 In recent years the Council has operated within a tight financial framework, which is outlined in the Medium Term Financial Strategy (MTFS), and the 2008/09 financial planning process reflects this.
- 18 The MTFS provides the starting point for the following year's budget, giving an indication of the funding gap the Council anticipates it will have to manage over the next 3 years, and incorporating key known or expected financial pressures as well as the level of Government and Council Tax funding likely to be available. Indicative amounts for increases in employment costs, inflationary pressures, and the percentage savings that will be required are set out in the MTFS.
- 19 Directorate Finance Managers all indicated an awareness of the MTFS, and the linkages to the budget parameters set by Corporate Finance for the financial planning process they undertake. As well as this, the Finance Managers all described the same broad process being undertaken when developing their budgets for the following year, as follows:
 - The financial planning process starts in July/ August and finishes with the full Council meeting in February;
 - The current years budget less one-off growth, pressure and savings items forms the base budget for the following year;
 - Savings and growth proposals, along with cost pressures, are considered and developed by the Directorate finance team in conjunction with budget holders and service managers; and
 - In 2008/09 these proposals and pressures were then considered by the Directorate Management Team (DMT), Budget Panels, and Executive Member Advisory Panels (EMAPs), before being collated into a balanced budget by the Corporate Finance team for agreement by Executive, and subsequently review, consideration and agreement by full Council.
- 20 The process for setting the budget is resource intensive, time consuming and predominantly focused on identifying savings against a set base position. Ultimately this means that the cost pressures increase, whilst savings become more difficult to identify, each year that the process is undertaken.
- 21 For the overall Council budget, the methodology actively promotes a short term approach, with the emphasis on the next financial year rather than the medium term objectives of the service and ultimately the Council as a whole, (although a less short term approach is being taken in some areas, such as schools, where the DSG regulations specifically require budgets to be set over the medium term). It also assumes that the way in which the services contribute to corporate priorities and are being provided is largely correct, although accepting they may not be as efficient or cost effective as they could be. Nevertheless, the Neighbourhood Services Directorate has started to review some services using a zero based budgeting approach in recent years (refuse services in 2007/08 and public toilets in 2008/09), as a methodology for

Financial Planning Findings

determining whether the base budget is correct, i.e. by building the budget up again from a zero base. Leisure, Culture and Children's Services and Housing and Adult Social Services have also carried out a selection of base budget reviews over a number of years. This approach can challenge the robustness of the base budget. Adopting a corporate approach to this, and periodically applying it across all directorates, incorporating an element of external or peer challenge, would increase the robustness of the exercise and potentially identify further efficiencies and savings.

- 22 We are pleased to note that the Council has recognised the limitations of continuing with a year on year council wide savings target that is applied to all Services/ Directorates. It has recently appointed an 'efficiency partner', with a view to taking a more corporate wide approach to the significant areas where savings could be found, but also recognising that services need to still be given a small efficiency target of between 1% and 1.5% to ensure that complacency does not creep in, and managers continue to challenge their income and expenditure targets.
- 23 Discussions with the Finance Managers indicated that the budget setting process for the financial year 2008/09 was particularly lengthy and problematic. Particular points noted were as follows:
- Budget panels were intended to provide some initial scrutiny and challenge to the savings, pressures and growth items proposed, but few decisions were actually made as the cross party nature of the panels made it difficult to get agreement;
 - EMAP budget meetings are considered to be a purely consultative part of the process, setting out what is proposed for the Directorate, rather than scrutinising or considering and agreeing the proposals in any detail. Nevertheless, these meetings do make the detailed proposals public for the first time in the process;
 - The Executive meeting is primarily a means of setting the proposed balanced budget to go to Council;
 - An extensive and lengthy debate was held by Council which resulted in several amended versions of the balanced budget being produced and considered before the final version was agreed, but ultimately this did not change significantly from the original version.
- 24 We understand that the Council is considering enhancing the pre-decision scrutiny arrangements, and this is going to include replacing EMAPs with more theme based Scrutiny Panels. In establishing the Terms of Reference for these panels, the Council needs to ensure that their role in financial planning is clear. For example, ensuring that the scrutiny functions have a pro-active role to consider, challenge and agree on significant elements of the budget will help to improve the budget agreement process and reduce the time taken for Council to reach an agreed balanced position, and enable members to confirm that the proposed budget is in line with the overall strategic financial direction that they have set.
- 25 Whilst Members can debate and amend proposals within the Council meeting, the focus is around the proposed balanced budget and lists of other proposals either already rejected by Executive, not recommended for adoption by officers, or options that could be done instead of those included in the balanced budget. Whilst these lists of savings, growth and pressure proposals give some opportunity for Members to

change the budget, and its effect on the level of Council Tax, around the margins, there is little evidence of a fundamental debate about whether the budget proposals are realistic and sustainable and will deliver the council's strategic priorities.

- 26 The extent to which the financial planning process is integrated with other policies and procedures in the council is mixed, as set out in detail below.

Integration with Strategic, Corporate and Service Planning

- 27 The different timetables for service and budget planning makes it difficult for them to be integrated because although the service plan cycle starts in October, budgets are not finalised until the following February. Finance Managers views ranged from them being either not fully integrated, to them being done in isolation to one another. Individual savings proposals are considered for their impact on service/corporate priorities, and the report to Council does include an analysis of resource utilisation compared to priorities. However the use of the current year as a base for the following year can make it more difficult to shift resources between priorities or from non-priorities to priorities, as it relies on the assumption that the majority of the budget will continue to be applied in the same way it has been in the past, i.e. budgets are largely historical rather than being driven by corporate priorities.

Integration with Risk Management

- 28 Clearer links need to be made between corporate and service priorities, the risks of not achieving them and budgetary impacts throughout the process. Risk is predominantly considered in a narrow way in most aspects of the financial planning process, but is considered in more detail within the service planning process. Rather than actively considering and taking account of the risks in the register, and using these to adjust and shape the following years budget, the current approach is to consider upcoming risks in the MTFS that might have an impact going forward, and to include a contingency for any unexpected or uncertain items of expenditure in the current budget.

Income Charging

- 29 Income charging is considered alongside expenditure budgets by the directorate finance managers, as it is seen as one of the key ways in which additional savings can be generated. Although a standard percentage increase is suggested in the MTFS, there is a recognition that this should be adjusted where relevant to the service.

Capital

- 30 There is a separate process in place to determine and set the capital budget for the year, although capital resources are limited. Evidence from the finance managers and within the reports to committees shows that this is considered alongside the revenue budget.

Information Technology

- 31 This is undertaken as a completely separate process whereby a fixed budget is set for the whole Council and Directorates then bid for funding for particular projects. These bids are prioritised based on priority and contribution to corporate and service needs,

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and funding allocated accordingly. The approach helps to ensure that funding is allocated according to priority and in line with the Council's IT Strategy.

Human Resources

- 32** Vacancy and establishment management is always considered as a savings area, but Finance Managers appreciate that it involves taking more complex and difficult decisions than in other areas. A standard paragraph has been included in all the EMAP reports, which links to the overall needs of the Council as a whole, e.g. options such as redeployment, retraining, etc are discussed in summary. However, by effectively devolving the implementation of the Human Resources Strategy to the directorates in this way, there is a risk that decisions are actively driven by, and focused on, budget needs rather than the wider human resource needs of the Council to deliver the service standards and strategic priorities.
- 33** We have identified a number of similarities and some differences in the approach to budget planning from the discussions with the Finance Managers.
- 34** There is little corporate guidance in relation to the processes and procedures that should be undertaken to plan and manage budgets. The constitution contains an overview of the process, but this is brief and does not clearly outline the responsibilities of budget holders, managers, and finance teams. The Housing and Adult Social Services Directorate has developed a full budget manual and distributed this to budget holders and managers in the directorate. The budget manual builds on the brief guidance in the constitution and gives clear instruction on the processes for budget planning, monitoring and delegated authority to be applied, and the relevant responsibilities, in order to try and promote consistency of approach. Discussions with Finance Managers in other Directorates indicated that this budget manual is not widely publicised or known about, but would be a welcome addition to the process.
- 35** Some directorates undertake scenario planning/modelling, whereas others do not use this process. Where it is done it concentrates on areas that are volatile in terms of patterns of income or expenditure, or are considered to be high risk. Wider use of scenario modelling would help
- increase the transparency of, and demonstrable challenge to, the decision making process;
 - facilitate further discussion of the options being considered;
 - identify any key risks to achieving the expected budget outcome; and
 - allow consideration at an early stage of possible corrective action to be taken if the 'worst case' scenario emerged (or indeed the opportunities that could be taken from a 'best case' scenario developing).
- 36** The level of budget holder involvement in the budget setting process varied between the directorates. Some don't consult with budget holders prior to the budget being set, whereas others, such as Neighbourhood Services, take a more consultative approach. The approach taken is partly dependent on the type and complexity of budget and the budget holders understanding of the considerations involved (e.g. service priorities and

statutory developments), but continuing to increase budget holder involvement will help to develop their ownership of the budgets.

- 37** The Council holds extensive and wide ranging consultation with the public through a variety of means. The main methods for the 2008/09 budget were by way of an internet survey, paper surveys distributed to householders, and a public meeting where they could discuss budget proposals and try and develop a balanced budget by way of an interactive exercise that intended to demonstrate some of the difficult decisions the Council has to take. Overall, 8% of residents responded to the postal and internet survey, and discussions with the Finance Managers underlined that this consultation did lead to specific budget decisions being made, for example, an increase being made to non-resident parking charges, previously thought to be unpopular. However, although the results of the consultation questions are published, clearer links to the decisions that are subsequently made by Council should also be published to enhance this process further. Consultation with partners is less well developed, and partners are not routinely involved in discussions about setting the council's budget, they are more likely to be informed of the outcome of the process.
- 38** Within the Directorates, the finance team ensure that the budgets are fully loaded onto the FMS system and are communicated to the relevant budget holders once they have been set. For the Council as a whole, the communication of the finalised budget to non-financial staff and the public is more limited. The Council's website only outlines the overall effect of the budget decisions on the level of Council Tax for the following year and this is mirrored in the staff newsletter. Improving the communication of the budget internally and externally will enable the council to clearly demonstrate the decisions that have been made, how this impacts on services, and further promote an open and transparent process.
- 39** The budget is not reported to Members in a similar format to the accounts (e.g. using the BVACOP headings in the Income and Expenditure account) and therefore the impact on the financial statements cannot be clearly seen or discussed. Only the Housing Revenue Account, Collection Fund and Dedicated Schools Grant are considered separately to the remaining budget, which is primarily analysed in terms of movement from the prior year and an analysis into portfolio headings. The advantage of assimilating the budget into a format similar to that used for the financial statements is that, if it is also monitored in this format, it should help to provide a clear trail from the prior year statements and to the following year's statements of the impact of particular budget decisions taken.

Recommendations

- R1** Consider periodically using zero based budgeting for all service areas as a way of challenging the robustness of the base budget and identifying additional efficiencies and savings. This process should include an element of external or peer challenge.
- R2** The member scrutiny process should actively consider, challenge and agree on significant elements of the budget in advance of Council, so that the time taken to approve the final budget can be reduced.

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R3	The role of Members in the budget setting process should be clearly set out and adhered to. This should focus on setting the strategic financial direction for the council and scrutinising the proposed budget to ensure that it is in line with that direction.
R4	Clearer links need to be made between corporate and service priorities, the risks of not achieving them and budgetary impacts throughout the process.
R5	The budget setting and service planning timetables should be more closely aligned.
R6	Develop and circulate a council budget manual to enhance and clarify the guidance in the constitution.
R7	Consider adopting best practice by analysing the budget in a similar format to that of the financial statements, e.g. using BVACOP headings.
R8	The final budget should be clearly communicated to non-financial Council staff and the public in more detail than currently.
R9	Budget setting consultation should be extended to include the Council's key partners.
R10	Clear links should be made and published between the consultation results and the decisions made by Council in relation to the final budget.
R11	Wider use of scenario modelling when setting individual budgets should be considered.
R12	Finance staff should continue to encourage budget holders to take a more active role in planning the budgets they will be responsible for in the following year.



Financial Monitoring Findings

- 40 Financial monitoring is primarily achieved via a devolved system whereby the Directorate finance teams take the lead on managing the agreed budgets, reporting upwards through DMT, CMT, EMAPs and the Executive.
- 41 All the Finance Managers were fully aware of the process and importance of financial monitoring in ensuring that Council finances are managed effectively and within the resources agreed. Nevertheless, the frequency of monitoring and procedures in place varied from directorate to directorate as follows;
- Housing and Adult Social Services - monthly monitoring is undertaken from July with budget holders and DMT, with three monitor reports to Members produced between September and March, and a June outturn report.
 - Learning, Culture and Children's Services - all budgets are monitored in detail on a quarterly basis and high risk or volatile budgets are also monitored in detail each month. A small number of budgets, such as out of city placements are continuously monitored, and a 'light touch' approach to monitoring is applied each month to all of the remaining budgets not included above.
 - City Strategy, Chief Executive's and Economic Development - budget holders are provided with a monthly report, but formal detailed monitoring was only carried out by DMT at the same intervals as the member reporting cycle (as for HASS above).
 - Resources - arrangements are the same as for City Strategy, Chief Executive's and Economic Development above, although a third monitor report is not being produced in 2008/09.
 - Neighbourhood Services - a formal budget monitoring timetable has been put in place which details the separate stages of the production of the information and reporting to budget holders, assistant directors and DMT on a monthly basis, as well as the member reporting intervals as above.
- 42 In 2008/09, the first reports to EMAPs were in September, with reporting to Executive from October. The 'Monitor 1' EMAP reports sometimes state that they are for the first quarter (e.g. HASS), but others say that projections are based on the actual figures to date (e.g. LCCS), so it is unclear exactly what period they cover or whether they are comparable. Nevertheless, this does mean that it is at least five months into the year before Members receive any full updates on the budgets. The spacing of the reporting (i.e. primarily between September and January) also means that a lot of information is presented in a short period of time, which inevitably imposes a heavy workload on Directorate staff at the same time they are starting to develop the following years budget.
- 43 The Corporate Finance team has recently developed a formal budget monitoring timetable proposing a monthly report to DMT and Corporate Management Team (CMT) between July and April, and more timely quarterly reports to Executive in July, November/December, February/March and June for the outturn. Having a formal and more frequent timetable of reports should improve awareness of budget issues across

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all the directorates. In the case of CMT, this should also build on the dashboard report, presented since August 2008, that shows variances from the last monitor report for each portfolio area.

- 44 The frequency of the monitoring by each Directorate outlined above indicates that the new timetable could present additional challenges in some areas. It is important that the Council ensures that the Finance Managers have sufficient resources to be able to deliver the new budget monitoring arrangements proposed.
- 45 Monitoring of the budget above DMT level is almost exclusively based on projected variances against the original budget. Discussions with Finance Managers has shown that there is no set methodology for producing these projections, rather they tend to be based on a combination of some or all of the following:
 - the current actual level of the variance at the point in time that the projection is being done;
 - experience of the trends for that budget during the year or in previous years; and
 - known commitments or anticipated developments that will have an impact on the budget in the remainder of the financial year.
- 46 Although this recognises the different local circumstances that might apply to particular budgets, it also allows a variation in the approach, and therefore the consistency and quality of the work undertaken, that could lead to under or over projection and a lack of comparability between the positions of the Directorates or even the individual services. Within the Directorates, actual position to date is sometimes used to challenge the robustness of the projections and promote consistency. If the actual position to date were also reported alongside the projections for individual service areas at all levels, this could promote improved scrutiny of the realism of the projections against the explanations provided for the variances in the report. City Strategy EMAP reports do currently include the actual position in an appendix, but this is not overtly compared to, and explained in the context of, the projections in the narrative.
- 47 The Constitution states that variances above £50,000, or £10,000 where the variation is greater than +/- 2% above the agreed budget, should be reported. In practice, on a net budget of £117m, this means that the reports are lengthy and, although very detailed, this could promote too much emphasis on minor issues rather than the overall picture. With the new reporting timetable to DMT and CMT, and the revised scrutiny arrangements, there is an opportunity to improve the way in which some of the issues are 'filtered' out, so that Executive can concentrate more on the key issues. Some progress has already been made in this regard during 2008/09 in that the Executive reports since September now omit some of the more minor issues.
- 48 The reports submitted to EMAP differ in style and content from Directorate to Directorate, although the type of information reported is the same. To address this, we are pleased to note that Corporate Finance are suggesting a standard template be adopted for the final 2008/09 monitoring reports, although this still concentrates on projections of variances rather than actual positions.
- 49 Although financial and non-financial information is reported to EMAP and Executive together in a single report, the linkages between the data are currently not being made

in a clear and consistent way. The standard template for EMAP mentioned above, together with the proposed new reporting timetable, and more formal meetings between the Director of Resources and other Directors to help identify areas of performance that are affected by revenue and capital budgets (and vice versa), are proposals currently being made to CMT to improve these links.

- 50 Discussions with Finance Managers indicated that all budget holders have access to the FMS system, but that their use of the current system is sporadic and most rely on the directorate finance teams for the relevant monitoring information or any specific reports they may require. All the Finance Managers were hopeful that this would improve with the introduction of the new FMS system later this year, and it is seen by many as a key way in which they can facilitate improved budget holder ownership of the budgets. To this end, it is therefore important that comprehensive training is provided at all levels. In addition, Finance Managers also hoped that the new system will speed up the monitoring and reporting process.
- 51 The constitution contains a comprehensive virement procedure and a standard section has been included in the report to Executive for virements over £250,000 (although not in the proposed template for the final Monitor report). In practice, all the Finance Managers stated that virements between budgets are rare. Whilst a budget holder might move funds between the subjective headings within the overall budget head, managers prefer over and under spends to remain where they are on individual budgets so that a full picture of the spend against the budget can be determined for the year and then used to inform the following years budget setting process.
- 52 Budget monitoring within the Council is predominantly centred on the current financial year, and there is little consideration in the monitoring reports of the medium term. Directorates can request a carry forward of funding at the year end if it has been identified for a particular purpose, and any such carry forwards have to be approved by Executive. This approval invariably occurs in the June (budget outturn) Executive meeting, however this is not particularly timely or effective as often the carry forwards are for continuing projects which they expect to complete during April and May.
- 53 There is no scheme in place for Directorates to be able to retain additional underspends that have arisen through positive management action or other efficiencies within the services. This increases the risk of encouraging a 'spend it or lose it' approach, whereby directorates rush to spend the remainder of their budget before the year end, (i.e. if they cannot identify a specific purpose for them and carry forwards are unlikely to be agreed for that area, as outlined in the paragraph above). Having a separate scheme to retain a proportion of the underspends could therefore encourage more strategic decisions to be made, and actively discourage the short term usage of remaining funds.
- 54 As discussed in the financial planning section, the budget is not reported in a similar format to the financial statements, and although there is some reporting of such as arrears and reserves, there is no reporting of other key balance sheet items such as creditors, or any forecasting of cash flow. Due to the way in which the position is reported through the year (i.e. by projecting to the year end), and the fact that the reports do not include an analysis using BVACOP headings, it is also difficult to identify a clear trail between the results reported internally through the year and the results reported externally in the financial statements.

Recommendation	
R13	Ensure that sufficient resources are in place to deliver the proposed new budget monitoring and reporting timetables.
R14	A standardised methodology for projecting variances to the year end should be put in place to ensure consistency of approach and comparability of reported figures.
R15	The actual position of the budget to date should be reported in monitoring reports alongside projections at all levels to promote further scrutiny of the realism of the projections.
R16	The Council should consider increasing the level for variances reported to Executive so that the reports are more concise and concentrate on key areas.
R17	Comprehensive training needs to be provided for the new FMS system at all levels to ensure that the monitoring and reporting process is quicker and more timely, and to help facilitate more budget holder ownership of the budgets.
R18	Proposals for budget carry forwards should be formally considered and approved by Executive earlier in the year.
R19	Consider the merits of introducing a scheme for directorates to retain some of the savings they generate in excess of those needed to balance the budget in order to promote more strategic thinking over the medium term and reward good practice.
R20	Consider adopting best practice by monitoring the budget, and reporting the budget outturn analysed across BVACOP and other financial statement headings as relevant.



Appendix 1 – Use of Resources

Table 1 Initial view on Use of Resources KLOE

KLOE	KLOE Focus	Summary of initial views
1.1	<p>Integrates financial planning and service planning processes on a medium to long term basis;</p> <p>Engages local communities and other stakeholders in the financial planning process;</p> <p>Manages spending within available resources and is financially sound over the medium term; and</p> <p>Recognises individual and collective responsibilities for financial management and develops financial skills.</p>	<p>The service and financial planning processes are linked, but could be improved by more closely aligning the timetable for each.</p> <p>Whilst local communities are consulted with in a variety of formats, and there is some evidence that their views have been taken into account, more consideration needs to be given to engaging with and involving other stakeholders more, such as key partnerships.</p> <p>Spending has been maintained within resources in the past few years, albeit with large and unexpected underspends at the year end. This may be a consequence of reporting projected variances rather than actual positions.</p> <p>Budgets are devolved to directorates, but the approach does not encourage corporate council-wide efficiencies. The current FMS system acts as a barrier to effective budget holder ownership of the budget.</p>
1.3	<p>Produces relevant, timely and reliable financial monitoring and forecasting information;</p> <p>Uses financial and related performance information to monitor performance during the year;</p> <p>Produces reports that are clear, relevant and concise to support strategic decision making.</p>	<p>Financial monitoring doesn't start until July in most Directorates, and Members do not receive any formal quarterly reports until September/October. Above Directorate Management Team (DMT) level, reports only contain projections to the year end rather than actual amounts for that period, but there is no set guidance for how these projections should be produced. This could therefore lead to inconsistent calculations and incomparable data</p>

Appendix 1 – Use of Resources

KLOE	KLOE Focus	Summary of initial views
		<p>between departments.</p> <p>Financial and non-financial information is reported together to Members, although the links between these areas are not as clear as they could be. Work is currently underway to try and improve this.</p> <p>Budget monitoring reports to EMAPs and Executive are lengthy, and the low level for reporting variances against individual service budgets (£50,000) does not help this position. The budget setting process is long and complex, and Council spent considerable time debating and agreeing the final budget for 2008/09.</p>

Use of Resources 2008/09 - Overall Approach, Audit Commission May 2008


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Appendix 2 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
10	R1 Consider periodically using zero based budgeting for all service areas as a way of challenging the robustness of the base budget and identifying additional efficiencies and savings. This process should include an element of external or peer challenge.	1	AD Corporate Finance	No	Not agreed, the process for reviewing budgets and achieving improved efficiency and effectiveness will be through the efficiency programme, and this will ensure proper robust analysis of how services are currently delivered and opportunities for change and improvement.	
10	R2 The member scrutiny process should actively consider, challenge and agree on significant elements of the budget in advance of Council, so that the time taken to approve the final budget can be reduced.	3	AD Corporate Finance	Yes	This is already being developed and the earlier finish time to the Budget Council meeting in February 2009 should be noted.	On-going
10	R3 The role of Members in the budget setting process should be clearly set out and adhered to. This should focus on setting the strategic financial direction for the council and scrutinising that the proposed budget to ensure that it is in line with that direction.	2	AD Corporate Finance	Yes	The Council's constitution sets out Members roles and responsibilities regarding the budget process, however this will need to be revised in light of the new member scrutiny arrangements.	Summer 2009
11	R4 Clearer links need to be made between corporate and service priorities, the risks of not achieving them and budgetary impacts throughout the process.	3	Head of Financial Planning	Yes	The refreshed corporate strategy will allow for greater clarity in terms of linkages, and the introduction of longer term financial planning will also build upon these.	Summer 2009
11	R5 The budget setting and service	2	Head of Financial	Yes	Finance and performance are now within the	Summer

Appendix 2 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	planning timetables should be more closely aligned.		Planning		same directorate and this will ensure greater integration.	2009
11	R6 Develop and circulate a council budget manual to enhance and clarify the guidance in the constitution.	2	Head of Financial Planning	Yes		Summer 2009
11	R7 Consider adopting best practice by analysing the budget in a similar format to that of the financial statements, e.g. using BVACOP headings.	1	Head of Financial Planning	Yes	A review of this proposal will be undertaken to consider its feasibility, appropriateness and Member/Chief Officer requirements for management account reporting.	Summer 2009
11	R8 The final budget should be clearly communicated to non-financial Council staff and the public in more detail than currently.	2	Head of Financial Planning	Yes	Need to liaise with Marketing and Communications, however there is already a lot done on the budget and any additional communication will need to consider the level of detail to ensure it is effective.	Autumn 2009
11	R9 Budget setting consultation should be extended to include the Council's key partners.	2	Head of Financial Planning	Yes		Autumn 2009
11	R10 Clear links should be made and published between the consultation results and the decisions made by Council in relation to the final budget.	3	Head of Financial Planning	Yes	This was done for the 2009/10 budget and will now continue.	Feb/Mar 2010
11	R11 Wider use of scenario modelling when setting individual budgets should be considered.	1	Head of Financial Planning/ Departmental Finance Managers	Yes	Corporate guidance needs to be issued so they are conducted in a similar way.	Summer 2009
11	R12 Finance staff should continue to encourage budget holders to take a more active role in planning the budgets they will be responsible for in the following year.	2	Departmental Finance Managers	Yes	This could be emphasised during the training given for the roll out of the new financial management system.	Summer/ Autumn 2009
14	R13 Ensure that sufficient resources are in	3	AD Corporate	Yes	Impact of reporting requirements to scrutiny	June 2009

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	place to deliver the proposed new budget monitoring and reporting timetables.		Finance		meetings as well as corporate reports needs to be assessed. – there has been full dialogue and as such this is already in hand.	
14	R14 A standardised methodology for projecting variances to the year end should be put in place to ensure consistency of approach and comparability of reported figures.	2	AD Corporate Finance / Corporate Finance Manager	Yes	To be agreed with departmental Finance Managers to ensure that meets departmental needs as well.	June 2009
14	R15 The actual position of the budget to date should be reported in monitoring reports alongside projections at all levels to promote further scrutiny of the realism of the projections.	1	AD Corporate Finance	Yes	The detail of information provided as part of the budget monitoring framework will be reviewed during Summer 2009 to coincide with the development of reporting capabilities on the new Financial Management System. The level of analysis (including both 'variance to-date' and 'projected out-turn variance') will be assessed to ensure an appropriate level of detail is provided within reports to key stakeholders.	Sept 2009
14	R16 The Council should consider increasing the level for variances reported to Executive so that the reports are more concise and concentrate on key areas.	2	AD Corporate Finance / AD Customer Service and Governance	Yes	Reports have already been simplified to ensure key messages are highlighted, and further work is ongoing as part of budget monitoring development.	On-going
15	R17 Comprehensive training needs to be provided for the new FMS system at all levels to ensure that the monitoring and reporting process is quicker and more timely, and to help facilitate more budget holder ownership of the budgets.	3	AD Corporate Finance	Yes	Agree.	Spring/ Summer 2009
15	R18 Proposals for budget carry forwards should be formally considered and approved by 	2	AD Corporate Finance	Yes	Normally carry forward requests are considered when the overall position is known, which is the outturn report in June. In year	Summer 2009

Appendix 2 – Action Plan

Page no.	Recommendation	Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	Executive earlier in the year.				they are highlighted in the monitor reports. This will be looked at as part of the review of Financial Regulations.	
15	R19 Consider the merits of introducing a scheme for directorates to retain some of the savings they generate in excess of those needed to balance the budget in order to promote more strategic thinking over the medium term and reward good practice.	1	Director of Resources / AD Corporate Finance	Yes	Work to be done on allowing directorates a % carry forward of underspending as being a 'given' – this to be considered in update of Financial Regulations.	Summer 2009
15	R20 Consider adopting best practice by monitoring the budget, and reporting the budget outturn analysed across BVACOP and other financial statement headings as relevant.	1	Head of Financial Planning	Yes	A review of this proposal will be undertaken to consider its feasibility, appropriateness and Member/Chief Officer requirements for management account reporting.	Summer 2009

DRY