

Report of the Director of Resources

Report to Corporate Governance and Audit Committee

Date: 27 March 2012

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

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 discusses the role of the Council's Section 151 officer in relation to these arrangements, and identifies through the key financial processes, how our arrangements operate to provide assurances as to their adequacy in delivering sound financial management for the Council.

The report covers in detail the key components of the Council's financial management arrangements. In summary these are as follows:

Overarching:

- The strategic role of the Section 151 officer;
- Professionally qualified and accountable staff;
- Financial Procedure Rules

Processes:

- Budget setting;
- Budget Monitoring;
- Closure of accounts
- Integrity of financial systems
- Service planning

The report also discusses the extent to which these arrangements are subject to external assessment and also the on going review to ensure that these arrangements continue to be fit for purpose.

Recommendations

Members of the Corporate Governance and Audit committee are asked

To note the assurances provided that appropriate systems and procedures are in place to ensure that the Council delivers sound financial management and planning, and

To consider whether there are any areas where further information would be helpful to the Committee in order to provide additional assurance as to the adequacy of these controls.

1 Purpose of this report

- 1.1 This report outlines the key systems and procedures which are in place to ensure that the Council delivers sound financial planning and management whilst ensuring the maintenance of adequate reserves. The report also aims to give members assurance that these systems and procedures are fit for purpose, up to date, embedded and being complied with.

2 Background information

- 2.1 Sound financial planning and management are crucial to any organisation although the current financial challenges facing the Council undoubtedly makes it even more critical that these arrangements are fit for purpose.

- 2.2 In accordance with Section 151 of the Local Government Act 1972, each local authority is required to make arrangements for the proper administration of their financial affairs and to appoint a Chief Financial Officer to have responsibility for those arrangements. In Leeds the Section 151 Officer is the Director of Resources.

- 2.3 The Chartered Institute of Public Finance and Accountancy (CIPFA) in their Statement on the role of the Chief Financial Officer in Local Government, provides further guidance on the role, stating that the Chief Financial Officer must:

- be a key member of the Leadership Team, helping it to develop, implement and resource the authority's strategic objectives;
- be actively involved in, and able to bring influence to bear on, all material business decisions; and
- lead the promotion and delivery of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

To deliver these responsibilities the Chief Financial Officer must lead and direct a finance function that is resourced to be fit for purpose; and must be professionally qualified and suitably experienced.

- 2.4 In the context of this report the Chief Financial Officer is also required under statute to:

- report to Council on the robustness of the estimates and the adequacies of financial reserves (Local Government Act 2007). The relevant sections of the 2012/13 budget report to Council relating to this duty are attached at **appendix A**.
- certify that the accounts are a true and fair view of the Councils' financial position (Accounts & Audit Regulations 2011).
- ensure that the Council's financial systems accurately record the financial transactions; enable the prevention and detection of inaccuracies and fraud and ensure risk is appropriately managed (Accounts & Audit Regulations 2011).

The financial procedures and controls put in place by the Chief 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.

3.0 Main issues

3.1 In order for the Director of Resources as the Council's Section 151 Officer to discharge his statutory duties it is necessary to have some understanding of how the role and responsibilities of the statutory finance officer manifest themselves operationally through the financial cycle which covers:

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

Overarching these three processes are a number of policies, procedures and monitoring arrangements, including: Financial Procedure Rules; the provision of financial advice and the monitoring of the integrity of the Council's financial systems.

3.2 For the purposes of this report it is proposed to focus on the three main finance processes which are central to financial planning and management within the Council. However, it does need to be appreciated that financial management, within the Council, both corporately and within directorates is delivered by colleagues who are managerially responsible to the Director of Resources. 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. Moreover, our service planning helps to ensure that there is a continual review of our processes and the ways in which we can improve our services and the financial management of the Council.

3.3 Budget Preparation and Setting

3.3.1 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 Council has adopted a number of approaches to medium term financial planning over the last 10 years. 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. To date, the Council through a number of initiatives has been able to meet this financial challenge. In 2011/12 nearly £90m has had to be saved and for 2012/13 a budget has been agreed which requires further savings to be made, but does also rely on significant one off sources of funding. Beyond 2012/13 the position is somewhat uncertain, although

it is clear that the Council will need to make further significant savings, with our best estimate at this time being nearly £50m in both 2013/14 and 2014/15.

- 3.3.2 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 Director of Resources 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 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.
- 3.3.3 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.
- 3.3.4 The development of options to balance to available resources is a key aspect in any budget process. 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.
- 3.3.5 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. Whilst the initial budget proposals are not in the same level of detail as submitted to full Council in February, this part of the process has been subject to development over the last few years, and certainly those submitted for 2012/13 to December Executive Board being the most comprehensive and developed to date. This was recognised by the Leaders of all political grouping on the Council.
- 3.3.6 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.
- 3.3.7 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 in reality 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.

- 3.3.8 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 including budget monitoring, and these are further discussed in the section 3.4 below.
- 3.3.9 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.

3.4 In Year Budget Monitoring

- 3.4.1 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.
- 3.4.2 Financial Monitoring within the Council is facilitated by the Council's Financial Management Systems. These hold 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. A new development being currently rolled out is a new system for projecting staffing costs, which will enable staffing projections to be done more efficiently. 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 are 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 Integrity Forum which includes senior finance staff and is chaired by the Chief Officer – Financial Management. **Appendix B** provides the terms of reference and identified the coverage of the work of the forum.
- 3.4.3 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 Director of Resources and are reviewed and challenged by the Finance Performance Group. This Group is made up of senior finance staff and chaired by the Chief Officer - Financial Management. 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.

- 3.4.4 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.
- 3.4.5 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.

3.5 Closure of Accounts

- 3.5.1 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. 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.
- 3.5.2 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.
- 3.5.3 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.
- 3.5.4 The Chief Officer Financial Management oversees the closedown process and the Director of Resources 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.
- 3.5.5 New accounting requirements and outturn projections are taken into account when the budgets are set for the following year.

3.6 Assessing our Financial Management arrangements

- 3.6.1 As outlined above external audit play an important role in assuring the Council's financial position and systems and processes. Within both the Comprehensive Performance Assessment (CPA) and the Comprehensive Area Assessment (CAA), there were assessments of the Council's Use of Resources which included assessments which focused on the Council's financial systems and processes. In

2008 the final year of the CPA, the Council's Use of Resources score was an overall 4, which meant that we were performing strongly. The Use of Resources Assessment in 2009 was subject to a number of fundamental changes as part of the introduction of the CAA, and it was generally recognised that it was a significantly harder test than that applied in the CPA, nevertheless, the overall assessment for the Council, as reported to this Committee in September 2009 was a 3 (out of 4) which meant that the Council was performing well. The 2010 assessment was never issued, with the CAA framework abolished in May 2010.

3.6.2 A number of tools have also been used internally to test the strength of our financial management arrangements. These tend to identify areas of good practice in order to drive improvement rather than providing an overall score. One such tool is CIPFA's Financial Management Model, which is on its third iteration. The model is designed as a resource for the whole organisation. It is a repository of good practice and an assessment framework. Its scope ranges from the essential controls that should be in place to safeguard assets and demonstrate accountability, to the aspirations of top quality organisations. The model is structured around three progressive styles of financial management:

- Securing stewardship — an emphasis on control, probity, meeting regulatory requirements and accountability.
- Supporting performance — responsive to customers, efficient and effective, and with a commitment to improving performance.
- Enabling transformation — strategic and customer led future orientated, proactive in managing change and risk, outcome focused and receptive to new ideas.

3.6.3 Grant Thornton in their November 2011 publication "Surviving the storm: how resilient are local authorities" reported on their national programme of financial health reviews, and identified best practice under the following four headings:

- Key indicators of financial performance
- Strategic financial planning
- Financial governance
- Financial controls

3.6.4 Both these tools will be used in the coming months internally to assess our current arrangements and identify any areas of improvement.

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 2012/13 report to Full Council on the 22nd February 2012. 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 22nd February 2012 as part of the Revenue Budget and Council Tax 2012/13. 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 systems and procedures are in place to sound financial management and planning 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 Whilst this report does not attempt to provide a comprehensive assessment of all the systems and controls required to discharge the statutory responsibilities of the responsible financial officer, it does provide a summary of the coverage provided by the key controls.

5.2 The financial management controls and processes are subject to a number of rigorous reviews and assessments to ensure they are fit for purpose, including:

- External Audit provide the following assurances:
 - independent assurance that, in their opinion, the accounts reflect a true and fair view of the Council's financial position and that they comply with proper accounting practice.
 - That the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
 - 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 assess:
 - the financial management controls in respect of the budget, budget monitoring and accounts process.
 - the process of ensuring the integrity of the accounts.
 - all major financial systems.
- 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 management teams and the Corporate Leadership Team.

5.3 Whilst the above arrangements should provide members with some 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 ways (para 3.6.2 & 3.6.3) in which we will review these arrangements going forward.

6 Recommendations

6.1 Members of the Corporate Governance and Audit committee are asked:

- To note the assurances provided that appropriate systems and procedures are in place to ensure that the Council delivers sound financial management and planning, and
- To consider whether there are any areas where further information would be helpful to the Committee in order to provide additional assurance as to the adequacy of these controls.

7 Background documents¹

7.1 Budget 2012/13 risk register

7.2 Revenue Budget and Council Tax 2012/13 report to Full Council on the 10th February 2012.

7.3 KPMG ISA 260 report to Corporate Governance and Audit Committee, 30th September 2011.

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.