

## CAMBRIDGE CITY COUNCIL

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REPORT OF: Chief Executive

TO: Civic Affairs Committee

26/06/2013

WARDS: All

### **UPDATE ON ACTION PLAN TO ADDRESS ISSUES EMERGING FROM BUDGET FORECASTING ERROR**

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#### **1 INTRODUCTION**

- 1.1 Civic Affairs Committee considered a report on 17 April 2013 regarding actions that were being taken in response to Ernst & Young's review of errors discovered in financial modelling in respect of the 2012/13 budget. One of these actions was to report back on possible improvements to future processes and this report suggests changes to the Council's processes in relation to the Medium Term Strategy (MTS) and its scrutiny.
- 1.2 The report asks the Committee to support the principle of amending the constitution to invest the role of Section 151 officer in a new post of Head of Finance should the Leader of the Council decide to recommend this to Council.
- 1.3 The report also updates the Committee on the progress with other actions in the action plan.

#### **2. RECOMMENDATIONS**

Civic Affairs Committee is asked to recommend to Council:

- 2.1 That the Budget Setting Report should be the place where the Council sets out its medium term financial strategy in future years, rather than being produced as a separate Medium Term Strategy document.
- 2.2 That the Council undertakes a Mid-Year Financial Review in its autumn cycle comprising the following core elements:
  - a) To consider the implications of year-end actuals on both revenue and capital expenditure going forward and level of reserves
  - b) To consider any implications from the Annual Statement
  - c) To reflect any changes from the Government's Budget and Spending Review Announcements

- d) To test underlying assumptions about inflation and interest rates in the light of latest information and conditions
- e) To review forecasts on retained business rate and Council Tax in light of actual growth and latest projections
- f) To consider what impact all of the above have on reserves and future savings targets

- 2.3 That the proposed Mid-Year Financial Review document should be considered by Strategy & Resources Scrutiny Committee before the Leader makes a recommendation to Council.
- 2.4 To delegate authority to the Chief Executive to amend the Council's Constitution to reflect these new arrangements.

The Committee is asked to resolve:

- 2.5 That, subject to more detailed consideration by the Council, following the Chief Executive's report to the Leader and Strategy & Resources Scrutiny Committee, it endorses the proposal to designate a new Head of Finance post as Section 151 Officer.

### **3. PROPOSED CHANGES TO MTS PROCESS**

- 3.1 I reported to the last meeting on actions that were being taken to address the issues raised in Ernst & Young's review of the errors discovered in financial modelling in respect of the 2012/13 budget. One of these actions was make recommendations to Civic Affairs to streamline and simplify the council's financial decision making processes and to report back on possible improvements to future processes.
- 3.2 The officer work to date has focused on changes to the MTS process, as the Council needs to make decisions on this issue now, to enable planning for this year's autumn cycle. I will report back to Civic Affairs in September on any changes proposed to the budget setting process.
- 3.3 The Council has produced a detailed Medium Term Strategy over the summer for reporting to the autumn Council meeting for a number of years. The document currently fulfils two functions:
  - 1. An opportunity to take a long-term view of the Council's finance – which has been done over a 25 year model for a number of years.
  - 2. An opportunity to review assumptions made in the previous February's Budget Setting Report (BSR) to see whether any of those assumptions need changing as we begin preparations for the next year's budget.
- 3.4 With regard to the first function, there is no requirement to take a long term look at this particular time of the year and many councils simply incorporate their long term financial planning as part of their final budget setting report. Experience in

recent years has shown that most Government announcements happen so late in the budget setting process that the Executive has needed to make material revisions to long term assumptions anyway, as part of the BSR in the following February. So, in this sense, there is limited advantage in taking a detailed long-term view in the autumn as a separate process.

- 3.5 The second function is more critical in terms of timing. The document provides an opportunity to review assumptions made in the previous February's BSR and to see whether any of those assumptions need changing as we begin preparations for the future year's budget. The timing is important as it allows the Council to review the impact of year-end outturn for the previous year and the implications these may have for future plans. It also allows adjustment to budgets as a result of the revised priorities of any new administration following the May election.
- 3.6 Having some form of financial review in the autumn allows the Council to do a number of things:
- a) To consider the implications of year-end actuals on both revenue and capital expenditure going forward and level of reserves
  - b) To consider any implications from the Annual Statement, particularly relevant if there is a change in Council administration in any year
  - c) To reflect any changes from the Government's Budget and Spending Review Announcements
  - d) To test underlying assumptions about inflation and interest rates in the light of latest information and conditions
  - e) To review forecasts on retained business rate and Council Tax in light of actual growth and latest projections
  - f) To consider what impact all of the above have on reserves and future savings targets
- 3.7 The list above is the key content that it makes sense for the Council to consider in early autumn.
- 3.8 A significant amount of resource in the finance team and the council more widely, goes into producing a detailed MTS in addition to the BSR. It is proposed in future that the BSR should be the place where the Council sets out its medium term financial strategy, as well as detailed budget and Council Tax proposals for the following year. The current MTS would be replaced by a much shorter Mid-Year Financial Review document which would fulfil the core functions of the current MTS (as laid out in para 3.6 above) namely reviewing assumptions made in the BSR and updating assumptions if any such updating is required in the lead into the budget setting round. Removing the long-term strategic elements from the mid-year document (rather than duplicating that which will still appear in the BSR) will not only release officer capacity but also provide members with a more concise and focused document which will facilitate more thorough scrutiny.
- 3.9 At the meeting in April, Civic Affairs raised the issue of how the MTS was scrutinised before it was put before Council for approval. In recent years the MTS

has been considered by the Executive without Scrutiny Committee review. Members expressed the view that formal scrutiny of the MTS by a scrutiny committee was desirable.

- 3.10 It is proposed that a Mid-Year Financial Review document should be considered at a special meeting of Strategy & Resources Scrutiny Committee before the Leader makes a recommendation to Council. In 2013 this would be timetabled to replace the scheduled Executive meeting on 29 September.
- 3.11 If approved the Constitution will need updating to reflect these proposals.

#### **4. CONSULTATION ON CHANGES TO THE ROLE OF S151 OFFICER**

- 4.1 I reported to the last meeting that I intended to consult on changes to the structure of the Resources department to separate the role of the Section 151 officer from the post of Director of Resources. I will be making detailed proposals on this to the Leader which would be considered at Strategy & Resources Scrutiny Committee in July, before formal consideration by Council on 19 July.
- 4.2 In summary, having considered the consultation responses, I intend to pursue this proposal. I will propose that a new Head of Finance post should be created to fulfil the role of section 151 officer. This will have implications for the current posts of Director of Resources and Head of Accountancy and Support Services.
- 4.3 I will report in more detail on the consultation responses in my Strategy & Resources report but would highlight two issues that have been raised which are of particular relevance to this committee.

**1. A number of respondents commented that CIPFA's guidance on the role of the Section 151 Officer requires that not only should the post holder be professionally qualified, but they should also report directly to the Chief Executive, and be a member of the Leadership Team with a status at least equal to other members**

This is CIPFA's guidance and reflects a more traditional model of council structure. But it is non-statutory guidance and a number of councils have their section 151 officer reporting to a Director and not reporting in line management terms directly to the Chief Executive. This includes Southend and Luton, which are unitary authorities, Surrey County Council and Oxford City Council. It is now also common to see shared Section 151 officers across more than one council and these types of arrangements are not reflected at all in the CIPFA guidance.

It is my proposal that the Head of Finance should be a full member of the Strategic Leadership Team. I would also expect them to report directly to me on financial matters, as the Head of Legal Services does in his Monitoring Officer role or the Head of Internal Audit does in his role. This does not mean that I need to have line management responsibility for the post or the whole of the finance service.

**2. It was also suggested that CIPFA guidance states that the Head of Internal Audit should report to the Chief Financial Officer.**

In fact the guidance states that the Chief Financial Officer should ensure 'that the authority has put in place effective arrangements for Internal Audit...' and

‘implement appropriate measures to prevent and detect fraud’. This does not require the direct management of the function by the officer to ensure this. The CIPFA statement on the role of the Head of Internal Audit suggests that the post should report to a member of the management team and is not specific about which this should be. It could be argued that there is in fact more independence if they are not managed directly by the s151 officer, whose systems they are assuring.

4.4 The CIPFA guidance also says

*"There is a growing trend for CFOs to hold a range of different responsibilities beyond finance, including managing other services or leading change programmes. Whilst these can develop the individual as a corporate manager, authorities must not let the CFO's core financial responsibilities be compromised through creating too wide a portfolio."*

I believe my proposals address this concern directly.

4.5 I have discussed the proposed structure with our External Auditor and he is satisfied that my proposals address his comments.

4.6 If agreed, the proposed structure will depart from the CIPFA guidelines outlined above and CIPFA suggests this departure should be noted in our annual governance statement.

4.6 Civic Affairs is asked that, subject to more detailed consideration by the Council, following the Chief Executive's report to the Leader and Strategy & Resources Scrutiny Committee, it endorses the proposal to designate the new Head of Finance post as Section 151 Officer.

4.7 If the recommendations are approved then changes will be needed to the Constitution to reallocate delegations currently held by the Director of Resources in the role of S151 Officer. Council will be asked to delegate authority to the Chief Executive to amend the Council's Scheme of Delegation to reflect the new structure.

## 5. UPDATE ON OTHER ACTIONS

	<b>Action</b>	<b>Who</b>	<b>Update</b>
1.	Internal Audit will work with the Finance team to make improvements to the control and supervision in the service and to address recommendations 1, 2 and 4.	Head of Internal Audit  Head of Accounting Services	Some changes to the control environment have been implemented. Internal Audit will continue to work with the service to address any further changes in controls that may be required to reflect proposed changes to the council's decision making processes. They will also be checking that agreed controls are being used.

2.	The financial model will be reviewed to ensure it is fit for purpose in accordance with recommendation 6 and decisions made on whether to make changes and improvements to the existing model or to procure a new one.	Head of Accounting Services  DOR	A review of systems used in a number of other local authorities has been completed. A demonstration has been arranged of a proprietary alternative which appears to be the only suitable one available that links to Oracle Financials (the Council's financial system). A decision on whether this is the best way forward is on target to be made by end of July.
3.	Any recommendations from external audit as part of their annual audit work will also be incorporated into improved process.	External Audit	These will be picked up during the year as part of the Council's work with external audit.
4.	<p>In accordance with recommendations 3 and 5, systems within the finance team will be reviewed</p> <ol style="list-style-type: none"> <li>1. to ensure that there are clear processes in place to capture information and knowledge in case of staff absence</li> <li>2. to ensure there are clear escalation polices and processes for problems with the service</li> </ol> <p>All staff in the team will be provided with copies of these policies and processes and any necessary training will be provided.</p> <p>Managers tasked with ensuring these are effectively embedded in the culture and practice of the service.</p>	Head of Accounting Services (supported by Head of HR)	<ol style="list-style-type: none"> <li>1. Completed</li> <li>2. Initial draft agreed and being checked against good practice elsewhere.</li> </ol> <p>In progress</p> <p>This is being reinforced through team meetings. It will also be reinforced through the Council's performance review system.</p>
5.	Appropriate actions are being taken in accordance with council's HR policies.	CEX	Completed

6.	CEX to consult on changes to the structure of the Resources department to separate the role of Section 151 officer from the role of Director of Resources.	CEX	Consultation closed on 5 June 2013. Outcomes to be reported to Strategy & Resources Scrutiny Committee and Council in July 2013.
7.	Implementation of agreed changes.	CEX	This will be dependent on decisions made by full Council.
8.	Make recommendations to Civic Affairs Committee to streamline and simplify the council's financial decision making processes. The aim will be to balance the need to free up capacity and make efficient use of the organisational resources available, with the need to give members clear and transparent oversight of the council's finances.	CEX	Recommendations in relation to the MTS process are covered in this report. There will be a further report in September on the BSR process.

## 6. IMPLICATIONS

### (a) Financial Implications

Financial implications will be reported to Strategy & Resources Scrutiny Committee.

### (b) Staffing Implications

As described in 4.2.

### (c) Equal Opportunities Implications

There are no direct equal opportunities implications.

### (d) Environmental Implications

The proposals have no climate change impact.

### (e) Consultations

The consultation document on structure was sent to all staff in Accountancy and Support Services, all Directors and Head of Service and all Councillors. I also consulted with our External Auditor.

## 7. BACKGROUND PAPERS:

The following are the background papers that were used in the preparation of this report:

Consultation responses

CIPFA Guidance on the role of the Chief Financial Officer and the Head of Internal Audit.

The author and contact officer for queries on the report is Antoinette Jackson on extension 7001.

Report file:

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