Budget Monitoring

What does it mean and how does it work?

Once the Council has set its overall revenue and capital budgets for the forthcoming financial year, those totals are broken down to the much greater level of detail needed for ongoing budget monitoring by service managers and their accountancy support staff.

A summary of this information by individual service, together with other details such as key performance indicators, is published for members in the "Budget Book". This is copied to all members, and is available in the members library, entitled County Budget (the 2005-2006 version has a pink cover).

The breakdown of budgets contained in the document is reflected in subsequent budget monitoring reports produced for the Executive and Scrutiny Committees on a regular basis throughout the year - monthly for revenue and quarterly for capital. However, these reports are just the most visible element of a process operated continuously throughout the Council by County Treasurer's staff, together with service managers, chief officers and members.

The process is designed to ensure that members are advised as early as possible of pressures likely to cause significant variances from budget as well as ensuring that service managers have the earliest and best possible information to maximise their use of resources within authorised limits.

There will always be variances between budgeted and actual expenditure, regardless of how carefully the budget is prepared. The important thing is to find out why the variances have occurred, to take any necessary corrective action in a timely manner and to report to members on a regular (monthly) basis.

The County Treasurer's responsibilities with regard to budget monitoring are set out in the Council's Financial Regulations and Capital Strategy.

Revenue Budget Monitoring

The revenue budget monitoring process covers the Council's £500 million net revenue budget, from the level of individual service budgets to the overall portfolio totals. It is a key control process for officers, from individual service managers through to chief officers, supported at all levels by the accountancy support staff. It also provides the main source of financial information for portfolio holders and other members, in the form of the monthly budget monitoring report.

The report is presented in draft form to the Chief Officers' Management Board before being submitted in final form to the Executive and Scrutiny Committees. It is included on the Executive agenda for Portfolio 'A' reporting cycles or when it contains information requiring Members' urgent attention. Otherwise, it forms part of the information pack. Budget monitoring reports are not prepared for April or June.
At the beginning of the 2002/03 financial year, it was agreed with the Executive that, apart from budgeted reserve movements, no virements (temporary or permanent transfers of funds from one budget to another) or reserve movements (transfers of funds from one period to another) would take place during the year. These are now reported in the budget monitor, but are not actioned until the year end. The use of a virement or reserve requires appropriate approval as set out in the Financial Regulations

The budget monitoring report is split into two main sections: The first includes summary tables and charts, together with explanatory narrative, setting out the latest forecast position for the full financial year and explaining any "significant" changes from previously reported figures. Significant, in this context, is defined as a change of £50,000 or greater. The second sets out, in tabular form, additional details of the reasons for any variance between the latest forecast position for the full financial year and the original budget, and any actions (such as virements or movements to or from reserves) that have been proposed to deal with the variance.

Where a service is forecast to overspend against its budget, it should be made clear why this is the case, and how the excess is to be funded. If the forecast overspend is material, immediate and firm management action should be expected to be detailed in the report.

Typically, an overspend might result from an unexpectedly high demand for a particular service, or from a decision to fund additional (unbudgeted) expenditure from reserves. It is therefore not necessarily "bad" or indicative of poor financial control. Generally speaking, funding for an overspend must, in the first instance, be found from within the reserves of that service or portfolio. If these are exhausted, services may apply to borrow from a reserve called the County Fund, for repayment in accordance with agreed terms. Contrary to popular belief, there are no other sources of "central funding" available to assist overspent budgets. Conversely an underspend might typically indicate unexpectedly low demand for a service or a decision to defer expenditure from one period to another (through the transfer of funding into a reserve for use in a later period). Again however, an underspend is not necessarily "good" as it may indicate a problem with service delivery, delay to a major project or a difficulty in filling vacancies.

Capital Budget Monitoring

The overall value of the capital budget tends, by nature, to vary from year to year to a greater extent and in a more unpredictable manner than the revenue budget. In addition, capital projects usually incur expenditure across more than one financial year. As a result of these differences, capital budget monitoring takes a rather different form to revenue budget monitoring.
The focus for capital is to monitor expenditure against projects or schemes approved in the capital budget to start during that financial year - known as the "starts". For 2004/05 the Council agreed a capital budget (ie starts) of almost £90 million. This does not represent a limit on the amount that can be spent in that financial year in the way that the revenue budget does. Instead, it represents a limit to expenditure on the starts agreed for that financial year, irrespective of whether the expenditure is actually incurred in that financial year or in subsequent years.

All capital schemes are individually project managed and are monitored on a monthly basis by the accountancy support teams - the support they provide for service managers operates in much the same way as for revenue budget monitoring.

The monthly monitoring reports feed into quarterly reports that are submitted to members at the Capital Management and Planning Panel and at the Executive (in the information pack).

The report provides an update on expenditure for the schemes of each starts year, showing, by financial year, when expenditure is expected to be incurred. It also shows how those schemes are funded. Generally speaking, larger schemes are individually reported, but smaller schemes of a more uniform nature, such as road or school schemes or other "minor capital works" are monitored collectively. The report then sets out reasons for any major changes from previous reports, in either expenditure or funding.

It is normal for additional schemes to be added to the capital programme during the year (provided funding is available) through approval at the Capital Management and Planning Panel or at the Executive in the case of large schemes. These are reported in the monitoring report along with other changes.

For further information, please contact the County Treasurer's department.