

Financial Budgeting and Monitoring

Report by Director of Change Management and Resources and Head of Finance

Summary: This report provides a brief summary of recent developments which have impacted on the Authority's financial budgeting and monitoring arrangements and an overview of the current budgeting and monitoring procedures in place within the Authority.

Recommendation: That the report be noted, and that members' views are sought on the budget monitoring process as set out in this report.

1 Introduction

- 1.1 Financial budgeting and monitoring arrangements were revised and updated in July 2012 in order to promote greater understanding and support the engagement of budget managers in the budget monitoring process. This exercise was undertaken in response to changes to the organisational structure and management responsibilities and to introduce a focus on the forecasting of outturn positions to facilitate improved reporting to members. A programme of budget manager training has also been undertaken to support these developments. Details of these changes are set out in this report.

2 Background

- 2.1 The restructure of the Authority undertaken in May 2011 was accompanied by a complete restructuring of budgets to reflect the revised organisational structure. This coincided with the implementation of a revised coding structure within the Authority's accounts software, which also incorporated these changes.
- 2.2 As a result of these developments, a large number of new budgets and budget managers were created in 2011/12. The budgets for the 2011/12 and 2012/13 financial years were developed and set via a largely top-down process which was led by the Management Team. The rationale for this centralised budget-setting was threefold:
- there was a lack of historical information for some budgets, meaning the traditional incremental budgeting approach could not be applied;
 - newly appointed budget managers were unfamiliar with their budgets and with budget setting and management processes; and

- there were severe time pressures and resource constraints due to managerial capacity being diverted to focus on the organisational restructure.
- 2.3 There is recognition that this method of budget-setting resulted in reduced involvement for budget managers and had implications for the scrutiny of the original budgets. This was particularly highlighted in the Management Statements for 2011/12 in that budgets and budget profiles for the year were not as robust as would normally be anticipated as a result of a combination of the above factors.

3 Current Developments

- 3.1 In response to these issues, new procedures and training have been implemented during 2012/13 to improve the robustness of budget-setting and in particular the budget monitoring process. This has included:
- training for all budget managers delivered by the Finance Team to increase the level of financial knowledge and capability across the organisation. This has focussed on the budget monitoring process, the financial accounting system (to which all budget managers have access) and suggested approaches to profiling budgets and predicting forecast outturns;
 - training for other members of staff on request to raise awareness of wider financial management issues;
 - development of new Budget Management Procedures circulated to all budget managers and placed on the Intranet to provide detailed guidance to budget managers on the practicalities of how to manage their budget(s);
 - increased intervention by the Finance Team to support budget managers in their role;
 - monthly meetings between Directors and the Head of Finance to discuss budget managers' feedback on their budgets and to review key variances and the overall departmental position; and
 - a monthly review of the overall financial position by the Management Team.
- 3.2 In practice therefore the Finance Team prepares and circulates the monthly management statements on the third Friday of each month, allowing budget holders one week to review the figures and feed back any comments. These are then discussed by the Head of Finance individually with Directors, and considered by the Management Team, before the figures are placed on the Intranet, incorporating any changes to the forecast outturn figures.
- 3.3 The Budget Management Procedures issued to budget managers in July 2012 are set out in Appendix 1 to this report.
- 3.4 A budget setting timetable has been developed for 2013/14 and the draft budget for the year circulated to managers to consider prior to presentation to members in December and January. The 2013/14 budget has been developed with reference to the Authority's financial strategy up to 2015/16

and has also been informed by the actual 2011/12 and 2012/13 levels of income and expenditure, which is expected to deliver a more robust and accurate picture for budget planning and profiling activity. The indicative high-level timetable for preparation of the 2013/14 budget is as follows:

Date (2012/13)	Activity
7 November	Draft budget circulated to Management Forum for review
12 November	Preliminary review by Management Team
15 November	Management Forum provides comments to Director of Change Management and Resources
19 November	Updated budget considered by Management Team
23 November	Broads Authority to determine 2013/14 toll increase
13 December	Navigation Committee consulted on navigation budget
7 January	Final draft of consolidated budget considered by Management Team
18 January	Broads Authority to adopt consolidated budget

- 3.5 Alongside the changes set out above, reporting to members has also been revised to present more summarised information with greater clarity about departmental income and expenditure and the use of reserves. In addition, reporting through the year will refer to the original budget as agreed in January so that members have a consistent reference point when considering actual income and expenditure figures.

4 Conclusion

- 4.1 The changes outlined in this report are intended to ensure that budget managers are more engaged in the end-to-end process of budget management and have the necessary support to develop accurate budget profiles and outturn forecasts. This is intended to aid in the delivery of more useful monitoring information to members, including the focus on forecast outturn figures which are expected to provide an earlier indication of predicted year-end positions.
- 4.2 Members' comments are sought on the budget monitoring process as set out in this report.

Background Papers: Nil

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Broads Plan Objectives: None

Appendices: APPENDIX 1 – Budget Management Procedures

Broads Authority

Budget Management Procedures

1. Purpose

The purpose of this Policy is:

- to explain what budgets are, how they are built up and why they are important;
- to provide guidance and assistance to budget holders in managing their budgets;
- to clarify the roles and responsibilities of managers and budget holders; and
- to assist budget holders in forecasting the year end (outturn) income and expenditure figures.

2. What is a Budget?

A budget is an estimate, usually itemised and broken down into a series of detailed headings, of expected income and expenditure over a set period of time. For the Broads Authority the budget covers the period from 1 April to 31 March, which is the Authority's 'financial year'.

The budget for each financial year is drawn up during the previous Autumn, and is usually agreed by the Broads Authority in January. The budget reflects the strategic priorities and objectives which the Authority wants to achieve – as set out in the Broads Plan and other documents – and details the resources needed to achieve these.

3. The Coding Structure and Coding of Income and Expenditure

The Authority's budget is broken down within the financial system into a series of individual areas of work, called cost centres. Each of these has a nominated 'budget holder' who is responsible for managing the budget throughout the year. The responsibilities of budget holders are set out in Section 5 below.

Expenditure is also broken down into location/asset codes and subjective codes, which allow a detailed analysis to be made of the total amount spent at a particular site or on a range of different activities (e.g. salaries, vehicle costs, postages), irrespective of the cost centre.

Details of the various codes are set out in Access Dimensions - the Authority's financial management system - and also in the Budget Book. The way the code is constructed provides information on the transaction which has taken place, for example:

- RAN is the cost centre code and relates to Rangers.
- 005 is the location/asset code and relates to Whitlingham Country Park.
- 437 is the subjective code and relates to Other Repairs/Maintenance.

So RAN005437 is the code for Ranger repairs and maintenance at Whitlingham.

It is vital that income and expenditure is coded correctly, for the following reasons:

- It is important that the Authority knows what has been spent in each area so that management and members can make decisions based on accurate information.
- The Authority is funded by tax payers and toll payers, and has to report on how it has used their money effectively and efficiently.
- Coding helps budget holders in monitoring their budgets effectively throughout the year.

4. Budgetary Control

Budget holders are responsible for monitoring the income and expenditure relating to designated areas of activity.

Profiling

In order to do this effectively the first requirement is to understand the budget and how it is constructed. For example:

- How much income will the Authority receive, from who, when and for what purpose?
- How much will be spent, on what and when. (For larger budgets it is helpful if they can be broken down into 'manageable chunks')?

Knowing when income will be received or expenditure incurred is important in helping budget holders to profile their budgets. Profiling is predicting how the money will be spent – or income received – on a month by month basis throughout the year. For example:

- Expenditure on Stationery and Postages is £18,000 and is spread approximately evenly across the year – so it is profiled at £1,500 per month from Month 1 (April) to Month 12 (March) inclusive.
- Expenditure on Legal Services is £100,000. Invoices are received from the legal services provider after the end of each quarter so it is profiled £25,000 in Month 4 (July), Month 7 (October), Month 10 (January) and Month 12 (March). (Note that even though the invoice will not be received until the April following the end of the financial year, provision must still be included in March as the expenditure will be charged to that financial year).
- Expenditure relating to Norwich Yacht Station is £35,000 and it is spread approximately evenly throughout the summer season – so it is profiled £5,000

per month from Month 1 (April) to Month 7 (October) inclusive with no expenditure during Months 8 to 12.

The profiling of budgets takes place before the commencement of each financial year. If budget holders are uncertain about how their budgets should be profiled, or require any guidance or assistance in undertaking the task, they should contact the Head of Finance or Senior Finance Assistant, who will be able to provide support.

Monitoring

Once budget holders know how their budgets are profiled, they are in a position to be able to monitor income and expenditure effectively. This is done by comparing what was expected to be spent or received each month (the profiled budget) against what was actually spent or received. In order to assist with this the Finance Team will prepare and circulate to all budget holders, each month from the end on Month 3 (June) onwards, a management statement setting out total income received and expenditure incurred.

The management statements are constructed using the Authority's coding structure, and include a 'tab' for each cost centre which details:

- the annual budget;
- the profiled budget;
- the actual spend to date; and
- the difference between the profiled budget and the actual spend to date.

Variance Reporting

This difference is known as a variance. This can be an under spend or an over spend. For example:

- Stationery and Postages expenditure for Month 6 is £11,350.
The profiled budget for Month 6 is £9,000 (£1,500 x 6).
The variance therefore shows an over spend of £2,350.

Where the variance is greater than £10,000 (or 10%), budget holders will be asked by Finance to provide details of the reason for the variance. This exercise is designed to identify those cases where there is likely to be a significant over or under spend at the end of the financial year, so that corrective action can be taken at an early stage.

The Management Team will also review the monthly management statements, and Directors will provide a recommendation to the Management Team where it is felt that specific action is required.

Budgets may be over spent because invoices have been miscoded. It is important that this is identified at an early stage because this will affect more than one budget, and has the potential to distort the Authority's end of year reporting figures.

Access Dimensions

Detailed information about budgets and expenditure is available on Access Dimensions. A user guide can be found on the Intranet which demonstrates how to:

- Log on to and navigate around Dimensions.
- View budgets and expenditure by nominal code.
- View individual transactions on screen.
- Print or download transaction details.

5. Responsibilities of Budget Holders

The responsibilities of budget holders are as follows:

- To participate in the budget setting process.
- To profile their budget(s).
- To monitor budgets on a monthly basis, on receipt of the management statement.
- To investigate any significant variances, or other income and expenditure figures which look to be incorrect.
- To report the reasons for any variances larger than £10,000 or 10% of the budget total, whichever is the less, to Finance (and their line manager/Director).
- To discuss with their line manager/Director whether any corrective action is necessary to address any budgetary issues (if necessary seek guidance from Finance).
- To report any changes to the forecast outturn figures (income or expenditure).

6. Reporting the Forecast Outturn figures

From 2012/13, the presentation of the Authority's monthly management statements will be amended to meet members' requirement to receive a monthly forecast outturn figure. An example of the new management statements is shown at Figure 1 below. The forecast outturn is the budget holder's estimate of the actual spend at the end of the financial year and may be different from the budget. The forecast outturn may differ from the budget for a number of reasons, including if:

- it is apparent that income will be greater or less than originally expected;
- costs have increased, or been underestimated;
- project work is delayed, due to weather conditions, delays in obtaining consents or some other factor; and
- contract figures are higher than was originally estimated.

Please note that the above list provides examples only; it is not intended to be a comprehensive list.

Figure 1 – Example of new management statement format

Code	Profiled Budget	Actual Expenditure to Date	Actual Variance (Under)/Over spend	Full Year Budget	Forecast Outturn	Projected Outturn Variance (Under)/Over spend
Budget 1	1,000,000	1,000,000	0	3,200,000	3,200,000	0
Budget 2	50,000	65,000	15,000	200,000	240,000	40,000
Budget 3	15,000	14,500	(500)	45,000	35,000	(10,000)
Budget 4	80,000	50,000	(30,000)	120,000	120,000	0

The Profiled Budget shows the budget up to the end of the previous month, as agreed with the Budget Holder at the start of the financial year.

The Actual Variance gives an indication of the current performance against budget with significant under or overspend highlighted. (Underspends highlighted orange, overspends highlighted red).

The Forecast Outturn is based on the estimate supplied by the Budget Holder.

In general, changes to the forecast outturn should only be made where:

- there is reasonable certainty that the original budget figure is no longer appropriate; and
- the change is relatively significant (an impact of +/- £10,000 or +/-10% on an individual cost centre).

Budget holders will receive a pro forma (see Figure 2) to report forecast outturn figures at cost centre level with the monthly management statements. These will be populated with the previous month's forecasts. Budget holders will be asked to return these to Finance within ten working days of the issue of the management statements to confirm:

- a change to the forecast outturn (with narrative to provide an explanation of any change of +/- £10,000 or +/-10%); or
- that they are satisfied with the current forecast.

Figure 2 – Example Budget Holder Pro forma

Code	Full Year Budget	Forecast Outturn	Comment
Example 1	250,000		

The budget figures will be pre-populated, along with any previous forecast available.

The budget holder will be asked to provide a forecast for the year.

A comment will only be requested where the variance is significant.

The variances between budget and forecast outturn will be reported to Management Team on a monthly basis.

7. Virements

A virement is a movement from one budget heading to another. Guidance on approval limits for virements is set out within the Authority's Financial Regulations (extract below).

17 Virements

- 17.1 A virement is a transfer of budget from one budget heading to another within a financial year.
- 17.2 Virements of up to £20,000 within any financial year may be approved by Directors between main budget heads under their responsibility. All such virement requests must be made on a virement approval form, duly signed by the appropriate Director and countersigned by the Chief Executive, and be forwarded to the Head of Finance for the budget to be updated.

Broads Authority Financial Regulations February 2011

July 2012