Committee: Financial Monitoring Task Group

Date: 13th November 2018

Wards:

Subject: Budget Forecasting

Lead officer: Caroline Holland

Lead member: Cllr Mark Allison

Contact officer: Bindi Lakhani

Recommendations:

A. That Members note the report and make comments as they wish.

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1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

1.1. To provide Members with an update on the budget monitoring and forecasting process.

2 DETAILS

2.1. The Council operates a tight budgetary control process to ensure strong and effective monitoring of Council budgets and compliance with law and good practice.

2.2. The financial regulations set out the financial procedures and responsibilities of the Chief Finance Officer (Director of Corporate services) and other chief officers (directors) and detail the framework for managing the financial affairs of the authority.

Section 114 of the Local Government Finance Act 1988 requires the Chief Finance Officer to report to the full Council, Cabinet and external auditor if the authority or one of its officers:

- has made, or is about to make, a decision which involves incurring unlawful expenditure
- has taken, or is about to take, an unlawful action which has resulted or would result in a loss or deficiency to the authority
- is about to make an unlawful entry in the authority's accounts.

This is an important independent statutory tool for the S151 officer to exercise where it is felt spending is out of control against budgets.

2.3. After consultation with Directors the budget management team within Accountancy are responsible for setting and overall monitoring of the revenue budgets of the Council. The budget or cost centre manager owns the budget and is responsible for delivering the service within the allocated budget.

2.4. Each department has a Service Financial Adviser (SFA) responsible for the financial monitoring for the departments' budget and providing professional advice and support.

2.5. The SFA is supported by senior accountants who provide training to budget managers to better understand their core financial responsibilities and assist them to effectively manage their budgets.

2.6. It is the responsibility of departmental directors and budget managers to control income and expenditure within their area and to monitor performance, taking account of financial information provided by the Chief Finance Officer. They should report on variances within their own areas. They should also take any action necessary to avoid exceeding their budget allocation and alert the Chief Finance Officer to any problems

2.7. <u>Budget Monitoring Timetable and Process</u>

2.7.1 The budget monitoring cycle begins in period 2 of the financial year, allowing the previous year end accounts closure process to be completed. Budget managers are provided with a timetable and guidance on the budget monitoring process.

2.7.2 The budget manager is required to review their income and costs to date versus the budget and analyse and explain any variances.

2.7.3 The budget managers are required to provide a year-end forecast based on the year to date position, planned activities for the remainder of the year taking account of seasonal activity and trends

2.7.4 The financial position of the authority is consolidated and then reviewed and challenged at a monthly meeting with the Director of Corporate Services, Assistant Director of Resources and Head of Accountancy.

2.7.5 Following this review reports are presented to CMT, LSG, Cabinet and FMTG.

2.7.6 The budget forecasting is performed on the Collaborative Planning (CP) module of e5, the financial system.

2.8. <u>Budget managers</u>

2.8.1 It is the responsibility of the budget manager to deliver their service efficiently and effectively within their allocation. They are required to identify and explain variances against budgetary targets

2.8.2 Each budget manager has a finance contact who can provide training on the financial system, advice and support as needed.

2.8.3 All new managers are provided with 1-2-1 training on e5 to ensure they can review and analyse their income and expenditure. Training is provided on generic forecasting for non-financial budget managers teaching them extrapolation and other techniques to forecast their full year expected spend.

2.8.4 SFA's regularly attend Department Management Team (DMT) to present the month end position, forecast and discuss departmental action required to curtail and mitigate overspending budgets.

2.9. Budget variances and analysis

2.9.1 All budgets are reviewed by the budget management team but the focus is on high risk or demand based budgets at risk of overspending.

2.9.2 Each department faces different budget pressures which require financial support. The demand based budgets of adult and children's social care are more difficult to manage and predict and require a careful and accurate approach to forecasting.

2.9.3 Budgetary control ensures resources allocated are used for their intended purpose, are properly accounted for and is a continuous process, enabling the authority to identify changes in trends and resource requirements.

2.10. Spend Control

2.10.1 A powerful tool within e5 which supports budgetary control is the spend control function built into the purchasing portal. When an order is raised the system performs a funds check which compares the value of the order to the available budget on the cost centre, which is made up of the annual budget, less amounts already spent or committed to date . The funds check looks only at the controllable expenditure budget, excluding overheads, depreciation and salaries which restricts and prevents budget for these items being spent on other goods or services. The spend control check in the system therefore prevents any orders from being raised where they exceed budget, helping to prevent overspends.

2.10.2 In cases where management have authorised an overspend, a spend control waiver can be granted on an annual basis which allows the funds check in the system to be bypassed. This allows essential expenditure to continue, for example social care, where otherwise the system would have prevented orders from being raised. In these cases, a waiver is requested by the budget manager and requires authorisation by the s151 Director before being processed in e5 by the FIS team to ensure appropriate segregation of duties.

2.11. Salary calculator

2.11.1 The Collaborative Planning module in e5 provides a salary calculator which is a useful tool to forecast salary costs and eliminates the need to use separate spreadsheets to calculate the forecast.

The calculator shows the monthly costs for each employee for the year to date period.

Budget managers are then able to complete the remaining months to calculate the costs for the whole year.

There are 3 options for completing the salary calculator – Repeat Previous Month; Repeat Average; and Manually Entry.

Repeat Previous Month is used most frequently.

Repeat Average would be used where there are fluctuations in monthly pay, for example, when there are additional irregular payments for overtime.

Examples of where Manually Entry would be used are where an employee is leaving, where a new employee is joining, or an employee going on maternity leave.

2.12. Overspending budgets

2.12.1 Budgets which are forecasting to overspend are reviewed in detail by finance officers together with budget managers to firstly ensure the validity of the forecast overspend and the reasons why.

2.12.2 Mitigating action is expected by the budget manager and the department to offset the overspend. For demand based statutory services it is more difficult to curtail spend but support is provided to accurately forecast spend on volatile budgets. Examples of key focus include placement budgets and SEN transport.

2.12.3 Although the over-riding principle is that Departments consume their own smoke there are occasions where mitigations do not result in fully ameliorating a Departmental overspend at year end. In this situation underspends in other Departments can be used to offset an overspend. Ultimately a Council net overspend will need to be offset in that year by General and Earmaked Reserves. This must be a temporary measure and must be coupled with mitigating action to address the overspending. It is worth noting that Merton’s General Reserves at £12.778m are just above the minimum level (£12.09m) recommended for a Council with Merton’s characteristics.

Department specific monitoring

2.13. CSF

The CSF placement budgets are reviewed monthly to account for any changes in circumstances, step-down arrangements and updating of forecasts using the latest caseload information. Transactional details are summarised by child to ensure a more accurate forecast and is checked by the service manager who also attends panel meetings where progress and changes to individual packages are agreed. These forecast schedules are discussed with finance monthly as an additional check for accuracy and also regularly reviewed by the AD. The SEN transport forecast is done at client level in conjunction with the contract management service to ensure accuracy of forecasts. Due to the volatile nature of placement and SEN transport budgets and the current volume of activity, these budgets are prone to significant fluctuations on a monthly basis.

2.14. C&H

Placement data is downloaded and analysed for completeness, accuracy and adjusted for contracts, voids, and deaths during the period. Any anomalies identified are referred back to the relevant budget managers for correction and or clarification. A comparison is made to the previous period in terms of increase in numbers and total expected cost for the financial year. Data is also adjusted for any known changes communicated by budget managers, for example, forum decisions, transitions, provider request for inflationary uplifts and packages currently not on the system. It is then used to forecast placement spend for the financial year.

2.15. E&R

Within the Environment and Regeneration department, additional analysis and support is currently being provided on the Phase C budgets i.e. Waste Services (lot 1) and Greenspaces (lot 2). For lot 1, this involves analysing the monthly invoice backing data received from the contractor and comparing to the contract specification. Where any charges are not agreed, or require further explanation, these are added to a 'dispute list'. Monthly meetings are then held with the contractor to discuss this list and to agree the charges, in co-ordination with the service manager. For lot 2, this also involves analysing the monthly invoice backing data received from the contractor and comparing to the contract specification. Where any charges are not agreed, the contractor is informed of this in writing and the invoice is amended accordingly by the contractor. The invoice is then agreed, in co-ordination with the service manager.

2.16. Corporate services

The South London Legal partnership (SLLp) hosted by Merton requires regular support from the team to ensure financial information provided to partnership boroughs is complete and accurate and any forecast over/ under spend is reported on a timely basis to the SLLp Board. Each partner's share of the surplus or deficit is determined by their relative demand for the service. Redundancy costs forecast is based on data provided by HR. The schedule provides all known redundancy payments and the forecast includes some extrapolation but remains uncertain until later in the financial year when an overspend or underspend can be declared with more confidence.

2.17. Quality of forecasting

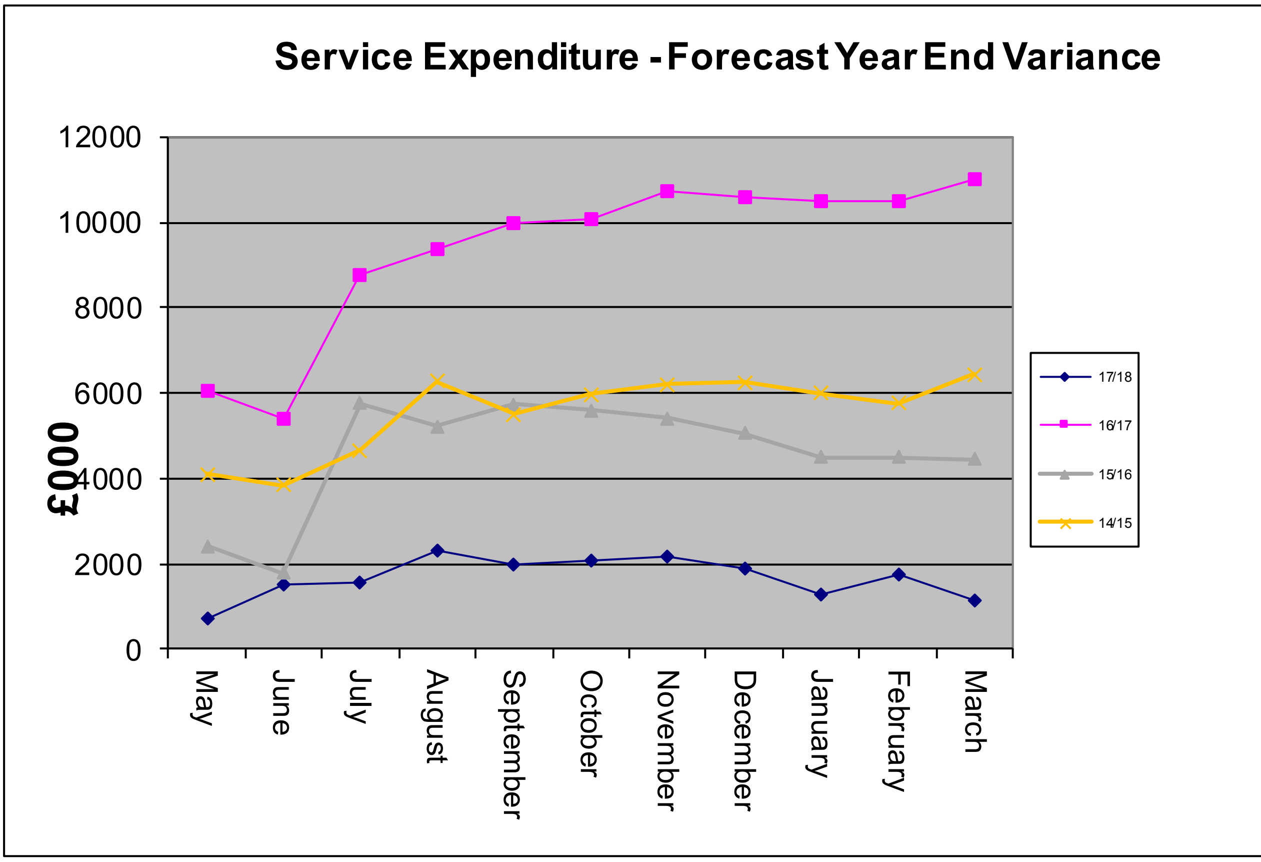
The table below shows the outturn variance for the last four years and also the period 10 forecast, which is the final forecast reported to Cabinet.

Although there are some large variances between outturn and the final period 10 forecast at department level the overall positon for the Council demonstrates accurate forecasting and is 0.2% or less of the gross budget.

OUTTURN VARIANCE	2017/18 Outturn Variance £000s	2017/18 P10 forecast £000s	2016/17 outturn variance £000s	2016/17 P10 forecast £000s	2015/16 variance £000s	2015/16 P10 forecast £000s	2014/15 variance £000s	2014/15 P10 forecast £000s
Department								
Corporate Services	(812)	(479)	(1,287)	(864)	(373)	84	(272)	(35)
Children, Schools and Families	2,249	1,891	1,154	1,164	(7)	401	2,448	2,781
Community and Housing	922	1,168	10,140	9,389	940	876	2,747	1,946
Public Health	0	(0)		(0)	0	70	0	0
Environment & Regeneration	(1,211)	(1,315)	1,011	828	3,632	3,084	1,299	1,306
Net recharges	0	0			265		226	
NET SERVICE EXPENDITURE	**1,148**	**1,264**	**11,018**	**10,518**	**4,457**	**4,515**	**6,448**	**5,998**
Corporate Provisions	(926)	(1,644)	(5,035)	(3,411)	(2,797)	(2,921)	(2,612)	(1,793)
TOTAL GENERAL FUND	**222**	**(380)**	**5,983**	**7,107**	**1,659**	**1,595**	**3,836**	**4,205**
Business Rates	181	0	0		0		0	0
Grants	(669)	82	(536)	(542)	(960)		(154)	(81)
Council Tax and Collection Fund	0	0	0		(0)		0	
FUNDING	**(488)**	**82**	**(536)**	**(542)**	**(960)**	**0**	**(154)**	**(81)**
NET (UNDER)/OVERSPEND	**(266)**	**(298)**	**5,447**	**6,565**	**699**	**1,595**	**3,682**	**4,124**
Transfers to/ (from) Reserves	**266**	**298**	**(5,447)**	**(6,565)**	**(699)**	**(1,595)**	**(3,682)**	**(4,124)**

Diff between outturn and P10 forecast	32	(1,118)	(896)	(442)
% of gross budget	0.01%	-0.22%	-0.18%	-0.09%

The graph below shows forecast variance by month for the last four years.



Appendix 1 shows the variance by department for the last four years.

2.18. Progress on savings

2.18.1 The savings agreed and taken from the MTFS are monitored and reported on a monthly basis. Where savings targets are not fully or partially achieved they remain the responsibility of the department to source alternative savings. They are carried forward in the department until they are replaced

2.18.2 Where planned savings are not achievable the in-year mitigation is to ensure alternate underspends where possible.

2.18.3 Savings not achieved and identified as such (red) are monitored in the following financial years to show if they were delayed and are now being delivered or whether alternatives have been identified.

2.18.4 Budgets are reduced on the financial system for savings so if they are not achieved there will be an ongoing issue in spend control on the financial system.

2.18.5 Learnings from Northamptonshire County Council (NCC)

2.18.6 NCC has failed to comply with its duty under the Local Government Act 1999 in financial management and to provide best value in the delivery of its services.

2.18.7 The two significant events that took place:

(i) The Council's S151 officer issued two Section 114 notices because in his opinion the Council was at risk of not being able to balance its budget by the year end and as a consequence, imposed spending controls to attempt to restore the situation pending full Council consideration of the position and how it should be rectified.

(ii) The Council's external auditor KPMG, issued an Advisory Notice (20th February 2018) under the Local Audit and Accountability Act 2014 on the basis that they believed the Council was about to set a potentially unlawful budget.

2.18.8 Both of these events are extremely rare and are a sign of systematic failure in financial management. The main factors contributing to this failure identified from the enquiry are the use of one off resources to offset overspends over several years. This comprises significant use of reserves, flexible use of capital receipts to fund transformation revenue expenditure and the failure to deliver savings.

2.18.9 **Capital Monitoring**

2.18.10 The process for monitoring capital budgets dovetails with that used to monitor revenue budgets, however, emphasis is placed on the multi-year nature of expenditure and its correct classification. Monitoring information includes all adjustments to the programme to provide a time based audit trail for budget managers of their schemes. A small capital team within the Business Planning element of the Resources Division work closely with budget managers to improve their year-end forecasting and the November monitoring report provides the information fed into the Medium Term Financial Strategy (MTFS) via the Capital Funding Model.

2.18.11 The Capital Funding Model is a 10 year funding model developed by finance officers which covers the approved and indicative capital programme to provide a long term assessment of the impact of capital activity on revenue budgets, cash-flows and borrowing requirements. The model also underpins the Capital and Treasury Managements strategies and the Prudential Indicators. The model has been developed to allow for a reduction in projected spend to reduce the optimism bias in budget manager projections.

3 ALTERNATIVE OPTIONS

3.1. n/a

4 CONSULTATION UNDERTAKEN OR PROPOSED

4.1. None specific for this report

5 TIMETABLE

5.1. In accordance with current financial reporting timetables.

6 FINANCIAL, RESOURCE AND PROPERTY IMPLICATIONS

6.1. This report deals solely with the monitoring and forecasting process of Council budgets.

7 LEGAL AND STATUTORY IMPLICATIONS

7.1. Included in the body of the report.

8 HUMAN RIGHTS, EQUALITIES AND COMMUNITY COHESION IMPLICATIONS

8.1. There are no specific Human rights, equalities or community cohesion issues arising from this report.

9 CRIME AND DISORDER IMPLICATIONS

9.1. There are no specific crime and disorder implications arising from this report.

10 RISK MANAGEMENT AND HEALTH AND SAFETY IMPLICATIONS

10.1. There are no specific health and safety or risk management issues arising from this report.

11 APPENDICES – THE FOLLOWING DOCUMENTS ARE TO BE PUBLISHED WITH THIS REPORT AND FORM PART OF THE REPORT

- Appendix 1 – Quality of forecasting by department

12 BACKGROUND PAPERS

12.1. Within Resources division

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