



AUDIT COMMITTEE

Committee Report

Public

Date of Meeting: 23 January 2007

Title: 3 YEAR FINANCIAL MANAGEMENT IMPROVEMENT PLAN
PROGRESS REPORT

Report of: The Director of Corporate Services

Report reference: CORP82/06

Summary:

This report advises members on progress made in delivering the outcomes as set out in the 3 Year Financial Management Improvement Plan since 20 November 2006.

Recommendations:

1. Members are asked to note/comment on progress made in delivering the 3-Year Financial Management Improvement Plan since 22 November 2006.
2. Members are asked to note that the next progress report will be submitted 22 June 2007 for the reasons noted in 3 of the report.

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Note: in compliance with section 100d of the Local Government (Access to Information) Act 1985 the report has been prepared in part from the following papers: IPF Report September 2006

CITY OF CARLISLE

To: The Chairman and Members of the
Audit Committee
23 January 2007

CORP82/06

3 YEAR FINANCIAL MANAGEMENT IMPROVEMENT PLAN

1. INTRODUCTION

- 1.1 The Institute of Public Finance (IPF) has recently undertaken an independent review of the financial management arrangements of the Council, and the Executive and the Audit committee considered the report on 25 September.
- 1.2 The report concluded that the City Council's Financial Management arrangements met an acceptable standard for a typical District Council, but that significant improvements could still be made. Members noted that improvements would be necessary if the council is to achieve its ambitions of excellence in service provision.
- 1.3 The Executive requested an Improvement Plan for the City Council be developed with responsible officers, timescales and measures of success clearly and unambiguously identified.
- 1.4 The opportunity was taken in setting out an improvement plan to deliver IPF recommendations to include outstanding items from the Statement of Accounts Action Plan and issues still to be addressed resulting from the 2005/06 Use of Resources Self Assessment.
- 1.5 The Executive approved the 3 Year Improvement Plan at its meeting of 20 November 2006 (high reputational risk areas highlighted in bold) and resolved that progress against plan targets would be monitored by the Audit Committee.
- 1.6 This report advises members of progress made since 20 November 2007. It also advises that the significant work/resource requirements involved in responding to the Local Government and Public Involvement in Health Bill might cause delays in meeting improvement review targets particularly in respect of corporate financial management.

2. PROGRESS MADE IN IMPLEMENTING IMPROVEMENT PLAN SINCE 20 NOVEMBER 2006

2.1 Progress made since 20 November 2006 is indicated in the 'Improvement Plan' comments field, in italics (see Appendix 1).

2.2 As can be seen significant progress has been made in:

- (i) Preparation work to inform the review of the financial services function, i.e. workload peaks and troughs; roles of staff within finance function. This work is timetabled to be completed by March 2007 with a report going to SMT/Staffing Forum recommending any changes in staff resources required to achieve the Council's ambition of excellent financial management service provision;
- (ii) Improved forecasting of likely under/overspends, i.e.
 - Improved ledger software to be provided by Civica
 - Clarification of definition of significant under/overspends for Service Heads to follow in determining actions (action plan format) to address problem
 - Training planned for Service Heads
 - Report being submitted to SMT/SPG recommending carry-forward limits, tougher justification of carry-forwards particularly where underspend has not resulted in poor performance.
- (iii) Closure of Accounts/Financial Reports – See reports CORP77/06 and CORP80/06 on the Audit Committee agenda for progress in this area.

3. RESPONDING TO THE LOCAL GOVERNMENT AND PUBLIC INVOLVEMENT IN HEALTH BILL

3.1 As noted in the introduction, responding to the above bill will also absorb significant management (corporate) and finance resources over the next six months which will hinder progress in meeting the very ambitious Financial management Improvement Plan timetable. Some of the longer term improvements noted in the plan might be overtaken by events.

3.2 It is suggested that the next progress report to the Audit Committee is timetabled for 22 June 2007 to reflect the workload involved in both the closure of the 2006/07 accounts and the Local Government Bill.

3.3 At this time the Use of Resources feedback for 2006/07 will also be available and incorporated into the Improvement Plan.

4. RECOMMENDATIONS

4.1 Members are asked to note/comment on progress made in delivering the 3-Year Financial Management Improvement Plan since 22 November 2006.

4.2 Members are asked to note that the next progress report will be submitted on 22 June 2007 for the reasons note in 3 of report.

5. CONSULTATION

5.1 Senior Management Team, the Portfolio Holder for Performance and Finance and senior Financial Services staff have been consulted.

6. IMPLICATIONS

6.1 Staffing/Resources – There are staffing and financial resources implications in implementing an Improvement Plan of this nature and extra resources may be required. It is possible that a reallocation of duties within Financial Services noted in this report may release some capacity but the cultural shift of individual budget managers being more financially literate and so release capacity from the financial team will take time to bed in. A bid for a non-recurring £50,000 has been made as part of the 2007/08 budget process to help to address the resource problem in the short term pending a longer term solution being sought.

6.2 Corporate – SMT accept that financial management is an issue for the whole organisation and are committed to improving financial literacy.

6.3 Risk Management – There is a risk in not completing the action plan to the Council's ambitions of achieving excellence in service provision. There is also a risk that the current heavy corporate workload (see section 3 of report) will result in some delay in meeting Improvement Plan targets.

6.4 Equality Issues – None.

6.5 Environmental – None

6.6 Crime and Disorder – None

ANGELA BROWN
Director of Corporate Services

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Financial Management Improvement Plan
(01.10.06 – 30.09.09)
(Priority Tasks in Bold)

Ref	Recommended Action for Improvement	Agreed Responsibility	Indicative Timescale	Measure of Success	Progress/Comments
A.	Strategic/Corporate				
A1.	Financial Management in Projects/ Initiatives				
1.1	<ul style="list-style-type: none"> Carry out a status review (and reality check) on all current projects and initiatives Assess priorities and develop a “deferral strategy” where resources will be directed to improving basic stewardship aspects as an interim measure Ensure that a risk management approach is taken in doing this 	SMT (via Projects Programme Board)	March 2007	Realistic workloads and capacity to support corporate priorities.	<p>(i) SMT consider the impact of any new initiatives and additional resources will be requested where it is not considered feasible to deliver within existing capacity, e.g. <i>White Paper work.</i></p> <p>(ii) <i>Capital Projects Board is currently reviewing projects and assessing resource requirements. Note 2007/08 Capital Programme modest to progress/resource slippage from 2006/07 projects.</i></p>

Ref	Recommended Action for Improvement	Agreed Responsibility	Indicative Timescale	Measure of Success	Progress/Comments
A2.	Structure of Finance Function				
2.1	<ul style="list-style-type: none"> Assessment of workload / burden on each role within the finance function Detailed analysis of pattern of workload – establishing peaks and troughs Reallocation of tasks and responsibility where appropriate (including reviewing job descriptions) 	S McGregor/ S McGregor A Brown	<i>March 2007</i>	Increased capacity to support organisation. Better balance of workloads.	Initial review of duties and responsibilities actioned in February 2006. <i>Annual workload (and ad-hoc where identified) by task and responsible officer has been mapped and resource requirements to meet workload, particularly at work peaks, is currently being assessed. Draft proposals for reallocation of tasks drawn up for consultation with Finance staff in February/ March 2007.</i>
2.2	<ul style="list-style-type: none"> Determine whether permanent increase in establishment or use of temporary resources at key times is best option. 	A Brown/Chief Executive	Sept 2007	New structure fully resourced by April 2008.	Awaiting results from above exercise. In the short term temporary accountancy resources taken on to 31.3.07 and a bid for additional temporary resources for 2007/08 has been made as part of the budget process.

Ref	Recommended Action for Improvement	Agreed Responsibility	Indicative Timescale	Measure of Success	Progress/Comments
2.2	<i>Continued</i>				<i>Capacity issues being addressed as part of this work. Draft proposals on any further restructure of Finance function will be reported to SMT/Staffing Forum mid-March.</i>

Ref	Recommended Action for Improvement	Agreed Responsibility	Indicative Timescale	Measure of Success	Progress/Comments
A3.	Budget Preparation and Financial Planning				
3.1	<p>Introduce more challenge into the budgeting process by:</p> <ul style="list-style-type: none"> Developing “decision conference” approaches where members and senior officers can consider priorities and growth bids Improve public consultation in the budgeting process Developing Zero based budgeting techniques for areas (possibly on a rolling programme) 	<p>SMT</p> <p>SMT/Executive</p> <p>S McGregor</p>	<p>2007/08 budget process</p> <p>2007/08 budget process</p> <p>April 2009</p>	<p>Better allocation of resources to priorities. Better achievement of performance against budgets allocated.</p> <p>More informed decision making by Members.</p> <p>Reduced level of ‘underspends’.</p>	<ul style="list-style-type: none"> Service Head Conference September 2006. Strategic Planning Group (Senior Members and Officers) meet regularly to consider priorities and bids prior to the formal consideration by Members. Public consultation via Citizens Panel and State of City Zero based budgeting has a resource implication and this will be introduced depending on resources following initial consideration by SMT. <i>This initiative will be further considered as part of the Improvement Review programme.</i>

Ref	Recommended Action for Improvement	Agreed Responsibility	Indicative Timescale	Measure of Success	Progress/Comments
3.2	<p>Improve forecasting to avoid underspends/ overspends by:</p> <ul style="list-style-type: none"> Increased use of commitment accounting Stronger links with performance management – looking at activity as drivers of cost More stringent measures on continuing budgets (especially in areas of underspend) Integrate consideration of underspends more formally to the budget process Introduced action plans for significant variances Make service heads accountable for financial performance Change culture to a perception that “underspends” are not acceptable performance 	<p>S McGregor SMT</p> <p>SMT</p> <p>S McGregor</p> <p>Service Heads</p> <p>Service Heads</p> <p>Service Heads</p>	2007/08 budget process	Reduced level of both carry forward and net underspends.	<p>Commitment accounting is currently being considered as part of the Procurement initiative led by the CPI. Work is being progressed as a priority during 2006/07 to improve the links with performance management. <i>However, reliant on our software suppliers, CIVICA, for providing ledger software update. Significant variances have now been defined as the higher of £60,000 or 10% of gross service expenditure or income, i.e. Service Heads will now be required, with Finance Unit support, to produce robust action plan to extinguish variances. Training for Service Heads planned on accountability culture and process of managing variances. Currently no resources identified to progress activity based costing.</i></p>

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3.3	<p>Addressing the “underspend culture” by:</p> <ul style="list-style-type: none"> • Limiting carry-forwards (thresholds and time limits) • Introducing tougher justification for carry forwards – reviewing criteria for evaluation • Introduce targets with punitive measures as appropriate 	A Brown	March 2007	Better VFM in setting Council Tax and holding appropriate balances.	<p>Carry Forward procedure to be reviewed for recommendation to the Executive.</p> <p>Improved budget monitoring and performance management procedures will improve the issue of work not completed within original timescales.</p> <p><i>Report to SMT/SPG in February 2007 recommending suggested carry-forward limits, tougher justification for carry-forwards etc, particularly where underspend has not resulted in poor performance.</i></p>

Ref	Recommended Action for Improvement	Agreed Responsibility	Indicative Timescale	Measure of Success	Progress/Comments
4.2	<p>Establishment of knowledge management systems:</p> <ul style="list-style-type: none"> • Development and maintenance of procedure notes and update the Financial Guide • Increase level of job rotation (or job shadowing) • Sessions on roles and processes as part of regular management team meetings (or forums) • Cascade learning points from training or external events 	S McGregor	March 2007	As above.	<p>All of these issues are being progressed by Head of Financial Services and Head of Personnel and Development Services, <i>i.e.</i></p> <p><i>(i) Financial Guide/Procedure Notes updated;</i></p> <p><i>(ii) Job rotation tackled in restructure (some job rotation already commenced);</i></p> <p><i>(iii) Job shadowing considered (resource intensive) once staff comfortable with revised tasks after finance restructure.</i></p>

Ref	Recommended Action for Improvement	Agreed Responsibility	Indicative Timescale	Measure of Success	Progress/Comments
4.3	<p>Encourage innovation and initiative by:</p> <ul style="list-style-type: none"> • Supporting staff suggestions for change (as appropriate) • Delegate responsibility for trialling changes / new concepts • Encouraging representation on initiative / project teams by more junior staff • Where appropriate, delegate representation on project groups to lower management levels 	S McGregor	March 2007	Spread of knowledge and understanding.	<p>Staff suggestions are made via TIR meetings.</p> <p>Whilst it is an excellent staff development technique, there is a risk that delegation of new initiatives and projects result in a steeper learning curve before such delegation effective.</p> <p>To a certain degree representation on project group is already delegated subject to the risk assessment set out above e.g. Capital Projects Board.</p>

Ref	Recommended Action for Improvement	Agreed Responsibility	Indicative Timescale	Measure of Success	Progress/Comments
C5.	Closure of Accounts/Financial Reporting				
5.1	Refine closedown timetable <ul style="list-style-type: none"> • Ensure close working with external audit • Ensure early consideration of changing requirements, material events or new accounting treatments 	S McGregor	Actioned in 2005/06 Accounts process but further improvements to be actioned for 2006/07 Accounts process (see comments)	Accounts Audited to Statutory deadline and positive Annual Governance Report from the Audit commission. This improvement is also a key requirement of the Use of Resources Improvement Plan.	There are major changes to the Accounting requirements for the 2006/07 accounts and the new SORP requirements are currently being considered. <i>Report on issue covered in a separate report on this Audit Committee agenda (CORP77/06 and CORP80/06).</i>

Ref	Recommended Action for Improvement	Agreed Responsibility	Indicative Timescale	Measure of Success	Progress/Comments
5.2	<p>Improve quality and indexation of working papers and evidence source:</p> <ul style="list-style-type: none"> • Make full use of disclosure and audit checklists • Require that the Audit Commission clarify their timetable of work for the final accounts process • Ensure a clear audit trail down to source reports / documentation • Introduce quality control mechanism for the working papers • Review 2005/06 papers and the action plan and provide the ‘missing’ information as part of the original papers to be handed to the Audit Commission 30/6/07 • Identify high risk areas and work on these prior to the commencement of the 2006/07 closedown process. • Develop property database. 	<p>A Taylor</p> <p>Director of Development Services</p>	<p>Actioned in 2005/06 Accounts process but further improvements to be actioned for 2006/07 Accounts process</p>	As above.	<p>Improvements have been made for 2005/06 as acknowledged by the Audit Commission. Further improvements are planned for 2006/07.</p> <p>The development of the Property database is a high risk area as it provides information on the assets of the council which is subject to considerable audit scrutiny.</p>

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5.2	Continued				<p>The Director of Development Services is currently considering options to develop this system and a report will be presented to SMT on progress in the near future.</p> <p>However, progress hindered by staff turnover within property Services. Finance Section will provide advice for the required action plan. Some progress made on asset valuation work.</p>
5.3	<p>Improve final accounts process:</p> <ul style="list-style-type: none"> • Carry out “dry run” closedown at end of Quarter 3 • Reconciliation of systems provided as part of WPs 	A Taylor	January 2008	As above	<p>This will be attempted but is a significant workload, hence timescale.</p> <p>Grants and WGA information needs to be improved.</p>

Ref	Recommended Action for Improvement	Agreed Responsibility	Indicative Timescale	Measure of Success	Progress/Comments
D6.	In Year Monitoring and Forecasting				
6.1	Develop clearer links with performance management, risk management and asset management. This can be done through: Using unit costs for activity Linking activity levels with budgets / spend Linking key PIs with spend	S McGregor	2008/09	Better understanding of link between costs and activities.	Would not be achievable in the current year from existing resources. The achievement of this would require further consideration. Clearer lines with performance management is a key priority for 2007/08 and this is being achieved through quarterly performance conferences for Service Heads.
6.2	Improve commitment accounting by full implementation of electronic ordering to ensure all purchase orders are reflected in the FIS	S McGregor	Dec 2007	Improved Financial Monitoring Information	Commitment accounting is currently being considered as part of the Procurement initiative led by the CPI. The Contractor Plus system operated by Community Services is currently being reviewed with a view to replacement within the next 12 months. Invitations to tender have been sent out with closing date 26 January 2007.

Ref	Recommended Action for Improvement	Agreed Responsibility	Indicative Timescale	Measure of Success	Progress/Comments
6.3	<p>Develop reporting capability by:</p> <ul style="list-style-type: none"> • Making full use of Crystal Reports • Training staff in Crystal where necessary • Running workshops / sessions to establish what users would wish to see in their reports • Ensure written financial reports are simplified as far as possible to aid understanding by Members and Officers 	S McGregor	Dec 2007	Improved financial and budget monitoring.	<p>A full ledger development plan has been drawn up. <i>Following discussions with Civica, they have subsequently agreed to provide resources to ensure the most current version of the Financial Management System is implemented and staff are trained in the enhancements including Crystal reporting. Financial reports (where the content is complicated/ technical to meet statutory requirements), e.g. Treasury Management, one page summaries in layman's terms now included as part of report. Easy to understand budget booklet being prepared to assist in future consultation exercises. Summary Statement of Accounts has now been produced.</i></p>

Corporate Services, Carlisle City Council

PM / CH Acc K / Performance Management / Financial Management Improvement Plan (Updated 15.1.07)