
Meeting: Customer and Central Services Overview & Scrutiny Committee

Date: 17 May 2010

Subject: Budget Task Force Findings & Recommendations.

Report of: Cllr James Jamieson, Chairman of the Corporate Resources Overview & Scrutiny Committee

Summary: In February 2010, the Corporate Resources Overview and Scrutiny Committee convened a Member Led Task Force to review the Council's Budget Setting Process. The Task Force has since considered a variety of best practice in the setting of a council budget and made a number of recommendations to the Council's Executive in this regard.

Public/Exempt: Public

Wards Affected: All

Function of: Council

CORPORATE IMPLICATIONS

Council Priorities:

The Budget Setting Process will contribute directly to all 5 Council priorities.

Financial:

The Financial implications are set out in the report.

Legal:

None.

Risk Management:

Areas of ongoing underperformance are a risk to both service delivery and the reputation of the Council.

Staffing (including Trades Unions):

None.

Equalities/Human Rights:

A longer-term approach to the scrutiny of the budget will mean that all of the implications of change, and their potential adverse impact on specific communities within the region can be identified and addressed as appropriate.

Community Safety:

None.

Sustainability:

None.

RECOMMENDATION:

1. **That the Committee considers and approves this report and accompanying recommendations for submission to Executive.**

Introduction

1. Central Bedfordshire Council is a new Unitary Authority, formed April 1st 2009 of the former Bedford County Council, Mid Bedfordshire District Council and South Bedfordshire District Councils. The Task Force has used this review as an opportunity to assess the budget setting process with a view to suggesting a number of recommendations in the areas of budget holder responsibility, budget challenge, financial robustness, timing and the presentation of financial management information as well as the longer term planning of the budget process to seek an optimum method for Central Bedfordshire.
2. In order to investigate these issues, the Task Force has received presentations from a number of different officers from within the Council, it has undertaken a number of best practice site visits to public and private organisations and it has considered best practice in this field from the Chartered Institute of Public Finance and Accountancy (CIPFA) as well as the Centre for Public Scrutiny (CfPS).

Appendices:

Appendix A – Report of the Task Force Chairman: Budget Task Force Findings & Recommendations.

Background Papers: (open to public inspection)

On the money: the scrutiny of local government finance, CIPFA, CfPS and LGIU. 2007
Councillors' Guide to Local Government Finance. CIPFA 2008 fully revised edition
City of Westminster Cabinet report, 9th June 2008

Location of papers: Priory House, Chicksands

Budget Task Force Findings and Recommendations

Summary

The task force has undertaken a Budget Process review including meeting several outside organisations, internal meetings with Finance, Directorates and Portfolio Holders as well as drawing on members own extensive experience and CIPFA best practice. The 2010/11 budget process was unsatisfactory, while in part this was due to Central Bedfordshire being a new council; there is considerable scope for improvement. A number of recommendations have been made in the areas of budget holder responsibility, budget challenge, financial robustness, finance, timing and longer term planning.

Recommendations

- i. The council should set clear objectives on both a short and medium term basis, These need to be clear in both financial and service terms and be the basis upon which priorities are made.
- ii. The timetable for the budget needs to start earlier and be more robust:
 - Budget Pack (Objectives and Guidelines) – end May
 - Departmental response mid July followed by management and PFH challenge
 - Draft Budget to Leadership team in September, followed by challenge/review
 - Draft Budget to Scrutiny Task Force in October
 - Draft Budget to Exec and Scrutiny in December
- iii. Budget challenge process needs to be clearer and more robust. This should initially focus on robustness of numbers and value for money and thereafter choice:
 - Officer challenge needs to be on a top down basis and at a higher level
 - o Internal directorate challenge pre directorate submission
 - o Portfolio Holders need early involvement and to challenge their budget
 - o Challenge process of Directorate Budget led by Chief Executive
 - o CMT process to look at overall picture, cross cutting issues and also benchmarking eg overlaps. This should also involve Executive
 - That CBC should have a joint OSC Task Force to scrutinise budget for “robustness of numbers” earlier eg October prior to individual OSC scrutiny which should focus on “choice” challenge
 - Greater level of detail to be provided to members such that they can see what money is being spent on
- iv. The council should have a longer term Corporate Plan to drive the priorities and service improvements of the council forward. At present there is a Medium Term Financial Plan (MTFP) which could be developed to achieve this:
 - A top down plan, but of sufficient detail that covers departments performance and is bought into by both Exec and CMT
 - o Needs to incorporate anticipated major budget pressures, investment strategies, efficiency savings, business improvement/transformation, service reviews and anticipated grant income changes
 - o Avoid excessive detail on underlying expenditure

- Should drive and direct Council improvement and priorities
 - 3-5 year timescale
 - This should be a live document, and incorporate all efficiency, business improvement and investment as they arise. There should be full annual review in July and regular updates.
- v. Efficiency and other business improvement needs to be looked at both at Individual Budget and across the Council, cannot have single target for all budgets:
- Targets should be real ie after impact of inflation/pressures etc
 - Monitoring of efficiency improvements should be done as part of MTFP
- vi. Budget Pack should comprise both Objectives for the coming year and Guidelines on how budget information should be fed back and constructed including assumptions:
- Objectives need to be given by Exec/Council,
 - Guidelines need to be clear, simple and consistent,
 - Need to clearly identify cost drivers for demand led budgets
 - Revenue budget should identify separately “one off, short term” expenditure in services such that the underlying expenditure can be identified
- vii. Budget holder should be fully responsible for their budget, including ownership of budgeting both development, accuracy and monitoring:
- Budget skills must be a core job competency of budget holders
 - Finance team has a supporting role to budget holders, assisting but primary responsibility must remain with budget holder
 - The embedding of finance managers into the directorates needs to be improved. In order to clearly align responsibility for Budgets to Budget Holders consider moving Finance managers into Directorates
 - Balanced scorecard approach should be used to assess performance. These should include both budget and Key Performance Criteria – 3-5KPI's
 - Responsibility for budget also means budget holder needs to agree budget changes. In particular where savings are proposed or a business case made, the relevant budget holder needs to agree
 - Responsibility needs to be meaningful, both positive for success and negative for failure
- viii. The service levels and budget of Corporate Services (Finance/HR/Legal/IT/Facilities) needs to be clarified:
- The level of resource available and service level provided to directorates needs to be both agreed and defined as part of budget process
 - Above this level, and in particular for where additional external resource is required mechanisms need to be in place for this to go to relevant Directorate budget
- ix. The Task Force has not yet focused on budget monitoring however certain points have already arisen. In particular Budget monitoring needs to be regular, faster with greater accuracy in terms of spend and profiling:
- Budget reports need to be standardised across the council and simplified
 - Numbers need to be accurate and correctly profiled. Monitoring should look at actual versus budget and also prior year
 - Reports should be available within 30 days of month end

- Budgets where there is significant variability due to demand should also report activity level
 - Ongoing monitoring of KPIs to avoid surprises
 - There is a need for reporting tool software such as Business Warehouse
- x. The Task Force has only looked at Capital in a limited way. This needs to be reviewed at a later date. However many of the comments regarding the revenue budget are also applicable to the Capital Budget.

Introduction

1. Central Bedfordshire is a new Authority, and the 2011/12 budget will be the first budget produced with the benefit of a track record. A number of problems have been experienced with both the initial 2009/2010 budget and budget process for 2010/11. To a large extent these can be traced to Central Bedfordshire being a new organisation, with no previous budget basis and short timescales for implementation. However it is seen as an opportunity to now review the process and look at external organisations' budget processes to seek an optimum process for Central Bedfordshire.

Objectives

- i) To review the Budget Process and to obtain feedback from:-
 - Members, Overview and Scrutiny Committees and Executive
 - Corporate resources/Finance department
 - Budget Holders
- ii) To look at and learn from best practice elsewhere in relation to the Budget Process:
- iii) To examine the Historic Budget process and explore those areas where improvements or alternatives could be considered.

Work Programme – Basis

2. The taskforce has had a series of meetings both internally and with others, these have included discussions with:-
 - Clive Heaphy ex Director Corporate resources
 - Matt Bowmer AD Finance
 - Number of Officers
 - Center Parcs
 - Milton Keynes Council
 - Bedfordshire NHS Trust
 - Portfolio Holders and OSC members
3. In addition members have also drawn on their own prior experience both in the Private sector, Public sector and as Councillors.

Findings

2009/10 Budget

4. As a new council with no track record there were a number of issues as regards the 2009/10 budget. In particular a large number of budget pressures had not been anticipated, which consequently required in year adjustments and / or led to

overspends. Profiling of the budget and data robustness was also poor particularly regarding Capital Expenditure.

2010/11 Budget Process

5. A number of shortcomings have been identified with the 2010//11 budget process. A number of these can be traced to the establishment of the council as of 1 April 2009, with a large number of staff being new in post. As a consequence the process started late and lacked the level of robustness of numbers. This resulted in the draft budget in December requiring a number of last minute changes with a full budget only available in January. Consequently there was little opportunity for members to have meaningful input. 2010/11 Budget Process Time Table:-

- July – Budget Pack issued including inflation etc assumptions and guidelines
- September – directorates complete initial budgets
- October – Budget challenge – led by AD Finance Services
- November – Challenge days continue with Corporate management team / PFH involvement
- December/January – Draft Budget and initial OSC
- Late January – Final Budget available

6. A number of significant issues were identified with the 2010/11 Budget Process:

- Focus on a one year budget horizon which is completed in February does not facilitate longer term planning
- Robustness of numbers poor within the budget, particularly at the draft stage and in terms of profiling (Capital and Revenue). Though many of these issues can be traced to the new council and merging of three budgets
- Need for budget ownership
- Overly complex data requirements that made both Budget compilation and review difficult
- Lack of clear and defined Council objectives
- Medium Term Financial plan of very limited stature
- Focus on short term fixes to meet both 2009/10 budget and to achieve 2010/11 budget
- Budget Timetable did not provide sufficient time for scrutiny and choice by members
- Exec members had limited early involvement, with real involvement only in the late Autumn
- Lack of clarity of role between Finance and Directorates
- Number of changes in personnel, particularly within finance
- Service provided by Corporate Resources in Finance and other areas did not always meet expectations of Directorates. While at same time cost consequences of Directorate requests on Corporate Resources were not taken into account and hindered budget management

7. A number of issues were also noted with ongoing budget monitoring:

- While SAP has all the data, this is not in a user friendly format and needs to be “dumped” into Excel or Word to be manipulated manually to prepare reports. This leads to delays, risks human error and consumes man hours
- Difficult to assess current performance against budget due to poor profiling and also no historic data included in reports

Findings from Meetings

Corporate Plan

8. To achieve effective operational management, there needs to be a longer term strategy that details both objectives and a directional route. All the external organisations visited and also CIPFA best practice have a 3-5 year Corporate Plan. In theory CBC has a Medium Term Financial Plan, however currently this is at such a high level and so superficial as to be almost meaningless. A Corporate Plan should incorporate the following:-
 - i) Clear Objectives both longer-term and short term with priorities
 - ii) Should be of sufficient detail to be meaningful as a planning tool, but not too detailed
 - iii) While generally a “Top Down” document senior budget holders (eg AD level) must have ownership
 - iv) Needs to incorporate anticipated major budget pressures, investment strategies, efficiency savings, business improvement/transformation, service reviews and anticipated grant income changes.
 - v) Should be regularly reviewed and updated to reflect new information and decisions
 - vi) Provides the framework for decision making
9. The Corporate Plan should be the key planning tool to drive the council forward, and this was the case for all the organisations visited. In this case the annual budget effectively becomes the bottom up derived first year of the corporate plan. As such it serves as an implementation and monitoring tool.

Budget Accuracy and Accountability

10. All the organisations visited placed strong emphasis on accuracy of budget numbers and accountability. This was particularly the case for Center Parcs and NHS Bedford. Accuracy of financial information is key to successful financial operation. The keys to achieving this are:-
 - i) Budget holders taking full ownership of their budgets and operations
 - ii) Budget holders being provided with the “tools” to control their budgets. In particular changes should not be imposed but bought into eg efficiencies savings from business transformation, similarly with costs
 - iii) Timely and robust financial challenge of budgets
 - iv) Regular monitoring of budgets and where appropriate updating of budgets to reflect “real” changes in circumstances
 - a. Where budgets are activity dependent there should be a clear understanding of the activity basis
 - v) Budget holders need to be held to account and motivated to do so. In several instances a balanced scorecard was used to include both service and financial targets

Budget Process Timing

11. There were a variety of timescales observed, with the shortest (4 months) at Bedford NHS Trust and the longest MK Council (10 months). Though the former reflects Government imposed timing due to budgets and targets only being received in December and hence a greater emphasis on Corporate Plan. While a private sector organisation may be able to have its annual budget in a 6 month time frame, the nature of Public Sector and greater Public Scrutiny would suggest a longer timetable and hence starting the process in May, which is consistent with CIPFA best practice guidance would appear appropriate.
12. In all cases the actual process steps were similar and in fact similar to CBC last year, though with some important differences.
 - i) Budget Pack – all organisations had a variance on this which included
 - a. Clear objectives (to lesser extent from MK)
 - b. Assumptions (inflation, demand etc)
 - c. Detail on information required and format. In all cases this went to individual budget level
 - ii) Budget holders determining their bottom up budget
 - iii) Challenge Process – All organisations had a challenge process that cascaded up through the organisation and also a peer review. In all cases (except peer) budget challenge was on a “Top Down” basis. In all cases focus was on robustness and added value not choice. Emphasis on the need to achieve particular targets varied but did exist in all cases, and this came from Corporate Plan
 - iv) Budget presented to Leadership group (eg Executive) where budget is reviewed and if necessary choice decisions made on growth/savings/investments
 - v) Budget sign off by Board/Council
 - vi) For Center Parcs, a key objective is to have clarity of budget (but not sign off) at budget holder level at least 3 months before start of new financial year to ensure smooth transition. To an extent this was also the case with other organisations visited

Budget Monitoring

13. There is a need for regular monitoring of budget performance, both against the current year budget and also at intervals against the longer term Corporate Plan. The level, speed and frequency of monitoring varied with organisation. Center Parcs monitored key numbers on a daily basis, with monthly management reports available within 5 days of month end. MK and Bedford NHS monitored on a monthly basis and were generally within 30 days. Interestingly both MK and Bedford NHS had specific committees to monitor financial performance in addition to Exec/Board. All organisations had a review process in place for updating budget forecasts and also linking to Corporate Plan. This varied from monthly to quarterly formal reviews.

Business Improvement/Efficiency

14. For all the organisations the budget is the tool to monitor in year performance and to hit short term targets. It is also the mechanism by which choices are made. However longer term improvement and choices tended not to be made through the one year budget but rather through longer term corporate plan and separate project based activity which was then reflected in the corporate plan. This then feeds through to the annual budget.

Objectives of a Budget Process

- i) Numbers should be robust and reliable
- ii) Financial and performance information should be available in a timely manner to assist decision making
- iii) Budget process should tie in with Council strategy
- iv) Clarity of reporting
- v) Opportunity for choice
- vi) Long term planning horizon
- vii) Seamlessness
- viii) Planning environment
- ix) Ownership