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**Report to Scrutiny Committee**

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**Date of Meeting: 21 October 2010**

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**Subject: Improvements to Financial Management Processes**

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**Report by: Financial Monitoring Sub-Group**

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**1.0 Purpose**

- 1.1. This report brings to Scrutiny an action plan detailing improvements that will be made to the arrangements for monitoring and managing the council's financial performance.

**2.0 Recommendations**

- 2.1. That Scrutiny notes the content of the report, and
- 2.2. Scrutiny Committee highlights any additional factors for consideration and/or inclusion in the Financial Monitoring Sub Group Action plan.

**3.0 Considerations**

- 3.1. Following the appointment of the Director of Finance & Corporate Services, improving the Council's financial monitoring arrangements has been identified as a key improvement priority. Early discussions with Members, Senior Management and External Audit all highlighted the need to address this matter in order to provide a reliable and sound basis from which the Council's financial performance can be reviewed during a period of sustained financial pressure and uncertainty.
- 3.2. The key issues raised were: fluctuations in the projected outturns reported from one month to the next, and some significant variances between the actual reported position and the Council's projected outturn which have not always materialised. This has resulted in there being reduced confidence in the reliability of the information and has to some degree diverted attention onto the accuracy of the information rather than on whether Management or the Council needs to put in place specific actions to allow it to better manage its financial position.
- 3.3. To facilitate the necessary improvements, the Director held a workshop with accounting and budgeting staff in August 2010. The purpose of this workshop was to identify the key barriers, necessary improvements and deliver visible improvements in the financial and budgetary information currently provided.
- 3.4. At the workshop the following issues were discussed:

- Is the budget realistic?
- Is the reported actual expenditure to date accurate?
- Is the budget profile applied realistic / reasonable?
- How are the projected outturns compiled?

- 3.5 Overall the workshop concluded that minimal improvements were required to the reporting of the actual expenditure. The improvement priorities are, therefore focused on budget setting and profiling, and the agreement of projected outturn figures for the Council. A key theme will also be the development of a stronger profile and challenge role for the Accounting & Budgeting team.
- 3.6 During the workshop, it was agreed that confidence in the reliability of the information provided needs to be improved. In order to do this, the Accounting and Budgeting team needs to work with budget holders in a focused and consistent way to remove, or at least minimise, the significant fluctuations in projected outturns. In implementing new arrangements, the team is also focused on ensuring that the format and language of reports containing financial information are presented in a way that meets the needs of the user. In particular members and officers should receive timely, relevant, accurate and reliable information which allows for the identification of remedial action where appropriate.
- 3.7 Following the workshop a Financial Monitoring Sub Group was formed to compile an action plan that would be taken forward to address the issues highlighted. The action plan is set out in Appendix A.
- 3.8 Work has already started to address a number of the issues identified and progress is being made. The work is also closely aligned with the work of the Council's Budget Group which has been tasked with identifying options for meeting the anticipated level of savings required in setting the Council's budget from April 2011 onwards.
- 3.9 A review of the phasing of Council budgets has already been undertaken and adjustments made. The General Services August Monitoring report presented at this committee includes some of these improvements. More work is required to deliver the full range of desired improvements but recent activity and engagement with Senior Management suggests a positive direction of travel exists on which further improvements can be built.

#### **4.0 Sustainability Implications**

- 4.1. N/A.

#### **5.0 Resource Implications**

##### *5.1. Financial Details*

- 5.2. 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

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

5.4. *Staffing*

## 6.0 Exempt Reports

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

## 7.0 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	<input type="checkbox"/>
Our communities are more cohesive and inclusive	<input type="checkbox"/>
People are better skilled, trained and ready for learning and employment	<input type="checkbox"/>
Our communities are safer	<input type="checkbox"/>
Vulnerable people and families are supported	<input type="checkbox"/>
Substance misuse and its effects are reduced	<input type="checkbox"/>
Health is improving and health inequalities are reducing	<input type="checkbox"/>
The environment is protected and enhanced for all	<input type="checkbox"/>
The Council is effective, efficient and recognised for excellence	<input checked="" type="checkbox"/>

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

## 8.0 Equalities Impact

8.1 Have you undertaken the required equalities impact assessment to ensure that no groups are adversely affected by the recommendations? Yes   
No

## 9.0 Legality

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

## 10.0 Appendices

10.1 Please list any appendices attached to this report. If there are no appendices, please state "none".

Appendix A: Issues/Action plan

## 11.0 Background Papers

11.1 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

### Author(s)

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### Approved by

NAME	DESIGNATION	SIGNATURE
Nikki Bridle	Director Finance & Corporate Services	Signed: N Bridle

APPENDIX A

ISSUES	ACTION PLAN	Target Date	Responsible Officer	Completed or Revised Target Date
Is Budget Realistic				
Lack of proportionate approach to budgeting and reporting	Priorities of Council need to be identified and provide basis of development of proportionate approach to budgeting and reporting			
Up to date list of budget holders not available - lack of clarity on governance.	Up to date list of budget holders to be compiled and approved by Senior Management			
Budget holders are not always aware of the impact of their individual decisions on the overall budgetary position.	Budget Guidance to be issued to all budget holders, followed up by workshop if appropriate			
Annual roll over of budgets can lead to reported budget shortfall where changes in service are not built in. Conversely some services will have excess budget for their requirements.	Zero base principles to be applied where possible. This is resource intensive so will need to be prioritised. Management to undertake detailed review of draft budget prior to Council to minimise reinforcement of legacy issues as far as possible.			
Some departments allowed to carry forward over/under spends No evaluation on effectiveness of this.	Review of carry forwards to be undertaken and compared to actual expenditure profile to evaluate the effectiveness of these arrangements over time.			
Roll over budget can lead to shortfall in budget for core services.	Unavoidable growth needs to be captured clearly in budget process . The Budget Template will clearly capture this.			
Lack of discussion between budget holders and finance professionals when suggesting savings can lead to unrealisable savings being approved.	Accountants to be involved in capturing / costing all budgetary impacts			
Efficiency savings not always removed from budget	Capture Efficiency savings in one database for automatic removal			
Providing non statutory services but not fully recovering costs.	Review of Charging Policy			
Revenue consequences of capital not always fully costed /identified.	Review of capital programme and through better engagement with service budget holders			
Use of budget virement conceals the actual spending patterns within some areas.	Review use of virements			
Is actual to date accurate				
Invoices being processed late causes issue with budget monitoring. Timing variances	Guidance to administrators / budget holders regarding processing of invoices POP being rolled out			
Budget holders need to understand process should be checking budget available before committing to spend.	Guidance to budget holders & service accountants - spend committed when placing order not paying invoice			
During budget monitoring if invoices not on IDOX time wasted looking for information	IDOX to be up to date for month ends			
Is the budget profile applied realistic / reasonable				
Reporting large fluctuation between months and for full year forecast	Detailed Review of budget profiles			
Review variances each month for phasing issues.	Ongoing review of budget profiles to ensure fit for purpose			
phasing of budgets not integral part of budget process. Budgets not properly phased.	Phasing to be built in as formal budget process			
How are the projected outturns compiled?				
Finance staff producing detailed information very time consuming and users have little confidence that it is reliable.	Review of the format of current reports by engaging with key stakeholders: Members and Management to establish clear user preferences/ options.			
Spending too long producing information not enough time reviewing prior to issue.	Monitoring Timetable to be reviewed to ensure appropriate time for review with senior management			
Budget holders don't fully understand the information provided due to format and language used	Finance Training for all budget holders / MI improvements as above			
Finance staff spending too long providing information on small value areas	Risk Assessment to be carried out - time to be spent on high risk areas - volatility / value			
High volume of cost centres and GL codes time consuming to review all in detail	Strategix run on exception report. Actual to date v budget to date which would highlight areas for further investigation			
Insufficient challenge of service budget holders by Finance staff	Detailed monthly discussions with SMT focuses on increased challenge and verifying service discussions. Improved focus on management and council action required.			
Difficult to explain reason for salary variances	Improved analysis of Salary figures to be built into monthly process			

