

Report of the Chief Officer Financial Services

Report to Corporate Governance and Audit Committee

Date: 16th March 2020

Subject: Annual assurance report on the financial management and control arrangements and compliance with the Chief Finance Officer Protocol

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 Chief Finance Officer's protocol, which constitutes Section 5k of the Council's constitution, requires that the Chief Finance Officer will report to the Corporate Governance and Audit Committee annually whether the arrangements set out in the protocol have been complied with and will include any proposals for amendments in the light of any issues that have arisen during the year.
2. Recognising the significant financial challenges facing the Council, and in the context of a number of high profile authorities running into financial difficulties, most noticeably Northamptonshire County Council who issued Section 114 notices in 2018, 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 combined with 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 2020/21 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 that there are robust controls in place to support the central co-ordination of the setting and monitoring of the Council's budget.
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 Chief Officer (Financial Services) assurances that the appropriate systems and procedures are in place to ensure that there is sound financial management and control across the Authority. This provides the assurance that the arrangements set out in the Chief Finance Officer protocol, as set out in Section 5k of the Council's constitution, have been complied with.

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. In doing so the report sets out the current arrangements for complying with the requirements of the Chief Finance Officer's protocol that are set out in Section 5k of Council's constitution.
- 1.2 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.
- 1.3 The report aims to give members assurance that the financial control and financial governance arrangements in place are fit for purpose, up to date and embedded across the organisation.

2. Background information

- 2.1 This is the ninth 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 financial processes and arrangements, this report also seeks to highlight 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.

2.4 The Chief Finance Officer's protocol, which constitutes Section 5k of the Council's constitution, requires that the Chief Finance Officer will report to the Corporate Governance and Audit Committee annually whether the arrangements set out in the protocol have been complied with and will include any proposals for amendments in the light of any issues that have arisen during the year. The protocol provides some general information on how the Chief Finance Officer's statutory requirements will be discharged. A copy of the Chief Finance Officer's protocol is appended as Appendix B.

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. The role of Chief Financial Officer also known as the statutory Section 151 officer within Leeds City Council is being fulfilled by the Chief Officer (Financial Services).

3.1.2 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.

3.1.3 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.
- 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.

3.1.4 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.

3.1.5 As referenced in paragraph 3.1.1 the Council's designated statutory Section 151 officer currently holds the position of Chief Officer (Financial Services). In undertaking this statutory Section 151 function, and recognising that Chief Officer (Financial Services) reports to the Director of Resources & Housing, it is necessary in this governance statement to explain how these arrangements fulfil the statutory Section 151 officer role.

3.1.6 To this end, the Chief Officer (Financial Services);

- Will report directly to the Chief Executive in terms of their statutory Section 151 responsibilities;
- Will be a member of the Council's Leadership Team and have advance notice of all agendas and reports;
- 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 have sufficient resources to enable them to address any matters concerning their Section 151 functions;
- Will appoint 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;
- 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.

3.1.7 These arrangements contribute towards satisfying the requirements of the Chief Finance Officer protocol which forms part of the Council's constitution.

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 changes in the way the Council operates. The report to Council in February 2020 'Best Council Plan 2020-2025' 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 which was announced on the 24th February 2020 re-confirmed both the Council's Settlement Funding Assessment for 2020/21 and the North and West Yorkshire's application for a 50% Business Rate Retention pool. The Council's financial position for the period covered by the current Medium Term Financial Strategy needs to be seen in the context of significant inherent uncertainty for the Council in respect of future funding and spending assumptions. Specifically the implications of the Government's future spending plans with regard to local government and other areas of the public sector after 2020/21 remain unknown. To compound this uncertainty the Government remains committed to move to 75% business rate retention

nationally, implement business rate resets which has implications for the level of business rate growth the Council retains and progress the Fair Funding review of the methodology which determines current funding baselines which are based on an assessment of relative need and resources. The outcome of these changes, and the subsequent implications for Leeds won't be known until the autumn of 2020. In addition it remains uncertain how the Government intend to fund social care in future, what any devolution proposals for West Yorkshire will mean for the Council and the implications of the UK leaving the EU are as yet unknown.

3.2.3 The 2020/21 budget was approved by Full Council on the 26th February 2020. The headlines from the 2020/21 budget proposals, when compared to the 2019/20 budget, are as follows:

- An increase in the Council's net revenue budget of £9.0m to £525.7m;
- The Council will receive £28.2m in Revenue Support grant (RSG) as result of returning to 50% Business Rates Retention (BRR);
- A reduction in business rates income of £36m which is as a result of a combination of BRR, reduced business rates growth and a deficit on the Collection Fund;
- An increase in the Settlement Funding Assessment (SFA) of £3m (1.6%);
- An increase in the general Council Tax of 1.99% together with a further 2% in respect of the Adult Social Care precept and an increase in the Council Tax base, generating an additional £16.9m of local funding;
- Whilst resources receivable from SFA and council tax have increased pay, price and demand pressures mean that the Council will need to deliver £28.4m of savings by March 2021;
- This requirement to deliver £28.4m of savings is after the use of £10m from the Council's general reserve and the application of an additional £10m in capital receipts which is being use to smooth the impact of Minimum Revenue Provision (MRP) and;
- A net increase in staffing of 380 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 Council's Medium Term Financial Strategy now covers a five year period and it will also now incorporate the Council's capital strategy. The updated 2020/21 to 2024/25 Medium Term Financial Strategy, which was agreed by Executive Board in October 2019, recognised the requirement for the Council's revenue budget to become more financially resilient and sustainable, whilst at the same time reducing the risks associated with funding recurring revenue through mechanisms such as capital receipts and capitalisation. Work is already underway to update this strategy in preparation for reports to be received at Executive Board in both June and July 2020.

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, operational accountability for respective budgets within a Directorate 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 within service decision-making. Every budget has a named accountable budget holder, supported by 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 and in conjunction with finance staff, 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 Head of Finance (Financial Management).
- 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, 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.
- 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, Executive Board and respective Scrutiny Committees.
- 3.3.5 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. 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. All Directorates are required to have an agreed contingency plan in place before the beginning of each financial year.
- 3.3.6 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. These budget principles are detailed in Appendix C. 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. 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. 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 will be required to fully implement by the 31st March 2021.

3.3.7 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 Capital Programme Controls and Monitoring

3.4.1 The Council recognises a number of pressures and development schemes that bring economic and wider benefits that have implications for the level of debt. The Council will look to manage these pressures and limit the impact on debt costs by ensuring where possible that new schemes are fully funded (either by external resources or departmental prudential borrowing), or are essential (under health and safety grounds or in order to ensure Council assets are maintained for continued service provision).

3.4.2 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 whilst ensuring that affordability remains within the Medium Term Financial Strategy. The process involves submission of bids for review and prioritisation by the Council's Strategic Investment Board before CLT, cabinet and member engagement and consideration takes place. Injection approval is sought at February Executive Board at the same time as revenue budget proposals 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, spend to save or schemes of an immediate health and safety nature to be injected throughout the year.

3.4.3 One of the main risks in developing and managing the capital programme is that insufficient resources are available to fund the programme. A number of measures are in place to ensure that this risk can be managed effectively:

- Ensuring written confirmation of external funding is received prior to contractual commitments being entered into;
- Monthly monitoring of overall capital expenditure and resources forecasts alongside actual contractual commitments;
- 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;
- Monthly updates of capital receipt forecasts prepared, using a risk based approach, by the Director of City Development;
- Quarterly monitoring of the Council's VAT partial exemption position to ensure that full eligibility to VAT reclaimed can be maintained;

- Compliance with Financial Procedure rules, Financial Regulations and Contract Procedure Rules to ensure the Council's position is protected and;
- Ensuring all major programmes are supported by programme boards.

3.4.4 The forecast of borrowing costs resulting from capital expenditure are budgeted for within the revenue 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 the interest rate assumptions, the likely level of capital spend and the Council's cash balances. 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.

3.5 Financial Control Arrangements.

3.5.1 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. The 2018/19 Grant Thornton's Annual Audit Letter for Leeds City Council, which was received at this Committee on the 22nd November 2019 concluded that they were satisfied that "the Council had put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources." In respect of financial resilience Grant Thornton concluded in the same Annual Audit letter that not only does the Council have "effective arrangements in place to routinely monitor its budget and take appropriate action to mitigate against any significant variances or additional calls on resources" but also "that the Council has proper arrangements in place to ensure sustainable resource deployment".

3.5.2 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. At the same time as this report this Committee will also be receiving separate Treasury Management Governance Report which reports on the robustness of these arrangements.
- In response to the government's reduction in public spending since 2010, the Council has delivered significant reductions in expenditure and increases in income in order to address a £266m reduction in core funding from Government between 2010/11 and 2019/20. The 2020/21 budget assumes further savings of £28.4m. Establishing robust and achievable budgets under such challenging financial circumstances provides strong evidence that the financial process underpinning the budget and budget monitoring processes are effective. Grant Thornton will provide, in respect of the

2019/20 accounts, the independent assurance that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Grant Thornton have already commenced upon the process of providing this independent assurance.

- 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 financial management and control framework is subject to a number of independent assessments which include annual reviews of the 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. This includes the audit of Financial Management Central Controls which provides independent assurance that there are robust controls in place to support the central co-ordination of the setting and monitoring of the Council's budget.
- The Corporate Financial Integrity Forum, which is an officer forum, meets each month and is chaired by the Head of Finance (Financial Management), 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.
 - Responding to external audit recommendations such as that contained in Grant Thornton's Audit Progress Report, received at the June 2019 meeting of this Committee, which recommended that journals "over a pre-determined amount are reviewed by another team member prior to the journal being posted." In this particular instance an overall risk assessment of FMS was undertaken and this confirmed that there is limited risk associated with journals and that the Council has compensating controls in place. A subsequent review by Internal Audit has confirmed this view.

3.6 Key issues and developments for 2020/21 and future challenges and improvements;

- 3.6.1 In December 2019 the Government notified the Council that the North and West Yorkshire Business Rates Pool bid for 50% business rates retention for 2020/21 had been successful. This replaces the 2019/20 75% business rates retention pilot scheme for North and West Yorkshire authorities which ceases on the 31st March 2020. This 50% retention scheme is for one year only and allows the North and West Yorkshire Pool to retain the levy payments within the region that otherwise would have been made to central government. Whilst this is significantly lower financial gain when compared to the 75% retention scheme we estimate the gains to the region to be around £9.6m for this Pool. For Leeds the financial commitment to the new Pool is £2.2m.
- 3.6.2 On December 2018 the Government issued their consultation document in respect of the planned introduction of 75% business rate retention nationally from 2020/21. Whilst the proposals included options to mitigate volatility in income from business rates, the plans to devolve business rates need to be managed carefully as they are a volatile source of income that can vary according to valuations, appeals and how the national and local economy is performing with local authorities ill-equipped to absorb short-term risks and economic shocks. Since the Council responded to the December 2018 consultation the Government have re-affirmed their intention to move to 75% retention with an MHCLG led working group being re-constituted to determine proposals. These proposals will be circulated for consultation prior to an anticipated start date of April 2021.
- 3.6.3 In December 2018 the Government issued a further Fair Funding Review consultation document on proposals to simplify the assessment of local authorities' relative needs. It also considered the type of adjustment that will need to be made to an authority's relative needs assessment to take account of the relative resources available to them and principles for the design of transitional arrangements. The current funding baselines for local authorities are based on an assessment of relative needs, resources introduced over ten years ago and on data which has not been refreshed since the introduction of the 50% business rates retention system in 2013/14. Even under a scheme of 100% business rate retention, there will still be a need for a mechanism whereby resources are re-distributed between local authorities to reflect relative needs and resources. The key risk is the impact that the review will have upon the level of resources available to Leeds and the Government themselves recognise that "introducing a new needs and resources formula could result in significant changes to the funding baselines of some local authorities." As with 75% business rate retention MHCLG are re-constituting the Fair Funding Review Group with the outcome of their proposals running alongside a similar timescale for the publication of the Government's future spending proposals.
- 3.6.4 2020/21 is the third 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 not indicated whether the transitional arrangements will continue beyond 2020/21. The schools funding

formula for 2020/21 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 2020/21 funding formula will move 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.

- 3.6.5 A combination of CIPFA's code and government guidance require a local authority to produce a Capital and Investment strategy. 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 covers the council's approach to non-treasury investment decisions. Treasury investment decisions are already contained within the Treasury Management Policy Statement that is presented as part of the annual Treasury Management report. The Capital and Investment strategy was approved at February Executive Board as an appendix to the Capital Programme report. I
- 3.6.6 Financial management systems - the current Financial Management System (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 and not user-friendly and there are specific gaps in the system's capabilities, for example procurement/purchasing. It is also anticipated that further economies and efficiencies could be realised through a review of our Financial Management System. Following an optional appraisal a multi-disciplined project team has been established to determine a business case which will inform the procurement of a replacement for FMS.
- 3.6.7 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, Mosaic Framework- for foster carer payments and CIS for Adult Social Care payments, Qube for property rental income, etc. In 2020/21 the work programme for the Corporate Financial Integrity Forum will include 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 is being introduced during the year for housing management functions.
- 3.6.8 Supporting the Best Council Plan – the 2020/21 budget recognises the Council's ambition to be the best city by being a strong economy and a compassionate city as well as achieving its best City priorities. Financial Services have a key role to play in this around supporting the Council to realise its ambitions. As well as ensuring that resources are aligned in the budget to support these priorities, specific support is being provided in respect of the priorities such as the Clean Air Zone and Housing Growth.

- 3.6.9 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.
- 3.6.10 Financial Services review – 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. Given the reductions that have already been achieved to date, which have contributed towards helping the Council meeting its financial challenges, and given the scale of the challenge going forward, a review of the structure of the finance function has commenced.
- 3.6.11 In 2018 a number of high profile local authorities ran into significant financial difficulties. Most noticeable of these was Northamptonshire County Council whose Section 151 officer first issued a Section 114 notice in February 2018 as in his opinion the Council was at risk of not being able to balance its budget. A subsequent MHCLG Best Value inspection of the Council identified a number of key weaknesses that had ultimately led to the issue of the first Section 114 notice. 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.
- 3.6.12 In response to a number of high profile authorities reporting financial difficulties, CIPFA (Chartered Institute of Public Finance and Accountancy) have 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 use of the index compliments the Council's approved Medium Term Financial Strategy which recognises the requirement for the Council's revenue budget to become more financially resilient and sustainable.
- 3.6.13 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 for which compliance is required if a local authority is to meet the minimum standards of financial management acceptable to meet fiduciary duties to tax payers, customers and lenders. Local authorities are required to apply the requirements of the Financial Management Code with effect from 1st April 2020.
- 3.6.14 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.

- 3.6.15 A new Code of Audit practice which comes into effect from April 2020 will include the requirement for external auditors to have a sharper focus on arrangements supporting both financial sustainability, governance and improving value for money. A more narrative form of reporting in relation to the value for money aspect of the external audit opinion will be required in the annual audit report. There are also clearer expectations on timely and effective auditor reporting.

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 2020/21 report to Full Council on the 26th February 2020. 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 reported to Full Council on the 26th February 2020 as part of the Revenue Budget and Council Tax 2020/21 report. This report has no direct equality and diversity/cohesion issues.

4.3 Council policies and Best Council Plan

- 4.3.1 The 2020 to 2025 Best Council Plan's ambitions, outcomes and priorities underpin the 2020/21 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 set 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 audit.

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 her opinion, discharge both her statutory responsibilities and are consistent with the Chief Financial Officer protocol which forms part of the Council's constitution.
- 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 2018/19 accounts and will do so again as part of the 2019/20 audit. They also provide an opinion in respect of the Council's financial resilience.

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.

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 her 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 her responsibilities in line with CIPFA's recommended practice.
- 1.1.2 **Professionally qualified and accountable staff** - 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 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.
- 1.1.3 **Capital and treasury management arrangements** – The approach to setting the capital programme ensures that capital spending decisions and affordability are considered at the same time that the revenue budget is set for the following year. Directorates submit their future scheme spending intentions which are challenged and prioritised by the Council's Strategic Investment 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. Only those priority and deliverable schemes are put forward for inclusion within the capital programme. The framework seeks to ensure that schemes that have a revenue implication are only injected in February and, if necessary, November. However externally funded schemes, those of an essential health and safety nature or those where the debt cost is supported by a revenue stream or costs savings can be injected at any point in the year.
- 1.1.4 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. The cost and affordability of the borrowing required to fund the capital programme continues to be 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.

1.1.5 The Council also produces a Capital and Investment strategy that is annexed to the Capital programme update report. The capital strategy element sets out the principles that support the Council's capital programme and as such how it supports corporate priorities and objectives. It 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.

1.1.6 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.

1.1.7 **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.

1.1.8 **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 Head of Finance – Financial Management. 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.

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. Since 2010 the Council has delivered significant reductions in expenditure and increases in income and the 2020/21 approved budget requires the realisation of a further £28.4m of savings.

- 2.1.1.2 The Council's 5 year 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, 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. An update of this financial strategy was last presented to the Executive Board in October 2019 and will be updated and reported to the Executive Board in both June and July 2020.
- 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 Officer Financial Services 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 update of the funding, key pressures and savings assumptions contained in the Medium Term Financial Strategy. 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, council tax base, the determination of the level of business rates receivable, the level of 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 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.
- 2.1.1.5 At the same time Directorates start to prepare detailed estimates for the forthcoming year although ultimately the totality of these estimates need to be consistent with the overall resources envelope that is available to the Council.
- 2.1.1.6 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.
- 2.1.1.7 The Council's constitution determines that initial budget proposals are 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.
- 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. 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.

2.1.2.2 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 e.g. 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. 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 also informs how much is required in the Council's general reserve to provide for risks. 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 also what key budget actions are required to be completed to deliver a balanced budget position.

2.1.2.3 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 spend to date, against

the approved budget 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.

- 2.1.2.3 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). This group is primarily made up of Directorate Heads of Finance and is chaired by the Head of Finance (Financial Management). 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. 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. This requirement has been incorporated into the Revenue and capital principles for managing the budget which were agreed at Executive Board in July 2019. 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 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. These budget principles are detailed in Appendix C. 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. 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. 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 will be required to fully implement by the 31st March 2021.
- 2.1.2.6 It is also 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.

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 Directorate finance officers compiling the final figures for their services they support to determine an outturn position to be reported to Executive Board 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. The Council's external auditors, Grant Thornton, 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 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 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.
- 2.1.3.5 New accounting requirements and outturn projections are taken into account when the budgets are set for the following year.

**CHIEF FINANCE OFFICER
PROTOCOL**

CHIEF FINANCIAL OFFICER PROTOCOL

1.0 INTRODUCTION TO STATUTORY RESPONSIBILITIES

1.1 The Chief Finance Officer is a statutory appointment pursuant to section 151 of the Local Government Act 1972. This Protocol provides some general information on how those statutory requirements will be discharged.

1.2 The role of the Chief Finance Officer rests with the Chief Officer Financial Services.

1.3 A summary list of the Chief Finance Officer's statutory responsibilities appears in the Annex A attached. The Chartered Institute of Public Finance and Accountancy (CIPFA) has also issued a Statement on the role of the Chief Finance Officer and the key responsibilities are outlined at Annex B. The Chief Finance Officer's ability to discharge these duties and responsibilities will depend, to a large extent, on members and officers:-

- (a) complying with the law;
- (b) complying with any relevant Codes of Conduct or codes or protocols issued from time to time;
- (c) making lawful and proportionate decisions; and
- (d) generally, not taking action that would bring the Council, their offices or professions into disrepute.

1.4 The Chief Finance Officer is not merely a servant of the authority, but also holds a fiduciary responsibility to the local taxpayers.

2.0 WORKING ARRANGEMENTS

2.1 CIPFA have set out five principles that define core activities and behaviours that belong to the role of the Chief Finance Officer

- i) The Chief Finance Officer should be a key member of the Leadership Team, helping the organisation to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest.
- ii) The Chief Finance Officer 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 aligned with the organisation's financial strategy

- iii) The Chief Finance Officer 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.
- iv) To deliver these responsibilities the Chief Finance Officer must lead and direct a finance function that is resourced to be fit for purpose; and
- v) The Chief Finance Officer must be professionally qualified and suitably experienced.

2.2 Having excellent working relations with members and officers will assist in the discharge of the statutory responsibilities by the Chief Finance Officer. Equally, a speedy flow of relevant information and access to debate (particularly at the **early stages** of any decision-making by the council) will assist in fulfilling those responsibilities. Members and officers must, therefore, work with the Chief Finance Officer (and his/her staff) to discharge the council's statutory and discretionary responsibilities.

2.3 The Chief Finance Officer must be a qualified member of a specified accountancy body and is vested with the statutory responsibilities for maintaining finance administration and stewardship including the responsible finance officer duties and with strategic and corporate roles. CIPFA asserts that the Chief Finance Officer in a public service organisation should be a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver the authority's strategic objectives, sustainably and in the public interest. Whilst the Chief Officer Financial Services is not a member of the corporate leadership team in Leeds the following arrangements and understandings between the Chief Finance Officer, members and directors are designed to ensure the effective discharge of the council's business and functions. The Chief Finance Officer will:-

2.3.1 Resources

- (a) report to the Council, as necessary on the staff, accommodation and resources s/he requires to discharge his/her statutory functions;
- (b) have sufficient resources to enable him/her to address any matters concerning his/her Chief Finance Officer functions;
- (c) 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 Chief Finance Officer. Appoint an appropriate external adviser in cases where the Chief Finance Officer is precluded from offering advice and the deputy is unable to advise.

2.3.2 Access to information/meetings

- (a) be alerted by members and officers to any issue(s) that may become of concern to the council, including in particular, issues around financial management, accounts and audit regulations, proposed expenditure or proposed actions which might lead to a loss or deficit;

- (b) have advance notice (including receiving agendas, minutes, reports and related papers) of all relevant meetings and delegated decision making of the council at which a decision may be made (including a failure to take a decision where one should have been taken);
- (c) have the right to attend any meeting of the council (including the right to be heard and report to the Executive Board) before any decision is taken (including a failure to take a decision where one should have been taken);
- (d) in carrying out any investigation(s) and exercising any fiduciary duties have unqualified access to any information held by the council and to any officer who can assist in the discharge of his functions;
- (d) have advance notice of meetings of the Corporate Leadership Team, including agendas and reports and have the right to attend and speak on all matters which have financial implications;

2.3.3 Relationships

- (a) A reciprocal responsibility to ensure the other statutory officers (Head of Paid Service and the Monitoring Officer) are kept up-to-date with relevant information regarding any financial management, accounts and audit regulations, proposed expenditure or proposed actions which might lead to a loss or deficit;
- (b) 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 financial management, accounts and audit regulations, proposed expenditure or proposed actions which might lead to a loss or deficit;
- (c) develop effective working liaison and relationship with the external auditor (including having the authority, on behalf of the council, to complain to the same, refer any breaches to the same or give and receive any relevant information, whether confidential or otherwise, through appropriate protocols, if necessary);
- (d) in consultation, as necessary, with the Leader, the Executive Board and the external auditor, defer the making of a formal report under sections 114, 115 and 116 of the Local Government and Finance Act 1988 where another investigative body is involved;

3.0 **MEMBER AND OFFICER RESPONSIBILITIES**

To ensure the effective and efficient discharge of the arrangements set out in paragraph 2 above, members and officers will report any breaches of statutory duty or council policies or procedures and ultra vires or constitutional concerns to the Chief Finance Officer, as soon as practicable.

4.0 ADVICE

The Chief Finance Officer is also available for members and officers to consult on any issues of the council's financial powers, possible unlawful payments, or general advice on the financial arrangements.

The Chief Finance Officer or deputy will record details of any advice given.

5.0 MONITORING THE PROTOCOL

Annually, the Chief Finance Officer will report to the Corporate Governance and Audit Committee regarding whether the arrangements set out in this protocol have been complied with and will include any proposals for amendments in the light of any issues that have arisen during the year.

6.0 SANCTIONS FOR BREACH OF PROTOCOL

Complaints of a breach of this protocol by an officer will be referred to the relevant Director and/or the Chief Executive for appropriate action to be considered, including disciplinary investigation.

Annex A

SUMMARY OF CHIEF FINANCE OFFICER STATUTORY FUNCTIONS

Description		Source
1	That the Treasurer is not merely a servant of the Council but holds a fiduciary relationship to the local taxpayers.	Case law - Attorney General -v- De Winton (1906).
2	To make arrangements for the proper administration of their Finance affairs. Legal opinion taken states that the term "administration" means responsibility for managing the totality of the Finance affairs of a local Council in all of its dealings.	Section 151 of the Local Government Act 1972
3	The Officer appointed as the responsible Chief Finance Officer must, be a Member of a specified accountancy body. The statutory role must be performed by an "Officer" of the Council.	Section 113 of the Local Government Finance Act 1988
4	In consultation with the Monitoring Officer and Head of Paid Service, reporting to all members and the external auditor if there is, or is likely to be, unlawful expenditure or an unbalanced budget.	Section 114 Local Government Finance Act 1988
5	Advising whether particular decisions are likely to be contrary to the policy framework or budget of the council.	Local Government Act 2000
6	Maintain an adequate and effective system of internal audit for accounting records and control systems.	Accounts and Audit Regulations 2015
7	Reporting to Council on both the robustness of the budget estimates and the adequacy of financial reserves, and ensuring compliance with the prudential capital regime.	Local Government Act 2003

Annex B

In its Statement CIPFA sets out the five principles that define the core activities and behaviours that belong to the role of the Chief Finance Officer in public service organisations. The core responsibilities against each of these principles are set out below.

(a) **Principle 1 - contributing to Corporate Management and Leadership**

- Contributing to the effective leadership of the authority, maintaining focus on its purpose and vision through rigorous analysis and challenge.
- Contributing to the effective corporate management of the authority, including strategy implementation, cross organisational issues, integrated business and resource planning, risk management and performance management.
- Supporting the effective governance of the authority through development of corporate governance arrangements, risk management and reporting framework
corporate decision making arrangements.
- Contributing to the development of public service partnership to deliver objectives.
- Leading or promoting change programmes within the authority.
- Leading development of a medium-term financial strategy and the annual budgeting process to ensure financial balance and a monitoring process to ensure its delivery.

(b) **Principle 2 - responsibility for financial strategy and influencing decision making**

Responsibility for financial strategy:

- Agreeing the financial framework and planning delivery against the defined strategic and operational criteria.
- Maintaining a long-term financial strategy to underpin the authority's financial viability within the agreed performance framework.
- Implementing financial management policies to underpin sustainable long-term financial health and reviewing performance against them.
- Evaluating the financial implications of alternative delivery models.
- Appraising and advising on commercial opportunities and financial targets.
- Developing and maintaining an effective resource allocation model to deliver business priorities.
- Developing an approach for the delivery of collaborative services within a structured framework.
- Leading on asset and balance sheet management to allow the authority to maximise its effective use of resources.
- Co-ordinating the planning and budgeting processes.
- Involvement in strategic assets management.

Influencing decision making:

- Ensuring that opportunities and risks are fully considered and decisions are aligned with the overall financial strategy.

- Providing professional advice and objective financial analysis enabling decision makers to take timely and informed business decisions.
- Ensuring that efficient arrangements are in place and sufficient resources available to provide accurate, complete and timely advice to support councillors' strategy development.
- Ensuring that clear, timely, accurate advice is provided to the executive in setting the funding plan/budget.
- Ensuring that advice is provided to the scrutiny function in considering the funding plan/budget.
- Ensuring that the authority's capital projects are chosen after appropriate value for money analysis and evaluation using relevant professional guidance.
- Checking, at an early stage, that innovative financial approaches comply with regulatory requirements.
- Financial information for decision makers
- Monitoring and reporting on financial performance that is linked to related performance information and strategic objectives that identifies any necessary corrective decisions.
- Preparing timely management accounts.
- Ensuring the reporting envelope reflects partnerships and other arrangements to give an overall picture.
- Monitoring the service impact of 3rd party contacts on the delivery of organisational objectives.
- Monitoring the longer-term financial impact of 3rd party contracts.

(c) **Principle 3 – Financial Management, value for money, safeguarding public money and assurance & scrutiny.**

Promotion of financial management:

- Assessing the authority's financial management style and the improvements needed to ensure it aligns with the authority's strategic direction.
- Actively promoting financial literacy throughout the authority.
- Actively promote good financial management throughout all partnerships and alternative delivery models.
- Assisting the development of a protocol which clearly sets out the roles and responsibilities of both democratically elected councillors, whether acting in executive or scrutiny roles, and of officers for financial management, including delegated authority/powers.
- Ensure effective monitoring of partnerships through monitoring and access to information.

Value for money:

- Challenging and supporting decision makers, especially on affordability and value for money, by ensuring policy and operational proposals with financial implications are signed off by the finance function or being clear on the reasons for alternative selection.
- Advising on the financial thresholds for 'key' decisions where there is a requirement to do so.

- Developing and maintaining appropriate asset management and procurement strategies.
- Managing long-term commercial contract value.

Safeguarding public money;

- Applying strong internal controls in all areas of financial management, risk management and asset control.
- Establishing budgets, financial targets and performance indicators to help assess delivery.
- Implementing effective systems of internal control that include standing financial instructions, operating manuals, and compliance with codes of practice to secure probity.
- Ensuring that the authority has put in place effective arrangements for internal audit of the control environment and systems of internal control as required by professional standards and in line with CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom.¹⁴
- Ensuring that delegated financial authorities are respected.
- Promoting arrangements to identify and manage key business risks, including safeguarding assets, risk mitigation and insurance.
- Overseeing of capital projects and post completion reviews.
- Applying discipline in financial management, including managing cash and banking, treasury management, debt and cash flow, with appropriate segregation of duties.
- Ensuring the effective management of cash flows, borrowings and investments of the authority's own funds or the pension and trust funds it manages on behalf of others; ensuring the effective management of associated risks; pursuing optimum performance or return consistent with those risks.
- Implementing appropriate measures to prevent and detect fraud and corruption.
- Establishing proportionate business continuity arrangements for financial processes and information.
- Ensuring that any partnership arrangements are underpinned by clear and well documented internal controls.
- Be alert to potential conflicts of interest and ensure the authority has access to appropriate independent advice.

Assurance and scrutiny;

- Reporting performance of both the authority and its partnerships to the board and other parties as required.
- Ensuring that financial and performance information presented to members of the public, the community and the media covering resources, financial strategy, service plans, targets and performance is accurate, clear, relevant, robust and objective.
- Supporting and advising the audit committee and relevant scrutiny groups.
- Ensuring that clear, timely, accurate advice is provided to the executive and the scrutiny functions on what considerations can legitimately influence decisions on the allocation of resources, and what cannot.
- Preparing published budgets, annual accounts and consolidation data for government-level consolidated accounts.

- Ensuring that the financial statements are prepared on a timely basis, meet the requirements of the law, financial reporting standards and professional standards as reflected in CIPFA's Code of Practice.
- Certifying the annual statement of accounts.
- Ensuring that arrangements are in place so that other accounts and grant claims (including those where the authority is the accountable body for community led projects) meet the requirements of the law and of other partner organisations and meet the relevant terms and conditions of schemes
- Liaising with the external auditor.

(d) Principle 4 - Lead and direct a finance function that is resourced to be fit for purpose.

- Leading and directing the finance function so that it makes a full contribution to and meets the needs of the business.
- Determining the resources, expertise and systems for the finance function that are sufficient to meet business needs and negotiating these within the overall financial framework.
- Managing partnership delivery.
- Implementing robust processes for recruitment of finance staff and/or outsourcing of functions.
- Reviewing the performance of the finance function and ensuring that the services provided are in line with the expectations and needs of its stakeholders.
- Seeking continuous improvement in the finance function.
- Ensuring that finance staff, managers and the leadership team are equipped with the financial competencies and expertise needed to manage the business both currently and in the future whether directly or indirectly employed.
- Ensuring that the head of profession role for all finance staff in the authority is properly discharged.
- Acting as the final arbiter on application of professional standards.

Revenue & Capital Principles

REVENUE BUDGET PRINCIPLES

The revenue budget principles have been developed to support the budget process and need to be complied with in conjunction with compliance with the Council's Budget and Policy Framework, the Budget Management Accountability Framework and detailed guidelines provided for setting the 2020/21 to 2022/23 budget.

The budget position is based on a number of significant subjective assumptions. To enable the Council to react to changes in these assumptions in a timely fashion, these principles should be adhered to which should support a balanced budget being set.

The current financial year will also have a significant impact on future years budgets being set and therefore a number of the principles relate to the current financial year.

1. Budget Principles for Future Years Budgets

1.1 The budget will initially be prepared on the basis that current resources support existing service levels in line with budget assumptions and with the exception of:

- (a) The full year effect of previous year's savings proposals and spend.
- (b) Consequences of the approved capital programme.
- (c) Where expenditure needs to be reduced with regard to adjustments in relation to specific 'one year only' allocations and other time expired funding.
- (d) Other specific Council decisions.
- (e) Directors and Departmental Chief Officers supported by Finance Services are responsible for:
 - i. Business cases (rationale) need to be developed for growth and invest to save proposals, with evidence based justification for increasing demand included in business cases to be considered as part of the budget gap. These are to achieve the priorities in the Best Council Plan.
 - ii. All savings within their Directorate are to be agreed by the Executive Member however if a saving is not approved then an alternative must be found. If an approved saving is not delivered in year then a reason why this hasn't happened needs to be considered by the Council's Corporate Leadership Team (CLT).
 - iii. Identifying potential savings with "No options" for savings being off the table. These savings if previously considered are to be presented to Cabinet at the earliest meeting to obtain the Members views as to whether these are to be progressed.
 - iv. Contingency Action Plans – The value of any risks / pressures in the Directorates managed budgets should be quantified. Savings proposals as a contingency are to be identified which can be implemented quickly. These proposals will be actioned if the service goes into an overspend position during the financial year.

- v. Budget Action Plans – Saving proposals to manage:
- The savings requirement for the Directorate
 - Pressures identified within the service
 - Future developments

The contingency and Budget Action Plans must be robust and fit for purpose. Each Director will be required to verify that the actions contained in the plan are achievable.

1.2 Salary budgets are to be prepared with reference to the 2019/20 budget (net of any vacancy factor) adjusted for pay awards, approved service changes, savings and other approved variations. The salary budgets can only be used to employ staff in established posts on approved grades in line with the following conditions:

(a) All changes to the approved staffing budget where Council funding is available in full must be approved by Executive Board, or within the requirements of the Scheme of Delegation.

(b) All changes to the approved staffing budget where resource implications arise, even if the costs are met entirely from external funding, must also be approved by Executive Board, or within the requirements of the Scheme of Delegation.

(c) Posts funded from external sources must be established as temporary or specific purpose posts unless it can be demonstrated that:

- the external funding is permanent, or specific approval has been given, or future years' costs can be contained within current budgets.

1.3. Discretionary Fees and Charges. Directors are to provide a report to CLT on their proposals to generate income from within the Directorate.

(a) Fees and charges are to be varied to achieve an overall annual increase in income for each Directorate in line with the Fees and Charges Policy. Increases can be implemented at any time subject to the overall financial target being achieved.

(b) If the target cannot be achieved by varying fees and charges then alternative savings must be identified. Claims by Directors to exempt or apply a lesser increase to any part of their service must be justified in the context of their Directorate policies and plans and referred to CLT.

1.4. External Funding

(a) Wherever possible external funding should be used to reduce pressure on current expenditure, thereby releasing resources for redirection into priority areas.

(b) All legal, human resources, financial and administrative support costs required to manage grant conditions and fulfil the role of the accountable body should be charged, wherever possible, against the funding regime.

2. Current Year Principles

2.1 Revenue Grants received in the year – agreement to be reached at CLT whether substitution of general funding should be identified before the grant is utilised.

2.2 Contributions to a non-ring fenced reserve can only be made if a directorate is forecast to be underspending and contributions needs to be agreed by the Chief Officer Financial Services.

2.3 Carry forward of budget into the next year will be considered by CLT and will only be considered if the service is forecast to be underspending at the reported provisional outturn position.

2.4 Directors must balance service requirements against the need to manage within their budgets when taking decisions to fill vacant posts or employ temporary staff.

2.5 No overspend in budgets should be incurred unless there is a safeguarding / statutory need and these where possible should be agreed by the Director. A report with a budget action is to be provided to CLT detailing proposals as to how this variation will be managed within the Directorate's approved budget.

2.6 When a revenue grants received from Central Government stops the Directorate will need to manage the reduction in both expenditure and loss of income. The Director with support from Finance Services will be required to provide an exit strategy or an evidence based business case of why this expenditure should be added to the base budget.

2.7 Budget pressures. Services need to manage budget pressures identified within the service. Any pressures which the service identifies which cannot be managed need to be agreed by CLT and with clear business case being developed.

2.8 In year saving proposals which have not been achieved in the current financial year, the Director will need to identify budget savings options to mitigate the Directorate from going into an overspend position. These savings options will be incorporated into Financial Health reports which are received initially at Executive Board and then subsequently at both Strategy and Resources and the respective service Scrutiny Boards.

B CAPITAL PROGRAMME PRINCIPLES

The Capital principles have been developed to enable focus on the purpose of the Capital Programme and to seek agreement for the use of limited resources.

1. Capital Programme Principles

1.1 The Capital Programme is compiled at project level for the years 2020/21 through to 2030/31. The format of the capital schemes submissions, which are to be supported by a business case, will be determined by the Strategic Investment Board. The Capital schemes being considered by SIB are to meet the priorities identified in the Business Case Guidance.

1.2 The profiling of capital expenditure into the correct financial years and over the projects development will be key to ensure the amount of re profiling of capital resources from one year to another is kept to a minimum, and to reduce the amount of revenue budget required to finance the project.

1.3 When a Capital Scheme has been completed, the business case and outcomes will be reviewed to ensure the specified outcomes have been achieved and a lessons learnt document will be produced to be used for future capital programmes.

1.4 Capital Resources are to be used as follows:

- Decisions on the use of Capital Receipts will be considered as part of the budget process.
- Un-ring fenced and ring fenced externally funded grants are considered on a case by case basis for their utilisation by SIB.
- Any grant funding received after the Capital Programme is set is to be used to reduce any Prudential Borrowing of the scheme in the first instance, where grant conditions allow.
- Approval of any new borrowing is considered with the implications for the revenue budget position.

1.5 Capital projects for approval are:

- Considered by Executive Member for the service who agree to the Directorates putting forward a request for funding the Capital Scheme.
- Completed to ensure all implications of the Capital Scheme are included in the 'Business Cases'. Business cases are to be developed and a scheme will only be included in the Capital Programme when considered by the Strategic Investment Board and CLT and ultimately approved by the Executive Board in line with the Budget and Policy Framework.
- The Business cases are to be developed by the Directorates with support from Finance Services. The ongoing monitoring of the Capital Schemes is the responsibility of the Director in accordance with the Financial Regulations.
- Inclusive of Multi Year Schemes with spend profiled accurately across the financial years.
- External Funding is maximised before the use of Prudential Borrowing is considered.
- Capital Expenditure is reviewed to ensure the capital scheme provides value for money, is sustainable in the future and meets the priorities detailed in the Best Council Plan. In order to ensure that schemes meet Council priorities and are value for money, the Chief Finance Officer will continue to ensure:
 - the introduction of new schemes into the capital programme will only take place after completion and approval of a full business case and identification of the required resources; and
 - the use of prudential borrowing by directorates is based on individual business cases and that revenue resources to meet the borrowing costs are identified.
- All revenue implications of the Capital Programme (regardless of the capital funding of those schemes) are considered and provided to SIB to enable informed decisions to be made, i.e.:
 - Ongoing operating costs and life cycle costs

- Cost of any prudential borrowing including both MRP and Interest

1.6 Capitalisation of expenditure (including staffing costs) is in line with CIPFA Guidance as issued by the Capital Team.

Do we need a section in here about how we deal with capital overspends?

C General Principles

The budget process shall adhere to the approved timetable.