

REPORT FOR DECISION

Agenda Item	
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MEETING: AUDIT COMMITTEE

DATE: 20 February 2007

SUBJECT: SUMMARY FINANCIAL AND PERFORMANCE
MONITORING REPORT – APRIL 2006 TO DECEMBER
2006

REPORT FROM: Director of Finance and E-Government

CONTACT OFFICER: M Owen – Director of Finance and E-Government

TYPE OF DECISION: Non-Key

REPORT STATUS: FOR PUBLICATION

PURPOSE/SUMMARY:

To up-date the Committee on the authority's financial and performance position in line with the Committee's Statement of Purpose to '*provide....independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment*'.

The report shows that the authority is performing well and that the financial position at the end of December 2006 is satisfactory.

OPTIONS AND RECOMMENDED OPTION (with reasons):

The Committee is asked to note the contents of the report and agree to undertake a review of the effectiveness of Executive in this area.

IMPLICATIONS -

Financial Implications and Risk Considerations

There are no direct resource implications arising from the report.

Corporate Aims/Policy Framework:

Do the proposals accord with the Policy Framework? Yes

Are there any legal implications? No

Considered by the Monitoring Officer?

Yes. No specific comments

Statement by Director of Finance and E-Government:

The successful management of the Council's financial resources is central to the Council's Financial Strategy. Successful budget monitoring provides early warning of potential major overspends or underspends against budget of which Members need to be aware.

Staffing/ICT/Property:

None specifically

Wards Affected:

All

Scrutiny Interest:

All but primarily the Resource and Performance Scrutiny Panel.

TRACKING/PROCESS

DIRECTOR: Mike Owen

Chief Executive/ Management Board	Executive Member/ Chair	Ward Members	Partners
	Deputy Leader/Chair		
Scrutiny Panel	Executive	Committee	Council

1.0 INTRODUCTION

1.1 At the Committee's meeting on 20 September 2006 it was agreed that to fulfil its role of 'providing...independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment' a new innovation should be implemented – that the Audit Committee receive a summary monitoring report at each meeting on the situation in respect of financial and operational performance.

- 1.2 This is intended to allow the Committee to keep abreast on the authority's financial position and to gauge the existence and effectiveness of corrective action that has been determined by the Executive and/or the Scrutiny Panel. In this way the Committee would be able to consider the authority's exposure to risk in this key area.
- 1.3 This report summarises the financial and performance information as at the end of December 2006 and reflects the information that will be considered by the Executive at it's meeting on 14 February 2007.

2.0 MONITORING PROCESSES

- 2.1 Finance and performance is monitored in different ways at different stages of the year:

Monthly - reports are considered by service management teams and summaries made available to specific Executive Members. A monthly summary of the financial position is submitted to Management Board and to the Executive Member for Quality Council

Quarterly – detailed corporate monitoring reports based on the position at June, September, December and March are considered by Management Board, the Executive, Star Chambers and the Resource and Performance Scrutiny Panel. These set out a risk assessed summary of the financial position together with supporting performance information, explanations of the major variances, an assessment of the minimum level of balances, information on the forecast balances position and an assessment of performance against the objectives of the Financial Strategy (including the Golden Rules).

- 2.2 There have been three significant improvements to the budget monitoring process during the current year:

2.2.1 Star Chambers

The role of the Star Chambers has been strengthened considerably and they now consider detailed information covering:






- Financial performance including a detailed, risk based, assessment of budget hot-spots
- Human resource monitoring
- Performance monitoring
- Assessment of progress on Gerson efficiencies and budget savings
- Departmental Medium term financial planning/strategy
- Management of risk assessments (strategic departmental and budget risks)
- Value for Money

Feedback from the Star Chambers is reported to the Executive as part of the quarterly monitoring reports.

2.2.2 Risk management techniques

Risk management techniques have been applied to budget monitoring using two distinct, but inter-related approaches.

Firstly, for the purposes of reporting budget monitoring information to management teams, Star Chambers and the Executive a traffic light process is used to assess budgets in terms of forecast over and underspendings based on the following parameters (although areas of concern that fall outside of these definitions are also flagged up where it is felt appropriate) :

<u>Key for budget monitoring reports</u>		
Projected Overspend (or Income Shortfall) of		
	a major problem with the budget	more than 10% and above £50,000
	a significant problem with the budget	more than 10% but less than £50,000
	expenditure/income in line with budget	
	a significant projected underspend (or income surplus)	more than 10% but under £50,000
	a major projected underspend (or income surplus)	more than 10% and above £50,000

Budget monitoring reports now focus on areas showing major or significant budget problems.

Secondly, a more forward-looking approach has been used to identify **potential** budget 'hot spots' based on risk factors that are inherent in individual budget areas. Hot spots are identified based on the following factors:

- **Previous years' spending** – where there have been significant overspends (with significant being a matter for local determination)
- **Size of budget** – i.e. very large budgets where even a small percentage variance would be significant even if no historic problems exist
- **Budget reductions/target savings** – where the current years' budget has been reduced to meet savings targets or in anticipation of service reviews
- **Lack of direct 'controllability'** – where budgets are difficult to control directly due to demand pressures of an outside agency has significant input into spending decisions
- **New service areas** or projects
- **Complex budgets**
- **One-off budget proposals** i.e. new one-off revenue projects
- **'Sensitive' budgets**

Hot-spot budgets are ranked according to the likelihood and impact of budget difficulties (based on the authority's existing risk assessment process). These budgets will be the subject of greater attention by Star Chambers and service management teams.

2.2.3 Links to performance information

Greater use is made of performance information to place financial monitoring in its rightful context. The proper place for detailed assessments of performance is the Star Chambers and detailed information on performance as it relates to red and amber budgets has been included in the information submitted to the Star Chambers.

The corporate monitoring report contains summarised performance information in the case of the budget areas shown as red.

3.0 FINANCIAL POSITION

3.1 The authority's overall financial position based on forecasts made using income and expenditure information as at 31 December 2006 is summarised in the table in paragraph 3.2. As Members will be aware, financial reporting involves an element of judgement, and this particularly applies to the treatment of budget pressures. Often an area of overspending identified at this point in the year will resolve itself before the end of the year following appropriate budget management action.

However it is felt that it is most appropriate to alert Members to potential problems at this stage so that they can monitor the situation and take ownership of the necessary remedial action and this is the basis on which the report is written.

3.2 In summary the outturn forecast based on the position at 31 December 2006 is (figures in brackets represent underspends, those without represent overspends):

	£m
Adult Care Services	0.635
Chief Executives	0.168
Children's Services	(1.523)
E&DS	(0.066)
Housing	0.177
Non service specific	(0.209)
TOTAL PROJECTED UNDERSPENDING	(0.818)

The projected underspend of **£0.818m** represents **0.68%** of the total net budget of £120million. Detailed risk assessments and variance analyses of budget hot-spots at December 2006 will be reported to the Executive on 14 February 2007 as part of the corporate monitoring report.

3.3 However Members are particularly reminded that the position on volatile budgets such as Children's Agency placements can change dramatically depending on service users' needs and so a 'ring fenced buffer' will be maintained within the agency budget for the remainder of the year to even out potential changes in spending patterns. The need for this in future years will be assessed as part of the budget setting process.

- 3.4 Using this projection the table below shows the position in respect of General Fund balances:

	£m
General Fund Balance 1 April 2006	3.380
Add : Expected contribution into balances in 2006/07 (reversal of charge made in 2005/06)	0.250
Add : Forecast underspend 2006/07	0.818
Forecast available balances at 31 March 2007	4.448
Less: underspends promised as savings options in 2007/08	(0.838)
Net usable balances	3.610

- 3.5 Based on the information contained in this report, on the risk assessments that have been made at both corporate and strategic level, on the outturn position for 2005/06 and using information presented to the four Star Chambers on the likely achievement of savings options it is clear that there is no reason to take the minimum level of balances above the existing level of £3.1m. The table above also shows that, on current forecasts, the authority will exceed minimum balances, even allowing for the use of underspends to support the 2007/08 budget.
- 3.6 In view of the fact that the minimum level of balances has been set at £3.1m and that within this figures there is a provision of £1.5m relating to a cushion for 'Unpredictable and Demand led Expenditure' then it is clear that the authority's forecast overall financial position does not present a risk.
- 3.7 Having said this, it is accepted that there are 'hot spots' that need to be addressed relating primarily to Learning Disability services, Leisure services, and land charges income and Star Chambers are monitoring action plans that have been put in place to bring these budgets into line (although it is recognised that overspendings in these areas may not be eradicated in the current year).

4.0 PERFORMANCE POSITION

- 4.1 Performance monitoring information continues to be made available on the Intranet and Members will have received an e-mail providing the link to information covering the first nine months of the year.
- 4.2 The information shows that the authority is making steady progress. Performance results (for those indicators that can be measured during the year) projected to year-end show that
- 59% (81 PIs) have improved against the 2005/06 baseline and service managers are confident that more indicators will improve when some of the action plans implemented begin to show positive outcome during the next monitoring period.

- 35% (49 PIs) are forecast not to reach the 2005/06 baseline levels; more than the numbers of PIs reported in this category at the end of Q2. This is mainly due to PIs being reported for the first time rather than deterioration in performance. Service managers continue to review various action plans to ensure performances are brought in line with expectations
- 6% (9 PIs) are showing performance at the 2005/06 levels and close attention will be given to these to understand the reasons for performance level staying same during the quarter
- Performance data are not yet available for 116 indicators, due mainly to the fact that results are only available at year-end. The picture will be clearer when the results for annual PIs become available and this will enable a more comprehensive analysis to be undertaken.

5.0 FINANCIAL STRATEGY 2007 to 2010

5.1 The Executive has recently adopted an up-dated Financial Strategy covering the coming three years and the Strategy has a number of objectives:

- To be the financial expression of the Council's ambitions and priorities and to provide the financial and other resources to deliver them
- To promote a balanced, integrated and sustainable medium term revenue and capital budget
- To allocate resources on a priority-led basis so that over time priority areas receive additional resources and areas of lesser or no priority receive fewer
- To ensure that the Council, through its performance management processes, manages and monitors its financial resources effectively so that spending and commitments do not exceed the resources that are forecast to be available in each service area and in each year
- To plan the level of local taxation in line with levels that the Council, the community and the Government regard as being necessary, acceptable and affordable to meet the Councils ambitions, priorities, policies, plans and targets
- To develop departmental medium term finance and performance plans that complement the main FS
- To support, and operate within, a functional risk management framework
- To ensure that the Council's long-term financial health and viability remains sound
- To maximise the shared learning to refine and develop future plans and strategies

5.2 It is important that performance against these objectives is monitored on a regular basis and so a number of success criteria have been determined:

		Frequency
i	<ul style="list-style-type: none"> • Achievement of Golden Rules • Priority-led budget process to be implemented and sustained 	Annual Annual
ii	<ul style="list-style-type: none"> • Achievement of all four Golden Rules 	Quarterly
iii	<ul style="list-style-type: none"> • Priority-led budget process to implemented and sustained 	Annual

	<ul style="list-style-type: none"> Achievement of targets/action plans set out in Departmental MTFs 	Quarterly
iv	<ul style="list-style-type: none"> Forecast/actual outturn to be within 0.5% of budget 	Quarterly
v	<ul style="list-style-type: none"> Budget set in line with results of budget consultation process 	Annual
vi	<ul style="list-style-type: none"> Prepare departmental MTFs 	Annual
vii	<ul style="list-style-type: none"> Through the risk management matrix adjust/manage identifiable risks 	Bi-Monthly
viii	<ul style="list-style-type: none"> Achievement of the Golden Rules (esp. minimum level of balances and reliance on one-off options) 	Quarterly
	<ul style="list-style-type: none"> Forecast/actual outturn to be within 0.5% of budget 	Quarterly

5.3 Those items marked 'quarterly' will be reviewed in this and future monitoring reports. For month 9 the position is as follows:

		Month 9 2006/07
ii	<ul style="list-style-type: none"> Achievement of all four Golden Rules 	All Golden Rules are being achieved (based on success criteria set out in paragraph 5.2 of the Financial Strategy).
iii	<ul style="list-style-type: none"> Achievement of targets/action plans set out in Departmental MTFs 	Monitoring at Star Chambers suggests that targets are being met
iv	<ul style="list-style-type: none"> Forecast/actual outturn to be within 0.5% of budget 	As shown in paragraph 3.1 above, the forecast outturn represents a positive variance of 0.68% from the net budget
viii	<ul style="list-style-type: none"> Achievement of the Golden Rules (esp. minimum level of balances and reliance on one-off options) 	See (ii) above
	<ul style="list-style-type: none"> Forecast/actual outturn to be within 0.5% of budget 	See (iv) above

6.0 REVIEW OF EFFECTIVENESS

6.1 Good practice suggests that the Executive should review its effectiveness and the leadership it provides with regard to financial management, and should take appropriate action to address areas of weakness.

6.2 Clearly there have been significant improvements to the process of financial management, as evidenced by the authority's financial position and a further innovation that has helped the Executive has been the use of Powerpoint presentations to bring to the attention of Executive any key points which require their attention and/or action.

- 6.3 Members will be asked at the meeting to provide views on this matter. It is also suggested that the Audit Committee be asked to provide an independent view on Executive's effectiveness.

Mike Owen
Director of Finance and E-Government

Background documents:

Corporate financial monitoring information available from the Director of Finance and E-Government

For further information on the details of this report, please contact:

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