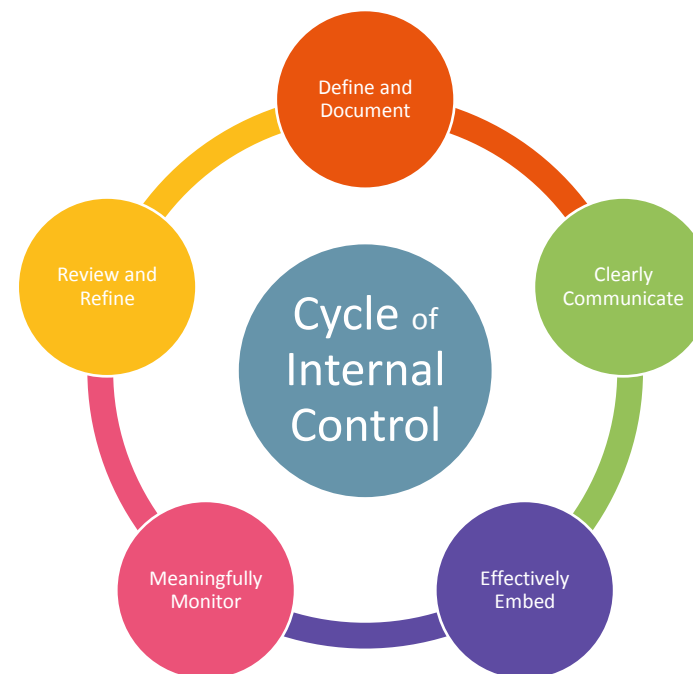


# Introduction

1. Given the significant financial challenges facing the Council especially when account is taken of uncertainty with the Government's future public spending plans and the level of resources available to local government, any ongoing financial impact of COVID-19, the additional costs to the Council associated with pay and price pressures and the impact of increased demand for support and welfare services the Council provides and in the context of several authorities running into financial difficulties, it is critical that the Council has in place sound arrangements for financial planning and management. In response the Council has established an effective financial management and control environment and specifically robust arrangements for strategic financial planning. This control framework is continually being assessed and reviewed to ensure that it remains fit for purpose.
2. The Council has a proven and comprehensive approach to the development and delivery of its Medium-Term Financial Strategy, through its annual budget setting and monitoring, together with the identification and implementation of saving plans. This statement of internal control provides assurance in respect of the Council's financial management framework; that it is up to date, fit for purpose, embedded and routinely applied.
3. Treasury Management is the management of the organisation's borrowing, investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks. The external debt relating to the Housing Revenue Account and General Fund, which is in the region of £2,336m, and investments currently stand at around £108m, as at the 7th October 2022.
4. The framework is comprised of those documents, systems and processes by which the Council's financial management and treasury management arrangements are directed and controlled.
5. Roles and responsibilities are clearly delineated and articulated to ensure accountable management of the council's financial resources, with appropriate democratic oversight.
6. This statement of internal control sets out the standing arrangements for financial management and treasury management within the Council and provides evidence of compliance over the reporting period from November 2021 to October 2022
7. The statement includes opportunities that have been identified to improve these arrangements.



## Define and Document

### **FINANCIAL MANAGEMENT**

#### The Best City Ambition (BCA)

8. Our overall vision for the city is set out in the Best City Ambition, the Council's strategic plan which sets out the ambitions, outcomes, and priorities for the City of Leeds and for the Local Authority. At its heart is our mission to tackle poverty and inequality and improve quality of life for everyone who calls Leeds home. The Ambition is focused on improving outcomes across three 'pillars': Health and Wellbeing, Inclusive Growth, and Zero Carbon. These pillars, and the areas of focus that cut across them all, capture the things that will make the biggest difference to improving people's lives in Leeds. The Best City Ambition aims to help partner organisations and local communities in every part of Leeds to understand and support the valuable contribution everyone can offer – no matter how big or small – to making Leeds the best city in the UK.

#### Medium Term Financial Strategy (MTFS)

9. The Best City ambition can only be delivered through a sound understanding of the organisation's longer term financial sustainability, which enables decisions to be made that balance the resource implications of the Council's policies against financial constraints. This is the primary purpose of the MTFS which also provides the financial framework for the annual budget.
10. To enable the achievement of the Best Council and Best City ambitions the Council has developed the MTFS to direct the resources of the Council to the priorities identified in the BCP. The MTFS provides a framework within which the annual budget process can sit. The strategy does not attempt to provide a detailed budget but it does recognise the Council's ambitions, policies and priorities, sets out the main financial challenges facing the Council and provides a broad framework for the delivery of efficiencies and savings to bridge the identified funding gap.
11. The MTFS covers a five year period and incorporates the Council's capital strategy. The updated 2023/24 to 2027/28 MTFS, which was agreed by Executive Board in September 2022, recognised the requirement for the Council's revenue budget to become more financially resilient, robust and sustainable, whilst at the same time reducing the risks associated with funding recurring revenue through mechanisms such as capital receipts and capitalisation.
12. For the period covered by the current MTFS there is an estimated budget gap of £182.6m of which £63.6m relates to 2023/24. An updated budget gap of £65.7m for 2023/24 was reported to October's Executive Board.

#### Capital Strategy

13. A combination of CIPFA's code and government guidance require a local authority to produce a Capital and Investment strategy. The Capital and Investment strategy was approved at Executive Board in February 2022 as an appendix to the Capital Programme report.

14. The capital element of the strategy sets out the principles that underpin the Council's Capital Programme and as such how it supports the corporate priorities and objectives. The strategy sets the framework for all aspects of the Council's capital expenditure and investment decisions. It supports strategic planning, asset management and robust option appraisal.

The investment strategy element considers three broad areas:

- Treasury management – covered in the treasury management strategy document annexed to the annual treasury strategy report.
  - Other financial investments such as loans and equity investment which are made to achieve service objectives; and
  - Non-financial investments such as property.
15. The Strategy provides a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provisions of services along with an overview of how associated risk is managed and the implications for future financial sustainability.

### The Budget

16. Local authorities are under a statutory duty to set a balanced budget each year. The 2022/23 budget was approved by Full Council on the 23<sup>rd</sup> February 2022.

The headlines from the 2022/23 budget proposals, when compared to the 2021/22 budget, are as follows

- An increase in the Council's net revenue budget of £86.7m to £521.9m.
- The Council will receive £29.3m in Revenue Support grant (RSG) an increase of £0.9m on 2021/22.
- The net impact of business rate retention on the 2022/23 general fund is an increase of £63.6m. This is a mainly a consequence of a decrease in the level of the deficit that has to be funded in 2022/23 and a slow easing of the pressures on Business Rates income such as bad debts, appeals, with a slight return of growth, rather than the result of significant business rates growth.
- An increase in the Settlement Funding Assessment (SFA) of £0.9m (3.2%).
- An increase in the general Council Tax of 1.99% together with a further 1% in respect of the Adult Social Care precept and an increase in the Council Tax base, generating an additional £22.2m of local funding.
- A combination of a reduction in resources and the requirement to resource increased pay, price and demand pressures means that the Council will need to deliver £16.5m of savings by March 2023 and.
- A net increase in staffing of 192 full time equivalent posts.

17. Within the year, any decision to amend the approved budget must be undertaken within the virement rules which are agreed annually by Full Council as part of the annual budget setting process.

### Budget Principles

18. In July 2019 the Council's Executive Board agreed the adoption of principles which have been developed to support both the determination and management of both the revenue and capital budgets.

19. The revenue principles have been developed to support both the process for the determination of the budget and the financial management arrangements for the delivery of a balanced revenue budget position.
20. The capital principles have been developed to enable the Capital Programme resource to achieve the priorities within the Best Council plan and will support the development and monitoring of the Capital Programme.
21. Adoption of these principles results in a more robust and accountable approach to budget management which closely aligns itself with the principles that are set out in CIPFA's Financial Management Code which all local authorities are required to fully comply with.

Constitution

22. The following documents, set out in the Council's constitution, add to the framework for the council's financial arrangements:

Part	Document	Function
Part 2 - Articles	Article 4 – The Full Council	Articulates the budget and policy framework
	Article 12 - Officers	Confirms designation of Chief Officer Financial Services as S151 Officer and sets out key responsibilities
	Article 14 – Finance, Contract and Legal Matters	Confirms application of financial regulations
Part 3 – Responsibility for Functions	Functions of the Full Council	Reserves to Council decision making authority in respect of relevant matters
	Officer Delegation Scheme (Council (non -executive) functions) Chief Officer Financial Services	Delegation of power to make financial standing orders (Financial Regulations)
	Officer Delegation Scheme (Executive functions) General Delegations	Delegates to Directors decision making authority in respect of financial matters in relation to matters within their remit
	Officer Delegation Scheme (Executive functions) Chief Officer Financial Services	Delegations to Chief Officer Financial Services in respect of financial strategy; financial management and controls; policies and procedures for budgets
Part 4 – Procedure Rules	Budget and Policy Framework Procedure Rules	Set out the procedure for adoption of documents within the Council's budget and policy framework.
	Financial Regulations	Set out the framework for managing the Council's financial affairs.
Part 5 – Codes and Protocols	Chief Financial Officer Protocol	Sets out the role and responsibilities, working arrangements, resources, and relationships of the statutory Chief Financial officers

23. The role of Chief Financial Officer and the statutory Section 151 officer within Leeds City Council is fulfilled by the Chief Officer (Financial Services).
24. The role of the Council’s Chief Financial Officer is a strategic role.
25. The Chartered Institute of Public Finance and Accountancy (CIPFA) sets out the role of the Chief Financial Officer in local government in its Statement which was last updated in February 2016. This Statement sets how the requirements of legislation and professional standards should be fulfilled by Chief Financial Officers in the carrying out of their role. The Chief Officer Financial Services and has established appropriate arrangements to discharge her responsibilities in line with CIPFA’s recommended practice.

<b>CIPFA statement requires that the Chief Financial Officer:</b>	<b>In accordance with the Chief Finance Officer Protocol the Chief Officer Financial Services:</b>
is a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver the organisation’s strategic objectives sustainably and in the public interest,	reports directly to the Chief Executive in terms of their statutory Section 151 responsibilities <sup>1</sup> ; meets regularly with the Head of Paid Service and the Monitoring Officer to consider and recommend action in connection with corporate governance issues and other matters of concern regarding any legal, ethical standards, probity, propriety, procedural or other constitutional issues that are likely to (or do) arise is a member of the Council’s Corporate Leadership Team and has advance notice of all agendas and reports
must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer-term implications, opportunities and risks are fully considered, and alignment with the organisation’s financial strategy	attends meetings of the Council’s Executive Board and has advance notice of all meetings, agenda and reports and the right to attend and speak; and has advance notice <sup>2</sup> of and the right to attend and be heard at all relevant meetings of the Authority (including meetings at which officer delegated decisions are taken) before any binding decision is taken (including a failure to take a decision where one should have been taken)
must lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently, and effectively.	reports annually to the Corporate Governance and Audit Committee regarding whether the arrangements are satisfactory and have been complied with and will include any proposals for amendments in the light of any issues that have arisen during the year

<sup>1</sup> Within the Council’s management structure, the Chief Officer Financial Services reports to the Director of Resources in all other respects.

<sup>2</sup> including receiving agendas, minutes, reports and related papers

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 also be professionally qualified and suitably experienced.

appoints a deputy and keep them briefed on any relevant issues that they may be required to deal with in the absence of the Section 151 officer; has sufficient resources to enable them to address any matters concerning their Section 151 functions

### Financial Services

26. As part of the ongoing Council-wide review of support services the Financial Service needs to ensure that it remains a highly effective and responsive function whilst continuing to demonstrate that it offers value for money.
27. The new Financial Management structure, agreed in December 2020, has been implemented to enable the service to deliver the Council's key financial priorities. These priorities include building the Council's financial resilience, delivering improved value for money and targeting resources where they can make the most difference.
28. The structure recognises the implications of CIPFA's Financial Management Code (the Code) and the requirements placed on the S151 Officer to provide assurance that the Council has in place effective and robust arrangements for financial planning, financial control and other financial management activities.
29. Through this structure, financial management across the council is delivered by colleagues who are managerially responsible to the Chief Officer Financial Services. Many of the staff within the Financial Management service are professionally qualified accountants with many years of experience; and are personally and professionally responsible for their actions and advice. This is reinforced through the Council's performance and appraisal scheme which incorporates identifying key skills for finance staff, programmes of training, development and continuing professional development.
30. The implementation of the new Financial Management structure has been accompanied by a revision to the finance service offer with more emphasis upon a risk-based approach which has been facilitated through streamlining and automating our processes especially with regard to the production of more user friendly monthly financial dashboards. Combined with the way that we have organised ourselves with more routine financial activities now being delivered through a central operational hub this has facilitated finance business partnering teams working innovatively and collaboratively with Senior Officers in Directorates to deliver strategic priorities, transformation and delivering value for money.

### Financial Challenge

31. Recognising the challenge of bridging the estimated budget gaps for the period 2023/24 to 2027/28, whilst at the same time seeking to ensure that the Council's revenue budget is robust, resilient and sustainable, another savings programme has been established, focusing primarily on the three-year period 2023/24 to 2025/26. This builds on the 'Financial Challenge' savings programmes carried out over the last two years, with the cross-council senior officer group established in 2020 to provide support and ensure a co-ordinated, consistent approach across the programme continuing its role. Further support and challenge to identify new proposals and consider options put forward by officers will again be provided by Scrutiny Board working groups.

32. Reviews are underway across the Authority to identify opportunities to continue to modernise and improve services, reduce costs and generate additional income. The outcome of this work will lead to a number of savings proposals for consideration by the Executive Board during the Autumn of 2022. Those approved for implementation, or consultation as required, will subsequently be built into the 2023/24 Budget and Provisional Budgets for 2024/25 and 2025/26.
33. Where appropriate, and in accordance with the Council’s adopted budget principles, progress against the delivery of these targeted savings is incorporated into the monthly Financial Health reporting to Executive Board.

Officer Oversight

34. The table below sets out a summary of officer groups providing for oversight and accountability in the financial management framework.

<b>Group</b>	<b>Composition</b>	<b>Function</b>
Financial Services Management Team	Directorate Heads of Finance – chaired by the Chief Officer (Financial Services)	To oversee the strategic direction of the service; sharing best practice; updating on professional developments, policies and guidance and looking forward to considering future developments.
Heads of Finance	Directorate Heads of Finance – chaired by the Chief Officer (Financial Services)	This meeting provides weekly communication with regard to the delivery of key processes that include the Budget Setting; Savings Programme; Budget Monitoring; the Capital Programme and; Closure of Accounts
Finance Performance Group	Directorate Heads of Finance - chaired by the Deputy Chief Officer – Financial Services.	As well as receiving the monthly year-end revenue projections for each Directorate which are reviewed and challenged this forum also receives updates on the capital programme, capital receipts, council tax and business rate collection and treasury/debt activities. It also receives invest to save business cases.
Directorate leadership teams	Directors and Chief Officers meeting within directorates.	To receive monthly budget monitoring information; identification of implementation of budget savings plans that will result in a balanced revenue budget position in year and; contribute towards the determination of the budget for the forthcoming financial years.
Corporate Leadership Team	Chief Executive, Directors, City Solicitor and Chief Officer Financial Services	To receive monthly Financial Health reports and Capital Programme and Treasury Management reports and contribute to and agree the budget strategies for the forthcoming financial year.
Financial Challenge	Cross council - Chaired by the Chief Officer – Financial Services.	Provision of high support, co-ordinated and consistent approach to the identification of robust, realistic and deliverable budget savings proposals; and

		oversight over the budget savings programme
Corporate Financial Integrity Forum	Senior finance staff – chaired by Deputy Chief Officer - Financial Services	This Forum 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.

Democratic Oversight

35. The table below sets out a summary of democratic oversight and accountability in the financial management framework.

Councillor / Committee	Oversight
Leader of Council	Oversight of functions in relation to Council's financial strategy
Executive member for Resources	Oversight of functions in relation to financial management and controls; policies and procedures for budgets; and corporate governance
Executive members	Oversight of development of budget options and savings proposals for matters within their remit
Executive Board	Consideration of capital injections and budget proposals Receive financial health monitoring, capital programme and Treasury Management monitoring reports Recommend the annual revenue budget, Capital Programme and Treasury Management Strategy to full Council.
Full Council	Approval of the annual revenue budget and virement rules, the capital programme and Treasury Management Strategy. Approve Council Tax and Business Rates bases.
Scrutiny Boards	Member scrutiny via Scrutiny Boards ensures that the budget continues to meet the council's priorities and objectives.
Corporate Governance & Audit Committee	Approval of the Council's audited accounts and receive the Annual Audit Report.



## TREASURY MANAGEMENT

### Policy and Strategy

36. Treasury Management in local government is subject to a number of legal and professional codes which forms the framework for Treasury Management in local government. These include Local Government Act 2003 Chapter 26 Part 1 (LGA)'; Statutory Instruments on Capital Finance and Accountancy (SI's); CIPFA Prudential Code for Capital Finance in Local Authorities 2017 and 2021 and guidance notes; CIPFA Treasury Management in the Public Services – Code of Practice and cross sectoral Guidance notes 2017 and 2021 (Together the Code of Practice); Ministry of Housing Communities and Local government revised guidance on investments 2017 (MHCLG); Public Works Loan Board (PWLB) circulars on lending policy; The Bank of England UK Money Markets Guide; LAAP Bulletins and EU Markets in Financial Instrument Directive II (MIFID II).
37. In addition, the LGA 2003 states in section 15 Guidance, that a local authority shall have regard to such guidance as the Secretary of State may issue, and to such other guidance as the Secretary of State may by regulations specify for the purposes of this provision. The Secretary of State has specified that the CIPFA codes of practice are guidance to which a local authority must have regard and therefore have the effect of law. The Codes also specify and recommend a number of other requirements such as roles and responsibilities, monitoring and oversight and provides an outline for considerations to be taken into account when setting strategy and managing risk including setting of suitable prudential indicators in relation to treasury management activity and the capital programme.
38. The Following table outlines and summarises the Treasury Management governance framework

<b>↓ DEMOCRATIC OVERSIGHT</b>			
<b>FULL COUNCIL</b>	<b>EXECUTIVE BOARD</b>	<b>CORPORATE GOVERNANCE &amp; AUDIT COMMITTEE</b>	<b>RESOURCES AND COUNCIL SERVICES SCRUTINY BOARD</b>
Setting Borrowing limits	Treasury Management Strategy	Adequacy of Treasury Management policies and practices	Review / scrutinise any aspects of the Treasury management function
Changes to borrowing limits	Monitoring reports in year	Compliance with statutory guidance	
Treasury Management Policy	Performance of the treasury function		
<b>↓ DELEGATIONS TO OFFICERS</b>			

FINANCIAL MANAGEMENT AND TREASURY MANAGEMENT – STATEMENT OF INTERNAL CONTROL

DELEGATION SCHEME	TO WHOM	FUNCTION DELEGATED
Part 3 Section 3E(d) Officer Delegation Scheme	To Chief Officer Financial Services	to discharge the following functions  1) Ensuring effective financial management and controls, including:- b) managing the Council's borrowing and investment requirements;
Miscellaneous Functions - Financial Regulation 23: Treasury Management Page 35	Function delegated to Chief Officer (Financial Services).  Sub-delegated to Deputy Chief Officer Financial Services and Head of Finance – Technical.	To ensure that all investment and borrowing is valid, accurate, efficient, properly accounted for and in accordance with statutory and corporate requirements
<b>↓ OPERATIONAL AUTHORITY OF OFFICERS/CONTROL FRAMEWORK</b>		
POLICY DOCUMENT	TO WHOM	OPERATIONAL AUTHORITY
Treasury Management Policy Statement (section 11) Policy on Delegation and Review Requirements and Reporting Arrangements	Chief Off. Financial Services Deputy COFS Head of Finance - Technical Senior Finance Manager Finance Managers	Implementation of decisions taken at Treasury strategy review meetings and day to day management of treasury operations
CIPFA: Code of Practice Prudential Code MHCLG Investment Guidance Notes	Head of Finance - Technical Senior Finance Manager Finance Managers	Ensure compliance and that any changes are reflected in the operating framework.

### Officer Oversight

#### The Chief Officer – Financial Services

39. Through him/her to his/her staff has delegated powers for all borrowing and lending decisions. This delegation is required in order that the authority can react immediately to market interest rate movements and therefore achieve the best possible terms. The Chief Officer Financial Services and staff will operate in accordance with the Code of Practice for Treasury Management in Local Authorities. The Chief Officer Financial Services is the person charged with professional responsibility for the treasury management function. This person will carry out the following duties: -
- Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance
  - Submitting regular treasury management policy reports
  - Submitting budgets and budget variations
  - Receiving and reviewing management information reports
  - Reviewing the performance of the treasury management function
  - Ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function
  - Ensuring the adequacy of internal audit, and liaising with external audit
  - Recommending the appointment of external service providers.
40. The Chief Officer Financial services has delegated powers through this policy to take the most appropriate form of borrowing from the approved sources, and to make the most appropriate form of investments in approved instruments. The Chief Officer Financial services may delegate their power to borrow and invest to members of their staff.
41. The Treasury Management Team must conduct all dealing transactions, or staff authorised by the Chief Officer Financial services to act as temporary cover for leave/sickness. All transactions must be initiated and authorised by named officers with division of duties checks carried out by the back-office staff.
42. The Chief Officer Financial services will ensure that Treasury Management Policy Statement (TMPS) is adhered to, and if not will bring the matter to the attention of elected members as soon as possible.
43. Prior to entering into any capital financing, lending or investment transaction, it is the responsibility of the Chief Officer Financial Services to be satisfied, by reference to the Council's legal department and external advisors as appropriate, that the proposed transaction does not breach any statute, external regulation or the Council's Financial Regulations
44. It is also the responsibility of the Chief Officer Financial Services to ensure that the Council complies with the requirements of UK Money Markets Code for principals and broking firms in the wholesale markets.

45. The treasury management governance framework and the delegations within the Resources Directorate and specifically to the Chief Officer Financial Services shall operate on the following basis
46. The practical organisation within the Resources Directorate is that all aspects of borrowing/lending strategy over the year are determined or reported to regular monthly meetings of the Finance Performance Group (FPG) attended by the Chief Officer Financial Services, Deputy Chief Officer Financial Services and Heads of Finance. Quarterly, treasury strategy review meetings take place with the Chief Officer Financial Services, Deputy Chief Officer Financial Services, the Head of Finance - Technical and the Senior Finance Manager.
47. Implementation of decisions at such meetings and the day-to-day management of the Treasury Operations are delegated without limit to the Chief Officer Financial Services or in his/her absence and through him/her to either the Deputy Chief Officer Financial Services, Head of Finance – Technical, the Senior Finance Manager and on occasions the Finance Managers.
48. Consultations will be made by the Chief Officer Financial Services on Treasury Management matters with:
  - The Chief Executive: so that he/she can ensure proper Treasury systems are in place and are properly resourced.
  - External Treasury Advisers: so that they can advise and monitor the process of fixing strategy and policy on Treasury Matters and advise on the economic outlook, prospects for interest rates and credit worthiness.
49. With regard to the Deputy Chief Officer Financial Services, the Head of Finance - Technical / Senior Finance Manager / Finance Managers the responsibilities of these posts will be: -
  - Execution of transactions
  - Adherence to agreed policies and practices on a day-to-day basis
  - Maintaining relationships with counterparties and external service providers
  - Supervising treasury management staff
  - Monitoring performance on a day-to-day basis
  - Identifying and recommending opportunities for improved practices.

### Democratic Oversight

#### Full Council

50. Treasury Management strategy for the upcoming year is set in February before the start of the year in the Treasury Management Strategy Statement (TMSS). This is provided in the form of a report to Executive board and to full Council and within the CIPFA codes is a recommendation that only Full Council can set certain Prudential indicators such as:-
  - Authorised Limit (maximum amount of borrowing than can be outstanding) Full Council
  - Operational Boundary (a lower working limit of the above) Full Council
  - Upper and lower limits on fixed interest maturity structure (Set by Time band).
  - Treasury management Investments Strategy and Limits.

51. The TMSS can also have as an appendix called the Treasury Management Policy Statement (TMPS) which is a standing document that is only updated from time to time, but which covers many of the topics in this document in terms of:-
- Objectives of Treasury management
  - Approved activities of the Treasury management operation.
  - Formulation of the treasury management Strategy
  - Approved methods and sources of raising capital finance
  - Approved Instruments and Organisations for investments
  - Investments on Behalf of Council managed Charities and trusts
  - Policy on Interest rate Exposure
  - Policy on External managers
  - Policy on Delegation and review requirements and reporting arrangements

#### Executive Board

52. In its role Executive Board has sight of the TMSS before approval by full Council in February every year. In addition, it receives a half year update in November every year on the activity and projections for the current year; it receives a report after the end of the year in June which reports on the outturn against strategy, and it receives a quarterly update on Prudential Indicators set by full Council highlighting any significant movements as part of the Quarterly financial health monitoring of the Council.

#### Corporate Governance and Audit Committee

53. Every year the CGA committee receives a report and the assurance and soundness of the Treasury management operation including an internal audit assurance report on the systems and compliance with the framework of the treasury management operation.

## Clearly Communicate

### FINANCIAL MANAGEMENT

#### Engagement

55. Extensive consultation was undertaken as part of the budget setting process, as outlined in the Revenue Budget and Council Tax 2022/23 report to Full Council on the 23rd February 2022. In addition, submitted budget savings proposals that involve the review of a service will also incorporate the requirement for consultation and engagement.
56. As described above the revised financial management service offer requires improved engagement to work more innovatively and collaboratively in the management of the current approved budget and in the determination of future years budgets.
57. Respective Scrutiny Boards are engaged not only in the scrutiny and challenge with regard to the management of the current year's approved budget but equally they will review budget proposals for the forthcoming financial year and these views are incorporated into the Annual Revenue Budget report that is received at Full Council in February each year.
58. The Council's leadership team (CLT) and the Council's Cabinet receive regular financial briefings on both the current and future financial years along with updates on issues e.g. new legislation or accounting development, that have implications for the Council's financial position.

#### Communication

59. The Financial Management section of the Council's Intranet site contains guidance and informative toolkits which support staff who have financial management responsibilities. Each of the regulations set out in the Council's Financial Regulations is supported by a series of toolkits to provide guidance for officers.
60. As well as taking account of the role of Cabinet, CLT and Scrutiny, which is described above, regular financial presentations on the latest and forecast financial positions are made to meeting of key senior officers such as Best Council Leadership Team
61. Communication and support is provided to both officers and elected Members on specific issues. For example new Councillors receive a briefing on a range of financial issues including how local government is financed as part of their induction and this training has now been extended to all members; a training package is currently being finalised which will inform both new officers as to how the Council is funded and how budget holder responsibilities contribute towards the financial governance arrangements in the Council and in the past training has been provided in respect of Financial Regulations and on how the Capital approval procedure rules operate.
62. The enhanced Business Partner role requires financial management staff to work closely with Directorates and requires them to ensure that key staff have appropriate support so that they can manage their current budgets and plan for future financial years.

## TREASURY MANAGEMENT

### General

64. In addition to the reporting arrangements covered above in respect of Officer and Democratic oversight quarterly strategy meetings are held with the Chief Officer Financial Services, Treasury Management staff and the Council's external advisors. The purpose of these meetings is to review the Treasury Strategy approved by Full Council and Executive board in February prior to the start of each Financial Year. This review is a necessary function of Treasury management to compare and contrast strategy and assumptions behind that strategy to the then current economic reality and to current updated economic projections and updates of the Councils needs and requirements. Any change of strategy will be reported to Executive Board for retrospective approval at the first available opportunity within the TM reporting cycle. Daily Conversations are held with Brokers operating in the London money markets to advise on Council borrowing and lending needs and to update/refresh on current market dynamics and offerings on both short and long-term borrowing and lending opportunities.

### Training

65. The revised Codes of Practice 2021 recommend that more intensive and frequent training is provided to those tasked with governance and oversight of the TM function. This is currently being reviewed with proposals and actions to be brought forward in due course with the aim of ensuring full compliance with the codes for the 2023/24 financial year.
66. Officer training is conducted through a variety of methods which includes that delivered externally by our Treasury Advisors or attendance at suitable market seminars and events such as Local Authority Treasury Investment Forum (LATIF). Internal support is provided through mentoring and Use of Guidance notes.

## Effectively Embed

## FINANCIAL MANAGEMENT

### Annual Financial Cycle

67. When effectively embedded the internal control framework ensures delivery of the annual financial cycle which covers:



### Financial Planning and Budget Setting

68. Within the context of MTFs, 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.
69. The annual budget process is led by the Chief Officer Financial Services and involves a wide range of officers and members across the council.
70. The process starts soon after the budget setting of the previous year with an update of the funding, key pressures and savings assumptions contained in the MTFs. Undertaking such an assessment involves a range of assumptions including the level of core government support as reflected through the Settlement Funding Assessment (SFA), other specific funding, calculation of the council tax base, the determination of the level of business rates receivable, the level of pay and price inflation, demand and demography trends, the implications of any known changes in legislation, interest rates, levels of income and fees & charges as well as new or developing spending pressures. This part of the process is led by finance staff but will involve 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.
71. At the same time Directorates start to prepare detailed estimates for the forthcoming year; although it is recognised that ultimately the totality of these estimates needs to be consistent with the overall resources envelope that is available to the Council.
72. The development of options to balance to available resources is a key aspect in any budget process and there is a requirement 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.
73. In response to the financial challenge the Council established a "Financial Challenge" programme of service reviews. This cross councillor" group approach provided high support, co-ordinated and consistent approach to the identification of robust, realistic and deliverable budget savings proposals. The same group will have oversight over the 2022/23 budget savings programme. Through this robust and accountable approach any variations to budgeted assumptions can be readily identified and addressed. Where appropriate, and in accordance with the Council's adopted budget principles, alternative proposals will be identified to ensure that a balanced budget position can be delivered in

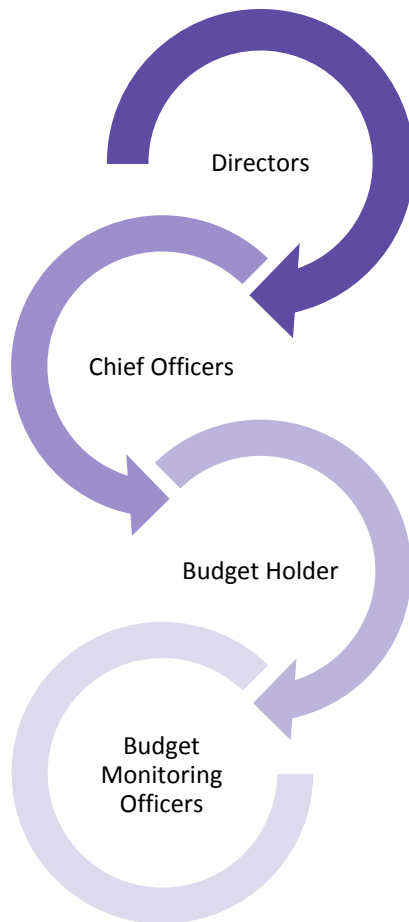


2022/23. Progress against the delivery of these targeted savings will be incorporated into the monthly Financial Health reporting to Executive Board.

74. The Budget and Policy Framework Procedure Rules set out in the Council's constitution provide that the proposed budget for the forthcoming financial year must be submitted to Scrutiny 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 and January meetings of the respective Scrutiny Boards.
75. 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.
76. 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 list of key budget risks which attempts to identify and assess the risks built into the budget. It is important to appreciate that the time frame of the list of budget risks is a single budget year. The list of key budget risks not only assists in assessing the robustness of the budget but also acts as a means of assessing the adequacy of the general reserve in that it provides an assessment of what may go wrong in-year.
77. The Local Government Act (Part II) 2003 places a requirement upon the Council's statutory officer (the Chief Officer – Financial Services) in Leeds to report to members on the robustness of the budget estimates and the adequacy of the proposed financial reserves. Reaching a view of the robustness of the budget and the adequacy of the general reserve 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 management and control.

#### In year Budget Management and Monitoring

78. Budget management and monitoring is a continuous process which operates at a number of levels throughout the Council. The Council's budget accountability framework clearly articulates roles and responsibilities and aligns financial accountability within service decision-making.



79. 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. Director and Chief Officer sub delegations set out clearly what responsibilities have been delegated to them which allow them to undertake their duties and detailed requirements with regard to the budget are incorporated into the Council's Budget Management Accountability Framework which sets out clearly the responsibilities of Chief Officers, Budget Holders and Budget Monitoring Officers.

80. In advance of the financial year, and after the revenue budget for the forthcoming year has been approved, Directorates are requested to produce budget action plans for their services which detail what action is required to deliver the approved budget (for example a staffing restructure or a delegated decision to implement price increases); when the action is required to be completed by and who is responsible for delivering the action required.

81. In addition, through taking a risk-based approach to their respective budgets, Directorates are requested to identify contingency arrangements that could be implemented to address any variations from budgeted assumptions that will result in an overspend. The outcome of this exercise informs how much is required in the Council's general reserve to provide for risks.

82. Budget roll-out meetings are also held with services within Directorates to ensure that accountable budget holders are both aware of the key aspects of their budgets and what key budget actions are required to be completed to deliver a balanced budget position.

83. Financial and budget 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. User friendly visual dashboards are now utilised allowing budget holders to regularly review spend to date against approved budgets and against profiled budgets. In addition, budget holders and finance staff project the end of year position and this clearly involves a degree of judgement. In practice some budgets are more difficult to manage and forecast 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 are regularly reconciled to FMS.

84. 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.

#### Closure of Accounts

85. The first stage of the closedown process is a natural extension of the budget monitoring arrangements with Directorate finance officers compiling the final figures for the services they support to determine an outturn position to be reported to Executive Board in June each year. This report compares both the revenue and capital 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. In addition, a full and complete reserves statement is provided to Executive Board.
86. Alongside the budget monitoring process, significant accounting decisions are referred to the Technical and Integrity accounting team within finance to ensure compliance with applicable accounting standards. The Council's external auditors, Grant Thornton, will also be consulted on such decisions to ensure they are agreed by all parties before a major financial decision is made.
87. All changes to accounting practice are assessed and, where applicable, implemented by officers in 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.
88. Staff within the Technical and Integrity Team and Strategic Finance oversee the closedown process and the Chief Officer Financial Services will review 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.
89. New accounting requirements and outturn projections are taken into account when the budgets are set for the following year.

#### Capital Programme

90. The Council's 10-year capital programme considers the need for capital investment against affordability within the Medium-Term Financial Strategy (MTFS). The programme identifies annual programmes across the Council that aim to provide investment in assets to ensure that the Council can continue to operate effectively. The Council also has a number of major programmes that provide investment in line with the Council's best plan objectives.
91. Capital investment needs are assessed on an annual basis under the direction of the Financial Challenge - Strategic Investment Board with final approval sought from the Executive Board and Full Council in February each year (at the same time that the revenue budget is set to ensure overall affordability). If necessary, a second injection at a mid-year point could be utilised. The process does however allow for fully funded schemes (funded either by external resources or departmental prudential borrowing) to be injected throughout the year.

92. In May 2022 Strategic Investment Board agreed an overarching Capital Strategy to support a review of the capital programme, whereby new borrowing would not exceed budgeted Minimum Revenue Provision (MRP), except where this would prevent the delivery of savings or robust prudential borrowing proposals. In addition, capital programme priorities were refreshed and summarised into the following questions to be used to assess the priority of new projects / pressures identified by Directorates:
- Which of the Council's Three Pillars does the proposal deliver against: health and wellbeing, inclusive growth and net zero carbon commitment?
  - Is the proposal essential e.g.: Health and Safety, Statutory/Mandatory, Delivers Future Cost Savings, Delivers Service Transformation, Externally or Part Externally funded, Protects External Income?
  - What impact will the proposal have on revenue resources, including internal budgeted income, e.g.: staff capitalisations, internal trading (LBS, Highways DLO, etc) and Joint Ventures (NPS, etc)?
  - What impact will the proposal have on the review of the Council's estate?
  - Does the proposal require additional IT requirements?
93. The Capital Programme review is undertaken by senior officers across the Council to consider whether all elements of the existing capital programme remain priorities in the current financial climate and to identify new projects / pressures that require funding. The process has involved peer review and challenge with each directorate discussing the proposals in their respective management teams. The results of the review are being considered by Strategic Investment Board to make recommendations and identify how new projects / pressures might be funded sustainably. Any capital and revenue impacts of this review will be reflected in reports to Executive Board in December 2022 where CLT, member engagement and wider consideration takes place.
94. Proposals for new capital schemes funded from borrowing must follow a rigorous business case process to demonstrate investment is aligned to capital objectives, meets the needs of the public and will deliver best value. Directorates submit their future scheme spending intentions which are challenged and prioritised by the Financial Challenge – Strategic Investment Board before CLT, member engagement and wider consideration takes place. Only those priority and deliverable schemes are put forward for inclusion within the capital programme.
95. One of the main risks in managing the capital programme is that insufficient resources are available to fund the programme. As the capital programme is fully funded this risk lays within the treasury management of the debt budget. Monthly monitoring procedures are in place for expenditure, resources, capital receipts and debt monitoring to ensure that this risk can be managed effectively. These include
- Ensuring written confirmation of external funding is received prior to contractual commitments being entered into.
  - Regular monitoring of the council's VAT partial exemption position to ensure that full eligibility to VAT reclaimed can be maintained. This position is reported quarterly.
  - Provision of a central contingency within the capital programme to deal with unforeseen circumstances. Individual programmes and schemes will also contain a risk provision for unexpected circumstances.
  - The capital programme includes a central contingency to cater for any unforeseen circumstances. In addition, individual programmes and schemes contain a risk provision for unexpected circumstances.

- Compliance with both financial regulations and contract procedure rules to ensure the Council's position is protected; and
- Ensuring all major programmes are supported by programme boards.

96. The Chief Officer for Financial Services continues to ensure that the introduction / start of new schemes will only take place after completion and approval of a full business case and identification of the required resources; that there is promotion of best practice in capital planning and estimating so that scheme estimates and programmes are realistic; and the use of departmental unsupported borrowing for spend to save schemes is based on individual business cases and in the context of identifying the revenue resources to meet the borrowing costs.

## TREASURY MANAGEMENT

### Stakeholder engagement

The main stakeholders in the Treasury management functions are as follows:

97. The Treasury Management function reports directly to the Chief Officer – Financial Services on the projections of debt costs over the period of the life of the Medium-Term Financial Strategy. Further any long-term borrowing decisions are fully consulted on with the Chief Officer – Financial Services before being executed under the Treasury Management delegations.
98. Engagement with brokers, who are external organisations operating in the City of London and provide services in relation to both long and short-term borrowing and investments, these are undertaken on a daily basis by Treasury Management staff and provide a robust and detailed flow of information and market intelligence, bid/offers in the market and dissemination of the requirements of the Council. All trades are confirmed with Counterparties directly and on top of this, regular meetings and discussions are undertaken with for instance banks regarding services and potential funding from these sources.
99. There is regular reporting and returns to complete to DLUHC including Monthly Borrowing and lending (MBL); Capital Outturn Return (COR); Capital Estimates Return (CER); Capital Payments return (CPR4); PWLB Certainty Return.
100. Public Works Loans Board (PWLB), as the main source of funding to Local Government, has long standing links to the Council. The Council completes a return to PWLB every year to gain access to the PWLB certainty rates which are 20bp below PWLB standard rates (This is called the PWLB certainty return). The PWLB also publishes updates to its lending arrangements on a regular basis and these are detailed on its website along with other information such as current and historic interest rates.

### Systems and processes

101. Treasury Management systems and processes are well established and changes to these are evolutionary rather than revolutionary. A new system has been purchased and is in the process of being implemented.
102. Treasury Management systems utilise a mixture of Access Databases;(being replaced by the new web-based system); spreadsheets; Adobe Acrobat documents (Including Digital Signatures to maintain division of duties evidence in a paperless environment); Market

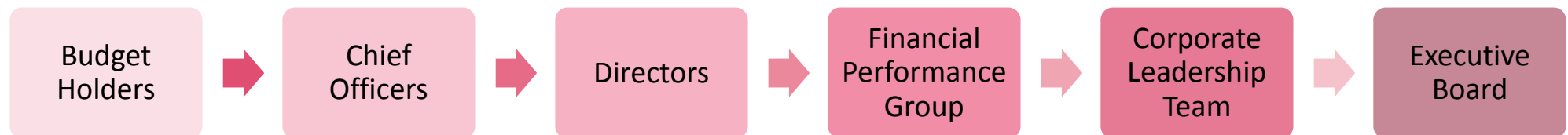
Information System (Proquote/IRESS); Banking System (Bankline – provided by Nat West as part of the banking contract); FMS LCC main finance system and OneNote user guides and manuals.

## Meaningfully Monitor

### FINANCIAL MANAGEMENT

103. Meaningful monitoring takes place throughout the financial cycle as described above.

#### Budget Monitoring



104. Financial monitoring is undertaken and operates on a hierarchical basis, whereby the monthly projections are aggregated upwards to be reviewed by budget holders, Chief Officers and Directors. The year-end projections for each Directorate are reviewed and challenged each month by the Council's Finance Performance Group (FPG). The year-end projections are then reported to the Council's Corporate Leadership Team and the Executive Board. As well as being accurate, monitoring also needs to be timely, and as such 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.
105. As part of in-year budget management and monitoring, year-end projections for income and expenditure are submitted to the Chief Officer Financial Services, and the Corporate Leadership Team, and are also reviewed and challenged by the Corporate Finance Performance Group. In addition, budget monitoring s/Financial Health reports are presented monthly to Directorate leadership teams, individual executive members, Executive Board and respective Scrutiny Committees.
106. 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, achievement of the key budget actions plans is highlighted specifically on the regular budget monitoring dashboards that form a part of the Financial Health monitoring reports that are received at Executive Board.

107. In line with the Council's financial procedure rules and the Council's 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 contingency plans identified to the value of the key risks identified in the budgets. The Council's Revenue Budget principles, which provide a framework for managing the revenue and capital budgets, requires that savings options to balance identified overspends are reported through the regular Financial Health reports to Executive Boards in the form of action plans.

#### Capital Programme Monitoring

108. The capital programme continues to be closely monitored with Directorates and progress on schemes reported on a monthly basis to Financial Performance Group and Best Council Team – Strategic Investment Board. Quarterly updates are presented to the Executive Board.
109. The cost and affordability of the borrowing resulting from capital expenditure are budgeted for and managed within the revenue debt budget. In the year following capital expenditure, as well as budgeting for interest costs, the revenue budget must make provision for the minimum revenue provision on borrowings which is accounted for over the life of the asset. Forecasts for the debt budget are dependent upon interest rate assumptions, the likely level of capital spend and the Council's cash balances. The affordability of new and existing borrowing is reported on a monthly basis as part of the financial health reporting to the Executive Board, with specific treasury strategy reports presented to the Executive Board at least three times a year.
110. Monitoring performance reports on the capital receipts, council tax and business rate collection, and treasury/debt activities are considered during the year by the Executive Board.

#### Corporate Financial Integrity Forum

111. The Corporate Financial Integrity Forum, which meets each month and is chaired by the Deputy 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.
  - Areas of concern affecting financial integrity are investigated and reported on.

112. 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. 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.

#### Financial Resilience Index

113. In response to a number of high-profile authorities reporting financial difficulties, CIPFA (Chartered Institute of Public Finance and Accountancy) issued their financial resilience index for local government. This analytical tool is designed to provide councils with a clear understanding on their position in terms of risk. The selection of nine indicators, three of which relate to reserves, measure an individual Authority's resilience to continue to deliver annual savings and manage significant shocks whilst still pursuing ambitious goals for Local Communities. The indicators reflect the fact that the Council has a lower level of usable reserves when compared to nearest neighbours identified in CIPFA's model and other Core Cities. As detailed in the MTFs the Council is planning to increase the level of reserves that it retains.

#### Independent Assurance

##### Internal Audit

114. Internal Audit continues to provide assurance to members that the key core financial systems and processes are robust and are operating effectively. The financial management and control framework is subject to a number of independent assessments which include annual reviews of major financial systems undertaken by the Council's Internal Audit function. Internal Audit has provided a substantial assurance opinion or good assurance opinions for each of the major financial system audits completed in the year to date. Financial management assurances run throughout a substantial portion of the Internal Audit Plan, and work is ongoing looking at the application of financial controls and processes across key areas of activity. An audit of Budget Monitoring and Control is due to begin imminently. This will provide assurances on the effectiveness of the new processes introduced to support budget monitoring and management across the authority, and outcomes will be summarised within the updates provided by Internal Audit later in the year.

##### External Audit

115. External Audit provide 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.

116. Grant Thornton will provide, in respect of the financial accounts, the independent assurance that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. From 2020/21 onwards auditors are no longer required to issue a single conclusion on the VFM arrangements within a Council. Instead, auditors report in more detail on the Council's overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.



117. Auditors are required to report their commentary on the Council's arrangements under specified criteria. As part of their work they must consider whether there were any risks of significant weakness in the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources. Specifically, the auditors must consider the arrangements over the following headings:

- Financial sustainability
  - Governance
  - Improving economy, efficiency and effectiveness.

Grant Thornton's 2020/21 Annual Audit report was received at this Committee on the 3<sup>rd</sup> October and whilst it did not identify any significant weaknesses and related key recommendations, in including the Council's response to Covid-19, it did identify a small number of improvement recommendations to further enhance the Council's arrangements. These recommendations included that:

118. The Council should continue to keep its financial position under review and continue to closely monitor the delivery of savings schemes and actions to address the current and future years budget gap.
119. The Council should continue to consider the adequacy of its current level of General Fund Reserves and Balances to ensure these remain adequate for its needs and potential unforeseen events.
120. The Council should consider as part of its wider capital investment ambitions and treasury management strategy, the level of its long-term debt and its ability to fund the associated future revenue costs, in particular, the future Minimum Revenue Provisions (MRP) required.
121. It is important to appreciate that both 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.
122. The Chief Financial Services Officer meets with Grant Thornton on a monthly basis to review progress on the delivery of a balanced budget position and the actions being taken to deliver a sustainable financial position for the years covered by the current approved Medium Term Financial Strategy.

## TREASURY MANAGEMENT

### Internal Audit

123. The Treasury Management systems of control and compliance with those controls are audited on a regular basis by Internal Audit and the results of this audit are reported to the Corporate Governance and Audit Committee.

### Benchmarking

124. Structured benchmarking is not undertaken as the individual authorities can be widely divergent due to historic decisions taking place within each authority. In addition, it is important to note the Prudential Indicator system in place for all Local Authorities should not be used for benchmarking purposes and this is explicitly stated within the CIPFA code itself.

125. Core Cities benchmarking. Some benchmarking is undertaken on an ad-hoc basis and a recent exercise was undertaken on a Councillor request in relation to the level of external debt against the value of fixed assets. Also, from time to time the Core Cities Treasury Management group will provide and collate comparative debt and investment statistics.
126. The Council's Treasury Management advisors also provide core cities comparative statistics usually after the end of the year covering a range of appropriate indicators such as level of debt etc.

#### Performance indicators

127. Prudential indicators as set by Full Council are reported on in each of the Treasury Management reports that are received at Executive Board. These reports compare a 4-year forecast and limits in the February report and a comparison of the strategy to the latest projections at the half year and end of year reports.
128. The Council's budget monitoring officer group, FPG, receives a monthly report and update on the performance of treasury management including the revenue impact of the Capital programme, Debt and investment Portfolios. This includes full details of any changes to projections over the current and next financial years as well as comparison of the TM debt projections against the MTFs to allow early and robust action to be taken. The FPG report also compares for the current and future years the projections for debt costs and income against the strategic debt budget for the current year and monitors against this monthly. The aim is to identify and report any potential unanticipated savings or costs as they are recognised.

#### Risks identified and mitigated

129. The TMSS strategy report outlines in detail the current risks to Treasury Management strategy including any known external risks to the proposed strategy. This is informed by the Treasury Management Practices (TMP's) document. Any risks identified are also analysed and mitigated as far as practicable within the strategy setting process.
130. Treasury Management Practices document (TMP's) is an internal document which outlines the major classifications and risks relevant to the treasury management operation and TMP1 details these risks. This document is updated from time to time as necessary and is based on the general risks identified within the CIPFA Codes of Practice but annotated for a Leeds City Council perspective and attitude to risk e.g. Credit and Counterparty Risk, Market Risk Management.
131. The TMP document also covers and deals with all areas of Treasury Management from an operational perspective. This document therefore covers the requirements of this cycle of control document but is set out along the lines proscribed in the CIPFA Codes of Practice and has been in place since the introduction of the codes in the mid 1990's
132. The TMSS outlines not only the strategy and risks to that strategy but also any mitigations necessary and options available to mitigate those risks.
133. Further to this the monthly reporting process also details performance and any emerging risk to the strategy as set in the TMSS and this process is iterative with mitigations being identified and applied as risks emerge. Quarterly Strategy meeting with the Council's Treasury Advisors take place with a view to identifying risk and opportunities which are emerging in relation to the Councils strategy and to identify

any mitigations that could be applied to address risks identified. Markets and market intelligence is sourced on a daily basis through and these information flows are further used to inform and update the current risks facing the treasury management operation and strategy.

134. The risk of loss arising from the failure of a financial institution with which the council has placed an investment is recorded as a risk within the Resources directorate risk register.

## Review and Refine

### FINANCIAL MANAGEMENT

#### Adequacy and Resilience of Internal Controls

135. This statement of internal control details the arrangements and controls that are in place to deliver the key financial management functions that include the determination of the annual budget, budget monitoring, closure of the financial accounts and treasury management arrangements. Both Internal and External Audit provide the appropriate assurance to Members that that these arrangements are sufficient.

136. Looking ahead consideration needs to be given to the following which could have implications for the financial management arrangements that the Council has in place and which may need to be revised to take account of these risks and developments.

#### Review of MTFS

137. An updated MTFS was received at September's Executive Board, and this highlighted a funding gap of £182.6m of which £63.6m relates to 2023/24. As reported to October's Executive Board this estimated budget gap for 2023/24 has subsequently increased to £65.7m. This position has been reported in advance of the Chancellor's autumn statement which is expected to be published on November 17th and this will inform the Provisional Local Government Finance settlement that is expected in mid-December 2022. Budget savings options to bridge the estimated budget gap for 2023/24 have been received at September's Executive Board and further proposals are timetabled to be received at December Executive Board.

138. The Government remains committed to progress the review of relative needs and resources the outcome of which will inform the methodology for the distribution of resources.

139. In addition there are a number of other pressures which will influence and impact upon the Council's financial position and these include any ongoing impact of COVID-19 upon the level of resources available to the Council.

#### National Funding Formula for Schools

140. 2022/23 is the fifth transitional year of the national funding formula for schools. During this transitional period local authorities will be allocated an amount based on the new national funding formula but they can decide on a local formula for allocating this to schools. The Government has indicated that the transitional arrangements will continue into 20223/24. The schools funding formula for 2022/23 has now

been approved following consultation with all schools and the Schools Forum. In line with the majority view, some funding will be transferred from schools to provide additional funding for pupils with high needs, in order to address ongoing pressures in this area. After taking account of this transfer and the views from the consultation, the 2022/23 funding formula has moved as close as possible to the national funding formula. In addition work continues to be carried out to assess the financial impact and risk to the Council should maintained schools become academies.

### Financial Management Code

141. In October 2019 CIPFA published the Financial Management Code. The Financial Management Code, which is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability, has been introduced following concerns about fundamental weaknesses in financial management particularly in relation to organisations that may be unable to maintain services in the future. The code itself contains a series of financial management standards with which compliance is required if a local authority is to meet the minimum standards of financial management acceptable to meet fiduciary duties to taxpayers, customers and lenders. Local authorities have been required to comply with the requirements of the Financial Management Code with effect from 1st April 2021.
142. Implementation of the code will complement the Council's Statutory Financial Officer's statement, which is required under the 2003 Local Government Act, on the adequacy of reserves as a part of the annual budget setting process. It is also good practice for the Authority to have a policy on the level of its general reserve and to ensure that it is monitored and maintained.
143. The VFM review undertaken by the Council's external auditors in respect of the final accounts will also cover compliance with the Financial Code and their findings in respect of the 2020/21 accounts were incorporated into their report to the Corporate Governance and Audit Committee in October.

### Opportunities for improvement

#### Financial Management Systems (FMS)

144. FMS is the financial monitoring system in use across the Council. On a regular basis budget holder, taking a risk-based approach and with support from finance staff, review their spend and commitments against the approved budgets and project their year-end position.
145. 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.
146. FMS is an in-house developed and managed Oracle-based system. The system is a ledger system, the general feel of the system is not modern, user-friendly and there are specific gaps in the system's capabilities, for example procurement/purchasing. As a part of the Core Business Transformation (CBT) Programme, Executive Board in September 2020 agreed the procurement of a replacement of existing Finance, HR and Payroll IT systems. Implementation of new systems will contribute towards supporting the current process of service reviews, the transformation of service delivery and the securing of the long-term viability of the Council's business information technology (IT) systems. Implementation of new Finance system will also support the successful implementation of the new Financial Management

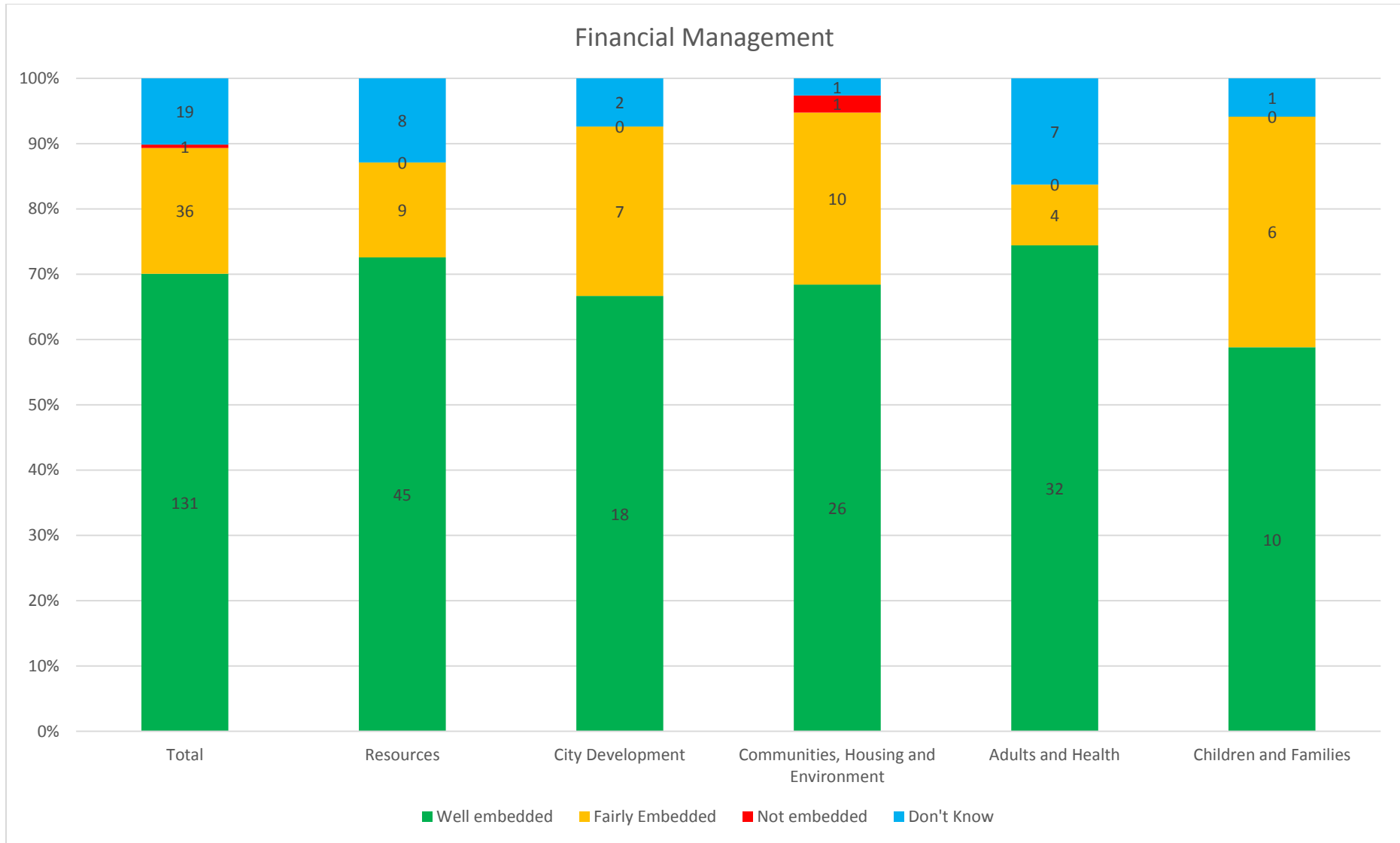
structure which supports the Council to deliver its key financial priorities. As a stepping stone to the replacement of FMS, user friendly, visual dashboards have been developed, allowing budget holders to work with financial information in an effective manner. A further Executive Board report, in October 2022, approved delivery of phase 1 of the CBT Programme, which is to replace the Finance System.

147. 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, Mosaic Framework- for foster carer payments and CIS for Adult Social Care payments, Qube for property rental income, etc. In 2022/23 the work programme for the Corporate Financial Integrity Forum continues to focus upon seeking specific assurances as to the integrity of the source data that feeds into the core FMS, and in particular the new Civica system which provides housing management functions.

### IR 35

148. IR35 is tax legislation that's intended to ensure that people who offer their services in a self-employed capacity and typically through a personal services company pay the right level of tax. (IR35 is the name of the Inland Revenue press release that launched this requirement in 2017). It's designed to assess whether a contractor is a genuine contractor rather than a 'disguised' employee, for the purposes of paying tax.
149. Since April 2017 public authorities have been responsible for deciding if the rules applied where they contract workers who provide services through their own intermediary and the Council is responsible for using the Check Employment Status for Tax (CEST) tool to determine whether staff being hired for a specific engagement, should be classed as employed or self-employed for tax purposes.
150. The Council has established specific controls to manage this process, and these have been subject to internal audit review, but it is recognised that further work is required to confirm that the CEST tool is being completed appropriately on all occasions.
151. The Survey of Internal Control which took place in May 2022 considered a number of aspects of the financial management arrangements. In particular respondents were asked to rate the extent to which staff were aware of and working in accordance with the following:
- Financial Regulations including those in relation to security of physical assets and stocks and stores.
  - The revenue and capital principles agreed by Executive Board in July 2019.
  - Arrangements for budget setting and monitoring.
  - Arrangements for obtaining financial advice and guidance.
152. The results, which are set out in the charts below, show that managers' perception of overall awareness and compliance with key components of the financial control environment is good. However, there is opportunity for improvement and arrangements will be made to ensure that appropriate Council employees are sighted on the financial control framework.

Results of the survey of Internal Control



Internal Audit Recommendations

153. Financial Services receive Internal Audit recommendations across a range of audits that take place throughout the year. In accordance with a procedure established over the last year, high and medium priority recommendations are placed on a tracker that enables the monitoring of implementation within the relevant areas. These recommendations are key to ensuring that financial controls remain up to date and fit for purpose. At the time of reporting, all recommendations that are due at this point have either been implemented or are in the process of being implemented. The continual monitoring of this information will drive the timely action required to support the ongoing refinement of the financial control environment

## **TREASURY MANAGEMENT**

### **Ensuring our arrangements are up to date and fit for purpose**

154. The following areas can be and are updated from time to time and well understood processes are followed in all cases:

- Legislation including Statutory Instruments (e.g.: Local Government Act 2003 (Last major updated 2002/2003 to the previous 1989 Act)
- CIPFA Codes of practice (the most recent update was published in December 2021 with the expectation this would be fully implemented for the 2023/24 financial year)
- PWLB (Last update on lending arrangements was 2021)
- Accounting rules (updated annually)

155. As any of the above legislation changes, Codes and best practice are updated and the process for this is as described below:

#### **Consultation**

The Council will submit a response in relation to any consultation on changes that impact Treasury Management.

#### **Issuance**

Any changes made will be analysed and the impact of changes detailed for adoption and to ensure compliance.

#### **Reporting**

Initially, reporting will be made to the CFO but will also be included where appropriate in the Strategy report provided to full council and executive board. If these changes are extensive then they may be the subject of a separate report.

#### **Adoption**

Systems and procedures will be updated as necessary to ensure compliance with any changes in any of the areas identified at 5.5.1. This will include changing any of the reports documents and process identified in this document.

## Statement of Assurance

156. Having undertaken the review of the system of internal control for financial management outlined in this statement the Chief Officer Financial Services is satisfied that the arrangements are up to date and fit for purpose, that they are communicated and embedded and that they are routinely complied with.

157. The Chief Officer Financial Services has identified the following opportunities for enhancement of the system of internal control for financial management and will implement these over the course of the 2022/23 municipal year.

### Opportunities for improvement

<b>Define and Document</b>	<ul style="list-style-type: none"> <li>• There are no proposed amendments in respect of arrangements to define and document the system of internal control.</li> </ul>
<b>Clearly Communicate</b>	<ul style="list-style-type: none"> <li>• We will produce and make available a recorded training package that will heighten staff awareness and support compliance with the key control processes within our financial management arrangements. This is to be recorded in PALS.</li> <li>• To ensure compliance with the Codes of Practice on Capital and Treasury Management 2021 the enhanced needs in relation to Skills and Knowledge for all officers and members will be reviewed and proposals brought forward to enhance compliance in these areas.</li> </ul>
<b>Effectively Embed</b>	<ul style="list-style-type: none"> <li>• There are no proposed amendments in respect of arrangements to effectively embed the system of internal control.</li> </ul>
<b>Meaningfully Monitor</b>	<ul style="list-style-type: none"> <li>• We will ensure that arrangements to support compliance with IR35 are appropriately monitored.</li> <li>• New monitoring in relation to the requirements of the CIPFA codes practice in relation to treasury management will be established.</li> </ul>
<b>Review and Refine</b>	<ul style="list-style-type: none"> <li>• Internal Audit recommendations are continually received, tracked and implemented to review and refine the system of internal control.</li> </ul>