

Report of the Chief Officer Financial Services

Report to Corporate Governance and Audit Committee

Date: 7th April 2017

Subject: Annual assurance report on the financial management and control arrangements

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

Summary of main issues

1. The purpose of this report is to provide assurance that the council has in place robust arrangements for proper and effective financial control, governance and other financial management activities.
2. Recognising the significant financial challenges facing the council, not least the continuing reduction in government funding, it is critical that the council has in place sound arrangements for financial planning and management.
3. The council has established an effective financial control environment and specifically robust arrangements for strategic financial planning and effective financial management and control.
4. 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 2017/18 financial year, and is taking the appropriate steps to deliver them. Directorates have contingency plans in place to help to manage unforeseen variations against the budget.
5. The financial management and control framework is subject to a number of independent assessments, including the council's internal audit function which has reviewed and given substantial assurance on the council's main financial processes, the integrity of the accounts and the accuracy of the major financial systems.

6. The financial management and control framework is continually being assessed and reviewed to ensure that it remains fit for purpose. This will continue and any issues and developments will be reported back to this committee.

Recommendation

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

1. Purpose of this report

- 1.1 The overall purpose of this report is to provide assurance to this committee that the council has in place effective and robust arrangements for financial planning, financial control and other financial management activities.
- 1.2 Given the significant financial challenges facing the council both 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.
- 1.3 The report aims to give members assurance that the financial control and financial governance arrangements that are in place are fit for purpose, up to date and embedded across the organisation.

2. Background information

- 2.1 This is the sixth year of reporting to this committee on the financial planning and management arrangements of the council. Previous reports have outlined the following arrangements;
 - a) Overarching controls;
 - The strategic role within the council of the Responsible Financial Officer;
 - Professionally qualified and accountable staff;
 - Financial regulations;
 - Monitoring of the integrity of financial systems;
 - A statutory code of practice for treasury management arrangements.
 - b) Main financial processes;
 - Budget preparation and setting.
 - In-year budget monitoring and management.
 - Closure of accounts and reporting.

- 2.2 Reports to this committee over a number of years have provided a detailed assessment of these arrangements, along with appropriate assurances that they are fit for purpose and embedded. As in previous reports, rather than just report the main processes and arrangements again, this report seeks to highlight progress on addressing previously identified weaknesses and any new developments or risks that have emerged over the last year. For information and reference, the basic processes and systems of financial control are contained within Appendix A.
- 2.3 The financial procedures and controls are part of the overall financial control environment and form a fundamental part of the assurances received by this committee when approving the Annual Governance Statement as required by the Accounts & Audit Regulations 2015.

3. Main issues

3.1 Chief Financial Officer & Section 151 Officer

- 3.1.1 Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for the proper administration of their financial affairs and appoint a Chief Financial Officer to have responsibility for those arrangements. Up to March 2017, the role of Chief Financial Officer and the statutory Section 151 officer was fulfilled by the Deputy Chief Executive.
- 3.1.1 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.
- 3.1.2 In its Statement, CIPFA asserts that the Chief Financial Officer in a local authority;
- 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,
 - 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,
 - 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.

And 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.

- 3.1.3 The governance requirements in the Statement are that the Chief Financial Officer should be professionally qualified, report directly to the chief executive and be a member of the leadership team, with a status at least equivalent to other members. The Statement requires that if different organisational arrangements are adopted the reasons should be explained publicly in the Annual Governance Statement, together with an explanation as to how these different arrangements deliver the same impact.
- 3.1.4 Full Council at its meeting on the 22nd February 2017, approved a number of organisational changes and, following the Deputy Chief Executive's decision to retire at the end of March 2017, approved the designation of the Chief Officer Financial Services, Doug Meeson, as the council's Chief Financial Officer and statutory section 151 officer. Recognising that Doug Meeson reports to the Director of Resources & Housing and is not a member of the corporate leadership team it is necessary in this governance statement to explain how these arrangements fulfil the statutory section 151 officer role.
- 3.1.5 To this end, the Chief Officer Financial Services;
- Where relevant business requires will attend corporate leadership team and have advance notice of all meetings, agenda and reports and the right to attend and speak,
 - Will attend meetings of the council's Executive Board and have advance notice of all meetings, agenda and reports and the right to attend and speak,
 - Will have advance notice, (including receiving agendas, minutes, reports and related papers) of all relevant meetings of the authority (including meetings at which officer delegated decisions are taken) at which a binding decision may be made (including a failure to take a decision where one should have been taken),
 - Will have the right to attend (including the right to be heard) any meeting 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),
 - Will report directly to the Chief Executive in terms the statutory section 151 responsibilities,
 - Will have sufficient resources to enable him/her to address any matters concerning his/her section 151 functions,
 - Will appoint a deputy and keep him/her briefed on any relevant issues that s/he may be required to deal with in the absence of the section 151 officer,
 - Will meet 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,

- Will report 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.

3.1.6 Taken together with a draft Section 151 protocol, these arrangements have the same impact as the expectations and arrangements as set out in CIPFA's Statement.

3.2 Strategic Financial Planning.

3.2.1 It is clear that the current and future financial climate for local government represents a significant risk to the council's priorities and ambitions. The council continues to make every effort possible to protect the front line delivery of services, and whilst we have been able to successfully respond to the financial challenge so far, it is clear that the position is becoming more difficult to manage and it will be increasingly difficult over the coming years to maintain current levels of service provision without significant changes in the way the Council operates. The report to council in February 2017 'Best Council Plan 2017/18 proposals' explains how this will be done: that, while continuing its programme of efficiencies, the council needs to work differently, to keep evolving and innovating in terms of *what* it does and *how* it does it, exploring different service models and greater integration with other organisations and skilling up staff to grow their commercial and business acumen.

3.2.2 The final local government finance settlement was announced on the 20th February 2017 ahead of a formal motion and parliamentary debate on the 22nd February 2017. Through the settlement, government re-confirmed the multi-year funding settlement to 2019/20. Government states that as part of the move to a more self-sufficient local government, these multi-year settlements can provide the funding certainty and stability to enable more proactive planning of service delivery and support strategic collaboration with local partners and local authorities should also use their multi-year settlements to strengthen financial management and efficiency.

3.2.3 The 2017/18 budget was approved by Full Council on the 22nd February 2017. The headlines from the 2017/18 budget proposals, when compared to the 2016/17 budget, are as follows:

- A reduction in revenue support grant from government of £28m (30.1%).
- A reduction in the settlement funding assessment of £25.1m (10.5%).
- A reduction in the net revenue budget of £3.7m.
- An increase in the general council tax of 1.99% together with a further 3% in respect of the adult social care precept generating an additional £13.5m of local funding.
- A combination of reduced funding and cost pressures of £81.8m in the 2017/18 financial year.

- A further net reduction in staffing of 484 full-time equivalent posts.

3.2.4 The council has a proven and comprehensive approach to the development of its medium-term financial strategy, its annual budget setting and the identification of saving plans. The 2017/18 to 2019/20 medium-term financial strategy was agreed by Executive Board in September 2016 and work is already underway to update this strategy in preparation for a report to the Executive Board in July 2017.

3.3 Financial Health Performance.

3.3.1 Budget management and monitoring is a continuous process which operates at a number of levels throughout the council. Although directors are ultimately responsible for the delivery of their directorate budget, operationally these responsibilities are devolved down to budget holders across the various services. The council's budget accountability framework clearly articulates roles and responsibilities and aligns financial accountability and service decision-making and accountability. Every budget has a named accountable budget holder, supported by a budget monitoring officer and a finance officer, who is responsible for managing, monitoring and forecasting income and expenditure against the approved budget.

3.3.2 Financial monitoring across the council is facilitated by the council's Financial Management Systems (FMS). On a monthly basis budget holders, taking a risk-based approach, review their spend and commitments against the approved budgets and project their year-end position. There are also instances where spending is controlled on systems other than the council's FMS, for example community care payments. In these instances, procedures are in place to ensure that information held in these systems is regularly reconciled to FMS. Ensuring the integrity of the accounts is as important to our budget monitoring processes as it is to the accounts, and this is a key role of the corporate Financial Integrity Forum which includes senior finance staff and is chaired by the Chief Officer – Financial Services.

3.3.3 Financial monitoring is undertaken on a risk-based approach where financial management resources are prioritised to support those areas of the budget that are judged to be at risk, for example the implementation of budget action plans, those budgets which are subject to fluctuating demand, key income budgets, etc. To reinforce this risk-based approach, specific support and reporting around the achievement of the key budget actions plans is in place in 2017/18.

3.3.4 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 reports are presented monthly to directorate leadership teams, individual executive members and the Executive Board as well as quarterly to scrutiny committees.

3.3.5 In line with the council's financial regulations and value of 'Spending Money Wisely', it is critical that where projected overspends are identified that action is taken to bring spending back into line with the approved budgets or to identify

other sources of funding such as areas of under spend. All Directorates are required to have an agreed contingency plan in place before the beginning of each financial year.

- 3.3.6 Within the year, any decision to amend the approved budget has to be undertaken within the virement rules which, as part of the budget and policy framework, are agreed annually by Full Council as part of the annual budget setting process.

3.4 Financial Control Arrangements.

- 3.4.1 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.

- 3.4.2 It is important that this Committee is informed of the key assurances provided and that these processes are still fit for purpose and are being complied with. Members should therefore note the following assurances;

- The council has tried and trusted arrangements for treasury management which complies with CIPFA's Code of Practice on Treasury Management and the Prudential Code. This Committee received a separate report Treasury Management Governance Report in January 2017 which reported on the robustness of these arrangements.
- In response to the government's deficit reduction plans and subsequent cuts in the grants which we receive from government, the council will have to deliver reductions in expenditure and increases in income totalling over £400m by March 2017 with a further £64m of savings assumed in the 2017/18 budget. Establishing robust and achievable budgets under such difficult financial circumstances provides strong evidence that the financial process underpinning the budget and budget monitoring processes are effective. KPMG provide independent assurance that the council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
- Internal Audit continues to provide assurance to members that all of the key core financial systems and processes are robust and are operating effectively.
- The Corporate Financial Integrity Forum, which meets each month and is chaired by the Chief Officer (Financial Services), has a key role within the financial control environment and its function is to help ensure that there are procedures and operations in place to provide the necessary quality, integrity and reliability of financial information and accounts. The overall purpose is to help ensure the financial stewardship of the Authority by monitoring;
 - The regular review and reconciliation of financial systems to the financial ledger
 - The regular review and reconciliation of balance sheet accounts.
 - The requirement to have effective systems and procedures in place to facilitate the posting of financial data to the ledger.

- That there are up to date bank mandates for all bank accounts to which LCC officers are signatories and that bank statements are regularly received and reconciled.
- Reviewing any other area of financial control or financial governance risk, including partnerships and other joint working arrangements.

3.5 Key issues and developments for 2017/18 and future challenges and improvements;

- 3.5.1 Government has re-confirmed the proposal to end national uniform business rates and the introduction of 100% retention of business rates for local government by 2020. The plans to devolve business rates, need to be managed carefully as the rates are a volatile source of income that can vary according to how the national and local economy is performing with local authorities ill-equipped to absorb short-term risks and economic shocks. Leeds has previously participated in the consultative working groups which have looking at the phasing out of the revenue support grant, designing a new business rates retention system and assessing the new functions/responsibilities that could be devolved to local authorities as part of phasing out the core revenue support grant and fully-retaining business rates income. A series of consultations is anticipated in the Spring/Summer 2017.
- 3.5.2 National funding formula for schools - resources have been prioritised within Financial Services to financially model and assess the impact of the national funding formula on schools in Leeds – this work will continue through 2017/18. In addition, work is also ongoing to assess the financial impact and risk to the council should maintained schools become academies.
- 3.5.3 Accounts and Audit Regulations 2015 & future accounting changes – in 2017/18 we need to continue to review and develop the processes for closing down the financial accounts and the preparation of the statement of accounts in line with the reducing timescales (from 2017/18 the unaudited accounts will need to be certified by the 31st May with the final accounts published by the 31st July).
- 3.5.4 Financial management systems - the current Financial Management System (FMS) is an in-house developed and managed oracle-based system. The system is an excellent ledger system, but the general feel of the system is not modern and not user-friendly and there are specific gaps in the system's capabilities, for example procurement/purchasing. Work will continue in 2017/18 to develop the system whilst also looking at longer-term procurement options.
- 3.5.5 Financial Management System (FMS) – the integrity of the data within the Council's core FMS is very much dependent on the data and information from a multiple of source feeder systems, for example SAP for employee costs, Framework-i for Children's Services and CIS for Adult Social Care, Total Mobile for Property Maintenance, etc. In 2017/18 the work programme for the corporate financial integrity forum will include seeking specific additional assurances as to the integrity of the source data that feeds into the core FMS.

- 3.5.6 Supporting the Best Council Plan – the 2017/18 budget recognises the Best Council ambition of becoming a more enterprising organisation and includes a range of proposals around securing additional income from commercial activities and traded services. Financial Services have a key role to play in this around supporting service managers to grow their commercial and business acumen and in particular working with them around service costing, pricing and price sensitivity and understanding risks, pension liabilities, accounting for traded services, etc. The 2017/18 Financial Services Service Plan includes a specific objective around supporting the Council to become a more commercial organisation.
- 3.5.7 Financial Services review – as part of the council-wide review of support services Financial Services have a budget savings plan target of £1.3m with a commensurate reduction of 32.0 fte staffing posts by March 2018. Further budget savings are also assumed in the 2018/19 financial year as part of the medium-term financial strategy. Given the reductions already achieved to date and the scale of the challenge going forward, and whilst accepting that further efficiencies can be made, there is a clear need for a more radical review of the operating model to ensure that we deliver the reductions/efficiencies needed whilst maintaining a robust financial planning and control environment. With a target implementation date of September 2017, the Financial Services Management Team are looking at opportunities for a more centralised budgeting and accounting function co-located in the Civic Hall. As part of this review, the proposal is that relatively smaller cross-service Finance Business Partnering teams will work more closely with directorates and services focussing on key organisational priorities, budget risks and delivery of budget/service action plans.

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 2017/18 report to Full Council on the 22nd February 2017. This report has no direct issues requiring consultation or engagement.

4.2 Equality and Diversity / Cohesion and Integration

- 4.2.1 A specific equality impact assessment of the budget at a strategic level was undertaken and was report to Full Council on the 22nd February 2017 as part of the Revenue Budget and Council Tax 2017/18. This report has no direct equality and diversity/cohesion issues.

4.3 Council policies and Best Council Plan

- 4.3.1 The 2017/18 Best Council Plan's ambitions, outcomes and priorities underpin the 2017/18 budget and have been used to ensure that the council's financial resources are directed towards its policies and priorities and, conversely, that these policies and priorities themselves are affordable. Spending money wisely is one of the 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 some assurances, albeit not comprehensive, assurance that money is being spent wisely.

- 4.3.2 The terms of reference of the Corporate Governance & Audit Committee require the committee to consider the adequacy of the council's policies and practices to ensure compliance with statutory guidance and the adequacy of the council's corporate governance arrangements.

4.4 Resources and value for money

- 4.4.1 This report deals with the council's overall financial control environment and specific arrangements for ensuring effective financial management and control and is aimed at providing assurance to members as to their fitness for purpose.

4.5 Legal implications, access to information and call In

- 4.5.1 Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for the proper administration of their financial affairs and appoint a Chief Financial Officer have responsibility for those arrangements. The Accounts and Audit Regulations 2015 came into force on the 1st April 2015 and sets out the responsibility for internal control, the published accounts and audit.
- 4.5.2 This report does not require a key or major decision and is therefore not subject to call-in.

4.6 Risk Management

- 4.6.1 An analysis of the key budget risks is maintained and subject to monthly review. Any significant and new risks are contained in the budget monitoring reports submitted to meetings of the Executive Board, together with any identified slippage on budget savings plans.
- 4.6.2 The council's external auditors provide a risk assessment on the council's financial resilience and the accounts process as part of their interim audit. As part of the interim report, officers are able to outline the processes put in place to mitigate these risks.

5. Conclusions

- 5.1 The Responsible Financial Officer has established an effective overall financial control environment framework for financial planning and exercises effective financial management and control which, in his opinion, discharge his statutory responsibilities.
- 5.2 The framework of control and developments outlined in this report are fit for purpose, up to date, embedded and are regularly complied with.
- 5.3 Members can also take assurance from a number of rigorous reviews and assessments undertaken, including;

- Internal audit provide annual assurances on the major financial systems and controls.
- Member scrutiny via Scrutiny Boards, Executive Board and Full Council ensures that the budget continues to meet the council's priorities and objectives. In addition, Corporate Governance & Audit Committee approves the council's accounts.
- Officer review of the financial strategy, annual budget and in-year budget management and monitoring processes through the Financial Strategy Group, Finance Performance Group, directorate leadership teams and the Corporate Leadership Team.
- Officer review of the adequacy of the control arrangements through the corporate Financial Integrity Forum.
- External audit evaluated the council's key financial systems as part of their audit work in respect of the 2015/16 accounts and will do so again as part of the 2016/17 audit.

5.4 Whilst the above arrangements should provide members with substantial assurance that the council does have in place appropriate systems and procedures to deliver sound financial management and planning, it is important that this is kept continually under review and improved upon where appropriate.

There are a number of improvement priorities and objectives outlined in the 2017/18 Financial Services Service Plan for example reviewing the financial management systems, continuing to develop integrated working with other support services, supporting the council's Best Council Plan priorities and Breakthrough projects, assessing the impact of the reform to the system of financing local government, considering the financial impact on schools of the implementation of a national funding formula as well as the potential financial impact from increasing academisation of schools and providing assurances around value for money.

6. Recommendations

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

7. Background documents¹

7.1 None

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

Appendix A

1. Overarching financial control environment

1.1 In order that the council's statutory Chief Financial Officer can discharge his duties a number of overarching arrangements and controls are in place as part of an effective financial control environment;

1.1.1 **Chief Financial Officer** - The Chief Officer Financial Services, in the role of the Council's Chief Financial Officer, undertakes a strategic role and has established appropriate arrangements to discharge his responsibilities in line with CIPFA's recommended practice.

1.1.2 **Professionally qualified and accountable staff** - financial management across the council, both corporately and directorate-based 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 themselves 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 and peer review forums to ensure integrity as to the accounts and budget management and monitoring processes.

1.1.3 **Capital and treasury management arrangements** - As previously reported to this committee, changes have been made to the capital approvals framework to strengthen accountability for capital decisions and streamline the decision making process. This work continues with the focus on an enabling approach allied to transparency of decision making. The capital programme continues to be closely monitored with directorates and progress on schemes reported on a monthly basis. Quarterly updates are presented to the Executive Board. Proposals for new capital schemes must be accompanied by robust business cases and ensure that they are aligned to the Best Council Plan objectives.

The cost and affordability of the borrowing required to fund the capital programme is managed within the debt budget. The affordability of new borrowing and existing borrowing is reported on a monthly basis as part of the financial health reporting to the Executive Board, with specific treasury strategy reports presented to the Executive board at least three times a year. A further report to ensure compliance with the prudential code, treasury management code of practice and internal audit compliance is presented to Corporate Governance and Audit Committee on an annual basis.

1.1.4 **Financial Regulations** - The council has a number of overarching Financial Regulations contained within the council's constitution. Each regulation is supported by a series of toolkits to provide supporting guidance.

1.1.5 **Integrity of the accounts** - The integrity of all the financial data is of fundamental importance in ensuring financial information is both timely and accurate in order to

correctly inform decision making. This is a key role of the corporate Integrity Forum which includes senior finance staff and is chaired by the Chief Officer Financial Services. The forum reviews all key financial control accounts such as cash and tax; the validity of all feeder systems into the financial ledger; along with such things as system access rights and coding structures.

- 1.1.6 **Framework for the council's treasury management arrangements** - the Council also has tried and trusted arrangements for treasury management based on CIPFA's code of practice on treasury management and the prudential code.

2. Main financial processes

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

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

2.1.1 Financial planning and budget setting

- 2.1.1.1 Local authorities are under a statutory duty to set a balanced budget each year. Whilst at a basic level this can simply be seen as an annual exercise, given the financial challenges facing local authorities this needs to be set within a context of a medium term financial strategy. The 2016/17 financial year was the first year covered by the 2015 Spending Review and again presented significant financial challenges to the Council. The council will have to deliver reductions in expenditure and increases in income totalling over £400m by March 2017 with a further £64m of savings in the proposed 2017/18 budget.

- 2.1.1.2 The medium-term Financial Strategy provides a framework within which the annual budget process can sit. The strategy does not attempt to provide a detailed budget but it does recognise the council's ambitions, policies and priorities and sets out the main financial challenges facing the council and a broad framework for the delivery of efficiencies and savings to bridge the identified funding gap. This financial strategy was last presented to the Executive Board in September 2016 and will be updated and reported to the Executive Board in July 2017 to reflect the 2017/18 local government finance settlement and the council's 2017/18 budget.

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

- 2.1.1.4 The annual budget process is led by the Chief Financial Officer and involves a wide range of officers and members across the council. The process starts soon after the budget setting of the previous year with an early assessment of available funding and key pressures. Undertaking such an assessment involves

a range of assumptions including the level of core government grant and other specific funding, council tax base, inflation, demand and demography trends, interest rates, levels of income and fees & charges as well as new or developing spending pressures. This part of the process is led by corporate finance staff, but will involve financial and non-financial staff based in directorates and service areas. The process will, at such an early stage, invariably identify a budget shortfall. This high level exercise will be subject to a number of iterations with assumptions being subject to regular review and reassessment.

- 2.1.1.5 Directorates start to prepare and input detailed estimates into the budget module of the council's financial management system (FMS) in late summer. These are done at cost centre level and involve budget holders reviewing their service priorities, spending requirements in conjunction with directorate based finance staff and in accordance with the corporately determined guidelines.
- 2.1.1.6 The development of options to balance to available resources is a key aspect in any budget process and needs to balance both capital and revenue pressures. This clearly can be a difficult area of work and whilst needing to be pragmatic and sufficient, it is crucial that the process reflects the council's ambitions, policies and priorities. This is ensured through close engagement of senior officers and Executive Board portfolio members at appropriate points in the process.
- 2.1.1.7 The council's constitution determines that initial budget proposals are submitted to scrutiny eight weeks prior to the council's budget meeting. In practice this is after Executive Board approval, and requires the proposals to be submitted to the December meeting of the Board.
- 2.1.1.8 Budget preparation and setting is a demanding process and operates to strict timescales. This places an emphasis upon not just process planning but also engagement with elected members and senior management.
- 2.1.1.9 In many ways the budget is an exercise in managing risk. With limited resources, it is inevitable that elements of the budget will depend upon actions which have yet to happen, or upon assumptions that may in reality vary from those assumed at budget setting. As such an important element of the budget process is the development and maintenance of a 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.
- 2.1.1.10 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.

2.1.2 In-year Budget Management and Monitoring

- 2.1.2.1 Budget management and monitoring is a continuous process which operates at a variety of levels throughout the council. Although directors are ultimately responsible for the delivery of their directorate budget, operationally these responsibilities are devolved down to budget holders within the council. In line with the budget holder accountability framework, every budget has a named budget holder who is responsible for managing and monitoring income and expenditure against the approved budget.
- 2.1.2.2 Financial 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. On a monthly basis budget holders review the spend to date, against the approved budget and against profiled budgets. In addition, budget holders are also required to predict their end of year position which is done with the assistance of directorate-based finance staff – this clearly does involve 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 is regularly reconciled to FMS.
- 2.1.2.3 Financial monitoring is undertaken and operates on a hierarchical basis, whereby the monthly projections of budget monitoring officers and budget holders are aggregated upwards to be reviewed by budget holders, chief officers, and directors. The year-end projections for each directorate are submitted to corporate finance and are reviewed and challenged each month by the corporate Finance Performance Group (FPG). This group is primarily made up of heads of finance and is chaired by the Chief Officer Financial Services. The year-end projections are then reported monthly to the corporate Leadership Team and the Executive Board. As well as being accurate, monitoring also needs to be timely, and as such monthly reporting is operated according to a strict timetable. In addition, at each monthly FPG meeting, monitoring statements in relation to the capital programme and debt are also reviewed. Monitoring performance reports on the capital programme, capital receipts, council tax and business rate collection, and treasury/debt activities are considered during the year by the Executive Board.
- 2.1.2.4 In line with the council's values of Spending Money Wisely, it is critical that where projected overspends are identified that action is taken to bring spending back into line with the approved estimates or to identify other sources of funding such as areas of under spend. All directorates have agreed contingency plans identified to the value of the key risks identified in the budgets. In-year, any decision to amend budgets is undertaken within the virement rules agreed annually by Full Council as part of the budget-setting process. All such decisions are recorded as part of the delegated decision making process.
- 2.1.2.5 It is also important to appreciate that external and internal audit also review our budget and budget monitoring arrangements in order to assess whether they are satisfied that, in all significant respects, the council has put in place proper

arrangements to secure economy, efficiency and effectiveness in its use of resources.

2.1.3 Closure of accounts

- 2.1.3.1 The first stages of the closedown process is a natural extension of the budget monitoring arrangements with budget holders compiling the final figures for their areas of responsibility to determine an outturn position to be reported to Executive Board, usually in June each year. This report compares the budget to the final outturn for each directorate and provides an explanation as to the reason for any variation, including explanations of major variations on individual capital schemes. This comparison to the budget provides a clear indication as to the robustness of the original budget setting and the quality of the budget monitoring process.
- 2.1.3.2 Alongside the budget monitoring process, significant accounting decisions are referred to the strategic accounting team within corporate finance to ensure compliance with applicable accounting standards. KPMG are also consulted on such decisions to ensure they are agreed by all parties before a major financial decision is made.
- 2.1.3.3 All changes to accounting practice are assessed and, where applicable, implemented by specialist officers in corporate finance. All finance officers and relevant directorate officers are informed of the implications of any changes. The application of appropriate accounting practice is assessed by the council's external auditors and reported back to members of this committee.
- 2.1.3.4 Staff in corporate finance oversee the closedown process and the Chief Financial Officer 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.
- 2.1.3.5 New accounting requirements and outturn projections are taken into account when the budgets are set for the following year.