Audit Detailed Report

September 2006

Financial Management

Redcar and Cleveland Borough Council

Audit 2005/2006

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Summary Report

Introduction

1 Failure to make effective use of resources represents a significant business risk for local authorities and limits their options for improving services. The quality of an authority's financial management can have an effect upon important financial decisions.

2 The Chartered Institute of Public Finance and Accountancy (CIPFA) published a financial management model in May 2004. Its purpose was to assist local authorities in self-assessing their financial management arrangements

3 The Audit Commission's Use of Resources framework, which feeds into local authorities Comprehensive Performance Assessment (CPA) categorisation, includes a judgement on financial management. A number of the Key Lines of Enquiry (KLoE) used in the Use of Resources judgement are directly related to the CIPFA financial management model.

Background

4 The Council scored 2 out of 4 for financial management in the 2005 Use of Resources judgement, meaning that it was meeting only the minimum requirements. Detailed findings and areas for improvement were reported to officers following confirmation of the Council's CPA score. In terms of this review, relevant areas for improvement were that the Council needs to:

- have clearer links between the medium term financial plan and the corporate business plan to demonstrate how the agreed budget is driven by key objectives
- consider not only the management of any overspends to ensure that the overall agreed budget is delivered but also how the achievement of any initiatives introduced to achieve efficiencies is monitored.

We also commented in the report that progress in achieving budget savings against departmental action plans or efficiencies was not reported to Members.

5 Total service expenditure outturn for 2004/05 was £813,000 more than expected. Our 2004/05 Audit and Inspection letter commented that the Council was facing a number of budget pressures in 2005/06 and 2006/07. At that time, the consolidated revenue budget monitoring report for the first quarter of 2005/06 showed projected departmental overspends of £2,455,000. This position has been pulled back by almost £1m, as the fourth quarter monitoring report shows departmental overspends have reduced to £1,463,000. However, a contribution from balances of £1,500,000 is now required, compared with a £35,000 contribution to balances in the original budget for 2005/06.

6 In addition, the Council's 2005/06 capital programme significantly increased from that originally approved in March 2005 (£29,189,050) to the revised budget shown in the quarter 2 monitoring report (£39,462,250). Funding of the increased programme was reported to be a combination of borrowing and non-borrowing sources plus additional capital receipts. The quarter 4 report shows that the programme has now reduced to £32,486,250, mainly due to slippage of schemes into 2006/07.

7 As a result of the above, plus the increasing importance of financial management nationally, our 2005/06 audit and inspection plan included a review of the Council's financial management arrangements.

Audit approach

8 Our audit approach consisted of a review of key Council documents:

- 2005/06 revenue budget book;
- 2005/06 capital programme;
- budget monitoring timetable;
- budget monitoring reports to Members;
- minutes of Scrutiny Committee, Cabinet and Council meetings;
- departmental working papers supporting the quarter 3 monitoring reports;
- the Council's budget principles / guidance; and
- medium term financial plan.

We also met with officers of the Council and Liberata to seek additional explanations.

9 We undertook our work between February and April 2006. We issued our draft report to officers on 18 May, and the findings and recommendations within this report reflect the position up to that date.

Main conclusions

10 Financial management is a key element of the use of resources assessment. At present, the Council is at risk of not meeting the minimum standard for financial management. The main reason is the failure to publish a medium term financial plan covering the three year period 2006/07 to 2008/09. Although a model is updated throughout the year within the Strategic Finance section, this has not been reported to Members.

11 A number of the key lines of enquiry for the use of resources assessment are based on CIPFA's financial management model. This model is designed as a self-assessment tool for public service bodies which can highlight areas for improvement. At the time of this review, the Council had not yet purchased the model and had not undertaken any other self-assessment. Such an exercise might assist the Council in implementing improvements in its financial management commensurate with a four-star council.

12 Officers centrally, and within departments, monitor revenue and capital spend throughout the year. However, our review highlighted a number of weaknesses in:

- reporting the financial position to Members;
- the audit trail for budget variations and virements;
- elements of spend that are not reported; and
- the production of action plans.

13 In addition, one of our recommendations in our 2004/05 interim audit report has not been implemented in 2005/06. The target level of general fund balances, set at the beginning of the year, was revised downwards in 2004/05. We recommended that the reasons for this should be reported to Members in accordance with the requirements of the Local Government Act 2003. However, the target has been revised twice during 2005/06 without the reasons being clearly set out in the consolidated revenue monitoring reports. The Council needs to ensure that it is complying with the legislative requirements.

14 A number of recommendations have been made within this report and these have been summarised in an Action Plan at Appendix 1. We met with the Strategic Finance Officer on 23 August 2006 to discuss the contents of this report and the Action Plan has been updated to reflect action taken since our draft report was issued in May.

Detailed Report

The CIPFA financial management model

15 In May 2004, CIPFA introduced a model of financial management which included the following definition:

> *"Financial management is the system by which the financial aspects of a public body's business are directed and controlled to support the delivery of the organisation's goals".*

16 The model is designed as a self-assessment tool for public service bodies to assess the contribution financial management makes at all levels within the organisation. It can provide a picture of an organisation's current arrangements, and highlight strengths and areas for improvement. There is also an opportunity to benchmark financial management performance against similar organisations.

17 Discussions with the Director of Finance and Procurement at the start of this review identified that the Council had not yet purchased the CIPFA financial management model in order to undertake the self-assessment.

18 The Audit Commission's approach to use of resources is consistent with the CIPFA financial management model. A number of the key lines of enquiry are taken directly from the model. Completion of the self-assessment, therefore, would assist in highlighting weaknesses in the Council's current arrangements which may lead to an improvement in the use of resources score in this area.

19 In addition, a level 3 requirement within the financial management section of the use of resources judgement is that:

> *"The Council regularly reviews financial management arrangements to ensure that they remain 'fit for purpose".*

Recommendation
R1 The Council should consider purchasing the CIPFA financial management model and completing the self-assessment in order to identify areas for improvement in its current arrangements. This may assist the Council in achieving a higher use of resources score for financial management.

Scope of this review

20 Auditors can facilitate and support an organisation's self-assessment using the CIPFA model. However, as the Council has not yet progressed this, our work on financial management arrangements covered a detailed review of revenue and capital budget monitoring reports for 2005/06 up to and including quarter 3 / period 10.

21 The scope of the review included:

- confirming that departmental and consolidated reports went to Members in accordance with the agreed timetable and budget principles;
- review of the consistency of information within reports, and between departmental and consolidated reports;
- review of the consistency in format of reports;
- confirmation that budget variations / virements had been reported in accordance with the budget principles and that a clear audit trail was available to support all changes from original to latest budgets;
- agreement of the budget monitoring reports for quarter 3 to the Council's general ledger, to ascertain the accuracy and completeness of information reported;
- confirmation that action plans were prepared and reported in accordance with the budget principles;
- confirmation that any changes to the target level of general fund balances had been reported to Members during the year, as agreed by the Director of Finance and Procurement as part of our 2004/05 interim report;
- comparison of the 2004/05 outturn report with the approved financial statements, to ascertain the accuracy and completeness of monitoring information; and
- review of the latest medium term financial plan, to ascertain consistency with the annual budget.

Reporting timetable

Revenue

22 The Council's budget principles, approved by Cabinet on 3 August 2004, state that:

- departmental revenue monitoring reports are to be presented to the relevant Scrutiny Committee on a quarterly basis; and
- consolidated revenue monitoring reports are to be presented to Cabinet and Council on a quarterly basis.

These arrangements are also documented in the budget monitoring and reporting timetable for 2005/06.

23 A review of meeting agendas and reports to Members for 2005/06, up to the end of March 2006, found that all departmental revenue monitoring reports went quarterly to the relevant Scrutiny Committee, except for the Quarter 2 revenue report for the Development department. This omission does not appear to have been identified by officers.

24 Consolidated revenue monitoring reports for quarters 1, 2 and 3 were presented to Cabinet, and quarters 2 and 3 to Council. However, the Quarter 1 consolidated revenue monitoring report did not go to Council.

25 For the financial management section of the use of resources judgement, it is a minimum standard that budgets are monitored regularly throughout the year

26 In terms of timeliness of reporting in 2005/06, a comparison against the 2004/05 timetable indicates that reporting lengths have, on average, increased rather than decreased. This was an issue raised in our 2004/05 interim memo. Table 1 below summarises our analysis of the average length of time from period end to reports in 2005/06, up to and including quarter 3, and a comparison with 2004/05.

Table 1 Reporting times 2005/06

Average length of time from period end to reporting to Members

Report and destination	Time from period end	2004/05 comparison
Departmental reports to Strategic Finance	4 weeks	3 weeks
Departmental reports to Scrutiny Committee	8.5 weeks	7.5 weeks
Consolidated reports to Chief Executive's Briefing	7 weeks	6 weeks
Consolidated reports to Cabinet	8.5 weeks	8.5 weeks
Consolidated reports to Main Overview and Scrutiny Committee	9 weeks	9 weeks
Consolidated reports to Council	12.5 weeks	10.5 weeks

Analysis from budget timetables for 2004/05 and 2005/06

27 It is a level 2 requirement for use of resources that the appropriate Member committee receives budget monitoring information that is as up to date as possible when reported. Practice in many 4-star councils is to report information to portfolio holders within two to four weeks of the period end. At some authorities, budget monitoring information is also available for Members to view on-line.

Capital

28 The Council's budget principles, supported by the budget monitoring and reporting timetable, state that:

- departmental capital monitoring reports are to be presented to the relevant Scrutiny Committee on a quarterly basis; and
- consolidated capital monitoring reports are to be presented to Cabinet and Council seven times during the year (quarter 1, period 4, quarter 2, period 7, quarter 3, period 10 and quarter 4).

29 A review of meeting agendas and reports to Members for 2005/06, up to the end of March 2006, found that departmental capital monitoring reports went quarterly to Scrutiny Committee, except for:

- quarter 1 / period 3 capital report for Social Services department;
- quarter 2 / period 6 capital report for Social Services department;
- quarter 2 / period 6 capital report for Chief Executive's department;
- quarter 2 / period 6 capital report for Finance and Procurement department; and
- quarter 2 / period 6 capital report for Development department - period 7 went instead as the period 6 deadline was missed.

These omissions (except for the last issue) do not appear to have been identified by officers.

30 Consolidated capital monitoring reports were presented to Cabinet and Council in accordance with the timetable.

Recommendations
R2 The Council should ensure that it complies with its own budget principles and monitoring timetable in order to demonstrate regular reporting of the budget position to Members.
R3 The Council should ensure that reports are presented to Members as promptly as possible after the relevant period end to allow for timely remedial action to be taken where required.

Consistency of information

Revenue

31 For the financial management section of the use of resources judgement, it is a level two requirement that Members receive budget monitoring information that is accurate, relevant, understandable and consistent with underlying records.

32 A review of revenue monitoring reports up to and including quarter 3 identified:

- one minor arithmetic error within departmental reports;
- three minor consistency issues within departmental reports;
- seven consistency issues between departmental and consolidated reports;
    - one related to minor differences between the body of the reports and an appendix;
    - two issues can be explained by timing differences; and
    - four issues indicated differences of treatment between the reports.

33 Such differences in treatment between reports may lead to Cabinet Members getting a slightly different picture to Scrutiny Committee Members. For example, the Children's Services overspend for quarter 3 was £132k greater in the report to Scrutiny Committee than the report to Cabinet due to the treatment of the Direct Revenue Financing adjustment. The variance for Sustainable Communities in the quarter 3 Cabinet report was £89k less than that in the Scrutiny report. There was confusion as to whether or not the shortfall on the fleet services leasing budgets related to this department.

34 Three consistency issues were identified within consolidated reports:

- a minor difference between the body of the report and an appendix;
- in the quarter 3 report a £5.6k pressure on Children's planning in relation to the Chief Executive's department to be met by Children's Services was shown in the body of the report but not within the resource transfer appendix for approval; and
- a £3,362k difference between the published budget book and the budget approved by Members on 17 May 2005 for the Chief Executive's and Finance and Procurement departments. This was due to a change in resource allocations between the two departments and revised central recharges allocations. The issue was not reported to Members as both departments are covered by the Main Overview and Scrutiny Committee. Only £23k of this appears to have been subsequently reported to, and approved by, Members.

Capital

35 A review of departmental and consolidated capital monitoring reports up to and including quarter 3 identified:

- one minor arithmetic error;
- one area of inconsistency between a departmental report and an appendix;
- six consistency issues between departmental and consolidated reports, for example;
  - a £160k variation in relation to the Coatham scheme was included within the approved budget for Development in the quarter 1 consolidated report to Cabinet but was not within the Scrutiny report; and
  - the capital receipts figure for Education in the quarter 1 report was inconsistent with the appendix (£342,850 per report; £210,000 per appendix).

36 A report to Cabinet on 6 September 2005 stated that the £29,189k capital programme was approved at the 3 March 2005 Cabinet meeting. However, this figure was not actually approved at this meeting due to subsequent variations and the addition of a further scheme. Decision records in relation to the approval of the capital programme do not specifically state what figure has been approved - only the specific appendix reported to the meeting is referred to.

Recommendations
R4 The Council should ensure that consistent information is reported to Scrutiny Committee and Cabinet Members to enable all Members to obtain a full picture of the position.
R5 The Council should ensure that departmental revenue budgets are fully reported to and approved by Members.
R6 The Council should ensure that decision records in relation to the approval of the capital programme clearly state what figure was actually approved at the meeting to ensure a clear audit trail is maintained.

Report formats

Revenue

37 No significant issues were identified in terms of the format of reports to Scrutiny Committees. Some slight differences in format were noted, for example additional sections/appendices, but these are probably more relevant to those departments than others.

38 The main differences related to budget virements. Most reports included an appendix for revenue budget references to Cabinet, whilst other reports did not

include such an appendix, even where virements were subsequently approved by Cabinet. The Social Services/Health and Social Wellbeing department report include one appendix for budget virements done under delegated powers and a second appendix for virements requiring Cabinet approval. These issues are covered by the ‘Budget variations’ section below.

39 No significant issues were identified in terms of the format of reports to Cabinet. More detail is provided in quarter 2 and 3 reports, and generally any additional information reflects the specific position within each quarter.

Capital

40 No issues were identified in relation to the format of capital monitoring reports.

Budget variations

Revenue

41 The Council's budget principles state that variances should be investigated and appropriate corrective action taken. However, no actual variance limits or trigger levels have been set corporately. The budget principles also state that reports to Scrutiny Committees should focus on those budgets considered to be high risk. Review of budget monitoring reports highlighted inconsistencies between departments in relation to the variance levels for which explanations are given. In general, explanations are provided for most variances, which may preclude Members from focussing on the higher or key variances.

42 The budget principles, approved in August 2004, state that one particular area under consideration for development is shifting the emphasis to reporting on areas of the budget which, through risk assessment, are considered to be of greatest risk of over/under-spend. This proposal does not yet appear to have been implemented.

43 For the financial management section of the use of resources judgement, it is a level three requirement that budget monitoring is focussed on large, high risk or volatile budgets, and is informed by a risk assessment. At level four, the requirement is for a ‘traffic light’ system to focus the Executive on key variances, and there is evidence these are acted upon.

44 In terms of budget virements, authorisation levels and limits are set out in the Council's Financial Procedure rules within the Constitution:

- the maximum revenue virement permitted to be undertaken by a Chief Officer is £50,000; and
- any amount in excess of this must have Cabinet approval.

45 A review of revenue monitoring reports found that all budget virements appear to be included within appendices to the consolidated reports for approval by Cabinet - not just those above £50,000. Social Services/Health and Social Wellbeing are the only reports to split budget virements between those to be done under

delegated powers and those requiring Cabinet approval. However, the former is still reported to Cabinet and the latter includes virements above £50,000.

46 A clear audit trail does not always exist for budget variations. For example, virements in relation to Children's services budgets, reported to and approved by Cabinet in quarter 1, were not actually carried out. This was not specifically highlighted for Members' attention, only that overall figures were based on old departmental structures as budgets were in the process of being realigned.

47 Budget virements are not always shown as an appendix to departmental reports, for example for Children's Services in quarters 1, 2 and 3. Some inconsistencies were noted between the appendices to departmental reports and those included with the consolidated reports. For example, the quarter 3 revenue references to Cabinet for Children's Services included the release of the £132,000 direct revenue financing budget, not referred to in the department's report.

Capital

48 The audit trail for variations from the original capital programme to subsequent approved and revised budgets is unclear within Scrutiny reports. Adjustments made in monitoring reports that went straight to Cabinet or those approved under delegated powers are not subsequently reported to Scrutiny Committee. It is difficult to see how Members can monitor the changes throughout the year.

49 A £161k difference was identified between departmental figures and the consolidated figure within reports to Cabinet on 3 March 2005 and 21 March 2005. This was due to the Fujitsu costs scheme - this was not specifically approved by Members but was added to the programme as a prudent measure as it was a known commitment.

50 The Council's financial procedure rules state that:

- the maximum capital virement permitted to be undertaken by a Chief Officer with the approval of Cabinet is £250,000; and
- any amount in excess of this must have Council approval.

All virements appeared to be reported to Cabinet, but the appendices did not distinguish between those below £250,000 and those above £250,000 requiring Council approval.

Recommendations
R7 The Council should consider agreeing the variance limits, or trigger levels, above which explanations are required to be reported to management team, Scrutiny Committee and Cabinet respectively.
R8 The Council should implement the proposal, included in the budget principles approved by Cabinet in August 2004, to focus reporting on areas of the budget which, through risk assessment, are considered to be of greatest risk of over/under spend. This could also include large or volatile budgets.
R9 The Council should consider introducing a 'traffic light', or similar, system within reports to enable Cabinet to focus on key variances.
R10 The Council should ensure that all budget virements are clearly shown within an appendix to the departmental reports to Scrutiny Committees.
R11 The Council should consider extending the approach to budget virements used in Health and Social Wellbeing reports to all other departments, in having an appendix for virements done under delegated powers and a separate appendix for virements requiring Cabinet approval.
R12 The Council should ensure that the authorisation levels for budget virements, set out in the Financial Procedure Rules, are complied with to ensure that Council Members focus on the key virements.
R13 The Council should ensure that the audit trail for capital variations is clearly reported to Members. In particular, variations approved directly by Cabinet in between Scrutiny Committee meetings should be highlighted within subsequent reports to Scrutiny Committee.
R14 The Council should ensure that the full capital programme is approved by Members at the beginning of the year and the amount is clearly stated within the minutes of the meeting.

Agreement to the general ledger

Revenue

51 An exercise to compare the income and expenditure shown on the general ledger at the end of quarter 3 with that reported in the budget monitoring reports identified a number of omissions, even though the transactions related to Council activities. These include:

- Housing Revenue Account (£262k income);
- Education catering (£2,424k expenditure and £2,287k income);
- Vehicle Maintenance (£695k expenditure and £639k income); and

- Fleet Management (£2,694k expenditure and £2,364k income).

52 For non-departmental operating income and expenditure, only the budget and expected outturn are reported in an appendix to the consolidated monitoring reports. Actual spend and income as at period nine is not reported to Members along with a variance analysis.

53 In relation to departmental codes:

- £6,531k budget to date; and
- £21,009k actual spend to date in the general ledger had not been reported to Members.

54 The majority of the £6,531k budget to date variance related to inappropriate budget phasings on the general ledger for Children's Services. This indicates issues surrounding the accuracy of budget phasings in this department. Monitoring of the general ledger position by budget holders could mean that an inaccurate picture is obtained. Two figures in the corresponding report have been confirmed by officers as incorrect.

55 The majority of the £21,009k net actual spend related to £25,515k housing benefit payments on the ledger not included in the reports to Members. To exclude such expenditure distorts the actual spend to date position as the corresponding income (£25,627k housing benefits) has been included in the monitoring report.

56 Other issues identified from this exercise include:

- £2,493k on the bank suspense code raises concerns surrounding in-year controls over reconciliations and regular clearance of suspense accounts;
- spend to date shown in the quarter 3 Area Management report takes account of commitments not shown on the general ledger. This approach is inconsistent with other departments where the unadjusted general ledger figure is used;
- spend on two new codes was omitted from reports in error; and
- the budget to date for one Children's Services line was £391.5k higher on the department's working paper than the figure reported and it was unclear why this was the case.

57 The actual spend reported for the Sustainable Communities department was £285k higher than that shown on the general ledger. In addition, there were differences on nine lines in relation to budget to date figures. At the time of writing this report we have been unable to obtain explanations from officers for these differences.

Capital

58 No significant issues were identified from agreeing budgets and spend in capital monitoring reports to the general ledger as at period 9. The reports exceeded the general ledger figures by only £150k and £275k respectively. An additional £150k allocation had been granted following the period 6 monitoring reports, but at

period nine was still awaiting Council approval. The £275k difference in actual spend mainly relates to adjustments for accruals and adding back external contributions.

Recommendations
R15 The Council should ensure that all budgets and transactions relating to Council activities are included within revenue monitoring reports to enable effective budgetary control and to highlight any remedial action required.
R16 The Council should consider reporting actual spend / income on non-departmental codes to highlight the areas of main variances.
R17 The Council should ensure that accurate budget phasings are input to the general ledger to enable budget holders to effectively monitor spend against expected budget to date.
R18 The Council should ensure that housing benefit payments are included in revenue monitoring reports to enable readers to obtain a full picture of the financial position.
R19 The Council should ensure that the review and clearance of suspense and holding accounts takes place regularly throughout the year to avoid significant balances at the year-end slowing down the closure of accounts process.
R20 The Council should ensure that a common approach to commitment accounting is taken by all departments to ensure consistent reporting of the Council's financial position.

Action plans

59 The Council's budget principles state that where variations from budget are significant an action plan should be developed which details the actions proposed to manage the expected overspends. These action plans should be presented to Members. However, a 'significant' variance is not defined or quantified. The budget principles also state that consolidated reports should concentrate on action plans to rectify areas of concern rather than analysing historic data.

60 A further document, giving an overview of the budget monitoring process, was provided as evidence for the 2005 use of resources judgement. This states that where material overspends are identified, departments are requested to produce action plans. These plans are considered by departmental scrutiny committee and by Cabinet. Regular monitoring on progress against these plans is given to Members. However, a 'material' variance is not defined or quantified.

61 A review of reports to Members during 2005/06 found that departments were not consistently producing action plans, even where overspends could be regarded as 'significant'. For example, an action plan was not presented for the Development/Sustainable Communities department until a late agenda item at

quarter 3 monitoring. This was despite projected overspends of £317,000 at quarter 1 and £284,000 at quarter 2.

62 Savings were identified in a table within the quarter 2 consolidated report for Area Management and Social Services, but these amounts and specific details/plans had not been reported to their Scrutiny Committees.

63 Health and Social Wellbeing was the only department to report an action plan at quarter 1. Following the quarter 1 consolidated monitoring report, Cabinet instructed all other departments to produce action plans identifying how they would manage their expected overspend and these, and progress against them, should be reported to Members. However, only three of the five departments reporting overspends at quarter 2 presented action plans. Action plans were not presented by the Development/Sustainable Communities or Area Management departments, despite projected overspends of £284,000 and £195,000 respectively.

64 Some of the action plans reviewed did not contain figures. For example:

- the action plan presented at quarter 1 for the Health and Social Wellbeing department was not a specific action plan, but more a number of options under consideration. The action plan consisted of over three pages of narrative but no figures were included for each individual proposal or in total; and
- the quarter 2 report for Education / Children's Services stated that the department would continue with the action plan previously reported. However, this previous action plan was not specific, consisting of a summary of three proposals to address the projected overspend, and did not include any figures. By quarter 2, the overspend position had increased and differed to the figure reported to Cabinet, therefore it was unclear which overspend figure the action plan sought to address.

65 Where action plans had been prepared, there was no clear evidence that progress had been reported to Members. For example:

- the Health and Social Wellbeing department presented an action plan with the quarter 1 monitoring report. Substantially the same action plan was also presented at quarters 2 and three, but was not accompanied by commentary on the success of the action plan since the previous quarter; and
- the quarter 2 monitoring report for the Chief Executive's department included a brief action plan in which three areas of savings were identified and costed. The report stated that progress would be reported in future monitoring reports, but no such progress report was included at quarter 3.

66 For the action plans prepared for five of the six departments during 2004/05, their success was not reported to Members at the outturn stage. It is difficult to assess, therefore, whether the improved performance for three of these departments was attributable to the action plans or to other factors. Similarly, for the 2 of the five departments which overspent by more than was projected, the success of the action plans is not evident.

67 For the financial management section of the use of resources judgement, it is a level two requirement that action plans are developed when a material variance arises or a deficit is forecast. At level three, the requirement is that progress in achieving planned savings is regularly reported with developed action plans.

Recommendations
R21 The Council should determine what a 'significant' or 'material' variance means, in absolute or percentage terms, to clarify when departments are required to prepare action plans.
R22 The Council should issue guidance on the form and content of action plans to ensure that they include clear, specific and costed actions to address the projected overspend.
R23 The Council should ensure that progress against agreed action plans is reported to Members during the year and the success of the action plans is reported at outturn stage.

Target General Fund balances

68 The target level of General Fund balances is set by the Director of Finance and Procurement at the beginning of the financial year and reported to Members as part of budget-setting in accordance with the Local Government Act 2003. In 2004/05, the target was 'prudently revised' during the year, but the reasons for this were not clearly reported to Members. In our 2004/05 interim report, we recommended that:

> *"The Council should ensure that any reduction in the target level of General Fund balances is supported by a full risk assessment and is reported to members in accordance with the Local Government Act 2003"*
>
> *(R14, Audit detailed report - Core Process Review and Financial Aspects of Corporate Governance).*

69 The Director of Finance and Procurement agreed that the reasons for any future change in the target level of balances would be more clearly stated within reports to Members. This would cover any in-year changes as well as the outturn position.

70 A review of consolidated revenue budget monitoring reports to Members for 2005/06 has highlighted that the target level of General Fund balances has been revised downwards twice within the year. The reasons given by the strategic finance officer are that the 2006/07 medium term financial plan is a working model which develops over time and the target is prudently revised during the year. Although the revised figures have been included within the consolidated reports, the facts of the revisions and the reasons behind them have not been reported.

71 This falls within the requirements of the Local Government Act 2003. Section 25 requires an authority's Chief Financial Officer (CFO) to make a report with the budget on the robustness of the estimates made for the purposes of the budget calculations and the adequacy of the proposed financial reserves. Section 27 places a duty on the CFO to report on the inadequacy of any controlled reserves during the year.

72 It is a level three requirement for the financial standing section of use of resources that the council has identified target levels for reserves and balances that are based on a thorough understanding of its needs and risks and is meeting these targets. Where the target has been revised during the year, therefore, this should be supported by a new risk assessment or commentary on why the Council's needs have changed.

Recommendations
R24 The Council should ensure that it is complying with the requirements of sections 25 and 27 of the Local Government Act 2003 by clearly reporting any revisions to the target level of General Fund balances along with the corresponding reasons as to why this has been done.

2004/05 outturn

73 The figures in the 2004/05 outturn report have been reconciled with the 2004/05 financial statements (Consolidated Revenue Account). A number of items were shown in different sections, for example within service expenditure in the outturn report but within non-service expenditure in the CRA. However, the overall position reported was the same.

74 Three main items were found not to be included in the outturn report. However, there were appropriate reasons for these omissions:

- transactions in relation to pensions, required to be included in the CRA under Financial Reporting Standard 17. These are 'paper' accounting adjustments in that they do not go through the general ledger, and have nil net effect on the revenue outturn;
- parish precepts - these are approved at the beginning of the year and no monitoring is required by Members; and
- HRA surplus - this has a nil net effect as there is a contra entry to transfer the amount to reserves.

Medium term financial plan

75 The medium term financial plan (MTFP) presented as evidence for the 2005 use of resources judgement was dated September 2004 and covered the three years 2005/06-2007/08. Officers advised us during this work that an update to the

MTFP would be reported to Members by the end of November 2005. However, a revised MTFP for 2006/07-2008/09 has not been published as at mid-May 2006. We understand that an electronic document is continually updated by Strategic Finance officers, but this has not been reported to Members and is not available on the Council's website.

76 The existence, and format, of a MTFP is a significant and recurring theme within the financial management section of the use of resources judgement. Level two requirements are that the medium term financial strategy models income and expenditure over a minimum of three years, is updated at least annually, and is updated for the consequences of the previous year's outturn. The Council is at risk of not meeting the minimum standard for the 2006 judgement.

Recommendations
R25 The Council should ensure, as a matter of urgency, that a medium term financial plan is prepared and reported to Members to cover the period 2006/07 to 2008/09.
R26 The Council should ensure that a process is in place for updating and reporting the medium term financial plan on an annual, or more frequent, basis. This should cover a period of a minimum of three years.

Appendix 1 – Action Plan

Page no.	Recommendation		Priority 1 = Low 2 = Med 3 = High	Responsibility	Agreed	Comments	Date
	The CIPFA financial management model						
7	R1	The Council should consider purchasing the CIPFA financial management model and completing the self-assessment in order to identify areas for improvement in its current arrangements. This may assist the Council in achieving a higher use of resources score for financial management.	1		See comments	Consideration will be given to purchasing the model, but this has to be considered in terms of the resource requirement needed to complete the assessment.	
	Reporting timetable						
10	R2	The Council should ensure that it complies with its own budget principles and monitoring timetable in order to demonstrate regular reporting of the budget position to Members.	2	Head of Strategic Finance/Group Leader-Finance and Accountancy	Yes	This situation should be resolved with the implementation of the new performance management framework for reporting.	First quarter 2006/07
10	R3	The Council should ensure that reports are presented to Members as promptly as possible after the relevant period end to allow for timely remedial action to be taken where required.	2	Head of Strategic Finance	Yes	The new framework will improve the monitoring information to members -quicker 07/08 potentially.	Ongoing

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	Consistency of information						
12	R4	The Council should ensure that consistent information is reported to Scrutiny Committee and Cabinet Members to enable all Members to obtain a full picture of the position.	2	Head of Strategic Finance	Yes	The new framework should ensure information is consistent. To be raised at CMT.	First quarter 2006/07
12	R5	The Council should ensure that departmental revenue budgets are fully reported to and approved by Members.	2	Head of Strategic Finance/Group Leader-Finance and Accountancy	Yes	Recommendation noted. To be included in format of Revenue Monitoring Report (build up of latest budget). Consideration is to be given to running a revenue budget monitoring workshop to ensure consistency of information.	First quarter 2006/07
12	R6	The Council should ensure that decision records in relation to the approval of the capital programme clearly state what figure was actually approved at the meeting to ensure a clear audit trail is maintained.	2	Head of Strategic Finance	Yes		Immediate
	Budget variations						
15	R7	The Council should consider agreeing the variance limits, or trigger levels, above which explanations are required to be reported to management	1	Head of Strategic Finance	Yes	Consideration will be given to setting trigger levels Following discussions with the Audit Commission this needs to be considered with a traffic light	December 2006

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		team, Scrutiny Committee and Cabinet respectively.				system (R9 below).	
15	R8	The Council should implement the proposal, included in the budget principles approved by Cabinet in August 2004, to focus reporting on areas of the budget which, through risk assessment, are considered to be of greatest risk of over/under spend. This could also include large or volatile budgets.	2	Head of Strategic Finance/Group Leader-Finance and Accountancy	See comments	Consideration will be given to departments identifying high risk items which will be included in all monitoring reports. Needs guidance from Strategic Finance about a process and an agreed format approving through CMT. Again to improve consistency an item for a Revenue Workshop R7/8/9 are linked. Accountants could work with Budget Managers in Budget Prep and Monitoring.	Period 9 Jan/Feb 2007 (depending on CMT)
15	R9	The Council should consider introducing a 'traffic light', or similar, system within reports to enable Cabinet to focus on key variances.	2	Head of Strategic Finance	See comments	This needs to be considered together with R7.	December 2006
15	R10	The Council should ensure that all budget virements are clearly shown within an appendix to the departmental reports to Scrutiny Committees.	2	Head of Strategic Finance/Group Leader-Finance and Accountancy	Yes	Needs to be raised at CMT–particularly Education.	Period 6 Oct/Nov 2006 (depending on CMT)
15	R11	The Council should consider extending the approach to budget virements used in Health and Social Wellbeing	2	Strategic Finance - Templates Group Leader -	Yes	To be incorporated in a new report template.	First quarter 2006/07

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		reports to all other departments, in having an appendix for virements done under delegated powers and a separate appendix for virements requiring Cabinet approval.		Finance and Accountancy- Accountancy will pick up issue re separate Appendices			
15	R12	The Council should ensure that the authorisation levels for budget virements, set out in the Financial Procedure Rules, are complied with to ensure that Council Members focus on the key virements.	2	Group Leader-Finance and Accountancy- Accountancy to pick up in month and at period end.	Yes	Virements to be shown on 2 sheets.	Period 6 Oct/Nov 2006
15	R13	The Council should ensure that the audit trail for capital variations is clearly reported to Members. In particular, variations approved directly by Cabinet in between Scrutiny Committee meetings should be highlighted within subsequent reports to Scrutiny Committee.	2	Group Leader-Finance and Accountancy	Yes	To be picked up in Scrutiny/Cabinet Reports in Background Information. Picked up as an item included at the Capital Workshop.	First quarter 2006/07
15	R14	The Council should ensure that the full capital programme is approved by Members at the beginning of the year and the amount is clearly stated within the minutes of the meeting.	2	Head of Strategic Finance	Yes	This relates to the original programme.	2007/08 programme

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	Agreement to the general ledger						
17	R15	The Council should ensure that all budgets and transactions relating to Council activities are included within revenue monitoring reports to enable effective budgetary control and to highlight any remedial action required.	2		No	New integrated transport unit therefore no separate vehicle/fleet. Catering is included as a one line entry.	
17	R16	The Council should consider reporting actual spend/income on non-departmental codes to highlight the areas of main variances.	1		No	Most are year end entries–not sure the added value of including.	
17	R17	The Council should ensure that accurate budget phasings are input to the general ledger to enable budget holders to effectively monitor spend against expected budget to date.	2	Group Leader-Finance and Accountancy-Accountancy working with Cost Centre Managers	Yes	FAST project may alleviate this as Cost Centre Managers become more hands on.	To be reviewed by Period 9 Jan/Feb 2007 and fully effective 2007/08 budget load
17	R18	The Council should ensure that housing benefit payments are included in revenue monitoring reports to enable readers to obtain a full picture of the financial position.	2	Group Leader-Finance and Accountancy	Yes	Both sides of the entries will be included.	Period 3 25/7/2006 ie date report goes to Strategic Finance

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17	R19	The Council should ensure that the review and clearance of suspense and holding accounts takes place regularly throughout the year to avoid significant balances at the year-end slowing down the closure of accounts process.	2	Group Leader-Finance and Accountancy	Yes	Fewer holding accounts and more are cleared regularly. The high value item in bank suspense was a one off event.	Immediate
17	R20	The Council should ensure that a common approach to commitment accounting is taken by all departments to ensure consistent reporting of the Council's financial position.	1	Group Leader-Finance and Accountancy	Yes	Common approach to be adopted – Area to exclude commitments.	Period 3 25 July 2006 ie date report goes to Strategic Finance
	Action Plans						
19	R21	The Council should determine what a ‘significant’ or ‘material’ variance means, in absolute or percentage terms, to clarify when departments are required to prepare action plans.	2	Head of Strategic Finance	Yes	Material/significant variances to be quantified in per cent terms. To be taken forward via CMT for their input	December 2006

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19	R22	The Council should issue guidance on the form and content of action plans to ensure that they include clear, specific and costed actions to address the projected overspend.	2	Head of Strategic Finance	Yes	Format to be agreed and discussed with CMT	December 2006
19	R23	The Council should ensure that progress against agreed action plans is reported to Members during the year and the success of the action plans is reported at outturn stage.	2	Head of Strategic Finance/Group Leader-Finance and Accountancy	Yes	Propose reporting to Lead Members including Outturn. Format to be agreed and discussed with CMT	December 2006
	Target General Fund balances						
20	R24	The Council should ensure that it is complying with the requirements of sections 25 and 27 of the Local Government Act 2003 by clearly reporting any revisions to the target level of General Fund balances along with the corresponding reasons as to why this has been done.	3	Head of Strategic Finance	Yes	Requirement is for any changes to target balances to be explicitly reported to Members along with reasons for the changes.	Immediate
	Medium term financial plan						
21	R25	The Council should ensure, as a matter of urgency, that a	3	Head of Strategic Finance	Yes	This has been prepared.	Immediate

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		medium term financial plan is prepared and reported to Members to cover the period 2006/07 to 2008/09.					
21	R26	The Council should ensure that a process is in place for updating and reporting the medium term financial plan on an annual, or more frequent, basis. This should cover a period of a minimum of three years.		Head of Strategic Finance	Yes	MTFP updated and reported to Members 15/08/06.	Immediate