

Report of: Strategic Director Finance and Corporate Services

To: Finance Working Group - August 7th 2006
Strategic Management Board - August 15th 2006
Finance Overview and Scrutiny - 24th August 2006
Executive Board - 11th September 2006



Item No:

Title of Report : World Class Finance



Summary and Recommendations

Purpose of report: To propose we change the way we budget and manage our finances.



Key decision: No

Portfolio Holder: Cllr Stephen Tall

Scrutiny Responsibility: Finance



Board(s) affected: All

Report Approved by: Lindsay Cane - for Monitoring Officer
Cllr Stephen Tall - Portfolio Holder



Policy Framework: The budget process is at the heart of financial stability, VfM and effective planning.



Recommendation(s): That Executive Board:



1. Notes the report.



2. Agrees the action plan attached as Appendix 1.



Context

1. In November 2005 the Audit Commission published a review of “World Class Financial Management”. This report drew together best practice from the public and private sectors across different parts of the world.

What we have done

2. Officers established a working group to consider the lessons we should learn, and how we could implement them. The aims of the work were set out in our remit. The working group comprised; Members, Officers and two external participants (the Audit Commission’s Relationship Manager and the Strategic Finance and Corporate Services Director from South Oxfordshire).
3. We looked at the published best practice, looked at Business Manager/Director perspectives, had a detailed presentation from South Oxfordshire District Council and visited two “excellent” local authorities.

Where we are

4. The Audit Commission has said that our financial systems are improving. We recently had nine years’ accounts signed off, whilst the last two years’ accounts have been “unqualified”.

However:

- The Audit Commission’s last assessment graded our financial and governance systems as being relatively weak¹.
- We need to do significantly more to match the best authorities in the UK.
- Public and users’ expectations of financial management systems are rising steadily. We need to improve just to stand still.

Key issues for the working group

5. The working group looked at a range of issues. We focussed on those areas where we felt we needed to make improvements first. These were:
 - How we present information, so everyone understands our financial position.
 - How we draw up budgets, identify savings and choose new areas for spending.

¹ Systems are rated on a 1 to 4 scale. Our rating was; Financial Reporting 1, Financial Management 2, Financial standing 2, Governance 1.

Key lessons

6. When we looked at best practice and the good/excellent authorities, there were some consistent messages.

The budget process starts early

7. We start our budget processes far too late. The excellent authorities start their budget planning around April-May. This gives Members and Officers plenty of time to make and advise on considered choices.

There is a well defined system and process

8. The excellent authorities could point to a set down business planning and budget cycle. All parties knew when decisions and papers had to be ready.
9. This longer timetable means spending proposals and savings ideas are properly costed and risk assessed. Spending and saving proposals are set out in standard documentation; this means they can be tracked, and linked to other reporting mechanisms, e.g. the Government Annual Efficiency Statement.

Budgets are decided within the context of a much longer-term plan

10. The excellent authorities had well-developed financial planning systems². Their plans reflected their long-term aims and drew together known financial trends (e.g. inflation and interest rates and highlighted uncertainties and risks. The Cambridge City Council financial strategy (for example) looked up to 25 years ahead.

There was a strong corporate framework

11. The authorities we saw had much clearer corporate rules and made choices about their budgets at significantly higher levels than we do. This is because we are unusual in running our council finances with considerable delegation to 18 Business Units.
12. The other authorities established council wide decisions about issues like increases in fees and charges and what money might be carried forward between years.
13. Decisions about how and where savings would be sought were also taken at significantly higher levels - either by Directorate or by Portfolio Holder.

² A key issue in World Class Financial Management - "Organisations need to be realistic about future pressures and opportunities and incorporate these into forecasts of income, expenditure, cashflow and working capital. These should in turn be subject to risk and sensitivity analysis."

14. Finally, in Cambridge (the only authority we visited with a HRA) housing finances were managed in the same way as any other part of the council's budgets.

They kept their processes deliberately simple

15. Other authorities kept their corporate planning and budget systems deliberately simple³. For example; all the authorities we saw set an authority-wide budget saving targets,

16. The corporate/business planning systems were also kept deliberately simple, for example Cambridge had three strategic aims.

They hold managers responsible for efficiency/delivery of their services

17. The authorities we saw deliberately did not use the budget process to target high cost services, but they all had other mechanisms to look at high cost areas.

18. Both Kensington & Chelsea and Cambridge City used a rolling programme of service reviews to look at specific issues. The assumption and experience was these reviews would deliver savings by looking at how services were delivered.

19. Government is starting to look again at Zero Based Budgeting and CiPFA has recently issued guidance on this area. CiPFA's advice is to:

- Focus on simple discretionary areas - to build up expertise.
- Use on areas such as repairs, maintenance or equipment costs because incremental budgeting often pays scant attention to these heads

20. Cambridge links senior officers' performance objectives to tasks within the annual plan and budget.

Being explicit about spending and savings

21. Cambridge deliberately built a "policy space" into the start of the budget process - a £500,000 budget for Members to target new spending.

22. At the same time they also identified the effects of inflation, unavoidable cost pressures (e.g. licencing) and the resulting "affordability gap". This was the gap that had to be met by across the board cost savings of 3% (2% for HRA) a year. Members and Officers understood this was an ongoing annual target that had to be delivered for the council's long-term viability.

³ The Audit Commission warn against "over-engineering" the budget process, and looking at simpler systems such as rolling forecasts/budgets.

The finances were more transparent

23. The other authorities set out budget information more clearly. In particular the effects of inflation on budgets was clearly estimated and shown, and budgets were shown in more detail - so that Members could see beyond the Business Unit heading.
24. Crucially every individual saving proposal was much more clearly set out, with responsibilities and timescales for delivery highlighted. Cambridge had a particularly impressive system for tracking budget changes.⁴

Comments from Scrutiny and SMB

- Finance Scrutiny noted that too many of our high-level budget descriptions make little sense to the lay reader (eg “City Works” instead of “street cleaning”). They recommended we use clear descriptions throughout.
- The Working Group, Finance Scrutiny and SMB all emphasised the review of budget changes takes place far too late in the process. They all emphasised this task should take place earlier this year and earlier yet in subsequent budget cycles.
- Finance Scrutiny advised the corporate plan and budget processes and timetables need to be further, and better, integrated.

25. All the comments made were well judged, and I have drafted the recommendations to include them.

Other issues from World Class Financial Management

26. Our visits to other authorities focussed on budget related areas (where we feel we need to make early improvements). However the Audit Commission report highlights some other broader issues in financial management:

- That Senior Managers and Members should be able to understand the financial environment and take responsibility for it. Financial management is not just the responsibility of the Finance Director or Finance Department. There needs to be regular training in this area.
- Having rigorous systems to build up and analyse cost information; including overhead costs.
- Using cost benchmarking wherever possible.
- Having post project reviews after completion of every major project to learn any lessons from the process.

⁴ CIMA note “successful strategies... are the end product of a structured and disciplined decision making process”. Quoted in World Class Financial Management

- The importance of effective governance systems, including effective scrutiny and audit committees.
- A commitment to the CiPFA “Financial Management Model” as representative of best practice.
- Having a single financial system - so everyone knows what information we are working from.
- Integrating financial and non-financial performance information and presenting it in a understandable form. Keeping this area under continuous review.
- Publishing information in ways that engage stakeholders outside the authority.

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Background papers:

- Remit for working group and working papers of/from the group
- Notes of discussions with Cambridge and Royal Borough Kensington and Chelsea



Version control

V1	First draft
V2	Draft following meeting of working group
V3	<ul style="list-style-type: none">▪ Comments of SMB, and Overview and Scrutiny included.▪ Para numbering inserted.▪ Table of recommendations included.
V4	Typos corrected. Portfolio holder comments and any comments from Monitoring Officer (none)

Appendix - Key Recommendations and Responsibilities (for 2007-8 budget)

Recommendation	Action	Responsibility + Date
Start the process earlier + well defined system	<ul style="list-style-type: none"> ▪ Detailed timetable for 2007-8 and 2008-9 corporate plan and budget ▪ Key diary dates booked (including dates for review of budget proposals) 	<ul style="list-style-type: none"> ▪ PG/JB 15.9.06 ▪ PG 15.9.06 (MAL to overview)
Long-term financial planning	<ul style="list-style-type: none"> ▪ Develop first draft of Medium Term Financial Strategy for first budget report to EB.⁵ ▪ Identify target savings for each Directorate after taking account of fees and charges. ▪ Recast budget in cash terms (i.e. including effects of inflation). 	<ul style="list-style-type: none"> ▪ MB/MAL 15.10.06 ▪ PG 30.9.06 ▪ MB 30.9.06
New budget approach	<ul style="list-style-type: none"> ▪ Agree responsibilities of SD, BM under new budget approach. ▪ Clarify how HRA will be managed in practical terms ▪ Agree budget lines for monitoring using plain English descriptors (start work on budget book template) ▪ Savings tracking template (including current savings) ▪ Cost benchmarking report completed. ▪ Areas for review in 2007-8 (including ZBB) ▪ Review our SLA process ▪ Decide of CiPFA Financial Management Model. 	<ul style="list-style-type: none"> ▪ ML/MB 30.9.06 ▪ MB/GB 30.9.06 ▪ PG 30.9.06 ▪ AW 30.10.06 ▪ MAL 30.9.06 ▪ MAL 30.9.06 ▪ KPMG (audit of budget) 30.10 06 ▪ MB 30.9.06
Budget plan for 2008-9	<ul style="list-style-type: none"> ▪ Detailed timetable for corporate plan and budget. 	<ul style="list-style-type: none"> ▪ PG/JB 30.10.06

⁵ Include a "policy space" proposal as agreed with Portfolio Holder.