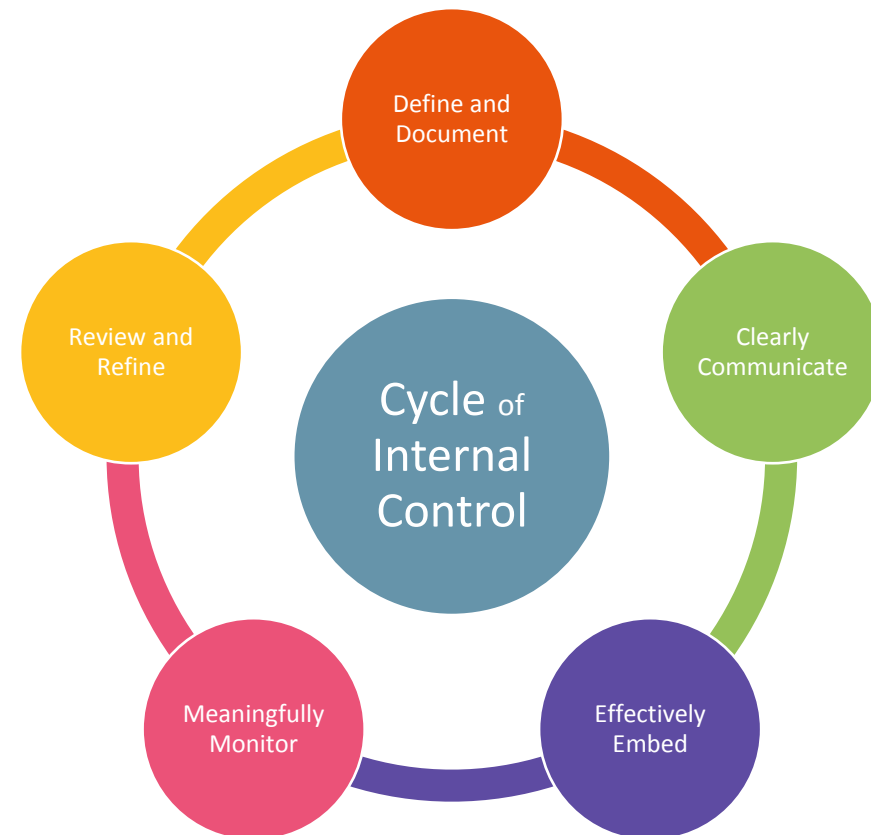


Introduction

1. Given the significant financial challenges facing the Council especially when account is taken of the ongoing financial impact of COVID-19, and in the context of several authorities running into financial difficulties, it is critical that the Council has in place sound arrangements for financial planning and management. In response the Council has established an effective financial management and control environment and specifically robust arrangements for strategic financial planning. This control framework is continually being assessed and reviewed to ensure that it remains fit for purpose.
2. The Council has a proven and comprehensive approach to the development and delivery of its Medium-Term Financial Strategy, through its annual budget setting and monitoring, together with the identification and implementation of saving plans.
3. This statement of internal control provides assurance in respect of the Council's financial management framework; that it is up to date, fit for purpose, embedded and routinely applied.
4. The framework is comprised of those documents, systems and processes by which the Council's financial management arrangements are directed and controlled.
5. Roles and responsibilities are clearly delineated and articulated to ensure accountable management of the council's financial resources, with appropriate democratic oversight.
6. This statement of internal control sets out the standing arrangements for financial management within the Council and provides evidence of compliance over the reporting period from March to October 2021.
7. The statement includes opportunities that have been identified to improve these arrangements.



Define and Document

The Best Council Plan (BCP)

8. The BCP is the Council's strategic plan which sets out its ambitions, outcomes, and priorities for the City of Leeds and for the Local Authority. The "Best City" and "Best Council" ambitions set the strategic context. The BCP (2020-25) was launched in July 2020. The Best Council Plan will transition to a partner-developed 'City Ambition' over the next few months, with engagement with partners and other stakeholders taking place over the autumn and winter of 2021/22. The intention is that a revised plan will then be considered by Full Council in February 2022.

Medium Term Financial Strategy (MTFS)

9. The BCP can only be delivered through a sound understanding of the organisation's longer term financial sustainability, which enables decisions to be made that balance the resource implications of the Council's policies against financial constraints. This is the primary purpose of the MTFS which also provides the financial framework for the annual budget.
10. To enable the achievement of the Best Council and Best City ambitions the Council has developed the MTFS to direct the resources of the Council to the priorities identified in the BCP. The MTFS provides a framework within which the annual budget process can sit. The strategy does not attempt to provide a detailed budget but it does recognise the Council's ambitions, policies and priorities, sets out the main financial challenges facing the Council and provides a broad framework for the delivery of efficiencies and savings to bridge the identified funding gap.
11. The MTFS covers a five year period and incorporates the Council's capital strategy. The updated 2022/23 to 2026/27 MTFS, which was agreed by Executive Board in September 2021, recognised the requirement for the Council's revenue budget to become more financially resilient, robust and sustainable, whilst at the same time reducing the risks associated with funding recurring revenue through mechanisms such as capital receipts and capitalisation.
For the period covered by the current MTFs there is an estimated budget gap of £151.3m of which £65.5m relates to 2022/23.

Capital Strategy

12. A combination of CIPFA's code and government guidance require a local authority to produce a Capital and Investment strategy. The Capital and Investment strategy was approved at Executive Board in February 2021 as an appendix to the Capital Programme report.
13. 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.
14. The investment strategy element considers three broad areas:

- treasury management – covered in the treasury management strategy document annexed to the annual treasury strategy report.
- other financial investments such as loans and equity investment which are made to achieve service objectives; and
- non-financial investments such as property.

15. The Strategy provides a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provisions of services along with an overview of how associated risk is managed and the implications for future financial sustainability.

The Budget

16. Local authorities are under a statutory duty to set a balanced budget each year.

17. The 2021/22 budget was approved by Full Council on the 24th February 2021.

The headlines from the 2021/22 budget proposals, when compared to the 2020/21 budget, are as follows

- A reduction in the Council's net revenue budget of £90.4m to £435.3m;
- The Council will receive £28.4m in Revenue Support grant (RSG) an increase of £0.2m on 2020/21;
- A reduction in business rates income of £101.8m which is as a result of a combination of reduced business rates income growth and a deficit on the Collection Fund.
- A significant part of the reduction in business rates income is due to the fully-funded reliefs introduced in 2020/21 in response to the COVID-19 crisis, which have added to the deficit. Of the funding received from Government for these reliefs, £75.5m has been held in reserve to partially meet this shortfall. Therefore the Council has had to manage a net £26.3m reduction in business rates income;
- An increase in the Settlement Funding Assessment (SFA) of £0.2m (0.1%);
- An increase in the general Council Tax of 1.99% together with a further 2.99% in respect of the Adult Social Care precept and an increase in the Council Tax base, generating an additional £11.2m of local funding;
- A combination of a reduction in resources and the requirement to resource increased pay, price and demand pressures means that the Council will need to deliver £56.1m of savings by March 2022 and;
- A net reduction in staffing of 791 full time equivalent posts.

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

Budget Principles

19. 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.

- 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.

20. Adoption of these principles results in a more robust and accountable approach to budget management which closely aligns itself with the principles that are set out in CIPFA's Financial Management Code which all local authorities are required to fully comply with in 2021/22.

Constitution

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

Part	Document	Function
Part 2 - Articles	Article 4 – The Full Council	Articulates the budget and policy framework
	Article 12 - Officers	Confirms designation of Chief Officer Financial Services as S151 Officer and sets out key responsibilities
	Article 14 – Finance, Contract and Legal Matters	Confirms application of financial regulations
Part 3 – Responsibility for Functions	Functions of the Full Council	Reserves to Council decision making authority in respect of relevant matters
	Officer Delegation Scheme (Council (non -executive) functions) Chief Officer Financial Services	Delegation of power to make financial standing orders (Financial Regulations)
	Officer Delegation Scheme (Executive functions) General Delegations	Delegates to Directors decision making authority in respect of financial matters in relation to matters within their remit
	Officer Delegation Scheme (Executive functions) Chief Officer Financial Services	Delegations to Chief Officer Financial Services in respect of financial strategy; financial management and controls; policies and procedures for budgets

Part 4 – Procedure Rules	Budget and Policy Framework Procedure Rules	Set out the procedure for adoption of documents within the Council’s budget and policy framework.
	Financial Regulations	Set out the framework for managing the Council’s financial affairs.
Part 5 – Codes and Protocols	Chief Financial Officer Protocol	Sets out the role and responsibilities, working arrangements, resources, and relationships of the statutory Chief Financial officers

Roles and Responsibilities

Chief Finance Officer

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

<p><u>CIPFA statement requires that the Chief Financial Officer:</u></p> <ul style="list-style-type: none"> 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, 	<p><u>In accordance with the Chief Finance Officer Protocol the Chief Officer Financial Services:</u></p> <ul style="list-style-type: none"> reports directly to the Chief Executive in terms of their statutory Section 151 responsibilities¹; meets regularly with the Head of Paid Service and the Monitoring Officer to consider and recommend action in connection with corporate governance issues and other matters of concern regarding any legal, ethical standards, probity, propriety, procedural or other constitutional issues that are likely to (or do) arise is a member of the Council’s Corporate Leadership Team and has advance notice of all agendas and reports
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¹ Within the Council’s management structure the Chief Officer Financial Services reports to the Director of Resources in all other respects.

<ul style="list-style-type: none"> • 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 	<ul style="list-style-type: none"> • attends meetings of the Council’s Executive Board and has advance notice of all meetings, agenda and reports and the right to attend and speak; and • has advance notice² of and the right to attend and be heard at all relevant meetings of the Authority (including meetings at which officer delegated decisions are taken) before any binding decision is taken (including a failure to take a decision where one should have been taken)
<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • reports annually to the Corporate Governance and Audit Committee regarding whether the arrangements are satisfactory and have been complied with and will include any proposals for amendments in the light of any issues that have arisen during the year
<ul style="list-style-type: none"> • 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. 	<ul style="list-style-type: none"> • appoints a deputy and keep them briefed on any relevant issues that they may be required to deal with in the absence of the Section 151 officer; • has sufficient resources to enable them to address any matters concerning their Section 151 functions

Financial Services

25. 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.
26. The new Financial Management structure, agreed in December 2020, has been implemented to enable the service to deliver the Council’s key financial priorities. These priorities include building the Council’s financial resilience, delivering improved value for money and targeting resources where they can make the most difference.
27. The structure recognises the implications of CIPFA’s Financial Management Code (the Code) and the requirements placed on the S151 Officer to provide assurance that the Council has in place effective and robust arrangements for financial planning, financial control and other financial management activities.
28. Through this structure, financial management across the council is delivered by colleagues who are managerially responsible to the Chief Officer Financial Services. Many of the staff within the Financial Management service are professionally qualified accountants with many years of experience; and are personally and professionally responsible for their actions and advice. This is reinforced through the Council’s performance and appraisal scheme which incorporates identifying key skills for finance staff, programmes of training, development and continuing professional development.

² including receiving agendas, minutes, reports and related papers

29. The implementation of the new Financial Management structure has been accompanied by a revision to the finance service offer with more emphasis upon a risk-based approach which has been facilitated through streamlining and automating our processes especially with regard to the production of more user friendly monthly financial dashboards. Combined with the way that we have organised ourselves with more routine financial activities now being delivered through a central operational hub this has facilitated finance business partnering teams working innovatively and collaboratively with Senior Officers in Directorates to deliver strategic priorities, transformation and delivering value for money

Financial Challenge

30. In response to the challenge of the financial position as detailed in the MTFS the Council established a “Financial Challenge” programme of service reviews.

31. The financial challenge silver group provides a co-ordinated and consistent approach to the identification of deliverable budget savings proposals and clear oversight of the budget savings programme. Through this robust and accountable approach any variations to budgeted assumptions can be readily identified and addressed.

32. Where appropriate, and in accordance with the Council’s adopted budget principles, alternative proposals will be identified to ensure that a balanced budget position can be delivered in 2022/23. Progress against the delivery of these targeted savings is incorporated into the monthly Financial Health reporting to Executive Board.

Officer Oversight

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

Group	Composition	Function
Financial Services Management Team	Directorate Heads of Finance – chaired by the Chief Officer (Financial Services)	To oversee the strategic direction of the service; sharing best practice; updating on professional developments, policies and guidance and; looking forward to considering future developments.
Heads of Finance	Directorate Heads of Finance – chaired by the Chief Officer (Financial Services)	This meeting provides weekly communication with regard to the delivery of key processes that include the Budget Setting; Savings Programme; Budget Monitoring; the Capital Programme and; Closure of Accounts
Finance Performance Group	Directorate Heads of Finance - chaired by the Deputy Chief Officer – Financial Services.	As well as receiving the monthly year-end revenue projections for each Directorate which are reviewed and challenged this forum also receives updates on the capital programme, capital receipts, council tax and business rate collection and treasury/debt activities. It also receives invest to save business cases.
Directorate leadership teams	Directors and Chief Officers meeting within directorates.	To receive monthly budget monitoring information; identification of implementation of budget savings plans that will result in a balanced revenue budget position in year and; contribute towards the determination of the budget for the forthcoming financial years.
Corporate Leadership Team	Chief Executive, Directors, City Solicitor and Chief Officer Financial Services	To receive monthly Financial Health reports and Capital Programme and Treasury Management reports and; contribute to and agree the budget strategies for the forthcoming financial year.
Financial Challenge - Silver	Cross council - Chaired by the Chief Officer – Financial Services.	<ul style="list-style-type: none"> • Provision of high support, co-ordinated and consistent approach to the identification of robust, realistic and deliverable budget savings proposals; and • oversight over the 2021/22 budget savings programme
Corporate Financial Integrity Forum	Senior finance staff – chaired by Deputy Chief Officer - Financial Services	This Forum has a key role within the financial control environment and its function is to help ensure that there are procedures and operations in place to provide the necessary quality, integrity and reliability of financial information and accounts.

Democratic Oversight

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

Councillor / Committee	Oversight
Leader of Council	Oversight of functions in relation to Council's financial strategy
Executive member for Resources	Oversight of functions in relation to financial management and controls; policies and procedures for budgets; and corporate governance
Executive members	Oversight of development of budget options and savings proposals for matters within their remit
Executive Board	<ul style="list-style-type: none"> • Consideration of capital injections and budget proposals • Receive financial health monitoring, capital programme and Treasury Management monitoring reports • Recommend the annual revenue budget, Capital Programme and Treasury Management Strategy to full Council.
Full Council	<p>Approval of the annual revenue budget and virement rules, the capital programme and Treasury Management Strategy.</p> <p>Approve Council Tax and Business Rates bases.</p>
Scrutiny Boards	Member scrutiny via Scrutiny Boards ensures that the budget continues to meet the council's priorities and objectives.
Corporate Governance & Audit Committee	Approval of the Council's audited accounts and receive the Annual Audit Letter.

Clearly Communicate

Engagement

35. Extensive consultation was undertaken as part of the budget setting process, as outlined in the Revenue Budget and Council Tax 2021/22 report to Full Council on the 24th February 2021. In addition submitted budget savings proposals that involve the review of a service will also incorporate the requirement for consultation and engagement.
36. As described above the revised financial management service offer requires improved engagement to work more innovatively and collaboratively in the management of the current approved budget and in the determination of future years budgets.
37. Respective Scrutiny Boards are engaged not only in the scrutiny and challenge with regard to the management of the current year's approved budget but equally they will review budget proposals for the forthcoming financial year and these views are incorporated into the Annual Revenue Budget report that is received at Full Council in February each year.
38. The Council's leadership team (CLT) and the Council's Cabinet receive regular financial briefings on both the current and future financial years along with updates on issues e.g. new legislation or accounting development, that have implications for the Council's financial position.

Communication

39. The Financial Management section of the Council's Intranet site contains guidance and informative toolkits which support staff who have financial management responsibilities. Each of the regulations set out in the Council's Financial Regulations is supported by a series of toolkits to provide guidance for officers.
40. As well as taking account of the role of Cabinet, CLT and Scrutiny, which is described above, regular financial presentations on the latest and forecast financial positions are made to meeting of key senior officers such as Best Council Leadership Team
41. Communication and support is provided to both officers and elected Members on specific issues. For example new Councillors receive a briefing on a range of financial issues including how local government is financed as part of their induction; a training package is currently being finalised to ensure officer compliance with the requirements of IR35 and in the past training has been provided in respect of Financial Regulations and on how the Capital approval procedure rules operate.
42. The enhanced Business Partner role requires financial management staff to work closely with Directorates and requires them to ensure that key staff have appropriate support so that they can manage their current budgets and plan for future financial years.

Effectively Embed

Annual Financial Cycle

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



Financial Planning and Budget Setting

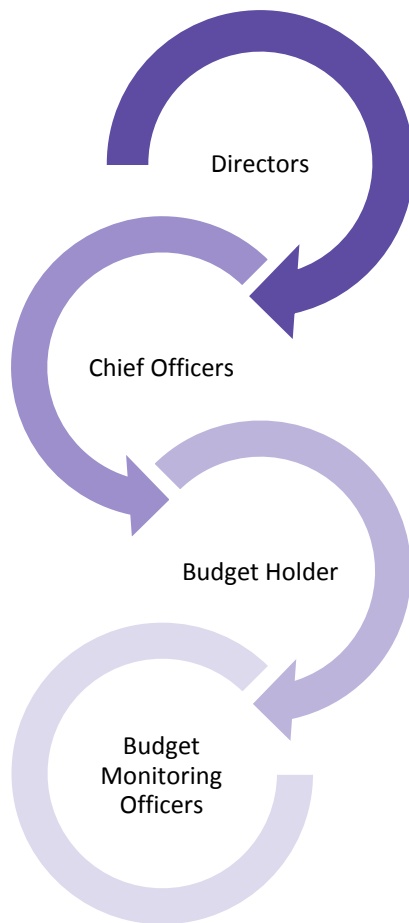
1. Within the context of MTFS, as well as being a financial expression of the Council's policies and priorities, the annual budget is also a means of controlling spending to the available resources and re-enforcing financial accountability and responsibility.
2. The annual budget process is led by the Chief Officer Financial Services and involves a wide range of officers and members across the council.
3. The process starts soon after the budget setting of the previous year with an update of the funding, key pressures and savings assumptions contained in the MTFS. Undertaking such an assessment involves a range of assumptions including the level of core government support as reflected through the Settlement Funding Assessment (SFA), other specific funding, calculation of the council tax base, the determination of the level of business rates receivable, the level of 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.
4. At the same time Directorates start to prepare detailed estimates for the forthcoming year; although it is recognised that ultimately the totality of these estimates needs to be consistent with the overall resources envelope that is available to the Council.
5. 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.

6. In response to the financial challenge the Council established a "Financial Challenge" programme of service reviews. This cross council "Silver" group approach provided high support, co-ordinated and consistent approach to the identification of robust, realistic and deliverable budget savings proposals. The same "Silver" group will have oversight over the 2021/22 budget savings programme. Through this robust and accountable approach any variations to budgeted assumptions can be readily identified and addressed. Where appropriate, and in accordance with the Council's adopted budget principles, alternative proposals will be identified to ensure that a balanced budget position can be delivered in 2021/22. Progress against the delivery of these targeted savings will be incorporated into the monthly Financial Health reporting to Executive Board.
7. The Budget and Policy Framework Procedure Rules set out in the Council's constitution provide that the proposed budget for the forthcoming financial year must be submitted to Scrutiny prior to the Council's budget meeting. In practice this is after Executive Board approval and requires the proposals to be submitted to the December and January meetings of the respective Scrutiny Boards.
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.
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.
10. The Local Government Act (Part II) 2003 places a requirement upon the Council's statutory officer (the Chief Officer – Financial Services) in Leeds to report to members on the robustness of the budget estimates and the adequacy of the proposed financial reserves. Reaching a view of the robustness of the budget and the adequacy of the general reserve not only requires consideration of the processes and systems used in preparing the estimates, but also a consideration of the strength of the arrangement in place for internal financial management and control.

In year Budget Management and Monitoring

11. Budget management and monitoring is a continuous process which operates at a number of levels throughout the Council. The Council's budget accountability framework clearly articulates roles and responsibilities and aligns financial accountability within service decision-making.
12. 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.

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

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

15. 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.

16. Financial and budget monitoring in the Council is facilitated by the Council's financial management system (FMS). The system holds information as to the approved budgets, actual spend and income, commitments and year-end projections. User friendly visual dashboards are now utilised allowing budget holders to regularly review spend to date against approved budgets and against profiled budgets. In addition, budget holders and finance staff project the end of year position and this clearly involves a degree of judgement. In practice some budgets are more difficult to manage and forecast than others. There are also instances where spending is controlled on systems other than the Council's main FMS, for example community care payments. In these instances, procedures are in place to ensure that information held in these systems are regularly reconciled to FMS.

17. In-year, any decision to amend budgets is undertaken within the virement rules agreed annually by Full Council as part of the budget-setting process. All such decisions are recorded

as part of the delegated decision-making process.

Closure of Accounts

18. The first stage of the closedown process is a natural extension of the budget monitoring arrangements with Directorate finance officers compiling the final figures for the services they support to determine an outturn position to be reported to Executive Board in June each

year. This report compares both the revenue and capital budget to the final outturn for each Directorate and provides an explanation as to the reason for any variation, including explanations of major variations on individual capital schemes. This comparison to the budget provides a clear indication as to the robustness of the original budget setting and the quality of the budget monitoring process. In addition a full and complete reserves statement is provided to Executive Board.

19. Alongside the budget monitoring process, significant accounting decisions are referred to the Technical and Integrity accounting team within finance to ensure compliance with applicable accounting standards. The Council's external auditors, Grant Thornton, will also be consulted on such decisions to ensure they are agreed by all parties before a major financial decision is made.
20. All changes to accounting practice are assessed and, where applicable, implemented by officers in financial management. All finance officers and relevant Directorate officers are informed of the implications of any changes. The application of appropriate accounting practice is assessed by the Council's external auditors and reported back to members of this Committee.
21. Staff within the Technical and Integrity Team and Strategic Finance oversee the closedown process and the Chief Officer Financial Services will review both the accounts themselves and the processes used to compile them, before certifying signing them as a true and fair view. The Council's external auditors provide members with independent assurance that, in their opinion, the accounts do reflect a true and fair view of the council's financial position and that they comply with proper accounting practice.
22. New accounting requirements and outturn projections are taken into account when the budgets are set for the following year.

Capital Programme and Treasury Management Arrangements

23. The Council's 10-year capital programme considers the need for capital investment against affordability within the Medium Term Financial Strategy (MTFS). The programme identifies annual programmes across the Council that aim to provide investment in assets to ensure that the Council can continue to operate effectively. The Council also has a number of major programmes that provide investment in line with the Council's best plan objectives. 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 and are essential (under health and safety grounds or in order to ensure Council assets are maintained for continued service provision).
24. Capital investment needs are assessed on an annual basis under the direction of the Best Council Team - Strategic Investment Board with final approval sought from the Executive Board and Full Council in February each year (at the same time that the revenue budget is set to ensure overall affordability). If necessary, a second injection at a mid-year point could be utilised. The process does however allow for fully funded schemes (funded either by external resources or departmental prudential borrowing) to be injected throughout the year.
25. Proposals for new capital schemes funded from borrowing must follow a rigorous business case process to demonstrate investment is aligned to capital objectives, meets the needs of the public and will deliver best value. Directorates submit their future scheme spending intentions which are challenged and prioritised by the Best Council Team - Strategic Investment Board before CLT, member engagement

and wider consideration takes place. Only those priority and deliverable schemes are put forward for inclusion within the capital programme.

26. One of the main risks in managing the capital programme is that insufficient resources are available to fund the programme. As the capital programme is fully funded this risk lays within the treasury management of the debt budget. Monthly monitoring procedures are in place for expenditure, resources, capital receipts and debt monitoring to ensure that this risk can be managed effectively.

- Ensuring written confirmation of external funding is received prior to contractual commitments being entered into;
- Quarterly monitoring of the council's VAT partial exemption position to ensure that full eligibility to VAT reclaimed can be maintained;
- Provision of a central contingency within the capital programme to deal with unforeseen circumstances. Individual programmes and schemes will also contain a risk provision for unexpected circumstances;
- The capital programme includes a central contingency to cater for any unforeseen circumstances. In addition individual programmes and schemes contain a risk provision for unexpected circumstances.
- Compliance with both financial regulations and contract procedure rules to ensure the Council's position is protected; and
- Ensuring all major programmes are supported by programme boards.

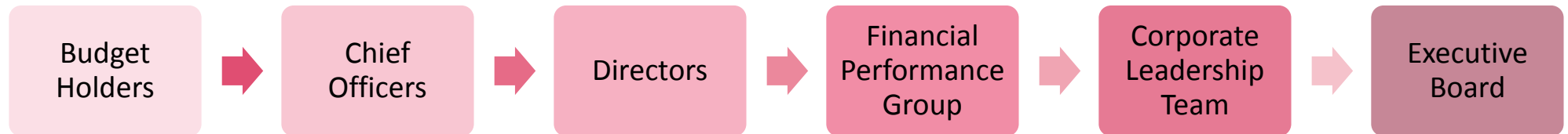
The Chief Officer for Financial Services continues to ensure:

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

Meaningfully Monitor

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

Budget Monitoring



28. Financial monitoring is undertaken and operates on a hierarchical basis, whereby the monthly projections are aggregated upwards to be reviewed by budget holders, Chief Officers and Directors. The year-end projections for each Directorate are reviewed and challenged each month by the Council's Finance Performance Group (FPG). The year-end projections are then reported to the Council's Corporate Leadership Team and the Executive Board. As well as being accurate, monitoring also needs to be timely, and as such reporting is operated according to a strict timetable. In addition, at each monthly FPG meeting, monitoring statements in relation to the capital programme and debt are also reviewed.
29. As part of in-year budget management and monitoring, year-end projections for income and expenditure are submitted to the Chief Officer Financial Services, and the Corporate Leadership Team, and are also reviewed and challenged by the Corporate Finance Performance Group. In addition, budget monitoring s/Financial Health reports are presented monthly to Directorate leadership teams, individual executive members, Executive Board and respective Scrutiny Committees.
30. 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.
31. In line with the Council's financial procedure rules and the Council's value of 'Spending Money Wisely', it is critical that where projected overspends are identified that action is taken to bring spending back into line with the approved budgets or to identify other sources of funding such as areas of under spend. All Directorates are required to have contingency plans identified to the value of the key risks identified in the budgets. The Council's Revenue Budget principles, which provide a framework for managing the revenue and capital budgets, requires that savings options to balance identified overspends are reported through the regular Financial Health reports to Executive Boards in the form of action plans.

COVID-19 has had a significant impact upon the level of resources available to the Council in both 2020/21 and 2021/22. In 2021/22 around half of the estimated budget gap of £118.8m was due to the impact of COVID and the Revenue Budget and Council Tax report for 2021/22 detailed the proposals that the Council identified in order that a balanced budget was presented to Full Council for approval on the 24th February 2021. The latest Financial Health report received at October's Executive Board identified COVID pressures of £27.3m over and above budgeted assumptions and these are being funded through a combination of COVID contingencies, reserves and support from the Government's compensation scheme for reduced income from sales, fees and charges.

Capital Programme Monitoring

32. The capital programme continues to be closely monitored with Directorates and progress on schemes reported on a monthly basis to Financial Performance Group and Best Council Team – Strategic Investment Board. Quarterly updates are presented to the Executive Board.
33. The cost and affordability of the borrowing resulting from capital expenditure are budgeted for and managed within the revenue debt budget. In the year following capital expenditure, as well as budgeting for interest costs, the revenue budget must make provision for the minimum revenue provision on borrowings which is accounted for over the life of the asset. Forecasts for the debt budget are dependent upon interest rate assumptions, the likely level of capital spend and the Council's cash balances. The affordability of new and existing borrowing is reported on a monthly basis as part of the financial health reporting to the Executive Board, with specific treasury strategy reports presented to the Executive Board at least three times a year.
34. Monitoring performance reports on the capital receipts, council tax and business rate collection, and treasury/debt activities are considered during the year by the Executive Board.
35. 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.

Corporate Financial Integrity Forum

36. The Corporate Financial Integrity Forum, which meets each month and is chaired by the Deputy Chief Officer - Financial Services, has a key role within the financial control environment and its function is to help ensure that there are procedures and operations in place to provide the necessary quality, integrity and reliability of financial information and accounts. The overall purpose is to help ensure the financial stewardship of the Authority by monitoring;
 - The regular review and reconciliation of financial systems to the financial ledger.
 - The regular review and reconciliation of balance sheet accounts.
 - The requirement to have effective systems and procedures in place to facilitate the posting of financial data to the ledger.
 - That there are up to date bank mandates for all bank accounts to which LCC officers are signatories and that bank statements are regularly received and reconciled.

- Reviewing any other area of financial control or financial governance risk, including partnerships and other joint working arrangements.
- Areas of concern affecting financial integrity are investigated and reported on.

37. The integrity of all the financial data is of fundamental importance in ensuring financial information is both timely and accurate in order to correctly inform decision making. This is a key role of the Corporate Integrity Forum. The forum reviews all key financial control accounts such as cash and tax; the validity of all feeder systems into the financial ledger; along with such things as system access rights and coding structures.

Financial Resilience Index

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

Independent Assurance

Internal Audit

39. 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.

External Audit

40. 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.

41. Grant Thornton's 2019/20 Annual Audit letter for Leeds City Council, which was received at this Committee on the 25th June 2021 concluded that "Overall, if Covid-19 had not taken place, the Council's financial position would have continued to be sufficiently stable to manage the financial impact of small unforeseen events as in previous years, however, the financial impact of Covid-19 has been

significant and highlights the inadequacy of the Council's General Fund Reserves...Except for this matter, the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources." The Council has agreed, in the context of both the financial projections and financial risks reflected in the Council's MTFs, to annually review its strategy to ensure that it retains an appropriate level of balances within its general reserve.

42. Grant Thornton will provide, in respect of the 2021/22 accounts, the independent assurance that the Council has made proper arrangements to secure economy, efficiency and effectiveness in its use of resources. With regard to the audit of the 2020/21 financial accounts the National Audit Office (NAO) 2020 Code of Audit Practice has changed the way that Value For Money (VFM) arrangements are reported. As before auditors are still required to be satisfied about arrangements to secure VFM but the way they report this has changed. Auditors now no longer issue a single conclusion on arrangements as part of their opinion on the financial statements. Instead, auditors are required to report significant weaknesses in arrangements when they identify them and make recommendations for improvement. They will only report on VFM arrangements as part of their opinion by exception, where they have found significant weaknesses. Their main output on VFM will be a commentary contained in a new document, the Auditor's Annual Report, covering arrangements for:
- Financial sustainability
 - Governance
 - Improving value for money
43. Where auditors find significant weaknesses in arrangements, they will also make recommendations for improvement. Audited bodies are required to publish the Auditor's Annual Report on their website. Since the 2020-21, the coronavirus pandemic (COVID-19) significantly impacted upon audited bodies such as the Council, and the financial reporting and auditing process, this could, in the view of the NAO, affect the timing of when the work on VFM arrangements can be performed and reported. Therefore, for 2020-21 deadlines have been extended for auditors to issue the new Auditor's Annual Report to no more than 3 months after the auditor has issued their opinion on the financial statements.
44. It is important to appreciate that both External and Internal Audit also review our budget and budget monitoring arrangements in order to assess whether they are satisfied that, in all significant respects, the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.
45. The Chief Financial Services Officer meets with Grant Thornton on a monthly basis to review progress on the delivery of a balanced budget position and the actions being taken to deliver a sustainable financial position for the years covered by the current approved Medium Term Financial Strategy.

Review and Refine

Adequacy and Resilience of Internal Controls

46. 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. Committee received a separate Treasury Management assurance report in September 2021 which reports on the robustness of these arrangements. It is proposed that in future the council's treasury management arrangements will be included in this annual report.
47. This statement of internal control details the arrangements and controls that are in place to deliver the key financial management functions that include the determination of the annual budget, budget monitoring and the closure of the financial accounts. Both Internal and External Audit provide the appropriate assurance to Members that that these arrangements are sufficient.
48. Looking ahead consideration needs to be given to the following which could have implications for the financial management arrangements that the Council has in place and which may need to be revised to take account of these risks and developments.

Review of MTFS

49. An updated MTFS was received at September's Executive Board and this highlighted a funding gap of £151.3m of which £65.4m relates to 2022/23. This position was reported in advance of the Chancellor's Autumn Budget statement on October 27th which will inform the Provisional Local Government Finance settlement that is expected in mid December 2021. Budget savings options to bridge the estimated budget gap for 2022/23 have been received at September's Executive Board and further proposals are timetabled to be received at November and December Executive Boards.
50. The Government remains committed to progress the review of relative needs and resources the outcome of which will inform the methodology for the distribution of resources.
51. In addition there are a number of other pressures which will influence and impact upon the Council's financial position and these include the ongoing impact of COVID-19 upon the level of resources available to the Council.

National Funding Formula for Schools

52. 2021/22 is the fourth transitional year of the national funding formula for schools. During this transitional period local authorities will be allocated an amount based on the new national funding formula but they can decide on a local formula for allocating this to schools. The Government has indicated that the transitional arrangements will continue into 2022/23. The schools funding formula for 2021/22 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 2021/22 funding formula has moved as close as possible to the national funding formula. In addition work continues to be carried out to assess the financial impact and risk to the Council should maintained schools become academies.

Financial Management Code

53. In October 2019 CIPFA published the Financial Management Code. The Financial Management Code, which is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability, has been introduced following concerns about fundamental weaknesses in financial management particularly in relation to organisations that may be unable to maintain services in the future. The code itself contains a series of financial management standards with which compliance is required if a local authority is to meet the minimum standards of financial management acceptable to meet fiduciary duties to taxpayers, customers and lenders. Local authorities have been required to comply with the requirements of the Financial Management Code with effect from 1st April 2021.

54. 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.

55. The VFM review undertaken by the Council's external auditors in respect of the 2020/21 final accounts will also cover compliance with the Financial Code and their findings will be incorporated into their report to this Committee.

Opportunities for improvementFinancial Management Systems (FMS)

56. FMS is the financial monitoring system in use across the Council. On a regular basis budget holder, taking a risk-based approach and with support from finance staff, review their spend and commitments against the approved budgets and project their year-end position.

57. 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.

58. FMS is an in-house developed and managed Oracle-based system. The system is a ledger system, the general feel of the system is not modern, user-friendly and there are specific gaps in the system's capabilities, for example procurement/purchasing. As a part of the Core Business Transformation Programme, Executive Board in September 2020 agreed the procurement of a replacement of existing Finance, HR and Payroll IT systems. Implementation of new systems will contribute towards supporting the current process of service reviews, the

transformation of service delivery and the securing of the long term viability of the Council's business information technology (IT) systems. Implementation of new Finance system will also support the successful implementation of the new Financial Management structure which supports the Council to deliver its key financial priorities. As a stepping stone to the replacement of FMS, user friendly, visual dashboards have been developed, allowing budget holders to work with financial information in an effective manner.

59. 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 2021/22 the work programme for the Corporate Financial Integrity Forum will continue to focus upon seeking specific assurances as to the integrity of the source data that feeds into the core FMS, and in particular the new Civica system which is being introduced during the year for housing management functions.

IR 35

60. IR35 is tax legislation that's intended to ensure that people who offer their services in a self-employed capacity and typically through a personal services company pay the right level of tax. (IR35 is the name of the Inland Revenue press release that launched this requirement in 2017). It's designed to assess whether a contractor is a genuine contractor rather than a 'disguised' employee, for the purposes of paying tax.

61. Since April 2017 public authorities have been responsible for deciding if the rules applied where they contract workers who provide services through their own intermediary and the Council is responsible for using the Check Employment Status for Tax (CEST) tool to determine whether staff being hired for a specific engagement, should be classed as employed or self-employed for tax purposes.

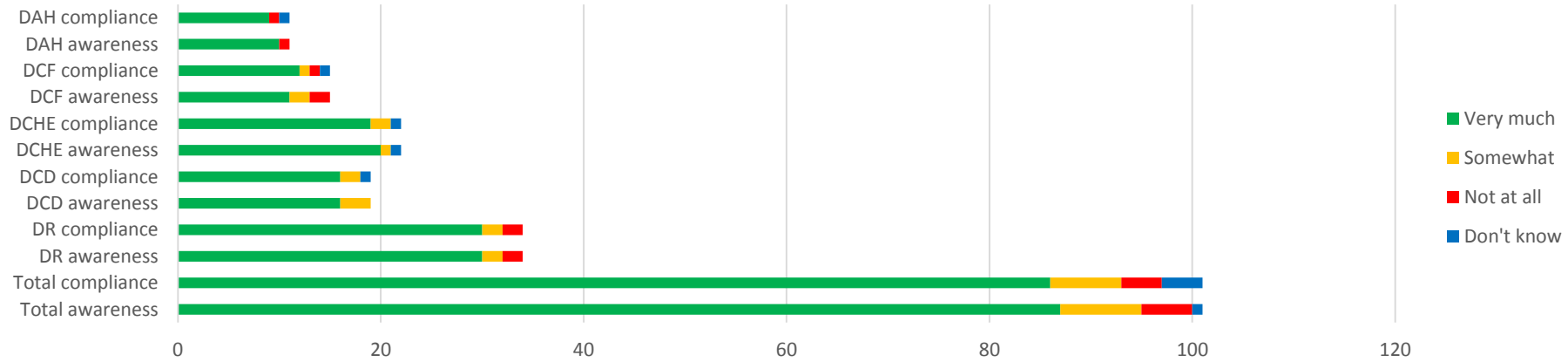
62. The Council has established specific controls to manage this process, and these have been subject to internal audit review, but it is recognised that further work is required to confirm that the CEST tool is being completed appropriately on all occasions.

63. The Survey of Internal Control which took place in June 2021 considered a number of aspects of the financial management arrangements. In particular respondents were asked to rate the extent to which staff were aware of and working in accordance with the following:

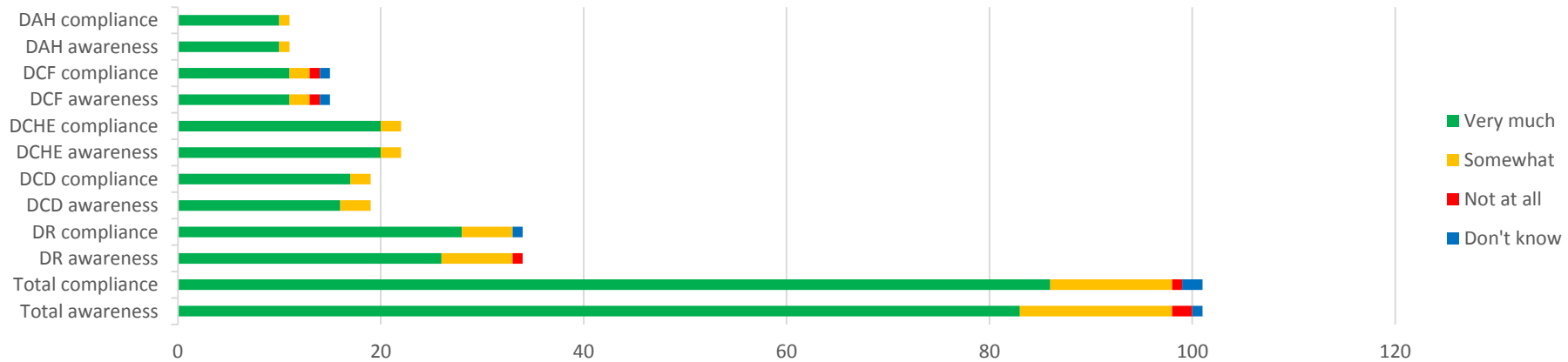
- Arrangements for taking professional advice from colleagues in finance, legal, procurement, HR etc. before decision reports are submitted to the decision maker
- Financial Regulations
- Arrangements for obtaining advice and guidance from Financial Services
- Arrangements for budget monitoring and control

64. The results, which are set out in the charts below, show that managers' perception of overall awareness and compliance with key components of the financial control environment is good. However, there is opportunity for improvement and arrangements will be made to ensure that appropriate Council employees are sighted on the financial control framework.

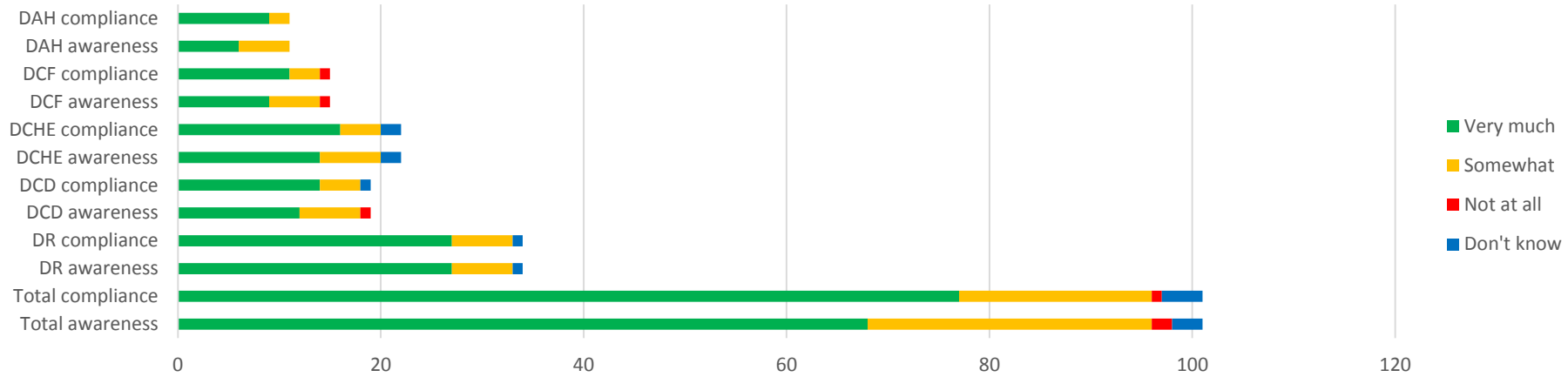
Arrangements for financial advice and guidance



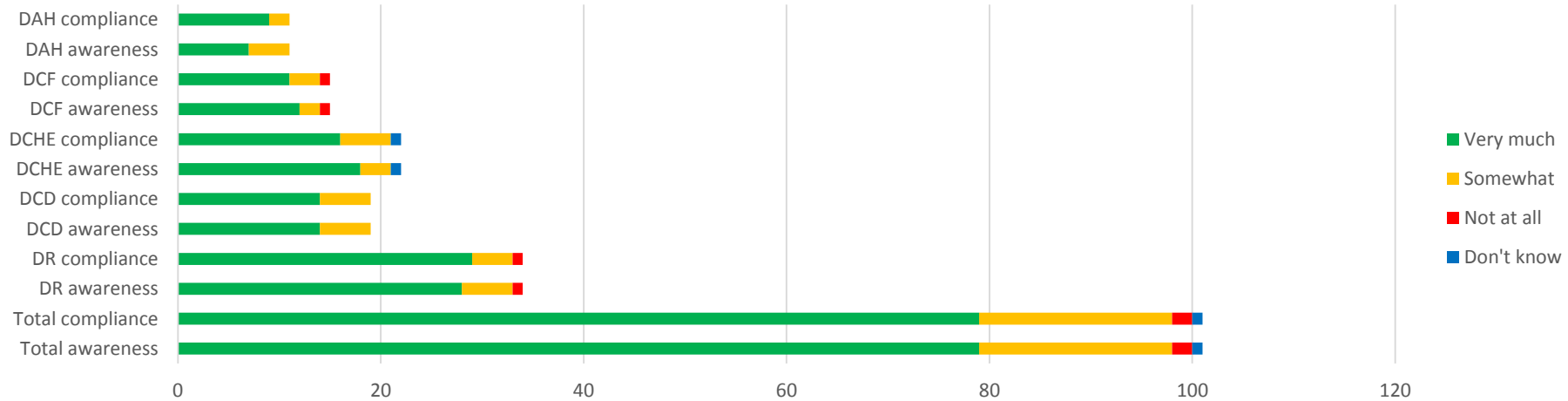
Arrangements for Financial advice before a report is submitted



Financial Regulations



Arrangements for budget monitoring and control



Statement of Assurance

65. Having undertaken the review of the system of internal control for financial management outlined in this statement the Chief Officer Financial Services is satisfied that the arrangements are up to date and fit for purpose, that they are communicated and embedded and that they are routinely complied with.
66. The Chief Officer Financial Services has identified the following opportunities for enhancement of the system of internal control for financial management and will implement these over the course of the 2021/22 municipal year.

Opportunities for improvement

Define and Document	We will undertake a full review of the Chief Officer Financial Services sub-delegation scheme to ensure that it remains up to date and fit for purpose in light of recent changes to the service structure.
Clearly Communicate	We will produce and make available a recorded training package that will heighten staff awareness and support compliance with the key control processes within our financial management arrangements
Effectively Embed	There are no proposed amendments in respect of arrangements to effectively embed the system of internal control.
Meaningfully Monitor	We will ensure that arrangements to support compliance with IR35 are appropriately monitored.
Review and Refine	There are no proposed amendments in respect of arrangements to review and refine the system of internal control.