

**Note on Revenue Budget Monitoring 2000/2001**

**Head of Accounting**

Budget monitoring is a simple concept and in principle is no different from its title. It is merely monitoring of the budget. It should be an ongoing process whereby budget holders continually assess the impact of business decisions and activities on the budget they are accountable for. A budget holder is the person who is accountable for a given budget. It is usual to formalise budget monitoring whereby there is periodic reporting to the highest level of management of budgetary performance at given points in time.

**When Was it Done**

In Argyll and Bute Council formal reporting of budget monitoring took place on a monthly basis from 30 June 2000. The budget monitoring reports as at 30 June and 30 September were submitted to the relevant central committee and Policy and Resources Committee. The report as at 31 January 2001 was circulated to all central committee chairpersons and the Leader. The monthly reports were submitted/circulated to the corporate management team.

**What Was Prepared**

The submission to central committees comprised a financial statement and variance explanation schedule for the departments reporting to that committee. The submission to Policy and Resources Committee comprised reports as outlined above from departments reporting to Policy and Resources Committee together with an overall financial summary. The submission to corporate management team comprised the overall financial summary. The reports circulated to central committee chairpersons and Leader for 31 January comprised the overall financial summary together with the financial statement and variance explanation for the relevant committee.

**What Did It Tell Us**

The financial statement allows a comparison of budgetary performance to date and the projected outturn or forecast position for the whole year. Details of actual and budget for the year to date were given along with the resulting variance. Do we appear to be over or under spent against budget for the year to date? For the whole year details of the projected outturn or forecast and full year budget were given along with the resulting variance. Do we look as if we will be over or under spent against budget for the full financial year? The financial statement was prepared at what is known as objective head level. Objective heads are the main service areas identified separately in the budget book

of the Council. Primary Schools is an example of a service head within Education. An example of a financial statement is attached.

The variance explanation provides explanations of certain variances shown on the financial statement. Variance explanations are prepared by directors as their explanation of the variances in their budget. Their purpose is to show where there is an over or under spend, what has caused it, why it arose and the what is being done to overcome it. The format of the variance explanation schedule requires the author to identify the monetary amount of the variance for both year to date and projected outturn or forecast, where the variance is ie which area of the budget, why the variance has arisen, what action is being taken in respect of the variance and what the implications of that action will be. Details of the impact on the following years budget were also requested to highlight ongoing budgetary problems. An example of a variance explanation schedule is attached. A set of criteria was set to identify when a variance required to be explained. The criteria were as follows:

For the year to date –

One of the objectives in setting variance reporting thresholds was to avoid variance explanation schedules become to bulky and to focus on key areas. On this basis attempts were made to restrict variance explanation schedules to one side of A4. This was not always possible given the extent of variances in some departments. A threshold for year to date variance reporting was set at £100,000.

For the projected outturn –

Variances on objective/service heads of more than £50,000 over or under and also variances of more than plus/minus 5% had to be reported. In practice departments tended to report on all movements in projected outturn at a service/objective head level. The £50,000 and objective/head were selected as the thresholds which required committee approval for virement.

### **How Was It Done**

A timetable for budget monitoring was prepared at the start of the financial year which noted the key dates in the formal reporting process. The key stages in the process were.

Close of accounting period in the financial ledger,  
Finance generate reports from financial ledger immediately following close of accounting period ( DES generated their own reports),  
Departments review actual, budget and projected expenditure,  
Departments prepare budget journals to amend Forecast Budget in line with changes in projected annual expenditure,  
After deadline for completion of budget journals Finance generate reports in style of financial statements referred to above,

Departments then finalise variance explanation schedules based on financial statements for submission to Finance,  
Finance collated final printing of financial statements and variance explanations for circulation.

A copy of the detailed monthly timetable is attached.

### **Who Does What**

Finance was responsible for ensuring accounting period is closed in accordance with timetable.

Finance generated financial ledger reports for the period end. (DES generated their own reports).

Departments were responsible for reviewing these reports and making further enquiries to allow them to understand their budgetary position at the period end. Then assessing the impact of the year to date position on the projected expenditure for the full financial year and also next financial year. Having identified changes to projected outturn departments were then responsible for preparation of budget journals.

Finance was responsible for posting budget journals prepared by departments and then generating the financial statement to allow departments to finalise variance explanations.

Departments were responsible for preparation of variance explanations.

Finance collated and circulated final reports to corporate management team and committees.

### **Other Issues**

Departments phased their budgets over each period in the financial year. The accuracy of year to date actual to budget comparisons is directly affected by the accuracy of budget phasing. If budget phasing is inaccurate it is difficult to differentiate between real variances and those which are simply timing differences due to inaccurate budget phasing. Inaccurate budget phasing can highlight variances that are timing differences and not real expenditure pressures and also conceal real variances and expenditure pressures. Procedures were available for departments to update/amend budget phasing during the year.

Throughout the financial year reference was made in budget monitoring reports for Education and Transportation and Property Services that improvements were required before the budget monitoring reports for these departments could be fully supported.

Education did not use the budget journal facility to reflect all the variances highlighted in their variance explanation schedule. As a result the financial ledger position in terms of projected outturn was often different from the variance explanations. One off adjustments were made, by the Head of Accounting, to the face of the financial statement for Education to ensure the financial statement agreed to the variance explanation schedule.

A report was approved by the corporate management team on 5 June 2000 highlighting a number of improvements to budget monitoring procedures. For a variety of reasons these were never fully implemented.

### **Future Developments**

A project to achieve improvements in the budget monitoring procedures was approved by the corporate management team on 2 July 2001. This project will see the creation of 5 mini projects to identify and implement improvements in budget monitoring within each of the front line service departments and also central support services. The progress of this project will be overseen by a steering group comprising the Chief Executive and Director of Finance. An extract of the objectives and actions associated with this project is attached.

### **Critical Areas**

The accuracy and relevance of budget monitoring is largely dependent on the undernoted elements :

Accuracy of budget setting ie budgets set in cost centres where actual expenditure is incurred,

Accuracy of budget phasing so that real variances are flagged and time is not wasted investigating timing differences caused by poor profiling,

Timely processing and recharging of transactions to avoid distorting the budget phasing,

An understanding of the operational aspects of the service/department,

Sufficient knowledge of the financial ledger and associated reporting tools and being able to identify the information required to manage the budget and then being able to extract it,

Driving budget monitoring down and through the service/department so that budget holders at all levels are included in the process rather than a simple top down exercise.

The facility to model year to date costs to get accurate forecasts of projected outturns.

Adequate resources in the department to provide explanations of variances.

Budgets in the right place and accurately phased. Knowing what to look out for and getting the right reports to the right budget holders. Budget holders investigating and explaining variances. Being able to forecast projected outturn.

## **Summary**

The Audit Committee is concerned with the adequacy of the Council's system of internal controls. In terms of budget monitoring variances from budget arose at the end of the financial year that had not been reflected through budget monitoring reports. In addition budget monitoring reports for Education and Transportation and Property contained comments to the effect that improvements in procedures were required in these departments before the budget monitoring reports for these departments could be fully supported. Given these circumstances it is evident there is room for improvement in this element of the Council's overall system of internal controls. This is acknowledged by the action already taken in establishing a project under the direction of the Chief Executive and Director of Finance to achieve improvements in budget monitoring. A successful outcome to this project should secure an improvement in budget monitoring and the system of internal controls.

11 July 2001

**REVENUE BUDGET MONITORING**

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**1 INTRODUCTION**

- 1.1 A revenue budget monitoring exercise as at 30 September 2000 has been completed.
- 1.2 Attached to this report are a financial statement which compares the year to date and projected outturn expenditure to budget for each service objective head.
- 1.3 Also attached is a variance explanation schedule which details the major variances arising, the reason for the variance, any action taken or proposed and any impact on next years budget.
- 1.4 The overall projected outturn is in line with budget. Although there are a number of expenditure pressures compensating savings have been identified.
- 1.5 Following the Education Committee of 7 September 2000 it was reported that mismatches existed between ledger codes used for budget setting and recording actual expenditure and income and that work was underway continuing to resolve the matter. Although progress has been made on resolution of the mismatches work is not yet fully complete. Work in both Education and Finance will continue in order to ensure the revenue budget monitoring projections of Education can be fully supported.

**2. RECOMMENDATION**

- 2.1 Note the revenue budget monitoring report and variance explanation.

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27 July 2000  
report/1novbwrevenuebudgetmonitoringeduc

## Objective Summary - Education Department



Period: September\_00-01

|  | YEAR TO DATE POSITION  |                        |                          |                 | PROJECTED FINAL OUTTURN       |                               |                                |                  | Previous<br>Outturn<br>£000s | Variance<br>From Prev<br>£000s |
|--|------------------------|------------------------|--------------------------|-----------------|-------------------------------|-------------------------------|--------------------------------|------------------|------------------------------|--------------------------------|
|  | YTD<br>Actual<br>£000s | YTD<br>Budget<br>£000s | YTD<br>Variance<br>£000s | YTD<br>Var<br>% | Projected<br>Outturn<br>£000s | App Annual<br>Budget<br>£000s | Projected<br>Variance<br>£000s | Proj<br>Var<br>% |                              |                                |
| Service Strategy & Regulation              | 387                    | 383                    | (5)                      | -1%             | 445                           | 445                           | 0                              | 0%               | 445                          | 0                              |
| Pre-Primary Education                      | (336)                  | 269                    | 605                      | 225%            | 350                           | 350                           | 0                              | 0%               | 350                          | 0                              |
| Primary Education                          | 10,145                 | 11,201                 | 1,056                    | 9%              | 24,454                        | 24,288                        | (166)                          | -1%              | 24,454                       | 0                              |
| Secondary Education                        | 11,133                 | 12,587                 | 1,453                    | 12%             | 25,953                        | 25,905                        | (48)                           | 0%               | 25,953                       | 0                              |
| Special Education                          | 1,318                  | 1,842                  | 524                      | 28%             | 3,656                         | 3,617                         | (39)                           | -1%              | 3,656                        | 0                              |
| Education Other Than at School             | (5)                    | 42                     | 48                       | 113%            | 85                            | 85                            | 0                              | 0%               | 85                           | 0                              |
| Community Education                        | 707                    | 803                    | (104)                    | -17%            | 1,260                         | 1,260                         | 0                              | 0%               | 1,260                        | 0                              |
| Careers                                    | 17                     | 34                     | 17                       | 50%             | 47                            | 47                            | 0                              | 0%               | 47                           | 0                              |
| Schools                                    | 359                    | 0                      | (359)                    | 0%              | 0                             | 0                             | 0                              | 0%               | 0                            | 0                              |
| Support Services                           | 1,046                  | 911                    | (135)                    | -15%            | 110                           | 0                             | (110)                          | 0%               | 0                            | (110)                          |
| Transport                                  | 1,568                  | 1,385                  | (181)                    | -13%            | 0                             | 0                             | 0                              | -44%             | 0                            | 0                              |
| Utilisation of Education 99-00 Surplus     | 0                      | 0                      | 0                        | 0%              | (110)                         | 0                             | 110                            | 0%               | 0                            | 110                            |
| Unallocated Adjustments                    | 0                      | 0                      | 0                        | 0%              | (253)                         | 0                             | 253                            | 0%               | (170)                        | 83                             |
| <b>Total Net Expenditure for Education</b> | <b>26,338</b>          | <b>29,257</b>          | <b>2,919</b>             | <b>10%</b>      | <b>55,997</b>                 | <b>55,997</b>                 | <b>0</b>                       | <b>0%</b>        | <b>56,080</b>                | <b>83</b>                      |

## Revenue Budget Monitoring

### Variance Explanations

For the Year to Date as at September 2000

EDUCATION Department

|   | YTD<br>Variance<br>£ | Projected<br>Outturn<br>Variance<br>£ | Reasons for Variance   | Action Taken or to be Taken   | Impact of Action | Monetary<br>Effect on Next<br>Years Budget<br>£ |
|---|----------------------|---------------------------------------|--|---|------------------|---|
| 1 | 70,000               | 140,000                               | Teachers Pay Settlement 2.5% actual against 3% factored in budget.   |   |                  | 140,000   |
| 2 | 736,000              | 0                                     | Additional grant - resources for schools. Actual income received but expenditure, yet to be incurred, will be decided by headteachers.   | Budgets (both income and expenditure) required. These will be added and phased. |                  | none  |
| 3 | 96,000               | 0                                     | APT&C salary year to date accrued element due to non settlement of payrise.  |   |                  | none  |
| 4 | 380,000              | 0                                     | Budgets for employee salaries do not take account of trend in payroll skew, whereby period 1 costs are reduced by accrual (£380k) and period 12 costs increased by a similar amount (£380k). | Rephase the budget to reflect period trends.                                    |                  | none  |
| 5 | 396,000              | 0                                     | Non payment of electricity accrual and late billings are distorting year to date actuals. Also budget phasing has to be realigned with consistent trends in actual billing.                  | Adjust phasing of billings in 2001-2002 budget when established.                |                  | none  |
| 6 | 295,000              | 0                                     | Central Repairs & Maintenance not yet recharged  | Adjust phasing of billings in 2001-2002 budget when established.                |                  | none  |



|    |         |           |   |  |  |           |
|----|---------|-----------|---|--|--|-----------|
| 7  | 227,000 | 35,000    | Pre 5 income phasing. Increase of £35k advised in Pre 5 Grant Income  |  |  | 35,000    |
| 8  | 167,000 | 0         | Catering Contract not yet recharged   | Adjust phasing of billings in 2001-2002 budget when established. |  | none      |
| 9  | 61,000  | 0         | Grounds Maintenance not yet recharged   | Adjust phasing of billings in 2001-2002 budget when established. |  | none      |
| 10 | 199,000 | 0         | Equipment Furniture & Materials-phasing of spends in Excellence Fund  |  |  | none      |
| 11 | 281,000 | 0         | Phasing difference in Payments to other Authorities, Bursaries and Clothing Grants -charges not received.   |  |  | none      |
| 12 | 122,000 | 0         | Phasing of charges from SQA - billings not yet received.  |  |  | none      |
| 13 |         | (313,000) | At the time the budget was prepared an element of the Excellence Fund remained undistributed. It was assumed by Education and Finance that a share of this would be distributed to the Council. The Excellence Fund is now fully distributed and the Council's share is lower than assumed at time of budget preparation. |  |  | (313,000) |
| 14 |         | (50,000)  | Increase in Fuel Oil price  |  |  | (50,000)  |
| 15 | 17,000  | 302,000   | Teaching Salaries - Further unexpected drop in pupil numbers. This includes £69,000 previously reported to committee  |  |  | 302,000   |
| 16 |         | 10,000    | Per capita Supplies - related to drop in pupil numbers  |  |  | 10,000    |

|    |           |           |   |   |  |           |
|----|-----------|-----------|---|---|--|-----------|
| 17 |           | 100,000   | Reduction in School Supplies budgets  |   |  | 100,000   |
| 18 |           | 126,000   | Reduction in School Support budgets. These are allocated to cover losses and damage.  |   |  | 126,000   |
| 19 |           | (80,000)  | Additional charge claimed by commercial Services. This was not advised to Education service at time of budget construction. |   |  | (80,000)  |
| 20 |           | 50,000    | Reduction in Teaching staffing provided to schools to overcome essential short term changes in pupil                        |   |  | 50,000    |
| 21 |           | 10,000    | Savings in APT&C salaries due to strike action  |   |  | 10,000    |
| 22 | (77,000)  | (155,000) | Increase in Pupil Transport Contract costs above inflation.   |   |  | (155,000) |
| 23 | -         | (175,000) | Non Closure of Primary Schools  | The education committee decided not to close schools in response to suggestions made by the Parliamentary Committee for Education Culture & Sport. As a result discussions are still underway with the committee in order to implement the offer of support made by them. Nevertheless, the Director of Education has taken precautionary measures to ensure that should further external support be denied, the education service budget for 2000/2001 will be balanced. . |  | (175,000) |
|    | 2,970,000 | 0         |   |   |  | 0         |

**Draft Revenue Budget Monitoring 2000/2001  
Timetable**



|   | <b>Responsibility</b> | <b>June</b> | <b>July</b> | <b>August</b> | <b>September</b> | <b>October</b> | <b>November</b> | <b>December</b> | <b>January</b> | <b>February</b> |
|---|-----------------------|-------------|-------------|---------------|------------------|----------------|-----------------|-----------------|----------------|-----------------|
| Period Closedown  | Murray Macfarlane     | 05-Jul-00   | 03-Aug-00   | 05-Sep-00     | 04-Oct-00        | 03-Nov-00      | 05-Dec-00       | 05-Jan-01       | 05-Feb-01      | 05-Mar-01       |
| Initial Reports Available from Oracle (+ 1 day)                               | All depts             | 06-Jul-00   | 04-Aug-00   | 06-Sep-00     | 05-Oct-00        | 06-Nov-00      | 06-Dec-00       | 08-Jan-01       | 06-Feb-01      | 06-Mar-01       |
| Departments input budget journals and prepare variance explanatory narratives | All depts             |             |             |               |                  |                |                 |                 |                |                 |
| Final date for input of budget journals (+ 17 days)                           | All depts             | 20-Jul-00   | 21-Aug-00   | 21-Sep-00     | 19-Oct-00        | 20-Nov-00      | 22-Dec-00       | 22-Jan-01       | 22-Feb-01      | 22-Mar-01       |
| Final date for posting budget journals (+18 days)                             | Accountants           | 21-Jul-00   | 22-Aug-00   | 26-Sep-00     | 20-Oct-00        | 21-Nov-00      | 27-Dec-00       | 23-Jan-01       | 23-Feb-01      | 23-Mar-01       |
| Final Reports Available From Oracle (+ 19 days)                               | All Depts             | 24-Jul-00   | 23-Aug-00   | 27-Sep-00     | 23-Oct-00        | 22-Nov-00      | 28-Dec-00       | 24-Jan-01       | 24-Feb-01      | 26-Mar-01       |
| Final date for depts to submit variance explanatory narratives (+ 20 days)    | All depts             | 25-Jul-00   | 24-Aug-00   | 28-Sep-00     | 24-Oct-00        | 23-Nov-00      | 29-Dec-00       | 25-Jan-01       | 25-Feb-01      | 27-Mar-01       |
| Draft Papers ready for Committee Briefing Meetings for Service Committees     |                       | 26-Jul-00   |             |               | 25-Oct-00        |                |                 |                 |                |                 |
| Director of Finance Briefing  |                       | 28-Jul-00   | 25-Aug-00   | 29-Sep-00     | 03-Nov-00        | 17-Nov-00      | 05-Jan-01       | 02-Feb-01       | 02-Mar-01      | 30-Mar-01       |
| Management Team Meeting   |                       | 31-Jul-00   | 28-Aug-00   | 02-Oct-00     | 06-Nov-00        | 20-Nov-00      | 08-Jan-01       | 05-Feb-01       | 05-Mar-01      | 02-Apr-01       |
| Council Leader Briefing   |                       |             |             |               |                  |                |                 |                 |                |                 |
| Final Papers for Service Committees   |                       | 07-Aug-00   |             |               |                  |                |                 |                 |                |                 |
| Draft Papers ready for P & R Committee Briefing Meeting                       |                       | 16-Aug-00   |             |               | 15-Nov-00        |                |                 |                 |                |                 |
| Service Committees  |                       | 17-Aug-00   |             |               | 16-Nov-00        |                |                 |                 |                |                 |
| Briefing meeting for Policy & Resources Committee                             |                       | 24-Aug-00   |             |               | 23-Nov-00        |                |                 |                 |                |                 |
| Final papers to Policy and Resources Committee                                |                       | 28-Aug-00   |             |               | 27-Nov-00        |                |                 |                 |                |                 |
| Policy and Resources Committee  |                       | 07-Sep-00   |             |               | 07-Dec-00        |                |                 |                 |                |                 |

Note 1

Note 2

Management Team Meeting on 06/11/00 not yet confirmed. Holiday on 16/10/00 pushes fortnightly meetings out of synch. Available August Dates for Committee Meetings from December 2000 onwards not yet confirmed. Available September

