

# Annual Assurance report on Financial and Treasury Management

Date: 28<sup>th</sup> November 2022

Report of: The Chief Officer – Financial Services

Report to: Corporate Governance and Audit Committee

Will the decision be open for call in?  Yes  No

Does the report contain confidential or exempt information?  Yes  No

## Brief summary

This annual report 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.

This report fulfils the requirement in the Chief Finance Officer's protocol, (Section 5k of the Council's constitution), that the Chief Finance Officer will report to the Corporate Governance and Audit Committee annually to confirm that the arrangements set out in the protocol have been complied with and set out proposals for amendments in the light of any issues that have arisen during the year

## Recommendations

- a) Corporate Governance and Audit Committee are asked to note the Chief Officer (Financial Services) assurances that
  - a. In respect of both Financial Management and Treasury Management that appropriate systems and procedures are in place to ensure that there is sound financial management and control across the Authority; and
  - b. the arrangements set out in the Chief Finance Officer protocol have been complied with.

## What is this report about?

- 1 This report provides assurance that the Council has established an effective financial control environment including robust arrangements for strategic financial planning combined with effective financial management and control.
- 2 The Council also has a sound framework for reviewing and challenging financial performance, has realistic plans in place to make the necessary savings in the 2022/23 financial year and is taking appropriate steps to deliver them. The Authority has contingency plans in place to help unforeseen variations against the budget. The report also outlines the governance framework for the management of the Council's Treasury Management function.
- 3 This report fulfils the requirement in the Chief Finance Officer's protocol, (Section 5k of the Council's constitution), that the Chief Finance Officer will report to the Corporate Governance and Audit Committee annually to confirm that the arrangements set out in the protocol have been complied with and set out proposals for amendments in the light of any issues that have arisen during the year.

## What impact will this proposal have?

- 4 Given the financial challenges facing the Council both currently and in the medium-term, it is essential that we continue to ensure that we have in place appropriate arrangements around financial performance, strategic financial planning, financial governance and financial control. This report outlines;
  - The key systems, controls and procedures,
  - New developments and improvements which have been put in place,
  - New developments in the near future
  - New risks and any issues arising.
- 5 The Responsible Financial Officer has established an effective overall financial control environment framework for financial planning and exercises effective financial management and control which, in her opinion, discharge both her statutory responsibilities and are consistent with the Chief Financial Officer protocol which forms part of the Council's constitution.
- 6 The report provides assurance that the financial control and financial governance arrangements in place, in respect of financial management and treasury management, are fit for purpose, up to date and embedded across the organisation.

## How does this proposal impact the three pillars of the Best City Ambition?

Health and Wellbeing

Inclusive Growth

Zero Carbon

- 7 The Best City Ambition is the Council's strategic plan which sets out its ambitions, outcomes and priorities for the City of Leeds and for the Local Authority. The Three Pillars of health and wellbeing, inclusive growth and achieving zero carbon underpin this vision and these 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 Medium Term Financial Strategy which provides the framework for the determination of the Council's annual revenue budget.

- 8 The Best City Ambition underpins the 2022/23 budget and has been used to ensure that the Council's financial resources are directed towards its policies and priorities and, conversely, that these policies and priorities themselves are affordable. Spending money wisely is one of the core Council's values, with the priority being for Directorates and services to keep within their budgets. Ensuring that the Council has appropriate financial management systems and procedures in place is clearly a key aspect and as such this report does provide assurance that money is being spent wisely.

### **What consultation and engagement has taken place?**

Wards affected:

Have ward members been consulted?       Yes                       No

- 9 This report is provided for information and has not therefore been subject to consultation.
- 10 Arrangements for consultation and engagement in respect of the system of internal control for financial management and treasury management are set out in appendix 1 attached.

### **What are the resource implications?**

- 11 The financial challenges faced by the Council resulting from any ongoing impact of the COVID-19 pandemic combined with significant inflationary pressures and uncertainty relating to the Government's future spending plans has re-enforced the need to deliver a balanced budget and for the Council's financial position to be robust, resilient and sustainable and that it has a sufficient level of reserves available to deal with any future unforeseen circumstances. This requirement underpins the Council's Medium Term Financial Strategy 2023/24 – 2027/28 which was agreed at Executive Board in September 2022. This report projected that the Council's general reserve would be £48.2m by March 2028.
- 12 Recognising the financial challenges identified through the currently approved Medium Term Financial Strategy, Support Services functions are working more collaboratively to both maximise the resources that are available to the Council whilst at the same time supporting services to ensure that they achieve value for money.
- 13 The execution of the Treasury Strategy enables funds to be raised and managed in the most efficient manner in line with the approved strategy as presented to Executive Board on 9th February 2022.

### **What are the key risks and how are they being managed?**

- 14 It is clear that the current and future financial climate for local government represents a significant risk to the Council's priorities and ambitions, and that any ongoing impact of COVID-19 combined with significant pay and price pressures has added to the financial challenges faced by the Council. The Council continues to make every effort possible to protect the front line delivery of services, and whilst we have been able to successfully respond to the financial challenge so far, it is clear that the position is becoming more difficult to manage and it will be increasingly difficult over the coming years to maintain current levels of service provision without changes in the way the Council operates.
- 15 Recognising the significant financial challenges facing the Council it is critical that the Council has in place sound arrangements for financial management. The statement of internal control attached at appendix 1 demonstrates the arrangements in place to meet these risks.

- 16 As set out in the Treasury Management Policy Statement, Treasury Management activities are carried out within a risk management framework and the management of risk is key to securing and managing the Council's borrowing, lending and cash flow activities.
- 17 By complying with and adopting the CIPFA Treasury Management Code of Practice, Prudential Code and guidance notes, assurance is given that arrangements are in place to manage risks effectively.
- 18 In the past couple of years a number of high profile local authorities ran into significant financial difficulties. Some of these authorities issued Section 114 notices because in the view of the Section 151 officer the Council was at risk of not being able to balance its budget, whilst others, rather than issue a Section 114 notice, sought a capitalisation directive from the Government. As a result of this all local authorities are under increased scrutiny to demonstrate that they have appropriate governance arrangements in place to manage their financial affairs. This report forms part of that re-assurance to members with regards to the Council's financial management and control arrangements.

### **What are the legal implications?**

- 19 Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for the proper administration of their financial affairs and appoint a Chief Financial Officer have responsibility for those arrangements.
- 20 The Accounts and Audit Regulations 2015 came into force on the 1st of April 2015 and set out the responsibility for internal control, the published accounts and audit.
- 21 The legislative framework for treasury management requires compliance with the CIPFA Treasury Management Code of Practice, the Prudential Code for Capital and associated guidance notes. Revised versions of both of these Codes of Practice were issued in December 2021, and the revised Codes and associated guidance notes are being assessed and full compliance is expected to be in place for the 2023/24 financial year as required by the Code.
- 22 Appendix 1 to this report sets out how the Council meets these statutory requirements.

### **Options, timescales and measuring success**

#### **What other options were considered?**

- 23 The financial procedures and controls for both financial managements and treasury management are part of the overall financial control environment and form a fundamental part of the assurances received by this Committee when approving the Annual Governance Statement as required by the Accounts & Audit Regulations 2015.
- 24 The treasury management governance framework is up to date and fit for purpose, that the Council is operating within its governance framework and as such is complying with the CIPFA Treasury Management Code of Practice, Prudential Code and updated guidance notes. A 2021/22 Internal Audit report gave the Treasury Management function substantial assurance on both control and compliance. It also confirms that the strategy is being monitored and reported back to Executive Board and full Council as appropriate

#### **How will success be measured?**

- 25 The financial management and control framework is subject to a number of independent assessments, including the Council's Internal Audit function which has reviewed and given substantial assurance that there are robust controls in place to support the central co-ordination of the setting and monitoring of the Council's budget.

26 Treasury Management continues to adhere to its governance framework including the current CIPFA Code of Practice, the Prudential Code and the associated CIPFA guidance. Further work on ensuring compliance with the 2021 revised codes and guidance notes is ongoing with full compliance anticipated for the start of the 2023/24 financial year. All borrowing and investments undertaken have been compliant with the governance framework with one exception. This exception involved a £15m loan for 3 months when the policy limit indicated a £5m 3 month limit, therefore a breach of the loan maximum for the Counterparty at the time of striking the deal. It should be emphasised that the Counterparty remained on the Council approved lending list throughout and that the investment was subsequently repaid in full and on time. This was reported to Senior Management immediately upon realisation however it is thought to be a rare and relatively minor breach. Success will be the continued optimal performance of the Treasury Management function within this framework.

**What is the timetable and who will be responsible for implementation?**

27 Not applicable.

**Appendices**

- Appendix 1 details

**Background papers**

- None