

Report of the Deputy Chief Executive

Report to Corporate Governance and Audit Committee

Date: 19th September 2014

Subject: Financial Planning and Management Arrangements

Are specific electoral Wards affected? If relevant, name(s) of Ward(s):	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Are there implications for equality and diversity and cohesion and integration?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Is the decision eligible for Call-In?	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No
Does the report contain confidential or exempt information? If relevant, Access to Information Procedure Rule number: Appendix number:	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No

Summary of main issues

1. Given the significant financial challenge the Council is facing, ensuring that we have in place appropriate arrangements to deliver sound financial planning and management is perhaps more critical than ever before.
2. The Council's Responsible Financial Officer has established appropriate overarching controls for the financial management of the Council's affairs.
3. These controls are subject to a number of independent assessments. In particular Internal Audit has reviewed and given substantial assurance on the Council's main financial processes, the integrity of the accounts and the accuracy of the major financial systems.
4. External Audit also gives independent assurance on the accounts and accounting practice; the Authority arrangements to ensure value for money and the controls on the Authority's key financial systems.
5. Over the last year a number of improvements have been made to these systems and processes, most notably the updating of the Council's financial regulations, improvements to the budget monitoring of staffing costs and the strengthening of the financial governance on partnerships and similar arrangements.
6. The systems and processes for delivering sound financial management are being continually assessed and reviewed to ensure they are fit for purpose. This will continue and any issues and developments will be reported back to this Committee.

Recommendations

7. Members of the Corporate Governance and Audit Committee are asked to note the assurances provided that the appropriate systems and procedures are in place to ensure that the Council delivers sound financial management and planning.

1 Purpose of this report

1.1 Given the significant financial challenge that the Council is facing, ensuring that we have in place appropriate arrangements to deliver sound financial management and planning is perhaps more critical than ever before. This report outlines:

- The key systems and procedures which are in place to deliver such arrangements;
- New developments and improvements which have been put in place;
- New risks and issues arising.

1.2 The report aims to give members assurance that the systems and procedures in place are fit for purpose, up to date, embedded and being complied with.

2 Background information

2.1 This is the third year of reporting to this Committee on the financial planning and management arrangements of the Council. Previous reports have outlined the following arrangements:

- Overarching Controls :
 - The strategic role within the Council of the Responsible Financial Officer;
 - Professionally qualified and accountable staff;
 - Financial Regulations;
 - The monitoring of the Integrity of financial systems;
 - A statutory Code of Practice for Treasury Management arrangements.
- Main financial processes:
 - Budget preparation and setting.
 - In year budget monitoring.
 - Closure of accounts and reporting.

Reports to this Committee over a number of years have provided a detailed assessment of these arrangements, along with appropriate assurances that they are fit for purpose and embedded. Rather than just report the main processes and arrangements again, this report seeks to highlight progress on addressing weaknesses identified in the systems and any new developments or risks that have come to light over the last year. For information and reference, the basic processes and systems of financial control are contained within Appendix A attached to this report.

2.2 Financial procedures and controls put in place by the Responsible Financial Officer form a fundamental part of the assurances received by this Committee when approving the Annual Governance Statement as required by the Accounts & Audit Regulations 2011.

3 Main issues

3.1 Assurances that the overarching controls and main financial processes are effective

3.1.1 Whilst this report concentrates on the new issues and developments in the financial management arrangements, it is important that the Committee is informed of the key assurances provided that these processes are still fit for purpose and being complied with. Members should therefore note the following assurances:

- The Council has tried and trusted arrangements for **treasury management** which complies with CIPFA's Code of Practice on Treasury Management and the Prudential Code. This Committee received a separate report on the robustness of these arrangements on the 8th November 2013.
- In response to the Government's deficit reduction plans and subsequent cuts in the grants which we receive from government, by the end of 2014/15 the Council will have had to deliver savings of over £200m. The establishment of robust and achievable budgets under such difficult financial circumstances provides strong evidence that the financial process underpinning the budget and budget monitoring processes is effective. KPMG have provided independent assurance that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In particular they state that "the Council has been able to deliver its savings plans and has a robust budget and budget monitoring processes in place to mitigate the significant risks presented by the current financial challenges".
- The 2013/14 accounts have been compiled and audited within statutory timetables. KPMG have indicated that they will provide a clean audit certificate.
- The Internal Audit Annual Report and Opinion received by this Committee on the 11th July 2014 provided assurance to members that all key financial systems and processes had been audited and all received either a substantial or good audit opinion.

3.2 Addressing the key issues and developments raised in the 2013/14 Financial Management report

3.2.1 Last year's report recognised that whilst budget monitoring arrangements remain effective there are areas which need to be improved. Staffing costs remain the biggest area of budget spend for the Council and need to be effectively monitored. In particular it was noted that the monitoring of staffing within Children's Services was an area for improvement. Children's Services have now implemented changes to the Directorate's systems to ensure more consistent monitoring and forecasting on this key area of expenditure. These changes link the in-year budget monitoring processes to the assumptions that are built into the budget strategy and also recognise the predominantly internal recruitment market. As a result, the forecast year-end variations against the staffing budgets have been more robust and more consistent throughout the financial year.

In addition, for 2014/15 a one page staffing dashboard has been introduced for each Directorate. These dashboards bring together FTEs and spend for pay, agency overtime and sickness and monitors against the budget each month.

There is a commentary box which Human Resources and Finance complete together and this goes to Corporate Leadership Team on a monthly basis. The dashboards are produced at chief officer level and are sent to these officers on a monthly basis.

There have also been a number of developments and improvements to the Staffing Cost Report system, used by budget holders to monitor staffing budgets.

3.2.2 Last year it was reported that Financial Services had used the CIPFA's review model for assessing compliance with good practice in respect of the role of the Responsible Financial Officer in Local Government. This model covers all aspects of the role of the Responsible Financial Officer including:

- The quality of systems and processes for financial administration and control;
- The adequacy of Medium term financial planning process;
- Timely, accurate and appropriate provision of financial information and advise;
- Effective stewardship of public monies;
- Effective working relationship with internal and external audit;
- Compliance with CIPFA codes on the Prudential Framework for Capital finance and Treasury Management;
- Members understanding of their financial roles and responsibilities and the access to financial skills and training in order to discharge these responsibilities.

A full and comprehensive assessment of the Council's financial arrangements using this model was undertaken by the Responsible Financial Officer in 2011. The assessment found that the Council had substantial levels of assurance on its financial arrangements. It did however identify a number of areas for improvement. Most notably was the requirement to update the Council's Financial Regulations and the need to improve the financial governance arrangements for partnership and similar arrangements. A second review using this model has now been undertaken and has concentrated on the developments made to address these areas requiring improvement. The results of this review are as follows:

3.2.2.1 **Financial Regulations** - The Deputy Chief Executive has reviewed and updated the Council's Financial Regulations in order to ensure they are fit for purpose. This review has focused on the key areas of financial risk and resulted in a substantial reduction in the number and length of the regulations. The Responsible Financial Officer approved the new regulations on the 9th June 2014. Supporting these regulations is a comprehensive set of Toolkits which provide detailed guidance and outlines the required process in order to aid compliance.

3.2.2.2 **Financial Governance arrangements for partnership and other such arrangements** - The last few years has seen a shift in the way the Government has looked at funding local government initiatives. In particular significant amounts of money are now been given to city regions rather than to individual local authorities. In addition decision making is now often being made in conjunction with local businesses and other partners via company and other arrangements. The legal, accounting and taxation arrangements for these entities and partnership are a new challenge facing the Council and

Financial Services are working closely with our partners to ensure proper financial governance arrangements are put in place for each separate arrangement.

3.2.2.3 Given the significant amount of funds involved, a key focus in this area for 2013/14 has been the financial governance arrangements for the City Region. A full review was undertaken of the financial arrangements and reporting of all the entities and arrangements covered by the City Region. The results of the review were reported to the Leeds City Region Leadership Board. The report identified the Board and the governing bodies of the Revolving Investment Fund LLP and General Partner are subject to statutory requirements to produce annually audited accounts and to satisfy themselves of the sound financial running of the bodies that they are responsible for. This involves those charged with governance receiving regular reports on financial performance. Specifically:

- Budget setting
- Budget monitoring;
- Final accounts and related external audit reports.

3.2.2.4 Good practice also requires that similar arrangements are in place for the separate partnership agreements. Whilst such bodies do not require final audited accounts, each governing body will receive a final year end position statement. Frequency of reporting for each individual body and partnership may vary, but budget monitoring reports should in most cases be available for each meeting of the governing body.

There is also a need for regular financial reports to be available on the overall picture of financial activity for the region and to enable the individual authority members to monitor their own level of financial involvement in the region.

The Leaders Board and the LEP Board should receive reports at each of their meetings on the overall picture of financial activity which supports the delivery of the Strategy Economic Plan. In the case of the Leaders Board, this should distinguish between the financial position of the joint committee itself (for which the Board is statutorily responsible), and information on other bodies and partnerships.

The above arrangements are now being implemented and draft 2013/14 accounts produced for all the Leeds City Region entities. The Deputy Chief Executive will ensure appropriate arrangements are in place so that those charged with Governance can discharge their duties.

3.2.2.5 In addition to the above, work has also been undertaken to identify all arrangements for which the Council has some financial stewardship requirements. Work is ongoing to ensure that the governance arrangements for all such entities are appropriate and effective.

3.2.2.6 In addition the new financial regulations also highlight a number of key rules in this area, including:

- Appropriate financial reporting to those charged with governance; and
- The adoption of the Council's financial regulations unless where otherwise agreed by the Deputy Chief Executive.

3.3 Additional Developments undertaken

3.3.1 As part of the Manager Challenge programme, workshops on financial management for managers have been developed. The workshops aim to give managers an introduction to financial management in the council as well as learning about the budget management processes involved in setting, monitoring and controlling budgets. By the end of the workshop managers will be able to:

- Understand the nature and purpose of financial management within local government
- Recognise the financial issues affecting the council
- Describe the budget setting process and your role within it
- Understand why monitoring and controlling your budget is important
- Control your own budget effectively
- Be more creative and resourceful in managing your budgets

Take up on these workshops has been good and they are fully booked for the next four months.

3.3.2 In order to provide greater clarity on the role and responsibility of Budget Holders a budget holder accountability framework has been developed. The framework defines the budget holder role and key responsibilities. Subject to CLT approval this framework will then be implemented via the Financial Regulations toolkit.

3.3.3 In the previous report to this Committee it was recognised that as staff numbers reduce, the service needs to be redesigned, in order to continue to be effective. The Financial Services Management Team has established a number of actions contained within the Service Plan for providing a holistic approach to the delivery of effective financial management with fewer resources. The proposed actions were:

- To review service delivery in consultation with stakeholders and in the context of the vision;
- To develop and implement a new service offer which continues to deliver key service and Council priorities within a substantial reduced resource envelope with a reduction in cost of the order of 30% over the next 3/4 years;
- Development training in order to ensure our colleagues have the right skills to deliver the redesigned service;
- Succession planning to deal with the loss of experienced staff and reduce the impact on service delivery.

3.3.3.1 To progress these issues a new generic service offer, outlining how the service will change, has been developed and is being consulted on at each Directorate Leadership Team.

3.3.3.2 In addition a customer survey of finance users has been undertaken covering budget setting, budget management and finance support. On a response rate of over 36% the following percentage of respondents were either satisfied or very satisfied with the service in these areas:

Service provided	Very satisfied	Satisfied	Either satisfied or very satisfied
Overall	44	44	88
Budget Setting	15	40	55
Budget Management	43	45	88
Finance Support	60	30	90

In response to the level of satisfaction for budget setting, work is ongoing to improve the service by consulting with as many senior managers as early as possible within the budget setting cycle and by training managers as to their roles and responsibilities in the process.

3.3.3.3 Training developments of Finance staff in order to deliver the new redesigned service is still an ongoing development and remains a priority in the service plan. Also as part of the Council's graduate training programme, the services has appointed three new trainee accountants.

3.3.3.4 Loss of experienced staff remains a significant issue, but there is a clear vision as to the structural shape of the service, and, as the service moves forward, resources will be realigned and this will provide opportunities for promotion and development.

3.4 **Future Challenges**

3.4.1 Despite the considerable budget savings already achieved, it is recognised that the Council still faces a significant financial challenge. Along with the requirement to meet the continuing budget reductions there are also a number of new areas of risk which will require carefully budget monitoring. Specifically these are the financial implications of the Better Care Fund; the Care Act and Health Integration along with the impact of the changing rules in respect of Council Tax and National Non Domestic Rates (NNDR).

3.4.2 The Better Care Fund (BCF) combines £3.8bn nationally into a pooled fund aimed at transforming health and social care services, effective from 1st April 2015. Leeds has submitted a plan in accordance with Department of Health requirements for a BCF totalling £55m in 2015/16.

To facilitate an early start on the transformation of the health and social care system in Leeds a Council earmarked reserve of £5m was created at the end of 2013/14. Together with provision of £2.8m within the 2014/15 Adult Social Care revenue budget this will provide £7.8m in 2014/15 to provide "pump-priming" investment so that savings to be delivered through the BCF can be released as early as possible.

One of the Department of Health requirements for the BCF is that it ensures the financial sustainability of social care services. Across health partners in Leeds this is being equated to funding demography and the additional requirements of the Care Act.

Within the last few months further changes to the BCF have been announced, which effectively ring-fence £1bn of the £3.8bn nationally to support the acute sector. The implications of this are not yet entirely clear, although a number of commentators believe that this will limit any potential transfer to Social Care to offset Council funding reductions.

The main implications of the Care Act relate to new duties to provide advice and information, assessment of and support to carers, changes to financial assessments and the introduction of the cap on care costs, which will in itself lead to further assessment requirements. The main changes that will affect care assessments come into effect in April 2015, but the financial assessment and care cap changes take effect in April 2016.

Work on health integration has been ongoing in Leeds for some time and co-located teams are now operational across the city. This integration involves Adult Social Care and Leeds Community Healthcare staff.

3.4.3 The following risks arise from the changing rules in respect of Council Tax and NNDR:

- The introduction from April 2013 of a scheme of council tax discounts does raise additional risks as to collection. Overall, the assumed collection rate for Council Tax has been reduced from 99.2% to 99% to reflect this additional risk, but there is still the potential for further losses. However, it should be noted that should there be a higher level of loss than assumed, that this would materialise within the collection fund, and as such would not impact upon the current year's budget.
- Under the new business rates retention scheme, the Council's local share of business rates is exposed to risks from both collection and reductions in rateable values. Although in setting the 2014/15 budget, an assumption has been included as to potential scale of losses due to backdated appeals, this is still considered to be a significant risk. However, as in the case of Council Tax, any losses greater than those assumed in setting the budget will materialise through a collection fund and will not impact in the current year.

3.4.4 These issues are being closely monitored and reported to Finance Performance Group on a monthly basis and any significant issues will be reported to the Executive Board in the monthly financial health reports.

4 Corporate Considerations

4.1 Consultation and Engagement

4.1.1 Extensive consultation was undertaken as part of the budget setting process, as outlined in the Revenue Budget and Council Tax 2014/15 report to Full Council on the 26th February 2014. This report has no direct issues requiring consultation or engagement.

4.2 Equality and Diversity / Cohesion and Integration

4.2.1 A specific equality impact assessment of the budget at a strategic level was undertaken and was report to Full Council on the 26th February 2014 as part of the Revenue Budget and Council Tax 2014/15. This report has no direct equality and diversity / cohesion issues.

4.3 Council policies and City Priorities

- 4.3.1 As expressed within the Council Business Plan 2011 – 2015, spending money wisely is one of the Council's values, with the priority being for directorates to keep within their budgets. Ensuring that the Council has appropriate financial management systems and procedures in place is clearly a key aspect and as such this report does provide some assurances, albeit not comprehensive, assurance that money is being spent wisely.
- 4.3.2 The terms of reference of the Corporate Governance & Audit Committee require the Committee to consider the adequacy of the Council's policies and practices to ensure compliance with statutory guidance and the adequacy of the Council's Corporate Governance arrangements.

4.4 Resources and value for money

- 4.4.1 This report deals with the Council's financial management arrangements and is aimed at providing assurance to members as to their fitness for purpose.

4.5 Legal Implications, Access to Information and Call In

- 4.5.1 The statutory responsibilities of the Council's responsible financial officer are defined under the Local Government Act 2007 and Accounts & Audit Regulations 2011. The report does not require a key or major decision and is therefore not subject to call-in.

4.6 Risk Management

- 4.6.1 A full risk register of all budget risks in accordance with current practice is maintained and subject to quarterly review. Any significant and new risks are contained in the budget monitoring reports submitted to each meeting of the Executive Board, together with any slippage on savings.
- 4.6.2 The Council's external auditors provide a risk assessment on the Council's financial resilience and the accounts process as part of their interim audit. As part of the interim report, officers are able to outline the processes put in place to mitigate these risks.
- 4.6.3 In addition to the above, there are a number of risks which are monitored through the Corporate and the directorate risk registers, these being:

Corporate Risk Register

- Council's financial position goes into significant deficit in the current year resulting in reserves (actual or projected) being less than the minimum specified by the Council's risk-based reserves policy;
- Failure to address medium-term financial pressures in a sustainable way.

Resources Directorate Risk Register

- Failure to comply with statutory deadlines (e.g. Statement of Accounts / Budget / RO and RA forms);
- Risk of provision of poor financial advice that results in poor financial decisions across the authority. This could lead to the financial ledger being inaccurate or out of date.

5 Conclusions

5.1 The Responsible Financial Officer has established a framework of financial management controls and processes which, in his opinion, discharge his statutory responsibilities. It can be concluded that the framework of controls and developments outlined in this report are fit for purpose, up to date, embedded and regularly complied with. Members can also take assurance from a number of rigorous reviews and assessments undertaken, including:

- External Audit have provided the following assurances:
 - That in their opinion, the accounts reflect a true and fair view of the Council's financial position and that they comply with proper practice.
 - That the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In particular, the Council has been able to deliver its savings plans and has a robust budget and budget monitoring processes in place to mitigate the significant risks presented by the current financial challenges.
 - That the controls on the Authority's key financial systems are sufficient to produce materially reliable figures for inclusion in the financial statements.
- Internal audit assessed all major financial systems and controls and given either good or substantial assurance on the financial controls in place.
- Member scrutiny via Scrutiny Boards, Executive Board and Full Council ensures that the budget meets the Council's priorities. In addition the Corporate Governance & Audit Committee approve the Council's accounts.
- Officer review of the budget and budget monitoring processes through Finance Performance Group, Directorates leadership teams and the Corporate Leadership Team.

5.2 Whilst the above arrangements should provide members with substantial assurance that the Council does have in place appropriate systems and procedures to deliver sound financial management and planning, it is important that this is kept under review, and the report identified a number of issues that need to be addressed. In particular further work is required on the financial governance framework for partnerships and similar arrangements; improvements in the engagement of officers in the budget setting process and further work is needed on the training developments of Finance staff in order to deliver the new redesigned service.

6 Recommendations

6.1 Members of the Corporate Governance and Audit committee are asked to note the assurances provided that the appropriate systems and procedures are in place to ensure that the Council delivers sound financial management and planning.

7 Background documents¹

7.1 None

¹ The background documents listed in this section are available for inspection on request for a period of four years following the date of the relevant meeting. Accordingly this list does not include documents containing exempt or confidential information, or any published works. Requests to inspect any background documents should be submitted to the report author.

Appendix A

1.0 Overarching Controls

1.1 In order for the Council's statutory Responsible Financial Officer to discharge their duties a number of overarching arrangements and controls have been established:

1.1.1 **Responsible Financial Officer Role (RFO)** - The Deputy Chief Executive, in the role of the Council's RFO, undertakes a strategic role on the Corporate Leadership Team and has established appropriate arrangements to discharge his responsibilities in line with CIPFA's recommended practice.

1.1.2 **Professionally Qualified and Accountable Staff** - Financial management, within the Council, both corporately and within directorates is delivered by colleagues who are managerially responsible to the Deputy Chief Executive. Many of the senior colleagues within the financial management services are professionally qualified with many years of experience, and are themselves personally and professionally responsible for their actions and advice. This is reinforced through an appraisal scheme which incorporates identification of key skills for finance staff, programmes of continuing professional development and peer review forums to ensure integrity as to the accounts and budget monitoring processes.

1.1.3 **Capital and Treasury Management Arrangements** - As outlined in a report to this Committee on the 22nd April 2013, changes were made to the Capital Approvals framework to strengthen accountability for capital decisions and streamline the decision making process. This work is now progressing to the second stage with the focus on an enabling approach allied to transparency of decision making. The capital programme continues to be closely monitored with Directorates and progress on schemes reported on a monthly basis. Quarterly updates are presented to Executive Board. Proposals for new capital schemes must be accompanied by robust business cases and ensure that they are aligned to the Council's best plan objectives.

The cost and affordability of the borrowing required to fund the capital programme is managed within the debt budget. The affordability of new borrowing and existing borrowing is reported on a monthly basis as part of the revenue updates to Executive Board, with specific treasury strategy reports presented to Executive Board at least three times a year. A further report to ensure compliance with the prudential code, treasury management code of practice and internal audit compliance is presented to Corporate Governance and Audit Committee on an annual basis.

1.1.4 **Financial Regulations** - The Council has a number of overarching Financial Regulations contained within the Council's constitution. Each regulation is accompanied by a toolkit to provide appropriate guidance.

1.1.5 **Integrity of Accounts** - The integrity of all financial data is of fundamental importance in ensuring financial information is both timely and accurate in order to correctly inform decision making. This is a key role of the Integrity Forum which includes senior finance staff and is chaired by the Chief Officer – Financial Services. The forum reviews all key financial control accounts such as cash and tax; the validity of all feeder systems into the financial ledger; along with such things as system access rights and coding structures.

1.1.6 **Framework for the Council's Treasury Management arrangements** - The Council also has tried and trusted arrangements for treasury management based on CIPFA's Code of Practice on Treasury Management and the Prudential Code.

2.0 Main Financial Processes

2.1 The above arrangements are intrinsic to all the financial procedures and processes undertaken by the Council but are perhaps best illustrated in practice through the main financial cycle which covers:

- Budget preparation and setting.
- In year budget monitoring.
- Closure of accounts and reporting.

2.1.1 Budget Preparation and Setting

2.1.1.1 Local authorities are under a statutory duty to set a budget each year. Whilst this can simply be seen as an annual exercise, there is a recognition that this needs to be set within a context of a medium term financial strategy. The scale of the challenge presented by Spending Review 2010 has however meant that the Council has had to respond very quickly to significant reductions in its level of government grants. Taking account of reductions in government grants to the Council and other spending pressures, by the end of the current year, the Council will have had to deliver savings and other reductions in the order of £250m, and faces further cuts in its government grants in excess of £46m.

2.1.1.2 As yet Departmental Expenditure Limits have not been set beyond 2015/16 which makes financial planning beyond 2015/16 problematic although the direction of travel is clear. The Economic and Fiscal Outlook, published by the Office for Budget Responsibility alongside the budget in March 2014, did include tentative projections for public sector expenditure as a whole, which if applied to local government would suggest funding cuts averaging 8.8% for 2016/17 and the years beyond, and it is this percentage that has been used for initial financial planning for 2016/17 as outlined later in this report. More robust estimates are unlikely to be available until after the 2015 General Election.

2.1.1.3 The Medium Term Financial Strategy does not attempt to provide a detailed budget for the next two years but it does set out the main financial pressures facing the Council and sets out a broad framework for the delivery of efficiencies and savings to bridge the identified funding gap. This financial strategy will be updated annually via reports to the Executive Board.

2.1.1.4 The budget as well as a financial expression of the Council's policies and priorities, is also a means of controlling spending to the available resources. The budget process is led by the Deputy Chief Executive and involves a wide range of officers and members across the Council. The process starts soon after the budget setting of the previous year with an early assessment of available funding and key pressures. Undertaking such an assessment involves a whole set of assumptions including government grant, Council Tax base, inflation, trends, interest rates and new or developing spending pressures. This part of the process will be led by Corporate Finance staff, but will involve financial and non-financial staff based in directorates. The process will, at such an early stage, invariably identify a budget shortfall. This high level exercise will be subject to a number of iterations with assumptions being subject to regular review and reassessment.

- 2.1.1.5 Directorates start to prepare and input detailed estimates into the budget module of the Council's Financial Management System (FMS) in late summer. These are done at cost centre level and involve budget holders reviewing their spending requirements in conjunction with directorate based finance staff and in accordance with the corporately determined guidelines.
- 2.1.1.6 The development of options to balance to available resources is a key aspect in any budget process and needs to balance both capital and revenue pressures. This clearly can be a difficult area of work and whilst needing to be pragmatic and sufficient, it is crucial that the process reflects the Council's policies and priorities. This is ensured through close engagement of senior officers and Executive Board portfolio Members at appropriate points in the process.
- 2.1.1.7 Following consultation, the Councils constitution determines that initial budget proposals are submitted to Scrutiny 8 weeks prior to the Council's budget meeting. In practice this is after Executive Board approval, and requires the proposals to be submitted to the December meeting of the Board.
- 2.1.1.8 Budget preparation and setting is a demanding process and operates to strict timescales. This places an emphasis upon not just planning but also engagement with Councillors and Senior Management.
- 2.1.1.9 The budget is in many ways an exercise in managing risk. With limited resources, it is inevitable that elements of the budget will depend upon actions which have yet to happen, or upon assumptions that may in reality vary from those assumed at budget setting. As such an important element of the budget process is the development and maintenance of a budget risk register which attempts to identify and assess the risks built into the budget estimates. It is important to appreciate that the time frame of the budget risk register is just one budget year. The budget risk register not only assists in assessing the robustness of the estimates but also acts as a means of assessing the adequacy of reserves in that it provides an assessment of what may go wrong in year.
- 2.1.1.10 Reaching a view of the robustness of the estimates and the adequacy of resources not only requires consideration of the processes and systems used in preparing the estimates, but also a consideration of the strength of the arrangement in place for internal financial control.
- 2.1.1.11 Along with member scrutiny, the budget process is subject to Internal Audit review. In addition external audit, as part of their assessment of financial resilience, provided assurances as to the robustness of the budget itself.

2.1.2 In Year Budget Monitoring

- 2.1.2.1 Budget monitoring is a continuous process which operates at a variety of levels throughout the Council. Although directors are ultimately responsible for the delivery of their directorate budget, operationally these responsibilities are devolved down to around 600 budget holders within the Council. Every budget has a named budget holder who is responsible for managing and monitoring income and expenditure against the approved budget.
- 2.1.2.2 Financial Monitoring in the Council is facilitated by the Council's Financial Management System. The system holds information as to approved budgets, actual spend and income and commitments. On a monthly basis budget holders review their spend to date, against the approved estimates and against profiled

estimates. In addition, budget holders are also required to predict their end of year position which is done with the assistance of directorate finance staff, and clearly does involve a degree of judgement. In practice some budgets are more difficult to control and project than others. There are also instances where spending is controlled on systems other than the Council's FMS, for example community care payments. In these instances, procedures are in place to ensure that information held in these systems is regularly reconciled to FMS.

- 2.1.2.3 Financial monitoring is undertaken and operates on a hierarchical basis, whereby the monthly projections of budget holders are aggregated upwards to be reviewed by Chief Officers, and Directors. The projections for each directorate are submitted to the Deputy Chief Executive and are reviewed and challenged by the Finance Performance Group (FPG). This Group is made up of senior finance staff and chaired by the Chief Officer - Financial Services. The projections are then reported monthly to the Corporate Leadership Team and the Executive Board. As well as being accurate, monitoring also needs to be timely, and as such monthly reporting is operated according to a strict timetable. In addition, at each monthly FPG meeting, monitoring statements in relation to the capital programme and debt are also reviewed. Monitoring reports on the capital programme and Treasury strategy are considered during the year by Executive Board.
- 2.1.2.4 In line with the Council's values of Spending Money Wisely, it is critical that where projected overspends are identified that action is taken to bring spending back into line with the approved estimates or to identify other sources of funding such as areas of under spend. In year, any decision to amend budgets is undertaken within the virement rules agreed annually by full Council as part of the budget setting process. All such decisions are recorded as part of the delegated decision making process.
- 2.1.2.5 It is also important to appreciate that external audit also review our budget and budget monitoring arrangements in order to assess whether they are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

2.1.3 Closure of Accounts

- 2.1.3.1 The first stages of the closedown process is a natural extension of the budget monitoring arrangements with budget holders compiling the final figures for their areas of responsibility to determine an outturn position to be reported to Executive Board. This report compares the budget to the final outturn for each Directorate and provides an explanation as to the reason for any variance, including explanations of major variations on individual capital schemes. This comparison to the budget provides a clear indication as to the robustness of the original budget setting and the quality of the budget monitoring process.
- 2.1.3.2 Alongside the budget monitoring process, significant accounting decisions are referred to the technical accounting team to ensure compliance with applicable accounting standards. KPMG are also consulted on such decisions to ensure they are agreed by all parties before a major financial decision is made.
- 2.1.3.3 All changes to accounting practice are assessed and, where applicable, implemented by specialist officers in Corporate Financial Management. All finance officers and relevant directorate officers are informed of the implications of any

changes. The application of appropriate accounting practice is assessed by the Council's external auditors and reported back to members of this committee.

- 2.1.3.4 The Chief Officer Financial Services oversees the closedown process and the Deputy Chief Executive reviews both the accounts themselves and the processes used to compile them, before certifying signing them as a true and fair view. The Council's external auditors provide members with independent assurance that, in their opinion, the accounts do reflect a true and fair view of the Council's financial position and that they comply with proper accounting practice.
- 2.1.3.5 New accounting requirements and outturn projections are taken into account when the budgets are set for the following year.