

## Report for Information

**Report to** Executive  
18 February 2009  
**Report of** Deputy Chief Executive  
**Subject** Financial Management

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### Purpose

To update the Executive on the actions taken to improve the Council's financial management and the results of these.

### Recommendations

The report is for information.

### Financial Consequences

There are no direct financial consequences as a result of this report.

### Risk Assessment

No risks are identified as this is an assessment of the previous and current performance of the Council.

### Strategic Priority and Outcome/Service Priorities

Aiming for excellence and improving the Council's Use of Resources score.

**Executive Member:** Councillor Waters - Corporate Resources and Governance

**Ward:** All Wards

### Contact Officers

Bridget Buttinger, Deputy Chief Executive  
Barry Marshall, Head of Finance

01603 212066  
01603 212556

### Background Documents

None

## Report

### Financial Management

1. In January 2006 the council predicted an overspend of approximately £4 million. As well as implementing plans to address this analysis of the finance system and procedures identified the need to fundamentally overhaul these to bring us to a position where we have reliable and timely information and robust practices and procedures.
2. An initial plan was developed in January 2006 to deal with the immediate issue which was:
  - Working with heads of service to pull back and reset the budgets for the 2006-7 financial year.
  - Engaging a senior financial expert, to provide high level advice to the authority regarding its current situation and recovery plan.
  - Engaging an accredited firm of consultants to provide interim financial management services for the authority.
  - Engaging the financial systems expertise of another firm of consultants to provide advice on the suitability of the authority's current systems and development needs.
  - The appointment of an interim head of financial services.
  - Asking members to commit £600,000 in the 2006/7 budget to rebuild financial management and control within the authority.
3. In early 2006 a finance improvement programme was developed. This was supported by the Council committing £600,000 to support this work in the 2006/7 budget. The plan was to:
  - Implement a new chart of accounts,
  - Reshape the ledger,
  - Improve processes and practices,
  - Use the Oracle finance system correctly,
  - Introduce a new system of financial coding that would lead to the required accurate outputs from the financial reporting system.
  - Implement a new online procurement system.
  - Train the finance team.
  - Publish a new procedure manual,
  - Introduce a system of regular reconciliations,

- Implement rigorous controls for closedown of accounts,
  - Resolve a list of adverse accounting issues.
  - Design controls and mechanisms to ensure that the progress being made did not stall or start to slip back.
4. In June 2006 the Executive agreed to implement a new senior management structure which included a post of Head of Finance. This was filled, and a new Head of Finance joined the council in November 2006. His assessment was that the finance team needed to be reviewed to support the revised ways of working required and that their skills and capabilities needed further development in order for the authority's financial management systems to be used as set out in the finance improvement plan. In view of this the following action was taken:
- The required structure, skills and capabilities of the finance team were determined.
  - The skills, capabilities and potential of existing staff to fill the posts in the restructured finance team were assessed. Vacant posts were filled by external recruitment.
  - The authority invested in training for all finance staff to ensure that they were competent to operate the redesigned systems, procedures and controls.
  - In 2008 two key posts, corporate finance and financial control managers, were appointed to manage the new systems, procedures and controls.
5. In 2006/7 the accounts were submitted to the Audit Commission by the statutory deadline for the first time in a number of years. However, at this stage the benefits of the investment into the financial management of the council through the finance improvement programme were not visible in the accounts, and the audit of these accounts resulted in the audit commission issuing a section 11 notice. The council also received a Use of Resources of 1. The council has fully co-operated with the Audit Commission, promptly and systematically acting on all the recommendations they made. The major improvements of putting in place a new chart of accounts, coding and reporting systems were implemented on 1<sup>st</sup> April 2007. Therefore, the major improvements expected will not be fully apparent until the Audit Commission audit of the 2007/8 accounts were be reported in January 2009.
6. In Autumn 2007 the authority commissioned Price Waterhouse Coopers to assess support it to develop and implement robust plans that would lead to an improvement in the councils Use of Resources rating. The report, entitled "Use of Resources – Review of Progress", was published in January 2008 and evaluated how the authority was progressing up to 31 December 2007 in the 5 reporting areas used by Audit Commission in their Use of Resources Judgement. The report showed overall improvement but identified a number of potential areas of weakness and areas for improvement. Resources were allocated to address these issues.

7. At the council's Audit Committee meeting on 28 January 2008 Andy Perrin, the District Auditor, stated that there was evidence that problems were starting to be solved but it was important not to under-estimate the amount of work required to resolve all of the issues in time to close the accounts for 2007/08 by June 2008. The required amount of work was applied and the 2007/8 accounts were submitted on time.
8. The Corporate Peer Review, published in February 2008 acknowledged that strong leadership has supported the council to address its financial challenges.
9. The main achievements to date are:
  - A balanced budget was set for the years 2007-8 and 2008-9 which have included efficiency savings of £2.2 million.
  - The reserves position has improved from £1.8m in 2006-7 to a current position of £10m.
  - The council has a medium term financial strategy and the current budgets link to the corporate plan.
  - Managers have access to current accurate financial information.
  - The procurement process has been automated and is simplified.
  - The finance team are technically competent, have improved morale and are more able to assist managers with enquires.
  - The budget and finance systems are more transparent and enable managers to be more pro-active.
  - The basic building blocks of a fit for purpose financial management and reporting system are in place and these will support the council to achieve a clean bill of health.
10. At the Audit Committee on 29 January 2009 the District Auditor said that the 2007/8 accounts have a clean bill of health, but there is an issue with the cash flow statement in 2006/7. This will not affect the accounts in future years. He has now issued his final opinion which is:

"Except for the financial effects of such adjustments, if any, as might have been determined be necessary had I been able to satisfy myself as to the comparative cash flow statement, in my opinion the financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial position of Norwich City Council as at 31 March 2008 and its income and expenditure for the year then ended."