

Report of the Deputy Chief Executive

Report to Corporate Governance and Audit Committee

Date: 24th June 2016

Subject: Annual Assurance Report on the Financial Management and Control 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. The purpose of this report is to provide assurance that the Council has in place robust arrangements for proper and effective financial control, governance and other financial management activities.
2. Recognising the significant financial challenges facing the Council, not least the continuing reduction in government funding, it is critical that the Council has in place sound arrangements for financial planning and management.
3. The Council's Responsible Financial Officer (RFO) has established an effective financial control environment and specifically robust arrangements for strategic financial planning and effective financial management and control.
4. The Council has a sound framework for reviewing and challenging financial performance, has realistic plans in place to make the necessary savings in the current 2016/17 financial year and is taking the appropriate steps to deliver them. Directorates have contingency plans in place to help to manage unforeseen variations against the budget.
5. The financial management and control framework is subject to a number of independent assessments, including the Council's internal audit function which 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.

6. External audit have again evaluated the Council's key financial systems as part of their interim audit work and have confirmed that nothing has come to their attention which would they would be required to communication to this Committee.
7. The financial management and control framework is continually being assessed and reviewed to ensure that it remains fit for purpose. This will continue and any issues and developments will be reported back to this committee.

Recommendations

8. Corporate Governance and Audit Committee are asked to note the assurances provided that the appropriate systems and procedures are in place to ensure sound financial management and control.

1. Purpose of this report

- 1.1 The overall purpose of this report is to provide assurance to this Committee that the Council has in place effective and robust arrangements for financial planning, financial control and other financial management activities.
- 1.2 Given the significant financial challenges facing the Council both in 2016/17 and in the medium-term it is essential that we continue to ensure that we have in place appropriate arrangements around financial performance, strategic financial planning, financial governance and financial control. This report outlines;
 - The key systems, controls and procedures,
 - New developments and improvements which have been put in place,
 - New developments in the near future
 - New risks and any issues arising.
- 1.3 The report aims to give members assurance that the financial control and financial governance arrangements that are in place are fit for purpose, up to date and embedded across the organisation.

2. Background information

- 2.1 This is the fifth year of reporting to this Committee on the financial planning and management arrangements of the Council. Previous reports have outlined the following arrangements;
 - a) 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;
 - The statutory Code of Practice for Treasury Management arrangements.
 - b) Main financial processes;
 - Budget preparation and setting.
 - In-year budget monitoring.

- Closure of accounts and reporting.

- 2.2 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 previously identified weaknesses and any new developments or risks that have emerged over the last year. For information and reference, the basic processes and systems of financial control are contained within Appendix A.
- 2.3 Financial procedures and controls put in place by the Responsible Financial Officer are part of the overall financial control environment and form a fundamental part of the assurances received by this Committee when approving the Annual Governance Statement as required by the Accounts & Audit Regulations 2015.

3. Main issues

3.1 Strategic Financial Planning.

- 3.1.1 It is clear that the current and future financial climate for local government represents a significant risk to the Council's priorities and ambitions. The Council continues to make every effort possible to protect the front line delivery of services, and whilst we have been able to successfully respond to the financial challenge so far, it is clear that the position is becoming more difficult to manage and it will be increasingly difficult over the coming years to maintain current levels of service provision without significant changes in the way the Council operates. The report to Council in February 2016 'Best Council Plan 2016/17 proposals' explains how this will be done: that, while continuing its programme of efficiencies, the council needs to work differently, to keep evolving and innovating in terms of *what* it does and *how* it does it, exploring different service models and greater integration with other organisations and skilling up staff to grow their commercial and business acumen.
- 3.1.2 On the 25th November 2015, the Chancellor announced the first combined Spending Review and Autumn Statement since 2007. Compared to the Summer Budget 2015, the Office for Budget Responsibility forecast higher tax receipts and lower debt interest, with a £27 billion improvement in the public finances over the Spending Review period. The Spending Review set out firm plans for spending on public services and capital investment by all central government departments through to 2019/20.
- 3.1.3 The final Local Government Settlement was announced on the 8th February 2016 ahead of a formal motion and parliamentary debate on the 10th February 2016. Through the settlement, Government set out an offer to any council that wishes to take it up, of a four-year funding settlement to 2019/20. Government states that as part of the move to a more self-sufficient local government, these multi-year settlements can provide the funding certainty and stability to enable more proactive planning of service delivery and support strategic collaboration with local partners and local authorities should also use their multi-year settlements to strengthen financial management and efficiency. Government is making a

commitment to provide central funding allocations for each year of the Spending Review period, should councils choose to accept the offer and on the proviso that councils have published an efficiency plan – the deadline for local authorities to accept the funding offer and publish an medium-term financial/ 'efficiency plan' is the 14th October 2016.

- 3.1.4 The Council has a proven and comprehensive approach to the development of its medium-term financial strategy, its annual budget setting and the identification of saving plans and work is already underway to update the Council's existing medium-term financial plan in preparation for a report to the Executive Board in September 2016.

3.2 Financial Health Performance.

- 3.2.1 Budget management and monitoring is a continuous process which operates at a number of levels throughout the Council. Although directors are ultimately responsible for the delivery of their directorate budget, operationally these responsibilities are devolved down to budget holders across the various services. The Council's budget accountability framework clearly articulates roles and responsibilities and aligns financial accountability and service decision-making and accountability. Every budget has a named accountable budget holder, supported by a budget monitoring officer and a finance officer, who is responsible for managing, monitoring and forecasting income and expenditure against the approved budget.
- 3.2.2 Financial monitoring across the Council is facilitated by the Council's Financial Management Systems (FMS). On a monthly basis budget holders, taking a risk-based approach, review their spend and commitments against the approved budgets and project their year-end position. 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. Ensuring the integrity of the accounts is as important to our budget monitoring processes as it is to the accounts, and this is a key role of the corporate Financial Integrity Forum which includes senior finance staff and is chaired by the Chief Officer – Financial Services.
- 3.2.3 Financial monitoring is undertaken on a risk-based approach where financial management resources are prioritised to support those areas of the budget that are judged to be at risk, for example the implementation of budget action plans, those budgets which are subject to fluctuating demand, key income budgets, etc. To reinforce this risk-based approach, specific project management based support and reporting around the achievement of the key budget actions plans continues to be in place in 2016/17.
- 3.2.4 As part of in-year budget management and monitoring, year-end projections for income and expenditure are submitted to the Deputy Chief Executive and the Corporate Leadership Team and are also reviewed and challenged by the corporate Finance Performance Group. In addition, budget monitoring reports are presented monthly to directorate leadership teams, individual executive members and the Executive Board as well as quarterly to scrutiny committees.

- 3.2.5 In line with the Council's financial regulations and value 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 budgets or to identify other sources of funding such as areas of under spend. All Directorates are required to have an agreed contingency plan.
- 3.2.6 Within the year, any decision to amend the approved budget has to be undertaken within the virement rules which, as part of the budget and policy framework, are agreed annually by full council as part of the annual budget setting process.

3.3 Financial Control Arrangements.

- 3.3.1 External audit has again given independent assurance on the Council's accounts and accounting practice as well as the arrangements to ensure value for money and the controls around the key financial systems.
- 3.3.2 It is important that this Committee is informed of the key assurances provided and that these processes are still fit for purpose and are 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 Treasury Management Governance Report on the 28th January 2016 which reported on the robustness of these arrangements.
 - In response to the Government's deficit reduction plans and subsequent cuts in the grants which we receive from government, by the end of 2016/17 the Council will have had to deliver significant financial savings. Establishing robust and achievable budgets under such difficult financial circumstances provides strong evidence that the financial process underpinning the budget and budget monitoring processes are effective. KPMG have provided independent assurance that the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
 - The Internal Audit Annual Report and Opinion received by this Committee on the 24th June 2016 again provided assurance to members that all of the key core financial systems and processes had been audited and all received either a substantial or good audit opinion.
 - The Corporate Financial Integrity Forum, which meets each month and is chaired by the Chief Officer (Financial Services), has a key role within the financial control environment and its function is to help ensure that there are procedures and operations in place to provide the necessary quality, integrity and reliability of financial information and accounts. The overall purpose is to help ensure the financial stewardship of the Authority by monitoring;
 - The regular review and reconciliation of financial systems to the financial ledger
 - The regular review and reconciliation of balance sheet accounts.

- The requirement to have effective systems and procedures in place to facilitate the posting of financial data to the ledger.
- That there are up to date bank mandates for all bank accounts to which LCC officers are signatories and that bank statements are regularly received and reconciled.
- Reviewing any other area of financial control or financial governance risk, including partnerships and other joint working arrangements.

3.4 Addressing the key issues and developments raised in the 2015/16 Financial Management report and Future Challenges and Improvements

- 3.4.1 Financial Governance arrangements for partnership and other such arrangements – the introduction of new responsibilities and the development of new collaborative structures and service delivery models provide challenges in terms of transparency, demonstrating accountability and managing risk. Specifically for Financial Services the increasing complexity of the legal, accounting and taxation arrangements for these entities and partnerships present new challenges and the service is working closely with our partners to ensure proper financial governance arrangements are put in place for each separate arrangement. The 18th March 2016 meeting of this committee received a report which provided assurances that provided assurance that all of the identified partnerships had appropriate arrangements in place with due regard to expected standards.
- 3.4.2 Financial Regulations – The Responsible Financial Officer approved the current Financial Regulations in June 2014 with supporting toolkits providing detailed guidance and outlining the required process to aid compliance. The majority of these toolkits were reviewed and updated in 2015/16 and re-published via InSite. The financial regulations themselves have been reviewed and updated with revised versions approved by the Responsible Financial Officer.
- 3.4.3 Financial Management Function – within the context of the wider review of Support Services, the vision for Financial Services continues to be that it will be smaller, but one that is risk-focussed and delivering a more efficient and influential service. Previous reports to this Committee have 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 in the 2016/17 Financial Services Service Plan to re-shape the service to ensure continuing delivery of an effective financial management function with fewer resources.
- 3.4.3.1 The training and development of Finance staff in order to deliver the service remains a priority in the Service Plan. In addition, in terms of succession planning and the on-going development of the staffing resource, Financial Services continues to support a number of Trainee Professional Accountants as part of the Council's graduate training programme with further recruitment planned for 2016.
- 3.4.3.2 The continuing loss of experienced staff, particularly through the Council's Early Leaver Initiative does remain an issue for Financial Services. However, the Financial Services Management Team continually reviews the adequacy of resources and has in place succession plans and a clear vision as to the future

shape of the service which recognises the current and future requirements of the Council. In the immediate-term, staffing resources will continue to be realigned to reflect priorities and risk and this will provide opportunities for both internal promotion and personal and professional development.

- 3.4.5 These issues are being closely monitored through a number of mechanisms and reported to the corporate Financial Strategy Group and corporate Finance Performance Group on a monthly basis and any significant issues are reported to the Corporate Leadership Team and Executive Board in the monthly financial health reports.

3.5 Other key issues and developments for 2016/17 and future challenges and improvements;

- 3.5.1 Reform of the Local Government Finance System & 100% Business Rates Retention – under the current retention scheme, which has been in place since April 2013, business rates income is shared equally between local and central government. Local authorities that experience growth in business rates are able to retain 50% of that growth locally although the downside is that local authorities also bear 50% of the risk if their business rates fall or fail to keep pace with inflation. Government has confirmed the proposal to end national uniform business rates with the introduction of 100% retention of business rates for local government by 2020. The plans to devolve business rates, while an important stage towards fuller fiscal devolution and reform of the local government finance system, needs to be managed carefully as the rates are a volatile source of income that can vary according to how a national and local economy is performing with local authorities ill-equipped to absorb short-term risks and economic shocks. Leeds is participating in the consultative working groups which are looking at the phasing out of the revenue support grant, designing a new business rates retention system and assessing the new functions/responsibilities that could be devolved to local authorities as part of phasing out the core revenue support grant and fully-retaining business rates income.

- 3.5.2 National funding formula for schools - consultation on the introduction of a new national funding formula for schools was launched in March 2016 and reinforces the government's direction of travel in terms of significantly reducing the role of local authorities in running and supporting schools. Resources have been prioritised within Financial Services to financially model, assess the impact on schools in Leeds and respond to the Government consultation regarding the proposal to fundamentally reform the school funding system. In addition, work is ongoing to assess the financial impact and risk to the Council should maintained schools become academies.

- 3.5.3 Accounts and Audit Regulations 2015 & future accounting changes – in 2016/17 we need to continue to review and develop the process for closing down the financial accounts and the preparation of the statement of accounts in line with the reducing timescales (from 2017/18 the unaudited accounts will need to be certified by the 31st May with the final accounts published by the 31st July). In addition, for the 2016/17 accounts, we need to implement some changes to accounting policies, in particular the current value accounting for transport infrastructure.

- 3.5.4 Review of Core Business Systems - the core business systems review is linked to the wider review of Support Services and is part of the work focussing on how we manage our people, finances, assets and procurement. The intention is to simplify what we do, standardise how we do it, and assess how we can better integrate the Council's core information systems. The Financial Management System (FMS) is part of this review and work is already underway to assess the efficacy of the system against both current and future requirements.
- 3.5.5 Financial Management System (FMS) – the integrity of the data within the Council's core FMS is very much dependent on the data and information from a multiple of source feeder systems, for example SAP for employee costs, Framework-i for Children's Services and CIS for Adult Social Care, Total Mobile for Property Maintenance, etc. In 2016/17 the work programme for the corporate financial integrity forum will include seeking specific additional assurances as to the integrity of the source data that feeds into the core FMS.
- 3.5.6 Supporting the Best Council Plan – the 2016/17 budget recognises the Best Council ambition of becoming a more enterprising organisation and includes a range of proposals around securing additional income from commercial activities and traded services. Financial Services have a key role to play in this around supporting service managers to grow their commercial and business acumen and in particular working with them around service costing, pricing and price sensitivity and understanding risks, pension liabilities, accounting for traded services, etc. The 2016/17 Financial Services Service Plan includes a specific objective around supporting the Council to become a more commercial organisation.

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 2015/16 report to Full Council on the 24th February 2016. 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 24th February 2016 as part of the Revenue Budget and Council Tax 2016/17. This report has no direct equality and diversity/cohesion issues.

4.3 Council policies and Best Council Plan

- 4.3.1 The 2016/17 Best Council Plan's ambitions, outcomes and priorities underpin the proposed 2016/17 budget and have been used to ensure that the Council's financial resources are directed towards its policies and priorities and, conversely, that these policies and priorities themselves are affordable. Spending money wisely is one of the Council's values, with the priority being for directorates and

services 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 overall Financial Control Environment and specific arrangements for ensuring effective financial management and control 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 Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for the proper administration of their financial affairs and appoint a Chief Financial Officer have responsibility for those arrangements. The Accounts and Audit Regulations 2015 come into force on the 1st April 2015 and sets out the responsibility for internal control, the published accounts and audit.

- 4.5.2 This report does not require a key or major decision and is therefore not subject to call-in.

4.6 Risk Management

- 4.6.1 An analysis of the key budget risks is maintained and subject to monthly review. Any significant and new risks are contained in the budget monitoring reports submitted to meetings of the Executive Board, together with any identified slippage on budget savings plans.
- 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.

5. Conclusions

- 5.1 The Responsible Financial Officer has established an effective overall Financial Control Environment framework for financial planning and exercises effective financial management and control which, in his opinion, discharge his statutory responsibilities.
- 5.2 The framework of control and developments outlined in this report are fit for purpose, up to date, embedded and are regularly complied with.

5.3 Members can also take assurance from a number of rigorous reviews and assessments undertaken, including;

- External audit have again evaluated the Council's key financial systems as part of their interim audit work in respect of the 2015/16 accounts and have confirmed that nothing has come to their attention which would be required to be communicated to this Committee. This work involved;
 - Understanding accounting and reporting activities,
 - Evaluating design and implementation of selected controls,
 - Testing the operating effectiveness of selected controls,
 - Assessing the control risk and risk of the accounts being misstated.
- Internal audit have assessed the 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 continues to meet the Council's priorities and objectives. In addition, Corporate Governance & Audit Committee approves the Council's accounts.
- Officer review of the financial strategy, annual budget and in-year budget management and monitoring processes through the Financial Strategy Group, Finance Performance Group, directorate leadership teams and the Corporate Leadership Team.
- Officer review of the adequacy of the control arrangements through the corporate Financial Integrity Forum.

5.4 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 continually under review and improved upon where appropriate.

There are a number of improvement priorities and objectives outlined in the 2016/17 Financial Services Service Plan for example reviewing the financial management systems, continuing to develop integrated working with other support services, supporting the Council's Best Council Plan priorities and Breakthrough projects, assessing the impact of the reform to the system of financing local government, considering the financial impact on schools of the implementation of a national funding formula as well as the potential financial impact from increasing academisation of schools and providing assurances around value for money.

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. Overarching Financial Control Environment

1.1 In order that the Council's statutory Responsible Financial Officer can discharge his duties a number of overarching arrangements and controls are in place as part of an effective Financial Control Environment;

1.1.1 **Responsible Financial Officer Role (RFO)** - The Deputy Chief Executive, in the role of the Council's Responsible Financial Officer, 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 staff within the Financial Management Service are professionally qualified accountants with many years of experience, and are themselves personally and professionally responsible for their actions and advice. This is reinforced through the Council's Performance and Appraisal scheme which incorporates the identification of key skills for finance staff, programmes of training, development and continuing professional development and peer review forums to ensure integrity as to the accounts and budget management and monitoring processes.

1.1.3 **Capital and Treasury Management Arrangements** - As previously reported to this Committee, changes have been made to the Capital Approvals framework to strengthen accountability for capital decisions and streamline the decision making process. This work continues 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 Best Council 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 financial health reporting 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 supported by a series of toolkits to provide guidance.

1.1.5 **Integrity of Accounts** - The integrity of all the 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 Corporate 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. Main Financial Processes

- 2.1 The above arrangements are intrinsic to all aspect of the overall Financial Control Environment but are perhaps best illustrated in practice through the annual financial cycle which covers;

- Financial Planning and Budget preparation and setting.
- In-year budget management and monitoring.
- Closure of accounts and year-end reporting.

2.1.1 Financial Planning and Budget Setting

- 2.1.1.1 Local authorities are under a statutory duty to set a balanced budget each year. Whilst at a basic level this can simply be seen as an annual exercise, given the financial challenges facing local authorities this needs to be set within a context of a medium term financial strategy. The 2016/17 financial year is the first year covered by the 2015 Spending Review and again presents significant financial challenges to the Council. The Council to date has managed to achieve considerable savings in the order of £330m over the past 5 years and the budget for 2016/17 requires the Council to deliver further significant savings. It is also now clear that the Government's deficit reduction plans will extend through to at least 2019/20, with the indicative funding levels coupled with increasing cost meaning that further savings will be required.

- 2.1.1.2 The medium-term Financial Strategy provides a framework within which the annual budget process can sit. The strategy does not attempt to provide a detailed budget for the next four years but it does recognise the Council's ambitions, policies and priorities and sets out the main financial challenges facing the Council and a broad framework for the delivery of efficiencies and savings to bridge the identified funding gap. This financial strategy was last presented to the Executive Board in October 2015 and will be updated and presented to the Executive Board in September 2016 as part of process for considering whether to accept the Government's 2017/18 to 2019/20 indicative funding offer.

- 2.1.1.3 Within the context of the Financial Strategy, as well as being a financial expression of the Council's policies and priorities, the annual budget is also a means of controlling spending to the available resources and re-enforcing financial accountability and responsibility.

- 2.1.1.4 The annual 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 range of assumptions including the level of core government grant and other specific funding, council tax base, inflation, demand and demography trends, interest rates, levels of income and fees & charges as well as 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 and service areas. 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 service priorities, 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 ambitions, 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 Council's 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 process planning but also engagement with Elected Members and Senior Management.
- 2.1.1.9 In many ways the budget is 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 Elected Member scrutiny, the budget process is subject to review by Internal Audit. 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 Management and Monitoring

2.1.2.1 Budget management and 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 Budget Holders within the Council. In line with the Budget Holder Accountability Framework, 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 (FMS). The system holds information as to the approved budgets, actual spend and income, commitments and year-end projections. On a monthly basis budget holders review the 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 manage and project than others. There are also instances where spending is controlled on systems other than the Council's main 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 Budget Holders, Chief Officers, and Directors. The year-end projections for each directorate are submitted to the Deputy Chief Executive and are reviewed and challenged each month by the Corporate Finance Performance Group (FPG). This Group is primarily made up of Heads of Finance and is chaired by the Chief Officer - Financial Services. The year-end 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 performance reports on the capital programme, capital receipts, council tax and business rate collection, and treasury/debt activities 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. All directorates have agreed contingency plans identified to the value of 2% of their net managed budgets. 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 and internal 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, usually in June each year. This report compares the budget to the final outturn for each Directorate and provides an explanation as to the reason for any variation, 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 strategic accounting team within Corporate Finance 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 Finance. 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.