
Legal Note: Financial Sustainability & Budget oversight by the Governance & Audit Committee

Decision to be taken by: N/A

Date of meeting: 18th September 2024

Lead director/officer: Kamal Adatia

Useful information

■ Ward(s) affected: All

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- Report version number: 1

1. Summary

1.1 This paper seeks to set out the role of the Governance & Audit Committee when it comes to Financial Sustainability and Budget oversight.

1.2 At the meeting on 10th July the following resolution was approved when the Committee considered the Annual Work Performance Report:

“Members requested to ensure the inclusion of financial sustainability in the work plan for each meeting”

1.3 This brief report does not purport to address the topic of financial sustainability, but rather to clarify the scope of the Committee’s remit to consider the topic so requested.

2. Recommended actions/decision

2.1 That the Committee notes and comments on the advice

3. Scrutiny / stakeholder engagement

3.1 N/A

4. Background and options with supporting evidence

4.1 Article 9 of the Constitution defines the nature of Regulatory Committees:

Article 9.01 – Regulatory and other committees

The Council will, at its Annual Meeting, review and determine the Regulatory and Other Committees it considers necessary, together with their Terms of Reference. The Council may amend these from time to time. The current Terms of Reference of these committees are detailed in Part 3 of the Constitution. These Regulatory and other committees are not Scrutiny Committees within the terms of the law. They undertake various decision-making and other functions on behalf of Council, rather than undertaking scrutiny of the Executive.

4.2 Article 4.03 of the Constitution defines as a matter for Full Council the following:

Budget - Budget means any of the Council's General Fund Revenue Budget, the Housing Revenue Account Budget, or the Capital Programme. There may be one or more reports seeking approval to the Capital Programme.

4.3 Part 4C of the Constitution - Budget and Policy Framework Rules state:

Rule 1 – The Council will be responsible for the adoption of plans and strategies comprising the policy framework, and budget (as defined in Article 4)

Rule 5 – Call-in rights under this Rule can be exercised by:

- a. A Scrutiny Committee or*
- b. Any five Councillors*

4.4 Part 4F of the Constitution – Finance Procedure Rules state:

Monitoring and Reporting Revenue Expenditure:

3.14 Each director shall put in place arrangements, through normal management, for monitoring expenditure and income, and holding cost centre managers to account.

3.15 The Director of Finance shall periodically report progress on implementation of the budget to the City Mayor/Executive and the relevant scrutiny committee during the financial year, and at outturn. Directors shall supply information and explanations as requested by the Director of Finance for these purposes.

4.5 In summary therefore:

- Agreeing the Budget is a function of Full Council
- Scrutiny of the Budget itself and the progress against the Budget is a matter for Scrutiny Commissions (or the exercise of call-in powers by five Members)
- Regulatory Committees are not Scrutiny Committees.

4.6 The question accordingly arises as to what is the proper scope for involvement of the Governance and Audit Committee in the Council's financial strategy. Here we turn to the Terms of Reference:

External Audit

- *To consider the External Auditor's ISA 260 Report to 'Those Charged with Governance'. This contains: -*
 - *key findings arising from the audit of the Council's financial statements*
 - *the Auditor's assessment of the Council's arrangements to secure value for money (VFM) in its use of resources; and*
 - *the requirement for members of the Committee to authorise the Director of Finance to sign the letter of representation to the External Auditor from the Council in connection with the audit of the Council's financial statements.*

Statutory Financial Reporting

- *To review and approve the annual statutory statement of accounts and the annual Letter of Representation on behalf of the Council.*
- *To bring to the attention of the Council any concerns arising from the financial statements or from the audit*
- *To receive periodic reports providing updates on accounting and financial developments.*

Governance and Assurance Frameworks

- *To satisfy itself that the Council's assurance statement including the Annual Governance Statement, properly reflect the risk environment*
- *Review reports in respect of the status of key current and emerging risks and internal controls relating to those risks, including the Operational and Strategic Risk Registers*

4.7 Each of the elements above relate to the Council's financial integrity, although they stop short of scrutiny of the Council's Budget proposals on any granular level.

4.8 Further insight can be gained from CIPFA - [Local authority audit committees \(cipfa.org\)](https://www.cipfa.org):

- *An audit committee provides a specialist forum to support and monitor the authority in the areas of governance, risk management, external audit, internal audit, financial reporting*
- *The audit committee should be able to provide an overall view on the adequacy of assurance arrangements and the outcome of assurances received. If the committee is not effective councillors, leaders and senior officers cannot place reliance on its work.*

4.9 It is therefore submitted that the scope of proper involvement of the Governance and Audit Committee is to be assured about:

- (i) the arrangements for financial reporting:
- (ii) the adequacy of financial statements so provided and
- (iii) oversight of key risks arising from those reports/statements

5. Financial, legal, equalities, climate emergency and other implications

5.1 Financial implications

This report is solely concerned with legal requirements and how the Council sets its budget. Section 151 of the Local Government Act 1972 requires local authorities to make arrangements for the proper administration of their financial affairs and appoint a S151 Officer, also known as a Chief Financial Officer (CFO), to have responsibility for those arrangements, In Leicester City Council this role is undertaken by the Director of Finance

Signed: Kirsty Cowell, Head of Finance (Strategy)

Dated: 10/09/2024

5.2 Legal implications

The legal requirements are covered in section 4 above.

Signed: Kamal Adatia

Dated: 10.09.2024

5.3 Equalities implications

N/A

Signed:

Dated:

5.4 Climate Emergency implications

N/A

Signed:

Dated:

5.5 Other implications (You will need to have considered other implications in preparing this report. Please indicate which ones apply?)

None

6. Background information and other papers:

7. Summary of appendices:

8. Is this a private report (If so, please indicate the reasons and state why it is not in the public interest to be dealt with publicly)? No

9. Is this a “key decision”? No