

ABERDEEN CITY COUNCIL

COMMITTEE	Audit, Risk and Scrutiny Committee
DATE	09 May 2024
EXEMPT	No
CONFIDENTIAL	No
REPORT TITLE	Internal Audit Report AC2408 – Revenue Budget Setting
REPORT NUMBER	IA/AC2408
DIRECTOR	N/A
REPORT AUTHOR	Jamie Dale
TERMS OF REFERENCE	2.2

1. PURPOSE OF REPORT

- 1.1 The purpose of this report is to present the planned Internal Audit report on Revenue Budget Setting.

2. RECOMMENDATION

- 2.1 It is recommended that the Committee review, discuss and comment on the issues raised within this report and the attached appendix, and then endorse the recommendations made.

3. CURRENT SITUATION

- 3.1 Internal Audit has completed the attached report which relates to an audit of Revenue Budget Setting.

4. FINANCIAL IMPLICATIONS

- 4.1 There are no direct financial implications arising from the recommendations of this report.

5. LEGAL IMPLICATIONS

- 5.1 There are no direct legal implications arising from the recommendations of this report.

6. ENVIRONMENTAL IMPLICATIONS

- 6.1 There are no direct environmental implications arising from the recommendations of this report.

7. RISK

7.1 The Internal Audit process considers risks involved in the areas subject to review. Any risk implications identified through the Internal Audit process are detailed in the resultant Internal Audit reports. Recommendations, consistent with the Council's Risk Appetite Statement, are made to address the identified risks and Internal Audit follows up progress with implementing those that are agreed with management. Those not implemented by their agreed due date are detailed in the attached appendices.

8. OUTCOMES

8.1 There are no direct impacts, as a result of this report, in relation to the Council Delivery Plan, or the Local Outcome Improvement Plan Themes of Prosperous Economy, People or Place.

8.2 However, Internal Audit plays a key role in providing assurance over, and helping to improve, the Council's framework of governance, risk management and control. These arrangements, put in place by the Council, help ensure that the Council achieves its strategic objectives in a well-managed and controlled environment.

9. IMPACT ASSESSMENTS

Assessment	Outcome
Impact Assessment	An assessment is not required because the reason for this report is for Committee to review, discuss and comment on the outcome of an internal audit. As a result, there will be no differential impact, as a result of the proposals in this report, on people with protected characteristics.
Privacy Impact Assessment	Not required

10. BACKGROUND PAPERS

10.1 There are no relevant background papers related directly to this report.

11. APPENDICES

11.1 Internal Audit report AC2408 – Revenue Budget Setting

12. REPORT AUTHOR CONTACT DETAILS

Name	Jamie Dale
Title	Chief Internal Auditor
Email Address	Jamie.Dale@aberdeenshire.gov.uk

Tel

(01467) 530 988



Internal Audit

Assurance Review of Revenue Budget Setting and Financial Strategy

Status: Final

Date: 2 April 2024

Risk Level: Corporate

Report No: AC2408

Assurance Year: 2023/24

Net Risk Rating	Description	Assurance Assessment
Minor	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.	Substantial

Report Tracking	Planned Date	Actual Date
Scope issued	23-Jun-23	23-Jun-23
Scope agreed	10-Jul-23	10-Jul-23
Fieldwork commenced	10-Jul-23	10-Jul-23
Fieldwork completed	18-Aug-23	25-Aug-23
Draft report issued	11-Sep-23	22-Sep-23
Process owner response	29-Sep-23	25-Oct-23
Director response	6-Oct-23	2-Apr-24
Final report issued	13-Oct-23	2-Apr-24
ARS Committee	9-May-24	

Distribution	
Document type	Assurance Report
Director	Andy MacDonald, Director of Corporate Services
Process Owner	Jonathan Belford, Chief Officer - Finance
Stakeholder	Scott Paterson, Finance Partner
	Helen Sherrit, Finance Partner
	David Leslie, Strategic Infrastructure Plan Programme Manager
	Martin Murchie, Chief Officer – Data & Insights
	Vikki Cuthbert, Interim Chief Officer - Governance*
Final only	External Audit
Lead auditor	Heulwen Beecroft, Auditor

1 Introduction

1.1 Area subject to review

A budget is required for all revenue items that form part of the Council's budgets. The requirement to set a balanced budget arises from application of the Local Government Finance Act 1992 s93, which requires local authorities to set a level of Council Tax to meet the balance of their funding requirements, before 11 March each year.

The Council Budget setting process is the result of ongoing review of the previous year's experience where assumptions are tested and revised, priorities and service standards agreed and risks escalated, de-escalated, or realised. It is then consolidated into an overall budget, and consultation begins with councillors in advance of the budget setting meeting. The annual Council budget meeting provides opportunity for review of the budget report and agreement or proposal of amendments.

The Budgets that were approved at the Council Budget meeting of 1 March 2023 are the General Fund Revenue Budget and Capital Programme, Common Good Budget, and Housing Revenue Account budget.

The Council now has in place three core financial planning and forecasting statements:

- **Short term Plans** – A one-year balanced budget for the forthcoming financial year with an indicative future two years, updated annually.
- **Medium Term Financial Plans** – This is a forecast of potential scenarios over the medium term which for Aberdeen City Council is currently set at five years. This is updated periodically.
- **Long Term Financial Plans** – This looks at the long-term financial planning and affordability of commitments both known and unknown including long term capital investment. This is planned to be updated every five years.

Budgets are prepared jointly by chief Officers and the Chief Officer – Finance as stated in the Council's Financial Regulations 8.2.2. The latest five-year Medium Term Financial Strategy (MTFS) was presented to the Council at the City Growth and Resources Committee on 24 August 2022 and the Chief Officer – Finance, has committed to refresh this to March 2028 by the end of December 2023 with the latest budget.

The MTFS is aligned to the Council delivery plan which forms part of the strategic planning approach. This sets out the contribution to Aberdeen City's Local Outcome Improvement Plan (LOIP), the Council's policy statement, Strategy framework, and legislative duties. The plan describes a journey of change and the approach to strategic planning and commissioning of services.

As part of the Council meeting at which the Council Delivery Plan and Budget were set, the Chief Executive committed to reviewing the existing organisational structure in light of the approved budget and to report back to Council by December 2023 on any suggested amendments to ensure the sustainability of Council operations; and to realign Council Delivery Plan commitments as required to align with budget decisions.

1.2 Rationale for the review

The purpose of this audit is to review procedures used in setting the Council's revenue budget and the wider financial strategy¹. A well-defined budget is an essential tool to manage the Council's financial position, so that the risk of overspend can be mitigated and the long-term sustainability of services can be planned for. A budget process, including discussion and challenge, provide important feedback to allow appropriate reserves to be set aside to mitigate against future unexpected spend, and strategic

¹ At the request of Management and to ensure as great an evidence base as possible, the fieldwork of this review was conducted in two parts. The majority was completed between July and August 2023. A second phase was then carried out in January 2024 to allow consideration of the work on the draft budget for 2024/25 and specifically the work of Management to strengthen the integrated impact assessment process.

planning to be realistic and successful with economic uncertainties and other different scenarios considered, so that the Council is financially robust as a going concern.

The last internal audit in this area was in May 2017, report no. AC1719 'General Fund Revenue Budget Setting'. The key outcomes were that although the process applied was generally well structured and supported, more detailed procedures, timetables, and improved audit trails of supporting documentation were recommended and agreed. Strategy and budgeting could also have been more clearly linked. There was no information on the split of budgets between Council Services and there was an implicit assumption that the split of Service Budgets was agreed and correct. It was further recommended that service options (e.g. savings) were detailed with risks and assumptions explained and supported by reasonable calculations.

The Accounts Commission in their recent publication "Local Government In Scotland: Overview 2023" note that:

"Councils have never faced such a challenging situation, with demand and workforce pressures deepening after the Covid-19 pandemic and funding forecast to reduce in real terms. Radical change, achieved through greater collaboration, is urgently needed if councils are to maintain services."

"Councils need to set out medium- to long-term financial plans that detail:

- how they will make recurring savings and reduce reliance on reserves to fill budget gaps*
- how council resources are targeted to achieve their long-term policy and performance priorities".*

A realistic, agreed, and accepted budget, based on best available data and clear understanding of the risks is essential to present the Council and its leaders as a financially resilient going concern and protect its reputation and standing for long term sustainability. If commitments cannot be met by predicted revenue streams, there may be a deterioration of assets and loss of staff, skills and talent resource, sustainability of services and the pressure of increasing demands. The welfare of service users and the public may be at risk as performance of service areas may suffer cumulative decline as the pressure and demand on resources extends to other essential services and third sector organisations.

COSLA and Audit Scotland has widely publicised the risk to local government services if funding is not increased to take account of rising costs, and this risk increases further where core funding is not being protected in the Scottish Budget. Conditions and direction being placed on the Local Government Settlement mean there are fewer opportunities to deviate from national policies, choices, and decisions on how to use finite resources are becoming more difficult to make, but ever more important.

1.3 How to use this report

This report has several sections and is designed for different stakeholders. The executive summary (section 2) is designed for senior staff and is cross referenced to the more detailed narrative in later sections (3 onwards) of the report should the reader require it. Section 3 contains the detailed narrative for risks and issues we identified in our work.

2 Executive Summary

2.1 Overall opinion

The full chart of net risk and assurance assessment definitions can be found in Appendix 1 – Assurance Scope and Terms. We have assessed the net risk (risk arising after controls and risk mitigation actions have been applied) as:

Net Risk Rating	Description	Assurance Assessment
Minor	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.	Substantial

The organisational risk level at which this risk assessment applies is:

Risk Level	Definition
Corporate	This issue / risk level impacts the Council as a whole. Mitigating actions should be taken at the Senior Leadership level.

2.2 Assurance assessment

The level of net risk is assessed as **MINOR**, with the control framework deemed to provide **SUBSTANTIAL** assurance over the Council's approach to Revenue Budget setting and Financial Strategy.

Revenue Budget setting is an established process of which there is evidence of continuous review and improvement, good engagement in terms of information and meetings with stakeholders, and effective reporting processes. There is evidence of detailed planning of tasks and activities driving production of the budget, however these were not always kept updated to demonstrate interim progress.

Income and expense expectations and savings options to bridge the budget gap are generally detailed, well organised, and subject to impact assessments.

Whilst there is assurance that all options underwent appropriate levels of challenge and scrutiny, sign-off on impact, deliverability and alignment with corporate strategy is not always evidenced in detail – presenting potential risks to their delivery in the short term, and of the longer term impact.

The risk around Strategic Alignment and Delivery makes recommendations around the Integrated Impact Assessment process in general. However it is recognised that Management has, as per reporting and discussion at Full Council meetings, noted that enhancements could be made to specific assessments and are taking this forward as part of ongoing work. For the 2024/25 budget, lessons learned from the previous process have been applied to refine the integrated impact assessment process. Their development is acknowledged as an iterative process – with updates being applied as a result of consultation, engagement, and identification of risks and mitigations.

The council continues to refresh and re-evaluate its assumptions through updates to the Medium Term Financial Strategy (MTFS) and regular budget monitoring. A new approach to public consultation on budget priorities has also commenced, with results being published and available to inform future budgeting and consultation activities. Appropriate consideration has been given by management to the level of assurance over the exercise.

2.3 Severe or major issues / risks

Issues and risks identified are categorised according to their impact on the Council. There were no severe or major rated risks identified as part of this review.

2.4 Management response

This is welcome assurance over a complex task, that has many moving parts and where scenarios, risks and certainty all interact across the whole of the financial year but ultimately focus on approving a

balanced budget for the year ahead. In an ideal world the rehearsal and regularity of the process would mean that there are no gaps but the changing landscape of the Council's financial environment, the impact of National policy, the Local Government Financial Settlement conditions and changing local demands make each year unique.

The Council approved a balanced budget for 2023/24 and while two specific decisions were revisited in December 2023 it is positive to see the initial recognition from the Chief Internal Auditor that in respect of our updated Integrated Impact Assessment preparation for 2024/25 budget, the lessons learned from the previous process have been applied to refine the IIA process and that development is acknowledged as an iterative process – with updates being applied as a result of consultation, engagement, and identification of risks and mitigations.

The recommendations that are included in the report were, where possible, incorporated into the budget process for 2024/25 and any gaps in these will be included in the 'lessons learnt' report that is due to be presented to Council in April 2024.

The Council approved, as part of the 2024/25 budget meeting instructions for the Chief Officer to update both the Medium Term Financial Strategy – which aligns with the approved Budget Protocol - and also the Long-Term outlook model that will provide the opportunity to address the recommendations in the report.

3 Issues / Risks, Recommendations, and Management Response

3.1 Issues / Risks, recommendations, and management response

Ref	Description	Risk Rating	Minor
1.1	<p>Budget process and protocol – In general the budget process and procedures are well documented, including development and review of options, and consultation with councillors and relevant stakeholders, in order to deliver a balanced budget in line with the statutory deadline.</p> <p>A 'High Level Critical Path' and 'Detailed Critical Path' planning schedules were in place including responsibilities and dates, providing a clear work schedule for delivery against key goals and deadlines. Although this was set out as a key control document, it was not kept fully up to date to demonstrate progress with individual tasks. Activities that are otherwise evidenced as complete (e.g. finalising the budget reports) were not recorded as complete. Some tasks were described as 'ongoing', and work done is not recorded by date on these. Others had deadlines 'to be determined'. Whilst the documents included a RAG (Red, Amber, Green) status, this was not consistently applied across all tasks. Changes in responsible officers or delegations were also less well documented. Supporting documentation on options was also not always complete with dates / version control to identify the position at a point in time and agreements reached.</p> <p>Although the resulting balanced budget demonstrates that overall the process was concluded satisfactorily, the absence of documentation on progress and completion of the key tasks could present a risk of delays or reduced assurance over their delivery.</p>		
IA Recommended Mitigating Actions			
The budget critical path documentation should include clear dates for delivery of each task, and should be updated regularly to provide assurance over progress.			
Management Actions to Address Issues/Risks			
<i>Agreed. The critical path was updated for key monthly meetings, but going forward documentation will be updated and progress tracked more frequently in line with the recommendation. Supporting documentation is all held on the dedicated teams site and are live documents so information is kept up to date in real time.</i>			
	Risk Agreed	Person(s)	Due Date
	Yes	Chief Officer – Finance	30 April 2024

Ref	Description	Risk Rating	Moderate
1.2	<p>Strategic Alignment and Delivery – The 'Corporate Playbook' detailed all possible savings options identified by officers for 2023/24. This was effectively the menu from which options for savings could be selected and taken forward to Council for approval. Out of 112 proposals, Appendix 3 – Options Review showed the extent that options evidenced full review from Finance, People and Organisation, and Governance (Legal); and the extent they recorded alignment with Transformation and Enabling Strategies. The table showed that Legal and P&O had not signed off the majority of the options, presenting a potential risk if legal, compliance and reputational risks are not fully understood. There is a risk that options</p>		

Ref	Description	Risk Rating	Moderate
	<p>that generate most savings and are chosen do not deliver the savings as expected due to resulting costs from hard to measure reputational and other risks.</p> <p>Whilst it is acknowledged that some options will have required different levels or sources of consultation and alignment, for example non-staffing savings could have required less input from People & Organisation, this was not clearly indicated in the Playbook. Internal Audit however were able to evidence regular review of the options through ECMT, CMT, Transformation Board, and the Budget Strategy Working Group. However, as the core consolidated source of data on the options, the corporate playbook should clearly record the level of confidence in deliverability and strategic alignment.</p> <p>Analysis of a sample of options included in the 2023/24 budget identified matching integrated impact assessments for seven of eight options reviewed (88%), however the assessments were generally light on detail, and did not include corresponding budget option numbers to aid matching. In the absence of relevant details, there is a risk decision making and delivery of planned outcomes may be compromised. In one of the cases, it was documented in the assessment that further work and consultation would be required before the option could be implemented – presenting a risk of delay in achieving the saving, unless the assumption around the value of saving took account of the steps that were required. This was exemplified in 2023 when the Council changed its engagement and reran the IIA process following challenge of the decision to close libraries and a swimming pool.</p> <p>For the 2024/25 budget, lessons learned from the previous process have been applied to refine the integrated impact assessment process. Their development is acknowledged as an iterative process – with updates being applied as a result of consultation, engagement, and identification of risks and mitigations. However, review of a further sample of 15 integrated impact assessments for draft budget options in 2024/25 indicated that the extent of completion and approval of their content was not well recorded, and there was no schedule for future updates and conclusion of full assessments where required.</p> <p>Where there were records, the degree to which options were considered deliverable, or were aligned with strategy, was not always clearly recorded. Whilst any analysis will require a degree of judgement, it may be of benefit to apply ratings to indicate the level of alignment, to better support ranking and selection of options.</p>		
IA Recommended Mitigating Actions			
<p>Updates to budget options and supporting documentation should be scheduled to ensure sufficient information is available in advance to support key decision making stages. Progress and approval of content should be clearly recorded.</p> <p>Clarity should be provided over anticipated budget option strategic alignment, impact, and deliverability.</p>			
Management Actions to Address Issues/Risks			
<p><i>Agreed, the 'Corporate Playbook' evolved in 2024/25 to more robustly recognise the points identified in the audit. A further review of the 'Corporate Playbook' will be undertaken to revisit the lessons learnt, from the 2024/25 budget exercise and this audit to further improve the information held and therefore information available to the Councillors or as part of public consultation. The lessons learnt report is due to be presented to Council in April 2024.</i></p>			
Risk Agreed		Person(s)	Due Date
Yes		Chief Officer – Finance	31 May 2024

Ref	Description	Risk Rating	Minor
1.3	<p>Reporting Budget Information – Comprehensive training with respect to Council Financial Management was delivered by the Chief Officer - Finance as part of the Councillor Induction Programme in early 2022/23. The budget process was generally well documented and understood. An appropriate mix of meetings, sharing and updating of documentation with relevant stakeholders and groups at various junctures using Microsoft technology, and obtaining and responding to feedback, was well evidenced.</p> <p>In the 2023/24 budget, the saving for Service Concessions was not entered correctly as the NPV value of £4.55m was stated on the savings options list. This was identified by Finance after publication, and the correct value of the saving taken of £4.707m was recorded on the Revenue Decisions Sheet. There is however a risk if existing checks do not identify potential errors in advance of decisions being made based on these figures.</p> <p>Budget savings options were listed and totalled; however, some options cannot be taken with each other. Whilst this was clear at an individual option level, the combined total of all budget options were included on budget option schedules, which overestimates the total saving available. For example, options ED-01 and ED-02 were included in the total value of options but could not be taken together. The schedule, and extent of options available, could be clearer if it were redesigned to show the maximum / minimum total saving available that can be taken together.</p>		
IA Recommended Mitigating Actions			
<p>Finance should quality control check the value of savings options listed on public documents distributed for accuracy and consistency between schedules.</p> <p>Presentation of budget options in summary and supporting schedules should be reviewed so that minimum and maximum savings amounts for options listed by function are clear.</p>			
Management Actions to Address Issues/Risks			
<p><i>Agreed that quality control checking should be incorporated into the publication of documents. Due to the many moving parts in the identification and quantification of budget options it remains possible that public documents could be different from final decisions at the Council meeting. The timing of information changing or calculations and values being updated may result in differences. Further checking and updating of public information was included in 2024/25 processes.</i></p> <p><i>During the 2024/25 budget process the identified situation of multiple options in one service area, for example, being unable to be combined/accumulated in value terms was addressed as a result of this audit and the 'Corporate Playbook' was adjusted to include the value of only one option in the total savings achievable.</i></p>			
Risk Agreed		Person(s)	Due Date
Yes		Chief Officer - Finance	31 March 2024

Ref	Description	Risk Rating	Minor
1.4	<p>Strategic Alignment of Budget with Medium Term Financial Strategy (MTFS) – The MTFS is set out as a five year plan, aligned to the Council Delivery Plan, and complemented by delivery of the Target Operating Model (TOM1.2). It includes downside, central and upside potential scenarios based on a set of risk-based assumptions. The budget was aligned with the 2023-24 year of the 2022 MTFS, as adjusted for changes in key assumptions since it was approved in August 2022. Following instruction from Council in the budget setting</p>		

Ref	Description	Risk Rating	Minor
	<p>meeting in March 2023, an updated MTFS was requested by the end of December 2023. The updated MTFS was approved in August 2023, reflecting inter alia changes in pay awards, inflation, and interest rates compared with previous assumptions.</p> <p>Whilst key assumptions and their impact on the central scenario are being tracked, in working papers provided to Internal Audit, the alternate scenarios were not being updated as frequently – resulting in some cost elements predicted for a central scenario indicating a greater budget gap than the downside scenario estimates. Finance noted that as the figures provided to Internal Audit were a snapshot of a particular point in time, forecasts may not have been updated at that point, and various factors are considered before the MTFS and budget are finalised.</p> <p>Although it has been reported annually in August 2022 and 2023, and is updated for officers setting the annual budget, there is no defined schedule for updating workings and publishing the MTFS. It may benefit from being refreshed, and the impact on the longer term plan to 2030 considered, to reflect progress with implementing the longer term underlying model on which the TOM1.2 was based, more frequently in times of economic instability so that information is most relevant to the current time. This could be scheduled, or trigger points set e.g. as risks crystallise or new opportunities are identified which have material medium-term implications.</p> <p>There is a risk that if the MTFS and longer term planning models do not reflect current income and cost trends in the economic climate of increasing costs then the medium and long term strategy of the council cannot be well understood and appropriately planned for and promptly responded to. As stated in the General Fund Revenue Budget and Capital Programme 2023/24 to 2027/28: <i>“It is very easy to be caught up in the intensity of day-to-day activity but the important stuff is achieved in the medium and long term”</i>; <i>“In approving a budget these short, medium and long-term tensions need to be addressed and balanced.”</i> Savings options and decisions taken now may not be optimum without the latest predictions available so that they are understood in a longer term context.</p>		
IA Recommended Mitigating Actions			
<p>The medium-term and long-term financial models would benefit from refreshing on a basis that reflects significant changes when they occur, such as progress on the transformation timeline and issues with economic instability, to allow time to mitigate against issues. It would be prudent to do this more frequently in the current climate of change, than is necessary in times of stability.</p>			
Management Actions to Address Issues/Risks			
<p><i>The Chief Officer – Finance had been instructed to refresh the MTFS, which was done in August 2023, this was also in line with the new Budget Protocol approved by the Council in June 2023. The requirement for a refresh of the MTFS is included in that protocol and sets an annual expectation around this, the next update being required by September 2024.</i></p> <p><i>The Council, as part of approving the 2024/25 Budget, included an instruction to the Chief Officer – Finance to update the Long-term Financial forecasts in 2024/25, which will also address the identified improvements.</i></p>			
Risk Agreed		Person(s)	Due Date
Yes		Chief Officer - Finance	30 September 2024

4 Appendix 1 – Assurance Terms and Rating Scales

4.1 Overall report level and net risk rating definitions

The following levels and ratings will be used to assess the risk in this report:

Risk Level	Definition
Strategic	This issue / risk level impacts the Council as a whole. Mitigating actions should be taken at the Senior Leadership level.
Directorate	This issue / risk level has implications at the directorate level and the potential to impact across a range of services. They could be mitigated through the redeployment of resources or a change of policy within a given directorate.
Service	This issue / risk level impacts at the Business Plan level (i.e. individual services or departments as a whole). Mitigating actions should be implemented by the responsible Head of Service.
Programme and Project	This issue / risk level impacts the programme or project that has been reviewed. Mitigating actions should be taken at the level of the programme or project concerned.

Net Risk Rating	Description	Assurance Assessment
Minor	A sound system of governance, risk management and control exists, with internal controls operating effectively and being consistently applied to support the achievement of objectives in the area audited.	Substantial
Moderate	There is a generally sound system of governance, risk management and control in place. Some issues, non-compliance or scope for improvement were identified, which may put at risk the achievement of objectives in the area audited.	Reasonable
Major	Significant gaps, weaknesses or non-compliance were identified. Improvement is required to the system of governance, risk management and control to effectively manage risks to the achievement of objectives in the area audited.	Limited
Severe	Immediate action is required to address fundamental gaps, weaknesses or non-compliance identified. The system of governance, risk management and control is inadequate to effectively manage risks to the achievement of objectives in the area audited.	Minimal

Individual Issue / Risk Rating	Definitions
Minor	Although the element of internal control is satisfactory there is scope for improvement. Addressing this issue is considered desirable and should result in enhanced control or better value for money. Action should be taken within a 12 month period.
Moderate	An element of control is missing or only partial in nature. The existence of the weakness identified has an impact on the audited area's adequacy and effectiveness. Action should be taken within a six month period.
Major	The absence of, or failure to comply with, an appropriate internal control, which could result in, for example, a material financial loss. Action should be taken within three months.
Severe	This is an issue / risk that could significantly affect the achievement of one or many of the Council's objectives or could impact the effectiveness or efficiency of the Council's activities or processes. Action is considered imperative to ensure that the Council is not exposed to severe risks and should be taken immediately.

5 Appendix 2 – Assurance Scope and Terms of Reference

5.1 Area subject to review

A budget is required for all revenue items that form part of the Council's budgets. The requirement to set a balanced budget arises from application of the Local Government Finance Act 1992 s93, which requires local authorities to set a level of Council Tax to meet the balance of their funding requirements, by 11 March each year.

The Council Budget setting process is the result of ongoing review of the previous year's experience where assumptions are tested and revised, priorities and service standards agreed and risks escalated, de-escalated, or realised. It is then consolidated into an overall budget, and consultation begins with councillors in advance of the budget setting meeting. The annual Council budget meeting provides opportunity for review of the budget report and agreement or proposal of amendments.

The Budgets that were approved at the Council Budget meeting of 1 March 2023 are the General Fund Revenue Budget and Capital Programme, Common Good Budget, and Housing Revenue Account budget.

The Council now has in place three core financial planning and forecasting statements:

- **Short term Plans** – A one-year balanced budget for the forthcoming financial year with an indicative future two years, updated annually.
- **Medium Term Financial Plans** – This is a forecast of potential scenarios over the medium term which for Aberdeen City Council is currently set at five years. This is updated periodically.
- **Long Term Financial Plans** – This looks at the long-term financial planning and affordability of commitments both known and unknown including long term capital investment. This is planned to be updated every five years.

Budgets are prepared jointly by chief Officers and the Chief Officer – Finance as stated in the Council's Financial Regulations 8.2.2. The latest five-year Medium Term Financial Strategy (MTFS) was presented to the Council at the City Growth and Resources Committee on 24 August 2022 and the Chief Officer – Finance, has committed to refresh this to March 2028 by the end of December 2023 with the latest budget.

The MTFS is aligned to the Council delivery plan which forms part of the strategic planning approach. This sets out the contribution to Aberdeen City's Local Outcome Improvement Plan (LOIP), the Council's policy statement, Strategy framework, and legislative duties. The plan describes a journey of change and the approach to strategic planning and commissioning of services.

As part of the Council meeting at which the Council Delivery Plan and Budget were set, the Chief Executive committed to reviewing the existing organisational structure in light of the approved budget and to report back to Council by December 2023 on any suggested amendments to ensure the sustainability of Council operations; and to realign Council Delivery Plan commitments as required to align with budget decisions.

Rationale for review

The purpose of this audit is to review procedures used in setting the Council's revenue budget and the wider financial strategy. A well-defined budget is an essential tool to manage the Council's financial position, so that the risk of overspend can be mitigated against and the long-term sustainability of services can be planned for. A budget, and budget discussion and challenge, provide important feedback to allow appropriate reserves to be set aside to mitigate against future unexpected spend, and strategic planning to be realistic and successful with economic uncertainties and other different scenarios considered, so that the Council is financially robust as a going concern.

The last internal audit in this area was in May 2017, report no. AC1719 'General Fund Revenue Budget Setting'. The key outcomes were that although the process applied was generally well structured and supported, more detailed procedures, timetables, and improved audit trails of supporting documentation were recommended and agreed. Strategy and budgeting could also have been more clearly linked. There was no information on the split of budgets between Council Services and there was an implicit assumption that the split of Service Budgets was agreed and correct. It was further recommended that service options (e.g. savings) were detailed with risks and assumptions explained and supported by reasonable calculations.

The Accounts Commission in their recent publication "Local Government In Scotland: Overview 2023" note that:

"Councils have never faced such a challenging situation, with demand and workforce pressures deepening after the Covid-19 pandemic and funding forecast to reduce in real terms. Radical change, achieved through greater collaboration, is urgently needed if councils are to maintain services."

"Councils need to set out medium- to long-term financial plans that detail:

- how they will make recurring savings and reduce reliance on reserves to fill budget gaps*
- how council resources are targeted to achieve their long-term policy and performance priorities".*

A realistic, agreed, and accepted budget, based on best available data and clear understanding of the risks is essential to present the Council and its leaders as a financially resilient going concern and protect its reputation and standing for long term sustainability. If commitments cannot be met by predicted revenue streams, there may be a deterioration of assets and loss of staff, skills and talent resource, sustainability of services and the pressure of increasing demands. The welfare of service users and the public may be at risk as performance of service areas may suffer cumulative decline as the pressure and demand on resources extends to other essential services and third sector organisations.

A further consequence of core funding not being protected nor annually uplifted by Scottish Government is that it is likely to result in the reduction in the volume and breadth of services that the Council will be able to deliver in the future. Choices and decisions on how to use finite resources are becoming more important and more difficult.

5.2 Scope and risk level of review

This review will offer the following judgements:

- An overall **net risk** rating at the Corporate level.
- Individual **net risk** ratings for findings.

5.2.1 Detailed scope areas

As a risk-based review this scope is not limited by the specific areas of activity listed below. Where related and other issues / risks are identified in the undertaking of this review these will be reported, as considered appropriate by IA, within the resulting report.

The specific areas to be covered by this review are:

- Budget process and protocol
- Budget basis, data sources and accuracy
- Development of business cases and options for balancing the budget
- Identification, review and challenge of risks and assumptions
- Strategic alignment
- Reporting budget information: format, proposals, controls, and opportunities for scrutiny

5.3 Methodology

This review will be undertaken through interviews with key staff involved in the process(es) under review and analysis and review of supporting data, documentation, and paperwork. To support our work, we

will review relevant legislation, codes of practice, policies, procedures, guidance. Due to hybrid working across the Council, this review will be undertaken primarily remotely.

5.4 IA outputs

The IA outputs from this review will be:

- A risk-based report with the results of the review, to be shared with the following:
 - Council Key Contacts (see 1.7 below)
 - Audit Committee (final only)
 - External Audit (final only)

5.5 IA staff

The IA staff assigned to this review are:

- Heulwen Beecroft (**audit lead**)
- Colin Harvey, Audit Team Manager
- Jamie Dale, Chief Internal Auditor (**oversight only**)

5.6 Council key contacts

The key contacts for this review across the Council are:

- Steve Whyte, Director of Resources
- Jonathan Belford, Chief Officer – Finance (**process owner**)
- Scott Paterson, Finance Partner
- Helen Sherrit, Finance Partner
- David Leslie, Strategic Infrastructure Plan Programme Manager
- Martin Murchie, Chief Officer – Data & Insights

5.7 Delivery plan and milestones

The key delivery plan and milestones are:

Milestone	Planned date
Scope issued	23-Jun-23
Scope agreed	10-Jul-23
Fieldwork commences	10-Jul-23
Fieldwork completed	18-Aug-23
Draft report issued	11-Sep-23
Process owner response	29-Sep-23
Director response	6-Oct-23
Final report issued	13-Oct-23

6 Appendix 3 – Options Review

Budget Options	Number of proposals	Deliverability sign-off by: Finance	Deliverability sign-off by: P&O	Deliverability sign-off by: Legal	Deliverability test comments	Transformation alignment	Enabling strategy alignment
Children's SW	7	3	3	3	4	3	2
Education	17	17	1	2	17	7	7
C&PS	11	17	5	0	5	5	5
GOV	3	2	3	1	3	2	2
EI&CE	10	10	10	0	10	6	6
SPP	2	2	1	0	2	1	1
Customer Experience	2	2	2	0	2	2	2
D&I	2	2	0	0	2	2	2
D&T	3	3	0	0	1	3	2
P&OD	3	3	0	0	1	2	2
Capital	3	3	0	0	3	3	3
O&PS	37	37	0	0	36	31	31
Corporate	12	3	0	0	4	2	2
Total	112	104	25	6	90	69	67
% of comments	100%	93%	22%	5%	80%	62%	60%