



**Annual Review of Financial Management Arrangements
for the year ending 2007/08**

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Introduction

1. Annually, the Council is subject to a Use of Resources Assessment by the External Auditors which considers various areas of the Council's activities. One of the areas reviewed is Financial Management. One of the specific Key Lines of Enquiry (KLOE) for the assessment requires that:-

'The council regularly reviews financial management arrangements to ensure that they remain 'fit for purpose', and keeps the financial services function under review to consider capacity, resourcing and training needs.'

2. The purpose of this paper is to present the findings of a review of the Council's financial management arrangements for 2007/08 and to demonstrate that, at present, they remain 'fit for purpose'.

What is Financial Management ?

3. 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.

The Council's Financial Management Arrangements

Financial Governance and Leadership - Division of Responsibilities and Decision Making

4. 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 1 below shows the respective responsibilities of the various bodies, services etc throughout the organisation.

Table 1: 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

5. 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.
6. The Executive has, however, allocated certain responsibilities to specific members, one of which is the Executive Member for Resources. In addition to a series of generic responsibilities, the Executive Member for Resources has specific 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.
7. The current Executive Member for Resources is Cllr David Whipp and he has acted in this capacity throughout 2007/08.

Officer Responsibilities

8. 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.
9. Throughout the financial year, the Council's s151 Officer was the Financial Manager.

Financial Procedure Rules

10. 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.

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

Financial Strategy (and Medium Term Financial Planning)

11. 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 and more recently, the Executive considered the Financial Strategy for 2008/12 (at its meeting on 19th March 2008).
12. 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

13. The General Fund Revenue Budget for 2007/08 (and the associated Council Tax figures) was set on 21st February 2007. 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

14. The Council has complied with the Prudential Code for Capital Investment in Local Authorities in 2007/08. 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 2007/08 or the Treasury Management Strategy Statement 2007/08.

15. 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.
16. 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

17. 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 2007/08, 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.
18. In the most recent monitoring report to the Executive, the Corporate Monitoring report was combined with the Strategic Plan review in an attempt to provide Members with a more holistic performance monitoring report. Further work will be undertaken in 2008/09 to strengthen this approach to service and financial performance reporting.

Treasury Management

19. 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 13th February 2007 and thereafter to the meeting of Council on 21st February 2007 for final approval.
20. 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 18th October 2007 and a report on the treasury management outturn will be submitted to the Executive in June 2008.

Financial Reporting

21. The Council's un-audited Statement of Accounts for 2006/07 was approved by the Accounts and Audit Committee in June 2007. 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 2007. Thereafter, the audited Statement of Accounts was published within the required timescales, with copies available on the Council's website.
22. 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.
23. 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

24. Throughout the financial year, the Council has operated an Internal Audit function in accordance with the Accounts and Audit Regulations 2006.
25. Internal Audit undertakes their work in compliance with the Code of Practice on Internal Audit. The Internal Audit Plan for 2007/08 was approved by the Accounts and Audit Committee in March 2007 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.
26. 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 2007/08 to date, this has been the case for two areas, Sundry Debtors and Industrial Rents. In both cases, Management Team agreed
27. 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.
28. In relation to the system of internal control, in support of the Statement of Accounts 2006/07, a Statement on Internal Control 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 action and the results of this work were reported to the Accounts and Audit Committee in January 2008. Preparations are currently underway on the development of the Annual Governance Statement for 2007/08 (which replaces the Statement on Internal Control).
29. 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 2007 and the outcome of the review was reported to the Accounts and Audit Committee in June 2007.

Financial Risk Management

30. 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.
31. As part of the Budget Setting process, the Financial Manager 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 2007/08 Budget process and considered by the Council on 21st February 2007 and sets out the assumptions upon which the budget is based.
32. During 2007/08, the Executive also agreed a Balances and Reserves Policy and Strategy for the Council. The Policy set out the rationale for the Minimum Working Balance held by the Council for unforeseen and unexpected events and also the various specific reserves considered necessary to meet future potential liabilities whereas the Strategy indicated how both balances and reserves might be used to manage the Council's affairs over the medium term.
33. 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

34. 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).

35. 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 2007/08.

Value for Money

36. 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 2007 is 4 – performing strongly. This provides an externally endorsed assessment that the Council's arrangements for achieving value for money up to 2007 were sound.
37. There is further work to be undertaken to demonstrate improvements in value for money. Work has already started on this with the development of an outline Value for Money Strategy. Underpinning this strategy is the need to at least 3% efficiency gains in each year over the next 3 years.
38. In respect of efficiency gains for 2007/08, 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.

Use of Resources

39. The Council is subject to an annual Use of Resources Assessment by the Audit Commission. The Use of Resources Assessment for 2007 was undertaken by the Council's appointed External Auditor, PricewaterhouseCoopers. The outcome of the assessment was an overall score of 4 as shown in Table 2 below:-

Table 2: Use of Resources Assessment Scores 2007

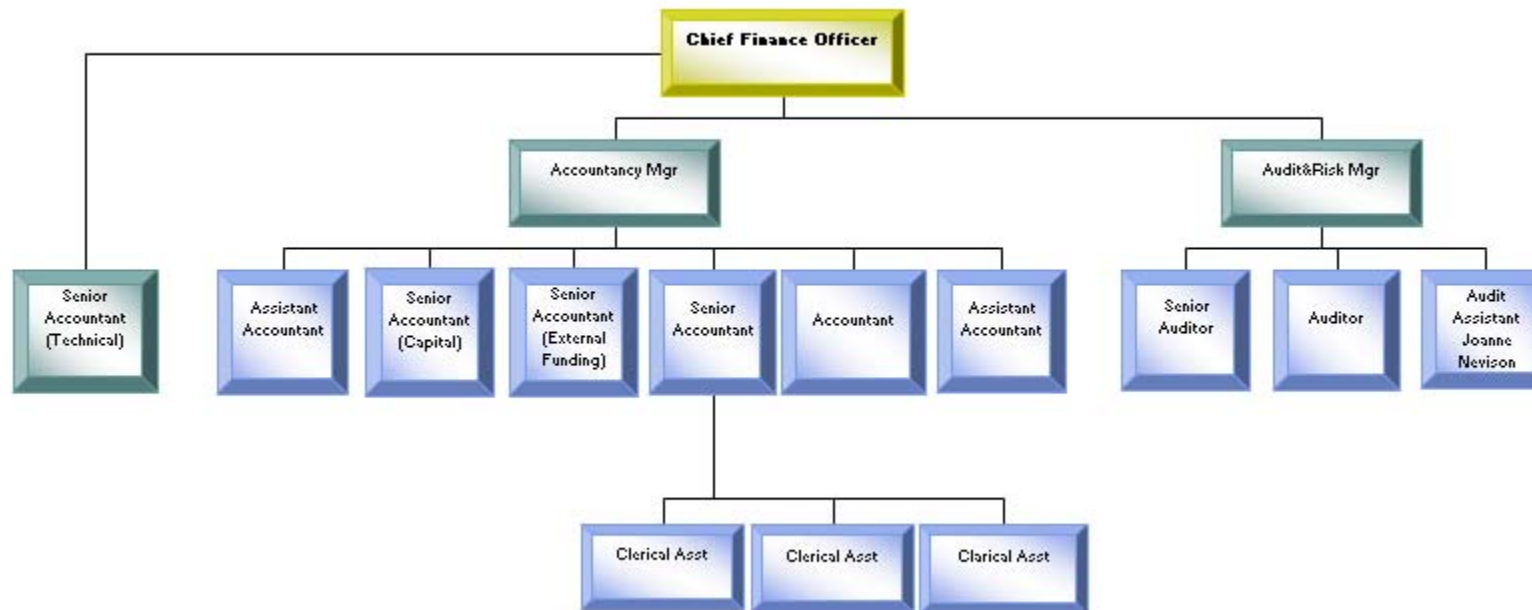
Theme (and Sub Themes)	Scores 2005	Scores 2006	Scores 2007
Financial Reporting	3	3	4
Financial Management	3	3	3
Financial Standing	2	3	3
Internal Control	3	3	3
Value for Money	3	3	4
OVERALL SCORE	3	3	4

Financial Services Function

40. 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.

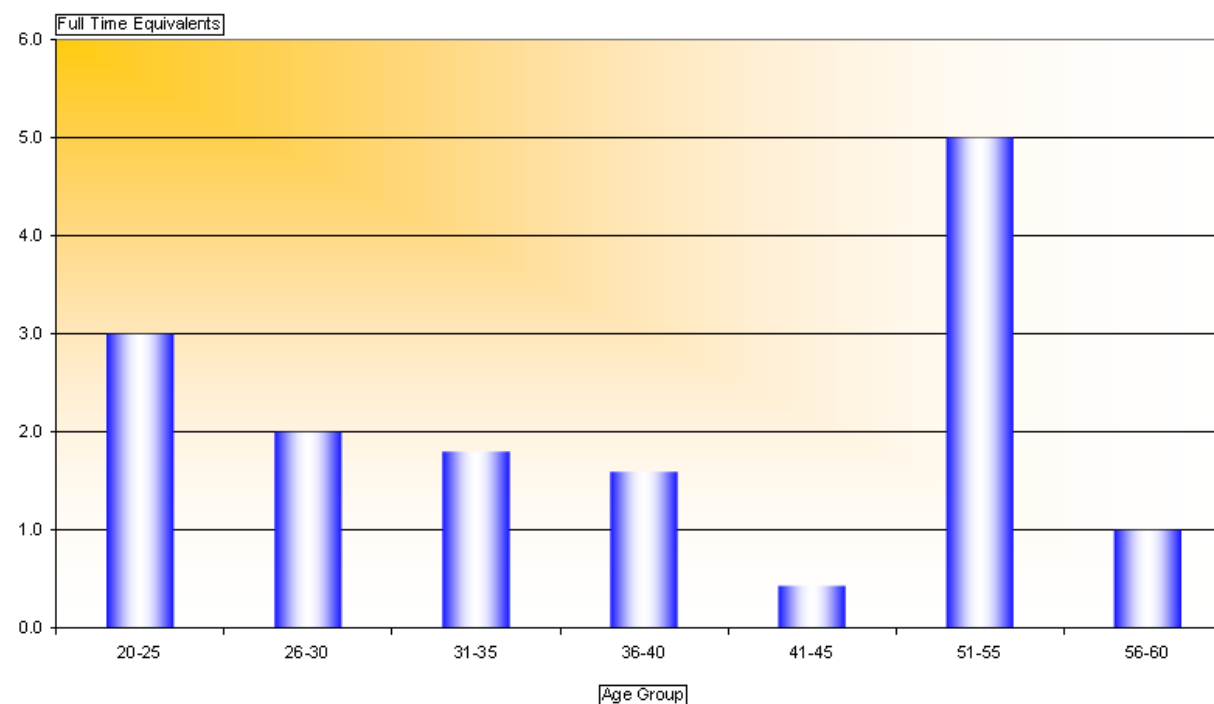
Organisation Structure of Financial Services

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



Profile of Employees - Age

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



43. Of the 14.83 full time equivalent (ftes) staff, 4 ftes (or c27%) will be eligible for retirement in the next five 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

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

Table 3: 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		2					

45. 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

46. Table 4 below shows the responsibilities of each member of Financial Services across the range of recognised activities:-

Table 4: 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
Financial Manager	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•	•
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													•			•	

47. Table 4 above shows that the Service is provide good coverage in all aspects of financial management and, at present, adequate capacity to deal with current workload.

Training Needs

48. 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.
49. 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.
50. 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 there skills remain up to date and relevant.

Conclusion

51. As a result of the review of the Council's financial management arrangements that have operated during 2007/08, 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.
52. However, there is scope for improvements and pro-active action, for example:-
- the further development of a combined Corporate Monitoring and Strategic Plan Review report is necessary to integrate more close service and financial performance monitoring;
 - there is need to continually look at ways in which financial information can be made more readily accessible
 - there is a need to shift the focus from the achievement of value of money to determining how value for money can be improved;
 - 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.