



**Annual Review of Financial Management Arrangements
for the year ending 2008-09**

Annual Review of Financial Management Arrangements

Introduction

1. Annually, the Council is subject to a Use of Resources (UoR) Assessment by the External Auditors which considers various areas of the Council's activities. The UoR Assessment for 2009 (effective from 1st April 2008) has changed significantly from the previous UoR. It will consider how well organisations are managing and using their resources to deliver value for money and better and sustainable outcomes for local people.
2. The new assessment is structured around three themes: Managing Finance, Governing the Business and Managing Natural Resources. These focus on the importance of sound and strategic financial management, strategic commissioning and good governance and the effective management of natural resources, assets and people.
3. Having robust financial management arrangements, which are regularly reviewed, improved and remain 'fit for purpose', contributes to the sound financial management of the Council. The purpose of this paper is to present the findings of a review of the Council's financial management arrangements for 2008/09.

What is Financial Management ?

4. Financial Management covers all financial accountabilities in relation to the operation of the Council, including the policy framework and the budgets (revenue and capital). In broad terms, it covers the following areas:-
 - financial governance and leadership;
 - financial strategy and planning;
 - budget setting;
 - budget monitoring;
 - treasury management;
 - financing reporting;
 - financial risk management and internal control;
 - finance for decision making;
 - value for money.

Action Taken Since Last Year's Review

5. Following the Review of Financial Management Arrangements in 2007/08, a number of issues were identified where both improvement and pro-active action were required to strengthen and make sustainable the Council's financial management arrangements. Table 1 below provides information on progress made with those actions identified:-

Table 1: Action Taken Since Review in 2007/08

Findings from Review in 2007/08	Action taken
the further development of a combined Corporate Monitoring and Strategic Plan Review report is necessary to integrate more close service and financial performance monitoring.	<p>During 2008/09, the Executive has received a Strategic Plan Monitoring Statement which has combined performance and financial information.</p> <p>The performance information provided has focus on progress made against those actions identified in the Strategic Plan whilst related financial information has been provided to facilitate debate and discussion between Members.</p> <p>Whilst the production of the Strategic Monitoring Statement is now embedded within the Council's reporting arrangements, there is still a need to ensure that it properly provides information which will allow the Executive to take informed business decisions about the delivery of services and related financial management implications.</p>
there is need to continually look at ways in which financial information can be made more readily accessible.	<p>Consideration has been given to the financial information provided by the Council via the internet.</p> <p>The section on 'Council Finances' has now been moved to the Home Page on the Council's website and this now contains a range of financial information in relation to the Council's activities.</p>

Findings from Review in 2007/08	Action taken
<p>there is a need to shift the focus from the achievement of value of money to determining how value for money can be improved;</p>	<p>Following on from the work the Council did in relation to Value for Money in 2007/08, during 2008/09 a number of Value for Money Reviews were undertaken by the Council's Scrutiny Management Team. These reviews covered the following Council Services:-</p> <ul style="list-style-type: none"> • Development Control; • Residual Highways Functions; and • Environmental Health. <p>For each review, a specific Panel of Members was established to undertake the review. The recommendations from each review were reported to the Council's Executive prior to adoption by the Council. An update on the implementation of the recommendations is provided on a six-monthly basis.</p> <p>In addition to these reviews, the Council undertook a number of service and spending reviews during the year including :-</p> <ul style="list-style-type: none"> • Waste Management Services – the Waste Management Service Review considered a range of matters including the current scheme of waste collection. The review concluded with a recommendation that the Council implement a new scheme for collecting co-mingled waste which should result in cashable efficiency savings of c£115k pa from 2010/11 and an increase in the collection of recycled waste;

Findings from Review in 2007/08	Action taken
	<ul style="list-style-type: none"> • Community Halls – this review considered the current operating of Community Halls and concluded that changing the pricing structure of the facilities combined with a strategy of transferring assets to other organisations where this if feasible should improve the financial position of the Halls; • Luncheon Clubs – the Luncheon Clubs Reviews resulted in a rationalisation of the number of clubs with savings of c£18k pa being realised as a consequence; • Parks and Recreation Services (including Grounds Maintenance) – this Service review identified a range of efficiency savings resulting in an annual saving of £122k; • Telephony Provision – the internal provision of telephony was reviewed during 2008/09 resulting in a decision to change from the current FeatureNet system to a Voice over Internet Protocol (VoIP) System with effect from 1st April 2009. It is envisaged that by using the new telephony system, savings of c£50k pa will be made. <p>Fundamentally, at the heart of all of these reviews was the need to improve the overall value for money offered by the Council.</p>

Findings from Review in 2007/08	Action taken
<p>the need to consider some form of succession planning within the Service to ensure that any shortfall in experienced accountancy staff can be overcome without impacting on service delivery.</p>	<p>Within the level of resources available, a number of staff within the Service are being encouraged to undertake professional accountancy qualifications to provide sufficient properly qualified staff in the future. Members will appreciate that this is a medium to long term strategy aimed at ensuring the Council 'grows' its own staff with the right skills, experience and knowledge of the Council's financial management arrangements.</p> <p>Initial consideration is also being given to the feasibility of a shared Finance service using a model currently employed by South Ribble and Chorley Borough Councils. This project is at a very early stage with exploratory discussions being held. The rationale with this approach would be to time any proposed development of shared service provision with expected changes in staffing within the Service so that the Council has options for the delivery of its Financial Services function.</p>

The Council's Financial Management Arrangements

Financial Governance and Leadership - Division of Responsibilities and Decision Making

6. The Council's financial management arrangements are largely set out in the Constitution of the Council. The Constitution codifies the responsibilities of the Council. Table 2 below shows the respective responsibilities of the various bodies, services etc throughout the organisation. There have been no changes to these arrangements since the last review.

Table 2: Financial Management Arrangements - Division of Responsibilities

	Full Council	Executive	Scrutiny	Accounts and Audit Cttee	Corporate Management	Financial Services	Devolved to Services
Financial Governance and Leadership	•	•			•	•	
Financial Strategy and Planning	•	•	•		•	•	
Budget Setting	•	•	•		•	•	•
Budget Monitoring	•	•			•	•	•
Treasury Management	•	•				•	
Financial Reporting	•	•		•	•	•	
Financial Risk Management and Internal Control	•	•			•	•	•
Finance for Decision Making	•	•	•		•	•	•
Providing Value for Money	•	•	•		•	•	•

Member Responsibilities

7. Given the Council's current political management arrangements, no individual Member of the Council has executive authority for the Council's financial affairs; that authority rests with the Executive and ultimately with the Council.
8. The Executive has, however, allocated certain responsibilities to specific members. Whilst all Executive Members have a responsibility generally for financial management, for the 2008/09 financial year, the Executive allocated specific financial management responsibilities to two Members, the Executive Member for Revenue and Personnel and the Executive Member for Asset Management and Community Safety. In addition to a series of generic responsibilities, these Executive Members have responsibilities including:-
 - To take the overall Executive lead for the development, monitoring and review of:-
 - The Asset Management Strategy
 - The Treasury Management Strategy;
 - Personnel Policies and Industrial Relations;
 - The Land Disposal Programme.
 - To assist in the formulation of capital and revenue budget proposals for presentation to the Council;
 - To oversee the Council's cash collection and benefits services;
 - To ensure that corporate resources are co-ordinated and planned.
9. The current Executive Member for Revenue and Personnel is Cllr Graham Roach and the Executive Member for Asset Management is Cllr David Whipp. Both of these Members have acted in their respective capacities throughout 2008/09.

Officer Responsibilities

10. Section 151 of the Local Government Act 1972 requires that every local authority in England (and Wales) should...*"make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs"*. The Officer appointed as the Responsible Financial Officer must, by virtue of Section 113 of the Local Government Finance Act 1988, be a member of a specified accountancy body.
11. Throughout the financial year, the Council's s151 Officer was the Chief Finance Officer.

Financial Procedure Rules

12. As indicated above, the governance arrangements for Financial Management are codified in the Council's Constitution. A key part of the Constitution is the Financial Procedure Rules (FPRs). FPRs are reviewed annually to ensure they remain up to date and relevant to the Council's activities. They are complimented by Contract Procedure Rules (CPRs) and together provide a comprehensive set of rules governing the financial and contractual administration of the Council.
13. There have been no changes to either the FPRs and CPRs during 2008/09.

Compliance with Statutory Requirements, Relevant Codes of Practice and Good Financial Management Practice

Financial Strategy (and Medium Term Financial Planning)

14. It is good financial management practice for the Council to produce a Financial Strategy and Medium Term Financial Plan (MTFP). Regular reports on the Financial Strategy and the MTFP have been submitted to the Executive. The Executive considered and approved the Financial Strategy for 2008/12 at its meeting on 19th March 2008. The Financial Strategy is due to be updated in mid 2009.
15. The development of the Council's Financial Strategy (and MTFP) is undertaken within the Council's overall Corporate Planning Process. Annually, the Council reviews its Strategic Plan to ensure that it remains relevant and reflects what the Council is aiming to do to achieve its strategic objectives. The Financial Strategy (and MTFP) is developed in this context. This process is demonstrative of the Council's approach to combined Service and Financial Planning.

Budget and Council Tax Setting

16. The General Fund Revenue Budget for 2008/09 (and the associated Council Tax figures) was set on 26th February 2008. At the same time, the Council agreed the Capital Programme for the year. Both the Budget and Council Tax were set in compliance with relevant legislation.

The Prudential Code for Capital Investment in Local Authorities

17. The Council has complied with the Prudential Code for Capital Investment in Local Authorities in 2008/09. At the start of the financial year, and as part of the budget process, the Council established the relevant prudential indicators. These were reported to the Executive either as part of the Capital Programme 2008/09 or the Treasury Management Strategy Statement 2008/09.
18. As required, throughout the year, there has been regular monitoring of the prudential indicators where it is necessary to do so. This monitoring information is contained in the Corporate Monitoring Reports that are submitted to the Council's Executive.
19. In addition to reporting details of the progress made against the Council's Capital Programme for the year in the Corporate Monitoring report, monitoring information has been regularly considered by the Capital Programme and Asset Management Working Group.

Budget Monitoring

20. Section 28 of the Local Government Act 2003 states that [once the Council has set its budget estimates], it must review them from time to time each year. During 2008/09, the Executive has received a Corporate Monitoring Report on at least five occasions. These reports have contained a range of information including:-
 - financial monitoring information relating to the:-
 - General Fund Revenue Budget
 - Housing Revenue Accounts
 - Contracted Services
 - Capital Programme

- performance against various prudential indicators
- details of efficiency gains generated;
- monitoring of certain key financial health indicators;
- related narrative on the issues for each Service Area across the Council to provide some contextual information for the financial monitoring.

21. In response to the findings of this review last year, work has been undertaken to produce a Strategic Monitoring Statement which is also presented to the Executive. This report is produced on a quarterly basis and combines performance information in relation to progress with the Strategic Plan and related financial information. Other information on risk management, opportunities and staffing is also included.
22. The budget monitoring reports produced for the Executive generally comprises high level monitoring information, recognising the Executive's responsibility to provide an overall review from a strategic perspective. The Council's Management Team also receives a detailed budget monitoring statement on a monthly basis. This report focuses on each Service Area and highlights all material variances. Information is also provided on the capital programme, debt collection and cashflow management.

Treasury Management

23. To comply with the Council's own Treasury Management Policy, this is based on CIPFA's Code of Practice 'Treasury Management in the Public Services', an Annual Treasury Management Strategy Statement was produced for 2007/08. This was submitted to the Executive on 19th March 2008 and thereafter to the meeting of Council on 27th March 2008 for final approval.
24. In addition to the Treasury Management Strategy, the Council's Treasury Management Policy requires at least two reports to be submitted to the Executive on treasury management activities. In compliance with this, the Executive received a mid year monitoring report at its meeting on 16th October 2008 and a report on the treasury management outturn will be submitted to the Executive in June 2009.

Financial Reporting

25. The Council's un-audited Statement of Accounts for 2007/08 was approved by the Accounts and Audit Committee in June 2008. This was in compliance with statutory deadlines. Following the audit of the Statement of Accounts, PricewaterhouseCoopers, the Council's External Auditor, issued an unqualified audit opinion on the accounts. The Statement of Accounts was re-presented to the Accounts and Audit Committee in September 2008. Thereafter, the audited Statement of Accounts was published within the required timescales, with copies available on the Council's website.
26. The Council also reported financial information in:-
- The Council Tax leaflet that accompanies Council Tax bills sent to each household in the Borough;
 - A Summary of Accounts for 2007/08, again published on the Council's Website;
 - The Council's Annual Report 2007/08 which provides summary information on how the Council is financed and what services it spends the money on.
27. Notwithstanding the improvements that the Council has made in financial reporting, however, there is need to continually look at ways in which financial information can be made more readily accessible.

Financial Risk Management and Internal Control

Internal Audit and Internal Control

28. Throughout the financial year, the Council has operated an Internal Audit function in accordance with the Accounts and Audit Regulations 2006.
29. Internal Audit undertakes their work in compliance with the Code of Practice on Internal Audit. The Internal Audit Plan for 2008/09 was approved by the Accounts and Audit Committee in March 2008 and the Committee has received regular reports on progress against the plan. These reports show completed audits, the assurance levels considered appropriate for each auditable area and the time taken to complete each audit against time planned.

30. In the event that an auditable area is assessed as having limited assurance, it has been agreed that the audit reports for these areas are submitted to the Council's Management Team for consideration. During 2008/09 to date, this has been the case for the following areas:-
- Special Events/Fishing Permits;
 - Discover Pendle Centre;
 - Discretionary Grants to Outside Bodies;
31. In all cases, in accordance with the agreed protocol, these issues have been reported Management Team which agreed actions to address the concerns raised as a result of the audits.
32. In addition, Internal Audit has developed a Recommendations Database to track the implementation of agreed recommendations. This database is reviewed on a regular basis with summary information reported to each meeting of the Accounts and Audit Committee.
33. In relation to the system of internal control, in support of the Statement of Accounts 2007/08, an Annual Governance Statement was produced and published. This Statement identified potential weaknesses in the Council's system of internal control with an action plan established to address these weaknesses. Work has been undertaken to implement the actions and a review of this work will be undertaken as part of the development of the Annual Governance Statement for 2008/09. Indeed, preparations are currently underway on the development of the Annual Governance Statement for 2008/09.
34. The Accounts and Audit Regulations 2006 (as amended) require an annual review of the Internal Audit function to be undertaken. This review was undertaken during 2008 and the outcome of the review was reported to the Accounts and Audit Committee in June 2008.

Financial Risk Management

35. In addition to the financial management arrangements set out above, there are other measures that have operated during the financial year which have contributed to the financial risk management framework.

36. As part of the Budget Setting process, the Chief Finance Officer is required to produce a statement on the robustness of the Council's budget estimates and the adequacy of reserves. This is intended to provide assurance to the Council that the estimates have been prepared on a sound basis. This statement was produced for the 2008/09 Budget process and considered by the Council on 26th February 2008 and sets out the assumptions upon which the budget was based.
37. In 2007/08, the Executive agreed the Policy and Strategy in relation to the Council's Balances and Reserves. As a follow up to this, in July 2008, the Executive considered a report which set out details of a review of the Strategy for the use of Balances and Reserves. This reaffirmed the Council's Strategy for the use of Balances and Reserves and which formed the basis of the development of the Financial Strategy and Medium Term Financial Plan. The next review of the Strategy will be in July 2009 following the closure of the Council's accounts for 2008/09.
38. In recognition of the extent to which the Council is faced by financial risks, the Council's Strategic and Operational Risk registers have been updated to record the associated risks and risk management action being taken. For example, the current Medium Term Financial Plan indicates a shortfall in funding over the next 3 years and given the impact this might have on service provision and therefore the achievement of strategic objectives, this is included on the Strategic Risk Register. Both Strategic and Operational Risk Registers are reviewed at least on a quarterly basis.

Finance for Decision Making

39. Notwithstanding the day to day work undertaken by Financial Services in advising both Members and Officers of the Council, and the extent to which the Scheme of Delegation to Officers is operating, decisions undertaken by the Council are regulated by the application of the Council's Constitution. In essence, decisions are taken through Council, the Executive or other the other various Committees of the Council (Area Committees, HMR Committee, Accounts and Audit Committee).
40. At the heart of providing advice to Members, financial or otherwise, are the reports that are written by respective officers. In the case of financial information, all reports to each Committee must include the financial implications associated with the recommended course of action set out in the report. To this end, and to ensure that the financial advice given is sound and appropriate, the present system is that the financial implications in each report must be agreed with Financial Service before the reports are finalised. This system has operated throughout 2008/09.

Value for Money

41. The Council has made significant progress in demonstrating that it achieves Value for Money. As part of the Use of Resources Assessment, Pendle Borough Council is the only authority in England that has in each of the three financial years since the assessment was introduced, consecutively improved its assessment score. In the first Use of Resources Assessment, the Council received a score of 2 – performing adequately, whereas the score for 2008 is 4 – performing strongly; a score which has been maintained from the previous year. This provides an externally endorsed assessment that the Council's arrangements for achieving value for money up to 2008 were sound. Likewise, the External Auditor gave the Council an unqualified opinion on the overall Value for Money conclusion.
42. As indicated earlier, the Council has undertaken a range of value for money reviews during 2008/09. These reviews have cemented the Council's approach to improving value for money. Nevertheless, there is further work to be undertaken to demonstrate improvements in value for money. Work has already started on this with the continued implementation of Service Reviews which are at the heart of the Council's Value for Money Strategy. Underpinning this strategy is the need to at least 3% efficiency gains in each year over the next 3 years.
43. In respect of efficiency gains for 2008/09, the Council submitted its forward look Annual Efficiency Statement within the required timescales and is on track to achieve the level of gains identified by the end of the financial year. Indeed, the Council remains within the top 10 (it is 6th) of all District Councils for the achievement of cashable efficiency gains.

Use of Resources

44. The Council is subject to an annual Use of Resources Assessment by the Audit Commission. The Use of Resources Assessment for 2008 was undertaken by the Council's appointed External Auditor, PricewaterhouseCoopers. The outcome of the assessment was, again, an overall score of 4 as shown in Table 3 below:-

Table 3: Use of Resources Assessment Scores 2007

Theme (and Sub Themes)	Scores 2005	Scores 2006	Scores 2007	Scores 2008
Financial Reporting	3	3	4	3
Financial Management	3	3	3	4
Financial Standing	2	3	3	3
Internal Control	3	3	3	3
Value for Money	2	3	4	4
OVERALL SCORE	3	3	4	4

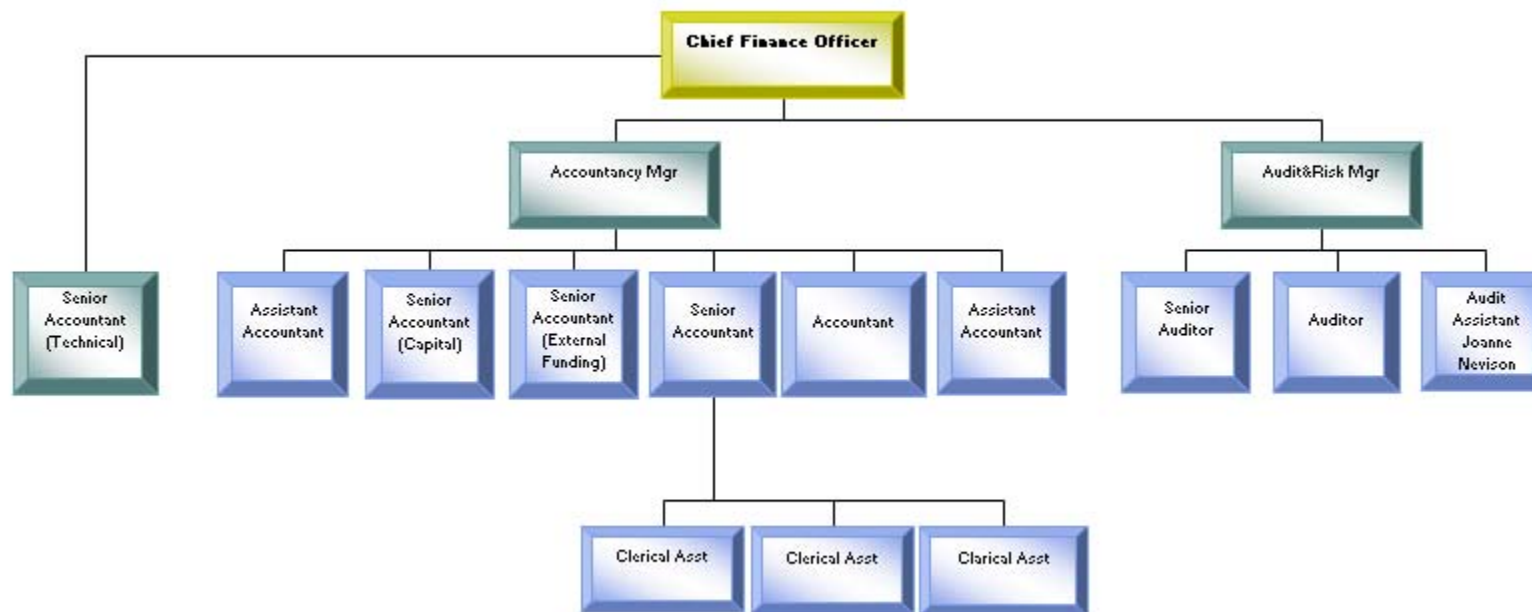
45. As the table indicates, the Council's arrangement for Financial Management have shown improvement in 2008, receiving the highest possible score under the Use of Resources Assessment for 2008.

Financial Services Function

46. One of the requirements of this review is to consider the adequacy of the Council's Financial Services function in terms of its capacity, resourcing and training needs.

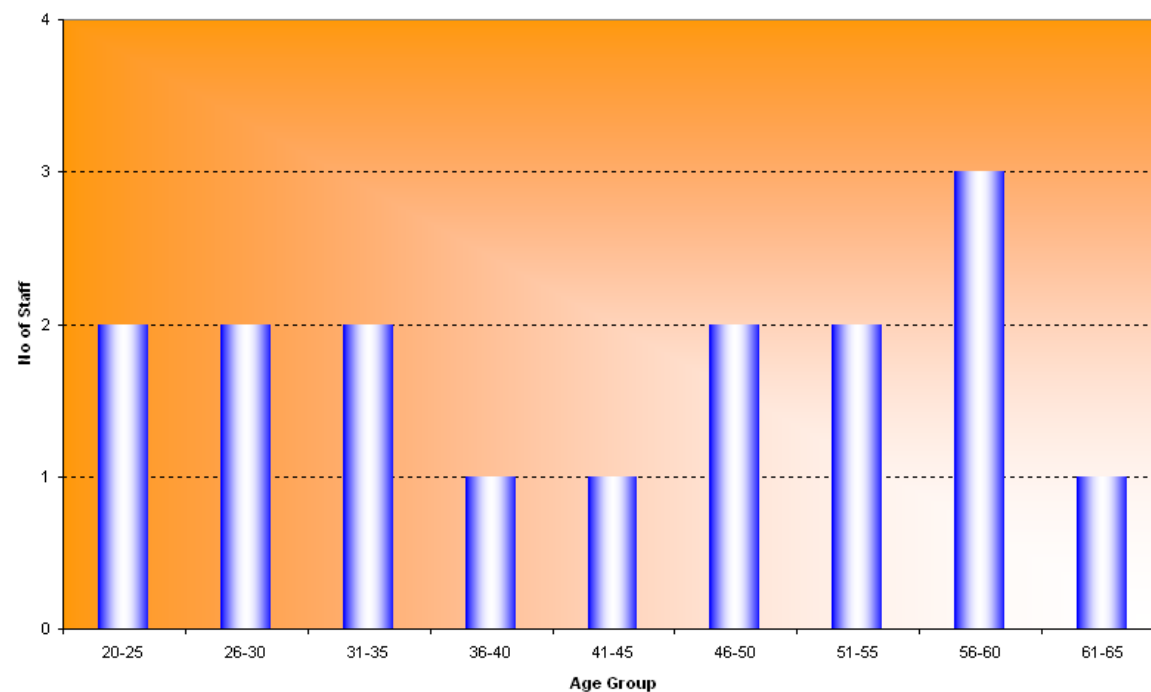
Organisation Structure of Financial Services

47. The current organisational structure of Financial Services, comprising Accountancy Services and Internal Audit Services is shown below:-



Profile of Employees - Age

48. The graph below shows the age profile of the staff in Financial Services:-



49. Of the 16 members of staff within the Service, 4 ftes (or c27%) will be eligible for retirement in the next four years. All of these posts are at Accountant level within the Service and there is, therefore, a risk that the Council may have a shortfall in these types of key posts in the future.

Profile of Employees - Qualifications

50. The table below provides a profile of relevant accountancy related qualifications for employees within the Financial Services function.

Table 4: Employee Qualifications

	FTEs	CIPFA Qualified	ACCA Qualified	AAT Qualified	IIA Qualified	CIPFA Part Qualified	CIMA Part Qualified	ACCA Part Qualified	AAT Part Qualified	Accountancy Degree	Other Degree			
Service Manager	1.0	1		1										
Accountancy	9.8	2		1		1				1				
Internal Audit	4.0		1	1			1		1	1				

51. The table indicates that the Council presently has 4 (27%) qualified Accountants, 2 qualified Accounting Technicians (and 4 part qualified members of staff. Overall, the number of staff with a full or part accountancy qualification is 9 (or c63%) which in comparison to other like organisations is considered to be relatively high.

Staffing Responsibilities

52. Table 5 below shows the responsibilities of each member of Financial Services across the range of recognised activities:-

Table 5: Financial Services - Matrix of Responsibilities

	S151 Duties	Financial Planning	Accounting	Budgeting	VAT	Leasing	Treasury Mgt	Creditors	Insurance	Reconciliations	External Funding	FMS	Internal Audit	Risk Mgt	Efficiencies	VFM	Procurement
Chief Finance Officer	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
Accountancy Manager	•	•	•	•	•				•	•					•	•	
Senior Accountant (Capital)		•	•	•		•	•				•		•				
Senior Accountant (Technical)			•	•	•										•	•	
Senior Accountant (Ext Funding)			•	•							•						
Senior Accountant			•	•				•		•		•					•
Principal Accy Assistant			•	•		•	•			•							
Assistant Accountant			•	•						•							
Assistant Accountant			•	•			•	•				•					•
Clerical Assistant								•		•							
Clerical Assistant								•		•							
Clerical Assistant								•									
Audit and Risk Manager													•	•		•	
Senior Auditor													•			•	
Auditor													•			•	
Audit Assistant													•			•	

53. Table 5 above shows that the Service provides good coverage in all aspects of financial management and has, at present, adequate capacity to deal with current workload.

Training Needs

54. Annually, each member of staff within Financial Services is subject to a Performance Management Interview (PMI). This is a standard interview that all members of staff within the Council are required to undertake. An important element of the PMI is a review of training undertaken in the previous year, against that planned, and an assessment of the training needs for the following year.
55. Each member of staff within Financial Services had a PMI before the start of the financial year and, as required, indicated what training was required. Throughout the year, and within available resources, training needs have been met.
56. In the case of those staff with professional qualifications, each participates in the Continuing Professional Development Scheme of their respective accountancy body to ensure that their skills remain up to date and relevant.

Conclusion

57. As a result of the review of the Council's financial management arrangements that have operated during 2008/09, it can be concluded that they are sound and remain 'fit for purpose'. Equally, there is adequate capacity with Financial Services to cope with present workloads and staff have access to training and development opportunities as a means of maintaining and improving the skills, abilities and knowledge to undertake the work as required.
58. However, there is scope for improvements and pro-active action, for example:-
- there remains a need to continually look at ways in which financial information can be made more readily accessible;
 - the need to monitor the succession planning within the Service to ensure that any shortfall in experienced accountancy staff can be overcome without impacting on service delivery;
 - to undertake a feasibility study into the possibility of a shared financial services function as another option for the sustainability of the Service.