

ITEM 9

AUDIT COMMITTEE

2 SEPTEMBER 2009

Key Decision	No
Listed on Forward Plan	No
Within Policy	Yes/No
Policy Document	

ANALYSIS OF REVENUE BUDGET MONITORING 2008/09

Contact Officer: Tim Hannam Corporate Director Finance and Risk Management
Nick Stringfellow Interim Deputy Director of Finance

1 Purpose

- 1.1 To review and analyse the 2008/09 Revenue Budget Monitoring reports provided during the year and the post year end outturn report. The report also addresses the outstanding action form Audit Committee on 8th April regarding savings, efficiencies and forecast/outturn variances.

2 Recommendations

- 2.1 That the Audit Committee considers the 2008/09 Monitoring reports provided throughout the year and indicates whether there are any concerns arising that need to be brought to the attention of the Cabinet/Council.
- 2.2 That the Audit Committee note the reported actions detailed to Cabinet on 21st July 2009 in respect of monitoring and outturn 2008-09 which are for the Director of Finance and Risk to report by the end of September on the following;
- an analysis of the outturn 2008/09 to ensure confidence in the 2009-10 budget
 - an assessment of the integrity of the 2009/10 forecast to ensure projections are as accurate as possible

3 Issues

- 3.1 The Audit Commission as part of the Comprehensive Area Assessment (CAA) is required to assess the Use of Resources for the Council and the assessment comprises three themes one of which focuses on 'sound and strategic financial management'.
- 3.2 The themes and Key Lines Of Enquiry (KLOEs) explored by the Audit Commission in their assessment include determining whether an organisation's

financial reporting is timely ,reliable and meets the needs of internal user's, stakeholders and local people.

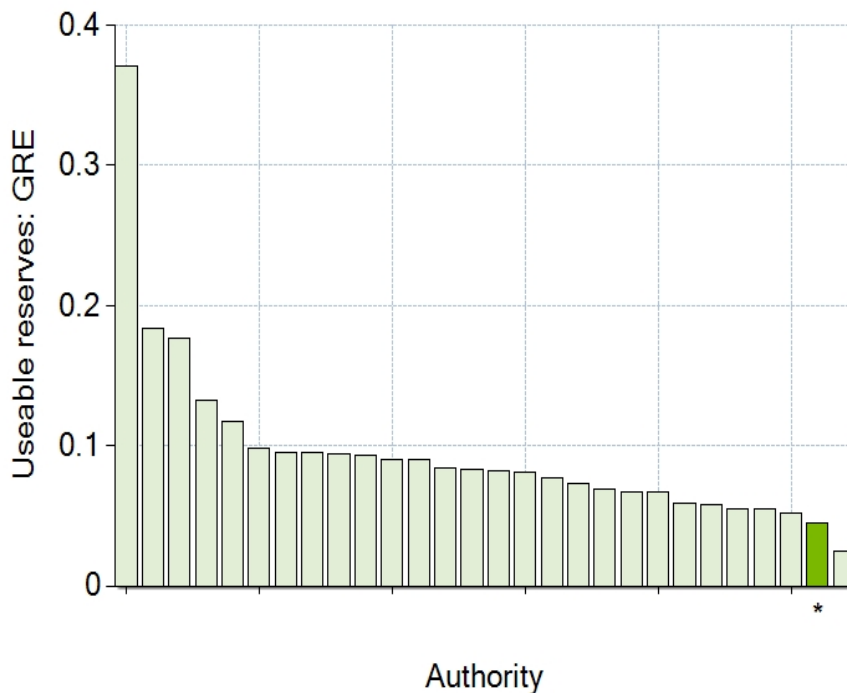
3.3 It will assess whether the organisation in particular, in relation to monitoring of financial matters ;

- produces relevant timely and reliable monitoring and forecasting information
- uses financial and related performance information during the year to monitor performance
- produces clear and concise reports to inform strategic decision making

The External Audit assessment of financial reporting and forecasting is likely to refer to the lack of reliability of forecasting information and also the significant changes from Period 11 to Outturn position. The fact that the Council's useable reserves as a percentage of expenditure are also low compared to other similar Councils indicates that accurate forecasting is required.

The graph below was produced by the Audit Commission as part a review of financial management in Local Authorities 2005-2008 publication. In this case the Council's useable capital and revenue reserves as a percentage of general revenue expenditure was compared for unitary Councils with a Housing Revenue Account. Milton Keynes is highlighted and has the second lowest percentage as at 31st March 2008. This was before the use of some £11 million of balances in 2008/9. Whilst accepting the limits of such comparisons the Audit Commission indicates a low or high ratio may be cause for Council's to examine their reserves and if they are adequate for their purposes in the future.

Useable reserves: GRE



3.4 After receiving the 2008/09 outturn report the Audit Committee has asked for an analysis of budget monitoring forecasts on a month by month basis for 2008/09 together with an analysis and commentary on any trends identified. The analysis of budget movements forecast movements and anticipated effect on General Fund balances is detailed in table 1 below ;

TABLE 1 **REVENUE BUDGET MONITORING 2008/09**
ANALYSIS OF MONTHLY MONITORING REPORTS

REPORT PERIOD	BUDGET £ 000	FORECAST £ 000	VARIANCE £ 000	CHANGE IN FORECAST £ 000	GEN FUND YR END BALANCE £ 000
2	200,186	201,344	1,158	0	11,253
3 *					11,253
4	201,620	204,937	3,317	61	11,253
5	204,596	205,967	1,371	-1,946	10,148
6	204,306	204,882	576	-795	10,154
7	204,344	203,398	-946	-1,522	10,265
8 *					10,265
9	203,403	202,084	-1,319	-1,460	11,563
10	203,622	201,773	-1,849	-530	11,543
11	203,590	202,196	-1,394	455	10,720
OUTTURN #	205,869	208,062	2,193	3,587	7,544

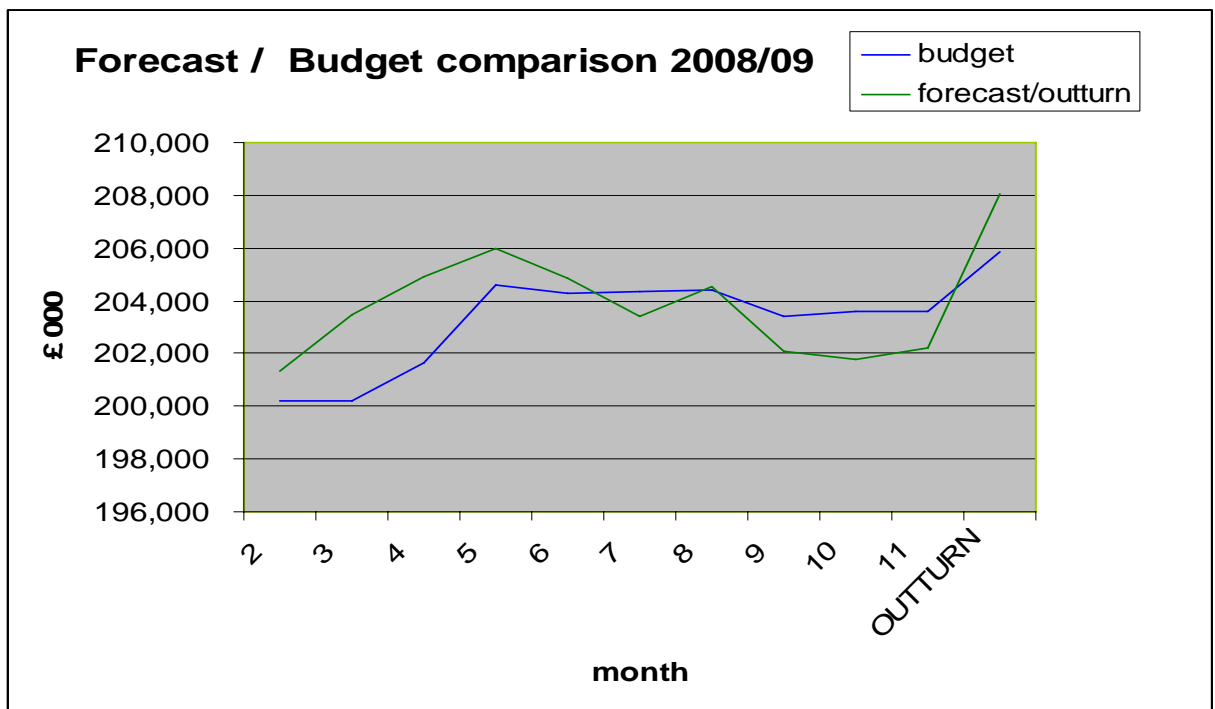
* at Periods 3 and 8 analysis of the major risk areas was reported to Cabinet rather than forecast figures for the year.

note a late change to the final accounts from the outturn report reduced outturn by £134 k and increased General Fund balances to £7,678k.

note Architects MK was included at this final outturn stage but excluded from periods 9,10,11 above as expenditure was reported as a separate item to be financed from General Fund Balances.

It is clear from the data in Table 1 above and the graph below that the forecast position of the Council went from one of showing a significant overspend position, to one of an underspending position, and finally to a significant overspend at outturn during the course of the year. It was detailed in reports in Periods 2 to 6 that the forecast position was considered of limited usefulness at what was described as 'early stages' in the year for any 'strategic decision making'.

Significant swings in the forecasts can be observed during the year the largest of which (£3.6m) took place at the outturn report stage it did however still represent under 2% of the overall budget.



Previous years forecast experience, (which was detailed in early 2008/09 Period reports), was that forecast expenditure was consistently overestimated and that actual outturn figures were lower than early period forecasts and significantly under budget for the three years prior to 2008/09.

- 3.5 The variation in General Fund balance as shown in the end column of table 1 above indicates the extent to which the forecast over/underspends were incorporated into the General Fund balances position. It was acknowledged that Strategic and Directorate action plans and budget challenge was required to determine the accuracy and provenance of the forecast position and this was carried out at Period 7.
- 3.6 The variances in forecast to budget are shown below in table 2 and a short narrative explanation given for each;

Table 2

REPORT PERIOD	BUDGET VARIANCE	
	£ 000	Para Below
2	1,158	3.7
3		3.8
4	3,317	3.9
5	1,371	3.10
6	576	3.11
7	-946	3.12
8		3.13
9	-1,319	3.14
10	-1,849	3.15
11	-1,394	3.16
OUTTURN	2,193	3.17

- 3.7 **Period 2** – this was the first forecast for 2008/09 and showed an overspend of £1.1 million but it was noted in the report this was mitigated by income of £450 k from Environment Directorate for adoption income. It was noted land charges income was forecast at £250,000 reduction and Older People budgets forecast an overspend of £650k.
- 3.8 **Period 3** – the second forecast of the year did not report specifically the overspend forecast but detailed the significant risks in each Directorate in the form of a budget risk register.
- 3.9 **Period 4** – this forecast was broadly in line with period 3 overspend forecast of £3 m, however the report indicated a potential unbudgeted cost of over £1 m for Architects MK.
- 3.10 **Period 5** – saw a reduction in forecast overspend but this excluded Architects MK since a previous decision authorised the use of General Fund reserves to finance this (£1 m) and hence this was reflected in the General Fund reserves reported at this stage. Failure to achieve efficiency targets was for the first time highlighted as a high risk with high impact and CYPS restructuring costs reported as a medium risk with medium impact.
- 3.11 **Period 6** – again reduced the forecast overspend though still predicted overspends against budgets in three Directorates totalling £1.6 m (excluding Architects MK). It was reported that a revised base position was being calculated based on period 6 figures and a major challenge process.
- 3.12 **In a change to past practice the Period 7 position was presented as a Revised Budget position following the major challenge process to take account of the economic climate and virements to budgets to reflect re-allocations within Directorates.**
- It was again noted at this stage that the forecast figures were in line with past trends of moving from an early high expenditure forecast to lower expenditure position as the financial year progresses.**
- At this point reliance was placed on the underspend forecast of £946k with most of this (£800k) being earmarked to fund Council priorities in the following year if in fact the outturn at year end was below budget and therefore these funds were available.**
- 3.13 **Period 8** – this was reported as a light touch monitoring when once more the significant risks were reported and detailed the risk regarding failure to achieve efficiency savings as a medium impact and medium likelihood.
- 3.14 **Period 9** – this forecast indicated a further underspend of £1.3m and increased estimated General Fund year end balances accordingly. It was agreed by Cabinet that £1.35 of the revised underspend forecast would be earmarked for investment in Council priorities if available following the determination of the outturn position for 2008/09.
- 3.15 **Period 10** – increased the forecast underspend to £1.8m and actioned the decision of Cabinet regarding priorities indicated above.

- 3.16 **Period 11** – indicated an underspend at a reduced level of £1.4m, and the position regarding Architects MK was reported as worsening by a further £400 k overspend to a total of £1.34 million and these items were reflected in General Fund balances reduction.
- 3.17 **Outturn 2008/09** – reported an overspend of £2m (a change from period 11 forecast of £3.5m) resulting from the charging of £3.6 m in respect of the Radcliffe School to revenue, and a further overspend in respect of Architects MK (£470k) as the full close down costs of this trading organisation were finalised. The failure to achieve efficiency savings targets for procurement and workforce savings also impacted on the outturn position reducing General Fund actual balances at the year end to £7.7million.
- 3.18 It should be noted that the effect of the downturn in the economy during the 2008/09 financial year was reflected in Directorate income forecasts during the course of the year for such items as Land Charges, Car Parking and Building and Development control. Actions were taken by Directorates to reduce costs in order to mitigate this loss of income during the year.
- 3.19 **Directorate positions-** The individual Directorate forecasts from Period 6 are shown below in table 3. The principal reason the Council was able to report savings at Period 7 was the recalculation of the required Minimum Revenue Provision (MRP) which must be set aside to repay debt. This was due to lower Capital Programme spend for 2007/08 due to slippage.
- 3.20 The considerable changes from Period 11 forecast to the outturn were caused by the impact of the Radcliffe Initiative on CYPS (£2.8 million) and LLC (£700 k) Directorates and the increasing costs of Architects MK closure (£1.8 million) . These costs were partially offset by underspends in other Directorates which had been largely forecast, for example in Neighbourhood and Debt Financing. SGP and Housing Benefits were also able to report greater income at outturn compared to Period 11 forecast to provide underspends in these Directorates also.

Table 3

REPORT PERIOD	<u>Directorate Forecast VARIANCE</u>								
			ARCH				HSG BEN	DEBT FIN	TOTAL VARIANCE
	CYPS	LLC	MK	ENV	NEIGH	SGP			
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
6	447	30	919	417	716	-160	-574	-300	1495
7	335	-6	954	526	-355	191	-425	-1212	8
8	380	23	944	636	-45	192	-399	-1212	519
9	500	18	975	620	-1265	-99	-383	-1656	-1290
10	372	-77	975	271	-1194	-18	-383	-1766	-1820
11	792	14	1343	273	-1187	-127	-339	-1766	-997
OUTTURN	3887	1089	1812	21	-986	-586	-999	-2045	2193

Note- Architects MK are included in the above figures in all cases whereas in the monitoring reports considered per Table 1 this was excluded as a separate item to be financed from General Fund balances.

- 3.21 Workforce savings of £1.3 m were achieved in the year but this was short of the £2.2m target set. Procurement target savings of £1.2m were not achieved. It was also the case that restructuring costs of £1.507 m were incurred as approved to be funded by General Fund reserves. The Council had budgeted to use over £7.7 million from balances during 2008/09 and at outturn was required to use £11.1 million and to defer its plans to allocate almost £3 million to Council priorities (£1.35m) and a Value for Money fund (£1.56m) in order to preserve future General Fund balances.
- 3.22 The various planned and unplanned movements and their effect on General Fund balances as at 31st March 2009 is summarised in the table 4 below;

Table 4

Category	GENERAL FUND MOVEMENT 2008/09			Commentary	
	Original Budget and planned changes		Unplanned		Total movement
	£'000		£'000	£'000	
Directorate variance			(2,193)	(2,193)	Largely resulting from Architecture MK closedown costs [£1.8m] and the crystallisation of revenue costs in respect of Radcliffe School [£3.5m].
Post outturn report adjustment			134	134	
			0	0	
Directorates subtotal	0		(2,059)	(2,059)	
Earmarked reserves into General Fund	1,000		(850)	150	Only £150k appropriated. Review of earmarked reserves, in order to release no-longer-required amounts back to the General Fund, was not complete at year-end.
Budgeted use of earmarked reserves	(1,000)			(1,000)	As expected
Budgeted use of unearmarked reserves	(1,650)			(1,650)	As expected
Efficiencies variance			(2,076)	(2,076)	Efficiencies not achieved
Subtotal of headings in original budget	(1,650)		(4,985)	(6,635)	
VFM earmarking	(1,560)		1,560	0	Brought back into GF with a view to returning to VFM Fund if the level of general reserves were sufficient. The adverse outturns in respect of AMK, Radcliffe and Efficiencies meant that this was not possible in 0809.

Project carryforwards from 0708 (agreed by Members 24Jun08)	(2,937)			(2,937)	Cabinet 24Jun08, minuted item C31, section 3, on page 10.
Restructuring arising from school build issues (agreed by Members 0708)	(1,000)			(1,000)	Council 27Feb07, minuted item CL128, section 2, on page 12.
Restructuring arising from school build issues (agreed by Members 26Feb08)	(500)		(7)	(507)	Council 26Feb08, minuted item CL121, section 4, on page 5.
General Fund movement	(7,647)		(3,432)	(11,079)	
General Fund Balance 1st April 2008				18,757	
General Fund balance at 31st March 2009			(3,432)	7,678	

4 Conclusions

4.1 The lack of accurate financial forecasting during the year was greatly exacerbated by the financial consequences of Architects MK and the Radcliffe Initiative and the inability to make efficiency savings during the year. The lack of high level reporting and visibility of these issues and the impact on the General Fund balances and effect on previously earmarked use of balances is very significant and was not reported until the outturn stage. The lack of reporting of failure to achieve efficiency targets set was also a significant issue.

The Corporate Director of Finance and Risk Management has undertaken to complete an assessment of the integrity of the current year's forecast (2009/10) to ensure projections are as accurate as possible.

There is also an Internal Audit review of budget monitoring being undertaken at present, with the results of this review anticipated to be brought before this Committee in December.

4.2 Resources and Risk

The year-end General Fund balance as at 31/3/09 was £7,678k, and without further action by the Council this will reduce to £1,927 by the end of 2011/12 on the basis of funding decisions made to date. Council has previously approved a minimum level of General Fund reserves of £8 million. There remain a number of risk factors which may have an impact on subsequent years and these were reported to Audit Committee at outturn and remain risks in the 2009/10 new financial year, these are as follows:

Risk	Impact	Likelihood
Deficit at Sir Frank Markham School resulting in impact on General Fund	High	Low
DSG position making it impossible for the deficit to be recovered	Medium	Low
Failure to achieve efficiency targets for 2009/10 and future years	Medium	Medium
Economic downturn having an adverse effect on Environment income streams	High	High

The categorisation shown for each risk identifies the perceived impact and the likelihood of the risk actually having an impact on the revenue budget. These risks will be monitored closely.

4.4 Other Implications

The Comprehensive Area Assessment indicates that the Use of Resources is a crucial element in the new inspection regime and therefore will impact on the rating of the Council by the Audit Commission inspectors.