

REPORT FOR DECISION

Agenda Item	
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MEETING: AUDIT COMMITTEE

DATE: 19 September 2007

SUBJECT: FINANCE AND PERFORMANCE MONITORING 2007/08 – MONTH 3

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 projecting an overspend of £593,000 for the year based on spending and income information as at 30th June 2007. Whilst the fact that there is an overspending is a matter of concern, and will require attention by Members and officers, the fact that the overspend can be accommodated within General Fund balances without breaching the Golden Rules means that the position is not seen as a major risk to the achievement of the authority's ambitions and priorities.

OPTIONS AND RECOMMENDED OPTION (with reasons):

The Committee is asked to note the contents of the report.

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 Commission.

TRACKING/PROCESS

DIRECTOR: Mike Owen

Chief Executive/ Management Board	Executive Member/ Chair	Ward Members	Partners
	Leader/Deputy Leader/Portfolio holders		
Scrutiny Commission	Executive	Committee	Council

1.0 INTRODUCTION

1.1 At the Audit 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 Commission. 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 June 2007 and reflects the information that was noted by the Executive at it's meeting on 12 September 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 Resource and Performance.

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 Commission. These set out a risk assessed summary of the financial position together with supporting performance information, the financial situation of the major partnerships, explanations of major variances from budget, 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 were three significant improvements to the budget monitoring process during the past 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.

2.3 As part of the authority's commitment to continuous improvement a further two developments have been introduced in 2007/08 to strengthen monitoring:

2.3.1 A key development for the coming year will involve the formalisation of budget, performance and risk monitoring for key partnerships formed by the Council with other agencies. As part of this the Council has adopted a Partnerships Toolkit setting out the ground-rules for the operation of all partnerships and this identifies, as good practice, a need to report financial performance to the Executive within the corporate monitoring report.

2.3.2 'Traffic light' reporting of performance data was identified as a key action in the 2006-09 Asset Management Plan and a 'traffic light' system of reporting has now been adopted and applied to performance indicators where targets have been established.

The Council has collated performance data for most of the recently introduced National Property Performance Monitoring Indicators (NAPPMI's). Figures for 2005/06 and 2006/07, and proposed targets derived from best practice and benchmark data, can be found by clicking on the following link

<http://burydem.bury.gov.uk/aksbury/images/att8545.xls>

3.0 FINANCIAL POSITION

3.1 The authority's overall financial position based on forecasts made using income and expenditure information as at 30th June 2007 is summarised in the table in paragraph 3.3. 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.

3.2 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.

- 3.3 In summary the outturn forecast based on the position at 30th June 2007 is (figures in brackets represent underspends, those without represent overspends):

	£m
Adult Care Services	1.334
Children's Services	(0.123)
E&DS	0.433
Chief Executive's	(0.150)
Housing General Fund	0.072
Non-service specific	(0.973)
TOTAL PROJECTED OVERSPENDING	0.593

The projected overspend of **£0.593m** represents **0.48%** of the total net budget of £124million. Detailed risk assessments and variance analyses of budget hot-spots at June 2007 were provided to the Executive on 12 September 2007 as part of the corporate monitoring report. This can be found at:

<http://burydem.bury.gov.uk/aksbury/images/att8606.doc>

- 3.4 Members are particularly reminded that the position on volatile budgets such as Learning Disability and Children's Agency placements can change dramatically depending on service users'.
- 3.5 The actual position on the General Fund balance is shown in the following table:

	£m
General Fund Balance 1 April 2007	5.208
Less : Forecast overspend 2007/08	(0.593)
Forecast available balances at 31 March 2008	4.615
Less: Minimum level of balances per Golden Rules	(3.400)
Net balances above the minimum	1.215

- 3.6 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 2006/07 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 £3.4m.
- 3.7 Additionally, In view of the fact that the minimum level of balances figure includes 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 an unacceptable risk at this point.
- 3.8 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 three months of the year.
- 4.2 The information shows that the authority is making steady progress. In terms of process, the council continues to have a good record of in year monitoring with 92 PIs reporting during Q1. Of these 55% have improved (or maintained top performance) compared to the 2006/07 baseline. Overall data quality is within target with only 6 PIs expected to report failing to hit the deadlines (some 5% of the total) with a similar proportion subject to queries on the accuracy of the figures.

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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