
ARGYLL AND BUTE COUNCIL

FINANCE

IMPROVING BUDGET MONITORING

6. SUMMARY

The Council will require improvements to its arrangements for budget monitoring following the over expenditure on Education and Transport and Property Services in 2000/2001. Adverse comments by the external auditors is also anticipated. The Council should take action now in order to achieve the improvements in budget monitoring

This report outlines proposals to establish 5 projects to identify and implement improvements in budget monitoring under the direction of a steering group. Additional resources of £43,000 are required.

7. RECOMMENDATIONS

Management Team approve the approach outlined in this report for achieving improvements in budget monitoring.

Management Team approve a virement of budget to this project of £43,000.

Each director commits to ensure that staff within their department co-operate fully with requests from the project teams given the high corporate priority attached to this task.

A steering group comprising the Chief Executive and Director of Finance be established to direct the 5 projects.

3. DETAIL

3.1 Background

During 2000/2001 financial year expenditure on Education and Transportation and Property Service exceeded budget. The extent of the excess was not forecast through budget monitoring. It is anticipated that the Council will be severely criticised by the external auditors given the extent of the over expenditure. The auditors will probably make recommendations on areas that

require improvement. It is also anticipated that Audit Scotland will pursue with the Council the reasons for the over expenditures together with requests for details of why they arose and action taken by the Council.

The external auditors drew attention to a number of issues related to budget monitoring in their final report to members for 1999/2000.

3.2 Proposal

It will be in the Councils best interests if it is seen to take action first in securing improvements in budget monitoring.

The robustness of future budget preparation exercises will be improved if there is accurate budgeting at a cost centre basis. Decisions will be taken based on more reliable information from the bottom up.

Accurate budgeting and effective budget monitoring down to a cost centre level will be a key point under PMP audits.

The overall objectives of this are as follows:

- accurate budgets set at a cost centre level that match actual expenditure incurred,
- a framework of reporting in place that demonstrates from cost centre through to overall council wide summary the variances from budget, why they have arisen, the corrective action to be taken, the impact of this action and the impact on future years,
- budget holders at all levels should be able to demonstrate their accountability for the budgets under their management.

To achieve these objectives requires a number of actions:

- map actual expenditure 2000/2001 and budget for 2001/2002,
- re align budgets for 2001/2002 in line with incidence of actual expenditure 2000/2001,
- review and where necessary adjust phasing of 2001/2002 budgets,
- identify who the budget holders are for each cost centre,
- identify the reporting hierarchy for each department from budget holder to director,
- identify the information/reporting needs for each tier in the reporting structure/hierarchy,
- set up reports to meet reporting/information needs,
- develop a process in each department which ensures budget holders at all levels are provided with a copy of the required reports each month and demonstrates budgets have been reviewed,
- prepare thresholds for each department for budget holders to explain variances,
- develop a process for budget holders being advised of variances that require explanation and reporting back explanations,
- develop a process for budget holders feeding back to centre amendments to budget and forecast,
- develop procedures to ensure changes in costs are forecast into the ledger,
- ascertain extent of use of other information and systems (not the general ledger) during budget monitoring, evaluate this, identify areas for improvement and prepare draft improvement plan,
- assist in implementation of agreed improvement plan for other information and systems,
- consider where models can be developed to aid in forecasting outturn thereby improving projections of full year expenditure and income and prepare proposals,
- develop agreed proposal on forecasting models,
- review use of account codes,

- identify any training requirements with a draft programme to deliver training,

In carrying out the above there will be a requirement to :

- review and improve the arrangement for accounting for additional grant funding especially within Education
- prepare procedures to ensure month end clearance of roads and property recharges,
- review of budget and actual reconciliations in DMR and roads costing systems.

The following recommendations made by the external auditors in their 1999/2000 final report to members will also need to be addressed (to the extent not covered above):

- "management should continue to monitor the Council's achievement of its budgetary targets for the 2000/2001 financial year,
- management should consider improvements to budget phasing for all areas of income and expenditure,
- management should implement budget reporting variance analysis at a service level for cost inputs, members and management should consider requesting a regular monitoring report from each of the service departments reporting their progress in implementing savings targets."

Services will require to restate their budgets as part of this exercise. To fully achieve the objectives set out services should be allowed freedom to move budget between services in a department and between account codes and increase income and expenditure providing there is no change to the overall departmental net expenditure.

3.3 Project Management

It is proposed to achieve the required actions by setting up 5 separate projects. One project each for Education, Transport and Property, Development and Environment and Housing and Social Work with a further project for Central Support Services. A small project team would be allocated to each project with a project leader nominated.

The undernoted allocation of projects and staff is proposed:

Department	Project Leader	Project Staff
Education		R McMillan, Finance J Denny, Education, R Turner, Education, S McLindon, Education
Transport & Property	A Goard, Finance	D Sullivan, Finance E McNair, Finance A Brough, TPS N Ross, TPS
Development & Environment	P Cupples, Finance	B Sidaway, Finance F Walker, Finance I McDonald, DES
Housing & Social Work	M Cupples/M Moncur, HSW	A Bolwell, Finance
Central Support Services		A Brown, Finance Staff in central depts

Project leaders have still to be identified for Education and Central Support Services.

An overall responsibility for all 5 projects would rest with Bruce West, Head of Accounting.

Given the high profile attracted by the 2000/2001 outturn and the likely further interest of external auditors and Audit Scotland a steering group should be set up to monitor overall progress on the 5 projects. It is recommended that membership of this group comprise the Chief Executive and Director of Finance. Progress reports would be made to the group based on milestones per the agreed action plan for each project. Reports would also be submitted to the steering group summarising the impact of progress on the general ledger eg cost centres with actual but no budget, variances greater than say £25,000, year to date variances not reflected in forecast etc. The first task for each project would be to scope the overall requirements and prepare an action plan for approval by the steering group.

To introduce an element of quality control it is proposed to engage a firm of accountants to review the overall methodology and approach, project action plans, some progress reports and final outcomes. The purpose of this review would be to obtain a form of independent accreditation for the improvements.

Completing this review and improving budget monitoring will be a high corporate priority for the Council. The involvement of the Head of Accounting in this exercise will have consequences upon the timescale for completing the outposting of accounting staff.

3.4 Timescale

It is not possible to give a timescale now for this exercise. Each department is at a different stage. As a general comment Housing and Social Work probably require least input to achieve the necessary improvement and Central Support Services being smaller departments are also probably closer to the finishing line. Significant input is required in the other departments. Whilst improvements will certainly be in place by September it is not clear how far to completion the overall exercise will be at that time. A better indication of this will be available once action plans have been prepared.

3.5 Resources

This exercise cannot be completed within existing resources. It will require the extension of contracts for 2 temporary accountants initially to 30 September. A project leader for Education is also required to 30 September. The additional cost of temporary accountants to 30 September is £26,000 The cost of a project leader for Education is estimated at £12,000.

An allowance of £5,000 should be allowed for the quality control review.

Bruce West
Head Of Accounting
26 June 2001