

FLINTSHIRE COUNTY COUNCIL

REPORT TO: **AUDIT COMMITTEE**

DATE: **WEDNESDAY, 25 JUNE 2014**

REPORT BY: **CORPORATE FINANCE MANAGER**

SUBJECT: **BUDGET SETTING & BUDGETARY CONTROL ARRANGEMENTS**

1.00 PURPOSE OF REPORT

1.01 To provide members with information about the Council's budget setting and budgetary control systems to assist the Committee in fulfilling those responsibilities it has in relation to the Council's financial affairs.

2.00 BACKGROUND

2.01 At the Audit Committee on 18th December 2013, discussion took place on how the Committee could ascertain how to fulfil its responsibility to assure the budgetary control systems of the Council, as set out in its Terms of Reference. This arose from the Committee's consideration of the Code of Corporate Governance.

2.02 In response, the then Head of Finance explained that it was planned to provide a report to the Audit Committee at a future meeting to explain the Council's budget setting and monitoring processes in order to aid the Committee in its work leading up to considering the Statement of Accounts for 2013/14. It was agreed that the report would be presented to the June 2014 meeting.

3.00 CONSIDERATIONS

Roles and Responsibilities

3.01 The Terms of Reference of the Audit Committee are set out in the Council's Constitution, attached as Appendix 1. The following extracts relate specifically to financial matters.

- Role and Functions (b) and (d) – see paragraph 3.03 below
- B. Statutory Financial Statements
- D. Financial Affairs

3.02 The Council's Budget and Policy Framework, extracted from the Constitution, is set out in Appendix 2.

- 3.03 The terms of reference of the Audit Committee set out that the role of the Committee is to review and scrutinise the County Council's financial affairs, and to make reports and recommendations on them. The role of the committee is to assure the budgetary control systems of the Council rather than the scrutiny of the use and value for money of expenditure which is the role of the respective Overview and Scrutiny Committees.
- 3.04 County Council has responsibility for setting the Annual Revenue budget and the Capital Programme for both the Council Fund and the Housing Revenue Account. This is done following recommendations from Cabinet which will have sought the input of Overview and Scrutiny.
- 3.05 The role of Overview and Scrutiny Committee in relation to the development of the Council's budget and policy framework is set out in detail in the Budget and Policy Framework. The terms of reference of the Corporate Resources Overview and Scrutiny Committee, as set out in Appendix 3, include specific responsibility relating to budget strategy (item 6), budget monitoring (item 3) and financial management (item 7). However, all Overview and Scrutiny Committees have a role in scrutinising the use and value for money of expenditure in services and for the making proposals to Cabinet in relation to matters within their terms of reference as they consider appropriate or necessary.

Budget Setting and Monitoring Processes

Annual Budget

- 3.06 The Council is required to set a balanced revenue budget each year and to do so no later than 11th March for the following year commencing 1st April. There is no specific requirement to set a capital programme, or for it to be by a prescribed date. Flintshire's practice is to set the capital programme for the forthcoming year at the same time as the revenue budget in order to establish the resources for capital investment in the coming year. The Housing Revenue Account (HRA) revenue and capital budgets are set in mid February to enable tenants to be notified of rent levels for the year ahead. The HRA is a ringfenced account whose finances must be kept separate to the Council Fund.
- 3.07 For the Council Fund, the annual budget is set within the context of the Council's Medium Term Financial Plan (MTFP). Through the MTFP, the Council plans over a three to five year period taking account of projected funding, operating costs, the level of investment required in Council priorities (new and existing) and the level of efficiencies which will need to be made to balance the budget in each year. The pressure on local authority budgets over the last three years in particular and projected, at least until the turn of the decade,

mean that all Councils must plan to deliver services with less financial resource both in cash and real terms.

- 3.08 Within the Council's Strategic Framework as set out in the Improvement Plan and against the fiscal context described above, services are charged with developing proposals to achieve planned improvements, consider how services might be delivered in the future to achieve further improvements in service standards and performance levels, provide greater value for money or be delivered at a reduced cost. These are discussed with relevant Overview and Scrutiny Committees on an ongoing basis providing the opportunity for input, challenge and debate ensuring that the impacts for service standards, performance levels and costs are fully understood.
- 3.09 For each year's budget, the Cabinet, working with Senior Officers, develops a specific strategy and a set of specific proposals for meeting unavoidable cost pressures e.g. inflation, providing investment e.g. in new priorities and for efficiency measures. These proposals are subject to detailed consideration by Overview and Scrutiny.
- 3.10 Whilst the detailed programme varies from year to year depending on ensuing circumstances, the broad approach is to engage with all members through all member workshops in the lead up to the budget and to brief them on the financial forecast position and provide opportunity for them to contribute to the specific strategy and the approach to be taken for the year ahead.
- 3.11 As an example, the financial strategy for the 2014/15 budget was:
- A challenging review of all financial assumptions
 - A risk based approach to the likelihood and level of costs
 - Setting clear targets for the efficiencies required from the Organisational Redesign and Change Programme
 - The integration of revenue costs with the capital programme
 - Putting in place an investment strategy to deliver the efficiencies and recognise the timescales required to implement
 - Setting the 2014/15 budget within the context of the Medium Term Financial Plan
- 3.12 The financial strategy was adopted in support of the overall budget strategy which was to protect local services as a first priority. From a starting point of £16.5m, the actual level of efficiencies required was reduced to £13.4m through significant challenge of financial assumptions and taking a risk based approach to the likelihood and level of costs in 2014/15. The objectives of the Organisational Redesign and Change Programme were to reduce operating costs and overheads, achieve a marked reduction in management costs,

reduce workforce costs and remodel some council functions. The budget set out full year efficiencies of £13.4m of which £3.7m is from Management and Workforce reductions and £9.7m from achieving greater value for money from functional and corporate efficiencies. Contributing to the £9.7m are reductions in expenditure through more efficient procurement across all services, reductions in office and other costs from an exercise known as “back to basics” which sought to take out unnecessary expenditure and reductions in budget (mainly social care) to levels consistent with the level of spend in 2012/13 which was lower than budget. Where value for money reviews are being undertaken, the analysis takes into account a range of information including financial data, performance data and benchmarking with other Councils or, if appropriate, external providers.

- 3.13 Following publication of the Cabinet’s proposals for investment and efficiencies, the details relative to each Overview and Scrutiny Committee are presented to that Committee by the Chief Executive, Chief Finance Officer and Service Chief Officers and supporting teams. For the 2014/15 budget, the individual Committees took place in January 2014.
- 3.14 The role of individual Overview and Scrutiny Committees is to scrutinise the budget proposals, seeking any further information which is required so that the Committee can be assured that it has a clear view of the services and financial implications. The Committee has the opportunity to register support for the proposals or to put forward amended or alternative proposals and ask that the Cabinet consider these in formulating its final budget proposals.
- 3.15 At the end of the scrutiny process, the Corporate Resources Overview and Scrutiny Committee hosts a meeting of all scrutiny members. The purpose of this is to provide an opportunity for the feedback from all of the Overview and Scrutiny Committees to be brought together, for all members to have the opportunity to review the overall position and to formulate a co-ordinated response to the Cabinet. All of the Scrutiny feedback is reported in full to the Cabinet in written reports.
- 3.16 Corporate Resources Overview and Scrutiny Committee also provide an opportunity for all members to scrutinise the Capital Programme as a whole. As for revenue, the opportunity to register support for the proposals or to put forward amended or alternative proposals and ask that the Cabinet consider these in putting forward final budget proposals is an important part of the process.

Budget Monitoring

- 3.17 Monitoring of the agreed revenue budget and capital programme is carried on an ongoing basis throughout the year involving officers from Finance and Service Departments and is reported to members monthly for revenue and quarterly for the capital programme.
- 3.18 Financial Procedure Rule 4 sets out that Heads of Service may vire (transfer) between revenue budget heads which they are responsible for up to a cumulative maximum of £75,000 during the year, providing that there will be no resultant change of policy and subject to the following restrictions. The approval of Cabinet, or where there are policy implications, of the Council, is required for any virement, of whatever amount, where it is proposed to either vire between budgets of different Cabinet portfolio holders or vire budgets managed by different Heads of Service.
- 3.19 The roles and responsibilities of officers for budgetary control, monitoring and reporting are set out in Financial Procedure Rules. The most recent update (2013) is attached as Appendix 4. From Section 3.4 it can be seen that the responsibility for budgetary control is for both service managers and finance. The Audit Committee has an opportunity to review and comment on the adequacy of these arrangements through its responsibility for keeping the Financial Procedure Rules under review.
- 3.20 Budget monitoring is an integral part of the Council's financial management arrangements which is not confined to reviewing the in year position but is part of an ongoing process linked to the Medium Term Financial Plan. The objectives of monitoring are to:

At Individual Service Level

- Review projected levels of expenditure and income against those included in the budget for the year.
- Identify variances for investigation to determine if these are likely to be one-off or recurring, which may:
 - ◆ Identify opportunities for reducing the budget in future years
 - ◆ Identify areas where the budget is insufficient to meet expenditure (demand led services)
 - ◆ Identify areas where mitigating action is needed to reduce expenditure in line with the budget available.
- Provide detailed base information from which to consider opportunities for savings in the current and future years

At a Corporate Level

- Identify the overall level of net expenditure against the budget for the year compared to budget

- Monitor the achievement of the overall efficiencies programme and, if there is a shortfall, to identify the level of further efficiencies required
- Review any impact on levels of reserves and balances compared to that anticipated when the budget was set
- Identify risks and opportunities for the MTFP, where, based on current patterns of expenditure, there is a variance to what is projected for future years
- Enable mitigating action to be taken in the light of the emerging information

3.21 It is important to recognise that budget monitoring information is always a projection of what the year end position is anticipated to be based on the actual level of income and expenditure at the time. As the Council moves through the financial year, there is more information available and certainty improves, but the projections will always be susceptible to unexpected variations occurring. The key to minimising variations from the annual budget and from month to month, is having in place effective forecasting arrangements which encompass effective systems to record and analyse actual income and expenditure and which pick up, at an early point, any intelligence e.g. service trends and demand and to translate this into what impacts are likely for both the service and the budget. This is relevant both for reporting on the in year position and also planning for future years as part of the continuous cycle. The wide understanding and “sign up” across to the Council to this flow of information in a timely manner is critical to effective financial management and the level of assurance in budgetary control processes.

3.22 Revenue and capital monitoring reports are considered on an ongoing basis by Corporate Resources Overview and Scrutiny Committee before Cabinet. The budget monitoring reports provided to members are in a very detailed format, showing the overall position for the Council projected to year end based on the currently available information and full details on variances within each service area with explanations on why this has occurred and what actions are being taken. Any comments from Corporate Resources are made verbally to the Cabinet when the reports are presented to those meetings.

3.23 In presenting the budget monitoring report to Corporate Resources Overview and Scrutiny Committee, an overview is given of the main issues within the particular months report, key variances, actions being taken, any emerging risks and the impact that the latest position has on the projected level of reserves compared to that assumed when the budget was set. In undertaking detailed examination, Members have the opportunity to question and debate the impact on the overall budget as well as the implications for specific service areas. Should concerns emerge in relation to particular issues, the

Committee does seek further information in written form or will, depending on the circumstances, ask for the relevant Service Head to attend a future meeting to provide explanation. In instances of more serious concern, the Committee will refer the matter to the specific Overview and Scrutiny Committee for their more detailed consideration. In the past such referrals have been made in relation to Out of County Placements and Leisure, with those Committees then taking up enquiries about the reasons for the budget variances and working with officers on solutions on how to address them.

Audit Committee and Overview & Scrutiny Liaison

- 3.24 Audit Committee and Overview & Scrutiny both have responsibility in relation to the financial affairs of the Council but from different angles and so it is important to keep an open dialogue between the two. Important to this is recognition of the scale and complexity of those financial affairs. Each year the Council has a turnover of some £0.500bn across a diverse range of services. Also important to recognise is that the Financial Accounts (financial statements) and the Management Accounts (budget monitoring reports) have different purposes and different requirements for the format in which they are reported. Maintaining an understanding of the relationship between the two is a recognised challenge for all Councils.
- 3.25 The Audit Committee is receiving the Council's financial statements in a statutorily prescribed format for Financial Accounts whilst Cabinet and Overview and Scrutiny receive budget information and the budget monitoring reports which make up the Council's Management Accounts in a format which is locally determined.
- 3.26 The purpose of the Financial Statements is to set out a true and fair view of the financial position of the authority at the end of the financial year and its income and expenditure for the year that has ended. It is reporting on actual expenditure and income levels in the year (what has taken place) and the values in the balance sheet at that date. The purpose of the Management Accounts is to project forward the likely year end position based on actual expenditure and to provide information which identifies where action is needed as a mitigating step to keep within budget or where opportunity is being identified to facilitate change or future savings.
- 3.27 The need for liaison between Audit Committee and Overview and Scrutiny has been recognised in previous joint meetings and this will need to continue in the future through the schedule of joint meetings to ensure that each understands the respective roles, is comfortable about the assurance that can be placed on the work of the other party and that duplication is avoided.

4.00 RECOMMENDATIONS

4.01 Members are recommended to note the report.

5.00 FINANCIAL IMPLICATIONS

5.01 None directly as a result of this report.

6.00 ANTI POVERTY IMPACT

6.01 None directly as a result of this report.

7.00 ENVIRONMENTAL IMPACT

7.01 None directly as a result of this report.

8.00 EQUALITIES IMPACT

8.01 None directly as a result of this report.

9.00 PERSONNEL IMPLICATIONS

9.01 None.

10.00 CONSULTATION REQUIRED

10.01 None directly as a result of this report.

11.00 CONSULTATION UNDERTAKEN

11.01 None.

12.00 APPENDICES

12.01 Appendix 1 - Audit Committee Terms of Reference

Appendix 2 - Budget and Policy Framework Procedure Rules

Appendix 3 -Corporate Resources Overview & Scrutiny Committee
Terms of Reference

Appendix 4 – Financial Procedure Rule 3: Budget Management

**LOCAL GOVERNMENT (ACCESS TO INFORMATION ACT) 1985
BACKGROUND DOCUMENTS**

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