

Report of the Deputy Chief Executive

Report to Corporate Governance and Audit Committee

Date: 20th September 2013

Subject: Financial Planning and Management Arrangements

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

Summary of main issues

1. Given the significant financial challenge the Council is facing, ensuring that we have in place appropriate arrangements to deliver sound financial management and planning is perhaps more critical than ever before.
2. The Responsible Financial Officer has established appropriate overarching controls for the financial management of the Council's affairs.
3. These controls are subject to a number of independent assessments. In particular Internal Audit has reviewed and given substantial assurance on the Council's main financial processes, the integrity of the accounts and the accuracy of the major financial systems.
4. External Audit also gives independent assurance on the accounts and accounting practice; the Authority arrangements to ensure value for money and the controls on the Authority's key financial systems.
5. A full internal review of the Council's financial arrangements will be undertaken in 2013/14 in line with CIPFAs best practice on the roles and responsibilities of the Responsible Financial Officer.
6. A number of improvements to systems and procedures have already been identified and will be undertaken as part of the review.

Recommendations

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

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

1 Purpose of this report

- 1.1 Given the significant financial challenge that the Council is facing, ensuring that we have in place appropriate arrangements to deliver sound financial management and planning is perhaps more critical than ever before. This report outlines the key systems and procedures which are in place to deliver such arrangements whilst ensuring the maintenance of adequate reserves.
- 1.2 The report covers in detail the key components of the Council's financial management arrangements and aims to give members assurance that these systems and procedures are fit for purpose, up to date, embedded and being complied with.

2 Background information

- 2.1 In accordance with Section 151 of the Local Government Act 1972, each local authority is required to make arrangements for the proper administration of their financial affairs and to appoint a Responsible Financial Officer to have responsibility for those arrangements. In Leeds the Section 151 Officer is the Deputy Chief Executive.
- 2.2 The Chartered Institute of Public Finance and Accountancy (CIPFA) in their Statement on the role of the Responsible Financial Officer in Local Government provides further guidance on the role, stating that the Responsible Financial Officer must:
- be a key member of the Leadership Team, helping it to develop, implement and resource the authority's strategic objectives;
 - be actively involved in, and able to bring influence to bear on, all material business decisions; and
 - lead the promotion and delivery of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

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

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

- Report to Council on the robustness of the estimates and the adequacies of financial reserves (Local Government Act 2007). The relevant sections of the 2013/14 budget report to Council relating to this duty are attached at **appendix A**.
- Certify that the accounts are a true and fair view of the Councils' financial position (Accounts & Audit Regulations 2011).

- Ensure that the Council's financial systems accurately record the financial transactions; enable the prevention and detection of inaccuracies and fraud and ensure risk is appropriately managed (Accounts & Audit Regulations 2011).

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

3.0 Main issues

3.1 Overarching Controls

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

- The strategic role within the Council of the Responsible Financial Officer;
- Professionally qualified and accountable staff;
- Financial Regulations;
- The monitoring of the Integrity of financial systems;
- A framework for the Council's Treasury Management arrangements.

3.1.2 The following section summarises how these overarching arrangements and controls operate within the Council.

3.1.3 The Deputy Chief Executive, in the role of the Council's Responsible Financial Officer, undertakes a **strategic role** on the Corporate Leadership Team and has established appropriate arrangements to discharge his responsibilities in line with the recommended CIPFA recommended practice as outlined in para 2.3 above.

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

3.1.5 The service has recognised that as staff numbers are reduced, the service needs to be redesigned, in order to continue to be effective. The Financial Services Management Team has established a number of actions contained within the Service Plan for providing a holistic approach to the delivery of effective financial management with fewer resources. These actions include:

- To review service delivery in consultation with stakeholders and in the context of the vision;
- To develop and implement a new service offer which continues to deliver key service and Council priorities within a substantial reduced resource envelope with a reduction in cost of the order of 30% over the next 3/4 years;

- Development training in order to ensure our colleagues have the right skills to deliver the redesigned service;
- Succession planning to deal with the loss of experienced staff and reduce the impact on service delivery.

As well as the above plans, a number of service changes have already been implemented including the creation of an accounting hub; centralisation of the capital finance teams and the implementation of a standardised approach to budget monitoring of staffing costs.

In addition, as outlined in a report to this Committee on the 22nd April 2013, the Capital Approvals framework has been improved to strengthen accountability for capital decisions and streamline the decision making process. As the capital programme is now fully funded, checks previously required to control capital expenditure within resources available are no longer required. New capital investment, unless externally grant funded, will require a revenue budget to meet the debt costs of borrowing. Control of the capital programme is therefore done through monitoring of the debt budget within revenue.

- 3.1.6 The Council has a number of well established overarching **Financial Regulations** contained within the Council's constitution. It is however recognised that these regulations need updating to reflect the changing financial risks faced by modern Councils. To this end the Council's Financial Regulations are being redrafted to ensure they are fit for purpose and are due to be issued shortly. Each Regulation will be accompanied by an Intranet Toolkits to provide appropriate guidance.
- 3.1.7 Ensuring the integrity of the accounts is as important to our budget monitoring processes as it is to the accounts, and this is a key role of the **Integrity Forum** which includes senior finance staff and is chaired by the Chief Officer – Financial Services. **Appendix B** provides the terms of reference and identified the coverage of the work of the forum.
- 3.1.8 The Council also has tried and trusted arrangements for **treasury management** based on CIPFA's Code of Practice on Treasury Management and the Prudential Code. This Committee received a separate report on the robustness of these arrangements on the 9th November 2012.

3.2 The Main Financial Processes

- 3.2.1 The above arrangements are intrinsic to all the financial procedures and processes undertaken by the Council but are perhaps best illustrated in practice through the main financial cycle which covers:
- Budget preparation and setting.
 - In year budget monitoring.
 - Closure of accounts and reporting.

3.2.2 Budget Preparation and Setting

- 3.2.2.1 Local authorities are under a statutory duty to set a budget each year. Whilst this can simply be seen as an annual exercise, there is a recognition that this needs to be set within a context of a medium term financial strategy. The Council has adopted a number of approaches to medium term financial planning over the last

10 years. The scale of the challenge presented by Spending Review 2010 has however meant that the Council has had to respond very quickly to significant reductions in its level of government grants. Taking account of reductions in government grants to the Council and other spending pressures, by the end of the current year, the Council will have had to deliver savings and other reductions in the order of £200m, and faces further cuts in its government grants over the next two years in excess of £80m. Whilst it is not clear when the current austerity within the public finances will come to an end, it is evident that by its end, the Council will be a very different organisation, employing a lot less people than it did in 2010/11.

- 3.2.2.2 The Medium Term Financial Strategy does not attempt to provide a detailed budget for the next two years but it does set out the main financial pressures facing the Council and sets out a broad framework for the delivery of efficiencies and savings to bridge the identified funding gap. This financial strategy will be updated annually via reports to the Executive Board.
- 3.2.2.3 The budget as well as a financial expression of the Council's policies and priorities, is also a means of controlling spending to the available resources. The budget process is led by the Deputy Chief Executive and involves a wide range of officers and members across the Council. The process starts soon after the budget setting of the previous year with an early assessment of available funding and key pressures. Undertaking such an assessment involves a whole set of assumptions including government grant, Council Tax base, inflation, trends and new or developing spending pressures. This part of the process will be led by Corporate Finance staff, but will involve financial and non-financial staff based in directorates. The process will, at such an early stage, invariably identify a budget shortfall. This high level exercise will be subject to a number of iterations with assumptions being subject to regular review and reassessment.
- 3.2.2.4 Directorates start to prepare and input detailed estimates into the budget module of the Council's Financial Management System (FMS) in late summer. These are done at cost centre level and involve budget holders reviewing their spending requirements in conjunction with directorate based finance staff and in accordance with the corporately determined guidelines.
- 3.2.2.5 The development of options to balance to available resources is a key aspect in any budget process and needs to balance both capital and revenue pressures. This clearly can be a difficult area of work and whilst needing to be pragmatic and sufficient, it is crucial that the process reflects the Council's policies and priorities. This is ensured through close engagement of senior officers and Executive Board portfolio Members at appropriate points in the process.
- 3.2.2.6 Following consultation, the Council's constitution determines that initial budget proposals are submitted to Scrutiny 8 weeks prior to the Council's budget meeting. In practice this is after Executive Board approval, and requires the proposals to be submitted to the December meeting of the Board. Whilst the initial budget proposals are not in the same level of detail as submitted to full Council in February, this part of the process has been subject to development over the last few years, and certainly those submitted for 2013/14 to December Executive Board being the most comprehensive and developed to date. This was recognised by the Leaders of all political grouping on the Council.

- 3.2.2.7 Budget preparation and setting is a demanding process and operates to strict timescales. This places an emphasis upon not just planning but also engagement with Councillors and Senior Management.
- 3.2.2.8 The budget is in many ways an exercise in managing risk. With limited resources, it is inevitable that elements of the budget will depend upon actions which have yet to happen, or upon assumptions that may in reality vary from those assumed at budget setting. As such an important element of the budget process is the development and maintenance of a budget risk register which attempts to identify and assess the risks built into the budget estimates. It is important to appreciate that the time frame of the budget risk register is just one budget year. The budget risk register not only assists in assessing the robustness of the estimates but also acts as a means of assessing the adequacy of reserves in that it provides an assessment of what may go wrong in year.
- 3.2.2.9 Reaching a view of the robustness of the estimates and the adequacy of resources not only requires consideration of the processes and systems used in preparing the estimates, but also a consideration of the strength of the arrangement in place for internal financial control including budget monitoring, and these are further discussed in the section 3.4 below.
- 3.2.2.10 Along with member scrutiny, the budget process is subject to Internal Audit review. In addition external audit, as part of their assessment of financial resilience, provided assurances as to the robustness of the budget itself.

3.3 In Year Budget Monitoring

- 3.3.1 Budget monitoring is a continuous process which operates at a variety of levels throughout the Council. Although directors are ultimately responsible for the delivery of their directorate budget, operationally these responsibilities are devolved down to around 600 budget holders within the Council. Every budget has a named budget holder who is responsible for managing and monitoring income and expenditure against the approved budget.
- 3.3.2 Financial Monitoring in the Council is facilitated by the Council's Financial Management System. The system holds information as to approved budgets, actual spend and income and commitments. On a monthly basis budget holders review their spend to date, against the approved estimates and against profiled estimates. In addition, budget holders are also required to predict their end of year position which is done with the assistance of directorate finance staff, and clearly does involve a degree of judgement. In practice some budgets are more difficult to control and project than others. A new development being currently rolled out is a new system for projecting staffing costs, which will enable staffing projections to be done more efficiently. There are also instances where spending is controlled on systems other than the Council's FMS, for example community care payments. In these instances, procedures are in place to ensure that information held in these systems is regularly reconciled to FMS.
- 3.3.3 Financial monitoring is undertaken and operates on a hierarchical basis, whereby the monthly projections of budget holders are aggregated upwards to be reviewed by Chief Officers, and Directors. The projections for each directorate are submitted

to the Director of Resources and are reviewed and challenged by the Finance Performance Group (FPG). This Group is made up of senior finance staff and chaired by the Chief Officer - Financial Services. The projections are then reported monthly to the Corporate Leadership Team and the Executive Board. As well as being accurate, monitoring also needs to be timely, and as such monthly reporting is operated according to a strict timetable. In addition, at each monthly FPG meeting, monitoring statements in relation to the capital programme and debt are also reviewed. Monitoring reports on the capital programme and Treasury strategy are considered during the year by Executive Board.

- 3.3.4 In line with the Council's values of Spending Money Wisely, it is critical that where projected overspends are identified that action is taken to bring spending back into line with the approved estimates or to identify other sources of funding such as areas of under spend. In year, any decision to amend budgets is undertaken within the virement rules agreed annually by full Council as part of the budget setting process. All such decisions are recorded as part of the delegated decision making process.
- 3.3.5 It is also important to appreciate that external audit also review our budget and budget monitoring arrangements in order to assess whether they are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

3.4 Closure of Accounts

- 3.4.1 The first stages of the closedown process is a natural extension of the budget monitoring arrangements with budget holders compiling the final figures for their areas of responsibility to determine an outturn position to be reported to Executive Board. This report compares the budget to the final outturn for each Directorate and provides an explanation as to the reason for any variance, including explanations of major variations on individual capital schemes. This comparison to the budget provides a clear indication as to the robustness of the original budget setting and the quality of the budget monitoring process.
- 3.4.2 Alongside the budget monitoring process, significant accounting decisions are referred to the technical accounting team to ensure compliance with applicable accounting standards. KPMG are also consulted on such decisions to ensure they are agreed by all parties before a major financial decision is made.
- 3.4.3 All changes to accounting practice are assessed and, where applicable, implemented by specialist officers in Corporate Financial Management. All finance officers and relevant directorate officers are informed of the implications of any changes. The application of appropriate accounting practice is assessed by the Council's external auditors and reported back to members of this committee.
- 3.4.4 The Chief Officer Financial Services oversees the closedown process and the Deputy Chief Executive reviews both the accounts themselves and the processes used to compile them, before certifying signing them as a true and fair view. The Council's external auditors provide members with independent assurance that, in their opinion, the accounts do reflect a true and fair view of the Council's financial position and that they comply with proper accounting practice.

3.4.5 New accounting requirements and outturn projections are taken into account when the budgets are set for the following year.

3.5 **Assessing our Financial Management arrangements**

3.5.1 The Council to date has managed to achieve £145m savings over the past 2 years and by the end of 2014/15 will have achieved savings of over £200m.

3.5.2 In recognition of the risks involved, Internal Audit undertakes a significant number of audits including:

- the financial management controls in respect of the budget, budget monitoring and accounts process;
- the integrity of the accounts; and
- all major financial systems.

3.5.3 External Audit also provides a number of important assurances, including:

- independent assurance that, in their opinion, the accounts reflect a true and fair view of the Council's financial position and that they comply with proper accounting practice;
- That the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources;
- That the controls on the Authority's key financial systems are sufficient to produce materially reliable figures for inclusion in the financial statements.

3.5.4 A number of tools have also been used internally to test the strength of our financial management arrangements. These tend to identify areas of good practice in order to drive improvement rather than providing an overall score.

3.5.5 One such tool is CIPFA's review model for assessing compliance with good practice in respect of the role of the Responsible Financial Officer in Local Government. This model covers all aspects of the role of the Responsible Financial Officer including:

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

A full and comprehensive assessment of the Council's financial arrangements using this model was undertaken by the Responsible Financial Officer in 2011.

The assessment found that the Council had substantial levels of assurance on its financial arrangements. The review did however identify one weakness that needed addressing, namely that Financial Regulations needed updating.

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

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

Most of the issues raised in the report have been assessed via the CIPFA model as outlined in para 3.5.5 above as well as within the annual service planning undertaken by the Finance Services. However the report does recognise the need for Councils to measure key indicators of financial performance and to compare these measures with those of other Authorities.

As part of the Bond market arrangements for the Little London and Beeston PFI scheme, Standards & Poors undertook an independent review of the Council’s financial health indicators and compared it to other comparable Local Authorities. The review looked at all aspects of the Council’s financial standing in order to provide investor assurances that the Council was a reliable, low risk investment prospect. The review concluded this was the case.

3.5.7 It is proposed that a full review is undertaken of the Council’s financial management arrangements using CIPFA’s model for assessing compliance with good practice in respect of the role of the Responsible Financial Officer in Local Government. This review will be undertaken once the Council’s financial services have been redesigned in line with the proposals set out in its service plan, but recognising that this is a dynamic process..

3.6 **Future Challenges**

3.6.1 Whilst budget monitoring arrangements remain effective there are areas which need to be improved. Staffing costs remain the biggest area of budget spend for the Council and need to be effectively monitored. In particular the monitoring of staffing within Children’s Services has been identified as an area for improvement and work is on-going to introduce a more comprehensive and effective system for monitoring these costs.

3.6.2 The last few years has seen a shift in the way the Government has looked at funding local government initiatives. In particular significant amounts of money are now been given to city regions rather than to individual local authorities. In addition decision making is now often being made in conjunction with local businesses and other partners via company and other arrangements. The legal, accounting and taxation arrangements for these entities and partnership are a new challenge facing the Council and Financial Services are working closely with our partners to ensure proper financial governance arrangements are put in place for each separate arrangement.

4 Corporate Considerations

4.1 Consultation and Engagement

- 4.1.1 Extensive consultation was undertaken as part of the budget setting process, as outlined in the Revenue Budget and Council Tax 2013/14 report to Full Council on the 27th February 2013. This report has no direct issues requiring consultation or engagement.

4.2 Equality and Diversity / Cohesion and Integration

- 4.2.1 A specific equality impact assessment of the budget at a strategic level was undertaken and was report to Full Council on the 27th February 2013 as part of the Revenue Budget and Council Tax 2013/14. This report has no direct equality and diversity / cohesion issues.

4.3 Council policies and City Priorities

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

4.4 Resources and value for money

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

4.5 Legal Implications, Access to Information and Call In

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

4.6 Risk Management

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

4.6.3 In addition to the above, there are a number of risks which are monitored through the Corporate and the directorate risk registers, these being:

Corporate Risk Register

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

Resources Directorate Risk Register

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

5 Conclusions

5.1 Whilst this report does not attempt to provide a comprehensive assessment of all the systems and controls required to discharge the statutory responsibilities of the Responsible Financial Officer, it does provide a summary of the coverage provided by the key controls.

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

- External Audit have provided the following assurances:
 - Independent assurance that, in their opinion, the accounts reflect a true and fair view of the Council's financial position and that they comply with proper accounting practice.
 - That the Authority has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In particular, the Council has been able to deliver its savings plans and has a robust budget and budget monitoring processes in place to mitigate the significant risks presented by the current financial challenges.
 - That the controls on the Authority's key financial systems are sufficient to produce materially reliable figures for inclusion in the financial statements.
- Internal audit assessed:
 - The financial management controls in respect of the budget, budget monitoring and accounts process and given substantial assurance as to the control environment and compliance for all these key financial processes.
 - The process of ensuring the integrity of the accounts., Providing substantial assurance that financial controls are in place to ensure the

integrity of the Council's financial information held on its financial ledger (FMS).

- All major financial systems and given either good or substantial assurance on the financial controls in place.

- Member scrutiny via Scrutiny Boards, Executive Board and Full Council ensures that the budget meets the Council's priorities. In addition the Corporate Governance & Audit Committee approve the Council's accounts.
- Officer review of the budget and budget monitoring processes through Finance Performance Group, directorates management teams and the Corporate Leadership Team.

5.3 Whilst the above arrangements should provide members with substantial assurance that the Council does have in place appropriate systems and procedures to deliver sound financial management and planning, it is important that this is kept under review, and the report identified a number of ways (para 3.5.5 & 3.5.6) in which we will review these arrangements going forward.

5.4 As part of this review process specific attention will be given to the issues raised in para 3.6.

6 Recommendations

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

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

7 Background documents¹

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