
Report to Clackmannanshire Council

Date of Meeting: 3rd June, 2010

Subject: Council's Financial Position 2009/10

Report by: Chief Executive

1.0 Purpose

- 1.1 At a Special Council meeting in November, 2009, a potential budget shortfall for 2010-11 was brought to the attention of the Council.
- 1.2 An undertaking was given that a report would come back to Council explaining the reasons for this situation.
- 1.3 This paper reports to Council:
 - the circumstances which led to the need to secure increased savings;
 - recommendations which have since been made for financial management and administration as a result of a review of these circumstances; and
 - progress to date in achieving those recommendations.

2.0 Recommendation

- 2.1 It is recommended that the Council notes the contents of this report.

3.0 Background

- 3.1 A potential budget shortfall due to an increase in required savings arose in late 2009. The required savings increase occurred because of several different factors, with the two key ones summarised as follows:

Schools PPP

- 3.2 *Government support awarded to the Council for the Schools PPP scheme was incorrectly reflected in the 2009/10 budget and in the provisional budget for 2010/11, thus understating the saving requirement for the Council.*
- 3.3 **Background:** General government grant received by the Council includes a number of separately determined funding streams, one of which is support for the Council's Schools PPP. It had been the Council's practice to enhance the Education PPP budget to match the notified funding from government.
- 3.4 In 2009/10 the grant in respect of the Schools PPP was not reflected in a matching increase in the Education PPP budget. As a result of this incorrect treatment, the Council's saving target for 2009/10 was £1.246M less than it

should have been, which contributed to subsequent budget difficulties in 2010/11.

The Fairer Scotland Fund

- 3.5 The *Fairer Scotland Fund* grant, which ceased to be ring-fenced from 2010/11, was not separated out from general government support or added to budgeted expenditure in assessing the budget prospects for 2010/11, thus further understating the saving requirement on the Council.
- 3.6 **Background:** The Fairer Scotland Fund replaced a number of separate funding streams and was to be managed through the community planning partnership. Amounts were awarded to the Clackmannanshire Alliance (via the Council as lead) for three years, starting in 2008/09. The allocation was to be ring-fenced in the first two years but the ring-fencing was to be removed for 2010/11.
- 3.7 Despite the ending of the ring-fencing for 2010/11, the grant amount of £2.263M was not separated out from general government support or added to budgeted expenditure in assessing the budget prospects for 2010/11. The result of this was that the Council's saving requirement was understated by that amount.

4.0 Review of Financial Management – Findings & Conclusions

- 4.1 When the issue surrounding the Schools PPP came to light, an independent review was commissioned by the Chief Executive to determine the reasons why the financial implications relating to government grant support had not been correctly identified in the Council's forward years' budgets. The issue around The Fairer Scotland Fund then came to light and was incorporated into the review.
- 4.2 The findings of this review of the Council's accounting and budgeting practices in respect of the two issues identified were as follows:
- a) while there had been incorrect treatment of budget elements, there was no misappropriation of funds or financial loss to the Council
 - b) the Council had been provided with sufficient information from the Government and CoSLA to understand the grant settlement and an analysis of the figures had been carried out in the Finance service to identify each of the components which comprised the Council's grant settlement
 - c) in relation to the Schools PPP sufficient information was known (in 2008) to include the sums from the Government as appropriate in forward years' financial plans
 - d) in relation to the Schools PPP, there did not appear to have been any attempt to ensure that the Education PPP budget accurately reflected the Government funding stream
 - e) in relation to the Schools PPP, there was sufficient information in the Financial Model 2006-2038 (provided by the Council's advisers and maintained by the Head of Finance) to ensure that the Education PPP budget correctly reflected the financial implications of the PPP
 - f) in relation to the Schools PPP there was no evidence that a reconciliation was carried out between the Financial Model and the provisional budget

- g) in relation to The Fairer Scotland Fund, in 2007 the Council's Finance service was notified of the three-year allocation. That notification confirmed that the allocation would be ring-fenced in the first two years but that the ring-fencing would be removed for 2010/11
- h) in relation to The Fairer Scotland Fund, there appeared to have been sufficient information known within the Finance service to have dealt with this matter correctly within forward budgets to ensure appropriate action was taken to deal with the consequences of ending the ring-fencing.

4.3 In light of these findings, the independent review concluded:

- a) notwithstanding the availability of this information, the budget for 2009/10 and the provisional budget for 2010/11 had not correctly reflected the expenditure implications relating to the Schools PPP and The Fairer Scotland Fund
- b) there was no evidence that the PPP Financial Model had been reconciled to the budget, thus denying the Council the opportunity to ensure that budgets were correct with regard to the treatment of items
- c) there appeared to have been no mechanisms within the Finance service to verify the accuracy of budgets in relation to PPP
- d) as there appeared to have been no mechanism within the Finance service to verify the accuracy and implications of figures in the provisional budget, there had been no opportunity to ensure budget forecasts were robust
- e) there did not appear to be an overall owner of the Schools PPP Budget.

5.0 Review Recommendations and Progress

5.1 Since the finalisation of the independent review, considerable improvements have been made in the budget process including:

- Monthly outturn figures are now prepared and considered at the Directors Group and CMT,
- Greater focus is concentrated on the variances on a monthly basis, with budget holders being held accountable for adverse movements,
- There was close partnership working between budget holders and Service Accountants in the preparation of the 2010/11 budget,
- There was regular ongoing meetings with the CMT and Director's Group to consider and discuss the detail in the budgets

5.2 Based on the findings and conclusions outlined above, the independent review put forward five recommendations. These are set out below, with some commentary on progress to date in meeting them.

Recommendation 1 - The mechanism should be put in place to ensure that the financial implications of changes in the status of government grants are correctly reflected in the budget.

Progress to Date - Responsibility for this is to be assigned to the Director of Finance and Corporate Services. During the budget preparation process for 2010/11, budget holders and Service Accountants worked closely in partnership to review and agree budget allocations and ensure appropriate levels of grant funding were identified and correctly matched.

Recommendation 2 - *The PPP Financial Model should be reconciled to forward years budgets.*

Progress to Date - The PPP Financial Model has been refined to reflect recent detailed analysis by the Director of Services to People. The Financial Strategy has been approved by Council which specifies that three year revenue and five year capital budgets will be prepared. This has improved the longer term financial planning for this Council and this will continue to be developed and refined as a priority. As part of the improved longer term financial planning, the PPP Financial Model will be reconciled at least annually to the forward year budgets.

Recommendation 3 - *The Council should review the Financial Model for the Schools PPP to confirm its veracity.*

Progress to Date - This has been completed and feedback is currently being reflected within the model. A briefing for elected members on the PPP Financial Model was held on 25th May, 2010.

Recommendation 4 - *The Council should determine the responsible officer for the preparation and monitoring of the Schools PPP budget.*

Progress to Date - It is formally recorded that the Director of Services to People is the responsible officer for the preparation and monitoring of the Schools PPP budget. This will require continued support from Finance staff.

Recommendation 5 - *The Council should ensure that longer term financial planning is put in place to allow more time to address budget issues in forward years.*

Progress to Date - The Council approved a three year Finance Strategy at its meeting on 17th December, 2009. As detailed above, the three year revenue budget and five year capital budgets are an element of one of the key objectives of the Financial Strategy. A five year capital budget was approved by Council in February, 2010 and a three year budget will be in place by March, 2011. A strategy paper will be presented to elected members in August, 2010 on the budget process for the financial year 2011/12 and future years.

6.0 Conclusion

- 6.1 The savings shortfall that has had to be addressed in 2010/11 is at a level that the Council would always have had to find. Had it been identified earlier, action could have been taken to lessen the impact of additional savings having to be found in a single year. Nonetheless, the challenging decisions the Council had (and will have) to take are inevitable and, in this case, were an issue of timing. Lessons have been learned, procedures revised, accountability for budgets reinforced and the outturn for 2009/10 will evidence the steps that have been taken to improve financial controls.

7.0 Resource Implications

7.1 *Financial Details*

7.2 The full financial implications of the recommendations are set out in the report. This includes a reference to full life cycle costs where appropriate. Yes

7.3 Finance have been consulted and have agreed the financial implications as set out in the report. Yes

7.4 *Staffing* - N/A

8.0 Exempt Reports

8.1 Is this report exempt? Yes (please detail the reasons for exemption below) No

9.0 Declarations

The recommendations contained within this report support or implement our Corporate Priorities and Council Policies.

(1) **Our Priorities 2008 - 2011** (Please double click on the check box)

- The area has a positive image and attracts people and businesses
- Our communities are more cohesive and inclusive
- People are better skilled, trained and ready for learning and employment
- Our communities are safer
- Vulnerable people and families are supported
- Substance misuse and its effects are reduced
- Health is improving and health inequalities are reducing
- The environment is protected and enhanced for all
- The Council is effective, efficient and recognised for excellence

(2) **Council Policies** (Please detail)

10.0 Equalities Impact

10.1 Have you undertaken the required equalities impact assessment to ensure that no groups are adversely affected by the recommendations? N/A

11.0 Legality

11.1 It has been confirmed that in adopting the recommendations contained in this report, the Council is acting within its legal powers. Yes

12.0 Appendices

12.1 None

13.0 Background Papers

13.1 Have you used other documents to compile your report? (All documents must be kept available by the author for public inspection for four years from the date of meeting at which the report is considered)

Yes (please list the documents below) No

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Approved by

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