Jackie Yates
CHIEF EXECUTIVE

Civic Offices, Bridge Street,
Reading RG1 2LU
☎ 0118 937 3787

To: Councillor Williams (Chair)
Councillors G Dennis, Edwards, Emberson, Gittings, Mitchell, Terry and Thompson

Direct ☎:
michael.popham@reading.gov.uk

31 March 2023

Your contact is: Michael Popham - Democratic Services Manager

NOTICE OF MEETING - AUDIT AND GOVERNANCE COMMITTEE 12 APRIL 2023

A meeting of the Audit and Governance Committee will be held on Wednesday, 12 April 2023 at 6.30 pm in the Council Chamber, Civic Offices, Reading. The Agenda for the meeting is set out below.

		WARDS AFFECTED	Page No
1.	**DECLARATIONS OF INTEREST**		
2.	**MINUTES OF THE PREVIOUS MEETING HELD ON 24 JANUARY 2023**		**5 - 12**
3.	**QUESTIONS**		
4.	**INTERNAL AUDIT QUARTERLY PROGRESS REPORT** This report provides an update on key findings emanating from Internal Audit reports issued since the last quarterly progress report.	**BOROUGH WIDE**	**13 - 44**
5.	**INTERNAL AUDIT PLAN 2023/2024 & INTERNAL AUDIT CHARTER** This report sets out the work Internal Audit plans to undertake during the financial year 2023/2024.	**BOROUGH WIDE**	**45 - 68**
6.	**STRATEGIC RISK REGISTER Q4/Q1 2022/23 - 2023/24** This report outlines the 2022/2023 Q4 update of the Strategic Risk Register. The Risk Register covers the actions completed by the Council during Q4 and the risk ratings for the Council for Q1 of 2023/2024.	**BOROUGH WIDE**	**69 - 84**

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7.	**2022/23 QUARTER 3 PERFORMANCE AND MONITORING REPORT** This report sets out the projected revenue and capital outturn positions for 2022/23 for both the General Fund and Housing Revenue Accounts as at the end of Quarter 3. The report also sets out performance against the measures of success published in the Council's Corporate Plan.	**BOROUGH WIDE**	**85 - 142**
8.	**CIPFA FINANCIAL MANAGEMENT CODE** A report on the Chartered Institute of Public Finance & Accountancy Financial Management Code, which sets out the standards of financial management for local authorities to assess themselves against.	**BOROUGH WIDE**	**143 - 324**
9.	**IMPLEMENTATION OF THE NEW FINANCE SYSTEM - PROGRESS UPDATE** To receive a report providing an update on the implementation of the new Finance System.	**BOROUGH WIDE**	**325 - 326**
10.	**INFORMATION GOVERNANCE QUARTERLY UPDATE** This report provides an update on the actions in progress to improve the Council's policies, systems and processes around information governance.	**BOROUGH WIDE**	**327 - 332**
11.	**IMPLEMENTATION OF AUDIT RECOMMENDATIONS TRACKER** This report sets out a summary of those high and medium risk Internal Audit recommendations which remain outstanding together with an updated management response.	**BOROUGH WIDE**	**333 - 346**
12.	**CLOSING OF FINANCIAL ACCOUNTS UPDATE** To receive a verbal update on the progress to complete the audit of the Council's Final Accounts.	**BOROUGH WIDE**	
13.	**EXTERNAL AUDITOR UPDATE** The Council's External Auditor EY will provide a verbal update on the 2019/20 audit and will present a draft Audit Results Report for 2020/21. The draft Audit Results Report is included as an Appendix to this report.		**347 - 408**

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AUDIT AND GOVERNANCE COMMITTEE MEETING MINUTES - 24 JANUARY 2023

Present: Councillor Williams (Chair); G Dennis, Edwards, Emberson, Gittings, Mitchell, Terry and Thompson

25. MINUTES OF THE PREVIOUS MEETING HELD ON 28 SEPTEMBER 2022

The Minutes of the meeting held on 28 September 2022 were confirmed as a correct record and signed by the Chair.

26. INTERNAL AUDIT QUARTERLY PROGRESS REPORT

Paul Harrington, Chief Auditor, submitted a report providing an update on the key findings emanating from the Internal Audit reports issued for the period 1 October to 31 December 2022 (Quarter 3).

The report provided a summary of the findings following each audit review, summarised the recommendations and management actions that had been put forward for each area and stated the overall assurance opinion level given by the Internal Audit team. A total of four audit reviews had been finalised in the period with three receiving positive opinions and one receiving a negative opinion. The specific areas looked at were:

- Salary Sacrifice Schemes (Reasonable Assurance opinion given);
- Deputyship and Appointeeship (Limited Assurance opinion given);
- Purchase Cards (Reasonable Assurance opinion given); and
- re3 Waste PFI (Reasonable Assurance opinion given).

The audit of the Deputy's team had concluded that there was a poor control framework in relation to the transfer of clients' funds from private to RBC designated deputy and appointee bank accounts and a high volume of manual processes. A total of eleven recommendations had been made in respect of this review, of which five were considered high priority. The recommendations and corresponding management action plan had been attached to the report and showed that considerable progress had been made to address the risks identified by the audit.

It was noted at the meeting that the Director of Finance and the Interim Executive Director of Adult Social Care and Health had been tasked by the Chief Executive to conduct a review of control measures and processes that were in place within the Deputy's Office, including looking at how parts of the reconciliation process could be conducted by the Finance Team in order to enhance separation of duties. The Director of Finance confirmed that the Committee would be kept updated of progress to improve the control measures and processes.

The report also detailed the audits that were currently in progress and gave a summary of investigations work that had taken place between 1 October and 31 December 2022.

Resolved:

(1) That the audit findings be noted, and the recommendations and management action underway, as set out in the Internal Audit & Investigations Quarter 3 Update Report, be endorsed;

(2) That the Committee be updated on the action to improve the control measures and processes within the Deputy's Office, at a future meeting.

27. CORPORATE PEER CHALLENGE - REPORT AND ACTION PLAN

Charlie Stewart, interim Executive Director of Resources, presented a report introducing the findings from the Local Government Association (LGA) Corporate Peer Challenge that had taken place in June 2022. The following documents were appended to the report:

- LGA Peer Challenge – Final Report (Appendix 1)
- Action Plan (Appendix 2)

The Corporate Peer Review had been carried out at the Council's request by a team of six experienced peers from different councils and organisations. The Peer Team had conducted onsite interviews and had held focus group discussions with Council members, staff and partners.

The Peer Team's initial feedback had been presented to Members and senior officers on 16 June 2022 and the Final Report had been received from the LGA on 23 September 2022. An action plan had been developed in response to the LGA's findings and the Corporate Management Team was overseeing its delivery and was currently reviewing the plan. The LGA had offered a return revisit to the Council for a 'check-in' session, with this providing the opportunity for the Council's senior leadership to update peers on its progress against the related improvement planning and discuss next steps.

Resolved:

(1) That the LGA Corporate Peer Challenge Final Report, as attached to the report at Appendix 1, be noted;

(2) That the Action Plan, as attached to the report at Appendix 2, would be the mechanism for implementing the recommendations within the Final Report, be noted;

(3) That the positive comments about the former Chief Executive and staff at the Council as set out in Section 4 the LGA's Report be endorsed.

28. STRATEGIC RISK REGISTER QUARTER 3 2022/23

Robin Pringle, Health, Safety & Risk Management Lead, presented a report outlining the Q3 updates to the Strategic Risk Register (SRR), in line with the requirements of the Council's Risk Management Strategy. A copy of the SRR was attached to the report at Appendix 1.

The SRR had been reviewed by CMT in January 2023 and the following risks had been removed and de-escalated to the relevant Directorate Risk Register:

- Implementation of the new government legislation to deliver Adult Social Care Reforms;
- Provider's ability to meet statutory Adult Social Care requirements; and
- High risk of homelessness within the Ukrainian arrivals due to unmet housing needs.

In addition, CMT had merged the risks: 'failure to safeguard young people in the community from serious crime'; and 'lack of effective corporate parenting across the organisation' into 'Failure to Safeguard Vulnerable Adults and Children' and added a new risk 'lack of local Special Education Needs and Disabilities (SEND) placement provision to meet current and future levels of demand'. The other risks had remained the same to those reported to the previous meeting.

The report stated that Risk Management Training had been planned for all Councillors on 2 February and 30 March 2023. Both training sessions would provide Members with the guidance on how to review and challenge reports when received as part of promoting good governance.

Resolved: That the Council's Strategic Risk Register, as at the end of Q3 (December 2022), be noted.

29. IMPLEMENTATION OF THE NEW FINANCE SYSTEM - PROGRESS UPDATE

Darren Carter, Director of Finance, submitted a report updating on the progress made towards the implementation of a new finance system. Implementation of the new e5 financial system was currently at the test phase and, whilst there was still a considerable amount of work that needed to be completed, the new system was expected to go live across RBC and BFfC in April 2023.

The report explained that progress was being reviewed every two weeks by the Finance System Board which comprised of stakeholders from each directorate, BFfC and senior officers from Advanced, the system supplier. The e5 system would support the Council's vision for financial management and governance, enabling the adoption of best practice and empowering finance staff and budget managers to improve performance and outcomes. The key changes in ways of working and anticipated improvements in functionality that the e5 system would provide were listed in the report.

The design phase of the project had been completed in April 2022, with the core build phase completed in October 2022. This was later than expected due to resource availability and delays with the supplier completing the infrastructure build. The project team had been strengthened in September 2022 and a test and cutover manager had joined the project in January 2023.

The remaining phases of implementation and key challenges to overcome were outlined in the report. A final go-live assessment was due to be presented to the Finance System

Board on 16 March 2023 with go-live recommendations then being submitted to the Finance Transformation Board. A further progress update on implementation would be provided to the Committee at its meeting on 12 April 2023.

Resolved:

(1) That the progress made towards the implementation of the new e5 finance system be noted;

(2) That a progress update on the implementation of the new Finance System be provided to the next meeting on 12 April 2023.

30. TREASURY MANAGEMENT STRATEGY MID-YEAR REVIEW 2022/23

Stuart Donnelly, Financial Strategy & Planning Manager, submitted a report on the mid-year review of the Treasury Management Strategy. The report provided an update on the activity of the Treasury Management function during the first half of the year for the period 1 April 2022 to 30 September 2022. The report stated that the Council had not taken out any new external long-term borrowing during 2022/23 as at 30 September 2022 and had complied fully with its Treasury Management Strategy Statement (TMSS) as agreed by Council on 23 February 2022. The changes to the Treasury Management Code, Prudential Code, Public Works Loan Board (PWLB) Lending Terms and regulations to improve enforcement of the duty of local authorities to make prudent Minimum Revenue Provision each year were set out in within section 11 of the report. The report had appended the Economics Update; Investment Criteria & Limits; and Investment Portfolio for the Committee's information.

Resolved: That the Treasury Management Mid-Year report for 2022/23 be noted.

31. 2022/23 QUARTER 2 PERFORMANCE & MONITORING REPORT

Stuart Donnelly, Financial Strategy & Planning Manager, submitted a report, which had been considered by Policy Committee on 15 December 2022 (Minute 38 refers) setting out the projected revenue and capital outturn positions for 2022/23 for both the General Fund and the Housing Revenue Accounts as at the end of Quarter 2 (September 2022). The report also summarised performance against the measures of success published in the Council's Corporate Plan. The following documents were attached to the report:

Appendix 1 – Financial Monitoring for Quarter 2;
Appendix 2 – Capital Programme for Quarter 2;
Appendix 3 – Corporate Plan Measures for Quarter 2;
Appendix 4 – Corporate Plan Projects for Quarter 2.

Resolved: That the 2022/23 Quarter 2 Performance and Monitoring Report and the recommendations set out and approved by Policy Committee on 15 December 2022 be noted.

32. INFORMATION GOVERNANCE QUARTERLY UPDATE

Michael Graham, Assistant Director of Legal & Democratic Services, submitted a report outlining the action underway to improve the Council's policies, systems and processes for Information Governance following several limited assurance reports in this area.

The report provided an update on: the action being taken to address the backlog of Subject Access Requests, including the purchase of redaction software; the improvement in on-time responses to FOI requests to 72.1% and the action being taken to increase responses within the required timescale to 90%, as expected by the Information Commissioner's Office; data transparency; the work of the Information Governance (IG) Board; progress to implement the Information Management Strategy, which set out the Council's approach to information management and governance; and uptake of Cyber Security training which was compulsory for all staff and Members through Learning Pool, the Council's e-learning package.

The report stated that the current immediate focus would be the completion on the FOI Action Plan and the training of Information Asset Owners and Data Stewards to implement aspects of the Information Management Strategy particularly with reference to Records Management practices.

Resolved: **That the progress being made to improve the Council's Information Governance be noted and the future actions outlined in the report be endorsed.**

33. IMPLEMENTATION OF AUDIT RECOMMENDATIONS TRACKER

Charlie Stewart, interim Executive Director of Resources, presented a report setting out progress with the Implementation of Audit Recommendations. A copy of the Implementation of Audit Recommendations Tracker for January 2023 was attached to the report at Appendix 1.

The report explained that each recommendation set out in Appendix 1 was marked with a percentage complete which correlated to a red/amber/green rating (up to 25% complete: red, between 26% and 75%: amber, over 75% complete: green). Any recommendations that were less than 50% complete but had exceeded their agreed completion date were also marked red.

The tracker now had 99 high and medium risk recommendations from Internal Audit, of which 28 (28.3%) were currently green but not complete, 40 (40.4%) were amber and 5 (5.1%) were red. Twenty-six recommendations had now been completed and would be removed from the next report and 13 recommendations had been added to the tracker since the last report.

The Committee considered a recommendation from the Chief Auditor to focus the audit recommendations tracker on those audit findings with limited or no assurance in future reports.

Resolved:

(1) That the high and medium risk Internal Audit recommendations and the responses to those risks be noted as set out in Appendix 1 to the report;

(2) That future Audit Recommendations Tracker reports be focussed on those recommendations where the Auditors' findings had given limited or no assurance, subject to the full list of audit recommendations continuing to be reviewed by the relevant senior officers and the narrative section on the tracker being kept up to date by the officer responsible for implementing the recommendations.

34. CLOSING FINANCIAL ACCOUNTS UPDATE

Mark Sanders, Chief Accountant, submitted a report providing an update on closing the financial accounts. The report explained that three sets of accounts (2019/20, 2020/21 and 2021/22) were being worked on concurrently. The accounts were all at different stages of completion, which brought extra complexity to the process for the Council and the External Auditors, but remained the best way to bring the whole process up to date. An incremental approach had been adopted to make any significant adjustments arising in one year, agreed during the audit process, would be reflected in the accounts of the following year before they were prepared. The Council's Finance Team had continued to meet regularly with the External Auditor's (EY) team to manage the progress and discuss matters arising. The report contained further detail of the progress being made in each of the sets of accounts.

The report stated that the Council had opted to join the External Auditor appointment process run by Public Sector Audit Appointments (PSAA). This process had now been concluded and KPMG had been appointed as the Council's new auditor for five years covering the 2023/24 Statement of Accounts through to 2027/28. There would now be a planning process over the next few months to begin the transition between auditors. EY would still sign off the 2022/23 Statement of Accounts and would support the transition process.

Resolved:

(1) That the progress made on the audit of the accounts for 2019/20, 2020/21 and preparation for the 2021/22 accounts be noted;

(2) That the appointment of KPMG as the Council's new independent External Auditor for five years from 2023/24 be noted.

35. EXTERNAL AUDITOR UPDATE

Mark Sanders, Chief Accountant, submitted a covering report on the 2019/20 audit process and EY's 2020/21 External Audit Plan, which was attached as an Appendix to the report.

Maria Grindley and Adrian Balmer, EY, presented the draft Audit Plan for 2020/21 summarising the initial assessment of the key risks driving the development of an effective audit for the Council and outlining EY's planned audit strategy in response to those risks. The Committee would be updated on the ongoing planning procedures, if there were any significant changes or revisions at its next meeting. The external auditors provided their assessment of the audit risks and key areas of focus.

The Committee was asked to confirm its understanding of, and agreement to, the materiality and reporting levels in the 2020/21 accounts. For planning purposes, group materiality for 2020/21 had been set at £5.615m, which represented 1% of the Council's 2020/21 unaudited group gross expenditure on provision of services. In relation to single-entity materiality for 2020/21 this had been set at £4.73 million, which represented 1% of the Council's 2020/21 unaudited gross expenditure. Both group and single-entity materiality would be reassessed throughout the audit. Maria Grindley explained that materiality had been set quite low due to the need for assurance that the issues identified with the finalising accounts over previous years had been corrected. The expectation would be that as fewer accounting errors were found the materiality threshold could rise, which could reduce the amount of testing and work required to complete the audit.

Resolved:

(1) That EY's update on the accounts process be noted;

(2) That the 2020/21 External Audit Plan be noted;

(3) That the group and single-entity materiality and reporting levels in the 2020/21 accounts be agreed.

36. HOUSING BENEFIT & COUNCIL TAX SUPPORT SCHEME - RISK BASED VERIFICATION POLICY 2023/24

Samantha Wills, Revenues & Benefits Manager, submitted a report recommending that the Council continued to use its Risk Based Verification (RBV) process in 2023/24. The scheme enabled the processing of claims for Housing Benefit payments and Council Tax Support awards to be streamlined, thereby enabling customers to receive payments sooner. The approach also helped to mitigate risk and fraud entering the system.

The report explained that all local authorities opting to apply risk-based verification were required to have in place a Policy detailing the risk profiles, verification standards which would apply and the minimum number of claims to be checked. The Policy must be reviewed annually but not changed in-year and it was considered good practice for the Policy to be examined by the authority's Audit and Governance Committee. The report highlighted that the Council's Risk-Based Verification Policy principles remained unchanged from 2022/23.

The Risk-Based Verification Policy 2023/24 had been appended to the report for endorsement but had not been published because it contained exempt information as defined in Paragraph 7 of Part 1 of Schedule 12A of the Local Government Act 1972.

Resolved:

(1) That the Risk-Based Verification Scheme 2023/24, as appended to the report, be approved;

(2) That the continued use of a Risk-Based Verification approach to evidence supporting claims for Housing Benefit and Council Tax support in 2023/24 be approved.

(The meeting commenced at 6.30 pm and closed at 8.00 pm)

READING BOROUGH COUNCIL

DIRECTOR OF FINANCE

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	12 April 2023		
TITLE:	INTERNAL AUDIT QUARTERLY UPDATE REPORT		
LEAD COUNCILLOR:	COUNCILLOR TERRY	PORTFOLIO:	CORPORATE SERVICES & RESOURCES
SERVICE:	AUDIT & INVESTIGATIONS	WARDS:	N/A
LEAD OFFICER:	PAUL HARRINGTON	TEL:	9372695
JOB TITLE:	CHIEF AUDITOR	E-MAIL:	Paul.Harrington@reading.gov.uk

1. PURPOSE OF REPORT

1.1 The purpose of this report is to provide an update on the progress made against the delivery of the Internal Audit Plan. This report provides details of audits completed in quarter 4 of the 2022/2023 financial year.

1.2 The following document is appended:

Appendix 1 – Internal Audit & Investigations update report

Appendix 2 – Direct Payments Audit Report

2. RECOMMENDATIONS

2.1 The Audit & Governance Committee is requested to consider the report.

3. SUMMARY

3.1 The primary objective of each audit is to arrive at an assurance opinion regarding the robustness of the internal controls within the financial or operational system under review. Where weaknesses are found Internal Audit will propose solutions to improve controls, thus reducing opportunities for error or fraud. In this respect, an audit is only effective if management agree audit recommendations and implement changes in a timely manner.

3.2 A total of three audit reviews were finalised in the period between January and March 2023, with two receiving a positive opinion and one receiving a negative opinion. In addition, one grant was certified to confirm it had met the conditions of the grant determination.

3.3 **Substantial Assurance Opinion Reviews**

3.3.1 A follow-up review of the **Housing Revenue Account** recognised that substantial progress has been made since the last audit, that previous gaps in control are being more effectively managed, which means that relevant risks for the Council are now being mitigated more robustly.

3.4 **Reasonable Assurance Opinion Reviews**

3.4.1 A review of **Commercial Assets & Investments** confirmed that adequate systems are in place to identify, collect, record, and monitor rental income due on commercial properties and investments.

3.5 **Limited Assurance Opinion Reviews**

3.5.1 An audit of **Direct Payments** identified process weaknesses, such as payment account setups not being authorised and checked, along with delays in the monitoring of user accounts, with only 53% of accounts being reviewed on time.

3.6 **No Assurance Opinion Reviews**

3.6.1 N/A

3.7 **Investigations**

3.7.1 The Corporate Investigations Team (CIT) has referred several cases for financial reviews from 35 Council Tax Support investigations completed, where a discount was removed from the current account

3.7.2 Since April 2022 the team have received a total of five Blue Badge referrals of blue badge misuse. We've closed all five investigations or which three received warning letters, one blue badge was ceased and destroyed, and one case is with legal colleagues pending charges.

3.7.3 Since April 2022, officers have undertaken investigations into several referrals of tenancy fraud with currently 15 cases ongoing. There has been a total of 8 properties returned to stock to date. All these cases were tenancy-related investigations. The team has also assisted in the return to stock of 2 Registered Social housing landlords' (RSL) properties.

3.7.4 CIT have been working with the Finance and Assessment Team (FAB) and Adult Social Care (ASC) in reviewing direct payment cases to ensure monies are being spent in accordance with the care plans.

3.7.5 In December Central Government uplifted specific datasets from Reading as part of the National fraud incentive. Since February 2023, when the matches were released for review, a total of 524 matches have been investigated.

7. CONTRIBUTION TO STRATEGIC AIMS

7.1 The Internal Audit Team aims to assist in the achievement of the strategic aims of the Council set out in the Corporate Plan by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. In particular audit work is likely to contribute to the priority of remaining financially sustainable to deliver our service priorities.

8. COMMUNITY ENGAGEMENT AND INFORMATION

8.1 *N/A*

9. LEGAL IMPLICATIONS

9.1.1 Legislation dictates the objectives and purpose of Internal Audit the requirement for an Internal Audit function is either explicit or implied in the relevant local government legislation.

9.1.2 Section 151 of the Local Government Act 1972 requires every local authority to "make arrangements for the proper administration of its financial affairs" and to ensure that one of the officers has responsibility for the administration of those affairs.

9.1.3 In England, more specific requirements are detailed in the Accounts and Audit Regulations in that authorities must "maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper internal audit practices".

9. FINANCIAL IMPLICATIONS

9.1 N/A

10. BACKGROUND PAPERS

10.1 N/A

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Appendix 1

Internal Audit & Investigations

Quarterly Update Report Q4

1.0 OVERVIEW

1.1 Purpose & Scope of Report

1.1.1 The purpose of this report is to provide an update on the progress made against the delivery of the Internal Audit Plan. This report provides details of audits completed in quarter 4 of the 2022/2023 financial year.

1.2 Assurance Framework

1.2.1 Each Internal Audit report provides a clear audit assurance opinion. The opinion provides an objective assessment of the current and expected level of control over the subject audited. It is a statement of the audit view based on the work undertaken in relation to the terms of reference agreed at the start of the audit; it is not a statement of fact. The audit assurance opinion framework is as follows:

Opinion	Explanation
No Assurance	"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.".
Limited	"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."
Reasonable	"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."
Substantial	"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."

1.2.2 The assurance opinion is based upon the initial risk factor allocated to the subject under review and the number and type of recommendations we make. It is management's responsibility to ensure that effective controls operate within their service areas. Follow up work is undertaken on audits providing **limited** or '**no**' assurance to ensure that agreed recommendations have been implemented in a timely manner.

2.0 HIGH LEVEL SUMMARY OF AUDIT FINDINGS

		Recs				Assurance
2.1	Commercial Assets & Investments	0	4	2		Reasonable

2.1.1 The purpose of the audit was to review the adequacy of systems in place to identify, collect, record, and monitor rental income due on commercial properties and investments.

2.1.2 Appropriate rent and business rates accounts were in place with unique references for each letting for the properties reviewed. In most cases, timely amendments had been made to rent records to reflect changes in tenancy.

2.1.3 Information relating to properties was not held in a central location but split across several documents including the fixed asset register, rent roll and Terrier[1].

2.1.4 Where the Council had purchased properties part way through a rent period, rent had been invoiced from the start of the next quarter, although it was currently unclear whether pro-rated rent had been charged from the date of acquisition. Agreed rent-free periods and rent increases had been invoiced and paid.

2.1.5 For business rates, for the three in-borough properties, the tenants had been billed in a timely manner. Where there were changes to the rateable values or multipliers, business rates were recalculated, and revised invoices issued to tenants. All tenants were up to date with rate payments at the time of the audit.

2.1.6 Current leases containing key information were in place with all but one tenant. One lease expired in 2021 and the property in question had an unauthorised assignee in place. It was possible that a number of current tenants would be lost within the next year or so.

2.1.7 Generally, tenants were invoiced for rent due in agreement with tenancy agreements and in a timely manner, with rent also generally paid in a timely manner, other than for one tenant during covid; however, this had all now been paid. There was also an issue in some cases identifying and reallocating payments in suspense accounts to tenants' accounts in a timely manner.

[1] The Council's electronic records systems used to record land and property holdings.

2.1.8 There was no clear, documented reconciliation conducted between what was charged to the Council on the properties for service charges and insurance and what had been recharged to tenants. Internal audit was unable to verify in all cases that what had been paid by the Council, agreed with what had been recharged.

2.1.9 There was a lack of up-to-date documented policies and procedures in place, as well as a lack of regular declaration of Officer interests.

		Recs				Assurance
2.2	Housing Revenue Account (Follow up)	0	0	0		Substantial

2.2.1 The HRA is a ring-fenced account within the Council's General Fund (GF), which reflects the statutory requirement to account separately for local authority housing provision. Items can only be included within the HRA if there is a statutory provision; similarly transfers between the HRA and GF can only occur in very specific cases. HRA budgets must be set annually in the January or February before the start of the financial year. A deficit cannot be budgeted for, and it is incumbent on the Council to take all reasonable steps to avoid a budget deficit.

2.2.2 The last audit undertaken in 2021 was given limited assurance and concluded that there were six key areas requiring management action. Two high-risk rated areas were the lack of a permanent HRA expertise to ensure that services are fully supported in their roles in relation to the HRA and the need for a common understanding of policies, procedures, and processes for the HRA 30-year model. This is essential to support budget setting and monitoring within finance and services, so that there is consistency both in-year and from year to year.

2.2.3 This audit follow-up review recognised that substantial progress has been made since the last audit, that previous gaps in control are being more effectively managed, which means that relevant risks for the Council are now being mitigated more robustly.

2.2.4 From the evidence obtained and reviewed, and following discussions with relevant officers, we are now confident that the HRA 30-year financial model, commissioned for 2021/22 onwards, provides clear alignment between service area plans, the agreed HRA Medium-Term Financial Plan, annual budget, and ongoing budget monitoring. Finance and Service Teams now take a more integrated approach to budget setting and monitoring to ensure there is consistency of understanding.

2.2.5 There is now sufficient HRA expertise in both Finance and the Housing and Communities function in the Directorate of Environment and Neighbourhood Services (DEGNS). To ensure that service teams were fully supported in their roles in relation to the HRA, the Finance team now have a permanent Strategic Business Partner in place with the required experience. Whilst the Business Development Manager, HRA role in DEGNS is provided by a consultant, he is on a minimum 12-month contract and part of his brief is to recruit or help develop a permanent replacement during this period.

2.2.6 We have received evidence from the Financial Planning & Strategic Manager (FP&S) and the Capital & Treasury Lead (C&T) in Finance, regarding a transfer of four sites from the General Fund to the HRA for consideration of the development of new Council housing. All four of these assets have been transferred to the HRA Fixed asset balance sheet codes on Oracle. This was achieved during the 2021 - 2022 closure process.

2.2.7 There is a new 30-year HRA business model in place which is more “user-friendly”, it is viewed as a live document that is updated as and when changes arise, highlighting their (likely) impact. There is clear alignment between details in service area plans, the HRA 30-year model, the agreed HRA Medium-Term Financial Plan, annual budget, and ongoing budget monitoring.

2.2.8 From the evidence obtained and reviewed, as well as discussions with senior management in the DEGNS directorate, we are confident that the reviews of areas (such as service charges and cleaning services), with a view to obtaining improved value for money, have started in 2022 - 2023. The first draft report is being considered by the Assistant Director in DEGNS, and a plan of further reviews is in place for 2023.

2.2.9 There is a common understanding regarding agreed budget, and overhead allocation between finance and service teams. Reports are comprehensive, user friendly, automated where possible, and have clear line of sight between the agreed budget and that shown on budget monitoring reports. In addition, regular reconciliations are conducted between reports and service plans to ensure that they are aligned.

		Recs				Assurance
2.3	Direct Payments	1	7	0		Limited

2.3.1 The purpose of a direct payment is to provide eligible people with the flexibility and freedom to decide how their care needs should be met. The rules for qualifying, establishing, and monitoring direct payments are set out under the Care and Support (Direct Payments) Regulations 2014.

2.3.2 Regulations require local authorities to ensure that the direct payment resource is appropriate to needs and that it is used to meet the care and support needs set out in the plan and have systems in place to proportionally monitor direct payment usage to ensure effective use of public money.

2.3.3 The council pays and monitors 'direct payments' for approximately 266 people costing £6.6m per year. Resource allocation funds are paid either using the pre-payment card method, a managed bank account in conjunction with the social services, or directly via the client's bank account.

2.3.4 Our audit review identified some weaknesses in the direct payment process, such as payment account setups not being authorised and checked, along with delays in the monitoring of user accounts. On this basis, we issued a 'limited assurance' opinion.

2.3.5 It was found to be possible to set up and make direct payments without Eligibility Risk and Review Group (ERRG) authorisation, and without a signed direct payment agreement with the service user.

2.3.6 Client accounts are reviewed on a risk basis, but around 47% of accounts were either due or overdue at the time of the audit. Furthermore, the outcome of the risk assessment is not recorded to substantiate the reason individual accounts are selected, and neither is a summary of the review itself.

2.3.7 Although our testing found some inflationary uplifts have not been applied to the direct payment since 2017, we found a high number of occurrences where funds have been recuperated, which highlights the difficulties in ensuring the payment allocations remain appropriate to needs e.g., surplus balances are being recovered at a rate of circa £200k per year over the last five years. In addition, during 2022/23 the Corporate Investigation Team identified surplus balances of £229k from a sample of 25 accounts (see paragraph 3.7 below).

2.3.8 Responsible staff are not requested to declare if they have a conflict of interest with a direct payment claimant on a case-by-case basis, which would provide a higher level of due diligence and help mitigate the risk of fraud.

2.3.9 We were pleased to find there had been a strengthening in the separation of duties between setting up and monitoring accounts, but there were some poor procedural practices and compliance issues in the completion of system documentation that should be improved to strengthen this further and to provide an audit trail.

2.4 Grant Certifications

Adult Weight Management grant

2.4.1 We provided reasonable assurance that the eligible expenditure incurred in the Grant Period, was in accordance with the definitions and conditions of the grant. Expenditure appeared to relate to service delivered between 1/4/22-31/12/22 (as per the extended deadline by the Office for Improvement and Disparities) and for delivery of Tier 2 Adult Weight Management Service. However, it should be noted that whilst the services appear to have been delivered within the extended grant period, we were not invoiced for the services until January 2023 and the invoices had not been processed on Fusion / paid (at the time of review).

Key: No Assurance: Limited Assurance: Reasonable Assurance: Substantial Assurance:

Audit reviews carried over from 2021/2022

	Timing							Res			
Audit Title	Q1	Q2	Q3	Q4	Start Date	Draft Report	Final Report	P1	P2	P3	Assurance
Client Contributions (Adult care)	●				Feb-22	May-22	Jun-22	1	5	6	
Freedom of Information (Follow-up Review)	●				Jun-22	Jul-22	Aug-22	-	-	-	
Transparency Code Compliance (follow-up)	●				Jun-22	Jul-22	Aug-22	-	-	-	

Audit reviews for 2022/2023

	Timing							Res			
Audit Title	Q1	Q2	Q3	Q4	Start Date	Draft Report	Final Report	P1	P2	P3	Assurance
Green Homes BEIS Grant	●				Nov-22	Nov-22	Nov-22	0	0	0	n/a
Waste Operations	●				Apr-22	Jun-22	Jun-22	0	2	0	
Rent Accounting	●				Apr-22	Jun-22	Aug-22	0	6	4	
Deferred Payments	●				Apr-22	Jun-22	Aug-22	1	8	0	
NHS Test and Trace Grant Determination	●				Jun-22	Jul-22	Jul-22	0	0	0	n/a
Contain Outbreak Management Fund Grant*	●				Jun-22	Jul-22	Jul-22	0	0	0	n/a
Practical Support Payment (PSP) grant*	●				Jun-22	Jul-22	Jul-22	0	0	0	n/a
Rough Sleepers Initiative Grant*	●				Jun-22	Jun-22	Jun-22	0	0	0	n/a
Salary Sacrifice schemes	●				Jul-22	Oct-22	Oct-22	0	2	4	

Key: No Assurance: Limited Assurance: Reasonable Assurance: Substantial Assurance:

	Timing							Res			
Audit Title	**Q1**	**Q2**	**Q3**	**Q4**	**Start Date**	**Draft Report**	**Final Report**	**P1**	**P2**	**P3**	**Assurance**
Deputyship and Appointeeship	●				Jul-22	Sep-22	Nov-22	5	3	3	
Crime & Reduction Grant*					Aug-22	Aug-22	Aug-22	0	0	0	n/a
Local Transport Plan Capital Settlement (Grant Certification)		●			Sep-22	Oct-22	Oct-22	0	0	0	n/a
Waste PFI contract		●			Jun-22	Sep-22	Nov-22	0	5	1	
Cyber Security		●			Aug-22	Jan-23					
Audit Committee Review		●			Dec-22	Jan-23	Mar-23	0	0	0	n/a
Budget Setting/Monitoring		●			Feb-23	Mar-23		0	1	1	
Bus subsidy grant (covid) - certification*					Nov-22	Nov-22	Nov-22	0	0	0	n/a
Housing Revenue Account (Follow up) *					Nov-22	Jan-23	Jan-23	0	0	0	
Purchasing Cards*					Sep-22	Dec-22	Jan-23	0	2	0	
Inflationary Uplifts (follow-up)			●		Nov-22						
Housing Repairs (responsive & planned maintenance)			●		Nov-22	Mar-22					
Housing PFI			●		Cancelled due to imminent external review						
Records Management & Document Retention Policy (follow-up)			●		Postponed to 2023/2024						
BACS Security and controls over Faster Payments			●		Nov-22						
Furlough Administration			●		Mar-23						
Direct Payments			●		Oct-22	Dec-22	Feb-23	2	6	3	

* Audits added during the year

Key: No Assurance | Limited Assurance | Reasonable Assurance | Substantial Assurance

	Timing							Res			
Audit Title	**Q1**	**Q2**	**Q3**	**Q4**	**Start Date**	**Draft Report**	**Final Report**	**P1**	**P2**	**P3**	**Assurance**
Adult Care Provider Payments (follow-up)			●		Jan-23	Mar-23					
Adult Weight Management grant*					Feb-23	Feb-23	Feb-23	0	0	0	n/a
General Ledger				●	Jan-23	Mar-23		0	7	1	
Accounts Payable				●	Mar-23	Apr-23					
Commercial Assets & Investments				●	Sep-22	Jan-23	Mar-23	0	4	2	
Intercompany accounting (Follow-Up Review)				●	Postponed to Q1 2023/2024						
Terminations (leavers and movers) processes				●	Mar-23	Mar-23					
Adults Contract Management (follow-up review)				●	Postponed due to service pressures						
Client Contributions Adult Care (Follow Up)				●	Feb-23	Apr-23					
Adult Social Care Debt				●	Mar-23						

* Audits added during the year

3.0 INVESTIGATIONS (APRIL 2022 – MARCH 2023)

3.1 Council Tax Support Investigations

3.1.1 The Corporate Investigations Team (CIT) has been involved in 35 Council Tax Support investigations. From these investigations: 18 cases have been completed, where a discount was removed from the current account. CIT has 9 ongoing investigations linked to Council Tax support. Total recorded Council tax savings are **£ 11,885.05**

3.2 Housing Tenancy Investigations

3.2.1 Since 1st April 2022, CIT officers have commenced an investigation into several referrals of tenancy fraud with currently 15 cases ongoing. There has been a total of 8 properties returned to stock to date. All these cases were tenancy-related investigations. The team has also assisted in the return to stock of 2 Registered Social housing landlords' (RSL) properties. CIT has 1 ongoing investigation with an RSL and is hopeful this property will be returned to stock very soon.

3.2.2 The notional saving achieved on the properties returned to RBC stock is **£744,000** adopting the notional savings multiplier used by the Cabinet Office in its National Fraud Initiative report, with a further potential notional saving of **£186,000** if RSL properties are included.

3.2.3 CIT has also looked at 23 Right to buy applications. From these checks, 6 applications have been withdrawn. Thus, securing for RBC a rental income of **£38,640.18** for the year, and preventing **£523,200.00** in discounts from being applied under the scheme.

3.2.4 CIT also undertakes assurance verification by looking at new homeless applications. For the period, the team has reviewed 144 cases. There are 14 cases awaiting Council Tax to review the SPD, and to date, a total of **£5,833.00** has been recorded as direct SPD savings.

3.3 Disabled Persons Parking (Blue) Badges

3.3.1 Since April 2022the team have received a total of five Blue Badge referrals of blue badge misuse. We've closed all five investigations of which three received warning letters, one blue badge was seized and destroyed, and one case is with legal colleagues pending charges.

3.4 Social Care Fraud

3.4.1 CIT has been working alongside the Council`s social care finance teams. The purpose of this work was to undertake a financial overview of all direct payment cases. The main purpose of this review was to establish where clients had used the direct payments scheme and that any monies spent were in accordance with their care agreements. This was to ensure that all clients had received the care that ASC had confirmed was required and that all services had received payment for that care. Initially, CIT took a sample of 5 test cases. The total balance of the five accounts was circa £100,000. CIT informed the ASC finance team, who in turn is in the process of recovering these monies.

3.4.2 As a result, the team was asked to review a further 20 clients' accounts. From these, it was found that 14 out of 20 accounts reviewed, were shown to have significant surplus balances above £3,000. 8 accounts had surplus balances above £9,000 and 3 had surplus balances of more than £14,000. As such, ASC is looking to recover approximately **£133,730.** It was agreed that CIT would apply the same principles and review Children who are in receipt of direct payments. CIT found that of the 15 cases reviewed 8 clients had more than the 8-week balance allowed in their account, and the Personal Budget Team should look to recover this, which currently stands at **£19,391.20**. 1 account remains outstanding.

3.4.3 What is important to note is that none of these cases were found to involve fraudulent activity.

3.5 Covid Business Grant Investigations

3.5.1 The investigations team has recently achieved a successful prosecution, in respect of a fraudulent Covid Business Grant Claim, with the defendant admitted to fraud by false representation and made to pay compensation of **£10,000** to RBC. The defendant was also handed a community order to undertake 100 hours of unpaid work.

3.6. National Fraud Initiative

3.6.1 The National Fraud Initiative (NFI) matches electronic data within and between public and private sector bodies to prevent and detect fraud. These bodies include police authorities, local probation boards, fire and rescue authorities as well as local councils and a number of private sector bodies.

3.6.2 Providing data is a mandatory requirement, required by law[2], with the following datasets required; payroll, pensions, trade creditors' payment history and trade creditors' standing data, housing (current tenants) and right to buy, housing waiting lists, housing benefits (provided by the DWP), council tax reduction scheme, council tax (required annually), electoral register (required annually), students eligible for a loan (provided by the SLC), transport passes and permits (including residents' parking, blue badges and concessionary travel) and licences – taxi driver.

3.6.3 In December Central Government uplifted specific datasets from Reading as part of the National fraud incentive. Since February 2023, when the matches were released for review, a total of 524 cases have been investigated which have resulted in an estimated saving of **£41,000.**

[2] Under Part 6 of the Local Audit and Accountability Act 2014 (England), Part 2A of the Public Finance and Accountability (Scotland) Act2000, Part 3A of the Public Audit (Wales) Act 2004, Articles 4A to 4G of the Audit and Accountability (Northern Ireland) Order 2003.

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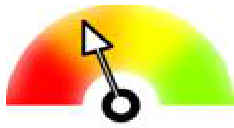
Final Internal Audit Report

DIRECT PAYMENTS

To: Melissa Wise, Deputy Director of Commissioning & Transformation
Sunny Mehmi, Assistant Director of Operations, Adult Social Care
Lara Fromings, Head of Commissioning
Claire Gavagan, Strategic Business Partner
Stephen Saunders, Principal Personal Budget Support Officer



From: Robert Dunford, Senior Auditor

Limited Assurance

Date: **28/02/2023**

APPENDIX 2

EXECUTIVE SUMMARY

1. BACKGROUND

1.1 The purpose of a direct payment is to provide eligible people with the flexibility and freedom to decide how their care needs should be met. The rules for qualifying, establishing, and monitoring direct payments are set out under The Care and Support (Direct Payments) Regulations 2014.

1.2 Regulations require local authorities to ensure that the direct payment resource is appropriate to needs and that it is used to meet the care and support needs set out in the plan and have systems in place to proportionally monitor direct payment usage to ensure effective use of public money.

1.3 The council pays and monitors ‘direct payments’ for approximately 266 people costing £6.6m per year. Resource allocation funds are paid either using the pre-payment card method, a managed bank account in conjunction with the social services, or directly via the client’s bank account.

2. OBJECTIVES & SCOPE OF THE AUDIT

2.1 The review encompassed the following areas:

- Confirmation that payment setup procedures were robust and there were no conflicts of interest
- Separation of duties between the setup, payment, and monitoring of direct payments were in place
- The monitoring and evaluation of the fraud and misuse risk.
- Account reconciliations and recovery of surplus funds.

2.2 This audit (and report) was undertaken in accordance with the Public Sector Internal Audit Standards (PSIAS).

2.3 This report is confidential and has been prepared solely for use by officers named on the distribution list and if requested, the Council's External Auditor and its Audit and Governance Committee to meet legal and professional obligations. It would therefore not be appropriate for this report, or extracts from it, to be made available to third parties before it has entered the public domain. It must not be used in response to FOI or data protection enquiries without the written consent of the Head of Internal Audit. We accept no responsibility to any third party who may receive this report, in whole or in part, for the reliance that they may place on it.

3 CONCLUSIONS

3.1 Weaknesses were identified in all procedures within the direct payment process, from payment account setups not being authorised and checked, to the monitoring of those user accounts. On this basis, we have issued a 'limited assurance' opinion.

3.2 It was found to be possible to set up and make direct payments without ERRG authorisation, and without a signed direct payment agreement with the service user.

3.3 Client accounts are reviewed on a risk basis, but around 47% of accounts were either due or overdue at the time of the audit. Furthermore, the outcome of the risk assessment is not recorded to substantiate the reason individual accounts are selected, and neither is a summary of the review itself.

3.4 Although our testing found some inflationary uplifts have not been applied to the direct payment since 2017, we found a high number of occurrences where funds have been recuperated, which highlights the difficulties in ensuring the payment allocations remain appropriate to needs e.g. surplus balances are being recovered at a rate of circa £200k per year over the last five years, which in itself raises further questions. In addition, during 2022/23 the Corporate Investigation Team identified surplus balances of £229k from a sample of 25 accounts.

3.5 Responsible staff are not requested to declare if they have a conflict of interest with a direct payment claimant on a case-by-case basis, which would provide a higher level of due diligence and help mitigate the risk of fraud.

3.6 We were pleased to find there had been a strengthening in the separation of duties between setting up and monitoring accounts, but there were some poor procedural practices and compliance issues in the completion of system documentation that should be improved to strengthen this further and to provide an audit trail.

3.8 A total of 7 recommendations have been made in respect of this review, of which one is considered high priority. The recommendations and corresponding management action plan are attached in Appendix 1.

APPENDIX 2

Management Action Plan					
Ref	Recommendation	Rec	Management Response	Responsible Officer(s)	Target Date
PAYMENT SET-UP PROCEDURES' DECLARATIONS OF INTERESTS & SEPARATION OF DUTIES					
RISK: Staff could commit fraud by creating false client accounts.					
1	The procedures, processes, and templates for reviewing and setting up direct payment applications should be reviewed annually to ensure these remain effective, efficient, and secure. The following areas require attention:- • Ensuring there are no conflicts of interest between officers advocating, approving, and monitoring and the people receiving a direct payment. • Ensuring all payment setups are checked and authorised by ERRG prior to payment. • Ensure a Mosaic Purchase Order is raised. • Ensuring a signed direct payment agreement is held for all payments.	Priority 2	A review is underway of procedures, processes and templates related to Direct Payment set up. All procedures will be documented as part of this review. The review will ensure the separation of duties identified in this audit. A review of monitoring processes will follow. Declarations of interest will be completed by all Direct Payment staff. A new Direct Payments function is in the process of being set up, which will separate the setting up of a direct payment from monitoring. Regular audits to be in place to check that ERRG approve all direct payments, that purchase orders are being raised & a signed direct payment agreement is held.	Principal Personal Budget Support Officer, Personal Budget Support Officer, Senior Personal Budget Support Officer	30/04/2023
2	A review of all current direct payment authorisations and agreements should be undertaken to ensure payments are valid and to ensure that the proper sign-offs and documentations are in place.	Priority 1	A review of all current direct payment authorisations and agreements will be undertaken. Retrospective action will be taken if authorisations are not in place.	Principal Personal Budget Support Officer	28/02/2023

APPENDIX 2

3	Validation checking and system exception report controls should be introduced to ensure information or complete and accurate e.g., making sure officers are identified in relation to their role. • This will help improve transparency in demonstrating separations of duties and declarations of interests.	Priority 2	Declarations of interest will be completed by all Direct Payment staff, requiring Officers to state both name and role on forms. The new Direct Payment setup function role will also ensure a separation of duties. Separations of duty will be checked in regular audits. System exception report controls will be explored with the Mosaic team.	Principal Personal Budget Support Officer, Personal Budget Support Officer, Senior Personal Budget Support Officer	31/01/2023

Management Action Plan					
Ref	**Recommendation**	**Rec**	**Management Response**	**Responsible Officer(s)**	**Target Date**
PAYMENT & EXPENDITURE REVIEWS					
RISK: The audit approach and focus are insufficiently balanced to help direct payment clients or detect inappropriate internal behaviour.					
4	Policy and procedure confirmation is required on how inflationary uplifts should be communicated and applied to the 'care' and 'non-care' aspects of the direct payment scheme, to ensure the DP payment remains appropriate to needs	Priority 2	A procedural note for direct payment inflationary uplifts will be written. Direct payment inflation is agreed by the DMT on an annual basis and applied to relevant accounts.	Personal Budget Support Officer	01/05/2023

APPENDIX 2

Page 35	The payment expenditure audit approach and procedures for carrying out and providing assurance on direct payment expenditure should be reviewed annually by the Adult Social Care directorate. E.g., It has been suggested to the Principal PBS Officer that the service could carry out themed reviews to either support or direct the current approach: - • Balance of funds (why aren't these being used?) • Confirmation of direct payment agreement & approval of key controls • Duration between reviews • Risk identified from the previous review The findings of these expenditure reviews should be summarised to provide a clear status overview and to inform the approach of future reviews and the Annual Governance Statement.	Priority 2	An annual review will be carried out by the Principal Officer to report on: Balance of funds, personal budget agreements, key controls, reviews, risks. This review will then be made available to the DMT. It is not unusual for a Direct Payment user to have a surplus balance where a service is temporarily suspended, for example when an individual is admitted to hospital or family members/carers have taken on the caring role for a short period. A 4 week contingency is considered appropriate to allow short term increases in care, which may result from a change in need e.g. discharge from hospital after a period of inpatient stay. In some cases this may indicate a change in need, which can be referred to a care worker to review with the individual and carers. Following the pandemic a number of Direct Payment users have also chosen alternative options and changed behaviours that have meant a reduction in some services. For example, older people have chosen in some instances not to return to Older People Day Services for fear of COVID and have found alternatives to meet social isolation and food nutritional needs. The Direct Payment team monitors accounts to identify excessive surplus accounts. The majority of Direct Payment accounts are Pre-Paid Card accounts and managed bank accounts that the Council has access to balance information. Direct Payment users have been encouraged over time to transition to these new methods as they provide a more robust monitoring of accounts. However, under the Care Act 2014 individuals must be given the option to maintain their own bank account (separate from their normal bank account) to manage a Direct Payment. These accounts are now the smallest proportion of Direct Payment users but take up the most monitoring as the Council is reliant on their compliance and managing their account efficiently. A review of monitoring and compliance procedures will be part of the review of procedures. The additional setup function within the team will allow improved frequency of monitoring reviews for both managed and directly	Principal Personal Budget Support Officer	01/05/2023

APPENDIX 2

			managed cash accounts. A new Risk Stratification matrix will be developed to manage the frequency of these reviews.		

Management Action Plan					
Ref	**Recommendation**	**Rec**	**Management Response**	**Responsible Officer(s)**	**Target Date**
RECOVERY OF SURPLUS FUNDS					
RISK: There are risks that direct payment clients could be carrying unnecessarily high levels of funds that could otherwise be used by the Council or are having trouble accessing care.					
6	The reasons for unspent balances should be obtained and recorded on the Monitoring spreadsheet so that this can be discussed with the client's care worker to decide if they need assistance, reassessment, or if funds should be recovered, or stalled on Fusion were paid directly. These decisions should be reviewed and approved.	Priority 2	Reasons for unspent balances will be recorded on the DP Monitoring workstep in Mosaic, along with confirmation of having reported this to the appropriate ASC operational worker/team. These decisions will be reviewed and approved by the senior DP monitoring officer.	Senior Personal Budget Support Officer	15/02/2023
7	Investigate the use of Allpay and Paycoll summary reports to obtain an overview of the total value of used and unused funds throughout the financial year.	Priority 2	Allpay have submitted this request to their development team. An interim workaround is being used to generate this report. Payroll companies will be asked what functionality they have for summary reporting.	Principal Personal Budget Support Officer Senior Personal Budget Support Officer	01/05/2023

8	A cost-benefit analysis should be carried out to establish if it would be beneficial to increase the resource of the DP Support Team to help: - • Recuperate funds • Inform the allocation of funds	Priority 2	Analysis to be carried out – resource to complete this to be identified. Additional resource to be sought if a subsequent business case demonstrates the need.	Principal Personal Budget Support Officer	01/08/2023

APPENDIX 2

4.0 FINDINGS

4.1 PAYMENT SETUP PROCEDURES

4.1.1 General information is made available to the public on the Council's website to help explain the purpose of a direct payment (DP), and how to apply. Although applicants may approach the Council about receiving a direct payment so that they can take responsibility for their care, we were informed care coordinators have a key role in providing advice and assessing their suitability.

4.1.2 Although under review currently, standard operating procedures for setting up a direct payment on Mosaic have been documented, which are updated on a rolling basis and made available to staff on the Council's intranet to explain the requirements for each stage of the process. It was explained by the Senior Financial Support Officer that the Direct Payment team had provided a supporting role to the Adult Social Care (ASC) workers, but this had distracted them from their monitoring role, highlighting ASC workers require training and/or dedicated support which will be provided by the Personal Assistant Team (PAT) in future. (**See Rec 1**).

4.1.3 As a minor observation, consideration should be given to documenting the supporting functions and the wider operational responsibilities of all teams involved in the direct payment process (**See Rec 1**). It should be noted that having different teams involved in the process does promote a separation of duties, with coordination and oversight being provided by the Principal Personal Budget Support Officer (See Rec1). However, but these could be strengthened, as follows: -

- Although the DP Support Team has been responsible for setting up the direct payment facility on Mosaic and monitoring, a new Senior DP Officer post has been created within the DP Support Team with the specific responsibilities of setting up direct payments. We understand the existing Senior DP Officer will remain responsible for monitoring expenditure.

- There are no secondary checks or authorisations to ensure 'fraudulent' accounts or pre-paid cards have not been created (**See Rec 2**).

- The Financial, Assessment, and Benefits Team (FAB) is responsible for reviewing an applicant's financial status and contribution.

4.2 DECLARATIONS OF INTEREST

4.2.1 Declarations of interest are not being effectively managed in accordance with the Council's Code of Conduct (Section 2)[1], to ensure staff can formally confirm that they do not have any conflict of interest with a direct payment application. Although employees are required to declare any potential conflicts of interest at the start of their employment, reliance is placed upon the employee to notify their manager which subsequently absolves them of the responsibility (**See Rec 1**).

4.3 SEPARATION OF DUTIES

4.3.1 The Service has recognised that there were poor separations of duties between the setting up of the payment schedule on Mosaic and the monitoring of expenditure, as both these duties were undertaken by the Direct Payment Support Team. This has since been rectified, as the setup responsibilities were transferred to the Senior DP Officer during the course of this audit.

4.3.2 On examining Mosaic processes we did identify inconsistencies in the completion of key documentation, (**See Recs 2**). An examination of the 13[2] payments in October 2022 and ERRG Task system reports found: -

Eligibility Risk and Review Group

- The ERRG decision document, which records the basis and outcome of the application, requires the identification of the officer advocating the application. However, tests and examination of documents found that the officer presenting/ advocating the application had only been recorded for 7 out of 13 (54%) applications. These were either left blank or were recorded on a departmental name basis.

- We are satisfied Mosaic ERRG Task report names the officers for the '*Task Request Last Updated By Worker*' or '*Assign WFSWorker*' fields and their respective teams to demonstrate the input and scrutiny from multiple officers. However, the ERRG Task report records that between 1/4/2019 and 4/11/22 the name of the advocate for a direct payment could only be identified for 79% of casework.

- An ERRG decision could only be found for 9 out of 13 (69%) payments, and where a decision had been made, the pre-ERRG review had only been completed for 6 (67%) people. This highlights the risk that the ERRG procedure has been bypassed (See Rec 2).

APPENDIX 2

[1] SECTION 2: CODE OF CONDUCT FOR EMPLOYEES 1.1 A number of the provisions in the code require employees to make declarations of interests. When declarations are necessary, employees should ensure that their managers are informed of this interest. A copy of the declaration should be held on the employee's personal file and registered in a log maintained by the service/directorate.

[2] Test Sample: those DP clients who were paid their direct payment entitlement directly into a personal bank account instead of through the 'managed bank account' or 'pre-paid card' options.

Identification of Allocated and Co-Workers on Mosaic

It is our understanding that each client should be assigned an allocated and a co-worker to provide a level of independent support and scrutiny. However, a named officer was recorded as the allocated officer for only 2 out of 13 (15%) payments. The remainder of the allocations were assigned to the department, which assigned the responsibility to a named establishment list. Despite this, the ERRG Task report records that a WFS Worker had been allocated for every direct client.

- Except for the Deputies Office, all co-workers were identified by their name and department (See Rec 1,3 & 4).

4.4 PAYMENTS

4.4.1 Although there are good audit trails in place between the ERRG authorisations on Mosaic and payments made on Oracle Fusion, it is important to note that the Mosaic system allows payments to be made without an ERRG approval or a direct payment agreement being in place. A sample examination of the payments made on 25/9/2022 (pay run number139) identified the following: -

- We were able to satisfactorily reconcile the Oracle Fusion payments against the Mosaic 'Payment Run' report, and we found there were good references and descriptions to help identify the payee.

- Where found, the weekly payment rate approved by the ERRG had been correctly calculated by Mosaic and reported on the 'Payment Run' report and the DP Support Team's 'Master DP Spreadsheet'. However, importantly, testing found there was no ERRG approval held on Mosaic for 4 payments, of which 3 didn't have a DP agreement as required. A lack of a DP agreement is an existing issue recognised by the DP Support Team, as these missing records are indicated on the 'Master DP Clients Record' spreadsheet. (**See Recs 1, 2**).

- Although we have been informed that inflationary increases are applied in line with the Council's annual provider framework rate increase, where the use of a personal assistant is known, our tests found the current weekly rates have remained the same since their original approval, dating back to 2017. The DP Support Team has highlighted inflation is applied to the care element of the DP where known, but this needs to be balanced against the level of surpluses that are recuperated (**See Rec 3**).

- We are satisfied that Mosaic records a purchase order reference for each payment and that the purchase order value could be reconciled to the payment on Fusion. However, we were only able to locate the order documents for 6 out of 13 purchase orders, and we noted that the sign off

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description only recorded the name of the officer on some occasions. (**See Rec 1**).

4.5 MONITORING OF DIRECT PAYMENTS

4.5.1 Procedures for monitoring direct payments carried out by the DP Support Team have been documented.

4.5.2 The approach for monitoring direct payments covers the review of expenditure, insurance cover, and the disclosure and barring check of personal assistants. The frequency of these reviews should be informed by risk using the proportional monitoring matrix, however, we note that neither the matrix score nor the review outcomes are recorded, quantified, or summarised on the 'Master DP Client Record' spreadsheet to support the importance why certain direct payments have been selected over others. Importantly, the review outcomes are not summarised to provide 'global' oversight of the findings. A summary would help quantify the outcomes of the reviews for senior management to help provide an assurance opinion on direct payment control.

4.5.3 The 'Master DP Clients Record' spreadsheet has been produced to provide a supplementary tool for managing the service's reviews of DP expenditure. There is a need to review the approach for reviewing direct payments and reporting procedures on an annual basis to ensure that they remain appropriate (**See Rec 4**). Our analysis of the records as of 4/10/22 found:

- The responsibility of the DP Support team includes the review for adults and children. Internal Audit's review was focused on adult payments which were paid directly to the direct payment client.

- Although not verified, to ensure completeness, we received assurance from the Principal Personal Budget Support Officer that the spreadsheet is reconciled against Mosaic every two weeks.

- The risk profile considerations which determine the selection of the expenditure reviews are informed by the a) type of payment, b) confirmation of an agreement, b) value of the weekly payment, c) if respite or a one-off payment, d) if/what there are third party arrangements, and e) the date of the last review. We noted that client outcomes from the expenditure reviews are not summarised or quantified to understand or demonstrate issues or the materiality of risks found (**See Rec 4**).

- Several independent reviews carried out by the Corporate Investigation Team (CIT) during 2022 highlighted there is insufficient monitoring or explanation of the level of surplus balances held by DP clients. We were informed that a review of the surplus balances for the 25 clients totalling £229k will be undertaken to ensure the surpluses are recovered where appropriate (**See Recs 4, 6 & 7**).

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- Our analysis shows that expenditure reviews have been carried out across all three payment methods. 65 out of 263 adult direct payment reviews had been carried out for adult social care since 1/4/2022. A breakdown shows that 48% (29) of the reviews were focused on pre-paid cards, 38% (25) on managed bank accounts, and 17% (11) were focused on payments that were paid directly into the client's bank account.

- There is no summary of findings to provide management oversight of the review status. Our analysis of the DP spreadsheet found that out of 263 current ASC DP payments, 125 reviews are either due or overdue. The spreadsheet records that 42% (53) of expenditure reviews are overdue by 1 year, 21% (26) are overdue by 2 years, and 4% (5) are overdue by 3 years (**See Rec 4**).

4.6 RECOVERY OF SURPLUS BALANCES

4.6.1 Identified surplus balances for the pre-paid cards and managed bank accounts are recouped via the Allpay and Paycoll systems and credited to Oracle Fusion, and the Council's debtor system must be used to recuperate those surpluses held directly by the client. Surpluses are identified from the direct payment expenditure reviews; however, the following should be noted: -

- Clients are permitted to retain a balance as a contingency equal to eight weeks of the care and support plan, albeit this should be as per the sum approved by ERRG and the agreement.

- The 'direct payment monitoring' spreadsheet satisfactorily accounts for the client's contribution to ensuring the recuperation is correct. The scope and feedback on the spreadsheet were found to be comprehensive, with the exception of any inquiry into why there is a surplus (**See Rec 5**).

4.6.2 The debtor's module on Oracle Fusion is unable to classify surplus recuperation from other DP debts. As of 30/9/2022, the Council's 'Aged Debtor Report' records there are 44 outstanding recoveries, tagged as direct payments, which account for 1.61% (£95,022) of the outstanding debt totalling £5,918,041: -

- 44% (£41,375) of the total sum of DP debt is 5 years plus old. It is important to note that the analysis shows that the level of debt is due to 2 legacy debts relating to DP clients who carry an arrear of £30,582 between them.

- 93% (41) of people have debts below £5,000.

4.6.3 Although the Council has access to the Allpay and Paycoll systems to interrogate client transactions, it does not have access to produce a summary report of all balances. The Principal DP Support Officer agreed that he would investigate this further as this would assist with determining the expenditure review approach and

APPENDIX 2

help if a themed or targeted review was required. Importantly, as public money, this would provide greater oversight and assist the Council to assess the total proportion of funds used and unspent at any period (**See Rec 6**).

4.6.4 An analysis of Fusion for the last 5- years shows that ASC recuperated approximately £210,683[3] per year (**See Rec 7**).

Financial Year	Net -Annual	Monthly Average
2018/19	£ 202,268.22	£ 16,855.69
2019/20	£ 73,986.29	£ 6,165.52
2020/21	£ 281,884.91	£ 23,490.41
2021/22	£ 169,886.11	£ 14,157.18
2022/23	£ 237,605.14	£ 33,943.59
	£ 965,630.67	£ 17,556.92

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[3] £17,556.93 x 12 months = £210,683.04

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READING BOROUGH COUNCIL

DIRECTOR OF FINANCE

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	12 APRIL 2023		
TITLE:	Internal Audit plan 2023/2024 & Internal Audit Charter		
LEAD COUNCILLOR:	COUNCILLOR TERRY	PORTFOLIO:	CORPORATE SERVICES & RESOURCES
SERVICE:	AUDIT & INVESTIGATIONS	WARDS:	N/A
LEAD OFFICER:	PAUL HARRINGTON	TEL:	9372695
JOB TITLE:	CHIEF AUDITOR	E-MAIL:	Paul.Harrington@reading.gov.uk

1. PURPOSE OF REPORT

1.1 This report sets out the work Internal Audit plans to undertake during the financial year 2023/2024. This plan has been discussed with Executive and Assistant Directors and presented to Directorate Management Teams.

1.2 It is internal audit's responsibility to provide an annual formal opinion on the Council's control environment. In the context of the Public Sector Internal Audit Standards[1], '*opinion*' does not simply mean '*view*', '*comment*' or '*observation*'; it means that internal audit will have done sufficient, evidenced work to form a supportable conclusion about the Council's activities that we have examined. Internal audit will word its opinion appropriately if it cannot give reasonable assurance (e.g., because of limitations to the scope of, or adverse findings arising from, its work).

1.3 The attached audit plan (appendix 1) will allow for the effective discharge of this responsibility. In accordance with the Accounts and Audit regulations[2] and the Public Sector Internal Audit Standards the Council's Audit and Governance Committee is required to approve and monitor progress against, the internal audit plan.

1.4 Accompanying the audit plan is the internal audit charter which sets out the purpose, authority, responsibility and scope of internal audit. The Public Sector Internal Audit Standards (PSIAS) intend to ensure sound corporate governance and set out roles and responsibilities with regard to the delivery of internal audit services. The PSIAS require an Internal Audit Charter to be in place which will be reviewed periodically and presented to the Audit & Governance Committee for approval.

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[1] The Public Sector Internal Audit standards – Applying the IIA International Standards to the UK Pubic Sector 2013 *(updated March 2017)*

[2] A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance.

1.5 The following documents are attached to this report:

- Draft Internal Audit plan for 2023/2024 (appendix 1)
- Internal audit charter (appendix 2)

2. RECOMMENDATIONS

2.1 That the Audit & Governance Committee approves the audit plan and Internal Audit Charter for the period April 2023 to March 2024.

3. INTERNAL AUDIT PLAN

3.1 Internal audit contributes to the Council achieving its key priorities by helping to promote a secure and robust internal control environment, which enables a focus on achieving the key priorities. It also supports the Director of Finance in discharging his statutory (sec 151) duties.

3.2 In line with the PSIAS the proposed audit plan has been devised by adopting a risk-based approach. The information which has been used to prepare our risk assessment and proposed internal audit plan has been collected and collated from a number of different sources. The starting point for a risk-based audit approach is an understanding of the Council's objectives and risks. This has been achieved by reviewing the Councils Strategic risk register, Corporate Plan and minutes of officer and Council meetings. Executive Directors and Assistant Directors were consulted for areas to be included in the audit plan and our own knowledge and experience of Council services were also used to inform our subsequent risk assessment. This information is used to inform and design the audit plan.

3.3 The audit plan needs to be deliverable within available resources and the achievement of the audit plan is based on the assumption that the current internal audit structure will remain essentially unaltered and intact throughout the year.

3.4 The audit plan is fixed for a period of one year; however, it must at the same time be fluid, kept under continuous review and amended to take into account emerging risks and areas where assurance work is required to be provided. Any significant changes will be reported back to the Audit & Governance Committee.

3.5 CMT and the Audit and Governance Committee will also be advised of performance against the audit plan and be kept informed of the results of those audit reviews undertaken.

4.0 INTERNAL AUDIT CHARTER

4.1 In accordance with the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF), and the Public Sector Internal Audit Standards (PSIAS), the purpose, authority and responsibility of the internal audit function must be formally defined in an internal audit charter, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards and the Definition of Internal Auditing). The Charter is a formal document that establishes the position of Internal Audit within the Council; authorises access to records, personnel and physical properties relevant to the performance of audit engagements; and defines the scope of internal audit activities.

4.2 The internal audit charter should be approved by the Audit & Governance Committee and agreed to by senior management. The charter should at a minimum include internal audit's purpose and mission, authority, responsibility, its independent reporting relationships, scope and requirement to conform to IIA Standards.

5. CONTRIBUTION TO STRATEGIC AIMS

5.1 The Internal Audit Team aims to assist in the achievement of the strategic aims of the Council set out in the Corporate Plan by bringing a systematic disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes. In particular audit work is likely to contribute to the priority of remaining financially sustainable to deliver our service priorities.

6. COMMUNITY ENGAGEMENT AND INFORMATION

6.1 *N/A*

7. LEGAL IMPLICATIONS

7.1 Legislation dictates the objectives and purpose of the internal audit service the requirement for an internal audit function is either explicit or implied in the relevant local government legislation.

6.1 Section 151 of the Local Government act 1972 requires every local authority to "make arrangements for the proper administration of its financial affairs" and to ensure that one of the officers has responsibility for the administration of those affairs.

6.2 In England, more specific requirements are detailed in the Accounts and Audit Regulations in that authorities must "maintain an adequate and effective system of internal audit of its accounting records and of its system of internal control in accordance with proper internal audit practices".

7. FINANCIAL IMPLICATIONS

7.1 N/A

8. BACKGROUND PAPERS

8.1 N/A

Draft Indicative Internal Audit Plan

(2023/2024)

Planned Internal Audit Review Area	Risks context	Planned Internal Audit Coverage	Q1	Q2	Q3	Q4

Healthy Environment

Sec 106 Agreements	There is a failure to recover and utilise all contributions secured	The purpose of this audit is to review how s106 funds are recorded and spent in line with relevant agreements and time limits and to provide assurance that accounting records are maintained to evidence all expenditure. All s106 obligations have been recorded in an accurate and timely manner. That all s106 obligations are included in all relevant planning approvals. Have we got the internal skills and knowledge to challenge developers? Are we getting VFM from our valuations team, do they have too many conflicting priorities? How are fund balances monitored and reported?			●	
Community Infrastructure Levy	Non-compliance with regulatory requirements and recommended practice. CIL not maximised where eligible developments are not identified for CIL charges and/or charges are incorrectly. Invalid exemptions are applied for and granted. Inefficient and ineffective charge collection and debt recovery, leading to a loss of income and planned benefits derived from CIL	To establish that the processes for the collection of monies relating to the CIL are robust and meet the key CIL legislative requirements. To document the processes for monitoring and reporting spend against CIL monies to ensure that funds are being used to achieve the Local Plan and Key Priorities. Can this be completed alongside sec 106 review (above), or should they be separate audits?				●
Fuel system	In appropriate use and/or theft of fuel	Ascertain how fuel is controlled at the depot, that the fuel figures produced are dependable; fuel data is appropriate, proportional and is analysed to inform decision making.	●			

Planned Internal Audit Review Area	Risks context	Planned Internal Audit Coverage	Q1	Q2	Q3	Q4

Thriving Communities

Homelessness Prevention Grant	Terms and conditions of grant determination are not met	The Chief Executive, section 151 officer, or Chief Internal Auditor of each of the recipient Authorities must, in advance of tranche payments, sign and return a declaration confirming the conditions attached to the homelessness prevention grant have been complied with.	●			
Homelessness	increasing number of people becoming homeless and placing additional financial pressure on the Council to provide temporary accommodation (including B&BS).	The audit will review the effectiveness of the systems in operation for processing applications and monitoring homelessness cases and select a sample of cases to review application process, to ensure compliance with policy and to establish the level of monitoring undertaken once the decision to accept a homeless case has been made.				●
Rough Sleeping Initiative and Protect and Vaccinate Grant cert	Terms and conditions of grant determination are not met	The Chief Executive, section 151 officer, or Chief Internal Auditor of each of the recipient Authorities must, in advance of tranche payments, sign and return a declaration confirming the conditions attached to Rough Sleeping Initiative have been complied with.		●		
Rough Sleeping Accommodation Programme Grant Determination (RSAP 1 & 2)	Terms and conditions of grant determination are not met	The Chief Executive, section 151 officer, or Chief Internal Auditor of each of the recipient Authorities must, in advance of tranche payments, sign and return a declaration confirming the conditions attached to Rough Sleeping Accommodation Programme determination.	●			
Public Health Grant	The Public Health ring-fenced grant funding conditions include specific reporting requirements to the Department of Health.	looking at VFM of areas / contracts funded by the Public Health Grant such as certain activities provided by GPs, healthcare contracts and the voluntary sector.		●		

Planned Internal Audit Review Area	Risks context	Planned Internal Audit Coverage	Q1	Q2	Q3	Q4
Commercial Assets & Investments	Poor investment outcomes and increase exposure to financial risk including loss of anticipated rental income and poor investment returns.	Review adequacy of systems in place to identify, collect, record and monitor rental income due. This is a follow on from the audit performed in 2022/2023 but focusing on the Oracle contract. Terms of reference to be agreed with AD	●			
Demand management (inc ASC Front Door)	Good demand management and supervision processes are critical to maintaining effective practice.	The aim of the audit is to measure the understanding of current demand levels and the activity undertaken to management and prioritise demand through the ASC Front Door. How are waiting lists managed, use of RAG, risk assessments, is it consistent and fair across ASC?			●	
Supported Living Placements	ASC not receiving VFM, costs excessive	The audit will review how supported living residential placements are commissioned, what options are explored, that placements provide value for money and are reviewed/managed regularly		●		
S117 of the Mental Health Act	If the processes for approval of joint care and the financial procedures for recharges are not robust the Council will not recover costs.	The audit will ensure eligibility for s117 aftercare is confirmed. Correct identification of responsible CCG; Effective utilisation of commissioned services. Appropriate agreement / allocation of health and social care funding (partnership working). The audit will include review of the process for discharges from s117 and the arrangements for apportioning financial responsibility for funding for care.	●			
Learning & Development, Physical Development and Mental Health Placements		This audit will review how we commission specialist/out of borough places for L&D and Mental Health. The audit will assess what options have been explored that placements provide VFM and are managed/reviewed regularly.			●	
Continuing Health Care (CHC)	If the processes for approval of joint care and the financial procedures for recharges are not robust the Council will not recover costs.	Assurance that the Council's practice and processes fit with its responsibilities under the national framework for NHS Continuing Healthcare and NHS-funded Nursing Care, and that the Council has worked collaboratively with the CCGs when reviewing processes.		●		

Planned Internal Audit Review Area	Risks context	Planned Internal Audit Coverage	Q1	Q2	Q3	Q4
Deputyship and Appointeeship (Follow up Review)	Cash for clients misappropriated. Financial records do not reconcile with monies received/paid out. Property held on behalf of clients misappropriated. Failure to meet legal responsibilities required by the Court of Protection. Reputational risk to Council	Undertake a review of the arrangements in place over deputyship and appointeeship to assess whether the Council is fulfilling its responsibilities. Financial accounts and supporting evidence; records are complete; cash is held and handled securely (IF STILL USED) and management oversight, challenge and assurance is effective.			●	

Inclusive Economy

Reading Museum & Collections inc Reading Foundation of Art	Reading Foundation of Art (RFA) is an independent charity that raises funds and purchases for works of art which are then kept at Reading Museum. Need to scope and review current position of RBC and RBC officers in relation to RFA and any interface with RBC processes	Undertake review of RBC procedures involved in relation to links to RFA, ensuring clear scope of roles and responsibilities and assets, ensuring that process, staff, assets and everything related is properly discharged – all processes required by RFA are compatible with RBC.		●		
Local Transport Plan Capital Settlement (Grant Certification)	Terms and conditions of grant determination are not met	It is a requirement that the Head of Audit signs a declaration to confirm that the conditions of funding have been complied with.		●		
Local Authority Bus Subsidy Grant (BSOG)	Terms and conditions of grant determination are not met	It is a requirement that the Head of Audit signs a declaration to confirm that the conditions of funding have been complied with.		●		

Planned Internal Audit Review Area	Risks context	Planned Internal Audit Coverage	Q1	Q2	Q3	Q4
Payroll (inc HR/Itrent processes)	Errors and omissions resulting in weaknesses in the integrity of financial data and statements.	HR and Payroll utilise iTrent, a platform that delivers end-to-end HR and payroll processing. All overtime, travel and subsistence transactions are submitted through I-Trent. The purpose of this audit will be to review and assess the design and effectiveness of controls in relation to payroll activity to provide assurance over the accuracy, completeness and timeliness of transactions undertaken.		●		

Foundations

Coroners Service	Costs not apportioned and/or recovered	Review the arrangements the Council has in place to support the coroner, covering roles and responsibilities, contracts with third parties and the service's performance and financial management processes and controls. Terms of reference to be agreed with AD		●		
New Finance System migration	General Ledger Operations are a key function within the Council, and it is particularly important that all transactions are recorded accurately within agreed timescales in order that the Council is able to produce accurate financial information to assist with the decision-making process.	There will be postings into oracle for adjustments and amendments once the new system goes live. This audit will seek to review the process for transferring balances and history from the current system to the new finance system. This will incorporate verifying the transfer of balances and new chart of accounts. GL transferred balances and open item balances such as AP and AR. (Timing will very depend on when the system goes live)			●	
Intercompany accounting (Follow Up Review)	Incorrect journal transfers made, resulting in over/under charges. Journals are not supported and/or authorised.	During 2021/2022 we reviewed the process for billing Brighter Futures for Children (BfFC), to ensure the correct amounts are journaled across, supporting evidence is available and transfers are authorised. This audit was given limited assurance. A follow up review will be undertaken to establish what progress has been made to address audit concerns	●			

Planned Internal Audit Review Area	Risks context	Planned Internal Audit Coverage	Q1	Q2	Q3	Q4
Accounts Payable	This system provides material disclosures for the financial statements. Late payment concerns and its unknown how queried invoices are impacting on AP KPI's	This audit will verify Systems controls for the new financial system AP module. Ensure responsibilities are documented, ensuring payments are correctly coded, made promptly, in full and only in respect of authorised invoices and that orders for goods and services are placed in advance and appropriately authorised.			●	
Bank & Cash Rec inc control account reconciliations	This system provides material disclosures for the financial statements. The is one of the key processes that has been given limited assurance each year	The audit will verify the reconciliation of the bank account and all control accounts and review the process to ensure these are completed in a timely way. The audit review feeder system interface with the GL and reconciliation - is the process automated or is there manual intervention? The audit will cover all feeder systems to fusion, payroll, Mosaic, Civica etc and focus where there is manual intervention.		●		
Accounts Receivable	Weak or delayed recovery arrangements increase the likelihood that debts will not be recovered, reducing the council's income.	The audit will review dunning and collection processes in the new Financial System. The audit will also review the arrangements for the prompt recovery of debts, writing off unrecoverable debt, and potentially writing debt back on if circumstances change.				●
CTAX	Council Tax is a core financial system and increasingly a significant source of income to the Council	Areas of coverage may include a) Policies, Procedures and Legislation, b) Amendment to Council Tax records, c) Discounts and Exemptions, e.g. Single Person Discount d) In-year Billing, e) Collection and Refunds, f) Recovery, Enforcement and Write Offs, g) Reconciliation between Council Tax system and General Ledger, h) Performance monitoring and Performance, and I) System access.		●		
Digital Technology and Change - Project Management	Poor governance, projects commence without due diligence and approval. Projects not assessed and monitored to ensure that they are delivering their planned benefits within their planned costs.	ICT perform a number of projects either as part of a wider business led project or as part of an ICT specific project. Digital Technology and Change (former Corporate PMO) covers all business projects with ICT implications. This audit will assess the project management governance and compliance with project management practices and to understand controls in place to measure the benefits the project(s) is delivering.			●	

Planned Internal Audit Review Area	Risks context	Planned Internal Audit Coverage	Q1	Q2	Q3	Q4
Data Security/Information Governance	Information created, accessed, handled, stored, protected and destroyed by the Council and its service areas is not managed in compliance with legislation or local policies. Council services do not fully understand or manage the risks such non-compliance involves.	The audit will provide assurance on whether systems used to create, process and store records are appropriately managed, data is appropriately retained, arrangements are in place for handling any security breaches, and whether any losses can be recovered. The aim is to measure compliance against best practice guidance and to see whether information is handled correctly and protected from unauthorised access, loss, damage and destruction.			●	
Subject Access Requests (SAR)	The introduction of GDPR brings home changes to the processes for dealing with subject access rights.	This audit will look to provide assurance that controls are in place to allow the Authority to respond to all SAR requests in a timely manner and that there is sufficient reporting and governance processes in place to monitor and manage performance.				●
Procurement end-to-end process	Risk of non-compliance with Public Contracts Regulations 2015 leading to legal costs, damages and financial penalties as well as reputational risk. Services not gearing up / preparing sufficiently for re-procurement of contracts and services in their areas. Waivers used inappropriately.	The purpose of the audit is to review as to whether the procurement function has the necessary authority, position and resources to perform effectively. The Council has an appropriate strategy governing its Procurement activities. Procurement has addressed the legal framework and recent legislative changes. Procurement has sound business processes throughout the procurement cycle. Procurement can demonstrate robust performance management, interfaces well with services and contributes to organisational efficiency. Terms of reference to be agreed with AD.		●		
Scheme of Delegation		Review of a sample of decisions made to confirm that the Council's new Scheme of Delegation is being complied with and that officers do not take decisions which are beyond their delegated powers.				●

Planned Internal Audit Review Area	Risks context	Planned Internal Audit Coverage	Q1	Q2	Q3	Q4
Employee gifts and hospitality & declarations of interests	Governance polices/instructions are not followed leading to weaknesses in internal controls. This produces a heightened risk of fraud, corruption &/or poor value for money with the consequent negative reputational impact.	This review will seek to determine the level of compliance with the code through contacting a selection of key services to see if any gifts or hospitality have been declared and whether declarations of interest have been provided.		●		

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Internal Audit Charter

1. Mission

1.1 The mission of the Internal Audit Service is "to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight".

2. Statutory Role and Definition

2.1 The Council's Internal Audit function is provided by an in-house team.

2.2 The authority and requirement for an internal audit function derives from two pieces of legislation.

2.3 **Section 151 of the Local Government Act 1972** requires that authorities 'make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs'. The Financial Regulations (Constitution part 4 – Financial Regulations) state that the Director of Finance (s151) Officer has this responsibility ('establishing an adequate and effective system of internal audit').

2.4 The **Accounts and Audit Regulations 2015**, require that a relevant body must 'evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards (PSIAS) or guidance'. Any officer or member of a relevant body must, if required to do so for the purposes of internal audit, make available such documents, records & information, and explanations as are considered necessary by the internal auditors

2.5 The objectives of the PSIAS are to:

- define the nature of internal auditing within the UK public sector
- set the basic principles for carrying out an internal audit in the public sector
- establish a framework for providing internal audit services, which add value to the organisation, leading to improved organisational processes and operations, and
- establish the basis of the evaluation of internal audit performance and to drive improvement planning.

2.6 The PSIAS encompass the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF) as follows:

- Definition of Internal Auditing
- Core Principles for the Professional Practice of Internal Auditing
- Code of Ethics, and
- International Standards for the Professional Practice of Internal Auditing.

2.7 The Chartered Institute of Public Finance and Accountancy (CIPFA) has also developed an application note for the PSIAS. The application note sets out the proper practice for Internal Audit in local government.

2.8 This Charter describes the purpose, authority, and principal responsibilities of the council's Internal Audit Service. Policies and practice guidance have been put in place to ensure all Internal Audit staff understand and comply with these Standards.

3. Internal Audit

3.1 Internal Audit provides independent and objective assurance on the adequacy and effectiveness of governance, risk, and controls. It achieves this through the competent application of systematic and disciplined processes, expertise, and insight. It reports its findings to management and the Audit & Governance Committee to promote and facilitate continuous improvement. In doing so, it may consider assurance from other internal and external providers.

3.2 PSIAS definition of Internal Auditing: Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

4. Scope of Internal Audit

4.1 All the Council's in-house systems and procedures fall within the remit of Internal Audit. It is the role of Internal Audit to review, appraise and report on the effectiveness and efficiency of financial and other management controls, including risk management, and corporate governance.

4.2 The scope of internal audit work will aim to cover all operational and management controls and is not restricted to the audit of systems and controls necessary to form an opinion on the financial statements.

4.3 The nature of assurance services provided to the organisation includes:

a. assurance frameworks.

b. review of controls within existing systems and systems under development.

c. compliance with Council policy and procedures, including Financial Regulations.

d. transactions testing to ensure accuracy of processing.

e. Confirming grant funding has been spent in accordance with grant determination(s)

f. IT audit.

g. proactive fraud work.

5. Access

5.1 Subject to any legal or statutory obligations, Internal Audit has, by right, unrestricted access to all the Council's personnel, records, information, and assets that it considers necessary to fulfil its responsibilities, including those of partner organisations and third-party suppliers where contract terms include internal audit access rights. Management must also ensure that Internal Audit is provided with all information and explanations that it seeks in the course of its work.

5.2 In turn, Internal Audit will comply with any requests from the External Auditor for access to any information, files or working papers obtained or prepared during audit work that is required to discharge their responsibilities.

6. Reporting lines, Relationships, and Independence of Internal Audit

6.1 Internal Audit is part of the Directorate of Resources.

6.2 The PSIAS specifies that the Charter must define the terms 'Board' and 'Senior Management' for the purpose of internal audit activity. For the Council, the 'Board' is the Audit & Governance Committee, and 'Senior Management' is the Corporate Management Team (CMT).

6.3 The Head of Audit has right of direct access to the Director of Finance (s151) Officer, Chief Executive, Monitoring Officer, Executive Directors, and the Chair of the Audit & Governance Committee.

6.4 The Council's Financial Regulations set out the key financial roles of officers, including any regarding Internal Audit.

6.5 Internal Audit resources are deployed flexibly around the demands of the planning framework and the objectives of the Council. Senior management are consulted regularly on the planning framework and the resultant audit work. This approach is agreed with the Director of Finance (s151) Officer and approved by the Audit and Governance Committee prior to the commencement of each financial year.

6.6 Most audit assignments are the subject of formal reports. The primary purpose of the audit report is to provide management with an opinion on the adequacy of the internal control system, and to inform them of significant audit findings and conclusions. Agreed actions to be taken as a result of audit findings are also recorded and it is the relevant Assistant Director's responsibility to ensure these are implemented. All agreed actions, relating to 'limited' or 'no-assurance' opinions are subject to a follow-up review by Internal Audit and the outcomes reported to the Audit & Governance Committee. The relevant Executive Director / Assistant will receive a copy of the audit report.

6.7 The role of the Audit & Governance Committee in relation to Internal Audit is:

a. to oversee its independence, objectivity, performance, and professionalism.

b. to support the effectiveness of the Internal Audit process.

c. to promote the effective use of Internal Audit within the assurance framework.

6.8 The Audit & Governance Committee's terms of reference[1], with regards to Internal Audit, state:

a. ensuring Internal Audit complies with the Public Sector Internal Audit Standards

b. approving the Internal Audit Charter.

c. approving the risk-based Internal Audit planning process, including Internal Audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.

d. considering the annual report and update reports from the Head of Audit on Internal Audit's work and performance during the year.

e. monitoring the counter-fraud strategy, actions, and resources, including reviewing the assessment of fraud risks and potential harm to the Council from fraud and corruption and issuing guidance and best practice advice regarding probity and ethics.

[1] Audit & Governance Committee terms of reference to be updated in light of the new CIPFA guidance

6.9 The Audit & Governance Committee cannot direct the work of Internal Audit.

6.10 At various meetings of the Audit & Governance Committee, Internal Audit report on a summary / sample of the work undertaken within the period since the last report. The report highlights the findings of audit work carried out and information that is of interest or needs to be brought to the attention of the Committee.

6.11 The end of year report provides a summary of the work of Internal Audit during the financial year, information on the performance of the section, and includes an opinion from the Head of Audit on the overall adequacy and effectiveness of the control environment within the Council. This is timed to support the annual review of Corporate Governance and the production of the Annual Governance Statement.

6.12 Copies of individual Internal Audit reports which have resulted in an overall opinion of 'limited' or 'no' assurance are, in addition to the relevant Director, sent to the Director of Finance (s151) and to the Audit & Governance Committee as an attachment to the quarterly update report.

6.13 Internal Audit's independence from the responsibilities of management is critical to its objectivity, authority, and credibility. Independence is established through accountability to the Audit & Governance Committee; unfettered access to people, resources, and data needed to complete its work; and freedom from bias or interference in the planning and delivery of the Internal Audit Service.

6.14 Internal Audit shall remain sufficiently independent of the activities that it audits to enable it to perform its duties in a manner that facilitates impartial and effective professional judgements and recommendations.

6.15 Internal Audit staff shall not develop nor install systems or procedures, prepare records, nor engage in any other activity which would normally be audited.

6.16 Except for Internal Audit, the Corporate Investigations and Insurance teams the Head of Audit has no direct operational responsibility or authority over any of the activities it reviews. For Corporate Investigations and Insurance, to safeguard independence, the scope of any Internal Audit work required on this area will be agreed with the Director of Finance (s151) Officer. Preserving independence would be achieved either through the auditor reporting directly to S151 officer or commission an external review

6.17 Every effort will be made to preserve objectivity by ensuring that all Internal Audit staff are free from any conflicts of interest and do not undertake any non-audit duties.

6.18 Internal Audit is involved in the determination of its priorities in consultation with the Audit & Governance Committee. The Head of Audit has direct access and freedom to report in his own name and without fear or favour to all officers and members.

7. Quality of Service and Due Professional Care

7.1 Internal Audit operates in accordance with standards of best practice applicable to internal audit; in particular, the PSIAS and Standards in Public Life's Seven Principles of Public Life (selflessness, integrity, objectivity, accountability, openness, honesty, and leadership).

7.2 The core principles, as set out in the PSIAS, taken as a whole, must be present and operating effectively for Internal Audit to be considered effective. These are:

- demonstrates integrity.
- demonstrates competence and due professional care.
- is objective and free from undue influence (independent).
- aligns with the strategies, objectives, and risks of the organisation.
- is appropriately positioned and adequately resourced.
- demonstrates quality and continuous improvement.
- communicates effectively.
- provides risk-based assurance.
- is insightful, proactive, and future focused.
- promotes organisational improvement.

7.3 Internal Audit operates a quality assurance framework which covers all areas of internal audit activity. An audit manual is maintained which outlines the key responsibilities of audit staff and defines the audit process.

7.4 Internal review of work standards is undertaken through a system of managerial review involving the Head of Audit and / or Principal Auditor. This incorporates a review of all documentation and evidence, and the accuracy of the report.

7.5 Feedback is canvassed from managers responsible for activities under their control or within their responsibilities to obtain their satisfaction with the audit service provided.

7.6 A suite of performance indicators and targets has been developed to monitor the quality of the service provided, the results of which are reported in the annual report to the Audit & Governance Committee.

7.7 The Council's External Auditor keeps the performance of Internal Audit under review to ensure reliance can be placed on its work, where required (External Audit cannot direct the work of Internal Audit).

7.8 The PSIAS requires the Head of Audit to maintain a quality assurance and improvement programme covering all aspects of the Internal Audit activity. This is done through internal assessments but also, at least once every five years, via an external assessment carried out by a qualified, independent assessor or assessment team.

7.9 The Head of Audit will share the results of internal and external assessments with the Audit & Governance Committee annually.

8. Allocation of Internal Audit Resources

8.1 Internal Audit must be appropriately staffed in terms of numbers, qualification levels and experience. The Head of Audit reports on the adequacy of resources to the Director of Finance (s151), the Corporate Management Team and, if necessary, to the Audit & Governance Committee.

8.2 The training and personal development needs of Internal Audit staff are established through a review process, and it is the responsibility of the Head of Audit to ensure that Internal Audit staff receive the appropriate professional, technical and personal development training.

8.3 The Head of Audit is responsible for appointing the staff within Internal Audit and will ensure that appointments are made to achieve the appropriate mix of qualifications, experience, and audit skills.

9. Specific Responsibilities

9.1 The Head of Audit is responsible for the provision of a complete internal audit and counter-fraud service to the Council. This includes:

Internal Audit

9.2 Providing an annual report to CMT and the Audit & Governance Committee. The annual report will include:

- An opinion on the effectiveness of the Council's governance, risk, and control framework (including reasons why this opinion was reached).
- Any control weaknesses judged to be relevant to the development of the Annual Governance Statement.
- A summary and evaluation of the results of internal audit work and information obtained from other assurance providers and the impact on the control environment.
- An overall summary of the Internal Audit Service's performance and the results of the quality assurance framework.
- A statement on conformance with the PSIAS.

9.3 To help achieve this, the Head of Audit will compile an overall Audit Strategy showing how Internal Audit will be delivered – focusing on the critical activities and key risks facing the Council.

Counter-Fraud, Corruption and Bribery

9.4 Internal Audit does not have responsibility for the prevention nor detection of fraud, corruption, or bribery. Audit procedures alone, even when performed with due professional care, cannot guarantee that fraud, corruption, and bribery will be detected.

9.5 Managing the risk of fraud, corruption, and bribery is the responsibility of all management and Councillors. The Corporate Investigations Team can assist management in the effective discharge of this responsibility, including the investigation of suspected frauds and irregularities.

9.6 The Corporate Investigations Team also commits resources to proactive fraud work, which includes raising the awareness of fraud issues.

9.7 Internal Audit and Investigation staff will be alert in all their work, of whatever type, to risks and exposures that could allow fraud, corruption, or bribery.

9.8 To ensure the Council embeds effective standards for countering fraud and corruption, the Head of Audit ensures that the key principles, as set out in CIPFA's Code of Practice on Managing the Risk of Fraud, are followed. This supports good governance and demonstrates effective financial stewardship and strong public financial management.

9.9 The Head of Audit must be informed of all suspected or detected fraud, corruption, or improprieties so they may be considered in terms of the adequacy of the relevant internal controls and be evaluated for the annual opinion on the control environment.

9.10 All cases will be dealt with in accordance with the Council's relevant policies and procedures (e.g., Anti-Fraud and Corruption Policy, Whistleblowing Policy, and Money Laundering Policy).

10. Consulting Engagements

10.1 Consulting engagements are generally advisory in nature. They are generally performed at the specific request of management. Work may include providing advice on new systems & emerging risks, training, and representation on Boards and Groups.

10.2 The nature and scope of consulting engagements are subject to agreement with management. They should assist management in meeting the objectives of the organisation without undermining the key principles of independence and objectivity. Internal Audit should not assume management responsibility.

10.3 Consulting engagements should only be performed where resources and skills exist.

10.4 The Head of Audit has final responsibility for the content of consulting engagements, and prioritisation of such work will be risk assessed through the audit planning process.

10.5 For most consulting engagements, no assurance opinion will be provided but the outcome of this work will be reported to the Audit & Governance Committee in so far as it impacts on the Council's governance, risk, and control environment.

11. Risk Management

11.1 Internal Audit is not responsible for managing the Council's risks, which is the responsibility of management. However, Internal Audit supports management in making its assessment of risk. Internal Audit will also share information gathered during its work with management to enhance management's understanding of the risks to the Council and the financial and operational controls in place to manage them.

12. The Head of Internal Audit

12.1 The Head of Audit holds a professional qualification and is suitably experienced in internal audit and counter-fraud work.

12.2 The PSIAS requires the Head of Internal Audit to report to the top of the organisation and this is done in the following ways:

- The Internal Audit planning process and Charter is approved by the Corporate Management Team and Director of Finance (s151, before being approved by the Audit & Governance Committee.
- The Head of Audit holds periodic meetings with the Lead Member responsible for Finance.
- The Head of Internal Audit holds periodic liaison meetings with the Chair of the Audit & Governance Committee.
- The Head of Internal Audit holds meetings on an individual basis, or collectively, with all members of the Audit & Governance Committee, upon request.
- Performance and delivery of Internal Audit and counter-fraud work and any significant risks and control issues arising are reported independently to the Corporate Management Team and the Audit & Governance Committee on a regular (quarterly) basis.

- Results of the annual review on the effectiveness of Internal Audit (including outcomes of Quality Assurance & Improvement Programme audits) are reported to the Corporate Management Team and the Audit & Governance Committee.
- The Head of Internal Audit has unfettered access to the Chief Executive, Director of Finance (s151) Officer, Monitoring Officer, Executive Directors, and the Audit & Governance Committee, as required.

13. Approval and Validity of the Charter

13.1 The Head of Internal Audit will review the Charter annually to ensure that it is relevant to the demands and responsibilities of Internal Audit and that it supports and links to the Council's corporate priorities.

13.2 The Charter will be presented to senior management and the Audit & Governance Committee on a biennial basis for approval, or sooner if any significant changes occur.

READING BOROUGH COUNCIL

TO:	**AUDIT AND GOVERNANCE COMMITTEE**		
DATE:	**12th April 2023**		
TITLE:	**STRATEGIC RISK REGISTER Q4/Q1 2022/23/24**		
LEAD COUNCILLOR:	**COUNCILLOR LIZ TERRY**	**PORTFOLIO:**	**CORPORATE SERVICES AND RESOURCES**
SERVICE:	**CORPORATE HEALTH & SAFETY & RISK MANAGEMENT**	**WARDS:**	**N/A**
LEAD OFFICER:	**ROBIN PRINGLE**	**TEL:**	**07730 804 547**
JOB TITLE:	**CORPORATE HEALTH, SAFETY AND RISK MANAGEMENT LEAD**	**E-MAIL:**	**Robin.Pringle@reading.gov.uk**

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

1.1 This report outlines the 2022/2023 Q4 update of the Strategic Risk Register. The Register is presented to the Council's Audit & Governance Committee, quarterly. The Q3 report was presented to the Council's Audit and Governance Committee in January 2023.

1.2 The following document is appended:
Appendix 1 - the Council's Strategic (Corporate) Risk Register Q4/Q1

2. RECOMMENDED ACTION

2.1 Audit and Governance Committee are asked to consider the Councils Strategic Risk Register at the end of Q4 (Appendix 1)

3. POLICY CONTEXT

3.1 The updated Risk Management Policy and Procedure was presented to Audit & Governance Committee in July and signed off by Policy Committee on the 21st of September 2022.

3.2 Risk management is a key part of corporate governance. Good risk management will help identify and deal with key strategic risks facing the Council in the pursuit of its goals and is key to good management, not simply a compliance exercise. Risk management and internal control are important and integral parts of a performance management system and are crucial to the achievement of outcomes. They consist of an ongoing process designed to identify and address significant risks involved in achieving the Council's outcomes.

4. THE PROPOSAL

Current Position

4.1 RBC are operating a more comprehensive risk management system, to provide greater governance and reassurances to our insurers and Members.
This is achieved by improving:
- The policy commitments and roles and responsibilities,
- Defining a clear operating procedure,
- Increasing the frequency of Risk Register reviews and reporting, and Working closely with our insurers and risk consultants to embed the new system

4.2 The Directors, Deputy and Assistant Directors received Risk Management training in June 2022, where the new Policy and Procedure was explained. Following the training, The Corporate Management Team (CMT) and Directorate Management Teams (DMT's) were required to review their existing risks, determine if they are still relevant and fit for purpose and determine whether there are new risks that need incorporating into the Risk Registers. DMT's were also asked to determine if any risks should be escalated to the Strategic Risk Register. This review process was repeated for Q3 & Q4.

The SharePoint site, which holds the Strategic and Directorates Risk Registers has been updated this quarter.

4.3 The Strategic Risk Register provides a concise, focused, high-level overview of strategic risks that can be easily communicated to all staff, councilors and stakeholders (e.g. Council's Insurers). It should always be supplemented by directorate, service and project risk registers.

4.4. The risk register covers the actions completed by the Council during Q4 and the risk ratings for the Council for Q1 of 2023/2024.

4.5 Audit and Governance Committee to note the additional information now being recorded within the risk cards:
- 'Background Context', including data source and
- The mitigations have been split into 'Existing Controls' and 'Further Specific Actions required'.

4.6 **Q4 Strategic Risk Register - Changes**

4.6.1 The Strategic Risk Register was reviewed by the Corporate Management Team (CMT) on the 21st March 2023.

Risks that continue

1. Brighter Futures for Children (BFfC) – Lack of local special educational needs and disabilities (SEND) placement provision to meet current and future levels of demand
2. Companies Risk – That the council fails to have in place appropriate oversight and scrutiny of its companies.
3. Cyber- Risk of loss from cyber attack
4. Failure to adapt to the impacts of climate change
5. Failure to deliver zero carbon commitments
6. Failure to implement the social inclusion agenda within the Borough

7. Failure to manage a significant outbreak of a communicable disease(s)
8. Failure to safeguard vulnerable adults and children
9. Information Governance - Failure to protect personal data
10. Staffing - Failure to retain and recruit staff
11. Unable to achieve the budget savings, manage costs, as a result of cost-of-living increases and achieving income targets

4.6.2 **Proposed risks for escalation, from BFfC and Directorate registers, to the Strategic Register for CMT agreement**

- **BFfC**
  - No risks to escalate
- **DOR**
  - No risks to escalate
- **DACHS**
  - No risks to escalate
- **DEGNS**
  - No risks to escalate

4.6.3 **Proposed risks for de-escalation from the Strategic Risk Register to BFfC or Directorate registers for CMT agreement**

- **BFfC**
  - No risks for de-escalation
- **DOR**
  - No risks for de-escalation
- **DACHS**
  - No risks for de-escalation
- **DEGNS**
  - No risks for de-escalation

4.6.4 **New Risks Introduced**
There are no new risks being introduced.

4.7 The Strategic Risk Register (Appendix 1) for agreement, continues to consist of 11 risks, as for Q3. For Q1 & Q2 22/23 there were 15 risks.

4.8 Although guidance is provided in relation to the scoring of risks, with a view to providing as much consistency as possible, it remains a subjective process. The primary aim of the Strategic Risk Register is to identify those key vulnerabilities that CMT consider need to be closely monitored in the forthcoming months and, in some instances, years ahead. In many cases this will be because the risk is relatively new and, whilst being effectively managed, the associated control framework is yet to be fully defined and embedded. In such circumstances it follows that not only will the potential impact be large, but the risk of likelihood of occurrence could also be increased.

4.9 In order to focus Member attention on areas of greatest risk, the Register should include only the key current risks that have not been mitigated down to the acceptable risk level. Where risks have been rated as green for 2 or more consecutive quarters they are removed from the Register. These can be re-instated should the risk increase again.

4.10` Risk Management Training was delivered to Councillors on 2nd February 2023 and 30th March 2023. Both training sessions provided Members with the guidance on how to review and challenge reports when received (as part of good governance).

4.11 In order to support the embedding of risk management principles across the Council, training for managers and service managers is currently being organised from 2023 /2024.

5. CONTRIBUTION TO STRATEGIC AIMS

5.1 Regular review of the Policy, and Strategic Risk Register, is an integral part of effective risk management arrangements and corporate governance. Each risk is linked to a Corporate Plan theme.

6. ENVIRONMENTAL AND CLIMATE IMPLICATIONS

6.1 There are no specific environmental and climate implications arising from the decision. The Strategic Risk Register includes two risks related to climate implications and the actions to mitigate these risks are included in appendix one.

7. COMMUNITY ENGAGEMENT AND INFORMATION

7.1 The consultation duty is not applicable to the Risk Management Policy & Procedure and Strategic Risk Register.

8. EQUALITY IMPACT ASSESSMENT

8.1 An Equality Impact Assessment (EIA) is not relevant to this report.

9. LEGAL IMPLICATIONS

9.1 There are no specific legal implications arising from the recommendations in this report".

10. FINANCIAL IMPLICATIONS

10.1 There are no specific financial implications arising from the recommendations in this report.

11. BACKGROUND PAPERS

11.1 Risk Management Policy & Procedure, 2022

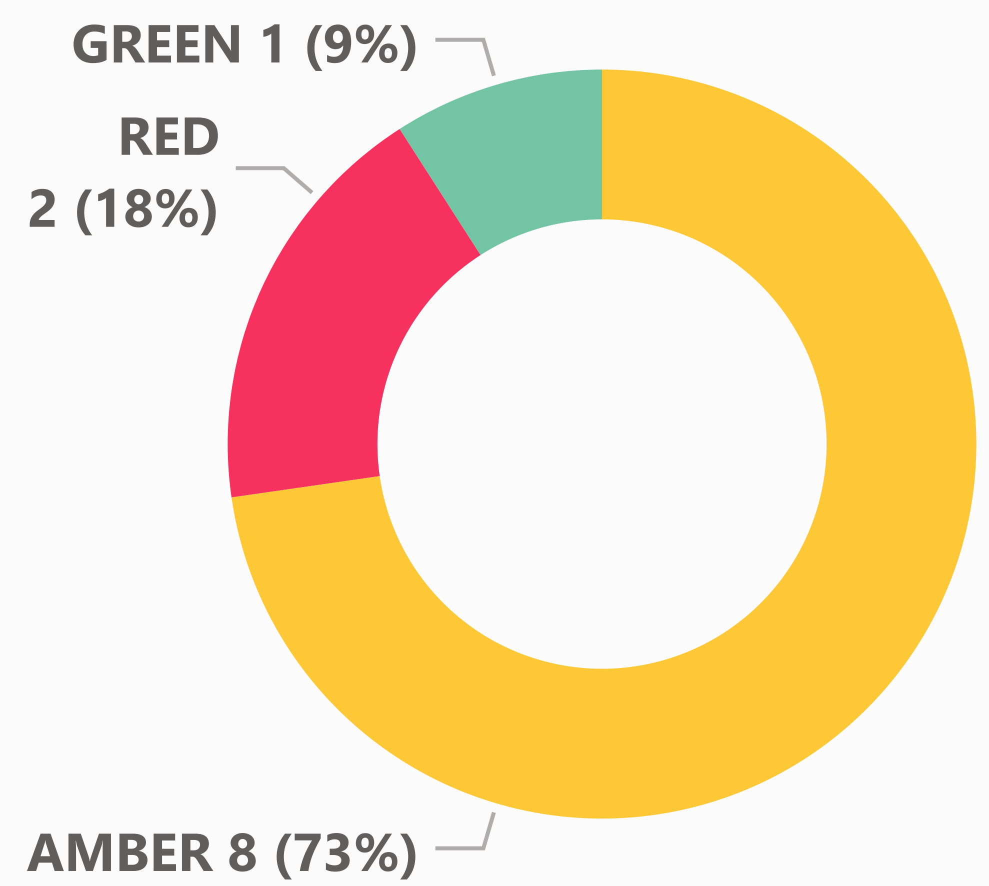
Strategic Risk Register - Summary

Select Register

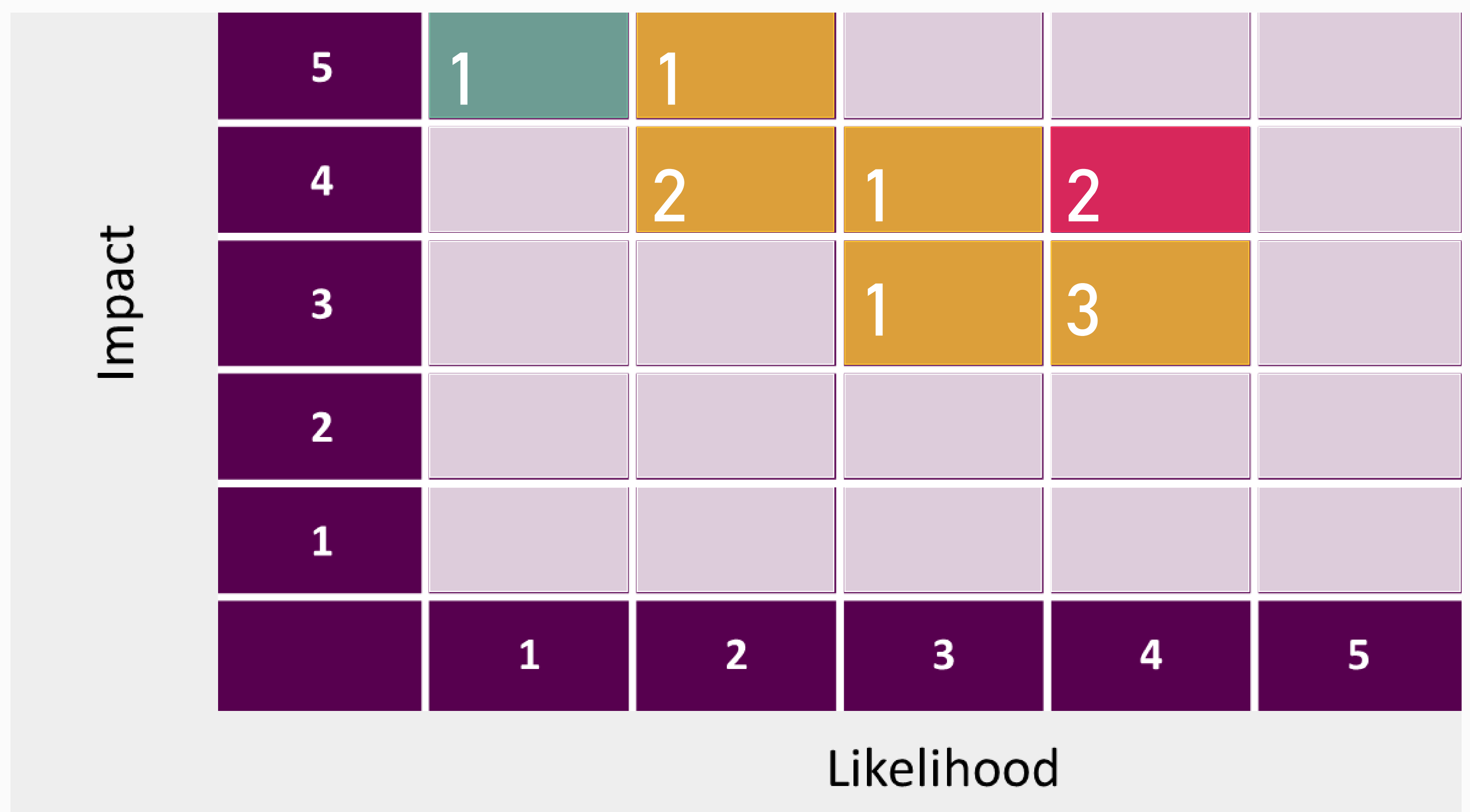
DACHS | DEGNS | DOR | Strategic

View detail

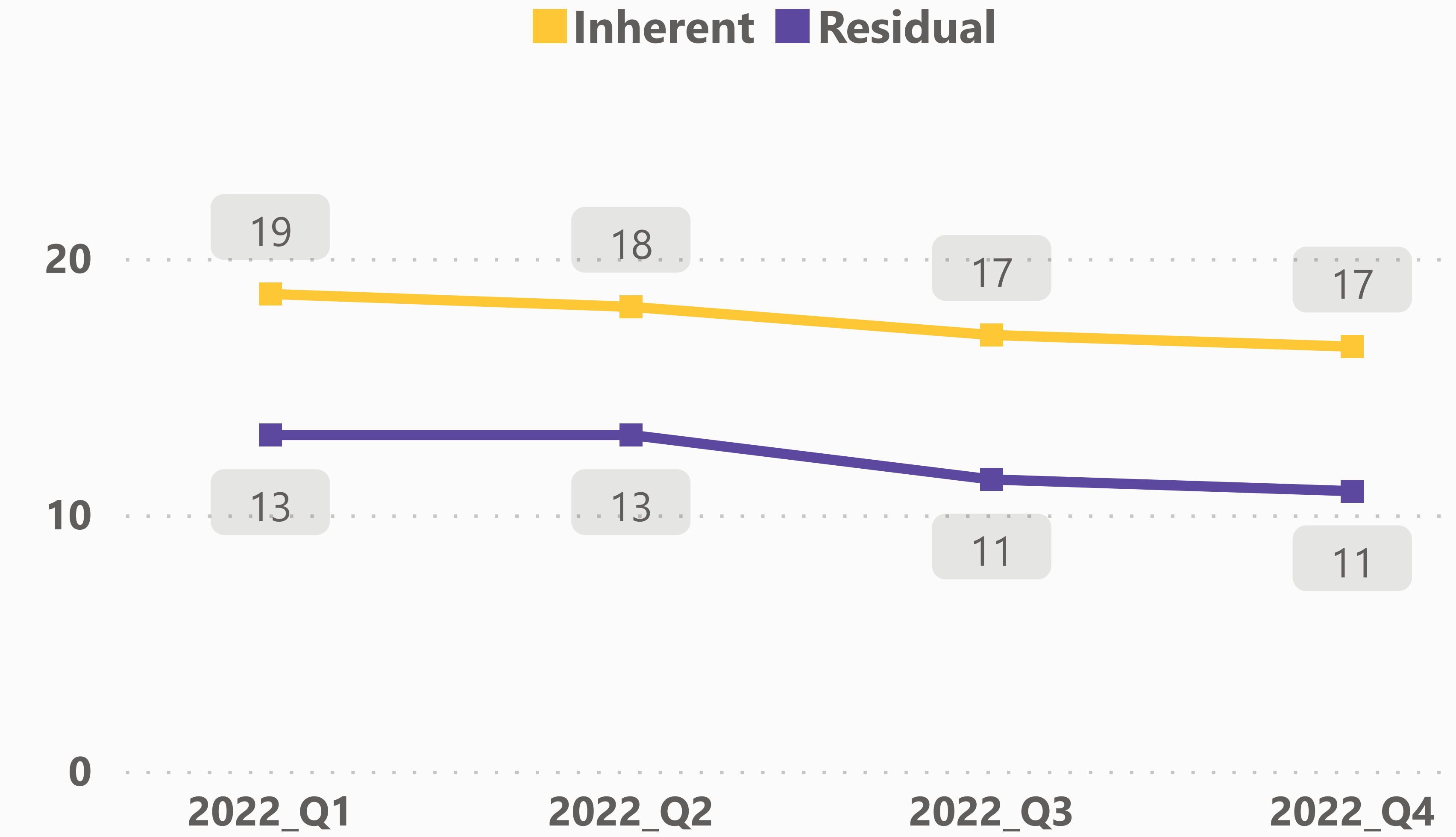
Count of Risk by Status



Risk Distribution



Rolling 4 Quarter Risk Score by Type



Risk	2022_Q1 Residual	2022_Q2 Residual	2022_Q3_ Residual	2022_Q4 _Residual	Current RAG
BFfC - Lack of local special educational needs and disabilities (SEND) placement provision to meet current and future levels of demand	0	0	16	16	
Companies Risk – That the council fails to have in place appropriate oversight and scrutiny of its companies.	8	8	8	8	
Cyber - Risk of loss from cyber attack	20	20	16	16	
Failure to adapt to the impacts of climate change	12	12	12	12	
Failure to deliver zero carbon commitments	20	20	12	12	
Failure to implement the social inclusion agenda within the Borough	12	12	12	12	
Failure to manage a significant outbreak of a communicable disease(s)	9	9	9	9	
Failure to safeguard vulnerable adults and children	10	10	10	10	
Information Governance - Failure to protect personal data	8	8	8	8	
Staffing - Failure to retain and recruit staff	12	12	12	12	
Unable to achieve the budget savings, manage costs, as a result of cost of living increases and achieving income targets.	20	20	10	5	

Team Reading

Risk:
BFfC - Lack of local special educational needs and disabilities (SEND) placement provision to meet current and future levels of demand

Register:
Strategic

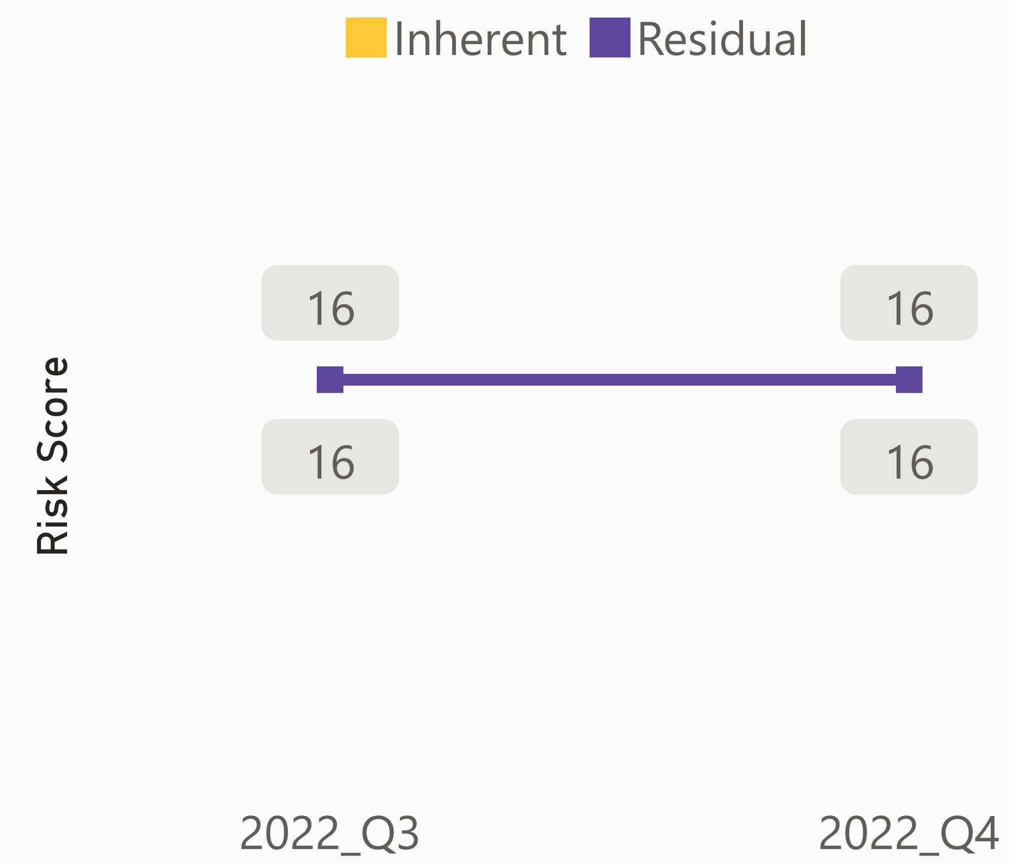
Risk owner:
Patel, Lara

16
Current Score

Cause
Risk that the needs of children with SEND cannot be met in Reading and/or Out of County placements will be required, leading to costs exceeding budget and poorer outcomes for the children in question.

Potential Impact
Risk that the needs of children with SEND cannot be met in Reading and/or Out of County placements will be required, leading to costs exceeding budget and poorer outcomes for the children in question.

Trends - Risk Scores



Risk Scoring

Risk Type	2022 Q1	2022 Q2	2022 Q3	2022 Q4
Impact (Inherent)			4	4
Likelihood (Inherent)			4	4
Inherent	0	0	16	16
Impact (Residual)			4	4
Likelihood (Residual)			4	4
Residual	0	0	16	16

Background information

The LA has a statutory responsibility to provide sufficient school places for pupils, including those with Special Educational Needs and Disabilities (SEND). Brighter Futures for Children (BFfC) works in partnership with RBC and other stakeholders to discharge this duty. There is a national and local shortage of resources and placements for children within SEND, in addition to an increase in demand for support and services. Following a steady increase in the number of Educational Health and Care Plan's (ECHP) since 2018 there has been a sharper increase in EHCP's in 2022/2023, which has been at a higher rate than the increase in the population of children and young people, meaning that a higher proportion of pupils now have an EHCP. Following the period of the pandemic more children and young people are being identified as having SEND, including in the early years, particularly increased levels of speech, language and communication needs and social and emotional mental health needs. There has also been an increase in children with autism. Collectively these needs have resulted in the increase in EHCP's.

Existing mitigations

- The local area SEND Strategy 2022-27 sets out partnership actions to identify and respond to needs of children with SEND at the earliest opportunity and in the most efficient way and develop the appropriate range of provision to meet need. In progress.
- New free special school confirmed as opening in September 2023 will provide 75 places for children, as a joint partnership between Reading and Wokingham Councils. There will be a phased opening with a total of 33 places from September 2023, 17 of which have been secured for Reading children. In progress
- Further places being sought from local schools to deliver Additionally Resourced Provision and specialist places. BFfC and RBC have undertaken work to appraise options, including RBC owned assets and schools sites to secure more mainstream and specialist school places for children with SEND. In progress
- Two independent special school providers have established additional local provision in the past nine months, which is helping meet immediate need for places for children with Special Educational Needs and Disabilities. Exploring options with other providers to establish provision in the area for 2023/24 continues. In progr
- Brighter Futures for Children and RBC are engaged with the Department for Education on the Delivering Better Value project which seeks to address pressures on the High Needs Block including sufficiency of Special Educational Needs and Disabilities places. Phase 1 concluded on 3/3/23, identifying priority areas which will most improve sufficiency. Phase 2 begins w/c 13/3/23 with case audits & assessment of priority areas. Phase 2 is informing a deeper understanding of both the need and cost drivers in our local system to identify the top three changes we could make that would have the greatest impact. This will inform the submission of a proposal for further DfE investment in by June 2023. The investment will contribute to the development of a more inclusive system that prevents the escalation of need. In progress.

Go back

Specific Actions Required

	Title	Date for completion	Status
1	Complete Delievering Better Value work to agree priorities for investment and action	31/05/2023	In progress
2	Review Early Years funding to prevent the requirement for an EHCP	31/08/2023	In progress
3	Increase number of places available for children with SEND in mainstream schools by developing additionally resourced provision with appropriately skilled staff and by developing SEND advisory support	31/08/2023	In progress
4	Increase number of specialist school places for children with SEND	31/08/2024	In progress
5	Continue to improve transition to adulthood planning for children with SEND by closer working with Adult Social Care	31/08/2023	In progress

![Team Reading]

Risk:

Companies Risk – That the council fails to have in place appropriate oversight and scrutiny of its companies.

Register:
Strategic

Risk owner:
Graham, Michael

8
Current Score

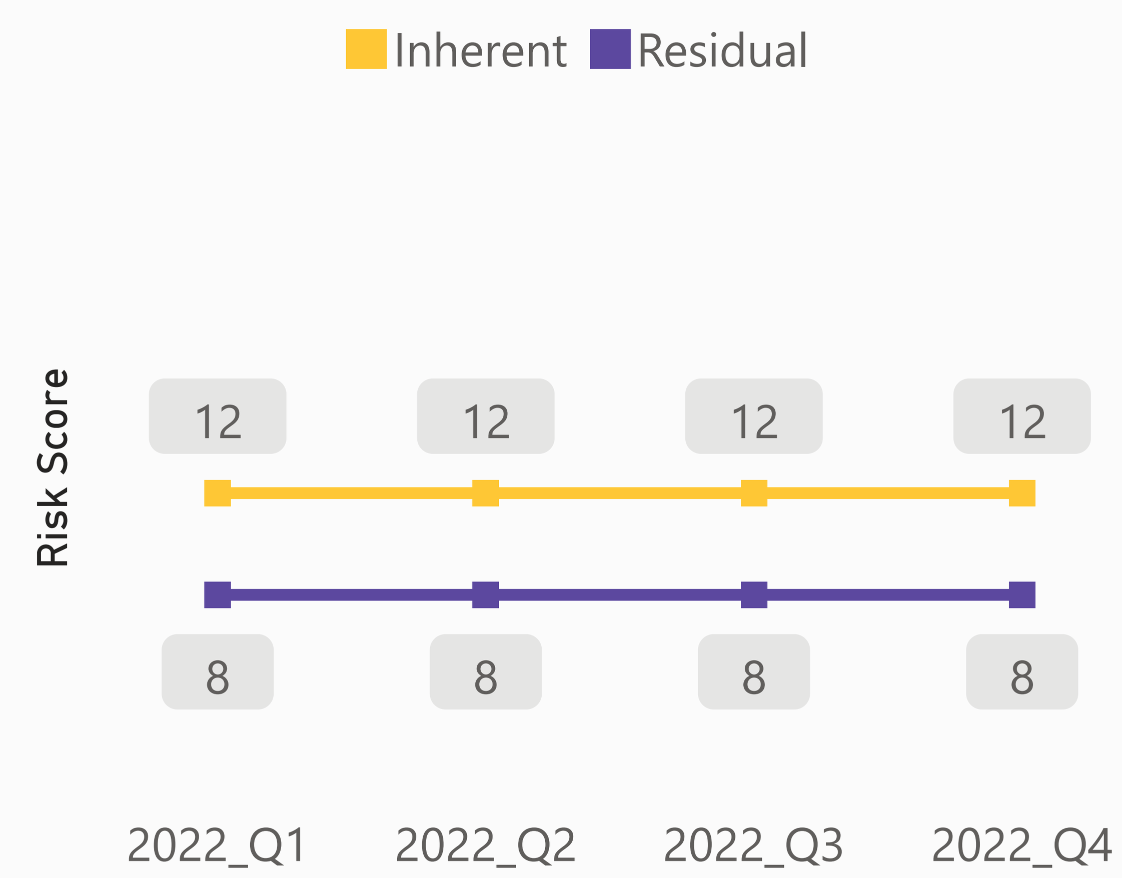
Cause

Corporate mismanagement

Potential Impact

Risk that the Council fails to have in place appropriate oversight and scrutiny of its companies (Reading Transport Ltd, Brighter Futures for Children Ltd, Homes for Reading Ltd and Reading Hampshire Property Partnership Ltd) and is unaware of risks to those companies (pension fund deficits, GDPR compliance etc) and is impacted by an unplanned exposure relating to those companies. The risks could be financial, legal or reputational.

Trends - Risk Scores



Risk Scoring

Risk Type	2022 Q1	2022 Q2	2022 Q3	2022 Q4
Impact (Inherent)	4	4	4	4
Likelihood (Inherent)	3	3	3	3
Inherent	12	12	12	12
Impact (Residual)	4	4	4	4
Likelihood (Residual)	2	2	2	2
Residual	8	8	8	8

Background information

The Council owns, or has a significant interest, in a number of companies either as shareholder or member. Whilst these companies do operate services for specific reasons, they have to be managed within a comprehensive governance framework to ensure there is effective oversight by the Council. This will allow the Council to properly discharge its duties as shareholder or member.

Existing mitigations

- The Council commissioned a review of the governance and performance of Reading Transport Ltd (RTL). As a result, new appointments were made to the Board for non-executive directors. A new independent non-executive Chair has also been appointed. Completed 21/22
- Regular Contract Management Group meetings are in place with Brighter Futures for Children Ltd (BFfC) . The financial reporting has greatly expanded and provides greater visibility of financial risks. Overspend related to Looked After Children is supported by relevant panel meetings with high cost placements to be signed off by the RBC Chief Executive. In progress
- There are contract governance arrangements in place with Brighter Futures for Children to monitor company performance, including monthly financial reporting and bi-monthly (once every 2 months) . In progress
- In progress

Go back

Specific Actions Required

	Title	Date for completion	Status
1	Seeking to ensure greater consistency of Council / Company oversight through review of respective Company Articles and governance.	30/07/2023	In progress
2	The Council has commissioned and independent review of the business model for Homes for Reading Ltd in light of possible changes to the local government borrowing regime.	30/07/2023	In progress

Team Reading

Risk:

Cyber - Risk of loss from cyber attack

Register:
Strategic

Risk owner:
Chalmers, Martin

16
Current Score

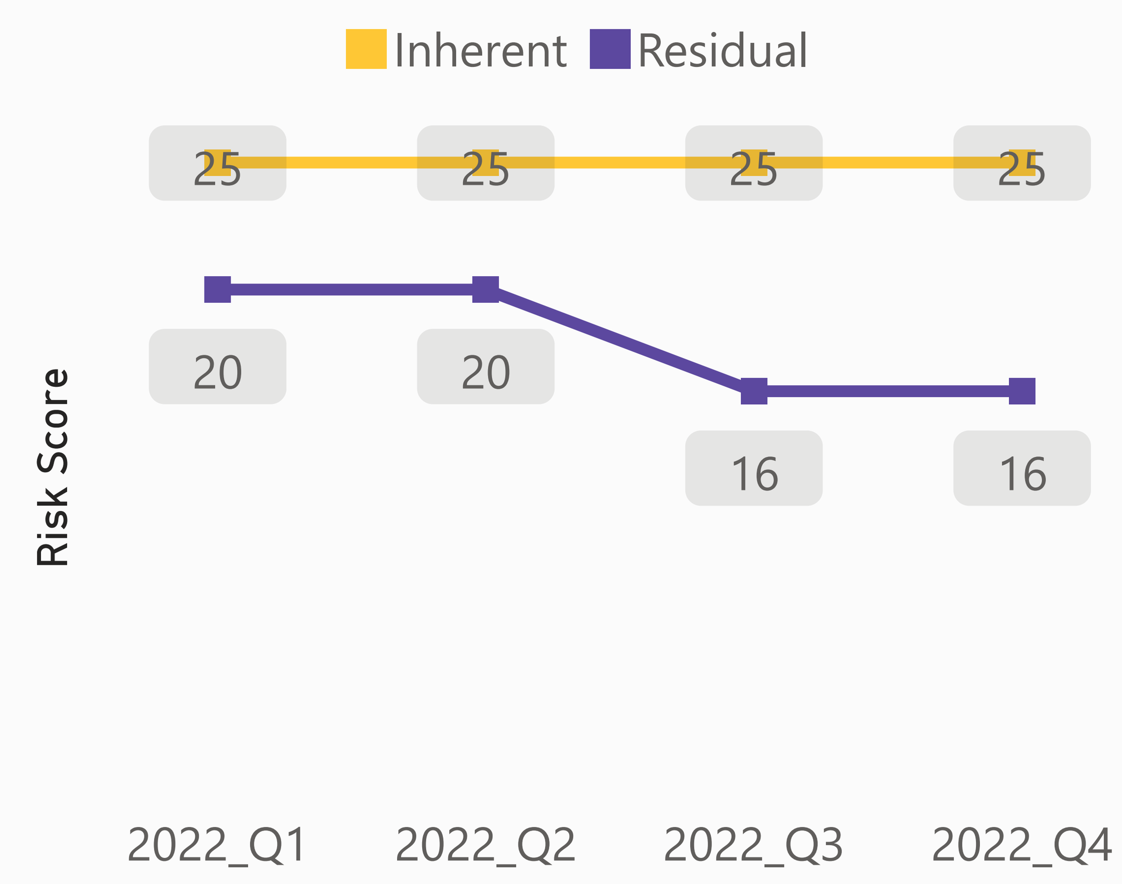
Cause

Attack by hostile nation states, criminals or activists. Likelihood remains high. The continuing evolution of the threat environment means that the likelihood will remain high, notwithstanding the sitions is exerting downward pressure on likelihood, this is balanced by worsening of the threat environment. (See First ever Government Cyber Security Strategy to step up Britain's defence and resilience - GOV.UK (www.gov.uk)).

Potential Impact

Loss of service, loss of reputation, legal challenges, recovery costs. Current impact is 5 to reflect recent learning from incidents such as those experienced by Haringey and Redcar & Cleveland ransomware attacks (the latter having been assessed as having had total business impact of £6m). Given that £1m is the threshold for impact level 5, the level is not expected to change.

Trends - Risk Scores



Risk Scoring

Risk Type	2022 Q1	2022 Q2	2022 Q3	2022 Q4
Impact (Inherent)	5	5	5	5
Likelihood (Inherent)	5	5	5	5
Inherent	25	25	25	25
Impact (Residual)	5	5	4	4
Likelihood (Residual)	4	4	4	4
Residual	20	20	16	16

Background information

The continuing evolution of the threat environment means that the likelihood will remain high, notwithstanding the significant set of actions in place. The purpose of our investment in counter measures is to avoid even higher likelihood and to maximise ability to mitigate impact

Existing mitigations

- Cyber incident response plan and cyber incident "playbooks" to reflect learning from recent attacks on the public sector and the latest guidance from the National Cyber Security Centre (NCSC). Complete
- Cyber resilience planning and rehearsal Limited exercise run in Legal & Democratic Services; wider exercise being explored as part of Business continuity Planning but may be deferred into 23-24 to enable lessons learned from Legal exercise to be reflected into plans of all. - In progress
- The Information Governance Board is working with the Business Continuity Planning Officer to improve cyber awareness on the part of those developing Business Continuity Plans and to assess whether the risk is being adequately covered, in preparation for the proposed exercise (previous bullet).
- Staff awareness and training is critical. Training (including annual refresher training) has been made mandatory. Brighter Futures for Children (BFfC) has now also made cyber training mandatory.   A refresher course will be compulsory in 2022/23, has been launched. Complete - but monitoring and driving of take up will be an ongoing requirement.
- External certification of cyber measures (Internal assessment conducted; technical issues are being addressed; some issues require joint action with business; further assessment agains Local Government Cyber Assessment Framework to be conducted, funded by Future Councils grant. - In progress
- Security governance has been strengthened with the establishment of the Information Governance Board, which will review policy and strategy relating to cyber security, and also monitor reports of security incidents to identify corrective action. Assistant Director Legal & Democratic Services has been appointed as cyber security champion for Corporate Management Team (CMT), and a similar role is played in Council by the Lead Member for Corporate & Customer Services. Complete
- Cyber insurance Complete (and ongoing)

Go back

Specific Actions Required

	Title	Date for completion	Status
1	Conduct Local Government Cyber Assessment Framework assessment and complete remediation plan	29/06/2023	In progress
2	Implement improved defences against attack from Internet via email and internet	31/01/2023	Complete
3	Achieve Cyber Essentials Plus certification	29/09/2023	In progress
4	Conduct cyber resilience rehearsal	29/09/2023	Not started

Team Reading

Risk:

Failure to adapt to the impacts of climate change

Register:
Strategic

Risk owner:
Martin, Frances

12
Current Score

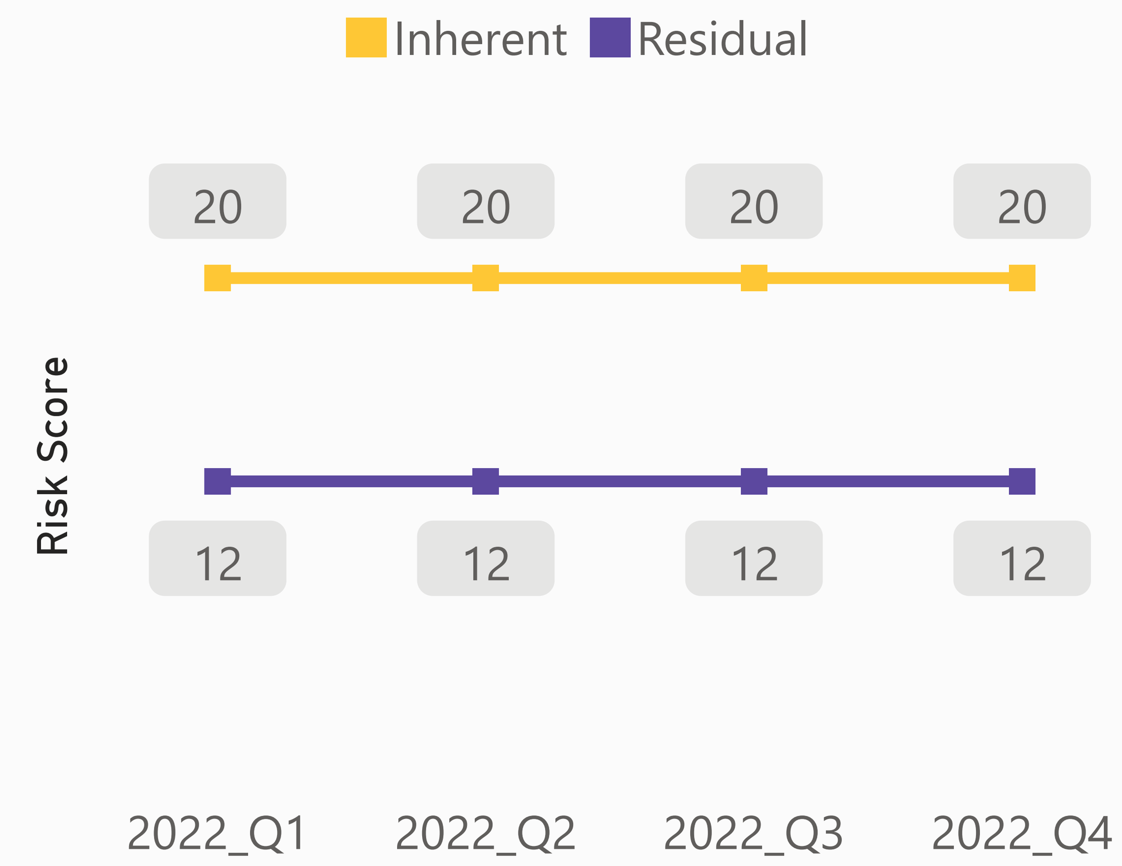
Cause

Inadequate planning and preparedness and long-term planning to adapt to the impacts of climate change.

Potential Impact

Climate change impacts (hotter drier summers, warmer wetter winters, and more extreme weather events) have a range of negative social, economic and environmental consequences, up to and including loss of life, as well as amplifying other risks (e.g. to public health, economic security, service continuity, infrastructure and supply chains). Action to adapt can reduce impacts, though the likelihood of such impacts occurring remains high, and generally rising in the coming decades, in the context of global warming which is 'baked in' as a result of historic emissions.

Trends - Risk Scores



Risk Scoring

Risk Type	2022 Q1	2022 Q2	2022 Q3	2022 Q4
Impact (Inherent)	5	5	5	5
Likelihood (Inherent)	4	4	4	4
Inherent	20	20	20	20
Impact (Residual)	3	3	3	3
Likelihood (Residual)	4	4	4	4
Residual	12	12	12	12

Background information

Flood Risk: the Council is responsible for surface water flooding and produced a Local Flood Risk Management Strategy in 2015.

Heatwave risk: various local agencies, including the Council and National Health Service (NHS), participate in the Berkshire Heatwave Plan and England Heatwave Plan.

Existing mitigations

- Flood Risk: the Council is responsible for surface water flooding and produced a Local Flood Risk Management Strategy in 2015. Action has been taken in all but one of 6 ‘hotspots’ identified and plans for works at the remaining site have been approved. Flash flooding from extreme rainfall events is likely to be an increasing but unpredictable risk. The Environment Agency is responsible for fluvial flooding and we are working with the Agency to address our main fluvial flood risks from the Thames, though the Agency's decision not to proceed with the Reading & Caversham Flood Alleviation Scheme raises questions about how to address the inherent flood risk which remains. In progress
- Heatwave risk: various local agencies, including the Council and National Health Service (NHS), participate in the Berkshire Heatwave Plan and England Heatwave Plan. These plans were recently tested in the July and August 2022 heatwaves but data is awaited on the public health outcomes. As the severity and frequency of hot weather events increases, however, more action will be needed to protect vulnerable people and infrastructure. Changes to working practices to protect staff will also be needed (e.g. refuse crews were sent out an hour earlier to avoid the heat of the day in summer 2022) In progress
- Extreme weather events: service continuity plans are in place to help prepare for such events but it will be important to ensure that these reflect the changing risk profile associated with climate change and extreme weather. In progress
- Climate impact assessment in decision-making: a protocol for climate impact assessment in Committee reports is now in place and being used by report authors - this includes tests to that decisions are taking account of key climate impacts such as extreme heat, storms and flood risk, and the need to adapt to them. Compliance with the requirements for climate impact assessment in Committee reports will be audited shortly. In progress
- Planning policy and new development: the Reading Local Plan includes policies on climate change adaptation (CC3) and flood risk (EN18) designed to ensure that new development is resilient to climate impacts. The Local Plan monitoring process should enable assessment of how well these policies are being applied, and the Local Plan review provides an opportunity to revisit policies which may support resilience to climate impacts In progress
- An internal audit process in February 2022 giving 'reasonable assurance' but the report highlighted the need for the Council to develop a more comprehensive climate change adaptation plan for its own services - work on this is now underway with the aim of completion within the next few months. In progress

Go back

Specific Actions Required

Title	Date for completion	Status

Risk:

Failure to deliver zero carbon commitments

Register:
Strategic

Risk owner:
Martin, Frances

12
Current Score

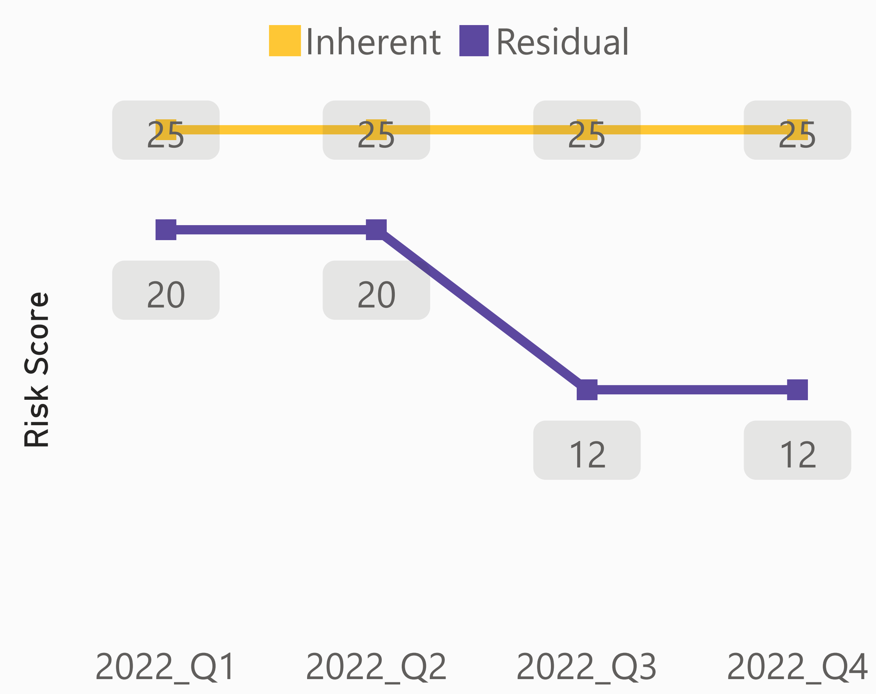
Cause

1. Lack of clear policies and plans in place to deliver 2. Insufficient investment of Council resources in delivery; 3. Inadequate government funding and policy support for delivery

Potential Impact

The main direct impacts on the Council are, however (i) practical in the sense that if the Council is not seen to be leading by example, the success of its efforts to persuade other partners and residents to cut their emissions will be reduced and (ii) reputational, in that the Council may be accused of not delivering on its promises, noting that some of the action required to deliver a net zero Reading by 2030 is beyond the Council's control. The 'impact' score is therefore based on this rather than the ultimately catatrophic impacts which will arise in the long-term from unmitigated climate change (see also 'Failure to adap to climate' risk card).

Trends - Risk Scores



Risk Scoring

Risk Type	2022 Q1	2022 Q2	2022 Q3	2022 Q4
Impact (Inherent)	5	5	5	5
Likelihood (Inherent)	5	5	5	5
Inherent	25	25	25	25
Impact (Residual)	5	5	3	3
Likelihood (Residual)	4	4	4	4
Residual	20	20	12	12

Background information

Failure to deliver the Councils net zero commitments will ultimately contribute to catastrophic climate change impacts through the 'contribution' of greenhouse gas emissions from Reading will ultimately be indistinguishable from that of other jurisdictions

Go back

Existing mitigations

Action is broken down in relation to 'cause' categories listed above as follows:

Lack of clear policies and plans in place to deliver:

- Reading Borough Council (RBC) worked with partners to develop the Reading Climate Emergency Strategy 2020-25 - includes action plans for all key policy areas (endorsed by Strategic Environment, Planning & Transport (SEPT) Committee November 2020) Complete - delivery in progress
- Reading Borough Council produces its own Corporate Carbon Plan to set out its pathway to net zero and action required (adopted by Strategic Environment, Planning & Transport Committee November 2020) Complete - delivery in progress
- Annual Reports on progress on both the Climate Strategy and Carbon Plan are presented to Strategic Environment, Planning & Transport (SEPT) Committee on the anniversary of their publication Complete as of end of 2020
- A mandatory section of Committee Reports requires report authors to assess the environmental and climate impacts of decisions, using a climate impact assessment tool and accompanying guidance where appropriate Complete - periodic audit of compliance required (next audit Q1 2023-24)

2. Insufficient investment of Council resources in delivery:

- The Council's capital programme includes significant investment designed to directly or indirectly support net zero goals, including investment in public transport, energy efficient housing, sustainable waste management practices, and carbon reduction measures in the Council's own buildings and fleet. Further work is, however, needed to establish whether this will be sufficient to delivery net zero ambitions for the Council and for Reading as a whole. In progress
- While the Council's revenue budgets for dedicated work on climate change are modest in isolation, efforts are being made to ensure that climate action is embedded in all services and service plans through provision of support such as guidance and training for officers. In progress

3. Inadequate government funding and policy support for delivery

- While Government policy is aligned to net zero, the national target of 2050 remains less ambitious than the local target of 2030. As such some policies are not fully aligned, and while Government has made significant funding available it is not of the scale required to support net zero by 2030. Furthermore most funding streams are extremely competitive and/or over-subscribed. The Council therefore works through representative bodies to lobby for more generous financial support and a more ambitious policy framework to enable net zero by 2030. In progress

The annual progress report on the Reading Climate Change Strategy in November 2022 highlighted that while progress was being made with Borough-wide emissions reduction (which have been cut by 55% since 2005, the 4th largest reduction out of 374 UK local authorities), the pace of the reduction needs to increase significantly to achieve 'net zero by 2030'. Some of the Borough-wide action needed to achieve net zero is beyond the Council's control, but the wider community understandably looks to the Council to lead by example. In this regard the Council is on track to meet its own corporate Carbon Plan target of an 85% reduction in emissions by 2025 (en-route to net zero by 2030) - achieving a 71.3% cut since 2008/09. In progress

An internal audit of the Council's climate action programme was concluded in February 2022 giving 'reasonable assurance' - this made a number of recommendations to improve accountability for delivery of the Council's net zero commitments which are in the process of being implemented, including:

- Clear identification of responsible teams/officers for actions in the Reading Climate Emergency Strategy where RBC is listed as a delivery partner, with these actions being better reflected in the Service Plans of relevant services - this work was completed in September 2022 and guidance has been issued to Assistant Directors' on how to reflect climate action in Service Plans from 2023-24
- Clearer articulation of timescales and accountability for various actions in the corporate Carbon Plan - this was completed in November 2022 and, again, guidance issued to Assistant Directors on reflecting these actions in Service Plans from 2023-24
- Improved support and training for officers and services to embed climate action in their work - a climate module is now included in staff induction, guidance on climate assessment in Committee Reports has been produced, and sessions on climate have been included in Team Talk and Senior Leadership Group meetings. Further work is needed, however, to develop a more comprehensive 'carbon literacy' training offer. In progress

Reading's Climate Emergency Declaration made clear that additional powers and resources would be needed from central government to enable delivery of 'net zero by 2030' - to date, these have not been forthcoming to the extent required and this remains probably the biggest risk to delivery of the Council's commitments.

The Council will work with partners to initiate a review of the Climate Emergency Strategy in 2023 as long lead times are required to enable the appropriate level of community and stakeholder engagement in preparing to update the Strategy for the period 2025-2030. Process initiated with report to Reading Climate Change Partnership Board January 2023.

Specific Actions Required

Title	Date for completion	Status

Team Reading

Risk:

Failure to implement the social inclusion agenda within the Borough

Register:
Strategic

Risk owner:
Yates, Jackie

12
Current Score

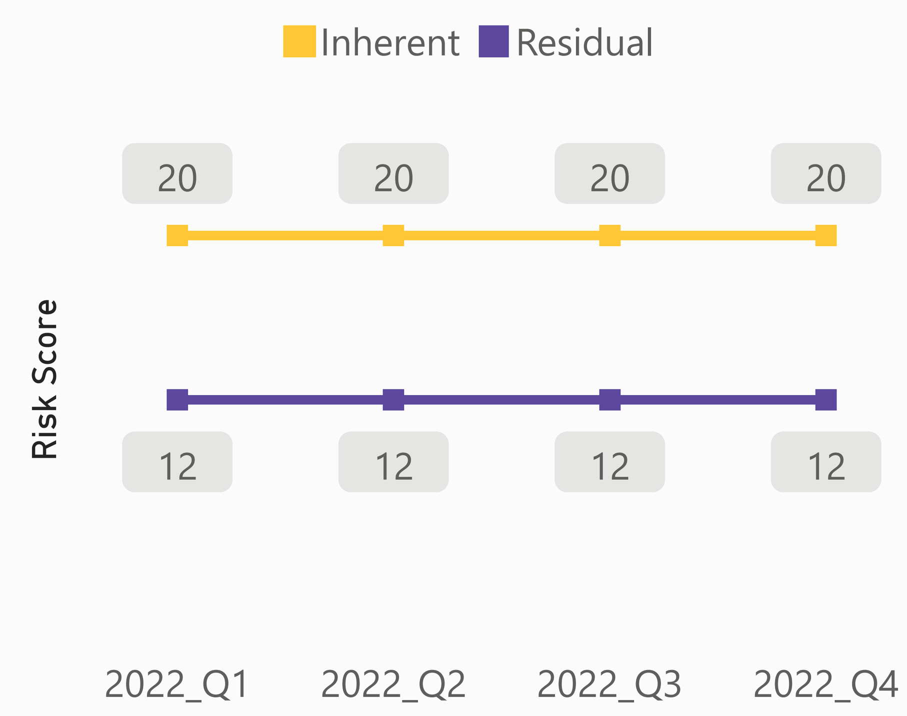
Cause

Lack of resources, focus and coordination of internal teams, deficit of community infrastructure to support local delivery, lack of effective community engagement leading to inappropriate interventions and lack of support.up.

Potential Impact

Skills and income deficit is not addressed, leading to low pay/worklessness, children living in poverty and poorer outcomes in terms of health.
Lack of aspiration and hopefulness
Increased isolation and marginalisation of residents in less affluent areas.

Trends - Risk Scores



Risk Scoring

Risk Type	2022 Q1	2022 Q2	2022 Q3	2022 Q4
Impact (Inherent)	5	5	5	5
Likelihood (Inherent)	4	4	4	4
Inherent	20	20	20	20
Impact (Residual)	4	4	4	4
Likelihood (Residual)	3	3	3	3
Residual	12	12	12	12

Background information

The most recent national analysis of deprivation (Index of Multiple Deprivation (IMD) 2019 & 2021 census) highlighted that within Reading there are some areas that are within the bottom 5% of the country for education, skills, and training, and for income deprivation affecting both children and older people. These pockets of substantial deprivation exist within broader areas of the borough which are within the bottom 10% and 20% of areas of the country for overall deprivation.

Go back

Existing mitigations

- Presentation to Voluntary and Community Sector (VCS) Assembly - Complete
- Place-Based Pilots - set up meeting - Complete
- Social Inclusion funding agreed for 2022/23- 2024/25 Complete
- Social Inclusion Strategy (now the Tackling Inequality strategy) and action plan to go to Policy Committee in Jan 23 Complete
- New Social Inclusion and Voluntary & Community Sector (VCS) Partnership Manager appointed to focus on developing the strategic partnership with the Voluntary & Community Sector and coordination /visibility of activity taking place across the Council. Complete
- Further post to be appointed to. In progress
- Voluntary and Community Sector strategic action plan agreed and work commenced. In progress
- Social Inclusion Board (Chaired by Chief Executive), with senior stakeholders from Directorate of Economic Growth & Neighbourhoods Services (DEGNS), Brighter Futures for Children (BFfC), Public Health and Directorate of Resources (DoR). The Board covers: Development and co-ordination of the broader Social Inclusion agenda, commissioning work to address skills and education, using a place based approach to address the barriers to education, provide oversight on key work programmes such Voluntary & Community Sector action plan, Community Health Champions, Volunteering for Reading road map. Detailed work programme to be presented to Policy Committee in October 2022. Ongoing
- Closing the Gap – Phase 1 of the prospectus for £1.3m 3yr Commissioning framework with the Voluntary & Community Sector completed. Covering three priorities: Getting out and staying out of Poverty; Building Community wellbeing and resilience; and Voluntary & Community Sector Infrastructure. Phase 2 commissioned to increase capacity for Debt and Money Management advice and support, targeted peer support for autistic, learning disability, and deaf communities. Complete
- Small Grants Scheme – phase 1 scheme delivered and distributed around £100k of funding. Phase 2 to allocate a further £100k in October. Complete
- New work experience offer designed for schools and more targeted approach to apprentice recruitment to be implemented. Ongoing
- Procurement activity to ensure the Council's Social Value aspirations are effectively embedded delivering additional training, job opportunities, infrastructure etc. Ongoing
- New Education Strategy being drawn up by Brighter Futures for Children reflecting the need to boost aspiration and attainment. Ongoing
- Refugee Settlement Schemes in place and resourced to support to; Ukrainian, Afghan and Syrian refugees. Ongoing
- Accessible information and Communications strategy adopted in November 2021 covering; accessible information standards online (Web Content Accessibility Guidelines (WCAG) Accessible for All standard) , inclusive standards for written and visual communications, provision of translation and interpretation services. Implementation of the strategy has been communicated to staff and is delivered as part of the Customer Excellence Programme. Ongoing
- Health and Wellbeing Strategy – The Berkshire West Health & Wellbeing strategy addresses health inequalities through a number off priority workstreams. The Reading Integration Board provides the oversight for the delivery against the Health & Wellbeing strategy. Ongoing
- Housing Strategy – Community Development Team in place to tackle inequality in deprived council estate areas, debt and money advice provision to prevent homelessness, detached youth workers carry out community engagement with young people Ongoing
- New Directions College provides skills and community learning to adults aged 19+ in Reading, in particular skills for life and work including maths, English and digital skills as well as apprenticeships and work based learning courses. Ongoing
- Reading Play provide play opportunities for 0 to 13 year olds through After School Clubs, Holiday Play clubs, and events such as the Summer Play Days. We ensure that all of Reading's children, young people and families have fair and equal access to free play activities on a daily basis. The service also provides a specialist service for schools which includes respite and Special Education Needs & Disabilities (SEND) support. Ongoing
- Libraries support children and adults with provision of free resources, including access to information, internet/wifi, and IT and free activities such as 'Rhymetime' and story time which support the development of children. Ongoing
- Increasingly cultural services, including the museum, are adapting services for adults and children who are neuro-diverse. Ongoing
- Reading Museum provides a reminiscence service that can be sent out to care homes and other organisations around Reading. The Museum regularly goffers project work to schools in areas of deprivation. Ongoing
- Place-Based pilots project developed December 2022 and to be launched 1st Quarter of 2023 In Progress

Specific Actions Required

Title	Date for completion	Status

Team Reading

Risk:

Failure to manage a significant outbreak of a communicable disease(s)

Register:
Strategic

Risk owner:
Daszkiewicz, Tracy

9
Current Score

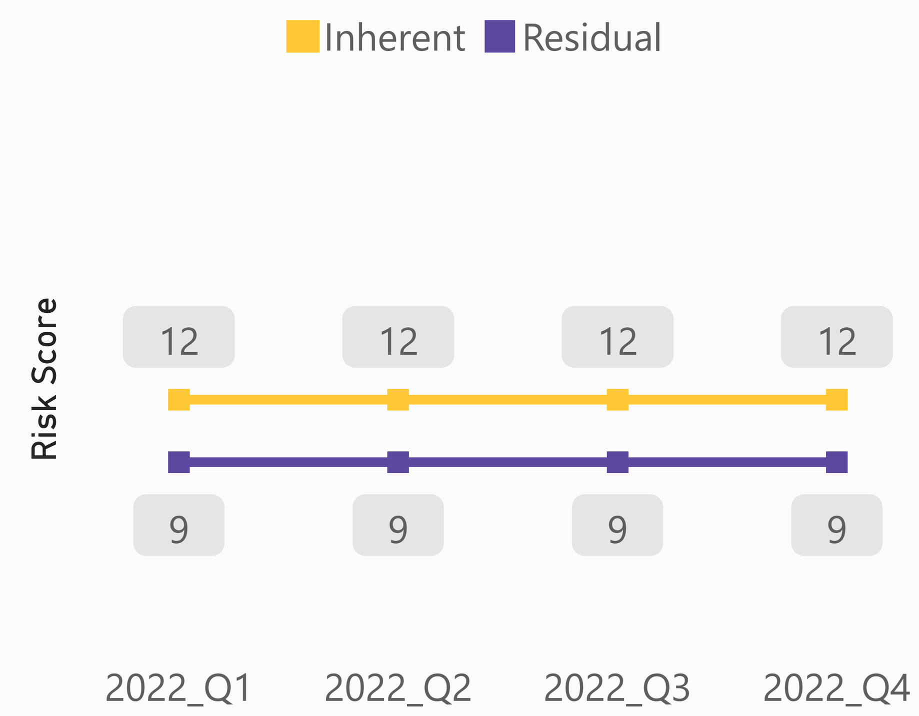
Cause

Lack of specialist staff capacity resources to manage the situation

Potential Impact

Death or injury. Loss of reputation. Insurance claims. Legal challenges

Trends - Risk Scores



Risk Scoring

Risk Type	2022 Q1	2022 Q2	2022 Q3	2022 Q4
Impact (Inherent)	4	4	4	4
Likelihood (Inherent)	3	3	3	3
Inherent	12	12	12	12
Impact (Residual)	3	3	3	3
Likelihood (Residual)	3	3	3	3
Residual	9	9	9	9

Background information

Local authorities statutory responsibilities fir public health are set out in the Health and Social Care Act (2012) Regulation 8 imposes a duty on local authorities to provide information and advice to certain persons and bodies within their area in order to promote the preparation of, or participation in, health protection arrangements against threats to the health of the local population, including infectious disease, environmental hazards and extreme weather events. This also encompasses Regulation 6 which requires local authorities to provide, or make arrangements to secure the provision of open access sexual health services in their area including HIV. Each area should have or be part of a Health Protection Partnership which enable horizon scanning for risks and processes for mitigation and response. Pandemic Influenza remains the highest risk to health in the UK and therefore each area should have a Pandemic Influenza plan in place that is widely understood, exercised and annual review of business continuity planning. These structures are not in place and therefore we are not meeting our mandatory requirements on health protection. There is also fragmentation as the DPH has no oversight of emergency planning in terms of join up on preparedness, response, and recovery of major incidents.

Go bac

Section 30 of the 2012 Act8 requires each upper-tier local authority, acting jointly with the Secretary of State, to appoint a director of public health whose role is integral to the duties for health improvement and health protection.

Existing mitigations

- Continue to support vaccine rollout and use data to consider where hesitancy exists. This is progress in Reading and targeted work was undertaken during Covid to reach communities where there was reduced take up. This same targeted approach needs to be established across all vaccination streams, most notably influenza as pandemic flu remains the highest risk on the national risk register and low uptake of vaccination correlates with high impact on services. Focus of vaccine uptake should also include all immunisation programmes from new born work with Integrated Care Partnerships, Primary Care Networks and higher education settings for Measles, Mumps & Rubella catch up awareness In progress through to shingles and pneumonia in the elderly. This should be a focus on the Health Protection Annual report to the Health and Wellbeing Board. In progress
- Local Contact Tracing has ended following the Living with Covid announcement by the government Complete
- Service delivery and risk assessments pertaining to business continuity plans in relation to pandemic flu form part of the annual health protection exercise across the Council sit with Services/Directorate. There is no recorded evidence that this is in place in the absence of an annual health protection annual report In progress, in association with the health protection review and establishing a partnership and forward planning for the health protection annual report. Essential aspects of this are:
    - Update the Pandemic Flu Plan and review procedures Not started
    - Undertake a flu exercise Not started
    - Ensure Flu is a consideration is a consideration in all Business Continuity Plans Not started
- Establish a robust structure for dealing with Health Protection, from preparedness through response to recovery In progress. A full review of these structures are underway. Good structures were established during Covid across Reading and these have served well in supporting additional need such as settlement of Afghanistan nationals and Ukraine refugees. A partnership needs to be established, building on this success, so there is a forum for bringing together Public Health, social care, emergency planning, housing and screening and immunisations to meet Public Health statutory requirements around health protection and resilience, to plan, exercise and mitigate risk and establish a clear process should response be required.
- Create a Health Protection Board to focus on all Infectious diseases, mandatory requirement under the Health &Social Care Act 2012 In progress. A proposal on the establishment of a Health Protection & Resilience partnership is being developed, following a review and mapping of existing processes, this will come to Corporate Management Team for initial discussion Feb 2023.
- Staffing capacity - there is a need for additional staffing support - health protection specialist required. In progress. A job description has been developed with the intention of filling this role on a Full Time Contract for 12 months from non recurring funding, to help establish working practices, update plans and put in place systematic exercising.
- Closer alignment of health protection to emergency planning In progress. This will form as part of the new partnership. These disciplines sit closely together in an incident, and the need to ensure the public health aspects are considered.
- Emergency response structure continues to operate This is in place across the council, public health has not previously been called to the table automatically, Again Covid brought inclusive working, enabling this same engagement at an Strategic Coordinating Group and Tactical Cordinating Group and Recovery arrangement in all incidents will enable fuller Public Health contribution; i.e fire, flood, weather,
- Thames Valley Local Resilience Forum being supported In progress. Currently the Department for Public Health sits on the Local Resilience Forum executive and co-chairs the Local Health Resilience Partnership. No mechanism in place for linking Public Health risks identified within the Local Resilience Forum back to the Council to ensure they are addressed.
- The other recovery groups supporting economic recovery and renewal and social impact continue to monitor changes in the governments approach to recovery including delivering grants and support services. In progress
- The council has been successful and is heavily involved in supporting the National Health Service (NHS) to successfully deliver Covid vaccination to the local population. Including the Community Vaccine Champions scheme to increase targeted take up In progress
- The government has set out its Living with Covid Plan Complete

Specific Actions Required

Title	Date for completion	Status

Team Reading

Risk:

Failure to safeguard vulnerable adults and children

Register:
Strategic

Risk owner:
Ross, Susan

10
Current Score

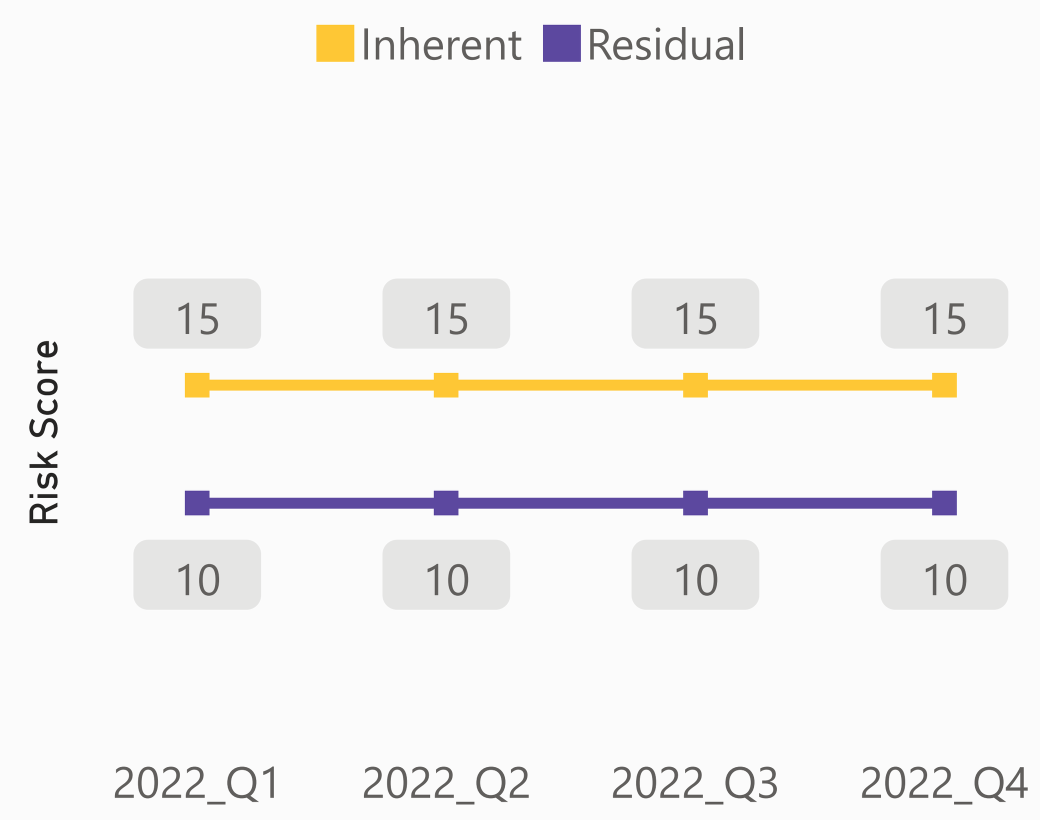
Cause

Inadequate risk assessment and management, lack of or poor safeguarding response, failure to provide adequate health and safety measures

Potential Impact

Harm, injury or death of person(s) to whom adult and children's social care has a duty
Potential of legal claim for negligence, corporate manslaughter
Reputational damage
Media coverage
Young people experience serious harm and negative long term impacts

Trends - Risk Scores



Risk Scoring

Risk Type	2022 Q1	2022 Q2	2022 Q3	2022 Q4
Impact (Inherent)	5	5	5	5
Likelihood (Inherent)	3	3	3	3
Inherent	15	15	15	15
Impact (Residual)	5	5	5	5
Likelihood (Residual)	2	2	2	2
Residual	10	10	10	10

Background information

Safeguarding vulnerable adults and children and supporting adults and children who have been subject to the neglect or abuse or explotation

Existing mitigations

Adult Social Care and Health

- All Directorate staff and relevant other officers receive mandatory training to assess safeguarding risks. Staff and Managers have regular refresher training which is monitored by the Department Workforce Lead. Ongoing
- Staff receive 1-1 supervision from their managers where safeguarding is discussed and practice support is available. Ongoing support is provided through the Quality & Safeguarding Team Ongoing
- Open safeguarding episodes are reviewed and reported weekly, managers in the teams have oversight and support from senior managers and the Principle Social Worker. Ongoing
- RBC follows the local policies and procedures, as set out by West Berkshire Safeguarding Adults Board (SAB) who provide scrutiny Ongoing
- All referrals received are screened, risks assessed and prioritised decisions made. Additional resources have been brought into the team to manage the increased demand which is being monitored Ongoing
- Health and Safety measures are in place across the Directorate of Adult Care & Health Services (DACHS). Ongoing

Go back

Brighter Futures For Children

- Risks relating to children's services are managed by Brighter Futures for Children, who have their own risk management arrangements.
- An extra familial risk / contextual safeguarding pathway for adolescents have been established to provide support for young people who would otherwise have been subject of a Child Protection Plan. In 2022 /2023, cross council activity will be embedded to enhance support available for adolescents at risk. Ongoing
- Through the leadership of Community Safety and Brighter Futures for Children (BFfC), continue to deliver partnership actions with Thames Valley Police (TVP), the Berkshire, Oxfordshire and Buckinghamshire Integrated Care System, and the Berkshire West Adolescent Risk group to ensure an effective safeguarding response to the risks of extra-familial harm, exploitation and serious violence. Ongoing
- Ensure that work regarding extra-familial harm, exploitation and the prevention of serious violence is informed by and connects to the work of Social Inclusion Board Ongoing
- Corporate Violence Group and partnership working in place Ongoing
- Risks relating to children's services are managed by Brighter Futures for Children (BFfC), who have their own risk management arrangements. Ongoing

Corporate Parenting

- Chief Executive and Director Children Services - led work with the Local Government Association to instigate learning and development regarding the Corporate Parenting duties Ongoing
- Mapping across all departments in the Autumn will benchmark all current work supporting Children Looked After and Care Leavers
- Working with Local Government Association Ongoing

Specific Actions Required

Title	Date for completion	Status

Risk:

Information Governance - Failure to protect personal data

Register:
Strategic

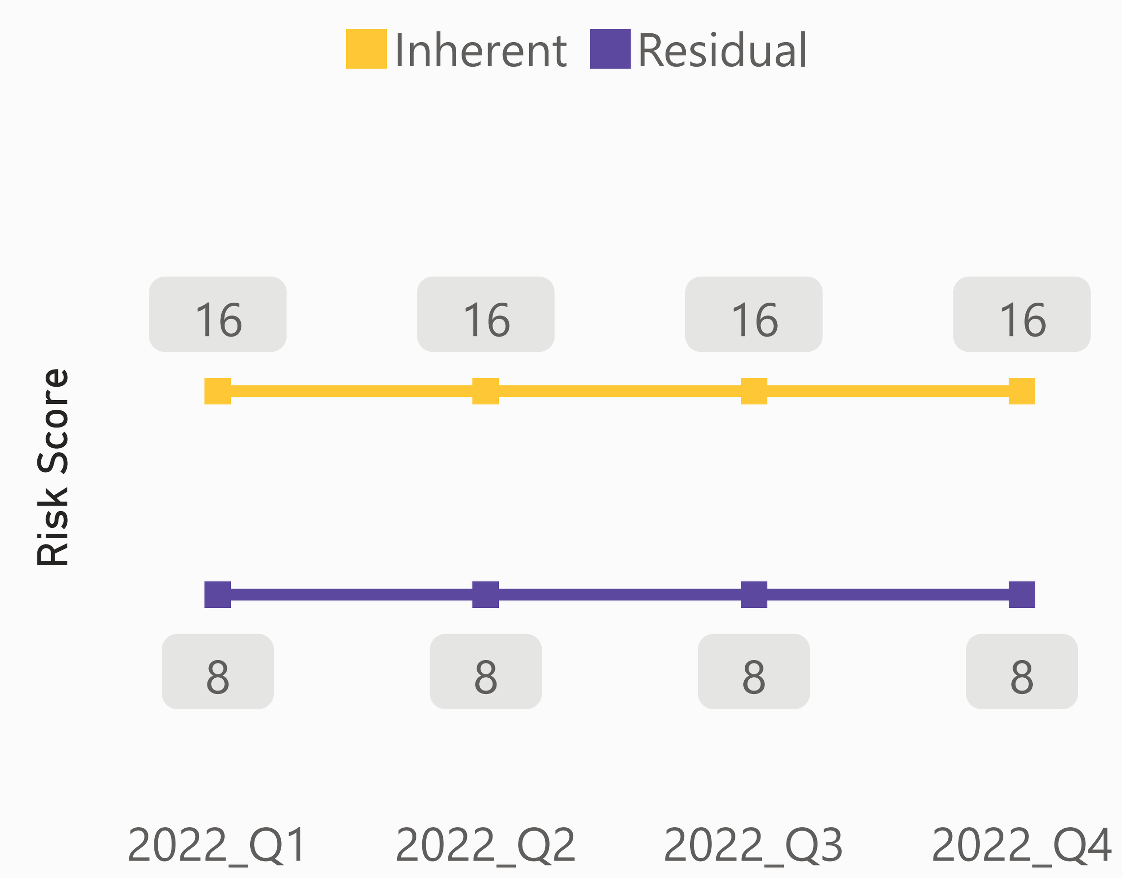
Risk owner:
Graham, Michael

8
Current Score

Cause
User error, lack of policy guidance and procedures, failure of system reminders, staff workloads resulting in insufficient care and attention to details.

Potential Impact
Fines/penalties, reputation damage, service failure. Wasted time and cost involved in responding to service failure.

Trends - Risk Scores



Risk Scoring

Risk Type	2022 Q1	2022 Q2	2022 Q3	2022 Q4
Impact (Inherent)	4	4	4	4
Likelihood (Inherent)	4	4	4	4
Inherent	16	16	16	16
Impact (Residual)	4	4	4	4
Likelihood (Residual)	2	2	2	2
Residual	8	8	8	8

Background information

Information governance is an important issue for the council as information is a corporate resource and is essential for the delivery of services to residents. The Council has duties to manage information properly, under the General Data Protection Regulation. In addition, in order to make best use of the information, it should be organised in a way that allows Services to derive maximum benefit from it.

Existing mitigations

- Information Governance Board (IGB) set up to oversee delivery of Information Management Strategy and compliance. Complete
- Information Management Strategy agreed at Policy Committee on 7 March 2022. Complete
- Ongoing corporate training programme for data protection, raising awareness with staff groups of the need to handle personal data securely and properly. Data Protection Training is mandatory for all staff. Ongoing
- Oversight from the Audit and Governance Committee on a quarterly basis. Ongoing.
- Face to Face Data Protection refresher training is available for staff as and when needed. Ongoing.
- Cascade of compliance requirements now through the Information Governance Champions Network (IGCN). This is being rolled out from Autumn 2022. Ongoing
- Subject Access Request policy and Breach Management policy reviewed by Information Governance Board. Further training to be delivered to staff. Complete.
- Privacy Notices have been updated for each service area and made available to service users. This is kept under review e.g. were updated for revised Covid operations. Now to be revis Information Governance Champions Network (IGCN). Ongoing
- Information Sharing Protocols have been centralised and will be reviewed by Information Governance Champions Network. Ongoing
- The Council now has retention schedules for each directorate. All retention schedules have been updated and will be reviewed through ongoing IGCN programme to ensure they are being actioned. Further work through the Information Governance Champions Network will ensure that the schedules are given greater visibility and to assess level of compliance. In progress
- Records of processing activities (ROPA) being further developed by Data Protection Officer and will help to identify Information Asset Owners within Services. In progress

Go back

Specific Actions Required

Title	Date for completion	Status

Team Reading

Risk:

Staffing - Failure to retain and recruit staff

Register:
Strategic

Risk owner:
Kaine, Teresa

12
Current Score

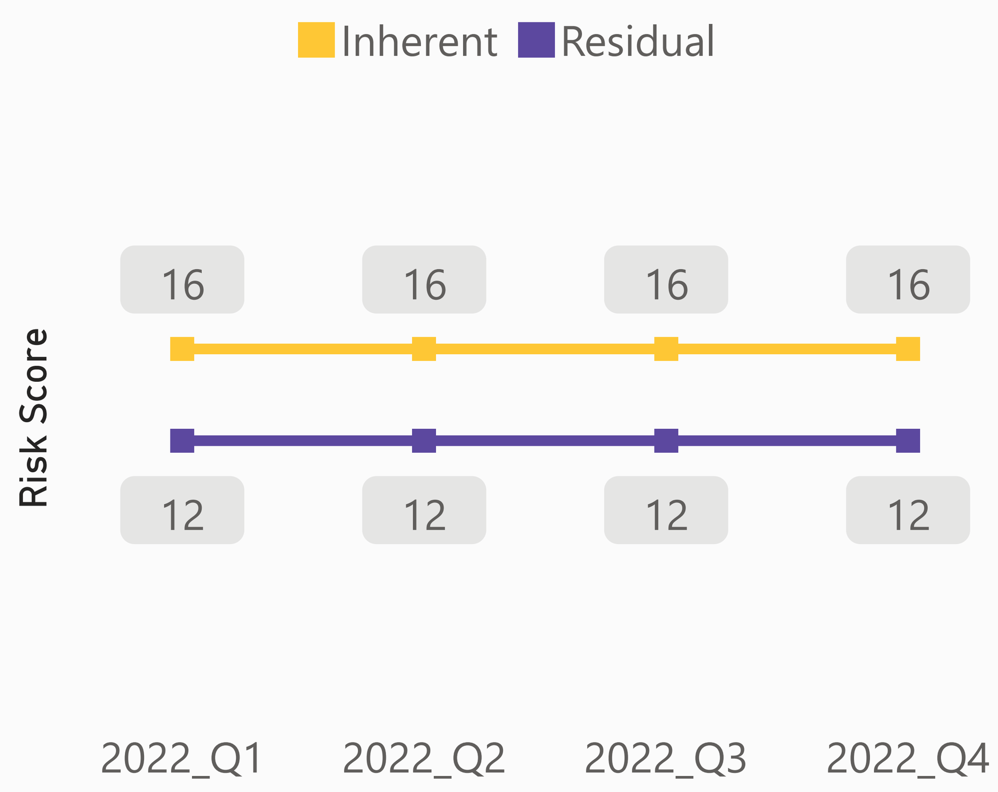
Cause

For some areas there is a national shortage of skilled staff (e.g. Social Workers, Occupational Therapists, local government lawyers and financial professionals, Planners etc). In other areas local government salaries and the impact of the cost of living crisis may mean that the Council is not able to keep pace with salaries being offered in the private sector (e.g. Surveyors, IT professionals and Drivers) and staff may leave for higher paid jobs in other sectors

Potential Impact

Failure to meet demand. Statutory duties not met. Negative impact on staff motivation and stress related illness.

Trends - Risk Scores



Risk Scoring

Risk Type	2022 Q1	2022 Q2	2022 Q3	2022 Q4
Impact (Inherent)	4	4	4	4
Likelihood (Inherent)	4	4	4	4
Inherent	16	16	16	16
Impact (Residual)	3	3	3	3
Likelihood (Residual)	4	4	4	4
Residual	12	12	12	12

Background information

There is an on-going shortage of skilled staff (e.g. Social Workers, Occupational Therapists, local government lawyers and financial professionals) and therefore recruitment in these areas is difficult. We compare our data with other local authorities and national recruitment statistics.

Existing mitigations

Reading Borough Council

- Access to pool of appropriately qualified temporary staff via agency contract Completed. Contract has been re-procured from February 2021, for a period of 4 years, which will ensure ongoing value for money.
- The Team Reading Programme is embedded to support delivery of the People Strategy which aims to achieve a highly skilled, high performing and motivated workforce. Programme governance in place through monthly boards with Corporate Management Team (CMT) sponsor In progress.
- Resourcing team well established to ensure proactive approach and success of permanent and all other types of recruitment. Time to fill (advert to start date) has reduced to an average of 58 days (January 2023). Success rate of recruitment is currently 80% (January 2023). Whilst fill rates are high for most jobs, there are a small number of jobs where considerable challenges recruiting have been experienced. These difficulties are experienced on a national level by most local authorities and include jobs such as experienced solicitors and senior finance staff. Efforts continue to position these posts in the most attractive light to attract quality candidates.
- Staff Surveys were run in 2021 and 2022 which provides valuable insight into how staff feel about the Council as an employer and an opportunity to build on and maintain positive resu address areas for improvement. Four priority areas for improvement have been identified at a corporate level and actions underway to address them, monitored by the Team Reading Programme Board In progress.
- Pulse surveys will take place in 2023 to track progress
- Leadership Development Programme underway to ensure managers deliver high quality, inspiring leadership and role model the Team Reading Leadership Behaviours. In progress.
- The Council is part of national pay bargaining so has limited scope to increase pay but market supplement payments can be awarded for particularly hard to fill posts which present recruitment/retention challenges. A communications campaign to continually promote the benefits available to staff is underway (e.g. Employee Assistance Programme, benefits platform and discounts with retailers and gym memberships, lease cars scheme, pensions etc). In progress.
- Quarterly reporting of Human Resources performance metrics to Corporate Management Team (CMT) and monthly to Directorate Management Teams (DMT's), to identify areas of good practice that can be shared, and areas that require improvement so that these can be addressed. In progress.

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Brighter Futures for Children

- A number of mitigations are in place to stabilise the high turnover of social workers and to convert agency staff to permanent hires within the Together for Families Team. This includes improving recruitment of qualified social workers through a 'grow your own' programme; and improving retention through providing targeted support, bespoke training for managers, introducing career pathways, and addressing concerns highlighted from exit interviews such as high caseloads etc. Ongoing
- The Human Resources Task & Finish Group has led this targeted intervention (from July 2022) and data shows that all vacancies are now filled with either permanent or agency hires and the high turnover of social workers has ceased.
- A recruitment and retention proposal is currently underway to convert the high number of agency into permanent hires. Ongoing

Specific Actions Required

	Title	Date for completion	Status
1	Team Reading Programme governance in place through monthly boards with CMT sponsor	31/03/2024	In progress
2	Resourcing team established to ensure proative approach and sucess of permanent and all other types of recruitment.	31/03/2024	In progress
3	Pulse survey will take place in 2023 to track progrss of four priority areas for improvement	31/03/2024	In progress
4	Leadership Development Programme underway to ensure managers deliver high quality leadership	31/03/2024	In progress
5	Quarterly reporting of Human Resources performance metrics to CMT and monthly to DMT's	31/03/2024	In progress

Team Reading

Risk:
Unable to achieve the budget savings, manage costs, as a result of cost of living increases and achieving income targets.

Register:
Strategic

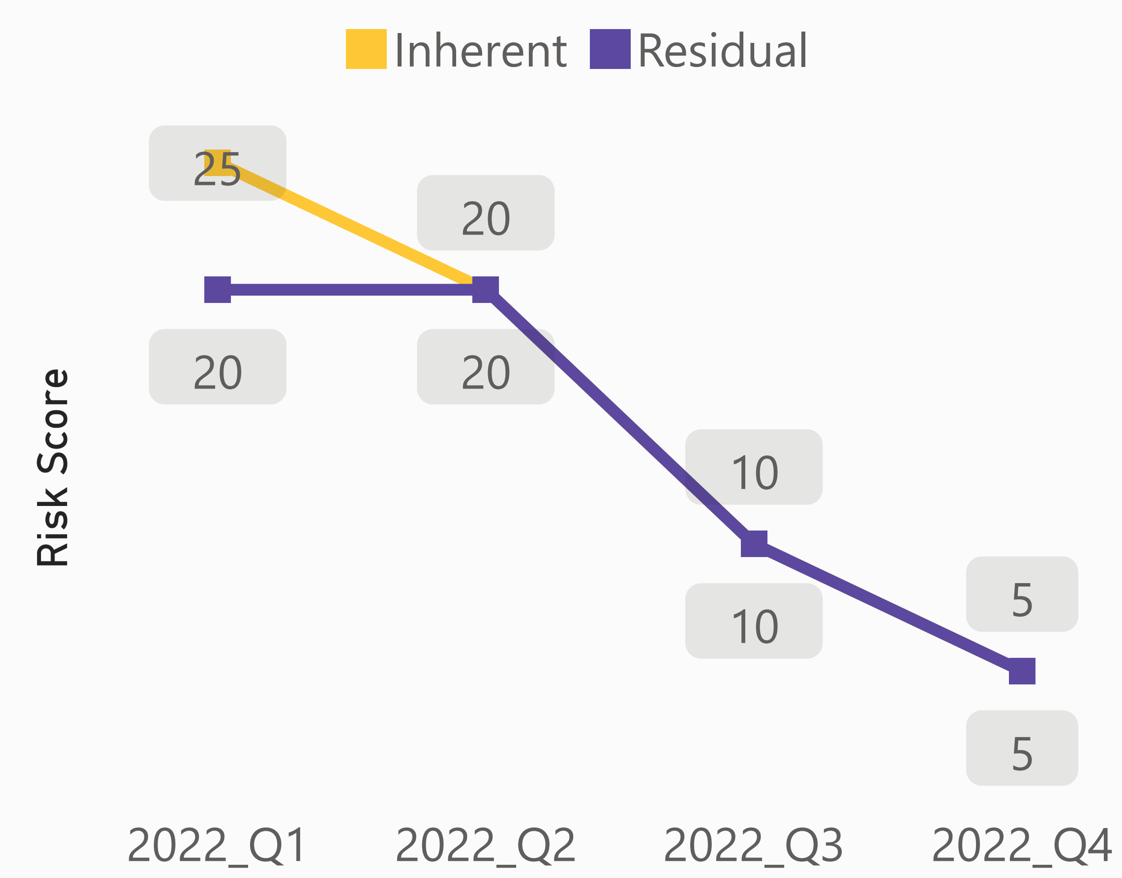
Risk owner:
Carter, Darren

5
Current Score

Cause
Overspends, cost of living increase caused by rising rates of inflation and fuel/energy costs, increasing demand, income targets not met

Potential Impact
Strategic objectives and statutory duties not met. Council unable to set legal budget. Impact on front-line services.

Trends - Risk Scores



Risk Scoring

Risk Type	2022 Q1	2022 Q2	2022 Q3	2022 Q4
Impact (Inherent)	5	5	5	5
Likelihood (Inherent)	5	4	2	1
Inherent	25	20	10	5
Impact (Residual)	5	5	5	5
Likelihood (Residual)	4	4	2	1
Residual	20	20	10	5

Background information

The list of savings required to be delivered for 2022/2023 were agreed as part of the budget setting process. Monitoring of savings delivery is carried out on a monthly basis and reported via the 'Savings Tracker' and 'Performance and Monitoring Report'. Savings are reviewed annually as part of the budget setting process.

Existing mitigations

Monthly meetings to review savings risk profiles, contingencies and reserves identified.

- The Council set a balanced budget for 2022/2023 at its council meeting in February 2022 and current predictions are that the Council will deliver services for 2022/2023 within the approved budget. In progress
- Detailed planning for the 2023/2024 budget is underway. Complete
- The Medium Term Financial Strategy (MTFS) 2023/24-2025/26 approved by Council in February 2023 shows a forecast budget surplus of £2.8m for 2024/2025, and a budget deficit of £5.7m in 2025/2026.
- Monthly budget monitoring updates are provided to Corporate Management Team (CMT) and Leadership. In progress
- New savings and efficiency initiatives are developed and monitored through the Transformation & Efficiency Board. In progress
- A review of reserves will be undertaken by the Director of Finance in January 2023 to ensure that they remain adequate. Complete
- Negotiation of robust and competitive energy supply contracts via the procurement process (available evidence suggests current contract is performing well, an 'switching' would be ill-advised at this point in any case) Not started
- Implementation of the forward buying strategy within the Council's energy contract. Not started
- Settlement from Government now received.

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Specific Actions Required

Title	Date for completion	Status

READING BOROUGH COUNCIL

REPORT BY DIRECTOR OF FINANCE

TO:	**AUDIT & GOVERNANCE COMMITTEE**		
DATE:	**12th APRIL 2023**		
TITLE:	**2022/23 QUARTER 3 PERFORMANCE AND MONITORING REPORT**		
LEAD COUNCILLOR:	**COUNCILLOR TERRY**	**PORTFOLIO:**	**CORPORATE SERVICES AND RESOURCES**
SERVICE:	**FINANCE** **CORPORATE IMPROVEMENT AND CUSTOMER SERVICES**	**WARDS:**	**BOROUGHWIDE**
LEAD OFFICER:	**STUART DONNELLY**	**TEL:**	
JOB TITLE:	**FINANCIAL PLANNING & STRATEGY MANAGER**	**E-MAIL:**	**stuart.donnelly@reading.gov.uk**

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

1.1 The 2022/23 Quarter 3 Performance and Monitoring Report was presented to Policy Committee on 13th March 2023. This report sets out the projected revenue and capital outturn positions for 2022/23 for both the General Fund and the Housing Revenue Accounts as at the end of Quarter 3 (December 2022).

1.2 The report also sets out performance against the measures of success published in the Council's Corporate Plan.

2. RECOMMENDED ACTION

That Audit & Governance Committee note:

2.1 The 2022/23 Quarter 3 Performance and Monitoring Report and the recommendations set out and approved by Policy Committee on 13th March 2023.

READING BOROUGH COUNCIL

REPORT BY DIRECTOR OF FINANCE

TO:	POLICY COMMITTEE		
DATE:	13th MARCH 2023		
TITLE:	2022/23 QUARTER 3 PERFORMANCE AND MONITORING REPORT		
LEAD COUNCILLOR:	COUNCILLOR TERRY	PORTFOLIO:	CORPORATE SERVICES AND RESOURCES
SERVICE:	FINANCE POLICY, PERFORMANCE & CUSTOMER SERVICES	WARDS:	BOROUGHWIDE
LEAD OFFICER:	STUART DONNELLY	TEL:	01889 373468
JOB TITLE:	FINANCIAL PLANNING & STRATEGY MANAGER	E-MAIL:	stuart.donnelly@reading.gov.uk

1 PURPOSE OF REPORT AND EXECUTIVE SUMMARY

1.1 This report sets out the projected revenue and capital outturn positions for 2022/23 for both the General Fund and the Housing Revenue Account as at the end of Quarter 3 (December 2022).

General Fund (Revenue)

1.2 The forecast General Fund (GF) revenue outturn position at the end of Quarter 3 includes a projected adverse net variance on service expenditure of £3.985m. The forecast adverse variance on services includes net pressures totalling £1.316m within Adult Care and Health Services relating to care cost pressures; £1.369m within Economic Growth and Neighbourhood Services, primarily relating to ongoing income shortfalls in Car Parking and Planning as an ongoing impact of Covid-19; £0.871m within Brighter Futures for Children (BFfC), primarily relating to Childrens' Social Care; £0.290m within Resources and £0.139m within Chief Executive Services. Detailed explanations for these variances are contained in Section 4 of this report.

1.3 A corporate contingency of £3.627m was set for 2022/23 following a detailed assessment of risk. This contingency is now released to offset most of the adverse variance on service expenditure. In addition, other Corporate Services budgets are forecast to deliver a positive net variance of £3.665m, including a positive variance of £2.505m against the Capital Financing budget (further details are set out in paragraph 4.44).

1.4 Other Corporate Budgets are forecasting a positive net variance of £1.160m. This variance includes a pressure of £0.954m relating to the 2022/23 pay award. This pressure on pay inflation is more than offset by positive net variances of £2.114m within Other Corporate Budgets due to the release of all unspent contingencies and the forecast reduction in the bad debt provision.

1.5 Overall, this results in a projected overall positive net variance of £3.307m, which is an improvement of £2.040m from Quarter 2.

1.6 It is recommended that should the forecast positive variance on the General Fund revenue budget crystallise at the end of the financial year, that this balance is transferred into earmarked reserves to support the Capital Programme.

1.7 £5.289m (52%) of budgeted savings have been delivered (blue) to date in this financial year, with a further £1.745m (17%) of savings on track to be delivered (green) by March 2023. £2.601m (25%) of savings are currently categorised as non-deliverable (red) and £0.589m (6%) categorised as at risk of delivery (amber). There is therefore a potential impact on the 2023/24 budget should these savings not be deliverable on a recurring basis. These savings are being reviewed as part of the 2023/24 budget setting and 2023/24-2025/26 Medium Term Financial Strategy processes.

Housing Revenue Account

1.8 The Housing Revenue Account (HRA) is projecting a positive net variance of £2.103m as at the end of Quarter 3, which results in a forecast contribution to HRA reserves of £0.051m. Further detail is provided in Section 10.1.

Capital

1.9 The General Fund Capital Programme is forecasting a positive net variance of £1.671m against a proposed revised budget of £74.517m in 2022/23. This variance relates to £0.817m of the Delivery Fund that has not yet been allocated to specific proposals as at the end of Quarter 3 and a forecast positive variance of £0.854m on approved Delivery Fund allocations.

1.10 The HRA Capital Programme is forecasting an adverse variance of £0.098m against a revised budget of £29.987m in 2022/23.

Performance

1.11 The report also sets out performance against the measures of success published in the Council's Corporate Plan.

1.12 Of the 27 Corporate Plan Performance Measures monitored monthly or quarterly, 70% are currently "green", 15% "amber" and 15% "red". 56% have improved since Quarter 2, whilst 30% have gotten worse.

1.13 Of the 52 Corporate Plan Projects, 56% are currently "green", 38% "amber" and 6% red".

1.14 Those measures that have shown significant change since Quarter 2 are set out in Appendix 6.

1.15 The detail supporting this report is included in:

- Appendix 1 – Financial Monitoring for Quarter 3
- Appendix 2 – Capital Programme for Quarter 3
- Appendix 3 - Debt Write-Offs.
- Appendix 4 – Corporate Plan Measures for Quarter 3
- Appendix 5 – Corporate Plan Projects for Quarter 3
- Appendix 6 – Corporate Plan Measures Charts for Quarter 3

2 RECOMMENDED ACTIONS

That Policy Committee notes:

2.2 The forecast General Fund revenue outturn position as at the end of Quarter 3 is a positive net variance of £3.307m;

2.3 The Housing Revenue Account (HRA) is projecting a positive net variance of £2.103m as at the end of Quarter 3, which results in a forecast contribution to HRA reserves of £0.051m;

2.4 £5.289m (52%) of savings have been delivered (blue) to date in this financial year, with a further £1.745m (17%) of savings on track to be delivered (green) by March 2023. £2.601m (25%) of savings are currently categorised as non-deliverable (red) and £0.589m (6%) categorised as at risk of delivery (amber);

2.5 There is a total £4.065m Delivery Fund available for 2022/23 (inclusive of 2021/22 approved carry forwards). At Quarter 3, £3.248m of this funding has been allocated out to approved schemes;

2.6 The General Fund Capital Programme is reporting a positive net variance of £1.671m against a proposed revised budget of £74.517m;

2.7 The HRA Capital Programme is forecasting an adverse variance of £0.098m against a revised budget of £29.987m.

2.8 The performance achieved against the Corporate Plan success measures as set out in Section 12 of this report and Appendices 4 and 5.

That Policy Committee approves:

2.9 The intent to transfer the balance of any positive General Fund revenue budget variance at the end of the financial year to earmarked reserves to support the Capital Programme;

2.10 The amendments to the General Fund Capital Programme (as set out in further detail in Section 12 of this report and Appendix 2) resulting in a revised budget of £74.517m;

2.11 Spend approval for the Bus Service Improvement Plan as set out in paragraph 12.9;

2.12 The amendments to the HRA Capital Programme (as set out in further detail in Section 12 of this report and Appendix 2) resulting in a revised budget of £29.987m:

2.13 The write-off of debts as set out in Section 8 and Appendix 3 relating to:

a) Non-Domestic Rates - £111,313.32;

b) Housing Benefit Overpayments - £57,120.48;

c) Sundry Debt - £90,858.25.

3 POLICY CONTEXT

3.1 The Council approved the 2022/23 Budget and Medium-Term Financial Strategy 2022/23 – 2024/25 in February 2022.

4 GENERAL FUND REVENUE

4.1 The forecast outturn as of Quarter 3 is a net positive variance of £3.307m and is broken down by service in the following table:

Table 1. General Fund Forecast 2022/23

	Budget £m	Forecast Outturn £m	Variance £m	Movement from Quarter 2 £m
Adult Care and Health Services	43.921	45.237	1.316	0.084
Economic Growth and Neighbourhood Services	19.837	21.206	1.369	(0.020)
Resources	18.388	18.678	0.290	0.165
Chief Executive Services	1.556	1.695	0.139	0.106
Children's Services retained by Council	0.781	0.781	0.000	0.000
Children's Services delivered by BFfC	48.958	49.829	0.871	0.141
Total Service Expenditure	**133.441**	**137.426**	**3.985**	**0.476**
Capital Financing Costs	16.381	13.876	(2.505)	(0.597)
Contingency	3.627	0.000	(3.627)	0.000
Other Corporate Budgets	(3.459)	(4.619)	(1.160)	(1.919)
Total Corporate Budgets	**16.549**	**9.257**	**(7.292)**	**(2.516)**
Net Budget Requirement	**149.990**	**146.683**	**(3.307)**	**(2.040)**
Financed by:				
Council Tax Income	(104.403)	(104.403)	0.000	0.000
NNDR Local Share	(26.510)	(26.510)	0.000	0.000
New Homes Bonus	(2.038)	(2.038)	0.000	0.000
Section 31 Grant	(12.580)	(12.580)	0.000	0.000
Revenue Support Grant	(2.108)	(2.108)	0.000	0.000
Other Government Grants	(2.404)	(2.404)	0.000	0.000
One-off Collection Fund Deficit	19.981	19.981	0.000	0.000
Section 31 Grants Released from Reserves	(19.928)	(19.928)	0.000	0.000
Total Funding	**(149.990)**	**(149.990)**	**0.000**	**0.000**
Over / (under) Budget	**0.000**	**(3.307)**	**(3.307)**	**(2.040)**

4.2 These variances have been categorised and summarised in the following table, which highlights that the Council is forecasting a total of £9.901m of pressures comprising:

- £1.925m of inflationary pressures, of which £0.954m relate to the agreed employer's pay offer for 2022/23;
- £2.445m of demand pressures across Adult's and Children's Social Care;
- £3.108m of income pressures, predominantly within Economic Growth and Neighbourhood Services, partially due to the ongoing impacts of Covid-19 e.g. the reduced demand on car parking spaces;
- £2.423m of other expenditure pressures across Economic Growth and Neighbourhood Services, Resources, Chief Executive and Children's Services delivered by BFfC.

4.3 These pressures are offset by a total of £13.208m of the following savings and contingencies:

- £3.872m of expenditure savings across services, mainly within Economic Growth and Neighbourhood Services and in particular Environmental and Commercial Services due to lower waste disposal tonnage levels and staffing vacancies, and £1.415m within BFfC mainly due to forecast pressure reductions as reported by the finance team;

- £1.090m of income savings across services, mainly due to £0.410m of additional grant income within BFfC and £0.340m of income over-achievement in Bus Lane Enforcement and On Street Pay & Display Car Parking within Economic Growth and Neighbourhood Services;

- £2.505m of net savings within Capital Financing Costs mainly resulting from the 2021/22 Capital Programme Outturn position;

- £3.627m of unallocated Corporate Contingency;

- £2.114m of savings within Other Corporate Budgets.

4.4 The £0.954m of pressures relating to the agreed employers' pay offer will have an ongoing impact on the Council's Medium Term Financial Strategy as this is a recurring pressure. The other pressures and savings have been reviewed to assess whether or not they are recurring as part of the 2023/24 budget setting and 2023/24-2025/26 Medium Term Financial Strategy processes.

Table 2. General Fund Forecast Variance by Type 2022/23

	Expenditure Pressures			Income Pressures	Total Pressures	Savings			Total Pressures
	Inflation	Demand	Other			Expenditure	Income	Total	
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Adult Care and Health Services	0.000	1.316	0.000	0.000	**1.316**	0.000	0.000	**0.000**	**1.316**
Economic Growth and Neighbourhood Services	0.335	0.000	0.953	2.749	**4.037**	(2.247)	(0.421)	**(2.668)**	**1.369**
Resources	0.000	0.000	0.683	0.076	**0.759**	(0.210)	(0.259)	**(0.469)**	**0.290**
Chief Executive Services	0.000	0.000	0.107	0.032	**0.139**	0.000	0.000	**0.000**	**0.139**
Children's Services retained by Council	0.000	0.000	0.000	0.000	**0.000**	0.000	0.000	**0.000**	**0.000**
Children's Services delivered by BFfC	0.636	1.129	0.680	0.251	**2.696**	(1.415)	(0.410)	**(1.825)**	**0.871**
Total Service Expenditure	**0.971**	**2.445**	**2.423**	**3.108**	**8.947**	**(3.872)**	**(1.090)**	**(4.962)**	**3.985**
Capital Financing Costs	0.000	0.000	0.000	0.395	**0.395**	(1.991)	(0.514)	**(2.505)**	**(2.505)**
Contingency	0.000	0.000	0.000	0.000	**0.000**	(3.627)	0.000	**(3.627)**	**(3.627)**
Other Corporate Budgets	0.954	0.000	0.000	0.000	**0.954**	(1.723)	(0.391)	**(2.114)**	**(1.160)**
Total	**0.954**	**0.000**	**0.000**	**0.000**	**0.954**	**(7.341)**	**(0.905)**	**(8.246)**	**(7.292)**

Corporate Budgets									
Total	**1.925**	**2.445**	**2.423**	**3.108**	**9.901**	**(11.213)**	**(1.995)**	**(13.208)**	**(3.307)**

Adult Care and Health Services - £1.316m adverse variance

4.5 Adult Care and Health Services is forecasting an adverse net variance of £1.316m at Quarter 3, which is an adverse movement of £0.084m since Quarter 2. This pressure relates to the current care cost forecast being £37.111m compared to a budget of £35.795m.

4.6 The forecast adverse variance includes a number of factors:

- Further package reviews to identify savings have been completed during this quarter, but some resources have been re-prioritised to manage the additional flow from hospitals and tackling waiting lists. Additional funding has been provided to support this work and has been factored into the Quarter 3 monitoring;

- DACHS has a total savings target of £1.735m - At Quarter 3, they have achieved £1.443m which is 83% of the target (£1.093m of this has been verified through the transformation/finance challenge, £0.292m is still to be completed which is why it still shows in green within the savings tracker). The directorate also has an internal recovery plan in place with a further target of £2.189m, at Quarter 3, they have achieved £1.499m which is 68% of the target.

- DACHS are still working strongly towards those targets and are forecasting a further £0.300m in year from reviews including CHC work, additional staff have been recruited to support this work. If the £0.300m is achieved as planned we would have achieved the full £1.735m savings target, with achievement of 68% of recovery, which is explained in the forecast overspend.

- Public Health grant is forecast to budget.

Economic Growth and Neighbourhood Services - £1.369m adverse variance

4.7 Economic Growth and Neighbourhood Services is forecasting an adverse net variance of £1.369m at Quarter 3 as set out in the following paragraphs. This is a positive movement of £0.020m from Quarter 2.

Transportation - £0.459m adverse variance

4.8 This variance arises mostly from an anticipated income shortfalls still attributable to the aftermath of Covid-19. Based on year-to-date activity levels in parking and traffic enforcement, income levels as at Quarter 3 are above those in the same period last year and the recovery is gaining momentum, particularly for Off-Street Car Parking - the most material Parking income stream by budget. The table below shows the position since 2019/20 the baseline year before the impact of the Covid Pandemic.

Table 3. Off Street Car Parking Income Trend

Financial Year	Budget	Actual/Forecast	Variance
	£m	£m	£m
2019/20	(4.244)	(4.333)	(0.089)
2020/21	(4.734)	(1.183)	3.551
2021/22	(3.668)	(2.933)	0.735
2022/23	(4.126)	(3.540)	0.586
2023/24	(4.776)		

4.9 The adverse variance of £0.586m in Off-Street Car Parking is occurring despite a large increase in income compared to 2021/22. The income budget for this area was increased in 2022/23 towards pre-covid levels and whilst there has been increased income compared to last year, the level of income has not yet returned to the pre-covid levels. Additionally, the ongoing cost of living crisis with high fuel costs has led to less visits to town centre and renting spaces to Royal Berkshire Hospital at Queens Road has not delivered the income anticipated due to the Hospital trialling other arrangements.

4.10 There is a pressure forecast of £0.075m for repairs required on Broad Street Mall Car Park caused by the recent heavy rain.

4.11 Additionally, there are pressures across the service on salary and agency costs of £0.138m.

4.12 These pressures are partially offset by income overachievements including from On-Street Pay & Display Car Parking and Bus Lane enforcement of £0.340m.

Planning and Regulatory Services - £0.326m adverse variance

4.13 There is a forecast income shortfall of £0.594m across the service. These income shortfalls are primarily arising from the ongoing Covid recovery as well as Supporting the Homes for Ukraine scheme. This shortfall consists of;

- The Building Control shortfall of £0.200m directly relates to the lack of staffing and a lack of availability of suitable agency staff to undertake the fee earning work;

- Premises licence fees are forecasting an income shortfall of £0.108m. Within this, the largest element relates to a £0.066m shortfall in respect of Reading Festival which is entirely based on Festival Republic's need for a licence variation which has not materialised in 2022/23, the need in future years is under discussion;

- Planning applications and planning fees shortfall of £0.075m are market driven so it is difficult to control the level of fees particularly as the level of fee is statutorily set. Following on from the Covid recovery the supply chain issues around costs and availability of construction materials, plus skills shortages in the construction and design industry, is holding up the planning application process. Therefore, the ongoing uncertainty following on from the Covid pandemic and the ongoing Inflation and risk of recession is having a direct impact on fee generation that is likely to be an ongoing issue;

- Houses of Multiple Occupancy is forecasting an income shortfall of £0.211m. There is a requirement to inspect homes under the Homes for Ukraine scheme, so the decision to undertake this work has a direct impact on the ability to generate income in this area. The Council receives income under the Homes for Ukraine scheme, and it is being investigated as to whether this could be applied to cover the staffing costs of inspecting the properties.

4.14 There are also forecast pressures relating to ongoing public enquiries arising within Planning, forecast at £0.175m for 2022/23. There are some residual costs from a previous prosecution with sentencing of the Plaintiff due to be heard in October 2022. One public enquiry has been withdrawn with one further public enquiry to be heard by April 2023 with spend likely to be incurred until Summer 2023.

4.15 These pressures are partially mitigated by a positive variance on staff costs due to vacancies arising within the service and lack of suitable agency staff of £0.279m, miscellaneous Fees & Charges overachievement of £0.071m and a positive variance of £0.093m on other supplies and Services.

Housing and Communities – balanced budget

4.16 An area of ongoing concern is the potential impact of the cost-of-living crisis affecting the Homelessness budgets. Private sector evictions have been steadily rising following on from the Covid restrictions being released, with additional cost of living pressures placed on the sector. High Inflation pressures are being seen in the cost of Bed and Breakfast and short-term accommodation as well as a reduction in available properties to use. As this area is a demand led service, it is under close monitoring as the winter pressures continue and there is concern that the ability to prevent homelessness is further reduced. It is anticipated that emergency accommodation budgets are manageable with existing numbers, which have been stable, however an increase in placements would result in budget pressure.

Culture – £0.304m adverse variance

4.17 Culture is forecasting an overall net pressure of £0.304m at Quarter 3. This is mainly due to a projected under recovery of income in the Hexagon and Concert Hall against pre-covid income targets in a challenging financial climate. There are also pressures relating to contract inflation and income delays in the Play Service.

4.18 The forecast variance is comprised of the following elements:

- £0.124m under recovery of income in Reading arts and venues. Despite strong sales, programming and bar sales, the service is not expected to make pre-covid income targets due to the challenging financial climate. Within this there is a £0.050m under recovery of income in respect of Concert Hall Events for the same reason.

- £0.035m pressures due to higher than anticipated contractual inflation within the GLL Leisure contract as this contract is based on CPI inflation as at March 2022;

- A net £0.195m pressure is being experienced in leisure services. This is comprised of £0.215m loss of income from Play due to the rangers station opening later than planned, adverse weather conditions and staff sickness. There has been additional expenditure of £0.035m for external paddling pool technical support. The pressure has been reduced through increased income from events contributing £0.010m and overall staff vacancies contributing £0.013m as well as other underspends of £0.032m.

- £0.030m of net pressures in Libraries including reduced level of rent from the top floor of the library. The service is reducing levels of any additional spend to attempt to reduce this pressure as much as possible.

- £0.080m positive variance for 2022/2023 on Reading's contribution to the joint arrangement for the Archives service.

Environmental and Commercial Services – £0.040m adverse variance

4.19 Streetscene is forecasting an overall net pressure of £0.050m. A detailed analysis of income shows a shortfall of £0.950m due to staffing shortages in the Arboricultural Team resulting in commercial work not being possible. There are also reductions in income from reduced grounds maintenance/commercial opportunities on industrial sites and New Build Housing developments, as the market continues to recover slowly to post covid levels. Vacancy levels are expected to create a £0.900m positive variance within this area, which will offset most of the shortfall in income.

4.20 Recycling and Waste Collection is presently forecasting an overall pressure of £0.500m. The Staffing Establishment will overspend by £0.400m as the budget is not sufficient to cover the full employee costs of the required service, particularly for covering sickness and annual leave to industry standards. It is also forecast that a £0.100m pressure will arise from the cost of food waste bags and an expected decline in Garden Waste and Trade Waste collections income. These pressures are expected to continue throughout the year and the minimum staffing establishment requirement has been considered within the budget setting process for 2023/24.

4.21 Fuel costs are currently around a third higher than a year ago and this will create a £0.100m adverse variance for Fleet Management. Five electric refuse freighters have recently been introduced to the fleet and these should help to prevent the overspend increasing. The increased cost of fuel has been considered as part of the 2023/24 budget setting process.

4.22 Highways and Drainage is forecasting an overall adverse variance of £0.200m. This primarily relates to inflationary pressures leading to increased costs of direct materials, paying for waste disposal arising from our work programme and paying increased subcontractor rates totalling £0.350m of additional pressures. The service is also forecasting an underachievement of income of £0.100m due to the number of vacancies in the team and also the use of driving staff by the Waste Collection team, both of which have reduced capacity. These pressures are partly offset by a positive variance of £0.250m relating to the aforementioned staffing vacancies within the team.

4.23 Civil Engineering is forecasting a positive variance of £0.050m due to vacancies within the team.

4.24 Network Management is forecasting an adverse variance of £0.040m primarily due to a reduction in the income from the Pan Berkshire Urban Traffic Control joint arrangement which arose due to National Highways having pulled out of the scheme. There is a mitigation plan in place for 2023/24 onwards to offset this loss of income. This will be partly offset by vacancies in the team creating a £0.040m underspend on staffing costs, and also by a £0.070m underspend on contracted services spend.

4.25 Waste Disposal is forecasting £0.800m positive variance. It has arisen from reduced waste disposal costs, as a result of circa 8% less residual waste per household being presented for disposal. In addition, reductions in costs have been negotiated, reduced insurance premiums are being sought and values from the sale of re3 recycling have been higher than predicted. Each of those factors is helping to maintain this level of underspend. The expected cost of new Persistent Organic Pollutants (POPS) legislation, likely from February, will cost £0.050m which is included in the overall £0.800m position. This positive position for Waste disposal has been considered within the 2023/24 budget setting process.

Property & Asset Management – £0.100m adverse variance

4.26 Property & Asset Management is forecasting a pressure of £0.100m at Quarter 3. There has a been a decline in income from the Oracle shopping centre following on from the Covid-19 pandemic affecting footfall, which has had a knock-on effect of reducing the base rent received, which in turn affects the amount passed to the Council, as owners of the land of the site.

Management & Sustainability – £0.140m adverse variance

4.27 The Business Development service is forecasting a pressure of £0.140m on advertising income schemes. There have been delays in the planning agreements for some advertising sites, as well as contractual and developer delays linked to reduced demand for use of advertising screens as an ongoing impact of the Covid-19 pandemic. This pressure is likely to continue and has been considered as part of the 2023/24 budget setting process.

Resources - £0.290m adverse variance

4.28 The Directorate of Resources is forecasting an adverse net variance of £0.290m at Quarter 3 which is an adverse movement of £0.165m since Quarter 2.

Policy, Performance & Customer Services - £0.223m positive variance

4.29 There is an adverse variance within Customer Fulfilment of £0.131m, which relates to £0.207m of unachieved savings, offset of £0.076m of staffing vacancies. There is an additional positive variance of £0.155m within the Policy Team due to staffing vacancies and a forecast overachievement of income in Bereavement Services of £0.199m.

Human Resources & Organisational Development - £0.050m positive variance

4.30 There is a £0.020m pressure relating to Kennet Day Nursery, due to increased catering costs and a shortfall in income. This is more than offset by a positive variance of £0.060m relating to additional recharging of staff costs against eligible grant funding, plus efficiencies in Emergency Planning of £0.010m.

Procurement & Contracts - £0.077m adverse variance

4.31 This forecast relates to £0.100m adverse variance due to unachievable Corporate Procurement savings, and £0.023m positive variance on staffing costs, due to the Assistant Director of Procurement and Corporate Contracts Manager posts being vacant or covered on a short-term basis for reduced hours.

Legal & Democratic Services - £0.486m adverse variance

4.32 Corporate Legal are forecasting an adverse variance of £0.156m, due to £0.056m of non-achievable HRA and Capital income, and £0.100m additional legal fees where the service is experiencing demand for legal expertise outside of their inhouse capability and capacity, particularly in areas of employment, data protection and where they are having to instruct counsel to covering hearings.

4.33 Customer Relations and Information Governance are forecasting an adverse variance of £0.212m due to staffing costs over the budgeted establishment.

4.34 Local Elections are forecasting an adverse variance of £0.140m due to the council holding an "all out" local election resulting in the need for an increased number of count staff. Additional costs also arose following the Local Government Boundary review, where the number of councillors increased from 46 to 48 and the number of polling stations increased from 69 to 75, as well as the Covid health and safety measures that were in place for the 2021/22 elections remaining in place for 2022/23.

4.35 Minor positive variances of £0.022m are reported across the rest of service.

Chief Executive Services – £0.139m adverse variance

4.36 Chief Executive Services is forecasting an adverse net variance of £0.139m at Quarter 3, which is an adverse movement since Quarter 2 of £0.106m.

4.37 £0.107m of the variance relates to expenditure pressures within Corporate Management Team budgets, including job advertising and recruitment costs.

4.38 £0.032m of the variance relates to the underachievement of advertising income within Communications.

Children's Services Delivered by Brighter Futures for Children (BFfC) - £0.871m adverse variance

4.39 BFfC are currently forecasting net budget pressures totalling of £0.871m. This is an adverse movement of £0.141m from Quarter 2.

4.40 There are total pressures of £2.696m consisting of:

- £0.700m pressure on transport related budgets due to rising inflation of £0.275m and increasing demand pressures totalling £0.425m;
- £0.569m due to agency staff within Children's Social Care. This pressure has arisen due to the additional cost of employing agency workers who are all covering vacant posts;
- £1.065m due to demand for Children's Social Care. This budget variance is the result of £0.361m inflation pressures and £0.704m of demand led pressures;
- £0.251m pressure on Children's Home income generation;
- £0.111m of Other Pressures.

4.41 These pressures are mainly offset by £0.663m of demand led budget pressure reductions over the remainder of the financial year. Other offsetting positive variances include additional Unaccompanied Asylum-Seeking Children Grant from Central Government of £0.410m and £0.752m of other savings.

4.42 As at the end of Quarter 3, against a target of £1.175m, BFfC are reporting that £0.997m of savings have been delivered and are on track to deliver a further £0.178m by the end of the financial year.

Corporate Budgets - £7.292m positive variance

4.43 Corporate Budgets are reporting a net positive variance of £7.292m, a positive movement of £2.516m from Quarter 2.

4.44 Capital Financing Costs are forecasting a positive total net variance £2.505m. As a result of the slippage on the Capital Programme reported in the 2021/22 Outturn Report, there is a positive variance of £0.718m relating to the Minimum Revenue Provision (MRP). There is a further positive variance of £1.273m on the interest payable budget which has arisen from a combination of the slippage on the Capital Programme and efficient management of the Council's cashflow negating the need to borrow and a revision to the share of the interest costs between the General Fund and the HRA. Finally, there is a positive variance of £0.514m on the interest receivable budget due to a combination of the rises in interest rates during the year, a higher amount of cash available for investment than originally anticipated and a revision to the share of the interest income between the General Fund and the HRA. This is a movement of £0.597m from Quarter 2, reflecting the updated forecast shares of interest expenditure and income between the General Fund and the HRA.

4.45 The Corporate Contingency budget of £3.627m is currently not forecast to be used and therefore contributes a further positive variance.

4.46 Other Corporate Budgets are forecasting a positive net variance of £1.160m. This is a positive movement of £1.919m from Quarter 2. This variance includes a current forecast pressure of £0.954m relating to the 2022/23 pay award, which is more than offset by positive net variances of £2.114m within Other Corporate Budgets due to the release of all unspent contingencies and the forecast reduction in the bad debt provision.

5 SAVINGS DELIVERY

5.1 Delivery of the Council's budget is predicated on achieving savings and additional income as agreed as part of the budget setting process in February 2022. Detailed monitoring of agreed savings is tracked on a monthly basis.

5.2 The projected financial impact of any non-delivery of savings has been included in the projected outturn position reported above.

5.3 The following table summarises the current forecast savings delivery for 2022/23 (a further detailed breakdown by saving is provided in Appendix 1):

Table 4. General Fund Savings Tracker Summary

Service	Savings At Risk £000	Savings Delayed or at Risk £000	Savings on Track £000	Savings Achieved £000	Directorate Total £000
Adult Care and Health Services	-	292	350	1,093	1,735
Economic Growth and Neighbourhood Services	2,294	220	866	3,199	6,579
Resources	307	-	351	-	658
Corporate	-	77	-	-	77
Children's Services delivered by BFfC	-	-	178	997	1,175
Total	**2,601**	**589**	**1,745**	**5,289**	**10,224**
Increase/(Decrease) from Quarter 2	**517**	**(596)**	**(3,275)**	**3,354**	**0**

5.4 Any savings not delivered in 2022/23 will cause an immediate pressure on 2023/24, unless mitigated with alternative ongoing savings. Delivery of existing savings within the Medium-Term Financial Strategy has been reviewed as part of the 2023/24 Budget setting and 2023/24-2025/26 Medium-Term Financial Strategy processes.

6 DELIVERY FUND

6.1 There is a total £4.065m Delivery Fund available for 2022/23 (inclusive of 2021/22 approved carry forwards). At Quarter 3, £3.248m of this funding has been allocated out to approved schemes, leaving £0.817m available to be allocated. At Quarter 3, the forecast spend is £2.394m, which results in an overall forecast positive variance of £1.671m.

7 SUNDRY DEBT

7.1 Total General Fund sundry debt as at the end of Quarter 3 is £8.576m, compared to £9.009m at the end of Quarter 2. In addition to this, the General Fund also has £4.140m of current debt and £0.935m of deferred debt which is not yet considered overdue. The following table shows the overdue debt as at the end of Quarter 3:

Table 5. Overdue Debt

	Under 1 month £000	1 to 2 months £000	2 to 3 months £000	3 to 6 months £000	6 months to 1 year £000	1 to 2 years £000	Over 2 years £000	Total Overdue Debt £000
Adult Social Care	434	389	127	605	929	868	2,170	5,522
Environment & Neighbourhood Services	462	158	66	202	243	250	672	2,053
Resources	189	2	48	76	43	14	72	444
Chief Executive	-	-	9	-	1	-	-	10
Former Children's Directorate	-	-	-	-	-	61	135	196
Corporate Codes	-	250	-	-	-	-	101	351
Total General Fund	**1,085**	**799**	**250**	**883**	**1,216**	**1,193**	**3,150**	**8,576**
Housing Revenue Account	2	4	1	2	6	7	15	37
Intercompany Debt	7	-	-	-	-	-	1,435	1,442
Total Including HRA and Intercompany	**1,094**	**803**	**251**	**885**	**1,222**	**1,200**	**4,600**	**10,055**

7.2 The Council has several wholly owned active subsidiaries. The outstanding intercompany debt related to these subsidiaries, including loans, is shown in the following table:

Table 6. Outstanding Intercompany Debtors

Debtor	Outstanding Debt £
Reading Transport Ltd	6,907
Homes for Reading Ltd	1,435,264
Total Outstanding Debt from Intercompany Debtors	**1,442,171**

7.3 The outstanding debt relating to Homes for Reading is due to the company's cashflow position during the early years of the company and a working capital loan was required in 2018/19. A repayment profile is now in place to repay this working capital with the first repayment made in 2021/22. The repayment schedule was agreed with the Homes for Reading board in December 2022.

8 DEBT WRITE-OFF

8.1 Having complied with the requirements of the Council's Debt Management Strategy, all recovery activity has been exhausted and the Director of Finance recommends that the total amounts submitted to the Committee for write-off for cases above £20,000 are:

- Non-Domestic Rates - £111,313.32;
- Housing Benefit Overpayments - £57,120.48;
- Sundry Debt - £90,858.25

8.2 The list of specific debts requested to be written-off are set out in Appendix 5. It is considered that information contained within Appendix 3 contains exempt information under the meaning of sections 1, 2 and 3 of Schedule 12A of the Local Government Act 1972, as amended, and therefore cannot be made public.

8.3 The write-offs will be contained within the existing respective bad debt provisions. These bad debt provisions are reviewed annually to take account of the likely levels of bad debt write-offs and the potential for any recovery of debt that has been previously written off.

8.4 The cost of non-domestic rates write-offs is shared between the Council (49%), Royal Berkshire Fire and Rescue Service (1%) and Central Government (50%).

8.5 Statutory Benefit Subsidy Orders specify that Housing Benefit Overpayments, subsequently not recovered, have to be mostly paid for by the Council through loss in Central Government subsidy. Most Housing Benefit paid out under the General Fund is claimed back from the DWP through the annual subsidy claims. The subsidy rules are designed to act as an incentive for authorities to minimise error and overpayments and to maximise recovery of recoverable overpayments. It is therefore financially prudent for Local Authorities both to minimise the incidence of overpayments and to seek to maximise recovery of overpayments.

8.6 The standard rate of reimbursement for Housing Benefit paid is up to 100%, reducing to 40% for identified overpayments caused by claimant error and either 100%, 40% or down to 0% for those caused by Authority error if certain thresholds are exceeded. Overpayments caused by fraud are reimbursed at 40% and given the cause of such overpayments, there is an expectation that the overwhelming majority of cases should be considered recoverable from the persons who have either committed or significantly contributed to the fraud. The Council is entitled to keep 100% of the income collected from overpayments recovery in addition to any subsidy claimed.

9 STAFFING

9.1 The Council currently has 106 agency contracts across the directorates. £0.183m has been spent on overtime during Quarter 3, bringing the total for the year to £0.520m

9.2 There have been nine redundancies to date during 2022/23 at a total cost of £0.113m, there have also been additional severance costs to date of £0.212m. Redundancy expenditure will be funded through the redundancy revenue reserve.

10 COLLECTION FUND

10.1 The following table shows the Council's collection rate to date of the total annual debit raised for Council Tax and Non-Domestic (Business) Rates as at the end of Quarter 3.

10.2 Council Tax collection rates are still behind the collection levels at the same point when compared to pre-Covid-19 pandemic rates (2019/20) but are slightly ahead when compared to 2021/22 and 2020/21. This indicates a partial recovery from the impacts of the Covid-19 pandemic which is possibly being restricted due to the impacts of the cost of living crisis beginning to take hold. The December 2022 data below shows that the collection rate is 0.97% behind compared to 2019/20 which is a significant dip compared to previous months. The January 2023 collection data however shows that this position has recovered to 0.51% behind the January 2020 position which is in line with current expectations.

10.3 The collection rate for Council Tax has been retained at 98.5% for 2023/24 Council Tax Base setting purposes as the 2022/23 collection rate is 0.51% less compared to 2019/20 where the collection rate for Council Tax Base setting was 99.0%.

10.4 Non-Domestic collection rates is now ahead of the collection levels at the same point when compared to pre-Covid-19 pandemic rates (2019/20) as well as when compared to 2021/22 and 2020/21. The improvement compared to the last two financial years is likely due to no periods of national lockdowns as a response to the Covid-19 pandemic having been required in 2022/23. The improvement compared to 2019/20 has only occurred in the December 2022 data. This improvement has reduced slightly in January to 0.83% higher compared to 2019/20.

Table 7. Collection Fund Collection Rates

	2019/20	2020/21	2021/22	2022/23	Comparison to 2021/22	Comparison to 2019/20
	%	%	%	%	%	%
Council Tax	82.84	82.07	82.16	**81.87**	(0.28)	(0.97)
Non-Domestic Rates	78.02	77.89	75.05	**79.60**	4.55	1.57

11 HOUSING REVENUE ACCOUNT (HRA)

11.1 The approved Housing Revenue Account (HRA) budget assumed a drawdown from HRA reserves of £2.154m. At Quarter 3 the forecast revenue outturn position on the HRA is a positive net variance to budget of £2.103m. Therefore, a transfer to the HRA Reserve is forecast of £0.051m rather than the originally budgeted £2.154m drawdown from reserves. The breakdown of the net variance is set out in the following table and explained below.

Table 8. Housing Revenue Account Forecast 2022/23

	Budget £m	Forecast Outturn £m	Variance £m
Management & Supervision	9.759	8.621	(1.138)
Special Services	3.606	3.125	(0.481)
Provision for Bad Debts	0.753	0.753	0.000
Responsive Repairs	3.443	3.443	0.000
Planned Maintenance	2.989	2.905	(0.084)

Major Repairs/Depreciation	11.016	11.016	0.000
Debt Costs	6.741	6.025	(0.716)
PFI Costs	7.197	7.350	0.153
Revenue Contribution to Capital	0.600	0.600	0.000
HRA Income	(43.950)	(43.787)	0.163
Over/(Under) Budget	**2.154**	**0.051**	**(2.103)**
Movement to/(from) HRA Reserve	(2.154)	(0.051)	2.103

11.2 Within Management and Supervision, there are a large number of vacant posts leading to a current projected positive variance on salary budgets of £0.438m. Additionally, the expected charge to the HRA for the central support costs is currently expected to be around £0.932m less than the maximum budget for these charges available within the HRA. A review of the HRA contribution towards General Fund capital schemes will be factored into the updated HRA Business Plan and future year budgets. There is also a net adverse variance of £0.232m, which is primarily due to additional one-off costs incurred for a 15-year development plan for strategic housing from 2025/2026 to 2040.

11.3 Within Special Services, there are also a number of vacant posts leading to a current projected positive variance on salary budgets of £0.152m. Furthermore, there is an additional positive variance of £0.329m in respect of sheltered housing rents and Right-to-buy housing association charges.

11.4 Recruitment attempts to fill the aforementioned vacancies are ongoing with some recent success in some roles following a series of unsuccessful rounds of recruitment.

11.5 Responsive Repairs is currently expected to be a balanced budget

11.6 Planned Maintenance is currently projected to be £0.084m less than budget due to an underspend on electrical checks. This has been caused by vacancies.

11.7 Major Repairs/Depreciation is currently expected to be a balanced budget.

11.8 Debt costs are lower than budgeted by £0.716m due to less borrowing currently being required within the HRA to meet its capital expenditure as planned expenditure has been re-programmed into future years.

11.9 PFI Costs are higher than budgeted by £0.153m due to the monthly affinity payment increasing by £40k on average from 2021/2022.

11.10 HRA Income is forecasting an adverse variance of £0.163m. Dwelling rents and Service Charges are currently projected to be underachieving on the budget by a total of £0.464m (1.2% less than budget). In addition, there is a £0.030m underachievement forecast on Other Income. These are due to a delay in the completion of HRA capital schemes resulting in less housing available to be rented. Interest income is forecast to overachieve by £0.331m as the HRA has a higher level of reserve balances than anticipated so it takes a higher share of the interest income on those balances. The recent increases in the Bank of England interest rate have helped push the income up slightly too, and in the future partially offset increases in debt costs.

11.11 The collection rate of income within the HRA of income actually collected versus expected income is 99.5%, when incorporating collection of debt in arrears from current and former tenants this figure becomes 96.0%. One item of concern under review is voids turnarounds, due to factors including staffing, the availability of contractors and pressures on materials the time taken to return void properties into circulation is growing, this has an indirect impact on the income collected and the collection rates.

12 CAPITAL PROGRAMME

General Fund

12.1 The General Fund Capital Programme for 2022/23 has an approved budget of £80.027m. The following amendments to the Capital Programme will be requested to be formally approved as part of the next quarterly report to Policy Committee, which would result in a revised Capital Programme budget of £74.517m. These amendments are set out on an individual scheme basis in Appendix 2.

12.2 Against the proposed revised budget of £74.517m there is a forecast positive net variance of £1.671m. This variance relates entirely to the Delivery Fund.

Table 9. General Fund Capital Programme Amendments

General Fund Capital Programme	£m
Revised Budget Quarter 2 2022/23	**80.027**
Budget Movements Between Schemes	0.000
Additional Budgets added to the Programme - Funded by Grants & Contributions	1.934
Additional Budgets requested to be added to the Programme - Funded by Capital Receipts & Borrowing	0.000
Reduced Budgets - Completed Schemes & Other carry forward budget adjustments	4.659
Budgets reprogrammed (to)/from Future Years	(12.103)
Proposed Revised Budget Quarter 3 2022/23	**74.517**

12.3 A total of £1.934m of additional budgets that are fully funded by grants and contributions are requested to be formally added into the Capital Programme. These additions include:

- £1.623m of Community Infrastructure Funding (CIL) allocated by committee to CIL Local schemes in March 2022 but not previously included in the capital programme;

- £0.311m of additional grant funding across three schemes.

12.4 A total of £0.250m of budget reductions are requested to be formally approved as set out in Appendix 2 where it has been identified that spend will not go ahead as originally planned. This relates entirely to the Loan to Reading Transport (RTL) Ltd scheme. RTL have advised that they have placed orders for new buses totalling £2.250m in 2022/23, that they will be requesting additional loans from the Council to Finance, therefore the remaining budget of £0.250m will not be required.

12.5 A total of £4.909m of budget increases, of which £4.769m is funded from one-off revenue resources, is requested to be formally approved over eight schemes to correct the 2021/22 budget carry forward figure and the reversal of a budget reduction approved in a prior period.

12.6 A total of £12.103m of budgets are requested to be reprogrammed from 2022/23 into future years of the Capital Programme in line with the latest delivery forecasts. This includes:

- £2.747m for the Leisure Centre Procurement due to the impact of the delay in the granting of a water extraction licence;
- £1.939m for Universal Digital Systems to reflect the revised expenditure projections for the current year;

- £1.627m for Customer Digital Experience to reflect the revised expenditure projections for the current year;
- £1.203m for IT Future Operating Model to reflect the revised expenditure projections for the current year;
- £1.100m for Highways Structures to reflect the revised expenditure projections for the current year;
- £3.487m across other schemes.

12.7 There is a total £4.065m Delivery Fund available for 2022/23 (inclusive of 2021/22 approved carry forwards). At Quarter 3, £3.248m of this funding has been allocated out to approved schemes, leaving £0.817m available to be allocated. At Quarter 3, the forecast spend is £2.394m, which results in an overall forecast variance of £1.671m.

12.8 All other General Fund schemes are forecasting to spend to the proposed revised budgets.

12.9 The Quarter 2 Performance & Monitoring Report, presented to Policy Committee in December 2022, approved the addition of a total of £15.939m for the Bus Service Improvement Plan into the capital programme. The scheme is fully grant funded and the majority of the expenditure is expected to be incurred through 2023/24 and 2024/25. At that stage formal confirmation of the grant funding had not been received and so spend approval had not been sought. Spend approval can only be delegated to officers where the scheme is less than £2.5m or is part of a rolling programme. It is therefore requested that spend approval for the total amount of £15.939m across three financial years is now granted. The total is broken down by year as £0.500m in 2022/23, £8.326m in 2023/24 and £7.113m in 2024/25.

Housing Revenue Account (HRA)

12.10 The HRA Capital Programme for 2022/23 has an approved budget of £27.828m. The following amendments to the Capital Programme are requested to be formally approved which would result in a revised Capital Programme budget of £29.987m. These amendments are set on an individual basis in Appendix 2.

12.11 A total of £2.546m of budgets are requested to be re-profiled from 2023/24 as set out in Appendix 2 to reflect the revised expenditure projections for the current year. This includes:

- £0.586m to be re-profiled into 2023/24 for the Local authority new build programme for Older People and Vulnerable Adults scheme;

- £3.132m of budget to be brought forward into the current year from 2023/24 for the Local Authority New Build and Acquisitions schemes.

12.12 A total of £0.387m of budget reductions are requested to be formally approved as set out in Appendix 2 where it has been identified that spend will not go ahead as originally planned. This relates entirely to the Major Repairs – Zero Carbon Retrofit works scheme.

12.13 The Housing Management System scheme is forecasting an adverse variance of £0.098m. A business case for additional funding in 2023/2024 to cover Phase 2 of the project next year also covers the small adverse variance this year.

12.14 All other HRA schemes are forecasting to spend to the proposed revised budgets.

13 CORPORATE PLAN PERFORMANCE

13.1 A new three-year Corporate Plan for 2022/23-2024/25 was published in March 2022, and a revised set of 58 performance measures were developed for monitoring from April 2022, along with a set of 52 key projects and initiatives which are helping to deliver the Council's mission and priorities. 31 of the performance measures are annual measures that will not be reported on until after March 2023.

13.2 These measures and projects were identified by directorates as those that best demonstrate progress in achieving key outcomes. This report is therefore intended to provide an overview of the contribution that the Council makes across all its activities to improving Reading as a place to live, work and visit.

13.3 The performance measures and projects are set against each of themes of the Corporate Plan for 2022/23-2024/25:

- Healthy environment
- Thriving communities
- Inclusive economy

13.4 The tables below present a summary of performance for Quarter 3 against the target for each of the measures. Direction of travel will be reported next quarter.

13.5 The set of monthly/quarterly measures is attached at Appendix 4. For the Corporate Plan projects, a summary of the RAG status is provided below. The full list of projects is provided at Appendix 5.

Corporate Plan Measures

13.6 The tables and charts below display an overview of the shifts in performance for the Corporate Plan measures between Q2 and Q3, as well as performance against the target (red/amber/green).

Table 10. Summary of direction of travel

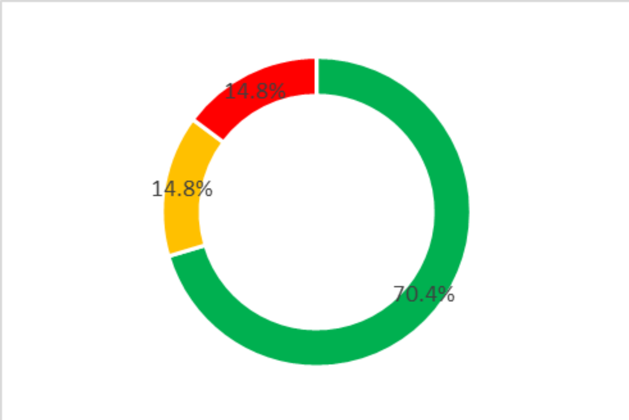
	Number of Measures	Q2 %	Q3 %
Getting better	15	50	55
Getting worse	8	46	30
Unchanged	3	4	11
N/A – No Target/Comparison [1]	1	0	4
Total	**27**	**100**	**100**

Table 11. Summary of performance against target[2]

	Number of measures	Q2 %	Q3 %
Green	19	54	70
Amber	4	29	15
Red	4	14	15
N/A – No Target/Comparison	0	3	0
Total	**27**	**100**	**100**

[1] *Q2 data not available for comparison purposes*

[2] *Green = target achieved; Amber = up to 10% below target; Red = more than 10% below target*



13.7 The four Corporate Plan measures recorded with a 'red' status against 2022/23 targets are listed below. Explanatory commentary is included where appropriate in Appendix 4.

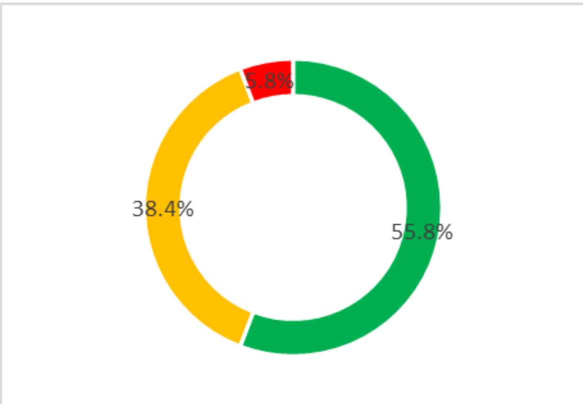
- Customer satisfaction in the Customer Fulfilment Centre
- Number of self- service transactions via My Account self- service
- Percentage of responses to the public on Freedom of Information Act requests made within 20 days
- Percentage of service users in receipt of Adult Social Care Direct Payments

Corporate Plan Projects

13.8 The RAG status for the Corporate Plan projects is shown below.

Table 12. Summary of RAG status

	Number of projects	Q2 %	Q3 %
Green	29	58	56
Amber	20	40	38
Red	3	2	6
Total	**52**	**100**	**100**



13.9 The three Corporate Plan projects recorded with a 'red' status this quarter are as follows. Explanatory commentary is included in Appendix 5:

- Implementation of the Customer Experience Programme
- Create a workforce that is fully representative of the population we serve
- Review and expansion of the Community Reablement Team to maximise people's independence

13.10 Appendix 5 sets out the Q3 performance for the full list of measures and projects.

13.11 Appendix 6 sets out those measures where there has been a significant change in performance from the previous period.

14 CONTRIBUTION TO STRATEGIC AIMS

14.1 The Council's vision is to ensure that Reading realises its potential – and to ensure that everyone who lives and works in Reading can share the benefits of its success. The Council has three inter-connected themes which contribute to delivering this vision. The themes are:

- Healthy environment;
- Thriving communities;
- Inclusive economy.

14.2 Delivery of the Council's budget is essential to ensuring the Council meets its strategic aims and remains financially sustainable going forward.

14.3 Full details of the Council's Corporate Plan are available on the Council's website.

15 ENVIRONMENTAL AND CLIMATE IMPLICATIONS

15.1 The Council declared a Climate Emergency at its meeting on 26th February 2019. The Corporate Plan monitors our progress in reducing our carbon footprint.

15.2 There are no specific environmental and climate implications to report in relation to the recommendations set out in this report.

16 COMMUNITY ENGAGEMENT AND INFORMATION

16.1 Budget-related communications and consultations will continue to be a priority over the next three years as we work to identify savings.

17 EQUALITY IMPACT ASSESSMENT

17.1 The equality duty is relevant to the development of the Budget and Corporate Plan. The specific savings and income proposals included in the budget are subject to consultation and equality impact assessments where required and these are being progressed as appropriate.

18 LEGAL IMPLICATIONS

18.1 The Local Government Act 2003 requires that the Authority reviews its Budget throughout the year and takes any action it deems necessary to deal with the situation arising from monitoring. Currently monitoring reports are submitted to Policy Committee quarterly throughout the year.

18.2 the size and complexity of the services we provide and have responsibility for, it is sensible to have a strategic document for the organisation which sets out key priorities and activities against a robust and sustainable financial strategy.

19 FINANCIAL IMPLICATIONS

19.1 The financial implications are set out in the body of this report.

20 BACKGROUND PAPERS

20.1 None.

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APPENDIX 1

MONTHLY FINANCIAL REPORT

End of December 2022

CONTENTS

For further information regarding this report, please contact:

Stuart Donnelly
Stuart.Donnelly@Reading.gov.uk

[OFFICIAL]

Total General Fund - Period 9

Latest Revenue Position and Forecast

Objective Analysis	Budget to Date £'000	Actual to Date £'000	Variance to Date £'000	Approved Budget £'000	Forecast Outturn £'000	Full Year Variance £'000
Adults Care and Health Services	32,941	27,196	(5,745)	43,921	45,237	1,316
Economic Growth & Neighbourhood Services	14,878	23,176	8,298	19,837	21,206	1,369
Resources	13,791	26,989	13,198	18,388	18,678	290
Chief Executive Services	1,167	8,231	7,064	1,556	1,695	139
Children's Services retained by the Council	999	4,174	3,174	781	781	-
Children's Services delivered by BFfC *	36,718	36,658	(61)	48,958	49,829	871
TOTAL SERVICE BUDGETS	100,494	126,423	25,929	133,441	137,426	3,985
Capital Financing Costs	12,286	6,389	(5,897)	16,381	13,876	(2,505)
Contingency	2,720	-	(2,720)	3,627	-	(3,627)
Other Corporate Budgets	(2,594)	(174,843)	(172,248)	(3,459)	(4,619)	(1,160)
TOTAL CORPORATE BUDGETS	12,412	(168,454)	(180,865)	16,549	9,257	(7,292)
TOTAL BUDGET	112,906	(42,031)	(154,937)	149,990	146,683	(3,307)
Funding:						
Council Tax Income	(78,302)	-	78,302	(104,403)	(104,403)	-
NNDR Local Share	(19,883)	-	19,883	(26,510)	(26,510)	-
New Homes Bonus	(1,529)	(1,528)	0	(2,038)	(2,038)	-
Section 31 Grant	(9,435)	(15,519)	(6,084)	(12,580)	(12,580)	-
Revenue Support Grant	(1,581)	(190)	1,391	(2,108)	(2,108)	-
Other Government Grants	(1,803)	(2,855)	(1,052)	(2,404)	(2,404)	-
One-off Collection Fund (Surplus)/Deficit	14,986	-	(14,986)	19,981	19,981	-
Section 31 Grants Release from Reserves	(14,946)	-	14,946	(19,928)	(19,928)	-
TOTAL FUNDING	(112,493)	(20,092)	92,400	(149,990)	(149,990)	-
NET CONTROLLABLE COST	**414**	**(62,123)**	**(62,537)**	**-**	**(3,307)**	**(3,307)**
Subjective Analysis						
Employee Costs	101,679	104,254	2,575	135,660	131,007	(4,653)
Premises Costs	17,165	17,980	815	22,876	22,876	-
Transport-Related Costs	1,844	1,892	48	2,458	2,158	(300)
Supplies and Services	48,351	(36,885)	(85,235)	64,284	60,639	(3,646)
Contracted Costs	159,158	179,212	20,054	212,210	214,468	2,258
Transfer Payments	16,098	8,684	(7,414)	21,464	21,940	477
CONTROLLABLE COST	**344,295**	**275,137**	**(69,158)**	**458,953**	**453,089**	**(5,863)**
Fees & Charges	(78,955)	(23,775)	55,179	(106,740)	(105,185)	1,555
Traded Services Income	(33,621)	(152,286)	(118,664)	(43,827)	(42,825)	1,002
Grants & Contributions	(231,304)	(161,199)	70,105	(308,386)	(308,386)	(0)
CONTROLLABE INCOME	**(343,880)**	**(337,260)**	**6,620**	**(458,953)**	**(456,397)**	**2,556**
NET CONTROLLABLE COST	**414**	**(62,123)**	**(62,538)**	**-**	**(3,307)**	**(3,307)**

Adult Care and Health Services [DACHS] - Period 9

Revenue Forecast

Objective Analysis	Budget to Date £'000	Actual to Date £'000	Variance to Date £'000	Approved Budget £'000	Forecast Outturn £'000	Full Year Variance £'000
Commissioning & Transformation	1,622	(3,469)	(5,091)	2,163	2,163	-
Adult Services Operations	29,685	32,134	2,450	39,580	40,896	1,316
Public Health	(0)	(5,208)	(5,208)	-	-	-
Preventative Services	-	-	-	-	-	-
Directorate Other	368	1,952	1,584	491	491	-
Safeguarding, Quality, Performance & Practice	1,266	1,747	481	1,688	1,688	-
Suspense	-	23	23	-	-	-
Inactive Codes	-	16	16	-	-	-
NET TOTAL COST	**32,941**	**27,196**	**(5,745)**	**43,921**	**45,237**	**1,316**

Subjective Analysis	Budget to Date £'000	Actual to Date £'000	Variance to Date £'000	Approved Budget £'000	Forecast Outturn £'000	Full Year Variance £'000
Employee Costs	11,026	11,814	789	14,701	14,701	-
Premises Costs	199	210	11	265	265	-
Transport-Related Costs	81	54	(27)	107	107	-
Supplies and Services	3,586	3,630	44	4,782	4,782	-
Contracted Costs	35,374	35,078	(295)	47,165	48,481	1,316
Transfer Payments	4,797	41	(4,756)	6,396	6,396	-
TOTAL EXPENDITURE	**55,062**	**50,827**	**(4,235)**	**73,416**	**74,732**	**1,316**
Fees & Charges	(274)	-	274	(365)	(365)	-
Traded Services Income	(6,605)	(5,877)	728	(8,807)	(8,807)	-
Grants & Contributions	(15,242)	(17,755)	(2,513)	(20,323)	(20,323)	-
TOTAL INCOME	**(22,121)**	**(23,632)**	**(1,510)**	**(29,495)**	**(29,495)**	**-**
NET TOTAL COST	**32,941**	**27,196**	**(5,745)**	**43,921**	**45,237**	**1,316**

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Economic Growth and Neighbourhood Services [DEGNS] - Period 9

Revenue Forecast

Objective Analysis	Budget to Date £'000	Actual to Date £'000	Variance to Date £'000	Approved Budget £'000	Forecast Outturn £'000	Full Year Variance £'000
Transportation	(1,366)	(1,247)	119	(1,821)	(1,362)	459
Planning & Regulatory Services	1,985	3,318	1,333	2,647	2,973	326
Housing & Communities	1,516	3,526	2,009	2,022	2,022	-
Culture	2,965	4,302	1,337	3,954	4,258	304
Environmental & Commercial Services	12,365	14,878	2,513	16,487	16,527	40
Property & Asset Management	(2,974)	(2,559)	416	(3,966)	(3,866)	100
Management & Sustainability	386	953	567	515	655	140
Suspense	-	5	5	-	-	-
Inactive Codes	-	0	0	-	-	-
NET TOTAL COST	**14,878**	**23,176**	**8,298**	**19,837**	**21,206**	**1,369**

Subjective Analysis	Budget to Date £'000	Actual to Date £'000	Variance to Date £'000	Approved Budget £'000	Forecast Outturn £'000	Full Year Variance £'000
Employee Costs	29,487	28,249	(1,238)	39,316	38,247	(1,069)
Premises Costs	12,933	14,855	1,922	17,244	17,244	-
Transport-Related Costs	1,726	1,803	77	2,301	2,001	(300)
Supplies and Services	19,523	18,106	(1,417)	26,031	26,050	19
Contracted Costs	7,548	8,426	878	10,064	10,135	71
Transfer Payments	(97)	(462)	(364)	(130)	(130)	(0)
TOTAL EXPENDITURE	**71,120**	**70,977**	**(143)**	**94,826**	**93,547**	**(1,279)**
Fees & Charges	(15,199)	(10,658)	4,541	(20,266)	(18,767)	1,499
Traded Services Income	(34,209)	(29,963)	4,246	(45,612)	(44,462)	1,150
Grants & Contributions	(6,834)	(7,179)	(345)	(9,112)	(9,112)	(0)
TOTAL INCOME	**(56,242)**	**(47,801)**	**8,441**	**(74,989)**	**(72,341)**	**2,648**
NET TOTAL COST	**14,878**	**23,176**	**8,299**	**19,837**	**21,206**	**1,369**

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Resources [DoR] - Period 9

Revenue Forecast

Objective Analysis	Budget to Date £'000	Actual to Date £'000	Variance to Date £'000	Approved Budget £'000	Forecast Outturn £'000	Full Year Variance £'000
Policy, Performance & Customer Services	1,976	3,980	2,005	2,634	2,411	(223)
Human Resources & Organisational Development	1,417	3,205	1,788	1,889	1,839	(50)
Procurement & Contracts	404	517	114	538	615	77
Finance	3,312	4,297	985	4,417	4,417	-
Legal & Democratic Services	1,951	8,101	6,150	2,602	3,088	486
Digital, Technology & Change	4,731	6,261	1,530	6,308	6,308	-
Suspense	-	0	0	-	-	-
Inactive Codes	-	626	626	-	-	-
NET TOTAL COST	**13,791**	**26,989**	**13,198**	**18,388**	**18,678**	**290**

Subjective Analysis	Budget to Date £'000	Actual to Date £'000	Variance to Date £'000	Approved Budget £'000	Forecast Outturn £'000	Full Year Variance £'000
Employee Costs	17,894	20,098	2,204	23,859	23,834	(25)
Premises Costs	289	280	(9)	385	385	-
Transport-Related Costs	24	20	(3)	31	31	-
Supplies and Services	5,718	11,672	5,954	7,624	7,586	(38)
Contracted Costs	4,063	3,444	(619)	5,418	5,418	-
Transfer Payments	937	918	(19)	1,250	1,727	477
TOTAL EXPENDITURE	**28,926**	**36,433**	**7,507**	**38,567**	**38,981**	**414**
Fees & Charges	(1,745)	(158)	1,588	(2,327)	(2,271)	56
Traded Services Income	(3,830)	(2,214)	1,616	(5,106)	(5,286)	(180)
Grants & Contributions	(9,560)	(7,073)	2,487	(12,746)	(12,746)	-
TOTAL INCOME	**(15,134)**	**(9,444)**	**5,690**	**(20,179)**	**(20,303)**	**(124)**
NET TOTAL COST	**13,791**	**26,989**	**13,198**	**18,388**	**18,678**	**290**

Chief Executive Services [CEX] - Period 9

Revenue Forecast

Objective Analysis	Budget to Date £'000	Actual to Date £'000	Variance to Date £'000	Approved Budget £'000	Forecast Outturn £'000	Full Year Variance £'000
Corporate Management Team	662	7,616	6,954	883	990	107
Communications	505	615	110	673	705	32
NET TOTAL COST	**1,167**	**8,231**	**7,064**	**1,556**	**1,695**	**139**

Subjective Analysis	Budget to Date £'000	Actual to Date £'000	Variance to Date £'000	Approved Budget £'000	Forecast Outturn £'000	Full Year Variance £'000
Employee Costs	1,519	1,585	66	2,025	2,132	107
Premises Costs	-	-	-	-	-	-
Transport-Related Costs	14	14	0	19	19	-
Supplies and Services	7,888	6,943	(946)	10,518	10,518	-
Contracted Costs	-	1	1	-	-	-
Transfer Payments	(3,496)	(5)	3,491	(4,662)	(4,662)	-
TOTAL EXPENDITURE	**5,925**	**8,538**	**2,613**	**7,900**	**8,007**	**107**
Fees & Charges	-	-	-	-	-	-
Traded Services Income	(26)	(12)	14	(35)	(3)	32
Grants & Contributions	(4,731)	(295)	4,437	(6,309)	(6,309)	-
TOTAL INCOME	**(4,758)**	**(307)**	**4,451**	**(6,344)**	**(6,312)**	**32**
NET TOTAL COST	**1,167**	**8,231**	**7,064**	**1,556**	**1,695**	**139**

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Housing Revenue Account [HRA] - Period 9

Revenue Forecast

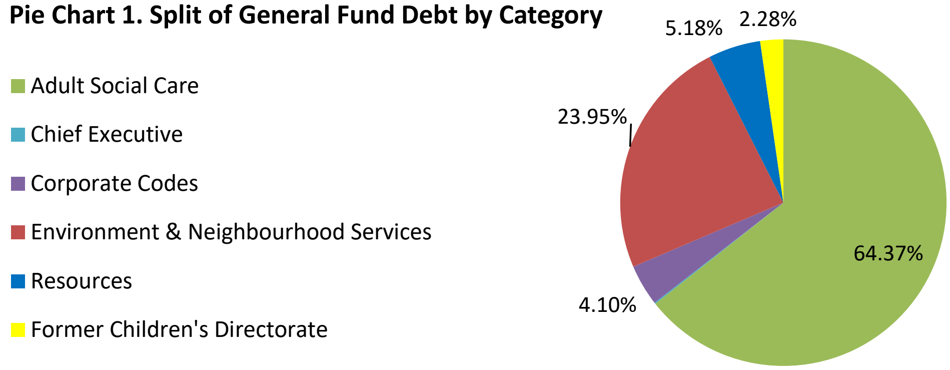
Objective Analysis	Budget to Date £'000	Actual to Date £'000	Variance to Date £'000	Approved Budget £'000	Forecast Outturn £'000	Full Year Variance £'000
Dwelling Rents	(28,397)	(27,567)	830	(37,863)	(37,510)	353
Service Charges	(724)	(641)	83	(965)	(854)	111
PFI Credit	(2,998)	(1,999)	999	(3,997)	(3,997)	-
Other Income	(232)	(127)	105	(309)	(279)	30
Interest on Balances	(612)	-	612	(816)	(1,147)	(331)
TOTAL INCOME	**(32,963)**	**(30,334)**	**2,629**	**(43,950)**	**(43,787)**	**163**
Management & Supervision	7,319	2,709	(4,610)	9,759	8,621	(1,138)
Special Services	2,705	2,196	(509)	3,606	3,125	(481)
Provision for Bad Debts	565	-	(565)	753	753	-
Responsive Repairs	2,582	2,032	(550)	3,443	3,443	-
Planned Maintenance	2,242	1,957	(285)	2,989	2,905	(84)
Major Repairs/Depreciation	8,262	4,982	(3,280)	11,016	11,016	-
Debt Costs	5,056	-	(5,056)	6,741	6,025	(716)
PFI Costs	5,398	4,909	(489)	7,197	7,350	153
Revenue Contribution to Capital	450	388	(62)	600	600	-
TOTAL EXPENDITURE	**34,578**	**19,173**	**(15,405)**	**46,104**	**43,838**	**(2,266)**
Movement to/(from) Reserve	(1,616)	-	1,616	(2,154)	(51)	2,103
NET TOTAL COST	**-**	**(11,161)**	**(11,161)**	**-**	**-**	**-**

Subjective Analysis	Budget to Date £'000	Actual to Date £'000	Variance to Date £'000	Approved Budget £'000	Forecast Outturn £'000	Full Year Variance £'000
Employee Costs	3,772	3,315	(457)	5,029	4,419	(610)
Premises Costs	20,490	10,664	(9,826)	27,320	25,919	(1,401)
Transport-Related Costs	24	5	(19)	32	15	(17)
Supplies and Services	1,220	508	(712)	1,627	1,705	78
Contracted Costs	5,441	4,919	(522)	7,254	7,063	(191)
Transfer Payments	3,908	95	(3,813)	5,211	5,181	(30)
TOTAL EXPENDITURE	**34,855**	**19,506**	**(15,349)**	**46,473**	**44,302**	**(2,171)**
Fees & Charges	(1,892)	-	1,892	(2,523)	-	2,523
Traded Services Income	(29,965)	(28,597)	1,367	(39,953)	(40,234)	(281)
Grants & Contributions	(2,998)	(2,069)	929	(3,997)	(4,068)	(71)
TOTAL INCOME	**(34,855)**	**(30,666)**	**4,189**	**(46,473)**	**(44,302)**	**2,171**
NET TOTAL COST	**-**	**(11,161)**	**(11,161)**	**-**	**-**	**-**

Debt Performance - End of December 2022

The pie chart below shows the sundry debt as at the end of Period 9,totalling £8.576m.

Pie Chart 1. Split of General Fund Debt by Category

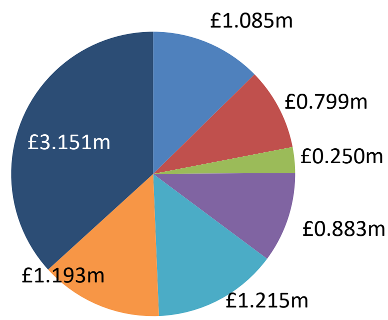


Note: Adult Social Care includes Adult Client debt and invoices relating to NHS/CCG.
As of Period 9, debt totalling £546k has been secured against properties,
however there is no guarantee that 100% of this is recovered upon sale of the property.
Education Services includes the majority of Schools service level agreement invoices.

Key for Charts

- Under 1 month
- 1 to 2 months
- 2 to 3 months
- 3 to 6 months
- 6 months to 1 year
- 1 to 2 years
- Over 2 years

Pie Chart 2. Split of General Fund Debt Balance by Days Oustanding



Pie Chart 3. Split of HRA Debt Balance

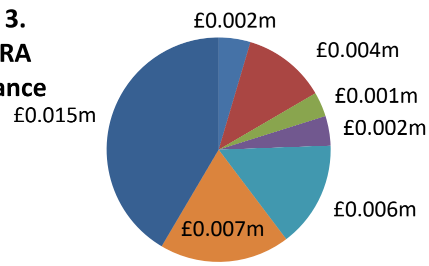
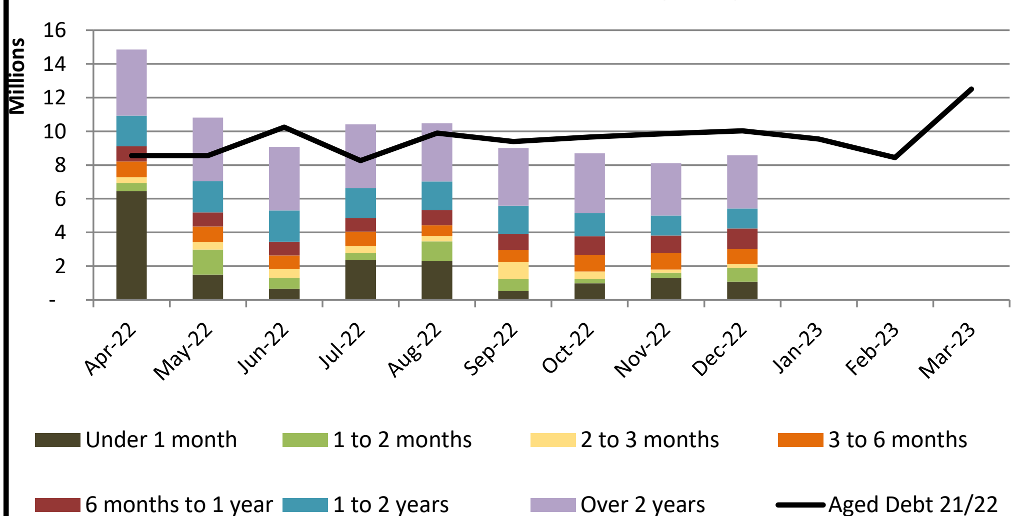


Chart 4. Overdue General Fund Debt Monthly Comparison



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Agency and Staffing - End of December

Agency contracts with the council as at the end of Period 9.

Number of agency workers by directorate

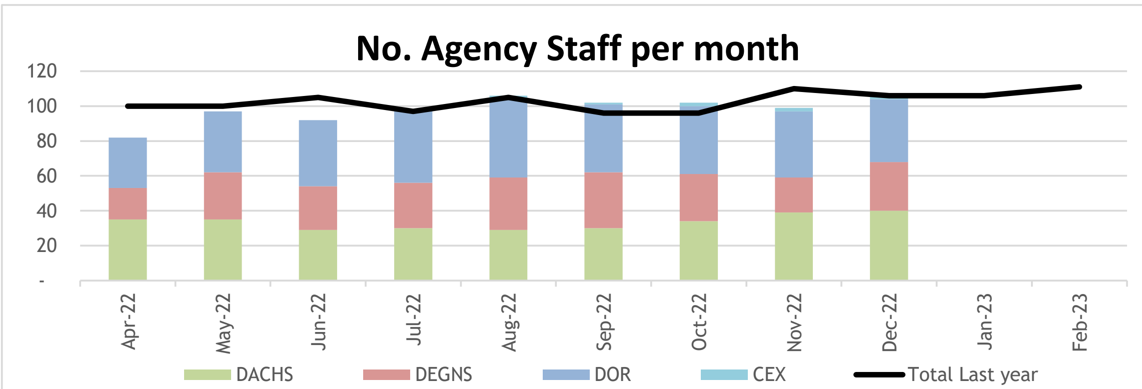
Directorate	Number of Agency Staff Period 9	Number of Agency Staff Period 8
DACHS	40	39
DEGNS	28	20
DOR	36	38
CEX	2	2
Total	**106**	**99**

Agency staff by post name (top 5)

Post name	No.
Social Worker	16
Occupational Therapist	9
Driver/Sweeper	8
Refuse Loader	7
Finance System Implementation Staff	6

Agency spend by directorate per quarter (£000s)

Directorate	2021-22 (£000s)				2022 -23(£000s)		
	Q1	Q2	Q3	Q4	Q1	Q2	Q3
DACHS	524	572	709	923	607	580	646
DEGNS	288	254	190	281	315	346	464
DOR	436	358	495	599	524	650	861
Total	**1,248**	**1,184**	**1,394**	**1,803**	**1,445**	**1,576**	**1,971**



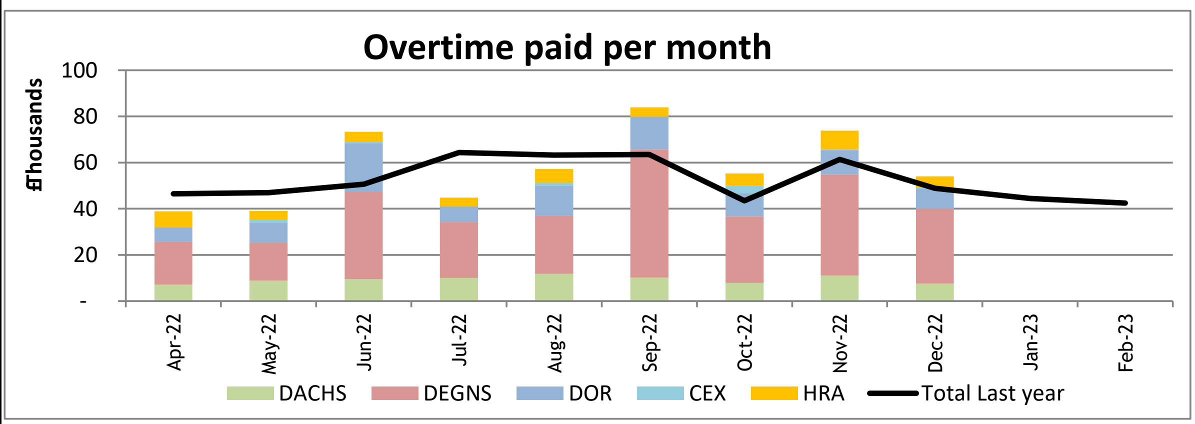
Redundancies & Severance Costs within 22-23

Directorate	December 2022 Only	Actual to Date 2022-23
DACHS	£ -	£ -
DEGNS	£ -	£ 258,444
DOR	£ -	£ 59,147
CEX	£ -	£ 6,649
HRA	£ -	£ -
Total	**£ -**	**£ 324,240**

Overtime paid by directorate 22-23

Directorate	December 2022 Only	Actual to Date 2022-23
DACHS	£ 7,614	£ 83,949
DEGNS	£ 32,247	£ 283,191
DOR	£ 8,875	£ 98,612
CEX	£ 274	£ 6,923
HRA	£ 5,032	£ 47,685
Total	**£ 54,041**	**£ 520,360**

Redundancy expenditure will be funded from the redundancy revenue reserve. Currently no redundancy charges have been reflected in the Period 9 monitoring, bringing the total to 9 redundancies to date.



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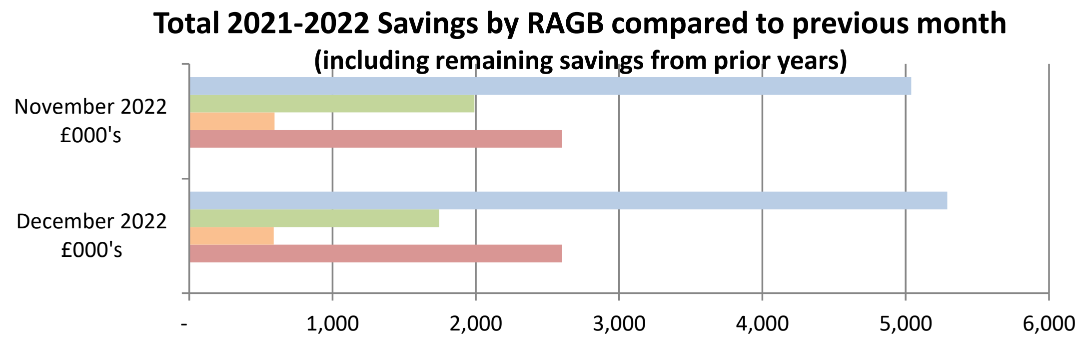
Savings and Delivery Fund

Savings and Delivery Fund 2022-2023 - End of December 2022

__Savings__

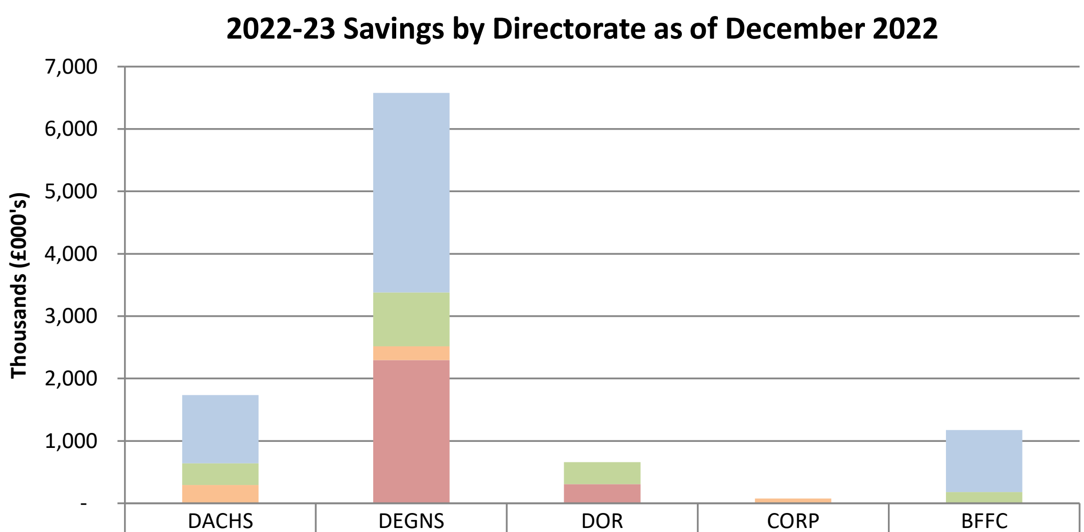
(Red)	Project delayed or unachievable and needs reviewing as part of MTFS
(Amber)	Project has some issues or is at risk
(Green)	Project is progressing on track
(Blue)	Project has been delivered and saving/income generation has been achieved

The below graphs shows the outstanding 2022-23 and prior year savings programme.
This totals £10.2244m for the overall council.



	December 2022 £000's	November 2022 £000's
Blue	5,289	5,039
Green	1,745	1,989
Amber	589	595
Red	2,601	2,601
Total	10,224	10,224

The graph below shows the 2022-23 RAGB rating per directorate as at December 2022 and the percentage per area.



	DACHS	DEGNS	DOR	CORP	BFFC
Blue	1,093	3,199	-	-	997
Green	350	866	351	-	178
Amber	292	220	-	77	-
Red	-	2,294	307	-	-

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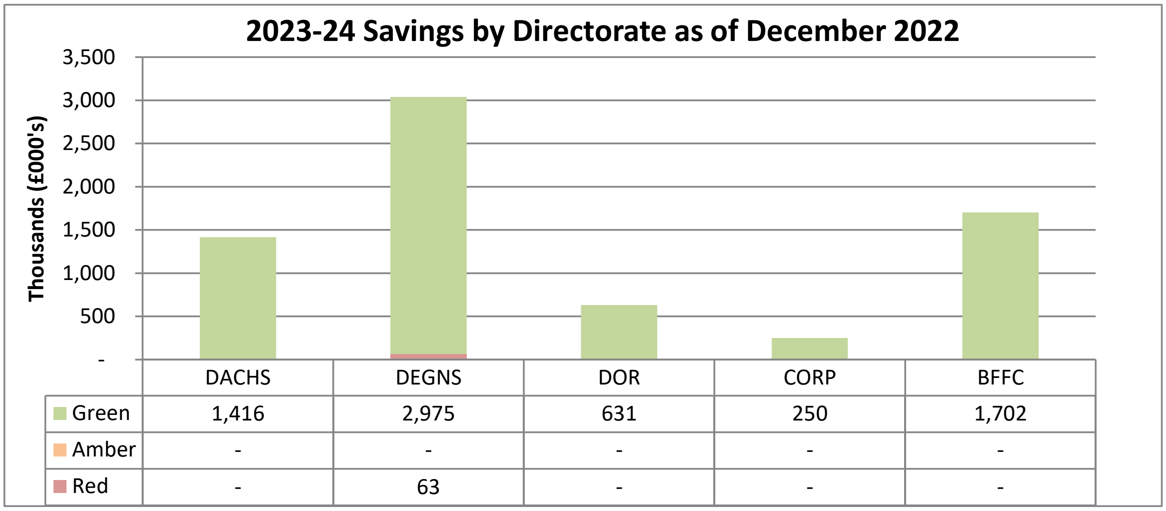
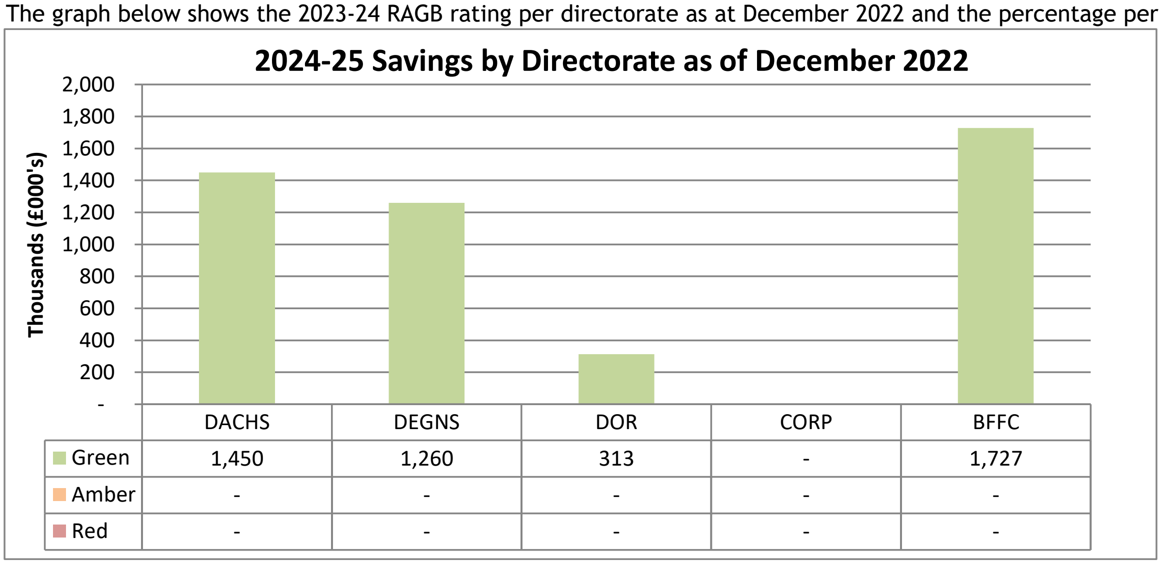
Savings and Delivery Fund

The graph below shows the 2023-24 RAGB rating per directorate as at December 2022 and the percentage per area.



	DACHS	DEGNS	DOR	CORP	BFFC
Green	1,416	2,975	631	250	1,702
Amber	-	-	-	-	-
Red	-	63	-	-	-

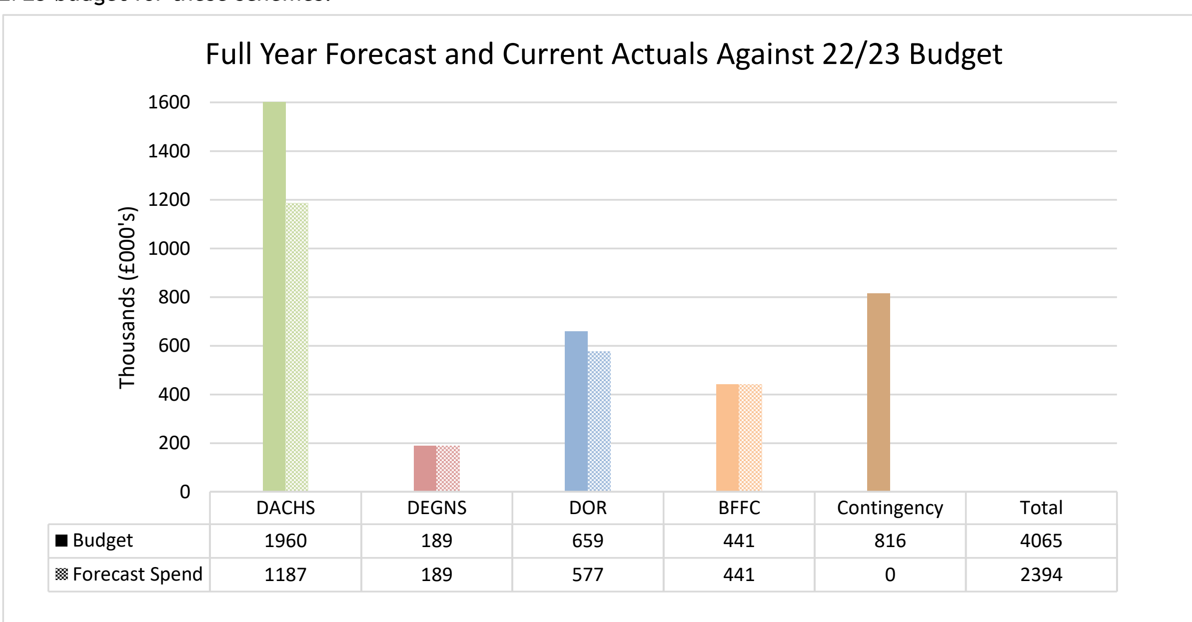
The graph below shows the 2023-24 RAGB rating per directorate as at December 2022 and the percentage per area.



	DACHS	DEGNS	DOR	CORP	BFFC
Green	1,450	1,260	313	-	1,727
Amber	-	-	-	-	-
Red	-	-	-	-	-

Delivery Fund

There are currently 23 approved Delivery Fund schemes being monitored across DACHS, DEGNS, DOR and BFFC. The graph below shows the forecast and actual spend on Delivery Fund schemes, by directorate, compared to the 22/23 budget for these schemes.



	DACHS	DEGNS	DOR	BFFC	Contingency	Total
Budget	1960	189	659	441	816	4065
Forecast Spend	1187	189	577	441	0	2394

[OFFICIAL]

Savings

List of Savings within 2022-23

SAVINGS PROPOSAL	Current Year Savings (£000s)				
Directorate of Adults Care and Health Services	**RED**	**AMBER**	**GREEN**	**BLUE**	**TOTAL**
Removal of agreed 3 year Voluntary Care Service funding	0	0	0	250	**250**
Young people Transitions - Supporting young people into adulthood	0	0	12	38	**50**
Additional DACHS Staffing Efficiencies	0	0	0	200	**200**
TEC: Promoting the use of Assistive Technology	0	0	34	44	**78**
Development of the Personal Assistant Market	0	0	39	11	**50**
Promoting Independence (Outcome Based Service Delivery)	0	0	0	75	**75**
Review and Rightsizing of Care Packages (2021/2022)	0	0	54	26	**80**
Efficiency savings secured through Public Health re-procurement	0	0	0	300	**300**
Development of an Accommodation Pathway for Vulnerable Working Age Adults	0	0	0	25	**25**
Closing the DACHS Budget Gap	0	292	211	124	**627**
Total Directorate of Adults Care and Health Services	**0**	**292**	**350**	**1,093**	**1,735**

SAVINGS PROPOSAL	Current Year Savings (£000s)				
Directorate of Economic Growth & Neighbourhood Services	**RED**	**AMBER**	**GREEN**	**BLUE**	**TOTAL**
School Crossing Patrollers	0	0	0	14	**14**
Fundamental Service Review - Parking	150	0	0	0	**150**
Increased revenue from on-street Pay and Display	540	0	0	0	**540**
Increased income from Parking Enforcement	160	0	60	0	**220**
Increased provision of Red Routes	0	0	50	0	**50**
Review Public Car Park provision borough wide	200	0	0	0	**200**
Increase off street parking charges	150	0	0	0	**150**
Increase in fees and charges	0	0	0	3	**3**
Mandatory HMO Licensing	75	0	0	0	**75**
Discretionary HMO Licensing	20	0	0	0	**20**
Fundamental Service Review - Planning and Regulatory	0	0	0	66	**66**
Increase in charges for pre-planning application and planning fees	55	0	55	0	**110**
Proposed Fee Income Reading Festival	50	0	0	0	**50**
Reforecast income Licensing income budget	0	0	0	10	**10**
Increase in fees and charges	0	0	0	20	**20**
Reduction in professional specialist, management, enforcement and administrative resources; an increase to pre-planning application fees by 10%.	0	0	0	120	**120**
Town Centre Street Trading – New Pitches	0	0	0	8	**8**
Housing - Fundamental Service Review	0	0	0	50	**50**
Increase in fees and charges	0	0	0	4	**4**
Contribution from Public Health Grant	0	0	0	250	**250**
In-house management restructuring of Cultural Services	0	100	0	0	**100**
Increase in fees and charges	0	0	0	33	**33**
Increase in Savings - Waste Operations	0	0	0	(130)	**(130)**
Fundamental Service review of Highways	0	0	50	0	**50**
Increase income on green waste due to additional uptake in years 1-3 and fee increase in years 2-3	25	0	25	0	**50**
Fundamental Service Review - Parks and Street Cleansing	150	0	0	12	**162**
Increased income from traded waste services (previous ref to CIL & IPD not relevant)	0	0	50	50	**100**
Increase in fees and charges	0	0	0	5	**5**
Additional income from advertising	25	0	0	0	**25**
Review of Rents on Garages and Shops	0	0	0	5	**5**
Increase in fees and charges.	0	0	0	24	**24**
Workforce Review [Transportation]	0	0	0	200	**200**
Increase parking permit charges	0	0	43	0	**43**
Arts Fundraising campaign	0	45	15	0	**60**
Visa Verification increased income	0	0	0	45	**45**
Rewilding highway verges	0	0	0	15	**15**
Waste Contract - Budget realignment inline with anticipated expenditure	0	0	0	100	**100**
Continued commercial growth of Highways service	0	0	0	5	**5**
In-sourcing of Highways Structures Consultancy	0	0	0	10	**10**

Savings

SAVINGS PROPOSAL	Current Year Savings (£000s)				
Directorate of Economic Growth & Neighbourhood Services	RED	AMBER	GREEN	BLUE	TOTAL
Review of office and workspace requirements	0	0	0	162	**162**
Workforce Review [Planning & Regulatory Services]	0	0	0	47	**47**
Workforce Review [Housing]	0	0	0	50	**50**
Workforce Review [Cultural Services]	0	0	0	1	**1**
Workforce Review [Environmental and Commercial Services]	0	0	196	0	**196**
Workforce Review [Regeneration and Assets]	0	0	0	62	**62**
Recovery of reduced parking income due to Covid-19*	650	0	0	0	**650**
On Going Pension Costs Savings	0	0	0	30	**30**
Revenue impact of new contract for borough leisure facilities	0	0	0	830	**830**
Covid19 income pressure on the Town Hall and recovery plan*	0	0	247	0	**247**
Covid19 income pressure on the Hexagon and South Street Theatres and recovery plan*	0	75	75	0	**150**
Reduced fuel costs due to increase in electrical vehicles	44	0	0	0	**44**
Highways operational resilience	0	0	0	12	**12**
Investment property rental income increase	0	0	0	1,086	**1,086**
Directorate of Economic Growth & Neighbourhood Services	**2,294**	**220**	**866**	**3,199**	**6,579**

SAVINGS PROPOSAL	Current Year Savings (£000s)				
Directorate of Resources	RED	AMBER	GREEN	BLUE	TOTAL
New customer services model	207	0	0	0	**207**
Efficiences from procuring new finance system	0	0	112	0	**112**
Additional Service Proposals for Registrar Services	0	0	10	0	**10**
Reduction in employer contributions arising from new Agency Contract	0	0	90	0	**90**
Increase in Fees and Charges (Kennet Day Nursery)	0	0	5	0	**5**
Procurement & Contracts savings - Resources Directorate	100	0	0	0	**100**
Finance workforce review	0	0	50	0	**50**
Procurement of Case Management system	0	0	45	0	**45**
Increase in Fees and Charges	0	0	39	0	**39**
Directorate of Resources	**307**	**0**	**351**	**0**	**658**

SAVINGS PROPOSAL	Current Year Savings (£000s)				
Corporate	RED	AMBER	GREEN	BLUE	TOTAL
Reducing mileage expenses through increased use of alternatives e.g. online meetings	0	77	0	0	**77**
Corporate	**0**	**77**	**0**	**0**	**77**

SAVINGS PROPOSAL	Current Year Savings (£000s)				
Brighter Futures For Children	RED	AMBER	GREEN	BLUE	TOTAL
BFFC Savings	0	0	178	997	**1,175**
Brighter Futures For Children	**0**	**0**	**178**	**997**	**1,175**

	RED	AMBER	GREEN	BLUE	TOTAL
TOTAL of Savings with Red rated elements within 2020-2021	**2,601**	**589**	**1,745**	**5,289**	**10,224**

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Capital Programme for Period 9

Scheme Name	Revised Budget Quarter 2 2022/23 £000	Budget Movements Between Schemes £000	Additonal Budgets added to the Programme - Funded by Grants & Contributions £000	Additional Budgets requested to be added to the Programme - Funded by Capital Receipts & Borrowing £000	Reduced Budgets - Completed Schemes & Other carry forward budget adjustments £000	Budgets reprogrammed (to)/from Future Years £000	Revised Budget Quarter 3 2022/23 £000	Spend to 31st December 2022 £000	Forecast Spend £000	Forecast Variance £000
General Fund										
Adult Care and Health Services										
e-Marketplace & Equipment Renewal Portal Software	170					(170)	0	0	0	0
Mobile Working and Smart Device	150					(150)	0	0	0	0
Replacement of Community Re-ablement Software	85					(60)	25	0	25	0
Co-located profound and multiple learning disabilities day opportunities and respite facility and sheltered housing flats	1,413						1,413	10	1,413	0
Adult Care and Health Services Total	**1,818**	**0**	**0**	**0**	**0**	**(380)**	**1,438**	**10**	**1,438**	**0**
Economic Growth and Neighbourhood Services										
Transportation, Planning & Regulatory Services										
Air Quality Monitoring	15						15	0	15	0
Active Travel Tranche 2	100				13		113	178	113	0
Active Travel Tranche 3	200						200	0	200	0
Berkshire Coroner's Removals	0							0	0	
Bus Service Improvement	500						500	0	500	0
Local Transport Plan Development	40	(122)			24	98	40	27	40	0
National Cycle Network Route 422	8	5					13	0	13	0
Reading West Station	600	22					622	92	622	0
South Reading MRT (Phases 1 & 2)	399						399	0	399	0
South Reading MRT (Phases 3 & 4)	1,633	8					1,641	248	1,641	0
South Reading MRT (Phases 5 & 6)	0						0	0	0	0
Town Centre Street Trading Infrastructure	28						28	0	28	0
Construction of Green Park Station	2,969	40					3,009	3,348	3,009	0
Car Park Investment Programme (inc P&D, Red Routes & Equipment)	177	(70)					107	67	107	0
Additional Storage Capacity at Mortuary	0						0	0	0	0
Purchase of Mortuary Equipment	12						12	0	12	0
CIL Local Funds - Community	502		125			(125)	502	63	502	0
CIL Local Funds - Transport	167	45	656			(656)	212	80	212	0
CIL Local Funds -Neighbourhood Allocation	477						477	0	477	0
S106 individual schemes list	977	11					988	0	988	0
Defra Air Quality Grant - Bus Retrofit	70						70	0	70	0
Defra Air Quality Grant - Go Electric Reading	18						18	1	18	0
Electric Vehicle Charging Points	0						0	0	0	0
Air Quality Grant - AQ sensors awareness & behaviour change	0						0	0	0	0
Transport Demand Management Scheme	0						0	0	0	0
Rogue Landlord Enforcement	75						75	0	75	0
Transportation, Planning & Regulatory Services - Sub Total	**8,967**	**(61)**	**781**	**0**	**37**	**(683)**	**9,041**	**4,105**	**9,041**	**0**

Capital Programme for Period 9

Scheme Name	Revised Budget Quarter 2 2022/23 £000	Budget Movements Between Schemes £000	Additonal Budgets added to the Programme - Funded by Grants & Contributions £000	Additional Budgets requested to be added to the Programme - Funded by Capital Receipts & Borrowing £000	Reduced Budgets - Completed Schemes & Other carry forward budget adjustments £000	Budgets reprogrammed (to)/from Future Years £000	Revised Budget Quarter 3 2022/23 £000	Spend to 31st December 2022 £000	Forecast Spend £000	Forecast Variance £000
Housing & Communities										
Provision of Gypsy & Traveller Accommodation	100						100	25	100	0
Harden Public Open Spaces to Prevent Incursion	42						42	7	42	0
Green Homes Scheme - GF element	0		244				244	182	244	0
Disabled Facilities Grants (Private Sector)	1,257						1,257	454	1,257	0
Foster Carer Extensions	0						0	0	0	0
Private Sector Renewals	444						444	31	444	0
Housing & Communities - Sub Total	**1,843**	**0**	**244**	**0**	**0**	**0**	**2,087**	**700**	**2,087**	**0**
Culture										
Leisure Centre Procurement	22,272					(2,747)	19,525	16,704	19,525	0
Christchurch Meadows Paddling Pool	0						0	0	0	0
Development of facilities at Prospect Park/Play	230					8	238	176	238	0
Reading Football Club Social Inclusion Unit to SRLC	0						0	0	0	0
Small Leisure Schemes	311	(97)				(153)	61	0	61	0
Abbey Quarter restoration works	50				14	(54)	10	0	10	0
High Street Heritage Action Zone	252					(115)	137	18	137	0
Berkshire Record Office - extension of storage space	16					(16)	0	0	0	0
Hexagon lighting & emergency lighting replacement	15					(5)	10	5	10	0
Town Hall Equipment	190						190	29	190	0
Tilehurst Library Works	62						62	0	62	0
Culture - Sub Total	**23,398**	**(97)**	**0**	**0**	**14**	**(3,082)**	**20,233**	**16,931**	**20,233**	**0**

Capital Programme for Period 9

Scheme Name	Revised Budget Quarter 2 2022/23 £000	Budget Movements Between Schemes £000	Additonal Budgets added to the Programme - Funded by Grants & Contributions £000	Additional Budgets requested to be added to the Programme - Funded by Capital Receipts & Borrowing £000	Reduced Budgets - Completed Schemes & Other carry forward budget adjustments £000	Budgets reprogrammed (to)/from Future Years £000	Revised Budget Quarter 3 2022/23 £000	Spend to 31st December 2022 £000	Forecast Spend £000	Forecast Variance £000
Environmental & Commercial Services										
Playground equipment and Refreshment: Boroughwide	530	(256)					274	51	274	0
New Capital Bid - S106 Kenavon Drive Landscape	120						120	73	120	0
Victoria Rec	0	462				(462)	0	0	0	0
Levelling Up Parks Fund	0		66				66	0	66	0
John Rabson skatepark	255	120				(325)	50	23	50	0
Re-wilding highways, parks and open space verges	76					(76)	0	0	0	0
Tree Planting	30				17	(17)	30	18	30	0
Annual Bridges and Carriage Way Works programme & Highway Infrastructure Works	4,654						4,654	3,249	4,654	0
Carriageways & Pavements Investment Programme	0						0	0	0	0
Chestnut Walk Improvements	0				35	(29)	6	11	6	0
CIL Local Funds - Heritage and Culture	285						285	11	285	0
CIL Local Funds - Leisure and Play	419	(229)	842			(482)	550	269	550	0
Highway Signals_Capital Bid	200					100	300	48	300	0
Highways Operational Resilience _ Capital Bid	0						0	0	0	0
Highways Structures Capital Bid	1,450					(1,100)	350	0	350	0
Invest to save energy savings - Street lighting	771					(221)	550	274	550	0
Pedestrian Defined Urban Pocket Gardens	75						75	0	75	0
Pedestrian dropped kerb facilities with tactile pavers	240						240	0	240	0
Pedestrian handrails	240						240	0	240	0
Pumping Station Upgrade Scheme (new)	229					(14)	215	146	215	0
Railway footbridge lighting in West Reading	70						70	0	70	0
Reading Station Subway	206						206	0	206	0
Reading Town Centre Design Framework	0						0	0	0	0
Town Centre Improvements	307				37	(179)	165	57	165	0
Free bulky waste service - collection vehicle	0						0	0	0	0
Cattle Market Car Park	0						0	0	0	0
Digitised TRO's	0						0	0	0	0
Eastern Area Access Works	100					(100)	0	0	0	0
Local Traffic Management and Road Safety Schemes	135	60				(191)	4	4	4	0
Oxford Road Corridor Works	150	1				(151)	0	0	0	0
Traffic Management Schools	216					(216)	0	0	0	0
Western Area Access Works	64					(64)	0	0	0	0
New Kit/Vehicles for Commercial Services Dvlpt	0						0	0	0	0
New Vehicle for Highways & Drainage Commercial Service	0						0	0	0	0
Replacement Vehicles	2,781					(673)	2,108	2,108	2,108	0
Environmental & Commercial Services - Sub Total	**13,602**	**158**	**908**	**0**	**89**	**(4,200)**	**10,557**	**6,342**	**10,558**	**0**

Capital Programme for Period 9

Scheme Name	Revised Budget Quarter 2 2022/23 £000	Budget Movements Between Schemes £000	Additonal Budgets added to the Programme - Funded by Grants & Contributions £000	Additional Budgets requested to be added to the Programme - Funded by Capital Receipts & Borrowing £000	Reduced Budgets - Completed Schemes & Other carry forward budget adjustments £000	Budgets reprogrammed (to)/from Future Years £000	Revised Budget Quarter 3 2022/23 £000	Spend to 31st December 2022 £000	Forecast Spend £000	Forecast Variance £000
Property & Asset Management										
The Heights Permanent Site Mitigation	44						44	27	44	0
Invest in Corporate buildings/Health & safety works	1,180						1,180	253	1,180	0
1 Dunsfold Fitout for BFfC Family Contact Centre - Development for Community Use	275	20				75	370	31	370	0
Accommodation Review - Phase 2A - 2C	556					410	966	109	966	0
Corporate Office Essential Works	0					174	174	174	174	0
Katesgrove Community and YOS Refurbishment - Development for Community Use	150	(20)				600	730	118	730	0
BFFC Accommodation Review	0						0	0	0	0
Regeneration Projects	125						125	173	125	0
The Keep building works and improved arts/culture facilities	94						94	0	94	0
Property & Asset Management - Sub Total	**2,424**	**0**	**0**	**0**	**0**	**1,259**	**3,683**	**886**	**3,683**	**0**
Management & Sustainability										
Renewable Energy	695						695	88	695	0
Salix Decarbonisation Fund	1,574						1,574	664	1,574	0
Salix Re-Circulation Fund	57						57	94	57	0
Management and Sustainability - Sub Total	**2,326**	**0**	**0**	**0**	**0**	**0**	**2,326**	**845**	**2,326**	**0**
Economic Growth and Neighbourhood Services Total	**52,560**	**0**	**1,933**	**0**	**140**	**(6,706)**	**47,927**	**29,809**	**47,928**	**0**
Resources										
Customer Digital Experience	750				1,627	(1,627)	750	176	750	0
Universal Digital Systems	812				1,939	(1,939)	812	118	812	0
IT Future Operating Model	538				1,203	(1,203)	538	644	538	0
Re-Procurement / Reimplementation of Finance System	440						440	207	440	0
Education Management System	384						384	154	384	0
Cemeteries and Crematorium	0						0	0	0	0
Cremator Procurement	1,313					(248)	1,065	0	1,065	0
Cremator	0						0	70	0	0
Burial Land Acquisition	80						80	0	80	0
Resources Total	**4,317**	**0**	**0**	**0**	**4,769**	**(5,017)**	**4,069**	**1,370**	**4,069**	**0**

Capital Programme for Period 9

Scheme Name	Revised Budget Quarter 2 2022/23 £000	Budget Movements Between Schemes £000	Additonal Budgets added to the Programme - Funded by Grants & Contributions £000	Additional Budgets requested to be added to the Programme - Funded by Capital Receipts & Borrowing £000	Reduced Budgets - Completed Schemes & Other carry forward budget adjustments £000	Budgets reprogrammed (to)/from Future Years £000	Revised Budget Quarter 3 2022/23 £000	Spend to 31st December 2022 £000	Forecast Spend £000	Forecast Variance £000
Economic Growth and Neighbourhood Services (Education Schemes)										
Additional School Places - Contingency	50						50	(1)	50	0
SEN Provision - Avenue Centre	4,292						4,292	2,779	4,292	0
Asset Management	286						286	0	286	0
Children in care Emergency Provision	35						35	0	35	0
Civitas- Synthetic Sports Pitch	0						0	(4)	0	0
Contribution to SEN School Wokingham	123						123	123	123	0
Crescent Road Playing Field Improvements	311						311	181	311	0
Critical Reactive Contingency: Health and safety (Schools)	500						500	30	500	0
Fabric Condition Programme	3,448						3,448	1,452	3,448	0
Green Park Primary School	60						60	(109)	60	0
Heating and Electrical Renewal Programme	1,047						1,047	86	1,047	0
Initial Viability work for the Free School at Richfield Avenue	20						20	1	20	0
Low Carbon Skills Fund - Bid Development	5						5	0	5	0
Low Carbon Skills Fund - Schools Estate Project Delivery	24						24	0	24	0
Katesgrove Primary Trooper Potts Building	59						59	2	59	0
Meadway Early Years Building Renovation	0		1				1	1	1	0
Modular Buildings Review	50						50	0	50	0
New ESFA funded schools - Phoenix College	0						0	(90)	0	0
New ESFA funded schools - St Michaels	0						0	0	0	0
Pinecroft-Children who have complex health, physical,sensory,disabulities & challenging behaviour	53						53	(97)	53	0
Dee Park Regeneration - Housing Infrastructure Fund (school)	500						500	161	500	0
Public Sector Decarbonisation Funds - School Estate Double Glazing Programme	1,065						1,065	286	1,065	0
SCD Units	473						473	133	473	0
School Estate Solar PV Programme	323						323	310	323	0
Schools - Fire Risk Assessed remedial Works	560						560	242	560	0
SEN Norcot	83						83	0	83	0
SEN High Needs provision capital allocations	0						0	0	0	0
The Heights Temporary School	351						351	0	351	0
Park Lane Primary School Annexe Replacement	500						500	0	500	0
Economic Growth and Neighbourhood Services (Education Schemes) Total	**14,218**	**0**	**1**	**0**	**0**	**0**	**14,219**	**5,486**	**14,219**	**0**

Capital Programme for Period 9

Scheme Name	Revised Budget Quarter 2 2022/23 £000	Budget Movements Between Schemes £000	Additonal Budgets added to the Programme - Funded by Grants & Contributions £000	Additional Budgets requested to be added to the Programme - Funded by Capital Receipts & Borrowing £000	Reduced Budgets - Completed Schemes & Other carry forward budget adjustments £000	Budgets reprogrammed (to)/from Future Years £000	Revised Budget Quarter 3 2022/23 £000	Spend to 31st December 2022 £000	Forecast Spend £000	Forecast Variance £000
Corporate										
Delivery Fund (Pump priming for Transformation projects)	4,065						4,065	1,119	2,394	(1,671)
Loan To RTL (Bus replacement programme)	2,500				(250)		2,250	0	2,250	0
Oracle Shopping Centre capital works	100						100	0	100	0
Minster Quarter - Brownfield Land Grant Element	200						200	0	200	0
Minster Quarter	250						250	0	250	0
Corporate Total	**7,115**	**0**	**0**	**0**	**(250)**	**0**	**6,865**	**1,119**	**5,194**	**(1,671)**
General Fund Total	**80,027**	**0**	**1,934**	**0**	**4,659**	**(12,103)**	**74,517**	**37,794**	**72,848**	**(1,671)**
Housing Revenue Account (HRA)										
Disabled Facilities Grants	600						600	435	600	0
Housing Management System	502						502	167	600	98
Major Repairs - Existing Homes Renewal	8,944	1,085					10,029	4,128	10,029	0
Major Repairs - Zero Carbon Retrofit works	2,617	(1,085)			(387)		1,145	879	1,145	0
Local authority new build programme for Older people and vulnerable adults	1,350					(586)	764	284	764	0
New Build & Acquisitions - Phase 2 - 4	13,815					3,132	16,947	10,055	16,947	0
Housing Revenue Account (HRA) Total	**27,828**	**0**	**0**	**0**	**(387)**	**2,546**	**29,987**	**15,948**	**30,085**	**98**

<u>**Appendix 3 – Debt Write-Offs**</u>

It is considered that information contained within Appendix 10 contains exempt information under the meaning of sections 1, 2 and 3 of Schedule 12A of the Local Government Act 1972, as amended, and therefore cannot be made public.

Customer	Type of Debt	Value of Write Off (£)	Period of Liability/ Invoice Date	Reason for Write off
Carrsell Limited	Non-Domestic Rates	21,892.73	02/08/2021 – 22/02/2022	Insolvent, Liquidated or Dissolved and there is no prospect of recovery the debt.
The Revenko & Scammell Experience Limited	Non-Domestic Rates	66,340.05	01/12/2017 – 09/11/2019	Insolvent, Liquidated or Dissolved and there is no prospect of recovery the debt.
Mr Carlos Amaral Riberio	Non-Domestic Rates	23,080.54	01/04/1997 - 21/06/2011	Having reviewed the debtor's financial investigation form it is considered that to enforce payment would cause the debtor extreme hardship, financial or otherwise, or it is in the interests of the Council or the wider community to write off the debt.
Total	**Non-Domestic Rates**	**111,313.32**		

Customer	Type of Debt	Value of Write Off (£)	Period of Liability/ Invoice Date	Reason for Write off
Mr Morad Djedli	Housing Benefit Overpayment	57,120.48	17/11/2016	Identification Fraud and there is no prospect of recovering the debt.
Total	**Housing Benefit Overpayment**	**57,120.48**		

Customer	Type of Debt	Value of Write Off (£)	Period of Liability/ Invoice Date	Reason for Write off
Mrs Janet Tudgay	Adult Social Care (Sundry Debt)	90,858.25	24/07/17 - 08/07/21	Having reviewed the debtor's financial investigation form it is considered that to enforce payment would cause the debtor extreme hardship, financial or otherwise, or it is in the interests of the Council or the wider community to write off the debt
Total	**Sundry Debt**	**90,858.25**		

Total	**All Debts**	**259,292.05**		

Corporate Plan KPI - Foundations - Quarterly

Status	DOT	Title	Frequency	Target	Unit	Q2	Q3	Comments
Red	Up	Customer satisfaction in the Customer Fulfilment Centre	Quarterly	89	%	60.00	73.50	- Customers have experienced excessive wait times for calls to be answered. - Acute challenges with our housing repairs service means CFC colleagues are on hold for lengthy periods to speak to the back office. - The CFC has experienced a higher than usual rate of attrition. - A vibrant job market has meant the service has been unable to attract people to apply for roles in CFC. The current job description has been reviewed with a view to make the role and pay more competitive and attractive.
Red	Up	Percentage of responses to the public on Freedom of Information Act requests made within 20 days	Quarterly	90	%	71.60		The Information Governance service is working through an Action Plan, working with services to raise awareness of the importance of responding on time. The next step of the plan is the Training event planned with responding officers officers on 31 Jan. I have updated the Sept Q2 data. The final Dec Q3 data is not yet available. Direction of travel is for Q1-Q2.
Green	Up	Deliver the Medium Term Financial Strategy	Quarterly	150	£ million	148.92	146.68	
Green	Up	Enquiries solved at first point of contact in the Customer Fulfilment Centre	Quarterly	87	%	84.00	89.00	
Green	Up	Number of invoices paid within 30 days of invoice date	Quarterly	80	%	86.63	88.94	The number of invoices paid within 30 days during 2022-23 has included a significant number of £150 energy rebate payments which had the effect of improving the KPI in Q1 when most of the rebates were paid, and to a lesser degree in Q2.
Green	Down	Percentage of responses to complaints within agreed timescales	Quarterly	70	%	75.60		The final Q3 data is not yet available. Direction of travel is for Q1-Q2.

Corporate Plan KPI - Foundations - Monthly

Status	DOT	Title	Frequency	Target	Unit	Nov-22	Dec-22	Comments
Red	Down	Number of self- service transactions via My Account self- service	Monthly	23,333	No.	16,000.00	11,000.00	We have been focusing on the calculation methodology used by Google Analytics to make the published figure as accurate as possible. Changes we have made in this quarter have, we believe, reduced the amount of double counted transactions, and now more accurately reports the current level of customer engagement online. We will continue to review this methodology and provide a further update at the next corporate review date. The target figure was based on current (at the time) reported figures, it is likely this will need reviewing after a further period of reporting (and confirmation that the changes to the process have resulted in more accurate figures).

Corporate Plan KPI - Healthy Environment

Status	DOT	Title	Frequency	Target	Unit	Q2	Q3	Comments
		Food waste recycled (percentage of household waste)	Quarterly	14	%	12.50	12.90	Food waste represented 12.9% of household waste in qtr3. This compares to 13.8% in the same quarter last year. Lower food waste tonnes compared to the same period last year could be the result of residents having become more aware of the amount of food they were wasting. If lower tonnages are the result of waste reduction, this is a positive outcome. Increased financial pressures may also be causing residents to waste less food. However we are also aware that some food waste is present in the residual waste, and we need to capture this for recycling. Officers will continue to monitor the tonnages.
		Percentage total household waste recycled	Quarterly	51	%	48.99	47.77	The provisional quarter 3 recycling rate was 47.8%. This compares to 50.9% in the same period last year. Total household tonnes fell as the economic situation changed, but recyclable tonnages fell more than those collected as non-recycled. The biggest decline has been in food waste. Some tonnages may be starting to recover and officers are continuing to monitor the data.
		Percentage of actionable (40mm depth) potholes repaired within 28 days	Quarterly	99	%	94.00	99.00	
		Percentage of Houses of Multiple Occupation that are licensed	Quarterly	42	%	42.15	42.50	

Corporate Plan KPI - Inclusive Economy - Quarterly

Status	DOT	Title	Frequency	Target	Unit	Q2	Q3	Comments
		Number of school places for children and young people with Special educational need and disability (SEND)	Quarterly	402	No.	453.00	453.00	No new places due to come online until April 2023
		Cumulative reduction in crime (based on Thames Valley Police crime reporting figures)	Quarterly	5	%	22.00		Latest data is Q2 though full Q2 data not yet available. Q1 data shows a percentage increase. This is attributed to COVID related restrictions in the previous year. Direction of travel is for Q1-Q2
		Participation at Council cultural venues	Quarterly	300	No.(k)/yr	217.17	300.82	August closure reduces participation for Q2. Data is cumulative.
		Percentage of Care Leavers who are not in education, employed or training for work (NEET)	Quarterly	35	%	34.00	29.00	

Corporate Plan KPI - Inclusive Economy - Monthly

Status	DOT	Title	Frequency	Target	Unit	Nov-22	Dec-22	Comments
		Number of visits to our libraries	Monthly	240	No.(k)/yr	167.00	182.00	Tracking to target, Data is cumulative to date.
		Percentage of people with a learning disability in paid employment	Monthly	5	%	4.70	4.81	We are developing partnerships with local employment support providers to offer targeted services for our LD service users.

Corporate Plan KPI - Thriving Communities - Quarterly

Status	DOT	Title	Frequency	Target	Unit	Q2	Q3	Comments
●	↓	Number of carers supported to maintain their caring role	Quarterly	120	No.	201.00	169.00	A new Carers Support Service is now in place. Work has been ongoing in Q3 to embed new processes and pathways.
●	↓	Number of NHS Health Checks delivered to residents	Quarterly	150	No. per qtr	601.00	521.00	389 were universal health checks and 55 were targeted Health checks delivered by GPs. This figure includes 77 NHS Health Checks provided for RBH staff who are Reading residents.
●	↓	Proportion of stop smoking service users, who have set a date to stop smoking and are still not smoking 4 weeks later, that are routine and manual workers	Quarterly	40	% per qtr	61.00	40.00	Due to the lag in stop smoking service data, the previous quarter's data (Q2 - 60%) is the most robust. This data is still provisional, as the final national dataset is not published 'til later in the year. This figure exceeds the target set of 40%. The improvement has been largely due to the service being able to access more sites and setting up more drop-in clinics in targeted communities. We estimate that performance in Q3 will be on or above target of 40%.
●	↑	Percentage of children in care living more than 20 miles from Reading	Quarterly	28	%	29.00	27.00	Proactive action taken to address the challenge of local place sufficiency (a challenge that Local Authorities across England are experiencing) is beginning to evidence impact, with more children being initially placed in or returning to placements in Reading. A reduction in the overall number of children coming into care means that the number of children who became looked after some years ago and are settled with long term carers beyond 20 miles continues to have a high proportionate impact on this indicator.
●		Youth re-offending rate	Quarterly	30	%		27.90	This provides the data for the period Jan 20 - Dec 20. Sep data is not available

Status	DOT	Title	Frequency	Target	Unit	Nov-22	Dec-22	Comments
◆	↓	Percentage of service users in receipt of Adult Social Care Direct Payments	Monthly	24	%	21.62	21.43	A dedicated Direct Payment resource will be in place in the new year, able to support people with arrangement of Direct Payments.
●	↑	Number of households prevented from becoming homeless	Monthly	450	No/yr	352.00	370.00	Data is cumulative to date.
●	↓	Older People (65+) who were still at home 91 days after discharge from hospital into reablement	Monthly	80	%	88.90	82.90	Unfortunately, 5 service users returned to hospital which impacted the performance, however, the service continues to perform highly.
●	→	Percentage of new contacts to the Advice & Wellbeing hub resulting in a successful outcome not requiring an on-going service	Monthly	80	%	94.00	94.00	The Hub continues to outperform and deliver excellent services to local residents.
●	→	Percentage of service users supported to live independently in the community	Monthly	74	%	75.00	75.00	Home First and community based provision remains a high priority for Adult Social Care and teams are working with residents and their families to remain at home as long as possible

Corporate Plan Projects - Foundations

Project or activity	Q2	Q3	DOT	Q3 22-23 Commentary
Implementation of the Customer Experience Programme	●	◆	↓	Programme is reporting red, however this is in response to wider conversations around the future direction of the programme and how the organisation aligns all customer transformation activity. Conversations are progressing well, agreed way forward is expected imminently.
Embedding the Hub and Spoke structure	▲	▲	→	By Q4 there will be a new Delivery Plan
Implement business process redesign	▲	▲	→	The integrated system test phase will complete in January 2023. The tests are being performed by workstream members from RBC and BFfC plus selected end users. User Acceptance Testing will be carried during February 2023. The testing of interfaces will be performed through to end of February and is dependent on the completion of feeder system updates to iTrent, Mosaic and,Civica. Optimum, who specialise in finance system training, have been appointed to prepare eLearning training material and user guides for end users. The updated project plan includes the milestones of loading 2023/24 budgets on to the new system in January 2023 and finance system go-live in April 2023.
Implement Social Value Strategy and reporting	▲	▲	→	By Q4 there will be a new Delivery Plan
Implementation of the Connected Reading Strategy	▲	▲	→	The Casework and Customer Management contract has been signed with Arcus Global. Project kickoff is in mid-January. Contract finalisation was delayed by over 2 months because of commercial issues. Procurement of a digital transformation delivery partner is underway, with the contract expected to be awarded in February 2023. Once the partner has been appointed and mobilised, we expect to bring a revised plan for transformation to Policy Committee, enabling a return to Green status. The initial work of the partner is expected to cover: a) Application rationalisation; b) Customer journey optimisation; c) Adult social care front door; d) Adult social care process optimisation; e) Housing digital presence. The status of other transformation projects is as follows: Independent Living - Hiatus caused by commercial issues with both providers. These were resolved in late December. Equipment from both providers is now live for small initial sets of users. Progress in wider deplyment and exploitation is being constrained by the demands of BAU on the affected social care staff; the team is working with the relevant Assistant Directors to plan how best to drive adoption. There have continued to be issues relating to PREVENT filtering for public WiFi sites but, at the time of writing, it is believed that the root cause has been found and a fix is being tested. On a more positive note, we are exploring a technical option to extend free network connectivity, provided under social value arrangements with one of our providers, to all community centres (twelve rather than the six initially envisaged).
Implementation of the Information Governance Strategy	▲	▲	→	We have discussed the role of Data Stewards and the SharePoint Devolved Admins at Information Governance Board. We are drafting a terms of reference to combine these roles. Staff already identified as DA's will be approached to take on the DS role also.

Team Reading

Corporate Plan Projects - Healthy Environment

Project or activity	Q2	Q3	DOT	Q3 22-23 Commentary
£9 million investment in resurfacing roads and pavements.	●	●	→	On track to deliver
Climate Emergency Strategy	▲	▲	→	The majority of actions remain green (on track) or amber (progressing but at risk of not being delivered by the target date). Further details are included in the Annual Progress Report for 2021/22 which was produced and presented to SEPT Committee in November 2022 (see https://readingcan.org.uk/wp-content/uploads/2022/12/Reading-Climate-Emergency-Strategy-Annual-Report-2021-22.pdf)
Decarbonisation of the Hexagon theatre through improved heating and lighting.	▲	▲	→	Awaiting outcome from the funding application. Project meeting taken place.
Deliver and develop the new play hub at Prospect Park.	●	●	→	Cafe offer is progressing with RBC and operator. Some minor interior work to be completed. Educational and Play visits to site have started.
Delivery of Capital Education Property Development Programme	●	●	→	Projects and programme progressing as per the intended timescales
Electrification of fleet	▲	▲	→	RBC have added a further 5 electric refuse collection vehicles in the last quarter as part of its commitment to replace fossil fuel vehicles and electrify its fleet. The Council is presently reviewing its capital programme which the service will await its outcome before it can order further electric vehicle replacements as planned.Phase 1 of the electric charging points for the electric RCV's has been completed at Bennet Road, with Phase 2 planned to be completed 2023/24.
Implementing the Environment Act 2021	▲	▲	→	No Change to previous quarter updates, other than DEFRA have indicated that it will be releasing further information on the Deposit Return Scheme section of the Act early in 2023.
Improvements to play areas and park environments	▲	▲	→	There are 21 projects being carried out within our Parks and Open Spaces upgrading children's play grounds and outdoor gyms. Of these 5 are red for this financial year, 7 are amber and 9 are green. Delays relate to weather, availability of materials and equipment. There are 2 additional projects undertaken – Repair to the external walls and vaults at Caversham Court (Red) and repairs to the 'Bandstand' in the Forbury (amber).
New Local Transport Plan (LTP) for Reading	▲	▲	→	Draft LTP currently being prepared, however DfT guidance has been delayed.
Retaining our position on the 'A' list' for bold leadership on climate change	●	●	→	Reading's 2022 annual submission to CDP was completed in July 2022. In November 2022, following detailed assessment, CDP confirmed that Reading has retained its place on the CDP 'A' list for a further year. Reading is one of only 19 UK local authorities who received this score in 2022.
The allocation of £1.6 million Community Infrastructure Funds and commencement of the approved schemes	▲	▲	→	£1.6 million of Community Infrastructure Levy funds were allocated to 18 local projects in March 2022 by Policy Committee. Work has completed on six of the projects, whilst the remainder are currently in the preparatory stages or are awaiting the completion of projects previously allocated CIL funds in 2021.

Team Reading

Corporate Plan Project - Inclusive Economy

Project or activity	Q2	Q3	DOT	Q3 22-23 Commentary
Action plan in place to improve community engagement mechanisms across diverse communities	●	●	→	Slight delay in launching structure consultation but now on back on track for February
Actions arising from the Powered by People strategy	●	●	→	A programme of Employment and Skills delivery for 2023 was approved by Policy Committee on Dec 15 2022 and begins roll-out this Spring. Focused on RECOVERY for residents and small businesses. Work includes upskilling and retraining programmes much delivered within the community for target cohorts. Delivery will be aligned with Tackling Inequality actions areas of delivery will include low carbon skills and screen production, alongside much needed core skills for our businesses.
Adoption of a new Town Centre Strategy	▲	▲	→	Work on the Town Centre Strategy has been delayed due to resource availability. Focus in Spring 2023 on finalising part 1 - the vision and strategy.
Bring forward the Minster Quarter site for development	●	●	→	Currently responding to clarifications from 5 shortlisted bidders with tender returns due 28 February. Progressing other activity to ready the site for development, including bidding for further Brownfield Land Release Fund (BLRF) and understanding all remaining estate management issues ahead of contract award.
Complete and open Green Park Station	▲	▲	→	Approval process being undertaken with the ORR, DfT, Network Rail and GWR.
Complete Reading West Station upgrade	▲	▲	→	Construction works proceeding well on-site.
Continued delivery of South Reading Mass Rapid Transport	●	●	→	Phase 5 design work being undertaken to be delivered with BSIP grant funding.
Create a workforce that is fully representative of the population we serve	◆	◆	→	The Council publishes a Workforce Profile which covers data on the protected characteristics of the current workforce and job applicants – the most recent report is for 2021/22. The proportion of job applicants from minority ethnic backgrounds increased again in 2021/22 to 37.1%, up from 32.6% in 2020/21 and 30.9% in 2019/20. The proportion of White British applicants has again reduced slightly in 2022/21 compared to the last two years, to 49.4%. 27.3% of new starters were from non-white British ethnicities, compared to the percentage of non-white British ethnicities in the general workforce (15.9%). The percentage of the workforce in minority ethnic groups has gradually increased over the last few years and is now 15.9%, up from 14.4% in 2020/21. This project has been given a red rating as the population of Reading from Black, Asian and Minority Ethnic backgrounds according to the 2011 census was 25%, so we are not yet achieving this target. There is a higher proportion of staff within the lower pay grades 1-6 for Black/Black British employees and those from Mixed and Other Ethnic Groups compared to White British staff. The exception is for Asian or Asian British staff where there is a lower proportion in Grades 1-6 and a higher proportion in Grade 7-10 compared to White British staff.
Deliver key improvements to the library service, including plans for the Central Library.	●	●	→	LUF bid outcome awaited, however alternatives being looked at if unsuccessful, new digital branding introduced, physical to follow, delivery plan on track. Ongoing good performance in issues. New customer app to launch Q4.
Deliver the High Street Heritage Action Zones project objectives.	▲	▲	→	Project officers in liaison with keys partners and HE are working to ensure the conservation work on some shop fronts is on track to start in January 2023. The cultural prgramme and community engagement strands are still delivering successful quality projects with the local communities and groups. Officers are working hard to minimise any risk of HE under spent funding this financial year.
Develop a Strategy for Social Inclusion in Reading	●	●	→	Tackling Inequality Strategy produced and due to be considered by Policy Committee on 23rd Jan 2023.
Develop and implement training programmes	▲	▲	→	First term has ended well, we have delivered 6 SWAPs from September to December for Thames Water, Contract Options, JD Sports and NHS, all 11 learners on the Hospitaltiy SWAP have been offered work with Contract Options in Hospitality, learners on the Thames Water are still going through the process, 3 lerners on the JD Sports have offered and customer service role, all 9 learners on the NHS have pass the first telephone interview, now waiting for the second interview. The Swap in Hospitality courses are counted as part of the SMILE project. New Essential Digital Skills L1 started from January All learners on the Supported Hospitality course have achieved their qualification, and attended work experience at Barista and Beyond which is run by our partners Ways into Work, all learners will progress to the next term to the higher qualification and a new cohort has been added to the Curriculum for new learners. Traineeship is still remaining an area of concern as there has not been any interest
Employment and Skills programme delivered via REDA	▲	▲	→	REDA organised and delivered a town centre event for self-employed business at the start of December, with 20 local people attending. Work is underway on start up training in the community, advice and guidance for people needing extra support to access jobs and education outreach. Using data from REDA-commissioned research on screen skills and low carbon skills work is being developed with sector employers through the Skills for Growth group. Construction Skills continued to be supported at development sites across Reading.
Implement and subsequently expand a new apprenticeship and work experience mentoring scheme	●	●	→	Work is underway to design a new corporate work experience programme which will be piloted from February 2023. Work experience will be offered for one week, three times each year to coincide with school terms. Mentoring opportunities offered by existing partners in the borough are also being explored and we continue to work with BFfC to identify which schemes are most likely to help young people in the borough, particularly those from he most deprived areas. There are currently 67 apprentices at the Council (47 existing staff who are upskilling through an apprenticeship and 20 staff who are specifically employed in an apprentice role). They are undertaking a range of apprenticeships at different levels.
Participatory research on the lived experience of diverse communities in the Borough	●	●	→	Complete
Review all community buildings for digital connectivity and access to computer equipment	●	●	→	Community consultation underway
Shape the 3 year delivery plan 2022-25 for Reading's Culture and Heritage Strategy	●	●	→	A report is going to HNL Committee in March
Work in partnership to further the community and Council ambitions for Reading Gaol	●	●	→	

Corporate Plan Project - Thriving Communities

Project or activity	Q2	Q3	DOT	Q3 22-23 Commentary
Procurement of new cremator	●	▲	↓	The two new cremators and associated flue gas abatement plant are in situ and await commissioning. However, the associated build works have had to be re-tendered causing a delay to the project's completion (estimated 3 months). Tenders are due by 27th January. If necessary, we may commence using the new cremators unabated to allow the removal of the temporary cremator (also unabated) from April onwards. The Design Team has been appointed to prepare the specification of works for Phase 2 of the project (crematorium building improvements), which is scheduled for completion by November 2023.
Review and expansion of the Community Reablement Team to maximise peoples independence	▲	◆	↓	This transformation project has paused whilst an operation improvement plan is completed by the service. The project will be reviewed for further action in Spring 2023.
Celebrate Reading's diverse arts, culture and heritage	●	●	→	
Commissioning a new smoking cessation service	●	●	→	The commissioning has been completed and the new service commenced on 1 October 2021
Continue to deliver investment in the borough's leisure facilities (including improvements at Meadway Leisure Centre, a new community pool at Palmer Park and progress on the new Rivermead Leisure Centre).	▲	▲	→	Works completed at Palmer Park and the site is operational. Works have been undertaken at Meadway and South Reading Leisure centres. Riverrmead continue to be delayed due to onging issues with obtaining permissions from the EA for water extraction. Further works to Meadway and South Reading to be scheduled.
Deliver 300 new Council homes	●	●	→	
Deliver zero carbon initiatives within Council homes	●	●	→	
Delivery of new Community Safety Plan with a focus on tackling serious violence and improving community engagement	●	●	→	Community Safety and Serious Violence Strategy 2023-26 approved for adoption by HNL on 4th January 2023. The Strategy is now live, with the CSP develop the delivery mechanisms, which will be presented to the CSP Executive Group on 2nd February for approval. Each Delivery Group will be responsible for formulating their element of the plan, which will be monitored by the CSP Executive Group. The Serious Violence Duty will go live on 31st January 2023.
Delivery of the small grants funding	●	●	→	Second round completed and awards made to 24 local groups, https://media.reading.gov.uk/news/council-funding-helps-open-new-doors-for-marginalised-residents
Develop social inclusion community development plans for the most deprived areas	●	●	→	Completed
Development of an accommodation pathway for vulnerable working age adults	●	●	→	The Accommodation Pathways and Needs Analysis have now been refreshed. Instead of moving on to the Accommodation Gap Analysis at this point, the project will now focus on the supported living market, undertaking a full analysis of the services available, how they are used and what may need to be developed for the future re-procurement of these services. A full accommodation gap analysis may be undertaken after this additional phase of the project.
Implement plans to commemorate the Forbury Gardens attacks and install a permanent memorial in the Gardens	●	●	→	
Implementation of the VCS action plan to build our relationship with the VCS and increase capacity within the sector.	●	●	→	Draft VCS Compact produced. VCS action plan activities being delivered through collaborative approach with VCS.
Recommissioning of Closing the Gap	●	●	→	
Supporting residents to recover from the devastating fire at Rowe Court, helping them to find alternative accommodation and welfare support	●	●	→	4 residents still being supported to find alternative permanent accommodation
Work with our new leisure provider to increase rates of physical activity	●	●	→	Use of leisure facilities continues to increase. Palmer Park is on track to meet their membership targets (2000 members) following the opening the new facilites. Discussions are ongoing regarding the services requried from GLL to meet the public health targets set out through contract. Impact of Rivermead's delay is yet to be assessed.
Development of a Personal Assistant Market to enable people to live independently at home	▲	●	↑	One Personal Assistant (PA) project officer post has been extended until November 2023, to continue the successes of the project. The percentage of eligible adults in Reading employing a PA has increased since this time last year.

CORPORATE PLAN MEASURES SHOWING SIGNIFICANT CHANGE IN PERFORMANCE

Q3/DEC 2022

Measures showing significant positive change since previous period

Customer satisfaction in the Customer Fulfilment Centre

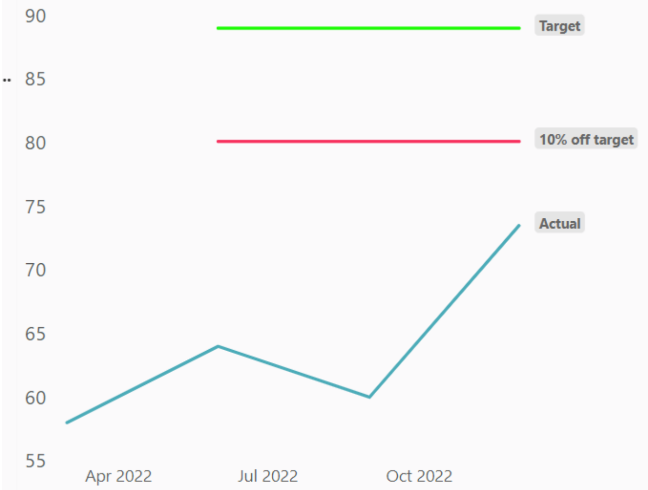
Status | DOT

Date
1/4/2022 12/1/2022

Targets Bigger is better

Unit	22/23	23/24	24/25
%	89.00	90.00	90.00

Performance against Target



Comments

- Customers have experienced excessive wait times for calls to be answered. - Acute challenges with our housing repairs service means CFC colleagues are on hold for lengthy periods to speak to the back office. - The CFC has experienced a higher than usual rate of attrition. - A vibrant job market has meant the service has been unable to attract people to apply for roles in CFC. The current job description has been reviewed with a view to make the role and pay more competitive and attractive.

Enquiries solved at first point of contact in the Customer F...

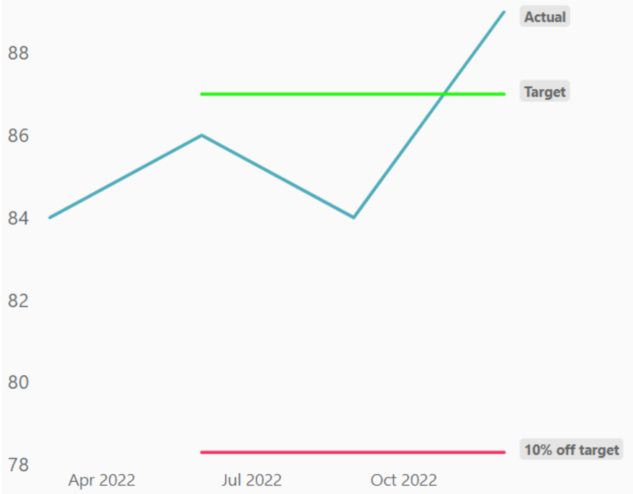
Status | DOT

Date
1/4/2022 12/1/2022

Targets Bigger is better

Unit	22/23	23/24	24/25
%	87.00	90.00	90.00

Performance against Target



Comments

Percentage of actionable (40mm depth) potholes repaired ...

Status | DOT

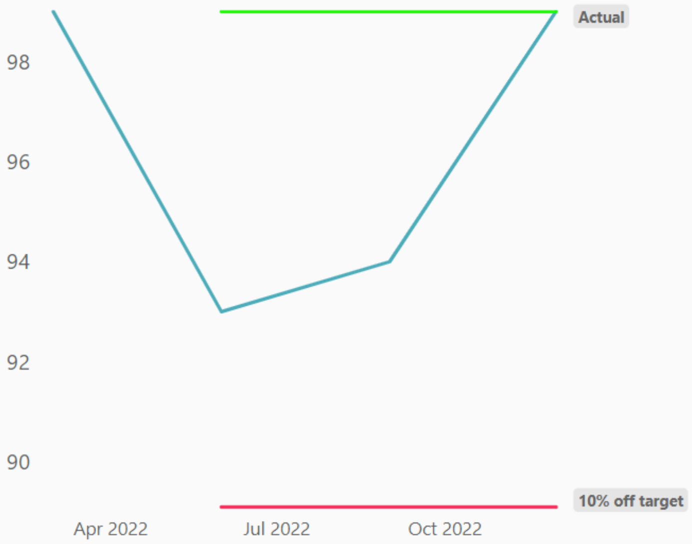
Date

1/4/2022 | 12/1/2022

Targets Bigger is better

Unit	22/23	23/24	24/25
%	99.00	99.00	99.00

Performance against Target



Comments

Percentage of Care Leavers who are not in education, emp...

Status | DOT

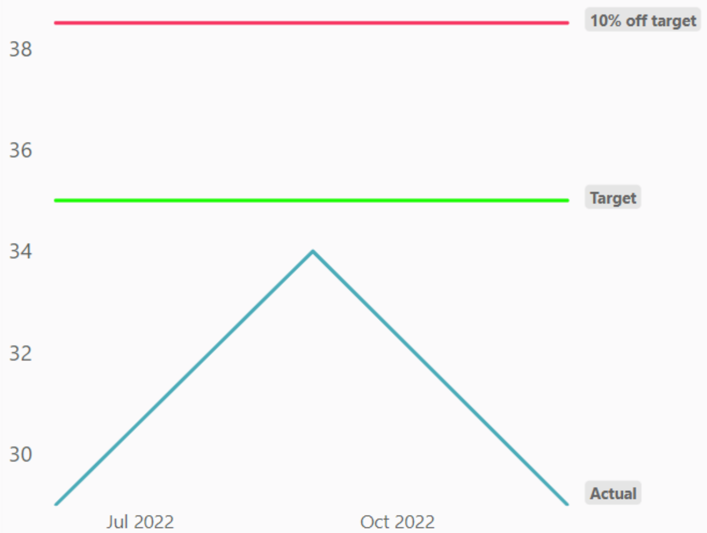
Date

1/4/2022 | 12/1/2022

Targets Smaller is better

Unit	22/23	23/24	24/25
%	35.00	30.00	25.00

Performance against Target



Comments

Percentage of children in care living more than 20 miles fr...

Status | DOT

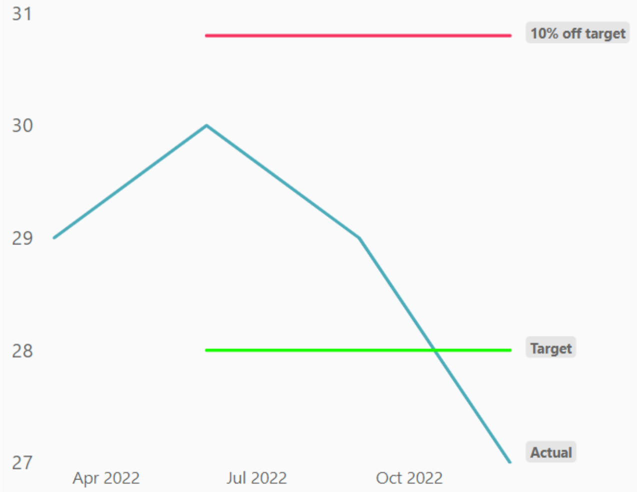
Date

1/4/2022 12/1/2022

Targets Smaller is better

Unit	22/23	23/24	24/25
%	28.00	26.00	24.00

Performance against Target



Comments

Proactive action taken to address the challenge of local place sufficiency (a challenge that Local Authorities across England are experiencing) is beginning to evidence impact, with more children being initially placed in or returning to placements in Reading. A reduction in the overall number of children coming into care means that the number of children who became looked after some years ago and are settled with long term carers beyond 20 miles continues to have a high proportionate impact on this indicator.

Measures showing significant negative change since previous period

Percentage total household waste recycled

Status | DOT

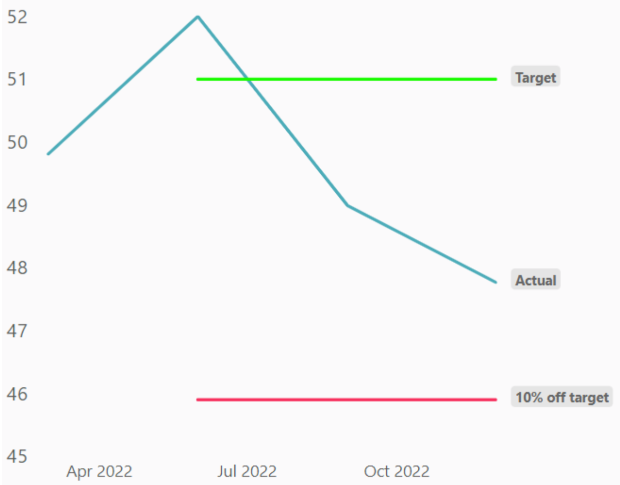
Date

1/4/2022 12/1/2022

Targets Bigger is better

Unit	22/23	23/24	24/25
%	51.00	52.00	53.00

Performance against Target



Comments

The provisional quarter 3 recycling rate was 47.8%. This compares to 50.9% in the same period last year. Total household tonnes fell as the economic situation changed, but recyclable tonnages fell more than those collected as non-recycled. The biggest decline has been in food waste. Some tonnages may be starting to recover and officers are continuing to monitor the data.

Percentage of service users in receipt of Adult Social Care ...

Status | DOT

Date

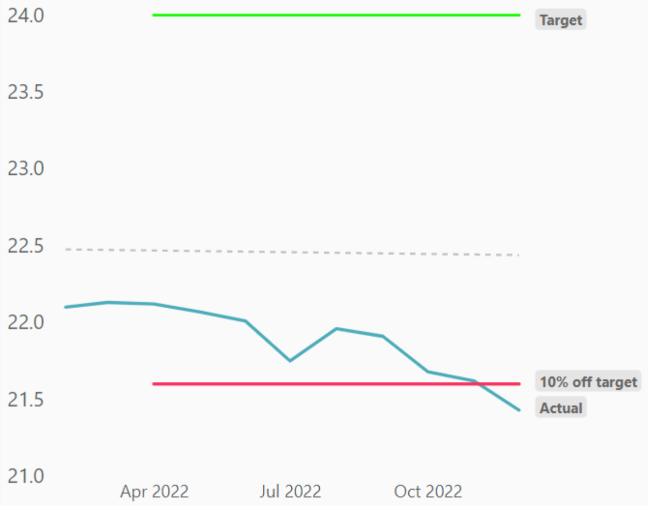
04/01/2022 | 01/12/2022

Targets

Bigger is better

Unit	22/23	23/24	24/25
%	24.00	26.00	28.00

Performance against Target



Comments

A dedicated Direct Payment resource will be in place in the new year, able to support people with arrangement of Direct Payments.

READING BOROUGH COUNCIL

REPORT BY DIRECTOR OF FINANCE

TO:	**AUDIT & GOVERNANCE COMMITTEE**		
DATE:	**12th APRIL 2023**		
TITLE:	**CIPFA FINANCIAL MANAGEMENT CODE**		
LEAD COUNCILLOR:	**COUNCILLOR TERRY**	**PORTFOLIO:**	**CORPORATE SERVICES & RESOURCES**
SERVICE:	**ALL**	**WARDS:**	**BOROUGHWIDE**
LEAD OFFICER:	**STUART DONNELLY**	**TEL:**	**01889 373468**
JOB TITLE:	**FINANCIAL PLANNING & STRATEGY MANAGER**	**E-MAIL:**	**stuart.donnelly@reading.gov.uk**

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

1.1. The Chartered Institute of Public Finance & Accountancy (CIPFA) launched a new Financial Management Code (FM Code) in 2019, attached as Appendix 1. The Code, which set out for the first time, seventeen standards of financial management for local authorities to assess themselves against and had an implementation date of 1st April 2021.

1.2. The Guidance Notes to the FM Code, attached as Appendix 2, are intended to provide practical guidance regarding the implementation of the Code. The guidance notes state that "it is for the individual authority to determine whether it meets the standards and to make any changes that may be required to ensure compliance. Authorities should be able to provide evidence that they have reviewed their financial management arrangements against the standards and that they have taken such action as may be necessary to comply with them." Effectively; an annual self-assessment exercise is required to assess compliance with the FM Code from 1st April 2021.

1.3. The 2022/23 self-assessment has identified significant progress against three key areas:

i) The Chief Auditor's annual assurance report has improved from Limited Assurance to Reasonable Assurance;

ii) The positive findings of the Corporate Peer Challenge (as set out in paragraph 8.18), organised by the Local Government Association (LGA), that took place in June 2022; and

iii) The Medium Term Financial Strategy (MTFS), approved by Council in February 2023, delivers a balanced budget in 2023/24 without the need to draw on reserves and sets out a provisionally balanced budget for 2024/25.

1.4. As a result of these improvements, this self-assessment has identified that two standards (standards C and E) have improved from a previous rating of Amber to green. All other standards remain as per the 2021/22 assessment.

1.5. A proposed action plan, setting out the required actions to improve those standards rated Amber to Green is set out in Appendix 3.

Table 1. Financial Management Standards Progress Summary

RAG Rating	Progress Report	Number of Financial Management Standards (April 2022)	Number of Financial Management Standards (April 2023)	Movement
GREEN	Compliance is being demonstrated	6	8	2
AMBER	Minor to Moderate improvements are required to demonstrate compliance	11	9	(2)
RED	Moderate to Significant improvements are required to demonstrate compliance	0	0	0
TOTAL		**17**	**17**	**0**

1.6. The results of the self-assessment indicate an overall rating of Amber.

1.7. Further improvements are anticipated in the coming year as we continue on a trajectory towards an overall Green rating.

Appendices

Appendix 1 - CIPFA Financial Management Code 2019
Appendix 2 – CIPFA Financial Management Code Guidance Notes 2020
Appendix 3 – Financial Management Code Action Plan

2. RECOMMENDED ACTION

That Audit and Governance committee note:

2.1. The findings of the 2022/23 Financial Management Code Self-Assessment.

3. BACKGROUND

3.1. The Chartered Institute of Public Finance & Accountancy (CIPFA) launched a Financial Management Code (FM Code) in 2019 with an implementation date of 1st April 2021 attached at Appendix 1. It sets out seventeen standards of financial management for local authorities.

3.2. The FM Code is designed to support good practice in financial management and to assist local authorities to demonstrate their financial sustainability.

3.3. Local government finance in the UK is governed by legislation, regulation and professional standards. The general financial management of a local authority, however, has not until now been supported by a professional code. The Code was introduced because of fundamental weaknesses in financial management revealed in some organisations in recent years and concerns about the financial sustainability of some Councils.

3.4. Whilst there is much good practice across the sector, any failures threaten stakeholders' confidence in local government as a whole and more importantly, risk the services on which local people rely.

3.5. CIPFA's intention is that the FM Code will have the same standing as the Prudential Code for Capital Finance in Local Authorities (CIPFA, 2017), which promotes the financial sustainability of local authority capital expenditure and associated borrowing. So, although the FM Code does not have legislative backing, it applies to all local authorities.

3.6. While the FM Code applies to all local authorities, it recognises that some have different structures and legislative frameworks. Where compliance with the Code is not possible, adherence to the principles is still considered appropriate.

4. RESPONSIBILITY

4.1. Application of the FM Code is a professional responsibility of all finance staff and establishes how the CFO demonstrates that they are meeting their statutory responsibility for sound financial administration.

4.2. However, CIPFA considers application of the Code to be the collective responsibility of each authority's organisational leadership team, not just the responsibility of the CFO or the finance team. For the purposes of the Code the 'Leadership Team' is defined as the collective group of elected members and senior officers. Therefore, depending on the model in place, it includes executive committees, elected mayors, portfolio holders with delegated powers and key committees of the authority as well as senior officers.

5. COMPLIANCE

5.1. It is for the individual authority to determine whether it meets the standards and to make any changes that may be required to ensure compliance. Authorities should be able to provide evidence that they have reviewed their financial management arrangements against the standards and that they have taken such action as may be necessary to comply with them.

5.2. It is important to note, also, that the financial management standards are minimum standards. Some authorities may feel that their own financial management arrangements exceed the standards set out in the FM Code.

6. CIPFA PRINCIPLES OF GOOD FINANCIAL MANAGEMENT

6.1. The FM Code applies a principle-based approach. It does not prescribe the financial management processes that local authorities should adopt. Instead, it requires that an authority demonstrates that its processes satisfy the principles of good financial management for an authority of its size, responsibilities and circumstances and that they are proportionate to the risks to the authority's financial sustainability posed by the twin pressures of scarce resources and the rising demands on services.

6.2. The underlying principles that inform the FM Code have been developed in consultation with senior practitioners across the sector and associated stakeholders. The principles have been designed to focus on an approach that will assist in determining whether, in applying standards of financial management, a local authority is financially sustainable.

6.3. The 6 Principles of Good Financial Management set out in the FM Code are:

- Organisational **leadership** – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.

- **Accountability** – based on medium-term financial planning that drives the annual budget process supported by effective risk management, quality supporting data and whole life costs.

- Financial management is undertaken with **transparency** at its core using consistent, meaningful and understandable data, reported frequently with evidence of periodic officer action and elected member decision making.

- Adherence to professional **standards** is promoted by the leadership team and is evidenced.

- Sources of **assurance** are recognised as an effective tool mainstreamed into financial management, including political scrutiny and the results of external audit, internal audit and inspection.

- The long-term **sustainability** of local services is at the heart of all financial management processes and is evidenced by prudent use of public resources.

7. CIPFA FINANCIAL MANAGEMENT STANDARDS

7.1. The FM Code (pages 15-16 of Appendix 1) sets out the seventeen CIPFA Financial Management Standards with detailed explanatory notes (pages 17-36 of Appendix 1).

8. FM CODE SELF-ASSESSMENT

8.1. A self-assessment exercise to benchmark Reading Borough Council's current processes and practice against the FM Standards has been undertaken using a RAG Rating approach as set out below:

Table 2. RAG Rating Key

RAG Rating	Progress Report
GREEN	Compliance is being demonstrated
AMBER	Minor to Moderate improvements are required to demonstrate full compliance
RED	Moderate to Significant improvements are required to demonstrate full compliance

8.2. The following table summarises the self-assessment RAG Rating for each standard. A more detailed analysis per standard is provided in sections 8.4 to 8.51, including an explanation of the reason for any changes

Table 3. Financial Management Standard Self-Assessment

Standard Reference	Financial Management Standard	RAG Rating (April 2022)	RAG Rating (April 2023)
Section 1: The Responsibilities of the Chief Finance Officer and Leadership Team			
A	The leadership team is able to demonstrate that the services provided by the authority provide value for money.	**AMBER**	**AMBER**
B	The authority complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government.	**GREEN**	**GREEN**
Section 2: Governance and Financial Management Style			
C	The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.	**AMBER**	**GREEN**
D	The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016).	**AMBER**	**AMBER**
E	The financial management style of the authority supports financial sustainability.	**AMBER**	**GREEN**
Section 3: Long to Medium-Term Financial Management			
F	The authority has carried out a credible and transparent financial resilience assessment.	**GREEN**	**GREEN**
G	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.	**AMBER**	**AMBER**
H	The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities.	**GREEN**	**GREEN**
I	The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.	**AMBER**	**AMBER**
Section 4: The Annual Budget			
J	The authority complies with its statutory obligations in respect of the budget setting process.	**GREEN**	**GREEN**
K	The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.	**GREEN**	**GREEN**
Section 5: Stakeholder Engagement and Business Plans			
L	The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.	**AMBER**	**AMBER**
M	The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.	**AMBER**	**AMBER**
Section 6: Monitoring Financial Performance			
N	The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.	**GREEN**	**GREEN**
O	The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.	**AMBER**	**AMBER**

Section 7: External Financial Reporting			
P	The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the Code of Practice on Local Authority Accounting in the United Kingdom.	**AMBER**	**AMBER**
Q	The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.	**AMBER**	**AMBER**

Section 1: The Responsibilities of the Chief Finance Officer and Leadership Team

8.3. As set out above, the FM Code follows the practice of the CIPFA Statement of the Role of the Chief Financial Officer in Local Government in referring to the collective group of elected members and officers as the leadership team. In local authorities, therefore, the concept of the 'leadership team' includes executive committees, elected mayors, portfolio holders with delegated powers, key committees of the authority and senior officers.

Standard A. The leadership team is able to demonstrate that the services provided by the authority provide value for money.

Self-Assessment RAG Rating: AMBER (No change)

8.4. The previous self-assessment rating of Amber was based on the 2018/19 External Auditor Value for money (VFM) opinion published in the audited 2018/19 Statement of Accounts. The 2018/19 opinion stating:

Basis for Adverse Conclusion

Informed decision making:

‣ Maintaining a sound system of internal control

We found that some of the basic financial controls were not working as expected, for example, the regular completion of reconciliations is not timely and the year-end bank reconciliation did not balance. This increases the risk of fraud and errors remaining undetected. In order to get our assurance, we took a substantive approach to our audit and therefore did not rely on controls.

However, deficiencies in the systems of internal control were still in place during 2018/19 and therefore there is evidence of weakness in arrangements in informed decision making.

Working with partners and third parties

‣ Children's Services

In August 2016, Ofsted issued an inspection report of services for children in need of help and protection; children looked after and care leavers and a review of the effectiveness of the local safeguarding children board.

It concluded that Children's services in Reading are inadequate and found serious, persistent and systemic failures in the services provided to children who need help and protection. The Inspection found that children are left too long in situations of unknown and acute risk.

The Council accepted the findings of the Inspection and put in place procedures to improve performance. Ofsted have monitored progress since the issue of its initial a report and in its update letter, issued in June 2017 concluded that the Council was not making the expected progress in improving services for its children and young people. Subsequent Ofsted reports throughout May and July 2018 and May 2019 continued to highlight concerns over the lack of consistency of both the improvements required and also of the services offered during the year.

Qualified conclusion - Adverse

8.5. The Ofsted rating for Children's Services has subsequently moved to "Requires Improvement" and significant progress has been made in improving the system of internal control. However, the Draft Audit Results Report for 2019/20 which was presented to Audit & Governance Committee in September 2022, reported that although there have been improvements in both areas, weakness in arrangements still remain in both areas during 2019/20 and this results in a qualified opinion on Working with Partners and Third Parties for 2019/20.

8.6. The latest residents survey has also reported that the percentage who agreed that Reading Borough Council provides value for money has decreased from 54% in 2021 to 47% in 2022. This is however still higher than the 44% in 2020.

Therefore, the overall conclusion is that the self-assessment rating for 2022/23 should remain as Amber. This rating will be reviewed in future pending the results of the next Ofsted inspection and the 2020/21 Value for Money opinion.

Standard B. The authority complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government.

Self-Assessment RAG Rating: GREEN (No change)

8.7. The CIPFA Statement on the Role of the Chief Financial Officer in Local Government states that the Chief Financial Officer:

- is a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver the authority's strategic objectives sustainably and in the public interest (Principle 1)
- must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer-term implications, opportunities and risks are fully considered, and alignment with the authority's financial strategy (Principle 2)
- must lead the promotion and delivery by the whole authority of good financial management so that public money is always safeguarded and used appropriately, economically, efficiently and effectively (Principle 3)
- must lead and direct a finance function that is resourced to be fit for purpose (Principle 4)
- must be professionally qualified and suitably experienced (Principle 5)

8.8. The Council complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government in respect of all of the above criteria, except for one minor element within Principle 1 as the Chief Finance Officer does not report directly to the Chief Executive. Therefore, a Green RAG Rating has been determined.

Section 2: Governance and Financial Management Style

Standard C. The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.

Self-Assessment RAG Rating: GREEN (Previous Rating Amber)

8.9. The Internal Audit Annual Assurance Report of the Chief Auditor, as required by the Accounts and Audit regulations and the Public Sector Internal Audit Standards, gives the Chief Auditor's opinion on the overall adequacy and effectiveness of the organisation's governance arrangements, risk management and internal control environment, drawing attention to any issues particularly relevant to the preparation of the Annual Governance Statement. It also sets out key themes arising from the work of the Audit Team during the financial year, and compared the audit work undertaken with that planned, summarising the performance of the Internal Audit function against its performance measures and targets.

8.10. The 2021/22 report, presented to Audit & Governance Committee on 19th July 2022, reported a reasonable assurance level, which was an improvement from the limited assurance level awarded in both the 2020/21 and 2019/20 reports. The report sets out that the Finance Improvement Programme has addressed a number of key audit concerns, such as separation of duties between the setting up and paying of providers, authorisation and check controls on BACS payments, performance monitoring and written procedures on processes to be followed.

8.11. A Green RAG Rating has been determined for 2022/23 based on the aforementioned improvement in the assurance level, however it is recognised that these improvements need to continue in order to maintain a Green RAG Rating in future.

Standard D. The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016).

Self-Assessment RAG Rating: AMBER (No Change)

8.12. The Council's published draft Statement of Accounts for 2019/20 contains an Annual Governance Statement that sets out the Council's governance arrangements in conjunction with the CIPFA/SOLACE Delivering Good Governance in Local Government Framework. However, as the most recently audited set of accounts (2018/19) were issued with an adverse opinion in respect of putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31st March 2019. The 2019/20 and 2020/21 Statement of Accounts have not yet had their external audit opinions given, and therefore external assurance that the framework has been complied with is currently outstanding. The audit of the 2019/20 accounts is currently being finalised and the 2020/21 audit is well underway.

8.13. As the 2019/20 Statement of Accounts has not been concluded at this time, an Amber rating remains for this standard. This rating will turn to Green should the 2019/20 Statement of Accounts opinion be unqualified.

Standard E. The financial management style of the authority supports financial sustainability.

Self-Assessment RAG Rating: GREEN (Previous Rating Amber)

8.14. CIPFA have recently published its latest Financial Resilience Index which uses a basket of indicators to measure each individual authority's financial resilience in comparison with local authority comparator groups.

8.15. Based on the latest data available (2021/22), in terms of the indices relating to levels of financial reserves, the Council is placed as the 23rd highest among 51 Unitary authorities. Council's position is now around the average compared to all unitary authorities, which is a significant improvement from the 2017/18 position and mirrors the improvements from 2018/19 onwards.

8.16. A detailed savings tracker is reported to the Corporate Management Team (CMT) monthly and all savings proposals that are presented as part of the Medium Term Financial Strategy (MTFS) process are risk assessed for deliverability and an appropriate level of contingency provided within the budget to mitigate that risk.

8.17. The 2023/24 Budget was approved in February 2023 and includes a contribution to increase earmarked reserves. However, a recurring budget gap of just under £6m is forecast for 2025/26 onwards which will need to be closed.

8.18. The Code guidance recommends that the assessment of an authority's financial management style is best undertaken by means of peer review. A Corporate Peer Challenge exercise, organised by the Local Government Association (LGA), took place in 2022. The findings of the Peer Challenge included the following:

- It is clear that the council's financial position and financial management arrangements have recovered and strengthened significantly since 2016/17;
- New arrangements have created a more strategic and transformational approach to the annual budget process. Strategic financial planning is now more mature and supported by an appropriate level of analysis, with robust budget setting and monitoring procedures;
- The council has a good recent record of delivering transformation and savings, with a multi-year approach and associated costs and investment met through the dedicated Delivery Fund and the flexible use of capital receipts;
- Contingency provision is prudently built into each year of the MTFS to mitigate against possible slippage or non-achievement of higher risk savings plans;
- The recent creation of the Transformation and Efficiency Board provides the mechanism through which to develop a singular and corporate overview of change and transformation across the organisation and the delivery of planned related savings;
- The capital strategy is agreed annually at Full Council and both this and the capital programme link clearly to the corporate plan's three themes and thus the political priorities;
- The Treasury Management Strategy is comprehensive and reflects the borrowing decisions associated with the capital strategy and programme.

8.19. In light of the findings of the 2022 Peer Challenge, the updated CIPFA Financial Resilience Index and that the 2023/24 Budget has been balanced including increasing reserve levels, the rating for this standard can move from Amber to Green. It is however important to note that the current financial climate remains challenging and there is a forecast budget deficit on the horizon for 2025/26 that will need to be addressed.

Section 3: Long to Medium-Term Financial Management

<u>Standard F. The authority has carried out a credible and transparent financial resilience assessment.</u>

Self-Assessment RAG Rating: GREEN (No Change)

8.20. A separate report, the "Chief Finance Officer's Report on the Robustness of the Council's 2023/24 Budget" was presented to Council on 28th February 2023, alongside the "2023/24 Budget and Medium-Term Financial Strategy 2023/24-2025/26" report, which contains statements on:

- The robustness of the estimates made for the purposes of the calculations of the budget; and
- The adequacy of the proposed level of financial reserves.

8.21. The report also took into consideration the published CIPFA Financial Resilience Indicators and scrutiny of those indicators which highlighted areas where the Council is potentially exposed to increased risk.

8.22. The Council has carried out a credible and transparent financial resilience assessment therefore a Green RAG Rating has been determined.

<u>Standard G. The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.</u>

Self-Assessment RAG Rating: AMBER (No Change)

8.23. The Council has prepared and consulted on a subsequently approved 3-year Medium Term Financial Strategy. CIPFA advocate a minimum coverage of 3 years for the Medium-Term Financial Strategy and therefore, the Council's Strategy is compliant. However, it should be noted that the final year of the Medium Term Financial Strategy does not currently balance.

8.24. This standard has been assessed alongside Standards I and L and therefore it is the longer-term element of the standard in particular relating to the Capital Strategy, which is not being demonstrated. The published Capital Strategy currently only covers a 3-year period which cannot be considered to be long term. The Capital Strategy for 2024/25 will be reviewed with a view to expanding into the longer term. Therefore, currently an Amber RAG Rating has been determined.

<u>Standard H. The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities.</u>

Self-Assessment RAG Rating: GREEN (No Change)

8.25. The CIPFA Prudential Code for Capital Finance in Local Authorities sets out a framework for self-regulation for local authorities. The Code requires local authorities to determine that capital expenditure and investment decisions are affordable, prudent and sustainable, and to set limits on the amount they can afford to borrow in the context of wider capital planning.

8.26. The 2017 version of the code introduced the requirement for local authorities to produce a capital strategy. The purpose of the capital strategy is to firmly place decisions around borrowing in the context of the overall longer-term financial position of the authority and to provide improved links between the revenue and capital budgets.

8.27. The legislative requirements of the code require that the Council set an annual Minimum Revenue Provision (MRP) Policy to ensure prudent provision in relation to the repayment of debt.

8.28. The Council is also required to set annual Prudential Indicators to ensure that external debt is kept within sustainable prudent limits.

8.29. The Council has produced a Capital Strategy and sets an annual MRP Policy and a set of annual Prudential Indicators as part of the Treasury Management Strategy. Therefore, a Green RAG Rating is appropriate.

<u>Standard I. The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.</u>

Self-Assessment RAG Rating: AMBER (No Change)

8.30. The Council's 3-year Medium Term Financial Strategy is at the minimum 3-year level advocated by CIPFA. Whilst it is demonstrable that the Medium-Term Financial Strategy has been developed in line with the Council's Corporate Plan priorities, it is not clearly evidenced that it is linked to the more detailed service plan level in all cases. An Amber RAG Rating is therefore currently assigned.

Section 4: The Annual Budget

Standard J. The authority complies with its statutory obligations in respect of the budget setting process.

Self-Assessment RAG Rating: GREEN (No Change)

8.31. The Council complies with its statutory obligations in respect of the budget setting process as set out in the Local Government Finance Act (1992). A legal and balanced budget and corresponding Council Tax levels have been set by Council by the statutory deadline of 11th March and assurance has been provided by the Chief Finance Officer regarding the robustness of estimates and adequacy of reserve levels. A Green RAG Rating is therefore appropriate.

Standard K. The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.

Self-Assessment RAG Rating: GREEN (No Change)

8.32. A separate report, the "Chief Finance Officer's Report on the Robustness of the Council's 2023/24 Budget" was presented to Council on 28th February 2023, alongside the "2023/24 Budget and Medium Term Financial Strategy 2023/24-2025/26" report, which contains statements on:

a. The robustness of the estimates made for the purposes of the calculations of the budget; and
b. The adequacy of the proposed level of financial reserves.

8.33. A Green RAG Rating is therefore appropriate.

Section 5: Stakeholder Engagement and Business Plans

Standard L. The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.

Self-Assessment RAG Rating: AMBER (No Change)

8.34. A public consultation on the 2023/24 budget ran from 19th December 2022 to 19th January 2023. The consultation was accessible through the Council's website and was promoted via the website, local media channels and various social media platforms. A summary of the consultation was included within the "2023/24 Budget and Medium-Term Financial Strategy 2023/24-2025/26" report to Council on 28th February 2023.

8.35. Additionally, the budget was informed by a resident's survey which identified highways and affordable housing as key priorities and further investment into these areas was built into the Capital Programme as a result.

8.36. Whilst consultation with stakeholders is clearly demonstrated, some councils utilise more interactive consultation tools that encourage a higher level of engagement.

8.37. Additionally, the standard refers specifically to medium and longer-term financial planning. The budget consultation, as well as the Council's approved Medium Term Financial Strategy and Capital Strategy all cover a period of 3 years. CIPFA advocate a minimum coverage of 3 years for the Medium-Term Financial Strategy and whilst a minimum duration in respect of the Capital Strategy is not proposed, it is expected to be of a long-term nature.

8.38. The Council's published 3-year Capital Strategy is not considered to be long term and it is therefore proposed that consideration of the duration of the Capital Strategy is built into the annual MTFS refresh process for 2024/25 to facilitate compliance with this standard going forward. An Amber RAG Rating is therefore currently applied.

Standard M. The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.

Self-Assessment RAG Rating: AMBER (No change)

8.39. The Council has a defined matrix for the evaluation of capital investment decisions, which although was completed for new business cases, was not utilised consistently in the evaluation of bids for capital investment in the 2023/24 budget planning process.

8.40. There are examples of strong revenue business cases but there are also examples where the quality and level of detail needs to be improved.

8.41. A new Capital Programme Board was established in late 2022/23. The board will conduct a review of all existing models during 2023/24 and a preferred best practice methodology will be agreed, documented and communicated to all relevant stakeholders to ensure a consistent and common approach for capital investment decisions.

8.42. The revenue and capital business case templates are in the process of being reviewed to ensure that they are fit for purpose and as user friendly as possible to enable improved completion and subsequent decision making.

8.43. The rating therefore remains as Amber.

Section 6: Monitoring Financial Performance

Standard N. The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.

Self-Assessment RAG Rating: GREEN (No Change)

8.44. The Council's Corporate Management Team receives monthly financial reports that provide appropriate information regarding projected outturn positions in respect of approved budgets for both revenue and capital. In addition, quarterly performance reports are received by Members at Policy Committee and Lead Members are briefed on a monthly basis. These reports also contain progress reports in relation to the delivery of savings targets.

8.45. Additionally, all reports to the leadership team contain a section that sets out the associated financial implications appropriate to the content and proposals of the report. A Green RAG Rating has therefore been applied.

Standard O. The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.

Self-Assessment RAG Rating: AMBER (No Change)

8.46. Financial reports, which include a section on debt performance, are reported to the Corporate Management Team and Lead Members monthly and quarterly to Policy Committee.

8.47. Bi-annual reports on the Council's borrowing and investment positions are produced for the leadership team. From 2023/24, this reporting will be done on a quarterly basis in line with the updated requirements of the Prudential and Treasury Management Codes. Treasury management training is provided on a periodic basis to ensure that those responsible for decision making within the Council to facilitate understanding and scrutiny of the contents of these, often very technical, reports.

8.48. An exercise is currently underway to review how financial information (among other datasets) is reported to the Corporate Management Team. Going forwards, key financial information will be reported through a set of dashboards that highlight the key areas of focus. It is currently envisaged that these dashboards will contain information relating but not limited to:

- Monthly revenue and capital budget monitoring forecasts
- The CIPFA Financial Resilience Index
- Reserve assessments
- Outstanding debt levels
- Treasury Management Prudential Indicators
- Commercial Investments
- Loans to the Council's wholly owned companies

8.49. The enhanced and focussed reporting of financial information will enable the leadership team to better monitor and understand the Council's balance sheet and financial sustainability. As this reporting has not been in place during 2022/23 it is considered that an Amber RAG Rating is appropriate at this stage but that this will facilitate the rating to move to Green for 2023/24.

Section 7: External Financial Reporting

Standard P. The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the Code of Practice on Local Authority Accounting in the United Kingdom.

Self-Assessment RAG Rating: AMBER (Previous Rating Green)

8.50. The Chief Financial Officer's responsibilities are set out in the "Statement of Responsibilities" within the annual Statement of Accounts. This statement clearly sets out that the Chief Financial Officer is responsible for the preparation of the Council's Statement of Accounts in accordance with proper practices as set out in the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom.

8.51. The Independent Auditor's Report to the Members of Reading Borough Council for the year ended 31 March 2019 (included within the Statement of Accounts 2018/19) gave a qualified audit opinion that the financial statements "have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19".

8.52. It should be noted that the 2019/20, 2020/21 and 2021/22 audit opinions on the respective Statement of Accounts are currently outstanding. However, the direction of travel in terms of the reduced areas of qualification in 2018/19 and the findings set out in the Draft Audit Results Report for 2019/20 indicates that an unqualified opinion will be delivered potentially as early as the 2019/20 Statement of Accounts.

8.53. It is therefore considered that an Amber RAG rating is appropriate at this stage pending the outcome of the 2019/20 Statement of Accounts audit.

Standard Q. The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.

Self-Assessment RAG Rating: AMBER (No Change)

8.54. The presentation of the final outturn figures and variations from budget are clear and transparent. However, whilst the 2019/20, 2020/21 and 2021/22 Statement of Accounts audit processes are still to be finalised, there is a risk that reserve balances may be subject to change. It is therefore considered that an Amber RAG Rating is appropriate.

9. NEXT STEPS

9.1. This self-assessment has shown that the Council is able to demonstrate reasonable compliance with most areas of the Financial Management Code. The biggest single reason standing in the way of an improved score is the fact that the Statement of Accounts for multiple years remains outstanding without an unqualified audit opinion. The audit of the 2018/19 Statement of Accounts concluded during 2021/22 with a reduced number of qualifications. The 2019/20 audit is currently being finalised with an unqualified opinion currently anticipated which if materialises could facilitate a number of the amber ratings to move to green.

9.2. The Council now has in place a permanent Director of Finance, Deputy s151 Officer, Chief Accountant and Strategic Finance Business Partners who have now all been in post for at least 12 months and is in a much stronger position to continue to deliver improvements in financial management in the coming year.

9.3. This self-assessment exercise will need to continue to be carried out annually in future in order to demonstrate compliance with the FM Code. The next review period will be an assessment of 2023/24.

9.4. It is recommended that a high level action plan, attached as Appendix 3, is adopted in order to identify and address how improvements to those standards that are not currently rated as green will be made.

10. CONTRIBUTION TO STRATEGIC AIMS

10.1. The delivery of strong financial management is fundamental to the delivery of the Council's strategic aims.

11. ENVIRONMENTAL AND CLIMATE IMPLICATIONS

11.1. No environmental or climate implications have been identified as arising directly from this report.

12. COMMUNITY ENGAGEMENT AND INFORMATION

12.1. Community engagement is assessed through the residents' survey.

13. EQUALITY IMPACT ASSESSMENT

13.1. No equalities impact implications have been identified as arising from this report.

14. LEGAL IMPLICATIONS

14.1. The FM Code itself does not currently have legislative backing, although CIPFA have set out their intention to pursue this. CIPFA's judgement is that compliance with the FM Code will assist local authorities to demonstrate that they are meeting existing important legislative requirements.

14.2. There are no legal implications arising directly from this report.

15. FINANCIAL IMPLICATIONS

15.1. There are no direct financial implications arising from this report.

16. BACKGROUND PAPERS

16.1. None.

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The Chartered Institute of Public Finance & Accountancy

financial management code

CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed. As the world's only professional accountancy body to specialise in public services, CIPFA's qualifications are the foundation for a career in public finance. We also champion high performance in public services, translating our experience and insight into clear advice and practical services. Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance.

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CIPFA The Chartered Institute of Public Finance & Accountancy

financial management code

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Executive summary

The tightening fiscal landscape has placed the finances of local authorities under intense pressure. Where finance in local government works well there is often a common understanding and ownership of issues supported by good financial management.

While organisations have done much to transform services, shape delivery and streamline costs, for these approaches to be successful it is crucial to have good financial management embedded as part of the organisation. Good financial management is an essential element of good governance and longer-term service planning, which are critical in ensuring that local service provision is sustainable.

The Financial Management Code (FM Code) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. For the first time the FM Code sets out the standards of financial management for local authorities.

Local government finance in the UK is governed by primary legislation, regulation and professional standards as supported by statutory provision. The general financial management of a local authority, however, has not until now been supported by a professional code. The FM Code has been introduced because the exceptional financial circumstances faced by local authorities have revealed concerns about fundamental weaknesses in financial management, particularly in relation to organisations that may be unable to maintain services in the future. There is much good practice across the sector, but the failures of a small number threatens stakeholders' confidence in local government as a whole. Most importantly, the financial failure of just one local authority is one too many because it brings with it a risk to the services on which local people rely.

This publication has several components. The first is an introduction explaining how the FM Code applies a principles-based approach and how it relates to other statutory and good practice guidance on the subject. This is a good starting point for those new to the FM Code.

This introduction is followed by the CIPFA Statement of Principles of Good Financial Management. These six principles have been developed by CIPFA in collaboration with senior leaders and practitioners who work within or have a stake in good local authority financial management. These principles are the benchmarks against which all financial management should be judged. CIPFA's view is that all financial management practices should comply with these principles.

To enable authorities to test their conformity with the CIPFA Statement of Principles of Good Financial Management, the FM Code translates these principles into financial management standards. These financial management standards will have different practical applications according to the different circumstances of each authority and their use should therefore reflect this. The principle of proportionality is embedded within this code and reflects a non-prescriptive approach.

The purpose of the FM Code itself is to establish the principles in a format that matches the financial management cycle and supports governance in local authorities. A series of financial management standards set out the professional standards needed if a local authority is to meet the minimal standards of financial management acceptable to meet fiduciary duties to taxpayers, customers and lenders. Since these are minimum standards, CIPFA's judgement is that compliance with them is obligatory if a local authority is to meet its statutory responsibility for sound financial administration. Beyond that, CIPFA members must comply with it as one of their professional obligations.

While the statutory local authority budget setting process continues to be on an annual basis, a longer-term perspective is essential if local authorities are to demonstrate their financial sustainability. Short-termism runs counter to both sound financial management and sound governance.

Reflecting on the importance of longer term financial planning, one of the objectives of the FM Code is to support organisations to demonstrate that they have the leadership, capacity and knowledge to be able to plan effectively. This must be balanced against retaining the integrity of the annual budget preparation process when the need to make difficult decisions may threaten its integrity.

CIPFA recognises that local authorities may need additional practical guidance on some aspects of the FM Code. Such 'hands on' guidance will be produced by CIPFA to meet practitioner demand.

Contents

Introduction

The Financial Management Code (FM Code) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The FM Code therefore for the first time sets the standards of financial management for local authorities.

One of the strengths of UK local government is its diversity, with authorities having a different organisational culture – even those of the same size and type. It is this that allows a close relationship between local authorities and the communities that they serve. Its style of financial management should reflect, for example, its reliance on local tax income or scope to utilise additional grant or generate trading income. This code is therefore not prescriptive.

The FM Code is based on a series of principles supported by specific standards which are considered necessary to provide the strong foundation to:

- financially manage the short, medium and long-term finances of a local authority
- manage financial resilience to meet unforeseen demands on services
- manage unexpected shocks in their financial circumstances.

The FM Code is consistent with other established CIPFA codes and statements in being based on principles rather than prescription. This code incorporates their existing requirements on local government so as to provide a comprehensive picture of financial management in the authority.

Each local authority (and those bodies designated to apply the FM Code) must demonstrate that the requirements of the code are being satisfied. Demonstrating this compliance with the FM Code is a collective responsibility of elected members, the chief finance officer (CFO) and their professional colleagues in the leadership team. It is for all the senior management team to work with elected members in ensuring compliance with the FM Code and so demonstrate the standard of financial management to be expected of a local authority. In doing this the statutory role of the section 151 officer will not just be recognised but also supported to achieve the combination of leadership roles essential for good financial management.

While CIPFA has provided leadership, the development of the FM Code reflects a recognition that self-regulation by the sector must be the preferred response to the financial management failures that have the potential to damage the reputation of the sector as a whole. The FM Code has sought therefore to rely on the local exercise of professional judgement backed by appropriate reporting. To ensure that self-regulation is successful, compliance with the FM Code cannot rest with the CFO acting alone.

Significantly, the FM Code builds on established CIPFA Prudential and Treasury Management Codes which require local authorities to demonstrate the long-term financial sustainability of their capital expenditure, associated borrowing and investments. The introduction of the Prudential Framework based on the CIPFA codes enabled local authorities to make their own capital finance decisions on matters that had hitherto been subject to central government control. The FM Code should not be considered in isolation and accompanying tools, including the use of objective quantitative measures of financial resilience, should form part of the suite of evidence to demonstrate sound decision making.

The CIPFA Statement of Principles of Good Financial Management

The FM Code applies a principle-based approach. It does not prescribe the financial management processes that local authorities should adopt. Instead, this code requires that a local authority demonstrates that its processes satisfy the principles of good financial management for an authority of its size, responsibilities and circumstances. Good financial management is proportionate to the risks to the authority's financial sustainability posed by the twin pressures of scarce resources and the rising demands on services. The FM Code identifies these risks to financial sustainability and introduces an overarching framework of assurance which builds on existing best practice but for the first time sets explicit standards of financial management. These are minimum standards, which for many in the sector are self-evident. Recent experience in some local authorities suggests, however, that they are by no means universally achieved.

The underlying principles that inform the FM Code have been developed in consultation with senior practitioners from local authorities and associated stakeholders. The principles have been designed to focus on an approach that will assist in determining whether, in applying standards of financial management, a local authority is financially sustainable.

- Organisational **leadership** – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.
- **Accountability** – based on medium-term financial planning that drives the annual budget process supported by effective risk management, quality supporting data and whole life costs.
- Financial management is undertaken with **transparency** at its core using consistent, meaningful and understandable data, reported frequently with evidence of periodic officer action and elected member decision making.
- Adherence to professional **standards** is promoted by the leadership team and is evidenced.
- Sources of **assurance** are recognised as an effective tool mainstreamed into financial management, including political scrutiny and the results of external audit, internal audit and inspection.
- The long-term **sustainability** of local services is at the heart of all financial management processes and is evidenced by prudent use of public resources.

The FM Code has been developed and tested in partnership with a range of different types of local authorities. However, given the diversity of UK local government, it is not possible (or desirable) for the FM Code to anticipate all eventualities. If any doubt arises as to whether or how the FM Code should be applied, then reference should be made to these Principles of Good Financial Management to establish whether the proposed financial management practice is acceptable. A financial management practice that conflicts with one or more of these principles will not be acceptable if not explicitly ruled out by the financial management standards contained in the FM Code.

The applicability and structure of the Financial Management Code

CIPFA's intention is that the Financial Management Code (FM Code) will have the same scope as the *Prudential Code for Capital Finance in Local Authorities* (CIPFA, 2017), which promotes the financial sustainability of local authority capital expenditure and associated borrowing. So, although the FM Code does not have legislative backing, it applies to all local authorities, including police, fire, combined and other authorities, which:

- in England and Wales are defined in legislation for the purposes of Part 1 of the Local Government Act 2003
- in Scotland are defined in legislation for the purposes of Part 7 of the Local Government in Scotland Act 2003, or to the larger bodies (such as integration joint boards) to which Section 10 of this Act applies
- in Northern Ireland are defined in legislation for the purposes of Part 1 of the Local Government Finance Act (Northern Ireland) 2011.

While the FM Code applies to all local authorities, it recognises that some have different structures and legislative frameworks. Where compliance with this code is not possible, adherence to the principles is still considered appropriate.

In addition to its alignment with the *Prudential Code for Capital Finance in Local Authorities* (CIPFA, 2017), the FM Code also has links to the *Treasury Management in the Public Sector Code of Practice and Cross Sectoral Guidance Note* (CIPFA, 2017) and the annual *Code of Practice on Local Authority Accounting in the United Kingdom*. In this way the FM Code supports authorities by re-iterating in one place the key elements of these statutory requirements.

Although it may be expressed differently across the different jurisdictions of the UK, the FM Code is also further supported by statutory requirement, or all local authorities to have sound financial management.

Section 151 of the Local Government Act 1972 requires that every local authority in England and Wales should "… make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs."

Section 95 of the Local Government (Scotland) Act 1973 substantially repeats these words for Scottish authorities.

In Northern Ireland, Section 54 of the Local Government Act (Northern Ireland) 1972 requires that "a council shall make safe and efficient arrangements for the receipt of money paid to it and the issue of money payable by it and those arrangements shall be carried out under the supervision of such officer of the council as the council designates as its chief finance officer."

CIPFA's judgement is that compliance with the FM Code will assist local authorities to demonstrate that they are meeting these important legislative requirements.

In addition to the requirements of primary legislation and associated CIPFA Codes, an authority's prudent and proper financial management is informed by a framework of professional codes of practice and guidance, including:

- the CIPFA *Statements of Professional Practice (SOPP) (including ethics)*
- the CIPFA *Statement of the Role of the Chief Financial Officer*
- the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government*
- the CIFFA *Statement on the Role of the Chief Finance Officer of the Police and Crime Commissioner and the Chief Finance Officer of the Chief Constable*.

CIPFA considers the application of the FM Code to be a professional responsibility of all its members, regardless of their role in the financial management process. More specifically, the FM Code clarifies CIPFA's understanding of how CFOs should satisfy their statutory responsibility for good financial administration. The responsibilities of the CFO are both statutory and professional. Notwithstanding these specific expectations of CIPFA members, the primary purpose of the FM Code is to establish how the CFO – regardless of whether or not they are a CIPFA member – should demonstrate that they are meeting their statutory responsibility for sound financial administration.

The code has clear links to a number of value for money characteristics such as sound governance at a strategic, financial and operational level, sound management of resources and use of review and options appraisal. Where an overriding duty of value for money exists, this serves to give indirect statutory support to important elements of this code.

The manner in which compliance with the FM Code is demonstrated will be proportionate to the circumstances of each local authority. Importantly, however, contextualising the FM Code cannot be done according only to the size of the authority but also according to the complexity and risks in its financial arrangements and service delivery arrangements.

CIPFA considers application of the FM Code to be a collective responsibility of each authority's organisational leadership team.

CIPFA believes that this FM Code merits the type of statutory backing given to some other CIPFA codes and furthermore there is support for this approach within local government and its stakeholders. Equally, however, CIPFA recognises that such backing demands enabling primary legislation that at present has not been identified. CIPFA will continue to work with the jurisdictions of the different parts of the UK to provide statutory backing to the FM Code. At present it is difficult to envisage circumstances in which the absence of statutory backing for the FM Code would provide a reason for non-compliance.

APPLICATION DATE

Local authorities are required to apply the requirements of the FM Code with effect from 1 April 2020. This means that the 2020/21 budget process provides an opportunity for assessment of elements of the FM Code before April 2020 and to provide a platform for good financial management to be demonstrable throughout 2020/21. Local authorities will need to ensure that their governance and financial management style are fit in advance for this purpose. CIPFA has also considered the ambition within this code, the timescale and of course the wider resource challenges facing local authorities. Consequently CIPFA considers that the implementation date of April 2020 should indicate the commencement of a shadow year and that by 31 March 2021, local authorities should be able to demonstrate that they are working towards full implementation of the code. The first full year of compliance with the FM Code will therefore be 2021/22. Earlier adoption is of course encouraged.

It is the duty of each local authority to adhere to the principles of financial management. To enable authorities to test their conformity with the CIPFA Principles of Good Financial Management, the FM Code translates these principles into financial management standards. These financial management standards will have different practical applications according to the different circumstances of each authority.

The structure of the FM Code

The CIPFA financial management standards are presented and explained in Sections 1 to 7 of the FM Code.

Sections 1 and 2 address important contextual factors which need to be addressed in the first instance if sound financial management is to be possible. The first deals with the responsibilities of the CFO and leadership team, the second with the authority's governance and financial management style. From a professional perspective, these factors are the most challenging to codify as they largely concern 'soft skills' and behaviours. Nonetheless, it will be seen that even for these factors, there are recognised standards of best practice that authorities must adopt if their organisational culture is to be favourable for sound financial management. A 'tick box' compliance with these standards alone, however, will not be sufficient if they do not promote the behaviours necessary for good financial management.

The remaining Sections 3 to 7 address the requirements of the financial management cycle, with Section 3 stating the need for a long-term approach to the evaluation of financial sustainability. To make well informed decisions all these elements of the cycle need to be fit for purpose. The development of a high-quality long-term financial strategy will not itself promote financial sustainability if, for example, the authority's annual budget setting process (Section 4), stakeholder engagement and business cases (Section 5) and performance monitoring arrangements (Section 6) are inadequate. The cycle is completed by Section 7, which shows how high-quality financial reporting supports the financial management cycle by ensuring that it rests on sound financial information.

CIPFA's expectation is that authorities will have to comply with all the financial management standards if they are to demonstrate compliance with the FM Code. It is again most important that practitioners recognise that, while compliance with the CIPFA financial management standards is obligatory, the FM Code is not prescriptive about how this is achieved.

In the accompanying guidance notes CIPFA sets out practices that local authorities can adopt to ensure compliance with the FM Code. These practices are not prescribed by the FM Code, but rather offered as a starting point for local authorities needing to raise their approach to financial management to the minimum standard set out in the FM Code. CIPFA may issue support and clarify application of the FM Code. Authorities can develop their own good practice and are encouraged to do so.

As high-level statements, the overarching CIPFA financial management standards apply to the police service. CIPFA recognises, however, that this type of organisation has in some respects different practices from other local authorities. In addition, the creation of bespoke combined authorities means that some flexibility is required in the application of the FM Code for their circumstances. This may be achieved by applying some standards to each of the component bodies and others directly to the combined authority itself. In all cases, when an authority has unique governance arrangements the CIPFA Principles of Financial Management should be used to resolve any doubt about the application of articular financial management standards.

Financial management standards are to be guided by proportionality. It is appropriate for different financial management approaches to apply to high-value/high-risk items that alone may determine the financial sustainability of the organisation as distinct from low-value/low-risk items. In satisfying the demands of the financial management standards it may be appropriate to apply different standard practices according to the scale and risks of each category of income or expenditure. The intention is that authorities demonstrate a rigorous approach to the assessment and mitigation of risk so that financial management expertise is deployed effectively given the circumstances faced by the authority.

Nonetheless, in acknowledging the need for proportionality in applying some aspects of the FM Code, an authority still needs to recognise that when aggregated, a failure to manage individual low-value/low-risk items may still threaten financial sustainability. The FM Code seeks to promote the good financial management of the standard, typical or familiar local authority activities just as much as it promotes the good financial management of the unusual, exceptional and unfamiliar. Essentially, the FM Code recognises that getting the routine business right is crucial for good financial management.

The CIPFA financial management standards

Summary table of CIPFA financial management standards

FM standard reference	CIPFA financial management standards
	Section 1: The responsibilities of the chief finance officer and leadership team
A	The leadership team is able to demonstrate that the services provided by the authority provide value for money.
B	The authority complies with the CIPFA *Statement on the Role of the Chief Finance Officer in Local Government.*
	Section 2: Governance and financial management style
C	The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.
D	The authority applies the CIPFA/SOLACE *Delivering Good Governance in Local Government: Framework* (2016).
E	The financial management style of the authority supports financial sustainability.
	Section 3: Long to medium-term financial management
F	The authority has carried out a credible and transparent financial resilience assessment.
G	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.
H	The authority complies with the CIPFA *Prudential Code for Capital Finance in Local Authorities.*
I	The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.
	Section 4: The annual budget
J	The authority complies with its statutory obligations in respect of the budget setting process.
K	The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.
	Section 5: Stakeholder engagement and business plans
L	The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.
M	The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.
	Section 6: Monitoring financial performance
N	The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.
O	The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.
	Section 7: External financial reporting
P	The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the *Code of Practice on Local Authority Accounting in the United Kingdom.*
Q	The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.

FM Code

Leadership

A. The leadership team is able to demonstrate that the services provided by the authority provide value for money.

B. The authority complies with the CIPFA *Statement on the Role of the Chief Finance Officer in Local Government.*

O. The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.

Accountability

D. The authority applies the CIPFA/SOLACE *Delivering Good Governance in Local Government: Framework* (2016).

P. The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the Code.

Q. The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.

Transparency

L. The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.

M. The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.

Standards

H. The authority complies with the CIPFA *Prudential Code for Capital Finance in Local Authorities*.

J. The authority complies with its statutory obligations in respect of the budget setting process.

K. The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.

Assurance

C. The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.

F. The authority has carried out a credible and transparent financial resilience assessment.

N. The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.

Sustainability

E. The financial management style of the authority supports financial sustainability.

G. The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.

I. The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.

SECTION 1

The responsibilities of the chief finance officer and leadership team

Local authorities in the UK use different democratic models. While the committee and the cabinet system are the most common there are also a number of direct elected mayors in England. Regardless of the model, responsibility for corporate financial sustainability rests with those responsible for making executive decisions with the support of their professional advisors. Elected members need to work effectively with officers and other stakeholders to make difficult decisions and to identify and deliver savings when required.

While the legislative context differs across the different jurisdictions of the UK, all local authorities must deliver value for money. This is an overarching requirement that informs the application of the other financial management standards in the FM Code.

Financial Management Standard A

The leadership team is able to demonstrate that the services provided by the authority provide value for money.

The role of the leadership team

The delivery of value for money will ultimately be dependent on decisions made by elected members. It is for the leadership team to ensure that the authority's governance arrangements and style of financial management promote financial sustainability. It is the elected members who are held to account by local people when a local authority fails, but an important element of collective decision making is to understand the risks and appreciate the different statutory responsibilities of those involved. Good financial management is the responsibility of the whole leadership including the relevant elected members. It is the responsibility of the senior officers within the management team to enact this.

The FM Code follows the practice of the CIPFA *Statement of the Role of the Chief Financial Officer in Local Government* in referring to this collective group of elected member and officers with this collective financial responsibility as the leadership team. In local authorities, therefore, the concept of the 'leadership team' will include executive committees, elected mayors, portfolio holders with delegated powers and other key committees of the authority and senior officers.

In the police service this leadership is provided by police and crime commissioners and chief constables, which operate jointly according to the policing protocol, which requires the maintenance of an efficient force.

The role of the chief finance officer

The statutory of the role of the chief finance officer (CFO) is a distinctive feature of local government in the UK (except in Northern Ireland). This role cannot be performed in isolation and requires the support of the other members of the leadership team.

The leadership team must recognise that while statutory responsibility for the financial management of the authority rests with the CFO, the CFO is reliant on the actions of the leadership team, both collectively and individually as elected members and senior officers. A situation in which the CFO is forced to act in isolation is characteristic of authorities in which financial management has failed and financial sustainability is threatened.

Equally, the CFO must ensure that they fulfil their personal legal and professional responsibilities in the public interest and in recognition of the other statutory service responsibilities of the authority. In the leadership team the CFO must provide timely, relevant and reliable financial advice, in accordance with the law and professional standards.

It is important to appreciate that while the section 151 or similar legislative provisions require the authority to appoint a suitably qualified officer responsible for the proper administration of its affairs, responsibility for proper financial administration still rests ultimately with elected members. The local authority itself has a statutory responsibility for maintaining a system of internal control including the management of risk, an effective internal audit and preparing annual accounts.

CIPFA has issued its *Statement on the Role of the Chief Financial Officer in Local Government*. This statement sets out CIPFA's understanding of the role to support both the CFO and local authorities.

Financial Management Standard B

The authority complies with the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government*.

For the purposes of the FM Code, the CIPFA *Statement on the Role of the Chief Finance Officer of the Police and Crime Commissioner* and the *Chief Finance Officer of the Chief Constable* (2012) should be substituted for references to the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government.*

CIPFA's *Statement on the Role of the Chief Financial Officer in Local Government* describes the roles and responsibilities of the CFO. It sets out how the requirements of legislation and professional standards should be fulfilled by the CFO as they carry out their duties. The statement is designed to assist those carrying out the role to meet its specific responsibilities while at the same time reiterating CIPFA's *Statement of Professional Practice* with which all CIPFA members are required to comply. The statement also requires that if different organisational arrangements are adopted the reasons should be explained publicly in the authority's annual governance statement, together with how they deliver the same impact.

SECTION 2

Governance and financial management style

Without good governance a local authority cannot make the changes necessary for it to remain financially sustainable. As such, financial sustainability must be underpinned by the robust stewardship and accountability to be expected of public bodies. Good governance gains the trust of taxpayers and other funders by giving them confidence that money is being properly spent. Good governance ensures better informed and longer-term decision making and therefore is essential for good financial management.

Good governance

Responsibility for good governance also rests with the leadership team. The team must ensure that there are proper arrangements in place for governance and financial management, including a proper scheme of delegation that ensures that frontline responsibility for internal and financial control starts with those who have management roles. This delegation ensures that those responsible for the delivery of services are also explicitly held responsible for the financial management of the associated expenditure and income. Nonetheless, it is for the leadership team to demonstrate that the authority always meets exacting standards of probity, accountability and demonstrable efficiency in the use of public resources.

The CFO is not the only officer with specific statutory responsibilities for good governance. The head of paid service (in practice the chief executive) is responsible for the proper recruitment and organisation of a local authority's staff. The monitoring officer has the specific duty to ensure that the council, its officers and its elected members maintain the highest standards of conduct in all they do (the legal basis of the head of paid service's role is found in Section 4 of the Local Government and Housing Act 1989 and that of the monitoring officer in Section 5 of the same act).

All parts of the governance structure of an organisation play an important role, but the audit committee is a key component, providing independent assurance over governance, risk and internal control arrangements. It provides a focus on financial management, financial reporting, audit and assurance that supports the leadership team and those with governance responsibilities.

Good governance is evidenced by actions and behaviours as well as formal documentation and processes. The tone and action at the top are critical in this respect, and rest with the leadership team – both senior officers and elected members, as well as the CFO. A successful leadership team has a culture of constructive challenge that excludes an optimism bias in favour of a realism bias and is built on a rigorous examination of goals, underlying assumptions and implementation plans.

The Committee on Standards in Public Life has set out *Seven Principles of Public Life* which it believes should apply to all in the public services (often referred to as the Nolan Principles). The last of the Nolan Principles – that holders of public office should promote and support these principles by leadership and example – is especially relevant to the leadership team.

Financial Management Standard C

The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.

By international standards, local government in the UK is distinguished by high standards of governance. Citizens expect financial accountability, press and parliamentary scrutiny, integrity and the absence of corruption. These expectations are largely met, but local authorities should guard against complacency.

The CIPFA/IFAC *International Framework: Good Governance in the Public Sector* (Annex A to this FM Code) is intended to encourage sustainable service delivery and improved accountability by establishing a benchmark for aspects of good governance in the sector. The application of this international framework in the context of UK local government is reinforced by specific regulatory requirements and sector specific guidance. The CIPFA/SOLACE *Delivering Good Governance in Local Government: Framework* (2016 edition) supports local authorities in developing and maintaining their own codes of governance and to discharge their accountability for the proper conduct of business.

Financial Management Standard D

The authority applies the CIPFA/SOLACE *Delivering Good Governance in Local Government: Framework* (2016).

This CIPFA/SOLACE framework recommends that the review of the effectiveness of the system of internal control that local authorities in England, Wales, Scotland and Northern Ireland are required to undertake by their respective accounts and audit regulations should be reported in an annual governance statement.

Financial management style

The financial management challenges faced by many local authorities are unprecedented in recent history and show no signs of easing. This is significant because it means that different styles of financial management are necessary. Financial sustainability will not be achieved by continuing with the behaviours of the past since these do not meet the demands of the present – or the future, which may be even more challenging. To remain financially sustainable authorities need to develop their financial management capabilities.

Financial Management Standard E

The financial management style of the authority supports financial sustainability.

CIPFA believes that the strength of financial management within an organisation can be assessed by a hierarchy of three 'financial management (FM) styles':

- delivering accountability
- supporting performance
- enabling transformation.

These different styles are used in the CIPFA Financial Management Model to describe the different standards of financial management which may be found in local authorities. They represent a hierarchy in which enabling transformation is only achieved by a financial management style that supports performance and which in turn delivers accountability. Once these basic foundations have been soundly established, authorities need to move up through a hierarchy of financial management styles in response to increasing risk. This is especially important as risks have increased for many local authorities; on the one hand reduced expenditure leaves less margin for error while on the other hand, in seeking to generate new income, local authorities take on unfamiliar risks.

This hierarchy of financial management styles loosely maps onto the now deeply embedded recognition of the necessity for economy, efficiency and effectiveness to achieve value for money. In delivering accountability the finance team ensures that their authorities spend less and so achieve economy. In supporting performance, the finance team works with the authority to spend well by maximising the output from goods or services and so achieves efficiency. Finally, in enabling transformation the finance team supports the effective use of public money.

CIPFA recognises that while the highest standards of financial management should be the expectation, in practice some local authorities are at different stages of development. In these circumstances, compliance with the FM Code may initially be achieved by credible proposals to raise financial standards beyond the basic delivery of accountability.

The first two sections of this code have addressed the pre-conditions that must be satisfied for sound financial management. The following sections turn to the practical operation of the successive stages of the financial management cycle.

SECTION 3

Medium to long-term financial management

While the statutory local authority budget setting process continues to be on an annual basis (see Section 4) a longer-term perspective is essential if local authorities are to demonstrate their financial sustainability. Short-termism runs counter to both sound financial management and sound governance.

CIPFA does not believe however that the time horizon of local authority financial planning is determined by the time horizon of the financial support from central government. The greater the uncertainty about future central government policy then the greater the need to demonstrate the long-term financial resilience of the authority given the risks attached to its core funding.

An authority must ensure that while the formal publication of the medium-term financial plan (MTFP) may only reflect government settlements, it is the responsibility of the leadership of the organisation, including elected members, senior management and the section 151, to have a long-term financial view acknowledging financial pressures.

Authorities with a high level of capital investment and associated external borrowing should adopt a correspondingly long-term approach. The Prudential Code requires that a local authority capital strategy sets out the long-term context in which capital expenditure and investment decisions are made. For example all authorities with PFI, service contracts and other similar contractual arrangements will need to demonstrate their ability to finance these arrangements over the whole period of the contracts. Housing Revenue Account (HRA) business plans in England and Wales are already based on a 30-year time horizon.

Financial resilience and long-term financial strategy

If an authority has not tested and demonstrated its long-term financial resilience then its financial sustainability remains an open question. Authorities must critically evaluate their financial resilience. It is possible that the existing strategy is financially sustainable, but this must still have been tested and demonstrated in a financial resilience assessment.

In this financial resilience assessment the authority must test the sensitivity of its financial sustainability given alternative plausible scenarios for the key drivers of costs, service demands and resources. It will require an analysis of future demand for key services and consideration of alternative options for matching demand to resources. Testing will focus on the key longer-term revenues and expenses and the key risks to which the authority will be exposed.

With an awareness that risks will vary, consideration should be given to tools such as the Financial Resilience Index that may help organisations identify these pressure points. Without such stress testing an authority cannot be regarded as financially sustainable and will be deemed to have failed that test.

Financial Management Standard F

The authority has carried out a credible and transparent financial resilience assessment.

Having carried out the finance resilience assessment, the authority will need to demonstrate how the risks identified have informed a long-term financial strategy. A local authority needs an over-arching strategic vision of how it intends to deliver outputs and achieve outcomes for which it is responsible. This should include a statement that sets out both the vision and the underlying strategy, together with the mix of interventions that the organisation will adopt in delivering services to achieve the intended outcomes. In many cases a basis for this will already exist in a corporate plan.

A key part of the strategy should be a visioning exercise to understand the potential shape of services in the future. It will need to be sufficiently comprehensive to offer a convincing demonstration that the authority has identified a way of achieving financial sustainability. At the same time it needs to provide a relatively fixed point of reference which is subject to periodic review and to revision and fundamental change only when it is no longer fit for purpose.

Financial Management Standard G

The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.

CIPFA is not at present being prescriptive about the time period of this long-term financial strategy. Different authorities will face different levels of political and financial stability which may have become embedded in different management cultures. However, CIPFA would promote ambition and stress the need for a financial strategy that matches the requirement for a strategic approach to service planning. The underlying key demand cost drivers, especially those linked to the age profile of the community, can be foreseen at least in broad terms for a decade and more ahead.

The Prudential Code for Capital Finance in Local Authorities

The statutory requirements of the Prudential Code underpins elements of the long and medium-term financial management considered in this section of the FM Code. While the minimum requirement is for three-year rolling capital and investment plans, *The Prudential Code for Capital Finance in Local Authorities* (2017 edition) stresses that a longer-term approach is necessary to ensure that capital strategy and asset management plans are sustainable.

Financial Management Standard H

The authority complies with the CIPFA *Prudential Code for Capital Finance in Local Authorities.*

One of the requirements of the Prudential Code is a capital strategy. This capital strategy is a fundamental component of good financial management. It should set out how the organisation is currently managing its assets and more importantly its future plans linked to available resources. Balance sheet management in local authorities is about the better management of assets and liabilities to support service delivery and capital strategy. A long-term vision is needed for the configuration of service delivery and investment properties because timely asset disposals and/or investments will be dependent on complex interdependencies.

A long-term vision should also be reflected in any commercial investment activity undertaken by the organisation. Guided by the Prudential Code and relevant guidance on borrowing for acquisitions of commercial properties, a local authority should not put public money and services at risk.

Practical medium-term financial planning

CIPFA does not anticipate that a long-term financial strategy would provide sufficient detail to shape the annual budget setting process. Local authorities will need to translate their long-term financial strategies into a medium-term financial plan (MTFP) for budget setting.

The MTFP is the mechanism or framework by which the annual budget process relates directly to the long-term strategy establishing the financial sustainability of the authority. While not prescriptive about time frame, the MTFP should support financially sustainable decision making.

Importantly, performance against the plan will enable recent success and/or failures in delivering financial objectives to be taken into account in the annual budget process. A symptom of financial stress is the emergence of unanticipated overspends in recent years from the MTFP. While the long-term strategy needs to be a stable point of reference, the MTFP needs to be rolled forward annually to ensure that it reflects the latest detailed information. By taking this approach to medium-term financial planning the annual budget is aligned to longer-term goals.

The MTFP should enable the leadership team to have confidence in its long-term strategy for its financial sustainability. Importantly, financial and operational plans must be demonstratively aligned to the strategy at all levels. Without clear service plans it is impossible to place the forecast within the context of currently agreed policies and their implications for future demand and resources.

Financial Management Standard I

The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.

SECTION 4

The annual budget

One of the objectives of this FM Code is to end the practice by which the annual budget process has often become the focal point if not the limit of local authority financial planning. However the annual budget preparation process needs to be protected at a time when the need to make difficult decisions may threaten its integrity.

Local authorities need to ensure that they are familiar with the legislative requirements of the budget setting process. In times of routine business compliance this is relatively straightforward, but in times of financial stress there may be pressures for delay or obfuscation in budget setting. These difficulties can be acute when council tax setting is reliant on decisions by independent precepting bodies. In these circumstances it is likely that the CFO will need to work closely with the chief executive, monitoring officer and the leadership team to ensure statutory processes and a timetable necessary to set a legal budget are understood. The monitoring officer is the custodian of the constitution, which acts as a safeguard to prevent councillors and officers from getting into legal difficulties in the exercise of their role and uphold and ensure fairness in decision making.

Financial Management Standard J

The authority complies with its statutory obligations in respect of the budget setting process.

The annual report setting out the proposed budget for the coming year is a key document for the authority. It will also demonstrate compliance with CIPFA's Prudential Code (Financial Management Standard H). The best budget plans are those owned and articulated by the whole leadership team and senior managers, not simply the CFO.

Reserves are acknowledged in statute. Local authorities are directed to have regard to the level of reserves when considering their budget requirement. Consequently, reserves are a recognised and intrinsic part of financial planning and budget setting. The assessment of 'adequate' and 'necessary' levels of reserves is a matter for local authorities to determine. It is the responsibility (with statutory backing in England and Wales) of the CFO to advise the local authority on the appropriate level of reserves and the robustness of the estimates.

Financial Management Standard K

The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.

The budget report should include details of the earmarked reserves held, and explain the purpose of each reserve, together with the estimated opening balances for the year, details of planned additions/withdrawals and the estimated closing balances.

A well-managed authority, with a prudent approach to budgeting, should be able to operate with a level of general reserves appropriate for the risks (both internal and external) to which it is exposed. Compliance with the FM Code will give important reassurance that the authority's financial management processes and procedures are able to manage those risks. These should be maintained at a level appropriate for the profile of the authority's cash flow and the prospect of having to meet unexpected events from within its own resources. Even where, as part of their wider role, auditors have to report on an authority's financial position, it is not their responsibility to prescribe the optimum or minimum level of reserves for individual authorities or authorities in general.

The successful execution of the annual budget will depend on both the good governance and internal controls already codified in Section 2 as well as financial monitoring addressed in Section 6.

SECTION 5

Stakeholder engagement and business cases

Financial sustainability requires citizens to understand that resources are not limitless and that decisions have to be made about both the relative priority of different services and the balance between service provision and taxation levels. The leadership team collectively has an important role in reviewing priorities to enable resources to be redirected from areas of lesser priority; it is not possible to rely principally on pro rata cuts to generate the savings necessary for financial sustainability in an era of austerity.

The leadership team needs to challenge not only how services are delivered, but also what is delivered. These decisions must be made with a clear understanding of the statutory requirements and of wider legal implications of any decisions.

Stakeholder engagement

Stakeholder consultation can help to set priorities and reduce the possibility of legal or political challenge late in the change process. Stakeholder consultation helps to encourage community involvement not just in the design of services but in their ongoing delivery. This is especially the case when a local authority adopts an enabling approach to public service delivery which, along with the active involvement of the third sector, may facilitate future reductions in service costs.

Financial Management Standard L

The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.

Business cases

Financial sustainability will be dependent upon difficult and often complex decisions being made. The authority's decisions must be informed by clear business cases based on the application of appropriation option appraisal techniques. Professional accountants can be expected to comply with the IFAC/PAIB Project and Investment Appraisal for Sustainable Value Creation reproduced in Annex B to this FM Code.

Financial Management Standard M

The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.

It is the responsibility of the CFO to ensure that all material decisions are supported by an option appraisal which in its rigour and sophistication is appropriate for the decision being made. It is likely that the authority's documented option appraisal methodology will include a relatively simplistic approach for decisions of low value and/or low risk.

SECTION 6

Performance monitoring

To remain financially sustainable an authority must have timely information on its financial and operational performance so that policy objectives are delivered within budget. Early information about emerging risks to its financial sustainability will allow it to make a carefully considered and therefore effective response.

Financial Management Standard N

The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.

Significant unplanned overspends and/or carrying forward undelivered savings into the following year might be a sign that an authority is not translating its policy decisions into actions. It also creates the conditions for further financial pressures and possible service reductions in subsequent years. However, the warning signs could also be in other non-financial performance measures, such as backlogs and other indications that current resources are not matching the expectations of service users. These trends should inform the decisions taken on the medium and long-term financial planning addressed by Section 3 of this code.

It is a requirement of this code that authorities should more closely monitor the material elements of their balance sheet that may give indications of a departure from financial plans. This is especially important for local authorities with significant commercial asset portfolios. Legislation requires local authorities to maintain adequate accounting records of their assets and liabilities. Regulations also require that the appropriate (chief finance) officer certifies or confirms that the statements of accounts provide a true and fair view of the financial position (ie the amounts in the balance sheet) of the authority at 31 March in the year of account.

Financial Management Standard O

The leadership team monitors the elements of its balance sheet which pose a significant risk to its financial sustainability.

Contingencies and commitments are monitored to identify any items where a balance sheet provision may have crystallised. Key drivers of provisions (eg asset decommissioning decisions, legal claims, reorganisation activities) should be monitored to identify whether an actual or constructive obligation has arisen. Finally, cash flow is managed through application of *Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes* (CIPFA, 2017).

External financial reporting

Taxpayers and citizens have a legitimate stake in understanding how public money has been used in providing the functions and services of the authority. The audited statements of account, which present the authority's financial position and financial performance, play an integral part in demonstrating this to them. The statutory accounts provide a secure base for financial management. They support accountability and thus good financial management by allowing the users of the financial statements and other stakeholders to do the following:

- Discover how much is spent in a year on services and whether this has increased or decreased from previous years.
- Consider the indebtedness of an organisation and how that might impact on future taxpayers.
- Recognise the value and therefore usefulness of the assets that the organisations hold.
- Assess what the future commitments and liabilities are, for example, for pensions or leases, and again how these are likely to impact on future generations and taxpayers.

CIPFA's *Statement on the Role of the Chief Finance Officer in Local Government* sets out the chief finance officer's statutory responsibilities for producing the accounts and maintaining the financial records for those accounts. The CIPFA Statement requires that the statements of account are published on a timely basis to communicate the authority's activities and achievements, its financial position and performance. It also requires certification of the accounts by the chief finance officer. The confirmation that the accounts present a 'true and fair' view is one of the fundamental roles of the statutory chief finance officer. Across the UK the *Code of Practice on Local Authority Accounting in the United Kingdom* produced by the CIPFA/LASAAC Local Authority Code Board establishes proper (accounting) practices under which that 'true and fair' view will need to be confirmed/certified.

Financial Management Standard P

The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the *Code of Practice on Local Authority Accounting in the United Kingdom.*

The statutory and professional frameworks for the production and publication of the accounts underpin their importance and demonstrate that they have a key part to play in accountability to taxpayers and other stakeholders in showing how public money is used. Financial reporting therefore should not take place in a vacuum. The financial statements provide the accountability link between planned performance, resources used and the outcomes – financial and more – that are achieved. The authority, its management and the CFO both in its financial statements and the narrative reports that accompany them must provide the user with the links between the consumption of resources and the value that has been created.

It is key to ensure that the authority and its leadership understand how effectively its resources have been utilised during the year, including a process which explains how material variances from initial and revised budgets to the outturn reported in the financial statements have arisen and been managed. The success of these arrangements will be demonstrated by the ability of the leadership team to make decisions from them. In some circumstances this will lead to a reappraisal of the achievability of the long-term financial strategy and the financial resilience of the authority (see Section 3).

Financial Management Standard Q

The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.

Annex A

IFAC/CIPFA GUIDANCE ON IMPLEMENTING THE PRINCIPLES FOR GOOD GOVERNANCE IN THE PUBLIC SECTOR (EXTRACT)

Principles for good governance in the public sector

Governance comprises the arrangements put in place to ensure that the intended outcomes for stakeholders are defined and achieved.

The fundamental function of good governance in the public sector is to ensure that entities achieve their intended outcomes while acting in the public interest at all times.

Acting in the public interest requires:

A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.

B. Ensuring openness and comprehensive stakeholder engagement.

In addition to the overarching requirements for acting in the public interest in principles A and B, achieving good governance in the public sector also requires effective arrangements for:

C. Defining outcomes in terms of sustainable economic, social, and environmental benefits.

D. Determining the interventions necessary to optimise the achievement of the intended outcomes.

E. Developing the entity's capacity, including the capability of its leadership and the individuals within it.

F. Managing risks and performance through robust internal control and strong public financial management.

G. Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

Annex B

IFAC/PAIB PROJECT AND INVESTMENT APPRAISAL FOR SUSTAINABLE VALUE CREATION

Extract from IFAC website.

Principles in project and investment appraisal

The key principles underlying widely accepted good practice are:

A. When appraising multi-period investments, where expected benefits and costs and related cash inflows and outflows arise over time, the time value of money should be taken into account in the respective period.

B. The time value of money should be represented by the opportunity cost of capital.

C. The discount rate used to calculate the NPV [net present value] in a DCF [discounted cash flow] analysis, should properly reflect the systematic risk of cash flows attributable to the project being appraised, and not the systematic risk of the organisation undertaking the project.

D. A good decision relies on an understanding of the business and should be considered and interpreted in relation to an organisation's strategy and its economic, social, environmental, and competitive position as well as market dynamics.

E. Project cash flows should be estimated incrementally, so that a DCF analysis should only consider expected cash flows that could change if the proposed investment is implemented. The value of an investment depends on all the additional and relevant changes to potential cash inflows and outflows that follow from accepting an investment.

F. All assumptions used in undertaking DCF analysis, and in evaluating proposed investment projects, should be supported by reasoned judgment, particularly where factors are difficult to predict and estimate. Using techniques such as sensitivity analysis to identify key variables and risks helps to reflect worst, most likely and best case scenarios, and therefore can support a reasoned judgment.

G. A post-completion review or audit of an investment decision should include an assessment of the decision making process and the results, benefits, and outcomes of the decision.

H. Capital and revenue reports need to be closely linked so there is an understanding of how each capital scheme is financed, and in particular which require revenue contributions.

Borrowing costs need to be spelt out. Low interest rates are not in themselves a compelling reason to borrow. Capital budgets should be clear about how individual schemes are financed and which ones add pressure to revenue.

Glossary

Accounting standards	Rules set by the International Accounting Standards Boards that set out how transactions are to be shown in an organisation's accounts.
Annual statement of accounts	The statement of accounts presents the authority's transactions on an annual basis as of 31 March of the relevant year of account. The complete set of financial statements in the annual accounts for local authorities comprises: ■ comprehensive income and expenditure statement for the period ■ movement in reserves statement for the period ■ balance sheet as at the end of the period ■ cash flow statement for the period, and ■ notes, comprising significant accounting policies and other explanatory information.
Asset management plan	Asset management plans align the asset portfolio with the needs of the organisation.
Audit committee	A special committee of the council that reviews the financial management and accounts of the council.
Balance sheet	A financial statement presenting a summary of the authority's financial position as of 31 March each year. In its top half it contains the assets and liabilities held or accrued. As local authorities do not have equity shares, the bottom half is comprised of reserves that show the location of the authority's net worth between its usable and unusable reserves.
Capital budget	The money a council plans to spend on investing in new buildings, infrastructure and other equipment.
Capital financing charges	The amount a council has to pay to support its borrowing to pay for the purchase of major assets.
Capital receipt	The money a council receives for selling assets that can only be used to repay debt or for new capital expenditure.
Chief financial officer	The most senior finance person in a council responsible for ensuring the proper financial management of the council.
CIPFA FM Model	The CIPFA FM Model is the tool that helps public service organisations apply their financial resources to achieve their goals.
Code of Practice on Local Authority Accounting in the United Kingdom	A code produced by the CIPFA/LASAAC Local Authority Code Board. It specifies the principles and practices of accounting required to give a 'true and fair' view of the financial position, financial performance and cash flows of a local authority, including the group accounts where a local authority has material interests in subsidiaries, associates or joint ventures. The Local Authority Accounting Code is established as a proper practice by the four relevant administrations across the UK.
Earmarked reserve	Money set aside for future use on a specific area of expenditure. It remains a part of the general reserves of the authority.

Financial management	Financial management encompasses all the activities within an organisation that are concerned with the use of resources and that have a financial impact. CIPFA has defined financial management for public bodies as "the system by which the financial aspects of a public body's business are directed and controlled to support the delivery of the organisation's goals".
General fund balance (also council fund or police fund)	The general fund is the statutory fund into which all the receipts of an authority are required to be paid and out of which all liabilities of the authority are to be met, except to the extent that statutory rules might provide otherwise. The general fund balance therefore summarises the resources that the authority is statutorily empowered to spend on its services or on capital investment (or the deficit of resources that the council is required to recover) at the end of the financial year.
Governance	The framework by which a council can gain assurance that it is setting and achieving its objectives and ensuring value for money in the proper way.
Housing Revenue Account (HRA)	An account used to record the income and expenditure related to council housing.
IFAC (International Federation of Accountants)	IFAC is the global organisation for the accountancy profession dedicated to serving the public interest by strengthening the profession and contributing to the development of strong international economies. CIPFA is a member.
Internal audit	An internal review of the organisation's systems to give assurance that they are appropriate and being complied with.
Leadership team	Executive committees, elected mayors, portfolio holders with delegated powers and other key committees of the authority. In the police service this leadership is provided by police and crime commissioners and chief constables.
Non-domestic rates	A tax paid by local businesses to their council.
Public Sector Internal Audit Standards	These standards, which are based on the mandatory elements of the Institute of Internal Auditors (IIA) International Professional Practices Framework (IPPF), are intended to promote further improvement in the professionalism, quality, consistency and effectiveness of internal audit across the public sector.
Provision	A provision is a present liability whose timing or amount of settlement is uncertain. For example, it may be a charge for liabilities that are known to exist, but have to be estimated.
Prudential Code	A code produced by CIPFA that councils are required to follow when deciding upon their programme for capital expenditure.
Revenue budget	The amount that a council spends on its day-to-day running of services through the financial year.
Ringfencing	A term for the earmarking of money (eg a grant or fund) for one particular purpose, so as to restrict its use to that purpose.
Society of Local Authority Chief Executives (SOLACE)	SOLACE's purpose is to develop the highest standards of leadership in local government and the wider public sector.
Treasury management	CIPFA has adopted the following as its definition of treasury management activities: ■ the management of the organisation's borrowing, investments and cash flows ■ its banking ■ money market and capital market transactions ■ the effective control of the risks associated with those activities ■ the pursuit of optimum performance consistent with those risks.

Treasury Management Code	A professional and statutory code produced by CIPFA that councils are required to follow in managing their treasury management activity.
Treasury management strategy	An annual document approved by full council that sets out how a council will manage its cash and borrowings.

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Public Finance & Accountancy

Registered office:
77 Mansell Street, London E1 8AN
T: +44 (0)20 7543 5600 F: +44 (0)20 7543 5700
www.cipfa.org
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CIPFA, the Chartered Institute of Public Finance and Accountancy, is the professional body for people in public finance. Our 14,000 members work throughout the public services, in national audit agencies, in major accountancy firms, and in other bodies where public money needs to be effectively and efficiently managed. As the world's only professional accountancy body to specialise in public services, CIPFA's qualifications are the foundation for a career in public finance. We also champion high performance in public services, translating our experience and insight into clear advice and practical services. Globally, CIPFA shows the way in public finance by standing up for sound public financial management and good governance.

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77 Mansell Street, London E1 8AN

020 7543 5600 \ customerservices@cipfa.org \ www.cipfa.org

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Joanne Pitt,
CIPFA Policy Manager Local Government

Contents

Introduction

With local authorities across the UK facing the challenges of reduced funding and increased demand for services, the need for robust financial management has never been more important.

But the high-profile issues faced by a number of authorities in recent times indicate that the principles of good financial management have not been embedded universally into the ways in which authorities operate.

Consequently, CIPFA has developed the Financial Management Code (FM Code), which sets out the principles by which authorities should be guided in managing their finances and the specific standards that they should, as a minimum, seek to achieve.

The FM Code is designed to be flexible to the nature, needs and circumstances of individual authorities. It is up to each authority to determine the extent to which it complies with the FM Code and to identify what action it may wish to take to better meet the standards that the FM Code sets out.

USING THESE GUIDANCE NOTES

These guidance notes seek to assist authorities in their efforts to comply with the FM Code, by exploring in more detail the themes addressed in the FM Code and by providing suggestions and ideas as to how it can be implemented in practice.

CIPFA recognises, however, that different authorities operate in different ways, face different challenges and have different levels of resources at their disposal. And so what may work well within one authority may not be relevant, practical or affordable for another.

These guidance notes are not intended to be prescriptive in any way and all authorities are encouraged to use the notes in a way that best reflects their structure, type, function and size.

Consequently, these guidance notes do not purport to set out the only way to comply with the requirements of the FM Code. They seek simply to provide ideas and suggestions as to how authorities might comply with the FM Code and how they might demonstrate that compliance has been achieved.

Ultimately, though, it is for each authority to ensure that it complies with the FM Code in a way that is appropriate – and proportional – to its own circumstances.

These guidance notes apply to all those to whom the Code applies including all local authorities, including police, fire, combined and other authorities, which:

- in England and Wales are defined in legislation for the purposes of Part 1 of the Local Government Act 2003

- in Scotland are defined in legislation for the purposes of Part 7 of the Local Government in Scotland Act 2003, or to the larger bodies (such as integration joint boards) to which Section 10 of this Act applies
- in Northern Ireland are defined in legislation for the purposes of Part 1 of the Local Government Finance Act (Northern Ireland) 2011.

WHO MIGHT USE THESE GUIDANCE NOTES

The guidance notes aim to be a resource for those who are supporting their organisations with the implementation of the FM Code and may be particularly helpful to officers in those organisations including chief finance officers and senior finance professionals, so are written primarily from a financial – rather than a service – perspective.

However, each section also contains a summary overview, which may be useful for chief executives and other senior managers, as well as for members or other stakeholders.

Police bodies in England and Wales do not have elected members, but have a directly elected police and crime commissioner (PCC), and a chief constable. Both are separate legal entities and local authorities for the purposes of this document, with the PCC holding the chief constable to account for the delivery of policing in their area. The exceptions are in London and Greater Manchester where the mayor undertakes the role of PCC.

THE PURPOSE OF THE SECTION SUMMARY

Each section within the guidance notes starts with a summary of the topics addressed in that section, to allow readers to focus their attention on the topics that are of most relevance to them. As the guidance notes draw on a number of familiar publications it will be for the authority to decide on the level of detail they need from these notes. For some users the summary may meet all their requirements. Consideration of each topic concludes with a summary of key questions that authorities may wish to ask themselves in ensuring their compliance with the FM Code.

LINKS TO OTHER STANDARDS

Where the FM Code requires authorities to comply with other CIPFA standards, the guidance notes summarise the requirements associated with these standards, so as to ensure that comprehensive guidance is given. Authorities already familiar with the requirements of these other standards may wish to skip these sections of the guidance notes, which are identified clearly.

These guidance notes should be read in conjunction with the FM Code itself.

SUMMARY OF THE FM CODE

While authorities have done much to transform services, shape delivery and streamline costs, for these approaches to be successful it is crucial to have good financial management embedded as part of the organisation. Good financial management is an essential element of good governance and longer-term service planning, which are critical in ensuring that local service provision is sustainable.

The CIPFA FM Code is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. For the first time the FM Code sets out the standards of financial management for local authorities.

The FM Code has several components, including the CIPFA *Statement of Principles of Good Financial Management*. These six principles have been developed by CIPFA in collaboration with senior leaders and practitioners. These principles are the benchmarks against which all financial management should be judged. CIPFA's view is that all financial management practices should comply with these principles.

To enable authorities to test their conformity with the six principles, the FM Code translates these principles into financial management standards. The purpose of the FM Code itself is to establish the principles in a format that matches the financial management cycle and supports governance in local authorities. A series of financial management standards set out the professional standards to be met if a local authority is to meet the minimal standards of financial management acceptable to meet fiduciary duties to taxpayers, customers and lenders.

The principles of good financial management

The CIPFA Financial Management Code applies a principles-based approach. It does not prescribe the financial management arrangements that local authorities should adopt. Instead, the FM Code requires that a local authority ensures, and is able to demonstrate, that it satisfies the principles of good financial management for an authority of its size, responsibilities and circumstances.

The six underlying principles that inform the FM Code have been developed in consultation with senior practitioners from local authorities, local policing bodies and associated stakeholders. The principles have been designed to focus on robust financial management as a way of achieving both short-term financial resilience and long-term financial sustainability.

The principles are as follows:

- Organisational **leadership** – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.
- **Accountability** – financial management is based on medium-term financial planning, which drives the annual budget process supported by effective risk management, quality supporting data and whole life costs.
- Financial management is undertaken with **transparency** at its core using consistent, meaningful and understandable data, reported with appropriate frequency and with evidence of periodic officer action and elected member decision making.
- Adherence to professional **standards** is promoted by the leadership team and is evidenced.
- Sources of **assurance** are recognised as an effective tool mainstreamed into financial management and include political scrutiny and the results of external audit, internal audit and inspection.
- The long term **sustainability** of local services is at the heart of all financial management processes and is evidenced by prudent use of public resources.

It is not possible – or, indeed, desirable – for the FM Code to anticipate all eventualities. Consequently, if any doubt arises as to whether or how the FM Code should be applied, reference should be made to these principles of good financial management, to establish whether any proposed financial management practice is within the spirit of the FM Code.

A financial management practice that conflicts with one or more of these principles will not be acceptable practice even if it is not ruled out explicitly by the FM Code itself.

The CIPFA financial management code

The CIPFA Financial Management Code translates the principles of good financial management into a series of standards. These standards address the aspects of an authority's operations and activities that must function effectively if financial management is to be undertaken robustly and financial sustainability is to be achieved.

THE SCOPE OF THE FM CODE

The areas covered by the standards are:

- the responsibilities of the chief financial officer and leadership team
- governance and financial management style
- long to medium-term financial management
- the annual budget
- stakeholder engagement and business plans
- monitoring financial performance
- external financial reporting.

The financial management standards are designed to be sufficiently flexible so that they are relevant to the needs of the diverse range of authorities across the local government sector and to the varying circumstances in which these authorities operate and challenges that they face.

THE FINANCIAL MANAGEMENT STANDARDS

The detailed financial management standards set out in the FM Code are as follows:

Chapter 1	**The responsibilities of the chief finance officer and leadership team**
A	The leadership team is able to demonstrate that the services provided by the authority provide value for money
B	The authority complies with the CIPFA *Statement on the Role of the Chief Finance Officer in Local Government (2016)*
Chapter 2	**Governance and financial management style**
C	The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control
D	The authority applies the CIPFA/SOLACE *Delivering Good Governance in Local Government: Framework* (2016)
E	The financial management style of the authority supports financial sustainability

Chapter 3	**Medium to long-term financial management**
F	The authority has carried out a credible and transparent financial resilience assessment
G	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members
H	The authority complies with the CIPFA *Prudential Code for Capital Finance in Local Authorities*
I	The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans
Chapter 4	**The annual budget**
J	The authority complies with its statutory obligations in respect of the budget setting process
K	The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement of the adequacy of the proposed financial reserves
Chapter 5	**Stakeholder engagement and business cases**
L	The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget
M	The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions
Chapter 6	**Monitoring financial performance**
N	The leadership team takes action using reports, enabling it to identify and correct emerging risks to its budget strategy and financial sustainability
O	The leadership team monitors the elements of its balance sheet which pose a significant risk to its financial sustainability
Chapter 7	**External financial reporting**
P	The chief finance officer has personal responsibility for ensuring that the statutory accounts provided to the local authority comply with the *Code of Practice on Local Authority Accounting in the United Kingdom*
Q	The presentation of the final outturn figures and variations from budget allow the leadership team to make strategic financial decisions

THE AUTHORITY'S RESPONSIBILITIES IN DETERMINING COMPLIANCE WITH THE FM CODE

It is for the individual authority to determine whether it meets the standards and to make any changes that may be required to ensure compliance. Authorities should be able to provide evidence that they have reviewed their financial management arrangements against the standards and that they have taken such action as may be necessary to comply with them.

It is important to note, also, that the financial management standards are minimum standards. Some authorities may feel, with justification, that their own financial management arrangements exceed by far the standards set out in the FM Code. Recent experience suggests, however, that the standards set out in the FM Code have been by no means universally achieved.

CHAPTER 1

The responsibilities of the chief finance officer and leadership team

Robust financial management is at the heart of the authority's ability to achieve its objectives and to deliver high quality services to its local community.

Indeed, after over a decade of reductions in funding and a consequent need to achieve significant cost and efficiency savings, it is no doubt at the top of the agenda for most, if not all, authorities.

Responsibility for managing the authority's financial resources and for ensuring its long-term financial sustainability lies with those responsible for making executive decisions and their advisors.

This chapter of the guidance notes considers:

- the way in which the authority's leadership team is able to demonstrate that its services provide value for money
- the extent to which the authority complies with the CIPFA *Statement on the Role of the Chief Finance Officer in Local Government.*

It starts by exploring the key elements of value for money – economy, efficiency, effectiveness and equity – as well as the importance of striking a balance between them.

It looks at how the authority can promote value for money, though strong governance, robust management of finances and risk, the review of service delivery arrangements, monitoring of service performance, and ensuring that services are accessible to all who can benefit from them.

It also considers how the authority can demonstrate that its services – including those delivered through outsourced or other mechanisms – represent value for money, such as through internal oversight and scrutiny, external assessment of performance and proactive communication with local stakeholders.

CIPFA's *Statement on the Role of the Chief Finance Officer in Local Government* sets out a series of principles that govern the activities and behaviours of an effective CFO. This chapter of the guidance notes explores these principles and explains what they mean in practice. For PCCs and chief constables, please refer to the equivalent CIPFA *Statement for Police.*

Financial Management Standard A:

The leadership team is able to demonstrate that the services provided by the authority provide value for money

The achievement of value for money is the collective responsibility of elected members and senior officers, who together make up an authority's leadership team. In policing, the chief constable has a legal duty to secure value for money and the PCC, who holds the chief constable to account, has a legal duty to ensure value for money.

While the nature of the governance and management arrangements across local authorities – and other bodies to which the FM Code applies – may vary, the responsibilities of the leadership team in respect of achieving value for money from the authority's resources do not.

This means that, in order to achieve compliance with the FM Code, consideration of value for money should be an integral feature to the decisions made by the leadership team, especially those relating to the allocation of resources or to the delivery of services.

EXPLORING VALUE FOR MONEY

Value for money is a subjective concept. It depends not only on what one values, but also on what one considers an acceptable price to pay. So the perception of what does and what does not constitute good value for money will vary from one individual to another.

To facilitate the assessment of value for money, the concept is commonly broken down into four 'pillars', which are more readily measurable.

These pillars are as follows:

Economy 'Spending less'	Economy is a measure of the resources that the authority puts into the delivery of a given activity or service. To be economical, the authority should procure these inputs at the lowest possible cost, subject to maintaining appropriate standards of quality. *For example, an economical highways development scheme will procure the necessary resources (labour, materials, plant hire, etc) at the lowest possible unit cost.*
Efficiency 'Spending well'	Efficiency is about how well the authority translates these inputs into the outputs of an activity or a service. To be efficient, the authority should use the minimum possible level of inputs to produce each output, again subject to maintaining appropriate standards of quality. *For example, an efficient highways development scheme will minimise the volume of resources required to construct each mile of road, eg through proactive scheduling and minimisation of waste.*
Effectiveness 'Spending wisely'	Effectiveness considers the extent to which the outputs that the authority has generated lead to the outcomes that it wants to achieve. To be effective, the authority's actions should have the desired positive impact on people's lives, such as greater opportunity, improved skills or changed behaviours. *For example, an effective highways development scheme will have a clear rationale for the road under construction and will construct the right road, in the right place and at the right time.*

Equity 'Spending fairly'	Equity is about the extent to which the outcomes generated by the authority have been made accessible to all those who could benefit from them. To be equitable, the authority should ensure that it takes account of the ability of different individuals and groups to access its services and that it makes arrangements to ensure that these services are accessible to all who could benefit from them. *For example, an equitable highways development scheme would be accessible to all forms of traffic – including pedestrians and cyclists – and might also feature suitable pedestrian crossing points (with facilities for visually-impaired pedestrians and wheelchair users) and appropriate street furniture.*

In making decisions, allocating resources and planning the delivery of services, the authority should seek to ensure that its services are economical, efficient, effective and equitable. The authority should also be able to demonstrate that it has taken these factors into account when making decisions, allocating resources and planning the delivery of services.

There is, however, a delicate balance to be achieved across these four pillars of value for money. For example, using cheaper materials can improve the economy of an activity, but will have a negative impact on efficiency if sub-standard materials generate higher levels of waste. And it is perfectly possible to undertake an activity that is highly economical and supremely efficient, but ultimately ineffective in that it does not achieve what the authority set out to do.

Consequently, the authority may wish to consider not only how it will achieve economy, efficiency, effectiveness and equity, but also how it will find the right balance between these potentially competing factors.

HOW TO PROMOTE ECONOMY, EFFICIENCY, EFFECTIVENESS AND EQUITY

There are a number of actions that the authority could – and, in fairness, probably already does – take to promote the economy, efficiency, effectiveness and equity of its services and to demonstrate its compliance with the FM Code.

The first of these take the form of high-level governance and management arrangements:

A clear governance structure	The authority has a clear governance structure, with well-defined roles for all members of the leadership team. The collective responsibility of the leadership team for the achievement of value for money is made explicit.
Scrutiny arrangements	The authority's activities – including, but not limited to, decisions made by the leadership team – are subject to appropriate levels of scrutiny, for example by an overview and scrutiny committee or an audit committee.
Audit arrangements	The authority has in place arrangements for external and internal audit. The external auditor confirms, as part of their annual audit opinion, whether the authority has in place suitable arrangements to secure value for money. The remit of the authority's internal auditors includes consideration of value for money.
Clear objectives and strategy based on local need	The delivery of the authority's services is guided by a corporate plan, or a similar document, which sets out the authority's objectives and how it will meet them. This corporate plan is based on an assessment of local need and is approved by the leadership team.

Effective service and financial planning	The authority has in place detailed plans and strategies for the delivery of its principal services, which are consistent with the achievement of the objectives in the corporate plan. The authority also has in place an annual budget, setting out how the delivery of these services will be funded.

The authority can also help to achieve value for money by having in place robust arrangements surrounding the commitment of expenditure, the oversight of contracts with third parties and the management of risk:

Financial regulations	The authority has in place a suite of financial regulations, which set out how the authority manages its finances, and implements suitable mechanisms to ensure compliance with these regulations. The financial regulations may be supplemented by further guidance to members and officers on the implementation of the regulations.
Procurement regulations	The authority has in place, either as part of its financial regulations or as a stand-alone document, specific regulations regarding the procurement of goods and services. These include arrangements for ensuring that goods and services are procured in an economic manner.
Contract management arrangements	The authority has in place specific arrangements regarding the management of contracts with third-party suppliers, to ensure that the goods or services to which the contract applies are delivered as agreed. Contract management arrangements are proportional to the value and significance of the contract.
Risk management	The authority has in place a systematic approach to identifying, assessing and managing risks to the achievement of its objectives. This approach is applied at a corporate level as well as at the level of the delivery of individual services. Significant risks, and the actions being taken to mitigate them, are reported to the leadership team.

The authority may also wish to assess the extent to which its services represent value for money by reviewing explicitly the ways in which these services are delivered or by comparing the authority's own services and service performance with those of other authorities:

Efficiency reviews	The authority undertakes a programme of efficiency reviews, designed to assess the extent to which its principal services are operating efficiently and to make recommendations for improvement. These reviews are undertaken in accordance with an appropriate methodology. They could be undertaken by suitably-trained officers or by third party suppliers.
Benchmarking	The authority uses benchmarking techniques to assess the economy and efficiency of its services and to identify opportunities for improvement, by comparing key performance measures across services internally or with other authorities. This could take the form of a mutual data-sharing arrangement with other authorities or participation in a formal benchmarking scheme.
Peer review	The authority invites representatives of other authorities to review the delivery of specific services, to use their experience to assess how well these services are performing and to make recommendations for improvement. This could take the form of an informal arrangement with other authorities or participation in a formal peer review scheme.

There are also ways in which the authority could help to ensure that its services are effective, in that they are achieving the authority's objectives and meeting the needs of service users:

Monitoring of performance data	The authority collects and monitors appropriately-defined performance data to assess the extent to which its services are achieving their objectives. High level performance data is reported regularly to the leadership team. Prompt action is taken to address any areas of poor performance.
Service reviews	The authority undertakes a series of service reviews, designed to assess the extent to which services are achieving their objectives and meeting the needs of service users. Like the efficiency reviews discussed above, service reviews are undertaken in accordance with an appropriate methodology. They could be undertaken by suitably-trained officers or by third party suppliers.
User surveys	The authority undertakes a periodic survey of users of particular services, designed to assess the extent to which these services meet users' needs and to identify opportunities for improvement.
External assessments	The authority engages with statutory and non-statutory external reviews of its services, such as Ofsted reviews of children's social care services, and seeks to use the results of these reviews to improve the operation and management of the services under review. It is worth noting, furthermore, that the results of such reviews are used frequently by external auditors when forming their own conclusions about the arrangements in place across the authority to secure value for money.

While equity is a relatively recent addition to the concept of value for money, there are nevertheless things that the authority could do to ensure that its services are accessible to all those who could benefit from them:

Equality impact assessments	The authority undertakes equality impact assessments of policies, activities and services, to ensure that they do not – deliberately or inadvertently – discriminate against certain groups or individuals, especially those that are disadvantaged or vulnerable.
Engagement with service users	The authority engages with survey users from different backgrounds – for example, though a service user panel or similar – to assess the extent to which services are accessible to all users and potential users and to identify opportunities for improvement.
Engagement with the voluntary sector	The authority engages with voluntary organisations working with disadvantaged and vulnerable groups and individuals, to identify barriers to accessibility and to explore how its services could be made more accessible to those who could benefit from them.

DEMONSTRATING VALUE FOR MONEY

It is not sufficient, however, for the authority to simply achieve value for money in the delivery of its services. The authority's leadership team needs also to be able to demonstrate, in line with the requirements of the FM Code, that value for money is being sought and delivered.

Indeed, under proposed changes to the National Audit Office's (NAO) *Code of Audit Practice,* the authority's auditors, in seeking to reach a conclusion on the extent to which the authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources, will henceforth place greater emphasis than previously on the actions taken by the authority to improve economy, efficiency and effectiveness, including how it has used information about its costs and performance to improve the way it manages and delivers its services. This will apply only to those authorities that fall within the scope of the NAO's *Code of Audit Practice.*

The most straightforward way to demonstrate the authority's commitment to achieving value for money is to undertake a range of activities designed to ensure that the authority's services are economical, efficient, effective and equitable and to retain evidence that these activities have been undertaken and that the authority has used them to identify and to realise opportunities for improvement.

This could include, for example:

- an overview of the authority's governance arrangements and examples of how decisions are scrutinised
- details of efficiency or service reviews undertaken, together with their findings and any subsequent improvement action taken
- details of economy and/or efficiency savings achieved, together with how they have been achieved and the impact on the relevant services
- the results of user surveys and/or engagement with service users or voluntary sector organisations.

The authority could also draw on the judgements of others as to whether its activities represent value for money, such as its internal and external auditors, statutory reviews of individual services and, for police and fire services, inspection reports by Her Majesty's Inspecorate of Constabulary and Fire and Rescue Services.

The authority may also wish to communicate proactively to local stakeholders its approach to value for money and its performance in ensuring that value for money is achieved. This could include, for example:

- addressing value for money explicitly in the narrative report or annual governance statement in the authority's annual financial statements
- preparing an annual value for money report, summarising the action that it has taken to ensure that its services deliver value for money and how it has sought to improve their economy, efficiency, effectiveness and equity
- providing information via its website or other medium explaining how the authority works to ensure that its services deliver value for money and how it has sought to improve their economy, efficiency, effectiveness and equity.

The authority may wish to present its activities in respect of value for money in the context of a broader consideration of how it creates value for its local community. It could do this, for example, by adopting an approach such as integrated reporting, which helps organisations to communicate how their strategy, governance, performance and prospects, in the context of the external environment in which they operate, lead to the creation of value in the short, medium and long term.

VALUE FOR MONEY AND ALTERNATIVE DELIVERY MECHANISMS

As the demands placed on the public sector become ever more challenging and complex, many authorities opt to explore alternative arrangements for the delivery of public services and assets.

However, while the authority can delegate the delivery of such services or assets to its partners, it remains responsible for ensuring that these services and assets are delivered. It also remains accountable for services and assets that are delivered in its name.

Consequently, it is imperative that the authority has in place appropriate arrangements for ensuring effective oversight of and accountability for any alternative delivery mechanisms in which it has engaged.

THE NATURE OF ALTERNATIVE DELIVERY MECHANISMS

Such arrangements can take a number of forms, including:

Outsourcing contracts	The authority contracts with an external partner to deliver a service on its behalf. The partner may be a commercial entity or, increasingly, a voluntary sector organisation. *For example, the outsourcing of the authority's refuse collection contracts to a commercial provider.*
Private finance initiative (PFI) contracts	The authority engages with an external partner – or a consortium of partners – to design, build, finance and operate an infrastructure asset and associated services. *For example, the construction of a new headquarters building and the provision of facilities management services.*
Joint ventures	The authority shares an equitable stake in an enterprise with a public or private sector partner, sharing both the risk and the reward in the delivery of a service or asset. *For example, working with a homelessness charity to set up an advice hub for local people threatened with homelessness.*
Shared services arrangements	The authority pools its resources with those of other public sector partners, to benefit from efficiency savings and to increase service resilience. *For example, sharing a senior post with another authority or sharing 'back office' functions between several organisations.*
Local authority trading companies	The authority establishes an entity that is owned and controlled by it, but that operates in a commercial manner and (potentially) competes with other providers. *For example, setting up a company that provides civil engineering services to the authority and to external customers.*
Public service mutuals	The authority 'spins out' a service delivery entity, which demonstrates a high level of employee control, influence or ownership. *For example, the operation of libraries by teams of employed and volunteer staff outside the direct control of the authority.*

It must be noted that not all of these routes are open to all types of local authority. For example, PCCs and chief constables do not have powers to trade and therefore the route of local authority trading companies is not directly open to them, though they may collaborate with others who hold such powers, such as fire and rescue authorities.

PRINCIPLES FOR OBTAINING VALUE FOR MONEY

In order to ensure that alternative delivery mechanisms represent value for money, it is important that the authority establishes them carefully and oversees them wisely.

This includes:

- focusing on long-term value creation and sustainable service delivery, rather than on the achievement of short-term savings
- understanding and controlling costs within the financial context, safeguarding financial arrangements with a clear line of oversight
- understanding the nature and extent of risk inherent to such arrangements and ensuring that such risk is managed proactively and robustly
- creating a culture of openness and mutual respect, in which the partners can raise issues and concerns without fear of penalty
- promoting a collaborative, problem-solving approach among the partners, rather than a reliance on contractual provisions
- being adaptable to evolving circumstances, adopting a flexible and considered approach and recognising that sometimes things need to change
- embracing creativity, drawing on the combined skills, experience and expertise of the partner organisation(s)
- maintaining transparent and accountable arrangements for effective scrutiny and oversight, which respects the need for commercial confidentiality but is not constrained by it.

MAINTAINING EFFECTIVE 'LINE OF SIGHT' ACCOUNTABILITY ARRANGEMENTS

The authority should have in place appropriate arrangements for the effective oversight of any alternative delivery mechanisms upon which it relies for the delivery of services or assets.

While these arrangements should be tailored to the arrangement in question, some elements that might form part of these arrangements are as follows:

Governance arrangements	The arrangement has some kind of governing body, which brings together all partners to oversee its work. This body meets regularly and has appropriate administrative support. The authority has suitable representation on this governing body and participates actively in its deliberations.
Ways of working	The partners in the arrangement agree and implement appropriate ways of working. These cover things like operational management, financial management and communication. These arrangements may be set out in a contractual arrangement, but they are sufficiently flexible to respond to changing circumstances.
Performance measurement	The authority agrees with its partner(s) in the suitable ways to measure the performance for the arrangement. This might include development milestones, process measures, output targets or quality metrics. The partners also agree how, when and by whom performance will be measured.
Progress monitoring	The authority engages in regular monitoring of progress and performance in delivering the relevant service or asset. This encompasses all aspects of performance, including governance, management, operational, financial, quality and user satisfaction. Any performance deficiencies are addressed promptly, positively and proactively.
Input from service users	The authority – or its partner(s) – seeks regular feedback from service users and potential service users (if relevant) on the delivery of the service or asset, to ensure that it meets their needs and that the partner(s) are not focusing solely on easy-to-reach service users at the expense of those with more complex needs.
Client-side capacity	The authority ensures that it has available sufficient and appropriate internal resources to manage effectively its involvement in the arrangement and to maintain effective oversight of it. This includes securing the engagement of the authority's leadership team.
Financial transparency	The authority maintains oversight of the financial management of the arrangement. This might include regular financial reports and reporting against key financial performance metrics. The authority also seeks, where feasible, to implement open-book accounting arrangements, as they offer a transparent and fair way of procuring and delivering services and assets in the public sector.

Key questions

- Does the authority have a clear and consistent understanding of what value for money means to it and to its leadership team?
- Does the authority have suitable mechanisms in place to promote value for money at a corporate level and at the level of individual services?
- Is the authority able to demonstrate the action that it has taken to promote value for money and what it has achieved?

Financial Management Standard B:

The authority complies with the CIPFA *Statement on the Role of the Chief Finance Officer in Local Government*

This element of the guidance notes summarises the requirements set out within the CIPFA *Statement on the Role of the Chief Finance Officer in Local Government* or police equivalent.

The FM Code requires that the authority complies with CIPFA's *Statement on the Role of the Chief Financial Officer in Local Government*. This statement describes the roles and responsibilities of the chief financial officer (CFO). It also sets out how the requirements of legislation and professional standards should be fulfilled by the CFO as they carry out their duties.

If the authority adopts different organisational arrangements from those that are set out in the statement, the authority should set out in its annual governance statement why this is the case and how its arrangements deliver the same impact as those set out in the statement.

For the purposes of the FM Code, the CIPFA *Statement on the Role of the Chief Financial Officer of the Police and Crime Commissioner and the Chief Financial Officer of the Chief Constable* (2012) should be substituted for references to the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government* in applicable authorities.

This section summarises the requirements of the statement. The statement also sets out further ideas for how these requirements can be implemented, to which authorities may wish to refer when assessing their adherence to the statement and to the FM Code.

THE CHIEF FINANCIAL OFFICER

The CFO is the authority's most senior executive role charged with leading and directing financial strategy and operations.

The statement sets out the five principles that define the core activities and behaviours that belong to the role of the CFO in local authorities and the organisational arrangements needed to support them.

Compliance with the FM Code requires that each of these principles is demonstrated reliably and consistently across the authority.

- **Principle 1:** The CFO in a local authority is a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver the authority's strategic objectives sustainably and in the public interest.
- **Principle 2:** The CFO in a local authority must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered and aligned with the authority's overall financial strategy.
- **Principle 3:** The CFO in a local authority must lead the promotion and delivery by the whole authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently, and effectively.

- **Principle 4:** The CFO in a local authority must lead and direct a finance function that is resourced to be fit for purpose.
- **Principle 5:** The CFO in a local authority must be professionally qualified and suitably experienced.

KEY MEMBER OF THE LEADERSHIP TEAM

Local authorities are required to have a suitably qualified CFO with defined responsibilities and powers. The governance requirements in the statement – and, therefore, the requirements of the FM Code – are that the CFO:

- should be professionally qualified
- should report directly to the chief executive or equivalent and
- should be a member of the leadership team, with a status at least equivalent to other members.

The leadership team is collectively responsible for setting the strategic direction for the authority, for the management of its finances and for the delivery of public services. While performing a key corporate role within the leadership team, the CFO also has a responsibility to advise those members not in executive or leadership roles.

In policing in England and Wales, the relevant CFO should report directly to the chief constable or the PCC. It is the PCC who sets the strategic direction working with the chief constable, with the support of their leadership teams.

The CFO must participate in the strategy development and implementation responsibilities of the leadership team. The CFO must also ensure that the members of the leadership team have the financial capabilities necessary to perform their own roles effectively.

As well as having a fundamental concern for probity and control, the CFO must be proactive in managing change and risk, be focused on outcomes, and help to resource the authority's plans for change and development in the public services it provides.

The CFO must contribute actively to organisational issues and to corporate decision making. They must also exercise a professional responsibility to intervene in spending plans in order to maintain a suitable balance of resources, so that the authority remains in sound financial health.

ACTIVELY INVOLVED IN ALL MATERIAL BUSINESS DECISIONS

The CFO should play a leading role in advising and supporting the leadership team in turning policy aspirations into reality, by aligning financial planning and resources with the authority's vision and strategic objectives.

The CFO has direct responsibility for leading the development and implementation of the financial strategy necessary to deliver the authority's strategic objectives in a sustainable manner. The CFO must therefore work closely with decision makers to establish a medium to long-term strategy that ensures the financial sustainability of the authority.

The CFO must also develop and manage resource allocation models to optimise service outputs and community benefits within funding constraints and any tax-raising limits. In implementing these models, the CFO must ensure that the financial and risk implications of policy initiatives are analysed and addressed appropriately.

The CFO should be actively involved in, and able to bring influence to bear on, all material business decisions whenever and wherever they are taken. The CFO also has an important role to play in ensuring that necessary financial information and advice is provided to the leadership team and decision makers at all levels across the authority.

LEAD THE PROMOTION AND DELIVERY OF GOOD FINANCIAL MANAGEMENT

The CFO must take the lead in establishing a strong framework for implementing and maintaining good financial management across the authority. The CFO must also promote financial literacy throughout the authority, so that the leadership team and managers can discharge their financial management responsibilities, alongside their wider responsibilities in relation to risk and performance management.

The CFO will need to take the lead in coordinating and facilitating a culture of efficiency and value for money. Better value for money releases resources that can be recycled into delivering more and better services, without increasing taxation. Helping to secure positive social outcomes within affordable funding therefore lies at the heart of the CFO's role in the local authority.

Furthermore, the CFO must lead the implementation and maintenance of a framework of financial controls and procedures for managing financial risks, and must determine accounting processes and oversee financial management procedures that enable the authority to budget and manage within its overall resources.

LEADING AND DIRECTING A WELL-RESOURCED FINANCE FUNCTION

The finance function must have a firm grasp of the authority's financial position and performance. The CFO must ensure that there is sufficient depth of financial expertise, supported by effective systems, to discharge this responsibility and to challenge those responsible for the authority's activities to account for their financial performance.

A strong customer focus both externally and internally must be a key feature of the way the finance function does business. The finance function must support the authority's broader development agenda, by appraising investment options and change programmes and contributing creative financial solutions within an effective risk management framework.

The CFO must promote financial literacy throughout the authority, including championing training and the development of relevant skills at all levels. However, the CFO has a particular responsibility for learning and development amongst finance staff, in order to ensure that both current and likely future finance skills needs are addressed.

PROFESSIONALLY QUALIFIED AND SUITABLY EXPERIENCED

The CFO must be able to exercise financial leadership throughout the authority. The CFO must adhere to the professional values of accuracy, honesty, integrity, objectivity, impartiality, transparency and reliability and must promote these throughout the finance function.

The CFO must communicate complex financial information in a clear and credible way. The CFO must also have the confidence to give impartial and objective advice even if it may be unwelcome, and be sufficiently forceful to intervene if financial or ethical principles need to be asserted or defended.

In England and Wales, the officer appointed as the CFO must be a member of a recognised accountancy body. There is no equivalent statutory requirement in Northern Ireland and Scotland although, in both cases, this is widely acknowledged to be good practice.

The CFO must have a good understanding of the principles of financial management and an understanding of, and commitment to, the wider ‘business’, looking beyond narrow financial objectives, to inspire respect, confidence and trust amongst colleagues, inspectors and stakeholders.

The CFO must also have a good understanding of public sector finance and its regulatory environment and must comply with relevant professional standards. Furthermore, the CFO must personally set the tone throughout the authority that financial management matters and that it is a key part of everyone’s job.

Key questions

- Is the authority’s CFO a key member of the leadership team, involved in, and able to bring influence to bear on, all material business decisions?
- Does the CFO lead and champion the promotion and delivery of good financial management across the authority?
- Is the CFO suitably qualified and experienced?
- Is the finance team suitably resourced and fit for purpose?

CHAPTER 2

Governance and financial management style

Good governance lies at the heart of the authority's ability to achieve its objectives, to manage its finances and to maintain the trust of those that it serves. It also encourages more robust decision making, greater scrutiny of decisions and better planning for the future.

This chapter of the guidance notes considers:

- how the authority's leadership team demonstrates in its actions and behaviours responsibility for governance and internal control
- the degree to which the authority applies the CIPFA/SOLACE *Delivering Good Governance in Local Government: Framework* (2016)
- the way in which the financial management style of the authority supports financial sustainability.

It starts by considering how the authority can establish a suitable framework for governance and internal control and how it can seek assurance that this framework is working effectively in practice. It also explores how the leadership team can espouse high standards of governance and internal control and how it can create, maintain and nurture a culture of robust governance and internal control throughout the authority.

The CIPFA/SOLACE *Delivering Good Governance in Local Government Framework* defines the principles that should underpin the governance of each local government organisation. This chapter discusses these principles and sets out how the authority can embed them into its activities and operations. There is a strong link between the principles of the good governance framework and the FM standards and reading both reinforces consistency and coherence.

Financial sustainability is about the ability of the authority to continue to fund its activities not just in the present, but also in an uncertain future. This chapter outlines some of the challenges that the authority may face to its financial sustainability. It also introduces the four dimensions of financial management set out in the CIPFA Financial Management Model and explores how these can be used to develop and embed a financial management style that helps the authority to address these challenges.

Financial Management Standard C:

The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control

In setting out the requirement for the authority's leadership team to demonstrate in its actions and behaviours responsibility for governance and internal control, the FM Code emphasises the importance of the 'Nolan principles'.

These principles have been set out by the Committee on Standards in Public Life and form the basis of the ethical standards expected of public office holders.

The principles are as follows:

1. Selflessness	Holders of public office should act solely in terms of the public interest.
2. Integrity	Holders of public office must avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any interests and relationships.
3. Objectivity	Holders of public office must act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias.
4. Accountability	Holders of public office are accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this.
5. Openness	Holders of public office should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for so doing.
6. Honesty	Holders of public office should be truthful.
7. Leadership	Holders of public office should exhibit these principles in their own behaviour. They should actively promote and robustly support the principles and be willing to challenge poor behaviour wherever it occurs.

The last of these principles is especially important for the purposes of the FM Code, as it highlights the need not only to acknowledge these principles, but also to ensure that the authority's leadership team – and, indeed, individuals throughout the authority – demonstrate them in their own actions and behaviours on a daily basis.

In order for the leadership team to demonstrate responsibility for governance and internal control, and therefore to ensure compliance with the FM Code, consideration should be given to the effectiveness of the arrangements in place including:

- establishing a clear framework for governance and internal control across the authority, including for those entities with which the authority works in partnership
- establishing clear arrangements for assurance and accountability
- espousing high standards of governance and internal control in its own activities
- creating, maintaining and nurturing a culture in which governance and internal control are embedded into the way in which the authority works.

As organisational complexity grows it is likely that there will also be an increase in partnership working or the use of other delivery structures. The leadership team must ensure appropriate arrangements are operating effectively. This is necessary to ensure that services are sustainable and to protect the authority from the risk associated with the failure of contracts with such partners.

Specific actions that the leadership might take in each of these respects, which will help it to comply with the requirements of the FM Code, are explored in more detail below.

ESTABLISHING A CLEAR FRAMEWORK FOR GOVERNANCE AND INTERNAL CONTROL

A clear framework for governance and internal control is a cornerstone of the authority's ability to operate effectively. Some key elements of this framework are as follows:

Constitution	The authority has in place a constitution that sets out how it operates, how decisions are made and how the authority ensures that its activities are appropriate, transparent and accountable to local people. This constitution is readily available to all members of the leadership team, officers and members of the public.
Governance structure	The authority has in place a formal governance structure that is appropriate to the way in which it operates. This includes relevant committees and reporting lines, including in particular the provision for scrutiny of the decisions and actions of the leadership team.
Terms of reference	All committees and other elements of the authority's governance structure have formal, agreed terms of reference, setting out the scope of their responsibilities. They also have a defined membership and a suitable, pre-agreed schedule of meetings and work plan.
Conduct of meetings	Each meeting of the committees forming part of the authority's governance structure is guided by an agenda and has its proceedings and decisions recorded in formal, written minutes. Members of the committee, and others who may reasonably wish to address the committee, are given adequate notice of such meetings.
Scheme of delegation	The authority has in place a formal scheme of delegation, which sets out which individuals or committees are entitled to make which decisions. Specifically, it details which decisions are reserved for the authority acting as a corporate body, which can be taken by its committees, specified individual members of the leadership team, the chief executive (or equivalent) and specific officers. Within their overall scheme of governance, PCCs and chief constables in England and Wales also have a scheme of consent, reflecting their relationship as two separate legal entities.
Robust processes and controls	The authority has developed and implemented formal processes for its key activities, to ensure that they are undertaken robustly, efficiently and effectively. These processes are subject to suitable controls, so that the authority can be sure that the processes are implemented as designed.
Partnership governance	Where the authority works in partnership with other organisations in the delivery of services, it has in place appropriate arrangements to oversee these partnerships, to ensure that they are operating effectively and to monitor the achievement of the partnership's objectives.

ESTABLISHING CLEAR ARRANGEMENTS FOR ASSURANCE AND ACCOUNTABILITY

The authority will wish to seek assurance that its governance and internal control arrangements are operating effectively and that those responsible for the effective operation of these arrangements are held accountable. Some ways to achieve this are as follows:

Internal audit	The authority has in place formal arrangements for the provision of an internal audit function, which conforms to the Public Sector Internal Audit Standards. Conformity with these standards is verified by external assessment at least once every five years.
Head of Internal Audit	The authority ensures that the head of internal audit is able to fulfil their role effectively, in line with the responsibilities set out in the CIPFA *Statement on the Role of the Head of Internal Audit* (2019).
Internal audit planning, reporting and resourcing	Internal audit works to an agreed plan, which is based on a robust analysis of the authority's governance and internal control arrangements, the environment within which the authority operates and the risks and challenges that it faces. Internal audit is resourced adequately and reports to an audit committee.
Risk management	The authority has in place a robust approach to the identification, assessment and management of risks to the achievement of its objectives and to the delivery of services. Responsibility for the management of individual risks is allocated clearly. The status of significant risks and their management is reported regularly to the audit committee and to the leadership team.
Audit committee	The authority maintains an effective audit committee in accordance with the principles in CIPFA's *Position Statement on Audit Committees in Local Authorities and Police* (2018) and the supporting guidance publication. Its responsibilities include receiving reports on and monitoring the implementation of internal and external audit recommendations. When threats to the financial sustainability of the authority are identified by auditors, the audit committee ensures that the recommendations are communicated to the leadership team and that the committee is informed of the effectiveness of the leadership team's response. Police audit committees are advisory, supporting the PCC and chief constable. See CIPFA's website for details about its support for audit committees.
External audit and inspection	Recommendations for corrective action made by the authority's external auditors are acted upon promptly. Furthermore, the authority welcomes – and, indeed, actively seeks out – peer challenge, reviews and inspections from regulatory bodies and implements any recommendations that result from them.

ESPOUSING HIGH STANDARDS OF GOVERNANCE AND INTERNAL CONTROL

The leadership team also needs to ensure that it maintains high standards of governance and internal control in its own activities. In addition to engaging proactively with the points outlined above, your arrangements are likely to include:

Code of conduct	The authority establishes formal codes of conduct for members of the leadership team, both officers and members. These codes of conduct are consistent with the Nolan principles, with the latest recommendations from the Committee on Standards in Public Life (reported in its 2019 report *Local Government Ethical Standards*) and with any other relevant principles or codes of practice. Members of the leadership team are required to confirm that they agree to comply with the relevant code of conduct. Any potential breaches are investigated promptly and proactively and suitable action is taken where breaches are found to have occurred.
Register of interests	The authority maintains an up-to-date register of interests for all members of the leadership team. This includes all interests that could potentially influence – or be seen to influence – a member of the leadership team's ability to act impartially in their role or when making decisions. Should a conflict of interests, either actual or perceived, arise, the authority takes appropriate steps to resolve it. The authority's approach to addressing conflicts of interests is recorded in a formal policy or document.
Constructive challenge	The leadership team espouses the principle of constructive challenge to all of its decisions and activities. Consequently, it has developed and implemented appropriate mechanisms to enable this challenge, such as: ▪ engagement with relevant audit, scrutiny or oversight committees ▪ engagement with the authority's internal auditors ▪ consultation with relevant stakeholders prior to making decisions ▪ consultation on new policies, plans and strategies. Being open to constructive challenge requires a degree of humility on the part of the leadership team. It does, however, result in better decisions for the authority.
Realism bias	The authority bases its decisions on a robust analysis of the current situation, rather than on what it would like the situation to be or what it needs the situation to be in order for a preferred option to work. This is demonstrated through: ▪ detailed analysis of the current situation prior to significant decisions being made ▪ a clear and robust decision-making procedure ▪ engagement with relevant stakeholders ▪ the seeking of appropriate professional advice ▪ the use of realistic, evidence-based targets (eg for financial savings), rather than overly optimistic ones that may not be achievable in practice.
Balanced decision making	The authority seeks, in its decision making, to achieve a suitable balance between the desired social outcomes on the one hand, and the available financial resources and need for administrative efficiency, on the other. This is demonstrated through the use of, for example, suitable option appraisal techniques when making significant decisions as well as consideration of alternative models of service delivery.

CREATING, MAINTAINING AND NURTURING A CULTURE OF GOVERNANCE AND INTERNAL CONTROL

The 'tone at the top' is one of the main factors that influence the way in which the authority works. Consequently, the leadership team would be well advised to seek to create, maintain and nurture a culture of effective governance and internal control. In addition to the ideas discussed above, ways in which the leadership team can support such a culture include the following:

Walk the talk	The leadership team demonstrates a high standard of governance and internal control at all times and embraces conscientiously the authority's governance and internal control processes. Any suggestion that these standards do not apply to the leadership team is avoided. Indeed if anything, the leadership team holds itself to higher standards than it demands of the rest of the authority.
Strive for continuous improvement	The authority seeks to improve continuously its standards of governance and internal control. This could include, for example: ■ seeking to comply with new codes of practice as they are issued by relevant public or professional bodies ■ participating in quality mark schemes, award schemes and other development opportunities ■ responding appropriately to the findings of internal audit reviews, external audit recommendations and external inspections.
Reward good behaviours	The authority seeks to reward positive behaviours in respect of governance and internal control, for example by including such matters in role descriptions and individuals' performance goals and by assessing them in annual performance appraisals.
Don't tolerate bad governance or poor control	The authority ensures that any behaviour that falls short of the required standards of governance and internal control is identified and dealt with promptly and effectively. If poor governance or internal control is tolerated, it could percolate rapidly across the authority and dilute any messages that the leadership team might promote about the importance of high standards in these respects.

Key questions

- Does the leadership team espouse the Nolan principles?
- Does the authority have in place a clear framework for governance and internal control?
- Has the leadership put in place effective arrangements for assurance, internal audit and internal accountability?
- Does the leadership team espouse high standards of governance and internal control?
- Does the leadership team nurture a culture of effective governance and robust internal control across the authority?

Financial Management Standard D:

The authority applies the CIPFA/SOLACE *Delivering Good Governance in Local Government: Framework* (2016)

This element of the guidance notes summarises the requirements set out within the CIPFA/SOLACE *Delivering Good Governance in Local Government: Framework* and will act as a reminder to those already familiar with these principles.

The framework was introduced in 2016 and from this time all annual governance statements (AGS) will have used the framework in line with requirements from the government's Accounts and Audit Regulations 2015 and the latest version of the CIPFA *Code of Practice on Local Authority Accounting in the United Kingdom.*

The CIPFA/SOLACE *Delivering Good Governance in Local Government Framework* defines the principles that should underpin the governance of each local government organisation. It is based on the CIPFA/IFAC *International Framework on Good Governance in the Public Sector* (2014).

The framework provides a structure to help the authority to ensure that it has in place robust and effective governance arrangements. In order to comply with the FM Code, the authority should ensure that it has implemented the guidance contained in the framework across its activities.

To ensure compliance with the FM Code, whatever form of governance arrangements are in place across the authority, the authority should assess its governance structures against the principles contained in the framework by:

- reviewing its existing governance arrangements
- developing and maintaining an up-to-date local code of governance, including arrangements for ensuring the ongoing effectiveness of this local code
- reporting publicly on an annual basis its compliance with the authority's local code of governance and how the authority has monitored the effectiveness of its governance arrangements, together with how it plans to improve these arrangements in the future.

This reporting on compliance, effectiveness and improvement can usually be undertaken within the authority's AGS, which must be published alongside its financial statements.

THE PRINCIPLES OF THE GOOD GOVERNANCE FRAMEWORK

The framework sets out a series of core principles, which underpin the notion of good governance across the authority and its partnerships.

These core principles are as follows:

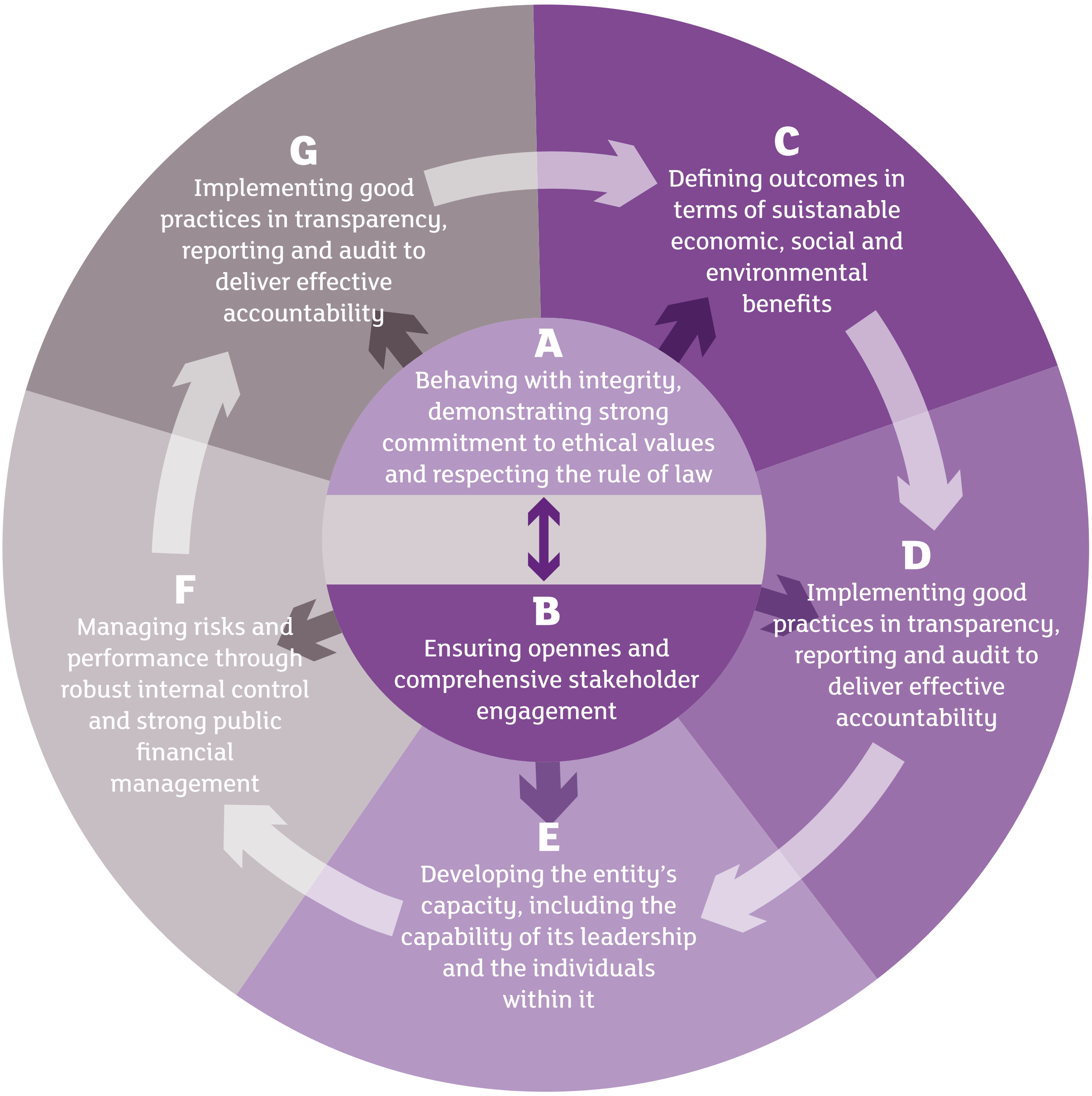
Principle A:	Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law.
Principle B:	Ensuring openness and comprehensive stakeholder engagement.
Principle C:	Defining outcomes in terms of sustainable economic, social, and environmental benefits.
Principle D:	Determining the interventions necessary to optimise the achievement of the intended outcomes.
Principle E:	Developing the entity's capacity, including the capability of its leadership and the individuals within it.

Principle F:	Managing risks and performance through robust internal control and strong public financial management.
Principle G:	Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

The intention of the framework is that principles A and B underlie the implementation of principles C to G. The idea is that good governance is dynamic and that the authority as a whole should be committed to improving governance on a continuing basis through a process of evaluation and review.

These core principles are displayed graphically in Figure 1 below.

Figure 1: The core principles of Delivering Good Governance in Local Government Framework



Source: CIPFA *Delivering Good Governance in Local Government Framework* (2016).

Each of the core principles of the framework encompasses a suite of sub-principles, which are in turn supported by a series of behaviours and actions, which aim to demonstrate good governance in practice.

These principles, sub-principles, behaviours and actions provide useful guidance and ideas as to how the authority can ensure that it complies with both the framework and the FM Code.

Integrity, ethical values and the rule of law

The authority is accountable not only for how much it spends, but also for how it uses the resources under its stewardship. This includes accountability for outputs, both positive and negative, and for the outcomes the authority has achieved.

In addition, the authority has an overarching responsibility to serve the public interest, by adhering to the requirements of legislation and government policies.

It is essential that, as a whole, the authority can demonstrate the appropriateness of its actions across all activities and that it has mechanisms in place to encourage and enforce adherence to ethical values and to respect the rule of law.

Openness and stakeholder engagement

Local government is run for the public good. The authority should, therefore, ensure openness in its activities. It should use clear, trusted channels of communication and consultation to engage effectively with all groups of stakeholders, such as individual citizens and service users, as well as institutional stakeholders.

Sustainable economic, social and environmental benefits

The long-term nature and impact of many of local government's responsibilities mean that it should define and plan outcomes and that these should be sustainable.

Decisions should further the authority's purpose, contribute to intended benefits and outcomes, and remain within the limits of its authority and resources.

Input from all groups of stakeholders, including citizens, service users, and institutional stakeholders, is vital to the success of this process and to balancing competing demands when determining priorities for the finite resources available.

Achievement of intended outcomes

Local government achieves its intended outcomes by providing a mixture of legal, regulatory and practical interventions. Determining the right mix of these courses of action is a critically important strategic choice that the authority has to make to ensure intended outcomes are achieved.

This requires robust decision-making mechanisms to ensure that the desired outcomes can be achieved in a way that provides the best trade-off between the various types of resource inputs while still enabling effective and efficient operations.

Capacity and capability

Local government needs appropriate structures and leadership, as well as people with the right skills, appropriate qualifications and mindset, to operate efficiently and effectively and to achieve intended outcomes within the specified periods.

A local government organisation must ensure that it has the capacity to fulfil its own mandate and the policies in place to guarantee that its management has the operational capacity for the organisation as a whole.

Because both the individuals working within the authority and the environment in which the authority operates will change over time, there will be a continuous need to develop the authority's capacity, as well as the skills and experience of individual staff members.

Managing risks and performance

Local government needs to ensure that the organisations and governance structures that it oversees have implemented, and can sustain, an effective performance management system that facilitates effective and efficient delivery of planned services.

Risk management and internal control are important and integral parts of a performance management system and are crucial to the achievement of outcomes. Risk should be considered and addressed as part of all decision-making activities.

A strong system of financial management is essential for the implementation of policies and the achievement of intended outcomes, as it will enforce financial discipline, strategic allocation of resources, efficient service delivery and accountability.

It is also essential that a culture and structure for scrutiny are in place as a key part of accountable decision making, policy making and review. A positive working culture that accepts, promotes and encourages constructive challenge is critical to successful scrutiny and service delivery.

Transparency, reporting and audit

Accountability is about ensuring that those making decisions and delivering services are answerable for them.

Effective accountability is concerned not only with reporting on actions completed, but also with ensuring that stakeholders are able to understand and respond as the organisation plans and carries out its activities in a transparent manner.

ANNUAL REVIEW AND REPORTING

The authority is required to prepare an annual governance statement, in order to report publicly on the extent to which it complies with its own code of governance, which in turn is consistent with the good governance principles in the framework.

This includes how the authority has monitored and evaluated the effectiveness of its governance arrangements in the year, together with any planned changes in the coming period. The process of preparing the governance statement should itself add value to the effectiveness of the governance and internal control framework.

The annual governance statement should provide a meaningful but brief communication regarding the review of governance that has taken place, including the role of the governance structures involved (such as the authority, the audit committee and other committees). It should be high level, strategic and written in an open and readable style.

The AGS should include:

- an acknowledgement of responsibility for ensuring that there is a sound system of governance (incorporating the system of internal control) and reference to the authority's code of governance
- reference to and assessment of the effectiveness of key elements of the governance framework and the role of those responsible for the development and maintenance of the governance environment, such as the authority, the executive, the audit committee, internal audit and others as appropriate
- an opinion on the level of assurance that the governance arrangements can provide and confirmation (if possible) that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework
- an agreed action plan showing actions taken, or proposed, to deal with significant governance issues
- reference to how issues raised in the previous year's annual governance statement have been resolved
- a conclusion on the authority's governance arrangements and a commitment to monitoring implementation as part of the next annual review.

The AGS should be signed by the leading member (or equivalent) and chief executive (or equivalent) on behalf of the authority. The annual governance statement should be approved at a meeting of the authority or delegated committee (in Scotland, the authority or a committee with a remit including audit or governance). For police bodies in England and Wales, separate annual governance statements should be signed by the PCC and the chief constable as they are separate legal entities. No approval by committee is needed.

The authority is required to include the AGS with its statement of accounts. As the annual governance statement provides a commentary on all aspects of the authority's performance, it is appropriate for it to be published, either in full or as a summary, in the annual report, where one is published.

The production of a suitable AGS is a key piece of evidence that the authority has sought to comply not just with the framework and its own governance code, but also with the FM Code.

ADDITIONAL GUIDANCE ON THE IMPLEMENTATION OF THE FRAMEWORK

In recognition of the separate legislation applicable to different parts of local government and the impact that this will have on individual authorities' governance arrangements, separate guidance notes to accompany the framework are available for:

- local government in England
- local government in Wales

- PCCs and chief constables in England and Wales
- local government in Scotland.

The guidance notes are intended to assist the authority in reviewing its governance arrangements. They will also help the authority to interpret the overarching principles and terminology contained in the framework in a way that is appropriate to its governance structures, taking account of the legislative and constitutional arrangements that underpin them.

Key questions

- Has the authority sought to apply the principles, behaviour and actions set out in the framework to its own governance arrangements?
- Does the authority have in place a suitable local code of governance?
- Does the authority have a robust assurance process to support its AGS?

Financial Management Standard E:

The financial management style of the authority supports financial sustainability

Financial sustainability is about the ability of the authority to continue to fund its activities not just in the present, but also in an increasingly uncertain future. Developing a robust approach to ensuring the financial sustainability of the authority's activities is central to compliance with the FM Code.

Achieving financial sustainability requires the authority to have the capacity, the capability and the confidence to plan for the long term and to focus on the achievement of longer-term objectives, rather than to exist simply from year to year.

Unfortunately, authorities face a range of challenges that can impact on their ability to plan effectively for the future and to develop and maintain a sustainable financial strategy.

These include:

- changes to the nature and level of public funding
- an ageing population
- ongoing pressures on adult and children's social care and other service areas
- a drive for greater efficiency in response to resource constraints
- increased demand for affordable housing
- uncertainty regarding the UK's ongoing relationship with the EU
- new risks associated with commercialisation.

Critical to the authority's ability to address these and other challenges is to have in place a robust approach to financial management, together with the capacity and capability to implement this approach consistently over time.

This includes ensuring that those individuals with specific responsibility for aspects of the authority's governance and financial management arrangements have the delegated powers and the appropriate skills and training to fulfil these responsibilities.

THE HIERARCHY OF FINANCIAL MANAGEMENT STYLES

In its Financial Management Model, which seeks to help authorities to develop an effective financial management style, CIPFA identifies a hierarchy of three financial management styles, namely:

A financial management style that supports performance can only be achieved once the authority has developed and embedded a financial management style that delivers accountability. A style that enables transformation can only be achieved once the other two elements of the hierarchy are in place.

Consequently, this hierarchy represents a sort of maturity model, to facilitate the development of the authority's approach to financial management over time and to help it to enhance its capacity and capability to create a financial management style that supports – and, indeed, promotes – financial sustainability.

DIMENSIONS OF FINANCIAL MANAGEMENT

The Financial Management Model sets out four dimensions of financial management. These cover a blend of 'hard-edged' attributes – things that the authority can cost and measure – as well as softer features like communications, motivation, behaviour and cultural change.

The dimensions are:

- **Leadership**, which focuses on strategic direction and business management, and on the impact on financial management of the vision and involvement of the authority's leadership team. The tone set from the top is critical.
- **People**, which includes both the competencies and the engagement of staff, within and throughout the authority.
- **Processes**, which examines the authority's ability to design, manage, control and improve its financial processes to support its policy and strategy.
- **Stakeholders**, which acknowledges the relationships between the authority and those with an interest in its financial health. The authority interacts with a complex web of stakeholders, such as central government, inspectors, taxpayers, partners, suppliers, customers or service users. External stakeholders have legitimate expectations about the finances of the authority. This is enveloped by the public interest.

These dimensions are deliberately related to other well-used quality and performance management tools, such as the balanced scorecard and the European Foundation for Quality Management model.

Within each of these dimensions, the Financial Management Model sets out the attributes that collectively characterise each level of the financial management hierarchy. These attributes would also allow the authority to demonstrate that it has developed and embedded an appropriate financial management style in the way in which it operates.

Leadership

Delivering accountability	■ Financial capability is regarded as integral to supporting the delivery of the authority's objectives. The CFO (or equivalent) is an active member of the leadership team, is at the heart of corporate strategy/business decision making and leads a highly visible, influential and supportive finance team. ■ The authority has an effective framework of financial accountability that is understood clearly and applied throughout the organisation, from the leadership team through to front line service managers. ■ Within an annual budget-setting process the authority's leadership team sets income requirements, including taxation income, and allocates resources to different activities in order to achieve its objectives. The authority monitors its financial and activity performance in delivering planned outcomes.

Supporting performance	■ The authority has a developed financial strategy to underpin medium and longer-term financial health. The authority integrates its business and financial planning so that it aligns resources to meet current and future outcome-focused business objectives and priorities. ■ The authority develops and uses financial/leadership expertise in its strategic decision making and its performance management based on an appraisal of the financial environment and cost drivers.
Enabling transformation	■ The authority's leadership team integrates financial management into its strategies to meet future business needs. Its financial management approach supports the change agenda and a culture of customer focus, innovation, improvement and development.

People

Delivering accountability	■ The authority identifies its financial competency needs and puts arrangements in place to meet them. ■ The authority has access to sufficient financial skills to meet its business needs.
Supporting performance	■ The authority manages its finance function to ensure efficiency and effectiveness. ■ Finance staff provide business partner support by interpreting and explaining performance as well as advising and supporting on key business decisions. ■ Managers understand they are responsible for delivering services cost effectively and are held accountable for doing so. Financial literacy is diffused throughout the organisation so that decision makers understand and manage the financial implications of their decisions.
Enabling transformation	■ The authority develops and sustains its financial management capacity to help shape and support its transformational programme.

Processes

Delivering accountability	■ Budgets are accrual-based and calculated robustly. ■ The authority operates financial information systems that enable the consistent production of comprehensive, accrual-based, accurate and up-to-date data that fully meets users' needs. ■ The authority operates and maintains accurate, timely and efficient transactional financial services (eg creditor payments, income collection, payroll, and pensions administration). ■ The authority's approach to treasury management is risk based. It manages its investments, cash flows, banking, money market and capital market transactions effectively, balancing risk and financial performance. ■ The authority actively manages budgets, with effective budget monitoring arrangements that ensure 'no surprises' and trigger responsive action. ■ The authority maintains processes to ensure that information about key assets and liabilities in its balance sheet is a sound and current platform for management action. ■ Management understands and addresses its risk management and internal control governance responsibilities. ■ Management is supported by effective assurance arrangements, including internal audit, and audit and risk committee(s). ■ The authority's financial accounting and reporting are accrual-based, comply with the *Code of Practice on Local Authority Accounting in the United Kingdom*, and meet relevant professional and regulatory standards.
Supporting performance	■ The authority's medium-term financial planning process underpins fiscal discipline, is focused upon the achievement of strategic priorities and delivers a dynamic and effective business plan. ■ Forecasting processes and reporting are well-developed and supported by accountable operational management. Forecasting is insightful and leads to optimal decision making. ■ The authority systematically pursues opportunities to reduce costs and to improve value for money in its operations. ■ The authority systematically pursues opportunities for improved value for money and cost savings through its procurement, commissioning and contract management processes. ■ The authority continually re-engineers its financial processes to ensure delivery of agreed outcomes is optimised. ■ The authority manages its finance function to ensure efficiency and effectiveness.
Enabling transformation	■ The authority's financial management processes support organisational change.

Stakeholders

Delivering accountability	■ The authority provides external stakeholders with evidence of the integrity of its financial conduct and performance, and demonstrates fiscal discipline including compliance with statutory, legal and regulatory obligations.
Supporting performance	■ The authority demonstrates that it achieves value for money in the use of its resources.
Enabling transformation	■ The authority is responsive to its operating environment, seeking and responding to customer and stakeholder service and to spending priorities that impact on its financial management.

In seeking to comply with – and to demonstrate compliance with – the FM Code, the authority may wish to have regard to the dimensions of the Financial Management Model and to the attributes inherent to each of these.

These attributes are not, however, mandatory requirements of the FM Code, unless required specifically by other standards within this FM Code. Consequently, the authority is free to determine its own financial style and how this style supports the achievement of financial sustainability.

In CIPFA's view, an assessment of an authority's financial management style can best be undertaken by means of peer review. While this is not a mandatory requirement for compliance with the FM Code, it can yield a more objective, more balanced and more insightful view than one resulting from an assessment undertaken by the authority itself.

Key questions

- Does the authority have in place an effective framework of financial accountability?
- Is the authority committed to continuous improvement in terms of the economy, efficiency, effectiveness and equity of its services?
- Does the authority's finance team have appropriate input into the development of strategic and operational plans?
- Do managers across the authority possess sufficient financial literacy to deliver services cost-effectively and to be held accountable for doing so?
- Has the authority sought an external view on its financial style, for example through a process of peer review?
- Do individuals with governance and financial management responsibilities have suitable delegated powers and appropriate skills and training to fulfil these responsibilities?

CHAPTER 3

Medium to long-term financial management

Effective governance and financial management is focused on ensuring that the authority is able to operate sustainably in the long term. This means that the authority needs to look beyond the limited time horizons of its funding arrangements and to consider the longer-term financing of its operations and activities.

This section of the guidance notes considers:

- whether the authority has carried out a credible and transparent financial resilience assessment
- the extent to which the authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members
- whether the authority complies with the CIPFA *Prudential Code for Capital Finance in Local Authorities*
- the degree to which the authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.

This chapter explores what a financial resilience assessment is and how the authority can undertake one. It also considers symptoms of financial stress and how the authority can manage its finances more effectively. This includes explicit consideration of, among other things, capital resources, reserves, savings plans and the use of performance information.

The FM Code requires that the authority demonstrates how the risks identified through a financial resilience assessment have informed the development of its longer-term financial strategy. This section considers the authority's strategic plan and financial strategy and explores how the technique of scenario planning can be used to inform their development.

CIPFA's Prudential Code provides a framework for the self-regulation of the authority's capital financing arrangements. This section outlines the aims of the Prudential Code. It also considers how the authority can develop a suitable capital strategy and how it can set and review the various indicators required under the Prudential Code.

The medium-term financial plan translates the authority's financial strategy into the near future. This chapter considers how the authority can develop a robust medium-term financial plan that coordinates and integrates financial and service planning, capital financial management, risk management and asset management plans.

Financial Management Standard F:

The authority has carried out a credible and transparent financial resilience assessment

The FM Code sets out that if the authority has not tested and demonstrated its long-term financial resilience, then its financial sustainability remains an open question. The FM Code requires, therefore, that the authority assesses critically its finance resilience. This is undertaken by means of an explicit financial resilience assessment.

In the financial resilience assessment, the authority explores the sensitivity of its financial sustainability to alternative plausible scenarios for the key drivers of costs, service demands and resources. This will require an analysis of future demand for key services and consideration of alternative options for matching demand to resources.

This resilience testing should, the FM Code states, focus on the authority's principal longer-term revenues and expenses and the key risks to which the authority will be exposed. Without such stress testing, the authority cannot be regarded as financially sustainable and will be deemed to have failed that test.

Such a financial resilience assessment needs to be credible and transparent. To be credible, the assessment could be undertaken:

- by a suitably-qualified and experienced individual or team of individuals
- in an objective manner, ideally by an individual or team that is independent of the authority in question
- in accordance with an approach that is designed to focus on assessing the authority's financial resilience
- with consideration of an appropriate range of evidence, including interviews with key individuals and a review of relevant documentation.

In order to ensure transparency, the assessment could:

- be overseen by the authority's leadership team or by a suitable committee of the authority
- have clear terms of reference and a suitable methodology
- result in a clear and thorough report, including suitable conclusions and recommendations, that is reported to the authority's leadership team.

It would be beneficial for the leadership team to report to the authority on the action that it is taking in response to the assessment and to provide periodic updates on the extent to which this action has been taken.

In preparing a financial resilience assessment, the authority (for local authorities in England and Wales) may also wish to draw upon the report prepared by its section 151 officer, under Section 25 of the Local Government Act 2003, on the robustness of the estimates and the adequacy of reserves allowed for in the authority's annual budget.

SYMPTOMS OF FINANCIAL STRESS

The authority can exhibit financial stress in a number of ways. Some of the more common symptoms are as follows:

- **Running down reserves** – Using the authority's financial reserves to finance a deficit or to avoid difficult decisions around spending cuts provides temporary relief, but is not sustainable in the long term.
- **Failure to address financial pressures** – Refusing to make difficult decisions about how to reconcile funding and service pressures, or not recognising that such decisions

need to be made, is equally not a solution to challenges but instead simply increases the financial gap and the extent of change that will be required in future years.

- **Shortened planning horizons** – Long-term planning is more difficult in times of uncertainty, but it is still important, perhaps even more so than in more stable circumstances. A failure to plan is indicative of a lack of strategic thinking and an unwillingness to make difficult decisions.
- **Lack of investment in infrastructure resources** – When resources are scarce, it is tempting to defer the maintenance and enhancement of assets (such as buildings) to future periods, which can result in the failure of key physical resources.
- **Gaps in savings plans** – Knowing that savings are required is helpful, but knowing how these savings are going to be achieved is critical. Simply indicating that ‘unidentified savings’ will be made is not an acceptable strategy for financial resilience.
- **Unplanned overspends** – No budget is going to be absolutely spot-on. However, overspending against the budget is simply rolling over this year’s problems into next year. It is a clear sign that the authority is failing to turn its financial policy decisions into action on the ground.

ASSESSING FINANCIAL RESILIENCE

There are a number of factors that drive the ability of the authority to withstand financial pressures. It would be helpful for these to be considered as part of any financial resilience assessment.

These factors include:

- getting routine financial management right
- planning and managing capital resources well
- using performance information effectively
- having clear plans for delivering savings
- managing reserves well.

We discuss each of these, together with how the authority could use them to ensure and to demonstrate its compliance with the FM Code, in more detail below.

GETTING ROUTINE FINANCIAL MANAGEMENT RIGHT

The first step is simply to ensure that the authority’s basic financial management systems are working effectively and that the authority’s financial performance and position is reported regularly and effectively to the CFO and to the leadership team.

This helps to ensure that the CFO and the leadership team all have a clear understanding of the authority’s financial position and of the financial challenges and pressures that the authority faces.

It is important also that the leadership team, senior managers and service managers understand the authority’s long-term financial strategy, what needs to be done to deliver it, and what their personal responsibilities are for helping to deliver it.

As a general rule, the authority might seek to:

- have in place robust arrangements for processing and recording income and expenditure in a timely manner
- prepare and agree an annual budget that breaks down income and expenditure targets to the level of individual services and budget holders
- provide budget holders with regular reports on their performance against their budget allocations, identify any significant variations from the agreed budget, and take prompt action to address them
- prepare regular, timely, accurate and comprehensible reports on the authority's financial performance and position for the leadership team.

PLANNING AND MANAGING CAPITAL RESOURCES WELL

The authority will have a range of capital resources at its disposal, which it uses to deliver services and to achieve its strategic objectives. These resources will include land and buildings, such as offices, schools, housing, parks and open spaces, leisure centres, libraries and much more.

The authority's ability to maintain these assets so as to ensure and to enhance their role in the delivery of services is crucial to its financial resilience. If housing, libraries or leisure centres fall into disrepair, for example, such that they are no longer able to fulfil their primary purpose, then the authority's ability to deliver the associated services is impaired and it has resources tied up in assets that it cannot use.

Consequently, planning and managing the use of the authority's capital resources – particularly its infrastructure assets – is vital. This includes understanding the role that these assets play in the delivery of services and ensuring that the authority's asset base remains fit for purpose.

As a general rule, the authority will seek to:

- have in place an agreed capital strategy, which is consistent with the authority's financial strategy and medium-term financial plan
- develop and agree a suitable asset management plan, which sets out how it will ensure that its asset base remains fit for purpose
- provide the leadership team with regular reports on the status of the authority's asset base and of any further action required to maintain and manage it.

In policing in England and Wales, the PCC has responsibility for property. The chief constable can hold assets, but is not permitted to own land or buildings. The PCC is responsible for producing a capital strategy and any borrowing undertaken in compliance with CIPFA's *Prudential Code for Capital Finance in Local Authorities*.

USING PERFORMANCE INFORMATION EFFECTIVELY

In order to assess the authority's ability to withstand financial pressures, it is important to understand how well it is performing currently and how any financial challenges are likely to impact on this performance.

Authorities have a broad range of internal performance information available to them, from income and expenditure data to information on activity levels and service user satisfaction. This information can be collated to understand critical factors such as the unit cost of services, trends in service user satisfaction, and many more.

Another practical way to assess the authority's financial and operational performance is to compare the authority's costs, income, activities and performance with those of similar authorities or organisations. This is especially useful for factors such as the unit costs of services, which are more readily comparable than absolute costs or activity levels.

This 'benchmarking' approach can be undertaken through a mutual arrangement with one or more other authorities, the use of standard sector datasets, participation in a sector-led benchmarking scheme, or subscription to a scheme operated by a commercial provider.

In addition to the use of benchmarking data to understand how the authority's income and expenditure – both overall and at the level of individual services – compares against that of its peers, authorities can seek also to benchmark structures, activity levels and per-unit income and costs against those of suitable comparators.

In addition to benchmarking, the authority can seek to compare itself with similar authorities through processes such as peer review, where one or more representatives of another authority review the authority's structures or processes in the light of their own ways of doing things, challenge existing practices and make suggestions for improvement.

Regardless of the approach that the authority adopts to better understanding its performance, it should seek to learn from this, to identify key risks to its resilience and to identify ways in which it can approach its own activities and operations more economically, efficiently, effectively and equitably.

As a general rule, the authority might seek to:

- make good use of internal performance information to identify risks to its ongoing financial resilience and the impact of financial pressures on service delivery
- identify and use suitable local or national benchmarking data against which to compare its overall financial performance and position
- identify and use suitable local or national benchmarking data against which to compare income, activity and costs for its principal services
- engage with similar authorities to instigate and to implement a process of peer review for key services and activities
- use the insight gained from its benchmarking or other performance-comparison activities to identify (a) where it is performing well and (b) where and how it can improve further the way in which it operates.

HAVING CLEAR PLANS FOR DELIVERING SAVINGS

The authority needs a single, consolidated and regularly-updated mechanism that tracks its savings plans. This should include the savings that have been agreed, how they will be monitored and the extent to which they have been achieved. These savings should also be built into the authority's annual budget and its medium-term financial plan.

In identifying financial savings, the authority needs to distinguish between the different 'stages' of savings in play, namely:

- those which have been agreed and for which there is a clear delivery plan
- those which have been agreed in principle but do not yet have a clear strategy for implementation
- those that have been proposed but not yet agreed, ie are simply ideas at this stage.

It is important not to blur the distinction between these different 'stages' of savings, to avoid giving a false impression of how much progress has been made.

The timescale for the achievement of savings, as well as the level of any investment required to achieve them, needs to be realistic. Restructuring a service to streamline activity or to change the way in which it is delivered can take months, if not years. So any associated savings are unlikely to be achieved for some time.

In this context, the classification of particular service costs as fixed, stepped, variable or mixed for a specified timeframe will be of assistance in identifying the nature, value and timing of savings that can realistically be made.

The authority's finance staff need to exercise suitable challenge to individual managers' and teams' savings plans, to ensure that these plans are achievable. Robust oversight of savings plans will also be required, to ensure that the savings identified are actually achieved in practice.

As a general rule, the authority might seek to:

- have a central record of targeted savings, which is linked clearly to its annual budget and its medium-term financial plan
- categorise savings activities by the extent to which they have been agreed, planned, implemented and achieved
- have in place mechanisms to challenge the viability of savings plans before they are agreed
- have in place suitable mechanisms to oversee the implementation of savings-related activities and the achievement of the savings themselves.

MANAGING RESERVES WELL

The aim of the authority's financial reserves is to provide funding for investment in future activities and to act as a safety net in case of short-term financial challenges. Consequently, limited use of reserves to support the delivery of a clear and transparent savings programme is perfectly acceptable.

Using reserves to fund otherwise-unsustainable services or to defer the need to make difficult decisions about service delivery, on the other hand, is to be avoided. Such an approach does nothing to enhance financial resilience. It also serves to make those difficult decisions even more difficult, when they inevitably have to be made in the future.

The authority should also be extremely wary of any savings plans that target 'easy' savings now, but that include larger, unspecified savings in future years. This may be politically expedient, but does not represent good financial management and is likely to have a negative impact on the authority's reserves when such savings inevitably prove challenging to identify and to realise.

As a general rule, the authority might seek to:

- have a policy as to the level of reserves it wishes to retain and how these reserves may be used
- be able to demonstrate that it has used its reserves only for investment in future activities or in the implementation of savings plans, rather than to plug funding gaps in the delivery of services.

For policing in England and Wales, it is the PCC who has responsibility for financial reserves and must publish a reserves strategy including details of current and planned reserves. Stand-alone fire and rescue authorities must also publish a financial reserves strategy with details of current and planned reserves.

CARRYING OUT A CREDIBLE AND TRANSPARENT FINANCIAL RESILIENCE ASSESSMENT

A financial resilience assessment can be undertaken by members of the authority's finance and leadership teams, though it may be more objective if it is undertaken by peers from different authorities or by some other external partner.

The assessment should consider principally whether the authority has in place a credible plan and planning process that gives confidence that it can deliver a sustainable budget over the medium term. The scope of this assessment might include, for example:

- the authority's current financial position
- the authority's own assessment of its future financial prospects
- the extent to which the authority has embraced the financial resilience factors discussed above
- the key financial risks facing the authority, for example by drawing on potential future scenarios including 'best' and 'worst' case scenarios – for the environment in which the authority operates and for the services that it provides
- the use of independent, objective measures to assess the risks to the authority's financial resilience and sustainability
- the authority's understanding of the risks associated with all resources used for service delivery, including its workforce, its physical assets, its strategic business partners (including 'group' entities such as leisure trusts), its information technology infrastructure, etc

- the robustness of the plans that the authority has put in place to address these risks
- the capacity and capability of the authority, its leadership team and its officers to manage the authority's finances in a sustainable manner.

Those undertaking the assessment are advised to review, as a minimum, the following documents:

- medium-term financial plan, including capital and revenue elements
- medium-term savings and growth plan
- capital strategy and/or investment strategy
- treasury management strategy
- planned medium-term use of usable reserves, split between earmarked and non-earmarked, and change over the preceding three years
- the most recent budget report and description of the budget process
- recent monitoring reports and recent out-turn reports and accounts
- workforce strategy plans and expected pension commitments
- group entity financial forecasts
- asset management plan
- key governance documents, eg annual governance statement, risk register, etc.

Those undertaking the assessment should also engage with key members of the leadership team and with other relevant individuals, such as:

- the authority's leader and finance portfolio holder
- minority party leaders
- for police in England and Wales, the PCC and chief constable
- chief executive
- monitoring officer
- chief financial officer
- service directors
- external auditor and chair of audit committee
- one or more service accountants.

The scope of the financial resilience assessment is likely to extend also to an understanding of the risks associated with the authority's most significant partners. This is necessary to ensure that services are sustainable and to protect the authority from the risk associated with the failure of contracts with such partners.

When, as is common, a significant number of authorities are dependent on a single supplier then it may be valuable for those authorities to co-operate in this assessment in order to fully understand the associated risks.

A financial resilience assessment should result in a clear report to the authority's leadership team, setting out an assessment of the authority's financial resilience, together with areas for improvement and how these could be addressed.

Key questions

- Has the authority undertaken a financial resilience assessment?
- Has the assessment tested the resilience of the authority's financial plans to a broad range of alternative scenarios?
- Has the authority taken appropriate action to address any risks identified as part of the assessment?

Financial Management Standard G:

The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members

The FM Code sets out that, having carried out a finance resilience assessment, the authority should demonstrate how the risks identified have informed the development of its longer-term financial strategy. The authority should, furthermore, report the implications of these risks on its future financial sustainability to its leadership team, including its elected members.

This requires consideration of how financial resilience is integrated into the authority's strategic plan and into the financial strategy associated with the delivery of this strategic plan.

One way in which this can be achieved in an uncertain and dynamic operating environment is through the use of scenario planning, which is introduced here as a suggestion as to how the authority could seek to meet its requirements under this part of the FM Code.

This is, however, just a suggestion. Other approaches to complying with this financial management standard are available. It is up to the authority to select an approach that is commensurate with its own requirements and with the resources that it has available, while meeting the requirements of the FM Code.

THE STRATEGIC PLAN

In terms of longer-term planning, the authority will have in place an overarching strategic plan, which sets out its vision for the future and how it plans to achieve this vision. Because of electoral cycles and other factors, strategic plans tend to cover a rolling period of five years or so.

The authority will also – in most cases – have in place a financial strategy, setting out how it plans to finance the aims, strategies and activities set out in the strategic plan. This financial strategy may be a part of the strategic plan itself, though it may also be a separate document.

While a five-year planning horizon is acceptable for medium-term planning, long-term planning really needs to look further ahead, albeit at a significantly reduced level of detail. Up to ten years is a reasonable horizon for longer-term financial planning, though up to 20 or 25 years is not unheard of.

CIPFA is not at present prescriptive about the time period for longer-term financial planning. Different authorities will face different levels of political and financial stability, which may have become embedded in different management cultures.

However, CIPFA promotes ambition and stresses the need for a financial strategy that matches the need for a strategic approach to service planning. The underlying drivers of service demand, especially those linked to the age profile of the community, can usually be foreseen at least in broad terms a decade and more ahead. The need to respond to the climate change agenda is also an area where longer-term planning is necessary.

THE FINANCIAL STRATEGY

The primary aim of the authority's financial strategy is to enable the delivery of the authority's overall strategy. More specifically, it seeks to ensure that the authority has the financial capacity and capability to achieve its strategic aims. It is about the long-term financial sustainability of the organisation.

Consequently, the financial strategy might include consideration of a broad range of factors that influence the authority's long-term financial success. These include:

- the nature, level and balance of the authority's sources of income
- the authority's exposure to volatile income streams
- the authority's cost base, especially its overhead costs
- the extent to which costs are fixed, stepped or variable within the timeframe being considered
- the anticipated changes in the assets and liabilities of the authority supporting balance sheet management
- the authority's asset base and its asset management priorities
- the authority's capital programme
- the financial structure and staffing of the authority
- the authority's financial management policies, systems and processes
- the authority's relationships with key financial stakeholders.

An effective financial strategy will include consideration of where the authority is now from a financial perspective, where it would like to be and how it plans to get there:

Where the organisation is now	An analysis of the authority's current financial situation, including its main sources of income, its main financial commitments, its capital asset portfolio and priorities, and the level of reserves that it holds. This analysis also addresses a range of other relevant factors, such as the authority's financial structure and its relationships with key financial stakeholders.

Where it would like to be	An assessment of how the authority envisages its financial capacity and capability to facilitate the achievement of its strategic aims. This provides a longer-term financial 'vision' for the authority, which is consistent with the authority's overall strategic vision. It may include, for example, consideration of changes to the nature, level and balance of income streams, the structure and management of the authority's cost base, changing demand for capital assets (including physical resources) and the skills and expertise of its finance staff.
How it plans to get there	A series of agreed actions designed to take the authority from where it currently stands, from a financial viewpoint, to where it would like to be. These actions are clear, coherent and consistent with the delivery of the authority's overall strategy. They also have clear timescales, so that they can be integrated appropriately into the authority's medium- and short-term financial plans.

However, given the tendency for government funding to be allocated on an annual basis and for the funding regime itself to be subject to regular revisions, financial planning over even a relatively short five-year time horizon can be challenging for the authority.

Other strategic, operational or financial challenges, such as demographic changes or changes to relevant legislation, can also significantly impact on the authority's ability to achieve and to finance its strategic aims.

Consequently, the authority may wish to use scenario planning techniques to consider a number of potential scenarios for (a) the funding regime and (b) other factors influencing the demand for or the delivery of its activities.

THE AIMS OF SCENARIO PLANNING

The development of longer-term financial strategies can be characterised by the use of scenarios, rather than of forecasts based on the continuation of the status quo. In contrast to forecasts, scenarios are not predictions of the future, but distinct and still plausible visions of that future.

Scenario planning moves beyond sensitivity analysis and similar techniques by describing alternative, internally-consistent, possible future economic and political environments, together with the resource and regulatory implications that are likely to flow from them.

For the authority, a shift from forecasting to scenario planning may prove beneficial at a time of continuing economic and political uncertainty. Scenarios are well-suited to highly complex situations with many unquantifiable factors, highly uncertain situations or situations where there is little or no reliable data for quantitative models.

Scenarios allow the authority to test the viability of alternative financial strategies against a representative and realistic set of internally consistent possibilities. They are an alternative to conventional forecasting that is better suited to an environment with numerous uncertainties or imponderables.

Traditional forecasting encourages organisations to focus on a narrow range of possibilities centred on a single view about the most likely future outcome. Scenario building, in contrast, does not attempt to use a series of static assumptions to predict the future. Instead, it generates a suite of plausible outcomes that seek to represent the most likely future environments in which the organisation could find itself operating.

Unlike forecasting, which relies on the forward projection of existing trends, scenarios can explicitly recognise the discontinuities and abrupt changes that result from political change. At a local, national and sometimes an international level, significant changes in the balance of political control often represent important points of discontinuity in financial strategies that cannot be incorporated into planning based on conventional forecasts.

Another advantage of the scenario-based approach that makes it particularly relevant to the political environment is that it does not demand consensus. Scenario building can instead recognise different visions of the future and then define them more clearly in a range of internally-consistent but still very different scenarios. Such an approach also allows the authority to consider how it would respond to a wholesale revision of its previous assumptions in favour of a completely fresh set of parameters. Crucially, it can also provide an indication of situations or circumstances which may pose the greatest challenges to the authority's financial resilience.

BUILDING EFFECTIVE SCENARIOS

For scenarios to be effective, they need to be plausible. However they also need to be challenging, in that they force the authority to consider potentially 'uncomfortable' situations. Scenarios invite people to explore what might happen, rather than what they want to happen.

For this reason, it is important to avoid falling into the trap of developing three scenarios that broadly correspond to the status quo, the ideal scenario and the worst case scenario. This taxonomy invites decision makers to reject the extreme scenarios as simply unlikely to occur and so to retreat into considering only the status quo.

The best case/worst case/status quo nomenclature is acceptable in sensitivity analysis, but it should not be imported uncritically into scenario building.

The scenarios used in developing a financial strategy must be based on a rigorous and credible analysis of the wider environment in which the authority operates. Generally, the best approach is to set up at least four scenarios that represent plausible alternative combinations of circumstances.

Ideally, these scenarios should not simply represent the input of extreme parameters into a financial model. Each should, instead, be embedded in a plausible analysis that draws attention to the major technical, economic and political uncertainties upon which the success of each option depends. With this approach, it is wholly reasonable that a pessimistic view may be taken on one element of the option and combined with an optimistic view on another element.

USING SCENARIOS TO UNDERSTAND THE AUTHORITY'S PROSPECTS FOR FINANCIAL SUSTAINABILITY

While scenarios have an important role to play in helping the authority to understand the future environment in which it may need to operate, they also impose an invaluable 'reality check' on the authority's prospects for future financial sustainability by ensuring that its financial strategy is able to meet the full range of these future challenges or opportunities.

Consequently, the authority can gain a deeper understanding of its prospects for financial sustainability in the longer term, as required under the FM Code, by (a) developing a longer-term financial strategy and (b) assessing the viability of this strategy under a range of potential future scenarios.

Furthermore, these scenarios can incorporate specific risks, challenges or vulnerabilities identified in the authority's financial resilience assessment, thus allowing the authority to assess the resilience of its financial strategy – and, therefore, its own future financial sustainability – to the specific issues that it is likely to face both now and in the future.

REPORTING TO MEMBERS

The FM Code also requires that, in addition to taking action to understand its prospects for financial sustainability in the longer term, the authority must communicate these prospects to those charged with its governance such as elected members or, in the case of policing, to PCCs and chief constables.

In communicating with members, the authority should take care to present its prospects for future financial sustainability in a clear way, which does not require specific financial or other expertise in order to be understood.

Key things to communicate include:

- what financial sustainability is and why it is important
- key threats to the authority's financial sustainability, eg funding cuts, increased demand for services
- what the authority is doing to address these threats and the likelihood of it being able to address them effectively
- any threats that are beyond the authority's control, how it will know if these threats are realised and what the impact would be on the authority
- any other actions the authority is taking to improve its financial sustainability
- the requirement for prudence, especially in terms of the Prudential Code and the authority's borrowing arrangements
- an overall assessment of the authority's prospects for financial sustainability in the longer term.

The aim here is to present a balanced assessment of the authority's future financial position. The nature of the environment in which the authority operates means that it is always going to face challenges to its future financial sustainability. Members also need to be aware of the specific threats that the authority is likely to face, the impact of these threats on the authority, and what the authority can do – both now and in the future – to address them.

Key questions

- Does the authority have a sufficiently robust understanding of the risks to its financial sustainability?
- Does the authority have a strategic plan and long-term financial strategy that adequately address these risks?
- Has the authority sought to understand the impact on its future financial sustainability of the strategic, operational and financial challenges that it might face (eg using a technique such as scenario planning)?
- Has the authority reported effectively to the leadership team and to members its prospects for long-term financial sustainability, the associated risks and the impact of these for short and medium-term decision making?

Financial Management Standard H:

The authority complies with the CIPFA *Prudential Code for Capital Finance in Local Authorities*

This element of the guidance notes summarises the requirements set out within the CIPFA *Prudential Code for Capital Finance in Local Authorities*.

The FM Code requires the authority to comply with the CIPFA *Prudential Code for Capital Finance in Local Authorities* (the Prudential Code), though there is an exception for chief constables in England and Wales as they only have very limited and specific borrowing powers

CIPFA's Prudential Code provides a framework for the self-regulation of the authority's capital financing arrangements. It requires local authorities to determine that capital expenditure and investment decisions are affordable, prudent and sustainable, and to set limits on the amount they can afford to borrow in the context of wider capital planning.

Authorities are required by regulation to have regard to the Prudential Code when carrying out their duties in England and Wales under Part 1 of the Local Government Act 2003, in Scotland under Part 7 of the Local Government in Scotland Act 2003 and in Northern Ireland under Part 1 of the Local Government Finance Act (Northern Ireland) 2011.

THE AIMS OF THE PRUDENTIAL CODE

The framework established by the Prudential Code is designed to support local strategic planning, local asset management planning and proper option appraisal.

The Prudential Code sets out:

- a clear governance procedure for the setting and revision of a capital strategy
- a suite of prudential indicators against which the authority is to monitor its performance in maintaining the affordability and prudence of its capital activities
- a series of matters to be taken into account when the authority sets, revises and monitors performance against its prudential indicators.

This strategy and these indicators are to be scrutinised and approved by the same body that takes the decisions for the authority's budget, usually the full council or equivalent body.

The authority's CFO is responsible for ensuring that all matters required to be taken into account are reported to the decision-making body for consideration, and for establishing procedures to monitor performance.

The Prudential Code does not itself set out indicative limits or ratios for the indicators to be set and monitored by the authority, as these are for the authority to determine for itself, given its own particular circumstances.

DETERMINING A CAPITAL STRATEGY

The authority should have in place a capital strategy that sets out the long-term context in which capital expenditure and investment decisions are made and that gives due consideration to both risk and reward and to the impact of the strategy on the achievement of the authority's priority outcomes.

As set out in the guidance notes that accompany the Prudential Code (CIPFA's *The Prudential Code for Capital Finance in Local Authorities: Guidance Notes for Practitioners*, 2018) the authority's capital strategy might address a number of themes, including:

Capital expenditure	■ An overview of the governance process for approval and monitoring of capital expenditure, including links to the authority's policies on capitalisation. ■ A long-term view of capital expenditure plans, where long term is defined by the financing strategy of, and risks faced by, the authority with reference to the life of projects/assets. ■ An overview of asset management planning, including the cost of past borrowing, maintenance requirements and planned disposals. ■ Any restrictions that the authority may face in respect of borrowing, funding or capital finance.
Debt, borrowing and treasury management	■ A projection of external debt and the use of internal borrowing to support capital expenditure. ■ Provision for the repayment of debt over the life of the underlying debt. ■ The authorised limit and operational boundary for the following year (see discussion of prudential indicators below). ■ The authority's approach to treasury management, including processes, due diligence and defining the authority's risk appetite.
Commercial activity	■ The authority's approach to commercial activities, including the processes in place to ensure effective due diligence and definition of the authority's risk appetite in respect of such activity.
Other long-term liabilities	■ An overview of the governance process for approval, monitoring and ongoing risk management of any other financial guarantees and long-term liabilities.
Knowledge and skills	■ A summary of the knowledge and skills available to the authority and confirmation that these are commensurate with the authority's risk appetite.

The capital strategy forms an essential part of the authority's integrated revenue, capital and balance sheet planning. It should be consistent with the authority's longer-term financial strategy, its medium-term financial plan and its annual budget. It should also be consistent with the authority's asset management plan, including the acquisition of new assets and the disposal of those that are no longer required.

The capital strategy is intended to give a high level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services, along with an overview of how associated risk is managed and the implications for future financial sustainability. The CFO is expected to report explicitly on the affordability and risk associated with the capital strategy.

The capital strategy should be tailored to the authority's individual circumstances, but should include – as a minimum – consideration of capital expenditure, investments, liabilities and treasury management. The capital strategy should include sufficient detail to allow the authority's leadership team (including its members) to understand how stewardship, value for money, prudence, sustainability and affordability will be secured and to meet legislative requirements on reporting.

The capital strategy forms the basis for the capital programme, which contains the capital projects that the organisation intends to undertake in the medium term. Robust processes need to be put in place for potential projects to be proposed, evaluated and prioritised, and for approving the programme and the resources to fund it. Delivering the capital programme requires efficient programme management, project management and procurement, as well as appropriate systems for corporate monitoring, control and scrutiny.

In developing the capital strategy, the authority should seek to strike a suitable balance between the amount of detail included and accessibility to the strategy's intended audience. Where detailed information is required, thought should be given to how this is made available, its format and the training needs of members to encourage active engagement.

SETTING PRUDENTIAL INDICATORS

The authority should set the prudential indicators for the forthcoming and following years before the beginning of the financial year. They may be revised at any time, following due process, and must be reviewed, and revised if appropriate, when the prudential indicators are set for the following year.

The authority's CFO is required to establish procedures to monitor performance against all forward-looking indicators. Consequently, the CFO will need to establish a measurement and reporting process that monitors performance and that highlights significant deviations from the agreed indicators.

The prudential indicators for prudence

Capital expenditure

- **Estimates of capital expenditure** – Estimates of the total of capital expenditure that the authority plans to incur during the forthcoming financial year and at least the following two financial years.

- **Actual capital expenditure** – The actual capital expenditure incurred during the financial year.
- **Estimates of capital financing requirement** – Estimates of the total capital financing requirement at the end of the forthcoming financial year and the following two years.
- **The actual capital financing requirement** – The actual capital financing requirement for the financial year, calculated directly from the authority's balance sheet.

External debt

- **Authorised limit** – An authorised limit for the authority's total gross external debt, separately identifying borrowing from other long-term liabilities, for the forthcoming financial year and the following two financial years.
- **Operational boundary** – An operational boundary for its total external debt, excluding investments, separately identifying borrowing from other long-term liabilities, for the forthcoming financial year and the following two financial years.
- **Actual external debt** – The closing balance for actual gross borrowing plus (separately) other long-term liabilities, obtained directly from the authority's balance sheet.
- **Gross debt and the capital financing requirement** – In order to ensure that over the medium term debt will only be for a capital purpose, the authority should ensure that debt does not, except in the short term, exceed the total capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years.

The prudential indicators for affordability

- **Estimates of financing costs to net revenue stream** – Estimate of the proportion of financing costs to net revenue stream, for the forthcoming financial year and the following two financial years.
- **Actual financing costs to net revenue stream** – The proportion of financing costs to net revenue stream, calculated directly from the authority's income and expenditure statement.

The authority's prudential indicators, both prospective and retrospective, should be scrutinised and approved by the same body that takes the decisions for the authority's budget, usually the full council or equivalent body.

To this end, these indicators should be set out in a suitable paper or other document, together with explanations for why they are important and what they mean for the prudence and affordability of the authority's capital expenditure and financing activities.

MATTERS TO BE TAKEN INTO ACCOUNT

In setting or revising its prudential indicators, the authority is required to have regard to the following matters:

- service objectives, eg strategic planning for the authority
- stewardship of assets, eg asset management planning

- value for money, eg option appraisal
- prudence and sustainability, eg risk, implications for external debt and whole life costing
- affordability, eg implications for council tax/district rates
- practicality, eg achievability of the forward plan.

The Prudential Code also requires that, in making its capital investment decisions, the authority should have explicit regard to option appraisal and risk, asset management planning, strategic planning for the authority and achievability of the forward plan.

Key questions

- Has the authority prepared a suitable capital strategy?
- Has the authority set prudential indicators in line with the Prudential Code?
- Does the authority have in place suitable mechanisms for monitoring its performance against the prudential indicators that it has set?

Financial Management Standard I:

The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans

The FM Code does not anticipate that a longer-term financial strategy will – or, indeed, should – provide sufficient detail to allow for it to be translated directly into an annual income and expenditure budget.

To bridge this gap, therefore, and to allow the authority to ensure that its annual budget is in alignment with its longer-term financial aims, the FM Code requires the authority to prepare a multi-year medium-term financial plan.

Furthermore, this plan should also be consistent with associated service plans for the authority's principal services.

THE MEDIUM-TERM FINANCIAL PLAN

The medium-term financial plan is a translation of the authority's financial strategy into the near future. It is also the critical link between the authority's financial strategy and its plans for service delivery.

For some authorities, the planning horizon of the medium-term financial plan may represent the limit to which the authority can realistically plan for the future. In such circumstances, the long-term financial strategy and the medium-term financial plan might well be one and the same thing. The development of a longer-term financial strategy is, however, encouraged.

The medium-term financial plan breaks down the authority's financial strategy into key actions to be taken in the next few years, so that the authority is able to plan its activity over this period in more detail. It also contains income and expenditure projections and sets out how the delivery of services will be funded sustainably.

The medium-term financial plan usually covers a multi-year period, but generally no more than five years. Any more than this and the level of uncertainty becomes too great for realistic financial planning. Due to the reduced level of uncertainty inherent to planning in the medium term, the authority is generally able to use more traditional forecasting and analysis techniques when preparing such plans.

The medium-term plan should be rolled forward either every year or after two to three years, to ensure that it still projects a multi-year planning horizon. When the plan is rolled forward, any deviations from the current plan should be identified, understood and integrated in the authority's planning for future periods.

In order to be effective, the authority's medium-term financial plan should:

- be integrated with the authority's service plans and its capital strategy
- respond to uncertainty in the authority's funding regime
- translate the authority's longer-term aims into the medium term
- be developed in a robust manner, taking into account a credible baseline of activity
- integrate suitable drivers of demand and cost
- be subjected to sensitivity analysis to allow any vulnerabilities to be identified.

INTEGRATING FINANCIAL AND SERVICE PLANNING

Especially in this age of austerity, the key concern for financial planning is allocating finite resources over time, to reach the goals set out in the authority's longer-term strategy. It is not, however, enough for the authority to demonstrate simply that it is financially viable, it must go on to demonstrate that they have been brought together in a transparent way within the budget.

Moreover, it is in medium-term financial planning that the authority demonstrates how it will finance the delivery of its services and the operation of the authority as a whole.

For this reason, the financial plan cannot be allowed to become wholly a financial document – it must be integrated fully with service planning, capital financial management, risk management and asset management plans. Medium-term financial planning is not just about forecasting financial flows – it has an important role to play in integrating and harmonising financial and other corporate activities.

A good medium-term financial plan acts as the authority's route planner that plots the path ahead by focusing on policies and priorities in an organised, coherent and systematic manner. Furthermore, it seeks not simply to give provisional budget figures, but also to provide an insight into prevailing trends and their impact on the organisation.

TRANSLATING THE AUTHORITY'S LONGER-TERM AIMS INTO THE MEDIUM TERM

Regardless of the funding environment in which the authority operates, robust medium-term planning is essential to keeping the authority on track and moving towards the achievement of its strategic aims. This is especially important as most effective budget decisions are essentially strategic long-term ones rather than short-term ones focused only on the year ahead.

Furthermore, not everything can be achieved within one short-term planning period. Outsourcing to the third sector or social enterprises, for example, or rationalising property and other assets and working in partnership with other authorities, will take longer than the annual budget cycle to see through to completion and to the realisation of the desired benefits.

For these reasons, it is in medium-term (and longer-term) financial planning that the pursuit of value for money improvements will be most prominent. Such financial planning is not simply an end in itself, but also a means to furthering the delivery of other plans, such as those for asset management, capital investment or income generation.

Where the authority is engaged in a significant transformation programme, such as one that is designed to reconfigure the way in which it provides services, this should be subject to the same rigorous planning, monitoring and oversight arrangements that are applied to the authority's other financial and operational planning and delivery processes. In particular, such transformation projects might sensibly be focused on and structured around the achievement of specific strategic, operational or financial outcomes, the achievement of which can be measured with confidence.

DEVELOPING A ROBUST MEDIUM-TERM FINANCIAL PLAN

The starting point for the medium-term financial plan is a robust and credible baseline plan that identifies and quantifies known commitments and financial pressures by profiling income, expenditure and cash flow over the chosen time period.

The baseline position is established first so that the authority can determine whether its existing policies are financially credible. This also allows the authority to ensure that prudent parameters are placed on future plans.

Expressed at its simplest, the baseline is the authority's financial position in the future if it takes the minimum action necessary to meet its existing commitments and to respond to immediate financial pressures.

To this baseline are added any further actions – and their financial implications – anticipated by the authority's financial strategy or service delivery strategies. Also included in this enhanced plan are the financial implications of any other pressures, such as increased demand for services or the implications of social or demographic change.

The development of the medium-term financial plan in this way may highlight a disparity between the level of resources available and the amount that needs to be done with these resources. In such circumstances, it is vital that the authority finds a way meet service and corporate requirements and statutory duties in the future.

UNDERSTANDING DRIVERS OF DEMAND AND COST

In determining the financial impact of changes to service delivery or other pressures, the authority will benefit from a robust understanding of what drives the costs associated with different aspects of service delivery (including those related to the provision, maintenance and management of related physical assets) and of the management of the authority itself.

For a specific activity, a driver is a factor that can cause a change in the cost of the activity, by impacting on either the volume of activity required or the unit cost of that activity. For financial planning purposes, the same concept is applied to the authority as a whole. These financial drivers are the factors that will determine the cost to the authority of delivering its services.

Some financial drivers, for instance those associated with general price inflation, national pay awards or mandated efficiency improvements, may have an impact across the whole authority. Others may have an impact only on specific services or activities.

The drivers relevant to the authority's financial planning activities fall into two broad types: firstly, demand drivers that determine the level of resources that need to be devoted to meeting demand for a service, and secondly, cost drivers that determine the price or cost of securing those resources.

The medium-term financial plan should be based on credible assumptions and forecasts about the economy and about relevant socio-demographic trends, since these are the principal determinants of the financial pressures on the authority. While it is difficult to forecast such trends when developing a long-term financial strategy, this task is much more feasible when planning for the medium term.

IDENTIFYING RELEVANT DRIVERS

The process for identifying and collecting information on drivers of cost and demand will depend on the nature, size, structure and culture of the authority. A sound starting point for this work is the authority's existing budget and records of service and financial performance, as these will allow the identification of trends in previous periods.

Information on local trends and issues can be obtained from relevant data sources, from partner organisations, by conducting interviews with key stakeholders or by convening focus groups. In addition, various sector umbrella bodies, think tanks and consultancy firms routinely publish analysis of the different pressures facing authorities of different types.

PESTLE ANALYSIS

For a more comprehensive and robust insight into cost and demand drivers, the authority may benefit from undertaking an analysis of the political, economic, social, technological, legal and environmental factors that may impact on service delivery. This is known as a PESTLE analysis.

Some examples of factors that might feature in the authority's PESTLE analysis are as follows:

Political	Technological
Public policy	Technological change
Tax policy	Automation
Regulatory requirements	E-commerce
Political instability	Online service delivery

Economic	Legal
Economic growth	Authority's legal powers
Interest rates	Discrimination law
Inflation rates	Employment law
Exchange rates	Health and safety requirements
Social	**Environmental**
Population growth	Extreme weather
Age distribution	Sustained periods of low temperature
Health consciousness	Flooding
Public attitudes	Climate change

The principal long-term pressure facing authorities in most developed countries is demographic change, namely an ageing population, caused by increasing life expectancy, declining fertility and the 'demographic bulge' created by the post-war 'baby boom'.

The effects of this are unlikely to change significantly from year to year as projections are rolled forward. It creates sustained upward pressure on health spending, state pension costs and social care costs. Furthermore, these pressures cascade down to a local level, and can have differential impacts according to the authority's individual circumstances.

Not all demographic factors are, however, so stable net migration assumptions, for instance, depend both on the employment market and on government policy. In addition, the national picture can mask a wide variation in the positions across different regions or among different migrant groups.

SENSITIVITY ANALYSIS

Sensitivity analysis in this context is an exploration of the impact on the viability of the authority's medium-term financial plan of varying the driver-related assumptions that have been made in the development of that plan.

Effective sensitivity analysis is based on a sound understanding of how the various drivers identified impact on the authority's financial position. It also benefits considerably from insight into the likely parameters within which such drivers could vary in reality over the period covered by the medium-term financial plan.

By varying different drivers within their likely parameters, the authority is able to assess the extent to which its medium-term financial plan will remain viable under different sets of circumstances. It will also allow the authority to take appropriate action at an early stage to address any potential weaknesses and to enhance the resilience of this plan.

The authority may also wish to use 'Monte Carlo' analysis – which provides a 'probability spread' indication of potential situations (ie a range) rather than a specific 'point' estimate – to understand the likely future impact of current or proposed courses of action. This is a complex analytical approach, however, and may need specialist support.

THE ROLE OF ASSET MANAGEMENT PLANS IN THE MTFP

An asset management plan sets out how the authority will seek to ensure that its infrastructure and other assets contribute effectively to the delivery of services and to the achievement of the authority's strategic aims. This will include maintaining and enhancing existing assets, developing or purchasing new ones, and decommissioning or selling assets that are no longer required.

The asset management plan is a forward-looking document with a medium to long-term planning horizon.

An asset management plan places the authority's asset portfolio (usually properties and land, but also for highways authorities infrastructure assets) into the context of the authority's objectives, priorities and challenges. It also links closely to the authority's capital strategy, investment strategy and treasury management strategy.

The development of the asset management plan is informed by:

- the nature and extent of assets held by the authority
- the ways in which the assets that the authority holds contribute to service delivery and to the achievement of the authority's strategic objectives
- the condition of the authority's assets, including any action that is required to maintain them to an acceptable standard
- how the authority measures the performance of its assets, including the data that are required to undertake this measurement
- the authority's key priorities for optimising the contribution that its assets make to service delivery and to the achievement of its strategic objectives
- the financial and resources implications of the achievement of these priorities
- the governance arrangements surrounding the authority's asset portfolio, including assets held by or with partner organisations and those for which the authority is a corporate landlord.

The asset management plan also takes into account relevant policies of the authority, including policies that the authority has adopted for the management of its assets (including assets of heritage value).

The asset management plan might include:

- an overview of the authority's asset portfolio
- an assessment of the condition and performance of the assets held
- the authority's priorities for maintaining, enhancing, adding to, and divesting from its asset portfolio
- the actions that will be taken to achieve these priorities, together with the outputs and outcomes that are to be achieved
- the resources that are necessary to maintain and improve the authority's assets portfolio and how it will be secured
- timescales and responsibilities for the actions identified.

The asset management plan would normally be scrutinised by an appropriate committee of the authority, with specialist external support if required, and approved by the authority. Progress in the implementation of the plan is reviewed regularly and reported to the authority's leadership team. Any issues identified as a result of this review are addressed promptly.

Key questions

- Does the authority have in place an agreed medium-term financial plan?
- Is the medium-term financial plan consistent with and integrated into relevant service plans and its capital strategy?
- Has the medium-term financial plan been prepared on the basis of a robust assessment of relevant drivers of cost and demand?
- Has the medium-term financial plan been tested for resilience against realistic potential variations in key drivers of cost and demand?
- Does the authority have in place a suitable asset management plan that seeks to ensure that its property, plant and equipment including infrastructure assets contribute effectively to the delivery of services and to the achievement of the authority's strategic aims?

CHAPTER 4

The annual budget

The annual budget is a detailed allocation of resources for the immediate future. Usually covering a period of one financial year, the budget provides the financial basis – through projections of income and expenditure at a high level for the authority as a whole and in more detail for individual services – for the allocation of resources, the delivery of services and the management of the organisation over the planning period.

This chapter of the guidance notes considers:

- the way in which the authority complies with its statutory obligations in respect of the budget setting process
- whether the budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement of the adequacy of the proposed financial reserves.

This chapter summarises the statutory requirements regarding budget setting and considers the chief finance officer's responsibility for setting a suitable budget for the year. It explores how a robust and sustainable budget can be developed. And it sets out how the authority can implement a spending freeze and, if necessary, issue a Section 114 notice.

It also explores the nature of the estimates, assumptions and judgements that form part of the annual budget-setting process and considers how assurance can be sought as to their reliability. It also discusses how the authority can determine the adequacy of its proposed reserves and how any proposed use of these reserves can be communicated effectively.

Financial Management Standard J:

The authority complies with its statutory obligations in respect of the budget setting process

One of the principal objectives of the FM Code is to end the practice by which the annual budget process has often become the focal point of, if not the limit to, authorities' financial planning.

The annual budget should be merely one element in a longer-term approach to ensuring financial sustainability. However, the annual budget preparation process must nevertheless be protected at a time when the need to make difficult decisions may threaten its integrity.

The FM Code requires the authority to be familiar with its statutory obligations in respect of the budget-setting process, to comply with these requirements, and to be able to demonstrate that it has complied with them.

While, in times of routine business, compliance is straightforward, it is in times of financial stress – when there may be pressures for delay or obfuscation in budget setting – that a comprehensive understanding of these statutory requirements is crucial. The same is true in placing reliance on information for budget-setting purposes from other authorities, such as independent precepting bodies.

Consequently, this element of the guidance notes considers not only the authority's statutory obligations in respect of setting a budget, but also other actions that it may wish to take – or, indeed, be required to take – should it experience financial challenges. These include implementing spending controls and issuing a Section 114 notice.

The authority's chief finance officer (CFO) will need to work closely with the chief executive, the monitoring officer and the entire leadership team, to ensure that the authority complies with its statutory obligations in respect of the budget-setting process, and that it does so within the required timescales.

STATUTORY REQUIREMENTS REGARDING BUDGET-SETTING

There is a considerable volume of legislation surrounding the budget-setting process for authorities. The specific legislation and associated compliance requirements will depend on (a) the nature of the authority and (b) the UK home nation in which it is situated.

In general, authorities are required by statute to set and agree an income and expenditure budget prior to the beginning of the financial year to which the budget relates.

For local authorities in England and Wales, for example:

- the Local Government Act 2000 requires the full council to approve the annual budget, on the recommendation of the executive or equivalent, together with the associated council tax demand
- the Local Government Act 2003, Section 25 requires the authority's section 151 officer (an individual appointed under Section 151 of the Local Government Act 1972 to administer the authority's affairs) to report to the council on the robustness of the estimates made in the annual budget and on the adequacy of the proposed financial reserves assumed in the budget calculations.

In exceptional circumstances:

- the Local Government Finance Act 1988, Section 114 requires the section 151 officer to report to all of the authority's councillors if there is, or is likely to be, unlawful expenditure or if the expenditure incurred by the authority (including expenditure it proposes to incur) in a financial year is likely to exceed the resources available to it to meet that expenditure
- the Local Government Act 1999, Section 15 states that failure to set a legal budget may lead to intervention from the secretary of state.

The Local Government Finance Act 1992 (amended) sets out, furthermore, an authority's obligations when setting council tax. It requires that billing authorities set their council tax requirements before 11 March (for a financial year running from 1 April to 31 March). The equivalent deadline for precepting authorities is 1 March.

For local policing bodies in England and Wales the statutory requirements are found within the Police Reform and Social Responsibility Act 2011 and its related statutory instruments.

SETTING A ROBUST AND SUSTAINABLE BUDGET

The CFO must use their professional judgement to ensure that the authority's budget is robust and sustainable. The FM Code supports the role of the CFO in complying with Section 25 of the Local Government Finance Act 2003.

In accordance with the Local Government Finance Act 1992, the authority's budget requirement for the year must include:

- the expenditure that the authority estimates it will incur in the year in performing its functions
- an allowance for contingencies in relation to this expenditure
- the financial reserves that the authority estimates it will need to raise in the year to meet its estimated future expenditure
- such financial reserves as might be required to fund deficits generated in previous periods.

A prudent definition of a robust and sustainable budget for the authority would be a financial plan based on sound assumptions, which shows how income will equal expenditure over the short and medium-term. Plans would take into account deliverable cost savings and/or local income growth strategies as well as useable reserves.

The authority's CFO must interpret the definition of what constitutes a robust and sustainable budget based on the circumstances of their own authority and should monitor income and expenditure throughout the year to make sure that the finances are on target as required by the Local Government Finance Act 2003.

Any significant variation in income or expenditure may impact on the authority's ability to manage its resources in line with the agreed budget. Factors having such an effect on the authority's income or expenditure could include:

- natural disaster
- sudden policy change
- demographic pressures
- unexpected funding pressures or
- failure to realise planned savings.

In the case of such an eventuality, it would be necessary for the authority to find an alternative way to manage its resources in line with the agreed budget. This would usually be through the introduction of an emergency savings programme.

RESPONSIBILITY FOR SETTING THE BUDGET

The responsibility for the preparation of a suitable budget rests with the CFO, who will also work with the leadership team to set the medium-term financial plan as the framework within which the annual budget-setting process takes place. This medium-term financial plan allows the authority to deliver its long-term goals by ensuring that a suitably robust and sustainable budget can be set for each of the years covered by the plan.

The CFO is also responsible for ensuring that the finance team constantly monitors the financial health of the authority. The CFO cannot, though, work in isolation. They should be supported by the chief executive and the rest of the leadership team, so that the vision and strategies of the authority are sustained through a strong financial plan.

The chief executive is ultimately responsible for the success of the organisation and it is their task to bring the leadership team together. This role is particularly important during a time of financial crisis, when spending restrictions may be imposed. Spending restrictions will be more challenging for services which are demand-led and those that include statutory duties, such as adult social care and children's services.

In such circumstances, the chief executive's role will be to support the CFO in identifying solutions and working with the leadership team to produce a measured response. It is important that the chief executive maintains an ethos of proactive communication and collaboration throughout the authority.

Any approach to remedying financial difficulties will only be successful if there is a consistent and clear message from the leadership team. The chief executive will be responsible for ensuring that this message is also communicated to external stakeholders and delivery partners.

In policing, it is the PCC and chief constable who are responsible in their different ways for ensuring the success of their local police force and Office of the Police and Crime Commissioner (OPCC). They will work together and with their respective CFOs to ensure the PCCs' vision, police and crime plan and force strategies are sustained through a strong financial plan.

IMPLEMENTING SPENDING CONTROL

Implementing spending control is a way of helping to balance the books in-year. It sits alongside all the planned approaches and strategies set out in the budget when it was first approved. The need for a spending control in-year may arise because of an unplanned event or an unexpected set of circumstances, which mean the authority is heading for an unmanageable overspend at year-end or in future years.

How a spending control is implemented in practice will vary between authorities, though it will invariably mean having to navigate a path between the requirements of statutory service delivery and meeting the terms of current service contracts.

The most common approach is where expenditure is limited or stopped altogether. A series of spending gateways will most likely need to be introduced, with specific approval required where spending over a certain figure occurs. For example, the CFO might be required to sign any commitment above a certain threshold.

However, it must be recognised that temporary suspension of spending can still accommodate an emergency release of funding if specified in advance. Some services, such as adult social care and children's services, will still have to spend during the period of control.

It is necessary, therefore, for the CFO, supported by the chief executive, to work collaboratively with others to identify an approach to minimise spend or to exclude certain areas from the spending freeze. While this adds additional pressures to the authority as a whole, it will help to ensure that statutory duties to vulnerable service users are met.

Examples of short-term measures incorporated into a spending control include not filling non-essential job vacancies, not renewing computer equipment or not spending on routine repairs, staff training, and highways and pavement maintenance. Budget holders would be asked to consider if the expenditure is absolutely necessary, if it can be deferred or if an alternative is available.

ISSUING A SECTION 114 NOTICE

Under Section 114 of the Local Government Finance Act 1988, the section 151 officer shall issue a report if it appears to them that the expenditure incurred by the authority (including expenditure it proposes to incur) in a financial year is likely to exceed the resources available to it to meet that expenditure.

The process for issuing such a notice is governed by the Act, which states that, once the notice has been issued, the authority has 21 days to consider a response. However, during that time, spending and other financial activity is suspended.

A number of reasons could cause a Section 114 notice to be issued and these include:

- the authority has failed to heed previous warnings from the CFO about the financial risks to the authority
- the authority has failed to appreciate the seriousness of the budgetary position or
- the CFO has failed to warn of the risks.

For policing in England and Wales, there is the added complication of having two separate legal entities in their PCC and chief constable, each with their own CFOs (or a shared CFO role undertaken by the same person). Both CFOs have Section 114 responsibilities.

Issuing a Section 114 notice should not be seen as a failure, but it will result in the loss of financial control by the leadership team. The Section 114 process should be seen as a last resort.

Key questions

- Is the authority aware of its statutory obligations in respect of the budget-setting process?
- Has the authority set a balanced budget for the current year?
- Is the authority aware of the circumstances under which it should issue a Section 114 notice and how it would go about doing so?

Financial Management Standard K:

The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement of the adequacy of the proposed financial reserves

In line with Section 25 of the Local Government Act 2003, the FM Code requires the authority's section 151 officer (for authorities in England and Wales) to report alongside the annual budget, when it is submitted for approval, on the robustness of the estimates and the adequacy of reserves allowed for in the budget proposals. For local policing bodies in England and Wales this would be the responsibility of the PCC's section 151 officer.

The aim of this report is to provide information and assurance in respect of the estimates included within the annual budget, so that those responsible for scrutinising and approving the budget can take these into account as part of the scrutiny and approval process.

UNDERSTANDING BUDGET ESTIMATES

All budgets are an estimate of income to be received and expenditure to be incurred over the course of the financial year in question. However, there are numerous aspects of the budget in which specific estimates will have to be made, including:

- whether specific transactions will occur
- when transactions will occur
- the financial value associated with such transactions.

Some of the more significant estimates that the authority will need to make as part of the budget-setting process include:

- the level of demand for individual services
- staff pay levels and pension scheme contribution levels
- interest rates, likely returns on financial investments and other capital finance issues
- pressures on major capital projects
- the level of funding received through council tax and other sources
- receipts from the sale of capital assets
- the achievement of savings plans and targets.

PROVIDING ASSURANCE IN RESPECT OF BUDGET ESTIMATES

In order to comply with the FM Code, the authority might wish to identify within its report the significant estimates that have been made as part of the budget-setting process and to set out how these estimates have been made.

This could include specific consideration of the information that has been used to make each estimate, the reliability of this information and the authority's confidence in the estimate.

Where possible, the authority may wish to provide additional information to support the estimates that it has made or to give assurance on its track record in making such estimates. This could include, for example:

- information on historical trends to support the estimates made, such as council tax collection rates in previous years
- guidance from professional advisors, such as forecasts from treasury management consultants in respect of future interest rates and/or investment returns
- details of levels of service demand experienced by the authority in previous years, perhaps linked to underlying demographic trends.

The authority could also provide assurance by setting out the process of internal scrutiny to which the budget has been subject prior to being submitted for approval. This could include, for example, review by service managers, the CFO and specialist advisors.

While most estimates can be made with a relatively high degree of confidence, there will, inevitably, be some budget estimates where considerable uncertainty remains. The authority would be well-advised to highlight these in the report and to explain the reason for the uncertainty. Where possible, the authority might also undertake and provide the results of sensitivity analysis, so that those approving the budget are aware of the potential impact of the underlying uncertainty.

THE ADEQUACY OF THE PROPOSED RESERVES

While the authority's financial reserves can, in theory, be called upon to help balance the budget in the short-term by managing fluctuations in income and expenditure, to use reserves in this way is far from ideal.

In general, reserves should only be used for:

- planned investment
- capital projects
- change programmes
- unexpected events such as natural disasters
- other reasonable uses for which they have been 'earmarked'.

The authority's reserves should not generally be used to pay for day-to-day expenditure. They should not, except in the most exceptional circumstances, be used to fund a budget shortfall either, without a plan in place to address the underlying deficit and to replenish the reserves.

The authority will, ideally, have in place a policy setting out the reserves that it maintains, a prudent balance at which it seeks to maintain them (taking into account the nature of the financial risks that the authority faces), and the broad purposes for which these reserves should be used.

A summary of this policy can be included in the report required under Section 25 of the Local Government Act 2003.

The report might also include confirmation of the adequacy of the reserves currently held or, where current reserves fall below the desired balance, the impact of this shortfall and how it is to be addressed.

Where is it proposed that reserves be drawn upon during the financial year, this could be set out within the report, together with an indication of how these resources will be spent and whether, and how, they will be replenished.

If the reserves are to be used to fund an in-year shortfall in revenue resources, the report could explain why this is the case, what alternatives have been considered and how the longer-term impact of the revenue shortfall is being addressed.

PCCs and fire and rescue authorities in England are required, by the Home Office Revised Financial Management Code of Practice for the Police Forces of England and Wales and

Fire and Rescue Authorities, created under Section 4A of the Fire and Rescue Services Act 2004, to establish and publish a policy on financial reserves. It also requires them to publish information on their current and planned reserves, including general and earmarked reserves.

Key questions

- Does the authority's most recent budget report include a statement by the CFO on the robustness of the estimates and a statement of the adequacy of the proposed financial reserves?
- Does this report accurately identify and consider the most significant estimates used to prepare the budget, the potential for these estimates being incorrect and the impact should this be the case?
- Does the authority have sufficient reserves to ensure its financial sustainability for the foreseeable future?
- Does the report set out the current level of the authority's reserves, whether these are sufficient to ensure the authority's ongoing financial sustainability and the action that the authority is to take to address any shortfall?

CHAPTER 5

Stakeholder engagement and business cases

Financial sustainability requires citizens to understand that resources are not limitless and that decisions have to be made about both the relative priority of different services and the balance between service provision and taxation levels. Furthermore, the authority must make decisions in respect of the allocation of resources in a robust and transparent manner.

This chapter of the guidance notes considers:

- the extent to which the authority has engaged with relevant stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget
- whether the authority uses an appropriate option appraisal methodology to demonstrate the value for money of its decisions.

It starts by considering how the authority can identify relevant stakeholders with whom to consult, using the power/interest matrix to inform and to prioritise its consultation efforts. It then discusses how the authority can engage effectively with these stakeholders and, perhaps most critically, how it can use the results of the consultation process to improve its approach to financial planning.

This chapter discusses what option appraisal is and how it works, from understanding the authority's requirements through to generating and assessing options and making a decision on a suitable course of action. It also considers when an option appraisal should be undertaken and how financial and non-financial factors can be factored into the appraisal process. It also explores how the results of the option appraisal can be communicated effectively.

Financial Management Standard L:

The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget

The FM Code sets out clearly that stakeholder consultation can help to set the authority's priorities and to reduce the possibility of legal or political challenge. Furthermore, stakeholder consultation helps to encourage community involvement not just in the design of services but in their ongoing delivery.

This is especially the case when the authority adopts an enabling approach to public service delivery which, along with the active involvement of the third sector and other partners, may facilitate future reductions in service costs.

Stakeholders are the individuals, groups and organisations that have an interest in how the authority operates, the services that it delivers and how it delivers them. Not only may stakeholders be affected by what the authority does, they may also have the power to influence how it goes about its activities.

In many cases, authorities seek to develop and maintain long-term strategic relationships with key stakeholders, which they use to drive the delivery of efficiency and effective services that meet the needs of their local community.

The FM Code requires the authority to engage, where appropriate, with key stakeholders in developing its long-term financial strategy, its medium-term financial plan and its annual budget. In complying with this element of the FM Code, there are a number of things to consider, namely:

- how to identify key stakeholders
- how to engage effectively with these stakeholders
- how to use the results of this engagement wisely.

Where the authority already enjoys productive strategic relationships with its key stakeholders, this level of explicit engagement when developing the authority's long-term financial strategy, medium-term financial plan and annual budget may not be necessary, provided the needs of these stakeholders are already sufficiently well understood. Where this is not demonstrably the case, however, more focused engagement at this stage may be required.

IDENTIFYING KEY STAKEHOLDERS

The first step in engaging with the authority's stakeholders is to identify who they are.

The easiest way to do this is to make a list of (a) everyone – be it individuals, groups or organisations – who is affected by what the authority does, (b) everyone who has an influence on what the authority does, and (c) anyone else whose support is important to the authority's ability to achieve its objectives or who has an interest in how well the authority delivers its services.

These, then, are the authority's stakeholders. But not all of these stakeholders will be 'key' to the authority's ability to achieve its goals.

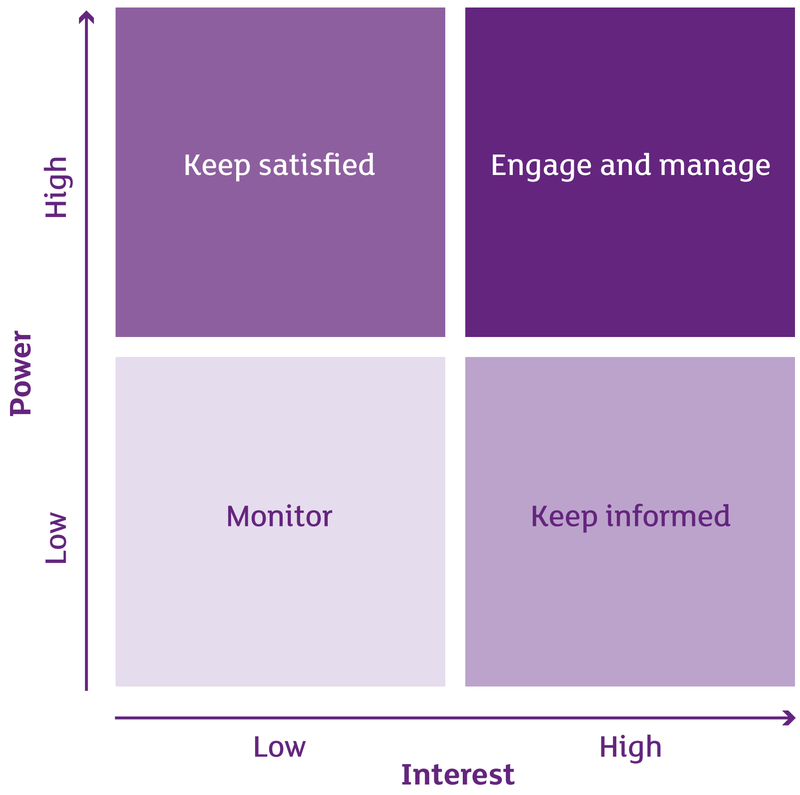
In an ideal world, the authority would be able to have an engaged and personalised relationship with each of its stakeholders. It is more likely, however, that the authority has many stakeholders and limited resources to engage with them. In such cases, the authority needs to prioritise its engagement.

A simple way to prioritise and to inform engagement with the authority's stakeholders is the 'power/interest matrix'. The matrix consists of two axes and four boxes and allows the authority to categorise each of its stakeholders in two ways, each of which features on one of the axes of the matrix:

- the stakeholder's **power** to influence the authority's activities
- the stakeholder's **interest** in influencing the authority's activities.

By allocating a 'high' and a 'low' option to each of these criteria, the authority ends up with a two-by-two matrix like the one in Figure 2 below.

Figure 2: The power/interest matrix



The authority can then use the matrix to decide how – and how much – it should engage with each of its stakeholders:

Low power/low interest	The authority should **monitor** these stakeholders, in case their level of power or interest changes, but does not need to spend too much time engaging with them or to subject them to unnecessary communications.
Low power/high interest	The authority should keep these stakeholders **informed** and draw on their expertise when it can, but should not allow these stakeholders to wield undue influence on its activities.
High power/low interest	These stakeholders can cause the authority problems if they have reason to do so, so the authority should seek to keep them **satisfied** and to avoid causing them any consternation.
High power/high interest	These are very much the authority's key stakeholders. The authority should **engage** with them, **manage** its relationship with them carefully and do everything it can to keep them on board.

ENGAGING EFFECTIVELY WITH STAKEHOLDERS

Engagement is a two-way process. Simply sending a copy of the authority's long-term financial strategy, medium-term financial plan or annual budget to its key stakeholders is not sufficient. Neither is sending these stakeholders a draft copy of the strategy, plan or budget and asking for their thoughts.

Effective engagement begins when the authority first starts to think about the development of its long-term financial strategy, its medium-term financial plan or its annual budget. It then continues throughout the development, agreement and implementation of this strategy, plan or budget.

Ideally, key stakeholders will be engaged at the following stages:

- when the authority is determining its priorities for the period covered by the strategy, plan or budget
- when it is prioritising its activities and seeking a balance between its service delivery aspirations and the available resources
- when it is agreeing the strategy, plan or budget
- when it is reviewing formally its performance against the strategy, plan or budget, with a view to identifying learning points for the preparation of future strategies, plans or budgets.

As a bare minimum, the authority might wish to engage with key stakeholders at the second of these stages, ie when it is prioritising its activities and seeking a balance between its service delivery aspirations and the available resources.

As to how best to engage with key stakeholders, the easiest way to determine this is simply to ask them how they would like such engagement to work. Some may favour personal contact to discuss the authority's plans face-to-face, while others may prefer written papers upon which to comment.

In reality, engagement with key stakeholders is likely to take the form of a combination of different modes of engagement, such as:

- one-to-one conversations
- informal group discussions
- structured focus groups
- surveys
- town hall meetings or drop-in sessions
- discussions at committee meetings
- review of a written document and provision of verbal or written feedback.

The key is to choose the mode of engagement that works best for the stakeholder or stakeholder group with which the authority wishes to engage, not what works best for the authority.

It is also helpful for the authority to define what it seeks to gain as a result of the engagement. This might be, for example, assistance in determining priorities for the next five years or an indication of what level of council tax increase might be acceptable if it is linked to the delivery of specific outcomes. In addition to allowing the authority to focus on the issues in which it is interested, this sort of targeted engagement is also more cost-effective for both the authority and those with whom it seeks to engage.

In these financially straitened times, the authority may not have the capacity or the resources to adopt the level of stakeholder engagement that it would normally wish to. In such circumstances, it is for the authority to decide how best to prioritise its capacity and resources to achieve the most meaningful stakeholder engagement and to secure the maximum benefit of this engagement.

USING THE RESULTS OF THE ENGAGEMENT

The authority may wish to put in place a suitable mechanism to respond to the results of its engagement with stakeholders and to be in a position to demonstrate that it has done so.

The way in which the results of the engagement process are used will depend on:

- the stakeholders involved
- the focus of the engagement
- the authority's specific aims in engaging with the stakeholder(s)
- the mode of engagement
- the results of the engagement process.

In many cases, it can be helpful to produce a separate report as a result of the engagement process, setting out its key findings. This allows the results of the engagement process to be assessed, analysed and presented in a useful format, ideally highlighting key points and recurring themes.

In an ideal world, the authority would be in a position to identify clearly the impact of the engagement process on the development of its long-term financial strategy, its medium-term financial plan or its annual budget.

In reality, though, things are rarely this simple. The authority might, however, ensure as a minimum that the main findings from the engagement process are integrated demonstrably into the development of the strategy, plan or budget.

The authority might also find it beneficial to communicate with the stakeholders with which it has engaged, setting out how the results of the engagement process have informed its thinking. If the authority does not feel able to do this, this may well be a sign that it has not engaged sufficiently conscientiously with the engagement process itself.

Key questions

- How has the authority sought to engage with key stakeholders in developing its long-term financial strategy, its medium-term financial plan and its annual budget?
- How effective has this engagement been?
- What action does the authority plan to take to improve its engagement with key stakeholders?

Financial Management Standard M:

The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions

Option appraisal is about making informed choices and better decisions. Nowhere is making good decisions more important than within authorities of all types, as the choices they make dictate how public funds are spent and impact on how people live their lives. Consequently, a robust approach to undertaking option appraisals is crucial to securing value for money.

DEFINING OPTION APPRAISAL

Option appraisal is a robust and systematic approach for the authority – and, indeed, all organisations – to find the best way of doing something, whether that is restructuring a failing entity, providing a new service to the local community, financing the construction of a new municipal building, or creating an innovative public service delivery partnership.

Whatever the authority is seeking to achieve, there will inevitably be many different ways of achieving it. Option appraisal is about how the authority identifies these options, assesses them and finds the one that will work best in the particular set of circumstances in which the authority finds itself.

Clearly, the approach taken to the identification and appraisal of options should be proportional to the nature, size, importance and complexity of the activity to which the options relate. Not all appraisals need to be subjected to a formal option appraisal as detailed here.

In order to ensure that decisions benefit from an appropriate level of appraisal, it would be beneficial for the authority to set out clearly when such an option appraisal should be implemented and the circumstances in which a lighter-touch approach would be acceptable.

HOW OPTION APPRAISAL WORKS

There are many different ways of doing an option appraisal, depending on the nature of the project or activity and the specific appraisal tools and techniques that the authority chooses to use. However, all option appraisals work in essentially the same way, in that they follow the same four steps.

Understanding what the authority wants to achieve	It is vital that the authority has a clear understanding of its aims in undertaking the project or activity that is the subject of the option appraisal. It will help to identify the available options and to assess them. It will also allow the authority to identify whether the project or activity has been successful.
Generating options	The authority identifies a range of different options to consider in more detail. The more comprehensive the list of options that can be generated, the more likely it is that the authority will be able to find an option that will work well. This means engaging with different stakeholders to ensure that a wide range of options is identified.
Assessing the options	Once a range of options has been identified, the authority develops a set of criteria against which these options can be assessed. These criteria should relate back to the aims of the project or activity and may include both financial and non-financial considerations. The assessment of options may take place in more than one stage to allow a small number of more promising options to be assessed in greater detail.
Making the decision	Once the options have been assessed, the authority makes its decision on a preferred option. This can then be implemented or, in the case of a business case or plan, taken forward for further consideration.

The authority may have a formal approach to option appraisal with which it is required to comply. There is certainly merit in the authority having a consistent approach to option appraisal, not least because it allows the development of standard processes and documentation.

Nonetheless, this should not be at the expense of overlooking special characteristics of each decision, or the need to review and improve the methodology over time.

As a general rule, the approach taken by the authority to option appraisal should comply with the guidance set out in the IFAC/PAIB publication *Project and Investment Appraisal for Sustainable Value Creation: Principles in Project and Investment Appraisal* (2013).

Consequently, rather than preparing its own documented appraisal methodology, the authority might prefer to record simply that any option appraisals that it undertakes should comply with the guidance set out in this publication, or in CIPFA's own guide to undertaking an option appraisal: *Option Appraisal: A Practical Guide for Public Service Organisations* (2017 Edition).

WHEN TO UNDERTAKE AN OPTION APPRAISAL

Option appraisal becomes necessary when the decision is a difficult one or will have important financial or service implications. For any significant decision, option appraisal should be considered mandatory. Option appraisal should also form an essential part of the development of an authority's capital programme.

As a rule of thumb, decisions displaying any one or more of the following characteristics might reasonably be subject to a comprehensive option appraisal.

Strategic importance	Conflicting time horizons
■ Due to its size or other characteristics, the decision has an impact on the future financial viability of the authority. ■ The decision involves partnership with another organisation, including the transfer of services or functions to the private or not-for-profit sectors. ■ The decision represents a material change to the strategic direction or mission of the authority. ■ The decision involves a fundamental change in the scale of the authority's activities. ■ The decision involves the procurement or disposal of material non-current assets.	■ The long-term options for the project or activity are based on significantly different business models than those available in the short term. ■ A balance has to be struck between an initial outlay and a stream of future financial or non-financial benefits. ■ There are material variations in the timing of the financial implications associated with the different options available.

Conflicting priorities	Risk and uncertainty
■ The costs and benefits of different potential courses of action are not all quantifiable in cash terms. ■ Limited resources mean that activities will need to be prioritised within budgetary constraints. ■ There is a choice to be made about the quality, scale, location or timing of a service. ■ There are a wide range of stakeholders or stakeholders with diverging or conflicting interests.	■ There are options with a high level of risk and uncertainty in their delivery. ■ There is doubt as to whether or not any action should be taken. ■ Some of the potential options – such as new delivery models – are unfamiliar to the authority. ■ There is likely to be significant public interest in the chosen course of action.

This list does not, of course, capture all of the circumstances in which an option appraisal is necessary. When faced with circumstances not covered by this list, the authority might wish to consider the risks involved with getting the decision wrong. If these are significant, then a formal option appraisal is advisable.

THE APPRAISAL PROCESS

The key to reducing uncertainty in decision making is clarity about what the authority wants to achieve. Consequently, the starting point for an effective option appraisal is a clear, concise and specific statement of the objectives to be achieved by the decision.

The next step is to generate a broad range of options for how these objectives could be achieved. These options should always include the 'base case', which is the minimum action necessary to meet statutory requirements and unavoidable policy commitments.

Once a suitable 'long list' of options has been generated, the authority can decide which criteria it will use to undertake an initial assessment of the suitability of these options.

This sifting process will allow the authority to identify a 'short list' of technically feasible and politically acceptable options for further consideration. This is when the detailed appraisal of these options begins in earnest. This detailed appraisal may draw on a number of financial and non-financial techniques.

It is unlikely that the authority will plan or deliver projects or activities where money is no object. Consequently, consideration of income, expenditure and the associated cash flows forms a significant part of most option appraisals.

One common approach to the financial analysis of options – and the one that might currently be used – is net present value analysis. Using this approach, all incremental future cash flows are discounted to their present day value to calculate a net present value for each option as a whole. The option with the highest net present value (which may, in some cases, be the least negative net present value) is the optimum from a financial perspective.

The authority might also consider the affordability of the options under consideration. In doing so, the authority will need to explore a range of issues concerning the income and expenditure generated by the project, including their nature, timing and amount.

It is also important to consider the implications of these for the authority's financial strategy and, where capital investment or financing is required, for the authority's compliance with its prudential indicators. In addition, the authority may wish to consider the appropriate accounting treatment associated with the options under consideration, together with any implications of this for the authority and for the appraisal process.

As the authority's activities focus, in the main, on the delivery of non-financial outcomes, it is not sufficient for a selected option to simply be the most financially advantageous. It must also achieve the authority's objectives in respect of service delivery. Consequently, the non-financial aspects of option appraisals are just as important as the financial ones.

There are a number of common approaches to the consideration on non-financial factors in an option appraisal, including:

Economic appraisal	A financial evaluation that considers the costs and benefits of a proposed course of action for the economy as a whole, rather than just for a particular authority.
Cost-benefit analysis	An extension of the economic appraisal, which also considers the social costs and benefits of a project or activity.
Multi-criteria analysis	An approach that allows the impact of various non-financial factors on the relative desirability of different options to be assessed through a methodical weighting and scoring of different criteria.
Impact assessments	A technique that allows the impact of a proposed course of action in different areas (eg promoting equality, safeguarding human rights, protecting the environment) to be assessed in a robust way.

These approaches will not all be feasible in all circumstances. It is for the authority to decide which, if any, approach is most relevant to the option appraisal being undertaken and to ensure that it undertakes sufficient analysis to arrive at an informed decision.

ADDRESSING UNCERTAINTY

The authority operates in an uncertain world. Consequently, it is important that the authority reflects this uncertainty in its option appraisals. It is equally important that it puts into place appropriate mechanisms to learn from its experiences.

There are a range of techniques that the authority can use to address uncertainty and to facilitate learning, including:

Risk and uncertainty	Using adjusted discount rates to compensate for the inherent uncertainty surrounding cash flows for higher-risk projects or activities.
Sensitivity analysis	Identifying key assumptions made in the option appraisal and quantifying the impact on the appraisal of variations in these assumptions.
Optimism bias	Compensating for the unwitting tendency of organisations undertaking option appraisal to understate the cost of options and to overstate the benefits.
Peer reviews	Using independent external review both during and after the option appraisal to scrutinise, challenge and improve the quality of the option appraisal process.

Post-implementation reviews	Testing the reasonableness of the assumptions and judgements made at the time of the original appraisal through a post hoc assessment of the decision-making process and the results, benefits and outcomes of the decision.

REPORTING THE RESULTS OF THE OPTION APPRAISAL

The reporting requirements for an option appraisal will have an impact on the nature and scope of the work to be undertaken, so it is sensible to consider a reporting framework at the outset of the appraisal itself.

By considering the messages and information that need to be conveyed, as well as to whom they need to be communicated, the authority can generate a work plan for the option appraisal that sets out the issues that must be addressed.

The focus of the report should be on providing the leadership team or other decision-making body with the information that it needs to make the necessary decision. Most importantly, however, the report should provide a robust and balanced assessment of the different options, before coming to an informed and evidence-based conclusion.

While the authority will need to tailor the appraisal report to the needs of the particular decision to be made, the following elements might usefully be included.

Approach	■ An overview of the approach adopted for undertaking the option appraisal. ■ Details of any assumptions made and how these assumptions have been reached. ■ Information on any specialist advice that has been sought. ■ An overview of how relevant stakeholders have been identified and engaged in the appraisal process. ■ The accounting treatment of the proposed options and the implications of this for the authority and for the appraisal process.
Constraints	■ A summary of the main constraints, including contractual commitments, affordability and the scope for fundamental business change. ■ An explanation of the implications of not proceeding.
Long and short list of options	■ A statement of the base case. ■ The long and short lists of options. ■ A statement explaining the short-listing process. ■ A summary of the full analysis of (ideally) at least three options for meeting the business need.
Financial analysis of short-listed options	■ An evaluation of the net cash flows anticipated from the alternative options. ■ An assessment of the affordability of the selected option, including an explanation of any special financial arrangements. ■ A record of technical details, such as the price basis and the base date for discounting.

Non-financial analysis of short-listed options	■ An assessment of the non-financial elements of the project or activity, using economic appraisal, cost benefit analysis, multi-criteria analysis or some other appropriate technique. ■ Identification and discussion of any unquantifiable costs and benefits and their implications for the appraisal. ■ The results of relevant impact assessments and their implications for the appraisal.
Risk	■ Identification and assessment of the risks associated with the project or activity and the arrangements to be put in place for their management and mitigation.
Sensitivity analysis	■ An analysis of the implications of variations in the drivers determining the outcome of the appraisal, with an explanation of how any significant implications will be addressed.
Optimism bias	■ An account of how the appraisal process has addressed the systematic tendency for people and organisations to be overly optimistic about the outcome of planned actions.
Peer review	■ An account of any peer review processes carried out during the appraisal process.
Post-implementation review	■ An outline plan for implementing the project or activity and for achieving the desired outcomes, with key milestones and timescales. ■ An explanation of the mechanisms in place for a post-implementation review, if required.

In all cases, it is important that the report remains objective and that it provides a robust and balanced assessment of the different options, before coming to an informed and evidence-based conclusion.

Even the most comprehensive and diligent option appraisal can come into question if it is reported poorly. Therefore, a high-quality report can provide considerable assurance to all stakeholders that the resulting decision has been made openly, honestly and with due regard to the issues involved.

Key questions

- Does the authority have a documented option appraisal methodology that is consistent with the guidance set out in IFAC/PAIB publication *Project and Investment Appraisal for Sustainable Value Creation: Principles in Project and Investment Appraisal*?
- Does the authority offer guidance to officers as to when an option appraisal should be undertaken?
- Does the authority's approach to option appraisal include appropriate techniques for the qualitative and quantitative assessment of options?
- Does the authority's approach to option appraisal include suitable mechanisms to address risk and uncertainty?
- Does the authority report the results of option appraisals in a clear, robust and informative manner that gives clear recommendations and outlines the risk associated with any preferred option(s)?

CHAPTER 6

Monitoring financial performance

The authority's long-term financial strategy, medium-term financial plan and annual budget set out its financial plans for the periods that these documents cover. Unexpected pressures can, nevertheless, impact on the authority's ability to manage its financial resources in line with these plans. It is important, therefore, that the authority is able to identify such pressures and to take prompt action to address them.

This chapter of the guidance notes considers:

- the way in which the leadership team takes action using reports, enabling it to identify and correct emerging risks to its budget strategy and financial sustainability
- how the leadership team monitors the elements of its balance sheet which pose a significant risk to its financial sustainability.

This chapter considers the things that the authority's leadership team needs to be aware of if it is to be able to identify and to respond to risks to its budget strategy and financial sustainability, such as deviation from planning assumptions, expenditure against budget, service pressures and the implementation of savings initiatives. It also discusses the characteristics of an effective report and the need for reports to be prepared in a timely manner.

It is a requirement of the FM Code that authorities should monitor closely the material elements of their balance sheet that may give indications of a departure from financial plans. This chapter outlines good practice for balance sheet management from a governance perspective and considers the risks that could arise from the different elements of the authority's balance sheet. It also discusses how the authority can seek to identify, monitor and respond to such risks.

Financial Management Standard N:

The leadership team takes action using reports, enabling it to identify and correct emerging risks to its budget strategy and financial sustainability

The earlier the authority identifies that it is deviating from its plans, the easier it is to get things back on course. Consequently, proactive review of focused financial and activity performance reports should be a regular task for the leadership team.

In order for the leadership team to have access to the information it needs to identify emerging risks, the authority needs to ensure that its leadership team:

- receives reports about the right things
- receives reports at the right time
- receives reports in the right format
- takes action in respect of any issues identified.

RECEIVING REPORTS ABOUT THE RIGHT THINGS

The earlier the authority becomes aware of a potential risk to the achievement of its financial strategy, medium-term financial plan or its annual budget, the sooner – and the more effectively – it can take action to address that risk and to mitigate its impact on the authority.

Consequently, the authority might seek to include in its reporting, where possible, forward-looking indicators of financial and operational performance. This is not to say that backward-looking performance information is not important – it is simply that, by its very nature, it is less useful in identifying problems that may arise in the future.

Useful forward-looking indicators do not necessarily need to relate to the authority's own performance. Information in respect of the environment in which the authority is operating can also be a helpful way of identifying issues or trends that may impact on the authority's ability to deliver its services and to maintain financial sustainability.

Some examples of information and other factors that it might be helpful to report to the authority's leadership team include:

- the key **planning assumptions** used in developing the financial strategy, the medium-term financial plan and the annual budget, together with a review of these assumptions that highlights any significant deviation from the initial estimates used and assesses the impact of any such deviation on the achievability of the authority's financial plans
- ongoing **financial performance against budget** across different service areas, including capital projects and programmes, which can allow the leadership team to identify potential financial issues – provided the budget is profiled effectively or a forecast outturn position is provided
- the **significant risks** to the achievement of the authority's financial plans in the short, medium and long term, together with an indication of the current status of each of these risks (ie are they 'crystallising') and any action that the authority should take to mitigate them
- performance in **implementing savings initiatives** and in realising targeted savings or efficiency gains
- the authority's **performance in delivering its key services**, including things like service performance indicators, capacity issues, backlogs, etc, which will allow the leadership team to identify any pressures on these services and to assess the implications for the authority's ability to achieve its financial plans
- the **performance of key partners**, especially those involved in the delivery of critical services including contract monitoring information which will allow risk to be managed and
- **staff and service user feedback**, which can be a helpful indicator of financial and operational pressures and can allow the leadership team to address such pressures before they impact on the authority's ability to deliver its services effectively and to maintain financial sustainability.

RECEIVING REPORTS AT THE RIGHT TIME

In order to be effective, information reported to the leadership team needs to be timely. This means that data included in reports to the leadership team needs to be collected, analysed and reported within suitable timescales.

It has become normal for authorities to collect a range of financial and performance data on a monthly basis and to report this to the leadership team in line with the meeting schedules of its constituent elements, such as senior leadership team meetings, finance committee meetings, full council meetings, etc.

In times of considerable financial pressure, however, where issues can arise that need to be addressed urgently, the authority may wish to consider whether such timescales allow information to be reported to the leadership team in a sufficiently timely manner.

In some circumstances it may be more appropriate to report critical information on a more frequent basis. For example, in a critical service area facing significant financial pressure and with limited capacity to manage demand, daily reports on capacity, demand and performance may be desirable. Where services are commissioned or delivered in partnership there should be a clear understanding around such reporting requirements.

Such situations may require the authority to develop suitable reporting lines to provide the leadership team with the information that it requires.

There should also be minimal delay between the period to which the performance information relates and the reporting of this information to the leadership team. This may require the authority to streamline the way in which it collects, collates, analyses and reports performance information.

RECEIVING REPORTS IN THE RIGHT FORMAT

The authority will wish to ensure that reports to the leadership team are:

Clear	Reports are written in clear and understandable language, with any technical terminology defined or explained. Key information is highlighted. Graphs, charts and tables are used, where suitable, to present information effectively.
Accurate	Information provided in reports is free from material errors. Where estimates have been included, this is made clear. Care is also taken to ensure that the presentation of any data is not misleading.
Timely	The leadership team receives reports in a timely manner, so that they can identify issues and risks before these become critical to the achievement of the authority's budget strategy and to its financial sustainability.
Relevant	Reports focus on what the leadership team needs to know. Clear statements of fact are more useful than pages of discussion or long tables of data. Extraneous detail is avoided. Any necessary supplementary information is put in an annex.
Well-structured	Reports have a clear structure and a strong narrative flow. The main point(s) of the report are set out at the beginning, so that the reader knows why they are reading the report. Those writing reports consider the questions that the reader may have and how these questions can best be answered.
Concise	Reports are as brief as possible.

Reports that allow the monitoring of financial performance against budget, in particular, might include sufficient information for the leadership team to understand how well the authority is performing against budget and, where relevant, the reasons for any significant variations against budget.

Such reports could include, for example:

- the budget for the period under consideration
- accruals-based income and expenditure to date
- a forecast for the remainder of the year and an estimate of the year-end position
- relevant underlying service activity data
- action to be taken to address any variation from budget
- who to contact for further information (eg the relevant budget holder).

TAKING ACTION IN RESPECT OF ISSUES IDENTIFIED

Critical issues raised in respect of the authority's financial sustainability need to be acted upon promptly.

It is, ultimately, up to the leadership team itself to ensure that it takes appropriate action in response to reports that it has received. However, the authority can facilitate the taking of such action by setting out, when presenting information to leadership team, recommendations as to what action is required.

Under some circumstances, it may be apparent that the authority's activities or the environment within which it operates may have changed to such an extent that its financial plans, for example the annual budget, are no longer realistic. In such cases, it may be prudent to recalibrate such plans.

The leadership team may wish to keep a record of action that it has taken in response to reports that it has received, whether through minutes of its meetings or other mechanisms. It might also gain benefit from reviewing the impact of the action that it has taken, to ensure that it has had the desired effect.

Key questions

- Does the authority provide the leadership team with an appropriate suite of reports that allow it to identify and to correct emerging risks to its budget strategy and financial sustainability?
- Do the reports cover both forward and backward-looking information in respect of financial and operational performance?
- Are there mechanisms in place to report the performance of the authority's significant delivery partnerships such a contract monitoring data?
- Are the reports provided to the leadership team in a timely manner and in a suitable format?
- Is the leadership team happy with the reports that it receives and with its ability to use these reports to take appropriate action?

Financial Management Standard O:

The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability

The CIPFA publication *Balance Sheet Management in the Public Services: A Framework for Good Practice* (2017) outlines a number of elements of good practice for balance sheet management from a governance perspective.

These are as follows:

1. In organisational culture, appropriate emphasis is placed on balance sheet management activities and considerations.
2. Balance sheet management requirements are addressed coherently and comprehensively across all relevant strategies and plans.
3. Balance sheet management responsibilities are identified and assigned to appropriate people.
4. The authority's decision-making framework is effective and requires appropriate consideration of balance sheet implications.
5. Appropriate levels of assurance are provided over all aspects of balance sheet management.
6. Financial and operational risk management activity pays due regard to balance sheet drivers and impacts.

The authority might seek to comply with the FM Code by engaging with these elements of good practice, as they allow it to create an environment within which effective management of the balance sheet is promoted and valued.

In order for the leadership team to be able to monitor the elements of the authority's balance sheet which pose a significant risk to its financial sustainability, a more targeted approach may be required.

Consequently, to comply with the FM Code, the authority might choose to:

- determine which elements of its balance sheet pose a significant risk to its financial sustainability, through a comprehensive review of its assets and liabilities
- put in place mechanisms to monitor these elements of its balance sheet
- respond promptly and proactively to any issues that these mechanisms identify.

While this financial management standard focuses specifically on the authority's balance sheet, it is worth recognising that the various elements of the authority's balance sheet do not exist in isolation. Rather, they are linked to other aspects of the authority's activities, such as service provision asset management, capital investment, treasury management, etc.

Consequently, while the monitoring of risk inherent to the authority's balance sheet can be undertaken as a stand-alone activity, it should also usefully be integrated into other aspects of the authority's performance monitoring and risk management processes. The main thing is that any such risks are identified and managed.

DETERMINING RISK ON THE BALANCE SHEET

The elements of the balance sheet that pose a risk to the authority's financial sustainability will depend on the authority's activities and on the assets and liabilities that it holds on its balance sheet.

It is useful, therefore, for the authority to review its balance sheet in the light of its financial strategy and its medium-term financial plan and to identify those elements that are critical to the achievement of its long and medium-term objectives.

Some aspects of the balance sheet that may be critical to the authority's financial sustainability include:

Non-current assets (ie fixed assets)	Where the authority uses its physical assets (eg buildings such as housing and schools) to deliver services, it is important that these are maintained in a suitable condition and the right assets to deliver services.
Long-term and short term investments	Where the authority holds investments it must operate within current guidance and reflect a clear understanding of the implications of these on its financial planning and risk management arrangements, since they can have a significant impact on an authority's financial sustainability (see CIPFA's *Prudential Property Investment* (2019)).
Debtors	The collection of payments from service users and other 'trade' debtors provides valuable income to support the authority's services. Should the authority experience difficulty in collecting this debt, the financial sustainability of the associated services could be threatened.
Cash	The maintenance of a sufficient cash balance to pay the authority's expenditure and debts as they become due is imperative. A shortfall in cash represents a fundamental and imminent problem and could threaten the authority's very ability to function.
Current liabilities	Where payments are due to be made to creditors in the short term, it is vital that the authority has sufficient cash – or assets that can quickly be converted to cash – to ensure that such payments can be made.
Provisions	The risk is not just existing provisions and the potential for their value to increase, but also events that may give rise to provisions that the authority was not expecting. While such provisions may not require immediate cash settlement, they can reduce the usable reserves of the authority on the balance sheet. This effectively means that assets, for example cash, are being held by the authority in case settlement is required. It may only become clearer later if settlement is absolutely required, and how much the cash outlay will be.
Pensions Liabilities	Authorities will normally have a liability to fund part or all of the future pensions which are payable to retired employees. The measurement of these liabilities is reflected on the balance sheet, but authorities are not normally required to fund them (ie reduce usable reserves) when the liabilities are incurred. Instead such liabilities are normally managed in the longer term, including adjustments to the employer's annual contributions to the pension scheme involved. The legal commitments to fund pension liabilities, and the profile of those payments over future years, will need to be considered in financial sustainability assessment.
Long-term borrowing	Long-term borrowing has become a normal part of authorities' balance sheets. The critical risk here, though, is the authority's ability to make interest or other payments when they are due.

Service concession arrangements	If the authority benefits from service concession arrangements operated under the private finance initiative, it may rely heavily on these concessions for the delivery of services to the public. It will also be required to make regular payments to the provider organisation. A failure to make these payments will have a significant impact on service delivery and on the authority's continued ability to function.
Usable reserves	Usable reserves may be held for variety of reasons, including to balance out uneven cash flows or unexpected events. They are also a means of funding strategic developments, especially those for which it would be difficult to secure external funding or borrowing. An insufficient – and especially an insufficient and falling – level of reserves is reason for additional scrutiny.

MONITORING RISK ON THE BALANCE SHEET

In monitoring elements of the balance sheet that could pose a risk to its financial sustainability, the authority might opt to operate a two-pronged approach of prevention and detection.

The prevention element of monitoring risk addresses the way in which the authority avoids risk arising in the first place.

It includes the following (this list is not intended to be exhaustive):

- treasury management policies and how the authority selects approved counterparties for its investments
- credit control policies for trade debtors and how the authority pursues unpaid debts
- cash management strategies
- how the authority identifies the need for new provisions
- management of borrowing, including the setting of the authority's prudential indicators
- management of service concessions arrangements
- policies on levels of reserves and what reserves may be used for.

The detection element of monitoring risk, on the other hand, concerns how the authority identifies when such risk has 'crystallised', ie when it has turned from a theoretical threat to a practical problem.

To ensure that the crystallisation of such risks is identified promptly, the authority might usefully develop suitable 'early warning' mechanisms for the elements of the balance sheet that it considers to be critical to its financial sustainability.

This could include, for example:

- close monitoring of the authority's financial performance and of its impact on the authority's reserves
- reporting to the leadership team of any unplanned use of the authority's reserves
- monitoring of investment returns and the forecasting of future cash inflows
- regular review of aged debtors and of the actions being taken to secure recovery
- forecasting of cash balances and of the authority's ability to pay amounts coming due

- regular monitoring of performance against the authority's prudential indicators
- forecasting of service concession arrangement payments and modelling of their future affordability
- inclusion in regular management accounting reports of relevant balance sheet information.

For each element of the balance sheet that poses a threat to the authority's financial sustainability, the authority could seek to develop a suite of preventative and detective measures that, together, (a) reduce the likelihood of the risk occurring and (b) maximise the chance of the authority detecting it should the risk crystallise.

This means that the balance sheet is not something that the authority can worry about just at year end when it is preparing its financial statements. Instead, it needs to receive the same level of regular attention as the authority's income and expenditure records.

RESPONDING TO RISK INHERENT TO BALANCE SHEET ITEMS

It might also be sensible for the authority to seek to mitigate the potential impact on its financial sustainability should one of more of the identified balance sheet risks crystallise. This is, however, difficult to achieve in practice. As such it is important for the authority to respond promptly when risks crystallise.

The action that the authority takes will depend on:

- the element of the balance sheet in question
- the risk or issue that has arisen
- the impact that it is likely to have on the authority.

In some cases, the authority may be able to reduce the risk to which it is exposed relatively quickly and easily. In other cases, the issue may be less tractable and might require a more engaged response. In some cases the authority may not be able to respond effectively acting alone, so may need to work with other authorities or branches of government to resolve the issue.

The key, though, is for the authority to identify the issue and to take action promptly. This can only happen if the leadership team knows what is important, knows what to look for and monitors the critical elements of its balance sheet proactively and effectively.

Key questions

- Has the authority identified the elements of its balance sheet that are most critical to its financial sustainability?
- Has the authority put in place suitable mechanisms to monitor the risk associated with these critical elements of its balance sheet?
- Is the authority taking action to mitigate any risks identified?
- Does the authority report unplanned use of its reserves to the leadership team in a timely manner?
- Is the monitoring of balance sheet risks integrated into the authority's management accounts reporting processes?

CHAPTER 7

External financial reporting

The publication of financial information is one of the primary ways in which the authority demonstrates accountability to service users, taxpayers, to citizens and to other organisations across the public sector. Furthermore, the authority's statutory financial statements provide a definitive audited record of its financial position and financial performance, as well as a secure foundation for effective financial management.

This chapter of the guidance notes considers:

- the extent to which the chief finance officer has personal responsibility for ensuring that the statutory accounts provided to the local authority comply with the *Code of Practice on Local Authority Accounting in the United Kingdom*
- the degree to which the presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.

This chapter starts by summarising the statutory basis for local government financial reporting in the UK and by exploring the purpose of the annual financial statements.

It then considers explicitly the role of the authority's chief finance officer in the preparation and publication of the financial statements and how the authority can ensure that the chief finance officer has met their obligations in this regard.

Effective financial reporting is key to ensuring that the authority and its leadership team understand how effectively its resources have been utilised during the year. This chapter considers how financial outturn information can be reported effectively and sets out some key questions that the leadership team should ask when presented with such information.

Financial Management Standard P:

The chief finance officer has personal responsibility for ensuring that the statutory accounts provided to the local authority comply with the *Code of Practice on Local Authority Accounting in the United Kingdom*

The external financial reporting process for authorities is prescribed by statute. Local authorities are required to produce their statutory accounts on an annual basis in accordance with:

- the Accounts and Audit Regulations 2015 for English Authorities
- the Local Government (Accounts and Audit) Regulations Northern Ireland 2015
- the Local Authority Accounts (Scotland) Regulations 2014 or
- the Accounts and Audit (Wales) Regulations 2014, as amended.

The *Code of Practice on Local Authority Accounting in the United Kingdom* (the local authority accounting Code) is prescribed by the above-mentioned statutory instruments as proper (accounting) practices to specify the principles and practices of accounting that are required to give a 'true and fair' view of the authority's financial position, financial performance and cash flows (including the group accounts where the authority has material interests in subsidiaries, associates or joint ventures).

THE PURPOSE OF THE STATUTORY FINANCIAL STATEMENTS

The local authority accounting Code specifies that the objective of local authority financial statements is to provide information about the authority's

- financial performance (income and expenses)
- financial position (assets, liabilities and reserves)
- cash flows.

That is useful to a wide range of users for assessing the stewardship of the authority's management and for making economic decisions. They should therefore be able to give electors, service users, those subject to locally levied taxes and charges, members of the authority (as representatives of service recipients) and other interested parties clear information about the authority's finances.

The financial statements should answer such questions as:

- What did the authority's services cost to deliver over the course of the year?
- Where did the money to fund the authority come from?
- What were the authority's assets and liabilities at the end of the year?

It is important that two particular aspects are understood clearly. First, all financial statements should reflect a common pattern of presentation, although this does not necessarily require them to be in an identical format. One of the main aims of the local authority accounting Code is to narrow the areas of difference and variety in accounting treatment and thereby to enhance the usefulness of published statements of accounts.

Secondly, interpretation and explanation of the accounts are important mechanisms to ensure that the messages in the financial statements are communicated effectively to the users of the financial statements. The local authority accounting Code requires that there should be a narrative report to accompany the financial statements, which should explain the more significant features of the accounts. It should be based on the information contained in the financial statements and should not contain material inaccuracies or misleading statements.

The narrative report (management commentary in Scotland), however, has another important function. Its purpose is to provide information on the authority, its main objectives and strategies and the principal risks that it faces. The narrative report should provide a commentary on how the authority (including the group accounts) has used its resources to achieve its desired outcomes in line with its objectives and strategies. It will support the financial statements in responding to the three questions set out above.

Wherever possible, the financial statements and the supporting notes should be written in clear, comprehensible language. Technical terms or jargon should be used only sparingly. Where the use of technical terms cannot be avoided, they should always be explained clearly.

Where the authority also publishes a summarised or simplified version of its financial statements, this should contain a clear reference to the existence of the full financial statements and should explain how the full financial statements can be accessed.

THE ROLE OF THE CHIEF FINANCIAL OFFICER

CIPFA's *Statement on The Role of the Chief Financial Officer in Local Government* states that it is the responsibility of the authority's CFO to publish annual financial statements on a timely basis, in order to communicate the authority's activities and achievements, its financial position, financial performance and cash flows.

Furthermore, the local authority accounting Code requires the authority to provide in its financial statements a 'statement of responsibilities' setting out the responsibilities of the authority and the CFO in respect of the financial statements. The statement of responsibilities must confirm that the financial statements have been prepared in accordance with the requirements of the local authority accounting Code.

For local authorities in England, Wales and Scotland, the following wording is recommended, but not mandatory:

The authority's responsibilities

The authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the chief financial officer
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- approve the statement of accounts (England and Wales only).

The chief financial officer's responsibilities

The chief financial officer is responsible for the preparation of the authority's statement of accounts in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code).

In preparing this statement of accounts, the chief financial officer has:

- selected suitable accounting policies and then applied them consistently
- made judgements and estimates that were reasonable and prudent
- complied with the local authority Code.

The chief financial officer has also:

- kept proper accounting records which were up to date
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

In England and Wales, the chief financial officer should sign and date the financial statements, stating that they give a true and fair view of the financial position of the authority at the reporting date and of its expenditure and income for the year ended 31 March 20XX.

In Scotland, the proper officer is required to submit the unaudited accounts to the authority and to its appointed auditor by 30 June. The audited financial statements must be laid before a meeting of the authority or a committee of that authority whose remit includes audit or governance functions no later than 30 September.

For authorities in Northern Ireland, the following wording of the statement of responsibilities is proposed:

The council's responsibilities

Under Section 1 of the Local Government Finance Act (Northern Ireland) 2011, the council shall make arrangements for the proper administration of its financial affairs. Under this section, the council is required to designate an officer of the council as its chief financial officer. Arrangements for the proper administration of its financial affairs shall be carried out under the supervision of its chief financial officer.

The council is required to approve the statement of accounts.

The chief financial officer's responsibilities

Under Regulation 8 of the Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015, the chief financial officer is responsible for the preparation of the council's statement of accounts in the form directed by the Department for Communities (NI).

The accounts must give a true and fair view of the expenditure and income and cash flows for the financial year and the financial position as at the end of the financial year.

In preparing this statement of accounts, the chief financial officer is required to:

- observe the accounts direction issued by the Department for Communities (NI), including compliance with the *Code of Practice on Local Authority Accounting in the United Kingdom*
- follow relevant accounting and disclosure requirements and apply suitable accounting policies on a consistent basis, and
- make judgements and estimates that are reasonable and prudent.

The chief financial officer is also required to:

- keep proper accounting records which are up to date, and
- take reasonable steps for the prevention and detection of fraud and other irregularities.

The chief financial officer should sign and date the statement of accounts, stating that it gives a true and fair view of the financial position of the authority at the reporting date and of its expenditure and income for the year ended 31 March 20XX.

THE CFO'S RESPONSIBILITIES FOR THE ACCOUNTS OF THE AUTHORITY

In order to demonstrate compliance with the requirement of the FM Code that the authority's CFO has both personal and statutory responsibilities for ensuring that its financial statements comply with the local authority accounting Code, the authority could:

- ensure that the preparation and submission of annual financial statements that comply with the local authority accounting Code is included within the CFO's job/role description and annual performance management objectives

- consider the extent to which the CFO has prepared and submitted annual financial statements that comply with the local authority accounting Code as part of the CFO's performance management review (or equivalent) and used to inform any performance management ratings or judgements
- challenge the CFO in the event that the annual financial statements are not prepared and submitted in line with the required timescales or if the review of the financial statements by the authority or its auditors identifies any other issues in respect of their preparation.

The authority should, however, also ensure that the CFO is provided with sufficient resources – including a suitably-resourced finance team – to fulfil their personal and statutory responsibilities under this element of the FM Code.

Key questions

- Is the authority's CFO aware of their responsibilities in terms of the preparation of the annual financial statements?
- Are these responsibilities included in the CFO's role description, personal objectives and other relevant performance management mechanisms?
- Have the authority's financial statements hitherto been prepared on time and in accordance with the requirements of the *Code of Practice on Local Authority Accounting in the United Kingdom?*

Financial Management Standard Q:

The presentation of the final outturn figures and variations from budget allow the leadership team to make strategic financial decisions

The FM Code states that effective financial reporting is key to ensuring that the authority and its leadership team understand how effectively its resources have been utilised during the year, including how material variances from initial and revised budgets to outturn have arisen and been managed.

The success of these arrangements will be demonstrated by the ability of the leadership team to use them to make informed decisions about the authority's future financial strategy and plans. In some circumstances, such reporting might lead to a reappraisal of the achievability of the long-term financial strategy and of the financial resilience of the authority.

PRESENTING EFFECTIVE FINANCIAL OUTTURN INFORMATION

The key to presenting financial outturn figures and budget variations so that they can allow the leadership team to make strategic financial decisions is to ensure that this information is:

Accurate	Information on financial outturn and variation from budget needs is robust and reliable. If it cannot be relied upon, then it should not be used to inform strategic decision making. The authority also ensures that budgets are set – and profiled – in a robust and realistic manner.
Relevant	The information is relevant to the decisions to be made and provides the leadership team with the information that it needs to make these decisions. It also seeks to give an insight into the drivers of the cost of the service and how actual figures for these drivers have compared against planning estimates.
Granular	The leadership team is able to 'drill down' into the data to gain greater insight into the authority's financial performance. For example, if the leadership team is interested in the success of the authority's savings plans, it is able to look beyond the headline figures into the specific savings achieved – or not achieved – by individual activities and projects.
Analysed	A robust analysis of the financial information provided is vital. For example, if a particular service has overspent against budget, it is important to know why this is the case. Has demand been higher than anticipated while unit costs have remained on budget? Or have unit costs risen beyond expected levels?.
Put into context	Financial information is put into the proper context. This means that it is presented in the context of relevant internal and external factors such as: ■ changes to legislation ■ changes to the way in which a service is delivered ■ changing patterns of demand ■ service demand and performance. It may also be helpful to present financial information in the context of performance by other authorities or of relevant performance benchmarks.

The authority might usefully choose to take these factors into account whenever outturn figures and variations from budget are presented to the leadership team.

SPECIFIC QUESTIONS FOR THE LEADERSHIP TEAM TO ASK

When reviewing financial outturn figures and variations from budget, there are a number of key questions that the leadership team might usefully ask. Asking these questions will help the authority to comply with the FM Code, by ensuring that outturn figures and variations from budget are presented in a manner that facilitates strategic decision making.

These include:

- **Is the final outturn position broadly in line with the budget?**

While the authority should prepare its annual budget diligently, variations in income and expenditure budgets will inevitably arise. If the budgeted outturn position and the actual outturn position differ significantly, however, the leadership team will need to review the authority's approach to setting its budget.

- **How well have different services performed against budget?**

It is reassuring if services have performed in line with budget, as this is an indication that income, activity and expenditure are (probably) in balance. If services have overspent against budget, either because of a shortfall in income or an excess of expenditure, this is a concern and should be addressed. Similarly, if a service has spent less than budgeted or has generated more income than expected, the reason for this should be determined.

- **Have any issues been highlighted prior to the end of the year?**

There should be no real surprises in the year-end financial outturn of budget variance information, as any significant issues should have been communicated to the leadership team as and when they became apparent. Where issues are raised only in the year-end reports, this is indicative of a problem in the way in which financial information is reported throughout the year.

- **Has the authority achieved its savings targets?**

If the authority has set savings targets for specific services or activities, the leadership team should ensure that these targets have been achieved. This is especially the case when such savings have been integrated into service budgets, as it is easy for them to 'disappear' in the overall figures for the service as a whole.

- **Is the authority's capital programme on track?**

Where the authority has a programme of capital projects and expenditure, the leadership team should ensure that progress against the programme – in terms of expenditure and timescales – is in line with what has previously been agreed. Where projects are exhibiting cost overruns or delays in the completion schedule, these should be addressed promptly.

The leadership team might also usefully undertake a critical examination of the financial outturn figures and budget variations and assess them against the picture of the authority's performance that it has received from other sources of information, such as service reports, inspection reports, feedback from staff and service users, etc. If these sources of information do not all present a consistent picture of the authority's performance, the leadership team may wish to take action to understand why this is the case.

Key questions

- Is the authority's leadership team provided with a suitable suite of reports on the authority's financial outturn and on significant variations from budget?
- Is the information in these reports presented effectively?
- Are these reports focused on information that is of interest and relevance to the leadership team?
- Does the leadership team feel that the reports support it in making strategic financial decisions?

Other sources of guidance and support

CIPFA has produced or contributed to a range of publications upon which the authority may wish to draw when considering the extent to which it complies with the FM Code and when thinking about how it might wish to improve its financial management arrangements.

- *Balance Sheet Management in the Public Services: A Framework for Good Practice (2017)*
- *Capital Strategies and Programming (2014)*
- *CIPFA Prudential Property Investment (2019)*
- *CIPFA Standard of professional Practice on Ethics (2018)*
- *CIPFA/IFAC International Framework: Good Governance in the Public Sector (2014)*
- *CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom*
- *Delivering Good Governance in Local Government Framework (2016), along with the associated guidance notes for local authorities and other public sector organisations*
- *Leadership Matters (2020)*
- *The CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, Guidance Notes for Practitioners*
- *The Prudential Code for Capital Finance in Local Authorities (2017)*
- *The Prudential Code for Capital Finance in Local Authorities: Guidance Notes for Practitioners (2018)*
- *The Role of the Chief Financial Officer in Local Government (2016)*
- *The Role of the Chief Financial Officer of the PCC and the Chief Finance Officer of the Chief Constable (2012)*
- *Treasury Management in the Public Services Code of Practice and Cross-Sectoral Guidance Notes (2017)*
- *Treasury Management in the Public Services: Guidance Notes for Local Authorities including Police Forces and Fire and Rescue Authorities (2018)*

Beyond these titles, CIPFA has also published guides to a range of related topics that may help the authority to improve its financial management arrangements, such as developing a financial strategy and undertaking an option appraisal.

The Chartered Institute of
Public Finance & Accountancy

Registered office:
77 Mansell Street, London E1 8AN
T: +44 (0)20 7543 5600 F: +44 (0)20 7543 5700
www.cipfa.org
CIPFA registered with the Charity Commissioners of England and Wales No 231060

Financial Management Code Action Plan

Standard	Description	Current RAG Rating	Action(s) Required	Responsible Officer(s)	Target Date
A	The leadership team is able to demonstrate that the services provided by the authority provide value for money.	AMBER	1. The Ofsted rating requires improving to "Good" or Outstanding" from "the current "Requires Improvement to be Good". 2. Achieving and maintaining an unqualified Value for Money judgement from the Council's External Auditors.	Executive Director Children's Services Director of Finance	31st March 2024 31st March 2024
B	The authority complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government.	GREEN			
C	The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.	GREEN			
D	The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016).	AMBER	1. Achieving and maintaining an unqualified opinion in respect of putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources from the Council's External Auditors in the 2019/20 and 2020/21 Statement of Accounts.	Director of Finance	31st March 2024
E	The financial management style of the authority supports financial sustainability.	GREEN			

F	The authority has carried out a credible and transparent financial resilience assessment.	**GREEN**			
G	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.	**AMBER**	1. Develop a robust savings delivery plan to close the current forecast budget gap in future years that arises primarily from the forecast impact of the Business Rates Retention Scheme Reset (currently forecast to affect 2025/26 onwards). 2. Expand the period covered by the Capital Strategy & Capital Programme to ensure a longer term view of the Council's financial sustainability is understood.	Director of Finance Director of Finance	28th February 2024 28th February 2024
H	The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities.	**GREEN**			
I	The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.	**AMBER**	1. Improve the linkages between Service Plans, the Corporate Plan and the MTFS.	Corporate Management Team	28th February 2024
J	The authority complies with its statutory obligations in respect of the budget setting process.	**GREEN**			
K	The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.	**GREEN**			
L	The authority has engaged where appropriate with key stakeholders	**AMBER**	1. Consider utilisation of more interactive consultation tools that	Director of Finance	28th February 2024

	in developing its long-term financial strategy, medium-term financial plan and annual budget.		encourage a higher level of engagement. 2. Expand the period covered by the Capital Strategy & Capital Programme to ensure a longer term view of the Council's financial sustainability is understood.	 Director of Finance	 28th February 2024
M	The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.	AMBER	1. Review the matrix used to assess individual capital business cases and improve how the matrix scores are used in the decision making process. 2. Improve the quality of revenue and capital business cases. 3. Determine a preferred best practice methodology for assessing investment option appraisals, and document and communicate to all relevant stakeholders to ensure a consistent and common approach for both revenue and capital investment decisions.	Capital Programme Board Corporate Management Team Capital Programme Board	28th February 2024 28th February 2024 28th February 2024
N	The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.	GREEN			
O	The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.	AMBER	1. Develop and implement new reporting arrangements to the Council's leadership team to include but not limited to:	Director of Finance	30th June 2023

			• Monthly revenue and capital budget monitoring forecasts • The CIPFA Resilience Index • Reserve assessments • Outstanding debt levels • Treasury Management Prudential Indicators • Commercial Investments • Loans to the Council's wholly owned companies		
P	The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the Code of Practice on Local Authority Accounting in the United Kingdom.	**AMBER**	1. Achieve and maintain an unqualified opinion on the Council's annual Statement of Accounts from the external auditors. 2. Produce draft accounts by the statutory deadlines in line with proper accounting practice.	Director of Finance Director of Finance	Ongoing Ongoing
Q	The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.	**AMBER**	1. Catch up on the Statement of Accounts audit process so that the annual Outturn Report and Statement of Accounts are aligned and prepared and presented in a timely manner to enable timely strategic financial decisions to be made.	Director of Finance	Ongoing

READING BOROUGH COUNCIL

REPORT BY DIRECTOR OF FINANCE

TO:	**AUDIT & GOVERNANCE COMMITTEE**		
DATE:	**12TH APRIL 2023**		
TITLE:	**IMPLEMENTATION OF THE NEW FINANCE SYSTEM – PROGRESS UPDATE**		
LEAD COUNCILLOR:	**CLLR TERRY**	**PORTFOLIO:**	**CORPORATE & CONSUMER SERVICES**
SERVICE:	**FINANCE**	**WARDS:**	**BOROUGHWIDE**
LEAD OFFICER:	**DARREN CARTER**	**TEL:**	
JOB TITLE:	**DIRECTOR OF FINANCE AND PROJECT SPONSOR**	**E-MAIL:**	darren.carter@reading.gov.uk

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

1.1 This report provides the latest update on progress with the implementation of the new finance system.

2. RECOMMENDED ACTION

2.1 To note progress of the implementation of the new Finance System.

3. CURRENT STATUS

3.1 Audit and Governance Committee has previously been notified about the intention to go-live with the implementation of the e5 finance system from Advanced in April 2023. The Committee was advised that a readiness for go-live assessment was to be undertaken during February 2023 in order to review findings from testing, progress with training users, business readiness, the cutover plan and arrangements in place to support and manage the new system.

3.2 Following this readiness for go-live assessment the Director of Finance and the Chief Accountant have decided to delay implementation until Autumn 2023 in order to ensure that the system is fully operational at the point of go-live.

3.3 The revised project plan takes into full consideration resource availability, the impact of other system projects and dependencies on third parties. The plan includes completing Integrated System Testing and Data Migration by the end of June. User Acceptance Testing, training and a cut-over rehearsal will then take place during the Summer, with the final cut-over work delivering an Autumn 2023 go-live.

3.4 The revised plan is currently being reviewed by independent consultants to consider robustness and deliverability.

3.5 The Project Team is meeting daily, with weekly meetings chaired by the Director of Finance to track progress.

FINANCIAL IMPLICATIONS

3.6 It is anticipated that the project will be delivered within the allocated capital programme budget allocation.

BACKGROUND PAPERS

3.7 None.

Audit and Governance Committee

12 April 2023

Reading Borough Council
Working better with you

Title	Information Governance Quarterly Update
Purpose of the report	To note the report for information
Report status	Public report
Report author	Michael Graham, Asst. Director of Legal and Democratic Services
Lead councillor	Cllr Liz Terry, Lead Councillor for Corporate Services and Resources
Corporate priority	Our Foundations
Recommendations	The Committee is asked to: 1. note the progress to date and future actions outlined in this report 2. identify matters of interest for future reports

1. Executive summary

1.1. This report provides an update on the actions in progress to improve the Council's policies, systems and processes around Information Governance.

1.2. In the last two years, the Committee has received a number of limited assurance reports in relation to information governance and work is ongoing to address the underlying issues in the following areas:

- Freedom of Information
- Data Transparency
- Records Management

2. Policy context

2.1. The Council's new Corporate Plan has established three themes for the years 2022/25. These themes are:

- Healthy Environment
- Thriving Communities
- Inclusive Economy

2.2. These themes are underpinned by "Our Foundations" explaining the ways we work at the Council:

- People first
- Digital transformation
- Building self-reliance
- Getting the best value
- Collaborating with others

2.3. Full details of the Council's Corporate Plan and the projects which will deliver these priorities are published on the [Council's website](). These priorities and the Corporate Plan demonstrate how the Council meets its legal obligation to be efficient, effective and economical.

2.4. Data is playing an increasing role in designing, delivering and transforming public services to improve outcomes for customers and drive efficiencies within current financial constraints.

2.5. The Local Government Association describe the value of data to public services as facilitating:

- The design of services around user needs
- The engagement and empowerment of citizens to build their communities
- Efficiencies and public service transformation
- Economic and social growth
- Greater transparency and accountability

2.6. Effective information governance is a key requirement for the Council which has duties to be both open and transparent whilst at the same time protecting the confidential information it holds about people and businesses. How it collects, uses, stores, shares and destroys personal data is governed by the Data Protection Act. The Council also has to comply with the Freedom of Information Act, the Environmental Information Regulations and the Access to Information Act in relation to its records. Compliance is monitored by the Information Commissioner who has wide ranging powers including the ability to impose considerable financial penalties for breaches of the Data Protection Act.

3. Update

Subject Access Requests

3.1. 10 cases from 19/20, 20/21 & 21/22 financial years have been completed since the last report in January 2023 and one case from 21/22 was withdrawn by the requestor. A further 29 new cases have also been received for the Council (14) and BFfC (15) between January, February and March 2023 (Q4).

3.2. The contract for redaction software has been completed and is with the supplier for signing with a start date of 3 April 2023.

SAR Backlog Data as of 30 March 2023

	19/20		**20/21**		**21/22**		**22/23**	
	RBC	BFfC	RBC	BFfC	RBC	BFfC	RBC	BFfC
No Received	52	88	35	64	44	38	45	55
No Completed	52	87	28	58	35	36	31	36
No Outstanding	0	1	7	6	9	2	14	19

FOI cases

3.3. As previously reported, a number of measures have been taken with the aim of increasing FOI performance:

- Centralisation of the function in the Customer Relations Team
- Implementation of a new case management system
- Review of the procedures
- Training has been provided to officers
- Continual monitoring weekly by CMT

3.4. Notwithstanding these measures, performance across the Council remained low, despite some pockets of improved performance which have been reported to previous Committees. The Council aspires to meet the 90% response rate expected by the Information Commissioner and this has been included as a Corporate Plan KPI.

3.5. Following the update provided at the January 2023 meeting for quarter 2 of financial year, 2022/23 the data for quarter 3 is below.

Total number received in Q3

Directorate	Total No. Received	%	Q2 Total	Q1 Total
BFfC	38	16	51	41
DACHS	18	7.6	14	23
DEGNS	77	32.5	131	107
DoR	76	32	95	118
FOI Team	28	11.8	7	N/A
Total	**237**	**100%**	**298**	**289**

3.6. There has been a decrease (20.4%) in the number of FOI's received during the quarter 3, the number of FOI's received in December was less than those received in October and November due to the Christmas break.

FOI's Responded to in Timescale by Directorate in Q3

Directorate	No. Sent Out in Timescale	%
BFfC	24	64
DACHS	10	55.6
DEGNS	61	79.2
DoR	60	79
FOI Team	28	100
Total	**183**	**77.2%**

Breakdown by month for Q3

Directorate	FOI's received in Oct	% sent out in time in Oct	FOI's received in Nov	% sent out in time in Nov	FOI's received in Dec	% sent out in time in Dec
BFfC	13	61.5	9	75.0	13	53.9
DACHS	6	66.7	6	83.3	6	16.7
DEGNS	29	89.7	34	67.7	21	57.1
DoR	22	72.7	30	66.7	20	75.0
FOI Team	12	100	13	100	3	100
Overall	**82**	**81.4**	**92**	**74.5**	**63**	**61.0**

3.7. In Q3 the Council and BFfC responded to 237 FOI's and 183 (77.2%) of these were within timescale, this is an improvement from Q1 when 58.1% and quarter 2 (72.1%) were responded to in timescales.

3.8. Of the 237 FOI's responded to, 5 of these came back to the Council and BFfC for Internal Reviews (IR). Of these 5 IR's, 3 were issued with revised responses and 2 were issued with the original information.

3.9. The FOI Act 2000 states all responses must be sent out within 20 working days. The Assistant Director of Legal Services and the Information Rights Services Manager (responsible for the Customer Relations & Information Governance Teams) met with

Information Commissioners Office (ICO) in February to discuss the Action Plan work undertaken and progress made since the last meeting with them to improve the response rates. The ICO agreed the Council was on the correct path and was satisfied that the Action Plan tasks were near completion. The data above has been shared with ICO and will continue to be shared with them until they are satisfied with the response rate.

3.10. The feedback from the sessions with DMT's, Service and Teams we reported in in the last report, and were categorised into three different themes, which are:

- System Related issues
- Training
- Notifications/Cross-team responding

3.11. The above findings were shared with the regular FOI responding officers (approximately 95 Officers), at a face-to-face training session at the end of January 2023. Officers also conducted an online session on 22 March 2023 (for those who could not attend the face to face to session). These sessions focused on addressing and supporting the officers with the common challenges they faced with regards to the themes noted above. The officers were given the opportunity to discuss any system related issues, and this followed a 30-minute presentation on the how to utilise the system. The session also included a briefing on the FOI Act and procedure as well as encouragement to teams to publish on the Council or BFfC websites any data that is regularly requested. They were also advised on what to look for and seek advice on applying exemptions. Further support will be focussed on this key group by way of weekly drop-in sessions online for advice.

3.12. The Assistant Director of Legal Services and the Information Rights Services Manager met with the Project Team involved in the implantation of the Council's new CRM system. We have asked them to write a new FOI form to improve our process and simplify the FOI management workflow. We have started this work by process mapping our requirements at a session that took place on 28 March.

Data Transparency

3.13. The Data Transparency pages were reviewed on 17 March 2023 and the Contract and Procurement data remain out of date. This has been highlighted to the Assistant Director Procurement and Contracts. He met with the Information Rights Service Manager and agreed that the service will work on getting this information updated.

Information Governance Board

3.14. The Information Governance Board meet monthly and review Cyber Security Incidents and possible breaches of the Data Protection Act which may need to be reported to the Information Commissioners Office (ICO). Where any subsequent actions are identified then these are monitored.

3.15. There has been one further incident since the last report to this committee where a Council supplier reported a cyber incident, and a limited amount of Council data was compromised. This has been reported to the ICO by the supplier and by the Council. The ICO has not commented on this matter to the Council. The previously reported cyber incident which impacted another one of the Council's software suppliers is being investigated by the ICO, we await their feedback.

3.16. The IG Board is in the process of commissioning a report to carry out a review of the Council and BFfC's breach management process in respect of these two third party software cyber incidents. A brief for this review has been agreed by the Board. We expect this review to commence imminently. The review will cover mechanisms and processes in place for anticipating, reporting, managing, and learning from breaches by third parties. This will also cover the lessons to be learned when commissioning a service to ensure the governance around contracts, data handling and business continuity is sound.

3.17. The most common themes across both organisations continue to relate to mis-addressed emails and postal addresses being wrongly input, either through transcription errors or in a few cases, wrong data has been held on our systems. All of the incidents and main themes are reported to IG Board on a monthly basis. The IG Team review each incident and identify learning for the staff/services involved to ensure repeat incidents do not reoccur. Online team/service training sessions have been completed with the Joint Legal Team and sessions are in the process of being planned with Children's Social Care staff.

3.18. At the Board's request the Information Governance Team and IT Security team have explored measures that can be put in place to increase security of outgoing emails. Since the last update, due to the continuing issue of misdirection of emails colleagues in IT Security have identified two possible products as a security measure to address this problem. The Board reviewed the two products that could address this issue however no decisions has yet been reached on the viability of purchasing one. The Board acknowledged there are risks of possible fines for data breaches which may exceed the cost of having a system in place to help mitigate these risks.

Information Management Strategy

3.19. The Information Management Strategy and Action Plan was presented and signed off by the Policy Committee in March 2022. This sets out the Council's approach to information management and governance. The IG Team met on 23 February to map out the work into short, medium and long-term tasks and plan communications with the Data Stewards.

3.20. The IG Service has identified the Information Assets Owners to be the Assistant Directors, who have been made aware of their responsibilities via presentations at SLG. Formal training with them is being planned. The Data Stewards have been identified for all of Directorates and the first meeting with the DS's in BFfC and DACHS took place on 24 March to agree the terms of reference and kick start the Action Plan work. The Action Plan work will be rolled out across BFfC and DACHS first.

Training

3.21. The Board continues to monitor the Cyber Security training which is currently rolled out for all staff and members through Learning Pool, the Council's e-learning package. The uptake of the training has shown 82% of staff had completed the Cyber Security module and 80% of staff had completed the Information Governance as of 20 March 2023. The modules are either in full or the refresher. Revised refresher training modules will be rolled out to staff to complete between 1 April and 30 June 2023. Further messages about the compulsory nature of the training are planned. There will be further follow up with Services to ensure that the training takes place.

3.22. Non-IT users have also been asked to complete the paper-based training and this will be followed up in the new financial year to refresh the numbers of staff who have completed this training and those who are new to the organisation and should complete it.

Next Steps

3.23. The focus is the completion on the FOI Process mapping, continuing to support the organisation to respond to FOI's on time, meeting with the BFfC and DACHS Data Stewards to start work on the IG Action Plan, and roll out communications to encourage staff to complete the above training by the end of June 2023.

4. Contribution to strategic aims

4.1. The purpose of Information Governance is cross-cutting and relevant to all Services of the Council and to all of our public facing services which collect and retain data about the public. The role of Information Governance contributes to the Corporate Priority foundation of "Getting the best value".

5. Environmental and climate implications

5.1. The Council declared a Climate Emergency at its meeting on 26 February 2019 (Minute 48 refers).

5.2. There is nothing within this report which is of relevance for the Council's strategic priority of Climate Change.

6. Community engagement

6.1. It is not anticipated that there will be public consultation on the Information Management Strategy or Action Plan. It will however be in the public domain at Policy Committee and this Committee, and I anticipate members will wish to receive regular updates at this Committee. This will ensure that progress in this field is visible to residents.

7. Equality impact assessment

7.1. An Equality Impact Assessment (EIA) is not relevant to this report. All citizens have rights to information and there is no evidence that any section of the community is disadvantaged in accessing those rights under the current service provision. There is no reason to think that any section of society will be adversely affected by the roll-out of better Information Governance and an Information Management Strategy within the Council.

8. Other relevant considerations

8.1. Nothing relevant.

9. Legal implications

9.1. The Council is required to comply with a number of information governance regulations including the Data Protection Act, the Freedom of Information Act, the Environmental Information Regulations and the Access to Information Act. Effective governance, policies and practices are essential to minimising the risk of data protection breaches and to help ensure the appropriate handling of information requests. Failure to do so could result in regulatory action being taken against the Council.

10. Financial implications

10.1. There are no direct financial implications arising from this report.

11. Timetable for implementation

11.1. Not applicable.

12. Background papers

12.1. There are none.

READING BOROUGH COUNCIL REPORT

REPORT BY DIRECTOR OF RESOURCES

TO:	**AUDIT & GOVERNANCE COMMITTEE**		
DATE:	**12th APRIL 2023**		
TITLE:	**IMPLEMENTATION OF AUDIT RECOMMENDATIONS TRACKER**		
LEAD COUNCILLOR:	**COUNCILLOR TERRY**	**PORTFOLIO:**	**CORPORATE SERVICES & RESOURCES**
SERVICE:	**AUDIT**	**WARDS:**	**BOROUGHWIDE**
LEAD OFFICER:	**CHARLIE STEWART**	**TEL:**	
JOB TITLE:	**DIRECTOR OF RESOURCES**	**E-MAIL:**	**Charlie.stewart @reading.gov.uk**

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

1.1 The outcomes of all internal and external audit reports are reported to this Committee.

1.2 The April 2018, Audit and Governance Committee agreed that, to provide a greater focus on the importance of implementation of agreed audit recommendations, an implementation tracker report would be reported to all future meetings of this Committee.

1.3 As agreed at last Audit & Governance Committee in January 2023, Appendix 1 attached now sets out progress against the audit recommendations for audits which were assigned a 'limited' or 'no assurance' opinion only.

2. RECOMMENDED ACTION

2.1 The Committee are asked to consider the report.

Appendix 1 - Implementation of Audit Recommendations Tracker – April 2023.

3. POLICY CONTEXT

3.1 This report supports the Council's Corporate Plan 2022-25, ensuring that the Council has fit for purpose processes and remains financially sustainable in order to deliver its service priorities.

4. THE PROPOSAL

4.1 A summary of Internal Audit recommendations and updated management responses since the last Committee are provided in Appendix 1 attached.

4.2 It was agreed at last Audit & Governance Committee in January 2023 that, going forward, only recommendations for audits with either a 'limited' or 'no assurance' opinion will be included in this report and the tracker at Appendix 1. This means that there are currently no comparison figures; trends will start to be included in the report from the next Audit & Governance Committee.

4.3 In addition, previously it was agreed that priority 3 recommendations would not be added to the tracker going forward, as these are advisory points made by the Auditor. Whilst it is important that all agreed audit recommendations are implemented, the focus of the Committee should be on the high to medium risk recommendations.

4.4 Prior to reporting to Committee, officers responsible for implementing the specific recommendations are asked to update the audit tracker. Each recommendation is marked with a percentage complete, which correlates to a red (up to 25%), amber (26%-75%), or green (76%+) rating. However, any recommendations that are less than 50% complete but have exceeded their agreed completion date are also marked red.

4.5 Where there is a lack of progress with implementation, e.g. successive missing of implementation dates etc., the Director/Assistant Director and responsible officer (if they are different) can be asked to attend a meeting of the Committee to explain the difficulties with implementation and the steps they are taking to address them.

4.6 There is currently a total of 49 recommendations on the tracker, of which 9 are reporting as completed since the last meeting and will be removed prior to the next meeting. 11 recommendations have been added to the tracker since the last report.

4.7 The age of the recommendations is shown in the table below:

Age of recommendations		
Year	***Percentage***	***Number***
20/21	9	18.4%
21/22	26	53.1%
22/23	14	28.6%
Total	*49*	*100%*

4.8 The status of the recommendations detailed in Appendix 1 is as follows:

RAG Status	***Percentage***	***Number***
Complete	18.4%	9
Green (but not complete)	26.5%	13
Amber	42.8%	21
Red	12.2%	6
Total	*100%*	*49*

4.9 The table below shows the status of the recommendations which are more than 12 months old:

Audit recommendations more than 12 months old		
RAG Status	*Percentage*	*Number*
Complete	20.7%	6
Green (but not complete)	41.4%	12
Amber	37.9%	11
Red	0%	0
Total	*100%*	*29*

5. CONTRIBUTION TO STRATEGIC AIMS

5.1 The proposals contained in the report support the Council's Corporate Plan, ensuring that the Council remains financially sustainable in order to deliver its service priorities.

6. COMMUNITY ENGAGEMENT AND INFORMATION

6.1. Audit plans and the implementation of recommendations tracker will continue to be a reported to this Committee.

7. ENVIRONMENTAL IMPACT

7.1 The Council declared a Climate Emergency at its meeting on 26 February 2019. There are no specific environmental and climate implications to report in relation to the recommendations set out in this report.

8. EQUALITY IMPACT ASSESSMENT

8.1 The equality duty is relevant to the implementation of Audit recommendations. Specific recommendations are subject to consultation and equality impact assessments where required and are progressed as appropriate.

9. LEGAL IMPLICATIONS

9.1 The Council has a duty under the Accounts and Audit Regulations to ensure it has in place a financial control framework which is fit for purpose. It also has a duty to ensure Value for Money in the provision of services.

10. FINANCIAL IMPLICATIONS

10.1 Whilst there are no specific financial implications arising directly from this report, the timely implementation of audit recommendations is critical in strengthening the Council's internal control and governance arrangements.

10.2 The Council's Chief Internal Auditor's reports have over several years repeatedly reported that audit recommendations made in previous audits have not been implemented. This does not represent value for money from either an audit or wider organisational perspective.

10.3 Poor systems of internal control and financial governance potentially leave the Council exposed to loss and will result in higher external audit costs due to the lack of assurance they provide, and the consequential higher testing thresholds required by the Council's external auditors.

10.4 Whilst there are still recommendations that are RAG rated red, there has been positive engagement with the arrangements and significant improvement since implementing the new tracking and reporting process and the number of red recommendations has reduced year on year

11. BACKGROUND PAPERS

11.1 Internal Audit Reports presented to Audit and Governance Committee, Chief Internal Auditors Annual Reports.

Unique Tracker Rec No.	Dir	Audit Title	Recommendation	Rec. Priority Rating	Original Implementation Date	Original Audit Completion Date	Responsible Officer Latest Update	Status (% Complete)	Current status (Red/amber/green)	Previous report status (Jan 23) PLEASE DO NOT AMEND
114 20/21	DoR	Intercompany transfers	The procedures for reconciling and monitoring the receipt of SLA income should be urgently reviewed and updated to ensure any payment deviations/variation to the contract sum are highlighted on a timely basis for investigation. This should include: - •The preventative use of CHAPS/SwiftPay •The payment status and variation approvals should become a standard agenda item as part of any regular management contract review procedure. •Procedures governing budgetary control.	1	complete	15/07/2020	CHAPS / Swiftpay are no longer used to make intercompany payments (MS/AJ) The design principles for a new double authorisation (ensuring approval from both RBC and BFfC representative has been given) has been agreed and is being prepared for Systems Integration Testing as part of the e5 implementation programme. This will be tested in Quarter 1 2023 and become part of the new e5 system functionality when the new system is implemented. Mitigation prior to this includes close corroboration and agreement of SLA transactions and general ledger transactions between RBC and BFfC finance staff with an additional quality assurance undertaken as part of the RBC statutory accounts team.	76 or more	Green	Green
140 20/21	DEGNS	CIL 15% Local Projects	It is recommended that policies and procedures governing CIL, including the 15% aspect, are periodically reviewed and updated to ensure these reflect both the latest local and legislative requirements and that these are updated on the website.	2	31/03/2021	07/12/2020	As part of the review mentioned in 140, the process and procedures associated with the delivery of the 15% CIL local schemes is being reviewed to define each of the relevant officers roles within the delivery process of projects funded via the 15% CIL funds. This is linked to 142 below. A revised protocol for allocation of CIL funds was agreed at Policy Committee in February 2021, which particularly sets out procedures for consulting on and allocating 15% local CIL funds. This involves consulting on local priorities every 3-4 years, and the first such consultation took place between 19th February and 16th April. Results were reported to Policy Committee in May 2021 and have informed a new allocation of 15% CIL in March 2022. Processes around the allocation of 80% CIL are now being discussed between Councillors and Finance, and this may lead to procedural changes.	51 to 75	Amber	Amber
141 20/21	DEGNS	CIL 15% Local Projects	The discrete roles and responsibilities of Planning staff and other staff responsible for the delivery of 15% Local CIL schemes need to be reviewed, understood and adopted by all parties. It is recommended that these are reviewed, documented, approved and then adopted. These should include reference to the work of other services used in the delivery of such schemes, i.e. Legal Services. In particular these should concisely address and include responsibility for: • roles and activities of the different services and officers involved • the early capture and recording of the purpose and cost of schemes • the coordination and monitoring of schemes • the timely delivery and reporting of schemes. These guidelines should also define the role(s) of each project officer in respect of their responsibilities for 15% CIL schemes and their commitment to work with and to respond to other officers' enquiries as necessary. Once documented, these roles and responsibilities should be agreed and authorised as appropriate by the CIL Working Group(s) and then copied to 15% CIL scheme managers.	1	31/03/2021	07/12/2020	As part of the review mentioned in 140, the process and procedures associated with the delivery of the 15% CIL local schemes is being reviewed to define each of the relevant officers roles within the delivery process of projects funded via the 15% CIL funds. This is linked to 142 below. The CIL working group has now been running for some time and officers understand the roles related to 15% CIL much better.	76 or more	Green	Green
154 20/21	DoR	Purchasing cards	In conjunction with recommendation 8, the Visa Purchasing Cards expenditure categories and respective providers should be monitored to ensure purchases are not being made outside an existing corporate contract, or to ascertaining if there would be a benefit to developing a contract. Prevention controls should be applied to re-enforce the protocols of use in the Visa Purchasing Cards Rules. Appropriate consideration should be given to the different uses by the general services and those purchased for emergency planning.	2	31/03/2021	09/12/2020	Within procurement scope - In May 2021, to allow us to monitor Petty Cash items purchased, we joined the YPO Framework for Amazon Business	Complete	Green	Amber
158 20/21	Cross directorate	Records Management & Document Retention	The revised policy needs to be reviewed in conjunction with ICO guidelines (to ensure all areas are covered or reference made to relevant associated policies and legislation). It also needs to clearly define roles and responsibilities, include Council systems and records for obsolete teams, link to the Council's corporate plan, and take an integrated approach to records, regardless of their format. The policy then needs to be formally approved, made available to all staff and included as part of induction for new starters, with regular reviews conducted to ensure compliance. The policy also needs to be fully supported by senior management, with regular updates on progress against the policy provided to them. Where responsibility is delegated to teams and services, there needs to be appropriate local policies/guidelines in place.	1	31/03/2021	15/01/2021	Actions have been identified and are in hand to be picked up as part of the wider information governance projects which are to be initaited this year. Planning session arranged for 17 Jan 2022 to take this work forward with sign off from the Information Governance Board. The Information Management Strategy has been to Policy Committee, the Information Goverance team are working on taking the actions forward. Inital meeting with the Records Managment centre completed and work will progress from April 2022. The Information Management Strategy and Action Plan has been signed off by Policy Committee. Next steps is to train the Information Asset Owners and recruit Information Champions across service areas to assist the IG Team with this work. Paper on this has been drafted by Nayana for CMT and is with MG for review. Paper to CMT presented. MG updated SLG on 9/9/22. Training for the IAO are being planned. The Data Stewards for all Directorates and BFfC have been identified. The Action Plan with the of DS's will be rolled out across DACHS and BFfC first. The first DS's Network meeting is beingig held on 24/03/23 to agree the ToR and plan the work ahead.	26 to 50	Amber	Amber

Unique Tracker Rec No.	Dir	Audit Title	Recommendation	Rec. Priority Rating	Original Implementation Date	Original Audit Completion Date	Responsible Officer Latest Update	Status (% Complete)	Current status (Red/amber/green)	Previous report status (Jan 23) PLEASE DO NOT AMEND
159 20/21	Cross directorate	Records Management & Document Retention	**There needs to be clearly defined links between the Information Governance team, Modern Records and individuals responsible for records management and document retention across the Council. All staff need to be aware of this and consideration also given to documenting this role in relevant job descriptions.** **Consideration needs to be given to reviewing and rationalising records management risks at corporate and directorate level, distinguishing between strategic risks (reflected at corporate level) and operational risks (reflected at service/team level).**	2	30/09/2021	15/01/2021	Actions have been identified and are in hand. See comments above.	26 to 50	Amber	Amber
160 20/21	Cross directorate	Records Management & Document Retention	**There should be a centralised register, detailing records held across the Council, their format, location and responsible officer.** **Consideration also needs to be given to clearly documenting and addressing risks associated to records.** **Data Protection Impact Assessments (DPIAs) need to be reviewed and updated as necessary to reflect any changes to processes. Where processes have changed (as a result of coronavirus or for other reasons), any associated risks need to be identified and addressed (for example issuing guidance to, and ensuring adherence of, panel members now meeting remotely, on the need for timely, secure destruction of personal sensitive information).** **Risks relating to records remaining useable need to be identified and appropriate controls put in place.**	1	30/09/2021	15/01/2021	Actions have been identified and are in hand to be picked up as part of the wider information governance projects which are to be initaited this year. See comments above.	26 to 50	Amber	Amber
161 20/21	Cross directorate	Records Management & Document Retention	**There should be a clear understanding regarding roles and responsibilities in relation to old and closed records and action required at the end of retention periods, including for those held in the Modern Records Office and Mosaic.** **Where possible, retention periods for records should be set on document management systems so that records are automatically destroyed once the end of this period is reached.**	2	30/06/2021	15/01/2021	Actions have been identified and will be completed as part of the wider Information Governance project. See above comments	26 to 50	Amber	Amber
162 20/21	Cross directorate	Records Management & Document Retention	**The revised records management policy needs to include reference to information sharing protocols and/or reference to the relevant documentation and where this is addressed.**	2	30/06/2021	15/01/2021	Actions have been identified - as above	26 to 50	Amber	Amber
187 20/21	DACHS	**Mosaic Payment Controls**	All purchase orders should be raised in a timely manner on Mosaic to ensure commitments are accurately reflected, with invoices always attached to the relevant transaction in Oracle Fusion as supporting evidence. To assist in this process, the APT needs to be completed to allow the workflow to be generated in Mosaic.	1	10/07/2021	01/07/2021	Rigour around the time spent for Purchase Orders to be raised on the back of a completed APT is in place via Audits. We have assurances that this is the case as the PBST Senior Officer regularly verifies cases and their payment status. Any issues relating to delays are escalated to the DACHS Performance Board. The Personal Budget Support Team cannot raise a Purchase Order until the APT is finished as per the current MOSAIC process which is in line with Purchase to Pay principles. Further mitigation has been put in place with Business Support oversight where decisions made at the Eligibility Risk and Review group are followed through to ensure they are completed in a timely manner. This action will unlikely ever be fully closed as it is an ongoing task that will need monitoring. The timeliness of APT's being completed sits as an Adult Social Care Operational Responsibility (see other recommendation 186 20/21) and is also being addressed.	76 or more	Green	Green
188 20/21	DACHS	**Mosaic Payment Controls**	**Service user reviews should be conducted in a timely manner to ensure that provision meets, and continues to meet, service users' needs.** **Any changes to service provision should also be reflected on Mosaic in a timely manner. This helps to ensure accurate reflection of financial commitments and avoid over/underpayment of providers.**	2	31/07/2021	01/07/2021	The majority of outstanding reviews are now completed, with all reviews now feeding back via the Mosaic System and to ERRG The aim now is to ensure all reviews are completed annual. Timeliness of Reviews is monitiored via the DACHS Performance Board.	Complete	Green	Green

Unique Tracker Rec No.	Dir	Audit Title	Recommendation	Rec. Priority Rating	Original Implementation Date	Original Audit Completion Date	Responsible Officer Latest Update	Status (% Complete)	Current status (Red/amber/green)	Previous report status (Jan 23) PLEASE DO NOT AMEND
189 20/21	DACHS	**Mosaic Payment Controls**	**As a priority, supplier prepayment balances due to Covid need to be reviewed to determine if they relate to services provided not yet invoiced, overpayment of suppliers or a combination of both. Where overpayment is identified, a documented arrangement needs to be put in place with the providers to recoup the additional amount paid.**	1	30/09/2021	01/07/2021	Audit Recommendations 189 20/21, 229 21/22 and 231 21/22 are linked The work to recover outstanding prepayments has now transferred to the AP team. A dedicated resource has been established to review the status on a case by case basis and progress recovery action. Agreements are in place for a number of Providers where the balance is being reduced each month. For all other Providers contact has been made with each Provider and agreements to recover the balance of any prepayment are being established. Balances will be cleared for each Provider based on their ability to pay. For some this will be over three months (preferred option) and for others we have a request to recover the balance over 12 months. Work is ongoing to ensure engagement is maintained with all Providers.	76 or more	Green	Amber
194 20/21	DEGNS	**Facilities Management**	**The list of properties held on Planet FM should be reconciled periodically by Property Services against the list of properties held by Valuations.** **This list should then be used to verify the Council's legal repair obligations for both its corporate, non-corporate and other service level agreement requirements to ensure there are no omissions in the scope or repair obligations.**	1	02/08/2021	28/07/2021	The list of properties have now been reconciliation completed 09/07/2021. The list includes all properties in which the council has an interest however Assetsd need to re confirm the current RBC responsibilities for leased property where it exists. The list produced in 2021 in consultation with Valuations will be revisited in April 2023 by FM and updated based on the current information held by Assetts team. The status of the property is currently updated as part of the sale and empty property status property etc. as they change.	51 to 75	Amber	Amber
194 20/21	DEGNS	**Facilities Management**	**The list of properties held on Planet FM should be reconciled periodically by Property Services against the list of properties held by Valuations.** **This list should then be used to verify the Council's legal repair obligations for both its corporate, non-corporate and other service level agreement requirements to ensure there are no omissions in the scope or repair obligations.**	1	02/08/2021	28/07/2021	The list of properties have now been reconciliation completed 09/07/2021. The list includes all properties in which the council has an interest however Valuations need to confirm RBC responsibilities for leased property where it exists. Still awaiting a response GB chased 16/9/22 - 22/3/2023 - no updates, working on a case by case basis as the properties are identified.	51 to 75	Amber	Amber
194 20/21	DEGNS	**Facilities Management**	**The list of properties held on Planet FM should be reconciled periodically by Property Services against the list of properties held by Valuations.** **This list should then be used to verify the Council's legal repair obligations for both its corporate, non-corporate and other service level agreement requirements to ensure there are no omissions in the scope or repair obligations.**	1	02/08/2021	28/07/2021	The list of properties have now been reconciliation completed 09/07/2021. The list includes all properties in which the council has an interest however Valuations need to confirm RBC responsibilities for leased property where it exists. Still awaiting a response GB chased 16/9/22 22/3/2023 - no updates, working on a case by case basis as the properties are identified.	51 to 75	Amber	Amber
194 20/21	DEGNS	**Facilities Management**	**The list of properties held on Planet FM should be reconciled periodically by Property Services against the list of properties held by Valuations.** **This list should then be used to verify the Council's legal repair obligations for both its corporate, non-corporate and other service level agreement requirements to ensure there are no omissions in the scope or repair obligations.**	1	02/08/2021	28/07/2021	The list of properties have now been reconciliation completed 09/07/2021. The list includes all properties in which the council has an interest however Valuations need to confirm RBC responsibilities for leased property where it exists. Still awaiting a response GB chased 16/9/22	51 to 75	Amber	Amber
194 20/21	DEGNS	**Facilities Management**	**The list of properties held on Planet FM should be reconciled periodically by Property Services against the list of properties held by Valuations.** **This list should then be used to verify the Council's legal repair obligations for both its corporate, non-corporate and other service level agreement requirements to ensure there are no omissions in the scope or repair obligations.**	1	02/08/2021	28/07/2021	The list of properties have now been reconciliation completed 09/07/2021. The list includes all properties in which the council has an interest however Valuations need to confirm RBC responsibilities for leased property where it exists. Still awaiting a response GB chased 16/9/22	51 to 75	Amber	Amber

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202 20/21	DACHS	Contract Management	The contract management framework should be reviewed, re-formularised and approved on an annual basis to ensure this remains fit for purpose for ensuring compliance with Contract Procedure Rules. The purpose of this is to embed continual improvement to manage the contract or supplier delivery risk throughout the commissioning and contract lifecycles. This should include: - •A contract management framework and Commissioning Strategy to demonstrate how the Council will manage the supply and demand risk, the quality care risk and what the role of contract management should be within adult social care. •Contract management procedures, workflow processes, resources, risk evaluations, the monitoring and reporting approach should be produced to ensure the ASC contractual requirements deliver the specified outcomes e.g. from a risk perspective, what constitutes a successful or failed contract	1	31/12/2021 31/03/2022	09/09/2021	Regular contract management meetings are taking place with all block contracted providers to support good commercial delivery throughout the lifecycle of the contract. All officers have completed Foundation Level Contract Management Training. Contract management will be on a risk based approach, with greater resource focused on higher value, business critical contracts. The Commissioning Team are working with the Council's Contract & Procurement hub to develop documentation to support the contract management framework. The Commissioning Service team and resource is being reviewed - he timescale of this was postponed due to Winter Pressure and is now due to commence in April following approval at DACHS Transformaton Board. Quality functions transferred from Commissioning to the DACHS Quality and Safeguarding Team on 1st January 2023 and a detailed handover was ompleted to support new Quality and Safeguarding Team to carry out this work.	76 or more	Green	Green
203 20/21	DACHS	Contract Management	An integrated contract register, and workflow/document management system should be considered to account for all contracts. This will help provide more effective, efficient, and secure contract management and monitoring platforms for monitoring all ASC contract and supplier provisions. As a minimum, reconciliation controls against Mosaic and Fusion should be established to ensure the completeness of provider records held on the contract register, especially where the term of the provision is £5k or more.	1	31/12/2021	09/09/2021	The DACHS Business Support Team ensure that contacts are shared and added to Intend. This has been reviewed and gaps identified. One of the barriers has been the level of resourcing in the Commissioning Team but two new officers are starting in April which will give additional capacity to complete this work. The Commissioning Team is working closely with the Procurement and Contract Hub to ensure that developing processes are in line with the Council approach.	76 or more	Green	Amber
204 20/21	DACHS	Contract Management	Internal Audit fully support the ASC review to confirm the completeness of all contract documentation, but we recommend this is completed against the core care records on Mosaic as the contract registers are incomplete. This review could be used as the basis for confirming compliance with Public Contract Regulations.	2		09/09/2021	The DACHS Business Support Team ensure that contacts are shared and added to Intend. This has been reviewed and gaps identified. One of the barriers has been the level of resourcing in the Commissioning Team but two new officers are starting in April which will give additional capacity to complete this work. The Commissioning Team is working closely with the Procurement and Contract Hub to ensure that developing processes are in line with the Council approach.	76 or more	Green	Amber
205 20/21	DACHS	Contract Management	The existing monitoring and reporting controls should be developed to provide timely and effective assurance to senior management on the status of: - •Strategic commissioning risk, •Contractual and service delivery risk of providers, •Compliance within ASC and with providers, •The completion of contractual documentations.	2	11/10/2021 01/01/2022	09/09/2021	A work plan is in place to support the Commissioning Team with governance structures in place, including the DACHS Commissioning & Procurement Board which has been established and will provide oversight. Regular reports are being developed which wil improve oversight to DACHS DMT and the Lead Member.	76 or more	Green	Green
210 20/21	DEGNS	Staff vehicle documentation (grey fleet)	The existing draft grey fleet policy needs to be formally and appropriately approved, launched and then made widely available across the Council. It also needs to be included within the new starters' induction process. Prior to approval, the revised policy needs to be reviewed to ensure it still meets all necessary legislation/regulation etc. However, online managers guidance would benefit from review and updating to reflect the new process and the launch and training of the new process needs to emphasise roles and responsibilities.	1	30/11/2021	18/11/2021	The policy has now been reviewed and updated and all necessary legislation/regulatory requirements have been met. The policy has been agreed by the TUs and Personnel Committee in March 2022. The policy has been formally signed by the TUs and has been uploaded to the intranet.	Complete	Green	Green
215 20/21	DEGNS	Staff vehicle documentation (grey fleet)	There needs to be monitoring and reporting of compliance, as appropriate, once the policy has been formally agreed and implemented, with particular consideration given to having a regular report provided to senior management on grey fleet and compliance and feedback to managers on key issues also included. Reporting capability needs to be clarified, with reports containing key information being produced in a timely and accurate manner and necessary action taken to address issues identified, including non-compliance.	2	30/11/2021	18/11/2021	Reporting capability is in place, enabling non compliance to be followed up.	Complete	Green	Green

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216 20/21	DEGNS	Staff vehicle documentation (grey fleet)	Firmer action needs to be taken where checks have either not been undertaken or are not up to date and/or not appropriately recorded, making it clear to staff and managers alike that expenses cannot be paid without these being in place.	2	30/11/2021	18/11/2021	The policy makes line manager responsibilities very clear. Where checks have not been undertaken or are not up to date the matter will be escalated through the management line.	Complete	Green	Green
229 21/22	DACHS	Adult Provider Payments	Providers should be contacted in all cases where a balance remains on the prepayments, details of the overpayment provided, and a clear agreement reached as to how any overpayment will be recovered. This should be clearly documented.	2	28/02/2022	13/01/2022	Audit Recommendations 189 20/21, 229 21/22 and 231 21/22 are linked The work to recover outstanding prepayments has now transferred to the AP team. A dedicated resource has been established to review the status on a case by case basis and progress recovery action. Agreements are in place for a number of Providers where the balance is being reduced each month. For all other Providers contact has been made with each Provider and agreements to recover the balance of any prepayment are being established. Balances will be cleared for each Provider based on their ability to pay. For some this will be over three months (preferred option) and for others we have a request to recover the balance over 12 months. Work is ongoing to ensure engagement is maintained with all Providers.	76 or more	Green	Amber
231 21/22	DACHS	Adult Provider Payments	There should be consistent and appropriate treatment of offsetting provider invoices against prepayments including coding to the appropriate accounts.	2	28/02/2022	13/01/2022	Audit Recommendations 189 20/21, 229 21/22 and 231 21/22 are linked The work to recover outstanding prepayments has now transferred to the AP team. A dedicated resource has been established to review the status on a case by case basis and progress recovery action. Agreements are in place for a number of Providers where the balance is being reduced each month. For all other Providers contact has been made with each Provider and agreeements to recover the balance of any prepayment are being established. Balances will be cleared for each Provider based on their ability to pay. For some this will be over three months (preferred option) and for others we have a request to recover the balance over 12 months. Work is ongoing to ensure engagement is maintained with all Providers.	76 or more	Green	Amber
234 21/22	DACHS	Adult Provider Payments	The ASC Scheme of Delegation needs to be formally updated, documented, approved and made available to those who require it and followed.	1	30/04/2022	13/01/2022	An interim communication has been circulated to all Officers clarifying the Financial Controls in Adult Social Care and expectation around authorisations. This is stored in the DACHs policies and procedures SharePoint Site and adherence is checked via the performance board. A revised Scheme of Delegation for DACHS has been developed and was agreed at DMT in March 23, subject to some minor amendments.	76 or more	Green	Amber
241 21/22	DACHS	Adult Provider Payments	New starters need to be given appropriate training and provided with relevant policies and procedures for work on Mosaic and the need to follow these enforced. Consideration also needs to be given as to how working practices can be adopted to ensure adequate support for the workers when working remotely.	2	31/03/2022	13/01/2022	All team now have standard operating procedures which include the requirements on the use of mosaic and have been passed to staff. The MOSAIC training offer has been revised to provide a combination of classroom based and online training. For all new starters a classroom offer will be available to properly induct people into MOSAIC. The content of the training offer has also been revised to look at 'bite size' training options for specific subjects that create issues. There is now a Workforce Development Group in place which also considers the wider training requirements of the staffing group. The workforce development group are developing an induction pack for new starters as part of our assurance process - This is still outstanding and has been prorisited for the CQC work.	76 or more	Green	Green
242 21/22	DACHS	Adult Provider Payments	The reliability of access to and accuracy of information on Mosaic needs to be improved. Access to service users' records and relevant reports should be as and when needed to those who require it, and importantly the information provided should be both accurate and up to date. The service should be developing reports to provide an overview of key information in relation to data quality.	1	30/06/2022	13/01/2022	Mosaic access is largely permissions based according to the job role that the user has. This has been reviewed to ensure it is fit for purpose. We will be undertaking case audits as part of our quality improvements and in addition Data Quality be be one of the priority areas of the Care and Quality Board.	Complete	Green	Green

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249 21/22	BFfC and RBC joint audit	Intercompany accounting	**The Director of Finance (RBC) should ensure the agreed Governance documents (policies) are enhanced to include, but not be limited to: •Outlining the high-level expectations of intercompany accounting •Treatment of VAT •Debtors •Creditors Payment for services provided outside of those in the contract •Apportionment Best practice requires a common standard across all entities.**	2	30/04/2022	14/03/2022	The inter-company guidance /policy set up by RBC will be developed to incorporate: •Outlining the high-level expectations of intercompany accounting •Treatment of VAT •Debtors •Creditors •Apportionment •Payment for services provided outside of those in the contract This will ensure best practice and a common understanding is clearly understood across RBC and BFfC. Once completed to be formally signed off by the Director of Finance (RBC) and the Director of Finance, BFfC. This work has occurred during October to December 2022 which has led to a new intercompany transactions designed being built as part of the e5 implementation which will be tested during Quarter 1 2023 by RBC and BFFC finance staff	51 to 75	Amber	Amber
250 21/22	BFfC and RBC joint audit	Intercompany accounting	**The Director of Finance (RBC) and Executive Director of Finance and Resources (BFFC) need to provide a briefing on the Service Contract, to raise awareness and guidance to those Business Partners and accounting staff with inter-company accounting responsibilities, on what is required of them to comply with the conditions of the contract. Allocation of responsibilities should be highlighted across both entities. Furthermore, there should be some consideration in providing this briefing as a joint briefing across both entities to promote a collaborative, supportive, and professional working relationship with a single aim.**	1	30/06/2022	14/03/2022	Whilst processes are being refreshed during 22/23 in line with the Finance Improvement Programme and taking on board advice on best practice as identified through the External Audit process of the 2019/20 and 2020/21 Statement of Accounts, this action is pending recruitment to strengthen the corporate business partner team. in the meantime, enhanced operating procedures have been put in place with RBC and BFFC finance staff meeting regularly to agree intercompany debtors and creditors. Latest recruitment in March 2023 was unsuccessful, we are now exploring the interim market for suitable candidates	51 to 75	Amber	Amber
251 21/22	BFfC and RBC joint audit	Intercompany accounting	**The (RBC) Director of Finance in collaboration with (BFFC) Executive Director of Finance and Resources should develop agreed and documented systems, procedures, and processes to further improve and manage intercompany accounting and transactions. They should include, but not be limited to: •Being able to easily identify transactions across a common chart of accounts •To match transactions, from both sides •Identify (tag) those for elimination from financial reporting to prevent double accounting •Automate processes where possible •The use of recurring invoices/instalment payments for contract / SLA payments •Billing cut off period •Electronic approval process (Office 365) •Centralised repository (SharePoint) for intercompany financial purposes accessible by both entities and managed by permission rules •Grant funding monitoring (at both entities) •Regular reconciliations of expected income streams •Appropriate lines of communication with documented terms of reference and purpose These procedures and processes should be standardised, and where there is a business need for difference, there should be compatibility.**	1	31/10/2022	14/03/2022	The (RBC) Director of Finance in collaboration with (BFFC) Executive Director of Finance and Resources will develop agreed and documented systems, procedures and processes. This is being progressed firstly in the design work for the implementation of the new e5 finance system - then complimentary off system procedures will be documented thereafter. During the new finance systems implementation the following will be implemented: •Being able to easily identify transactions across a common chart of accounts •To match transactions, from both sides •Identify (tag) those for elimination from financial reporting to prevent double accounting •Automate processes where possible •The use of recurring invoices/instalment payments for contract / SLA payments •Billing cut off period •Electronic approval process (Office 365) •Centralised repository (SharePoint) for intercompany financial purposes accessible by both entities and managed by permission rules •Grant funding monitoring (at both entities) •Regular reconciliations of expected income streams •Appropriate lines of communication with documented terms of reference and purpose this action is partially dependent on sucessful recruitment to Strategic Business Partner	26 to 50	Amber	Amber
252 21/22	BFfC and RBC joint audit	Intercompany accounting	**The finance structure for intercompany accounting and day to day activities should be considered, documented, authorised and agreed and shared, and aligned with strategy and policies, that also promote professional and cooperative ways of working. Roles and responsibilities need to be agreed, documented, and imparted to all relevant personnel. Some consideration should also be given to: •The adoption of a single finance team for intercompany accounting actions supported by entity specific finance teams for the day to day financial tasks. •Shared repository for key data with appropriate permissions •Electronic authorisation process**	2	31/10/2022	14/03/2022	Currently there are named officers from RBC and BFfC who have clarity on their roles and responsibilities with appropriate permissions and electronic authorisation. The policy / guidance and work processes are being reviewed as part of the design of the new finance system which will further clarify the roles and responsibilities. The adoption of a single finance team for intercompany accounting actions supported by entity specific finance teams for the day to day financial tasks is not appropriate within the current arrangements. A mitigation control enabling a double authorisation for every intercompany transaction is being established as part of e5 system implementation	26 to 50	Amber	Amber

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253 21/22	BFfC and RBC joint audit	**Intercompany accounting**	**The Director of Finance (RBC) and the Executive Director of Finance and Resources (BBFC) should remind staff to comply with timescales detailed in the agreed procedures and ensure there are controls in place that will highlight if / when there is non-conformance.** **Consideration should be given to including intercompany- tasks and responsibilities within the annual performance review goals / targets for relevant staff.**	2	30/10/2022	14/03/2022	This will be re-iterated during the communication to staff and reinforced in the guidance / policy guidance.	25 or less	Red	Red
254 21/22	BFfC and RBC joint audit	**Intercompany accounting**	**The Director of Finance (RBC) and the Executive Director of Finance and Resources (BFFC) need to establish coordinated monthly reconciliations, which should be compared for accuracy. Any anomalies should be investigated, agreed and adjustments made in a timely fashion.** **Responsibility for completing reconciliations should be allocated to an appropriate individual and include authorisation for any necessary adjustments.**	2	30/06/2022	14/03/2022	Initially it is proposed to do quarterly reconciliations and to be reviewed at a later date. This is being reviewed and will take on board the position as the Intercompany Reconciliations for 2020/21 and 2021/22 are now complete. This recommendation is dependent on successful recruitment to the Strategic Finance Business Partner - we are considering agency recruitment following unsuccessful recruitment	51 to 75	Amber	Amber
271 22/23	DACHS	**Deferred Payment**	**The success and failure of the deferred payment scheme, policy, and procedures operated by the Council should be benchmarked and evaluated.**	1	August 2022 - March 2023	11/07/2022	DPA monitoring is carried out through debt monitoring meetings (specific focus on DPAs once a month, using the latest updates on the new DPA Register. Refreshed internal processes and further details have been added to documented internal process alongside DPA workshop/training sessions with financial assessments and benefits officers dealing with DPAs to support this. Analysis comparing RBC to CIPFA statistical neighbours has been completed using NHS digital statutory Deferred Payment Agreement return for 2021/22 (including data quality summary of LA comments across England), and benchmarking data from a small number of authorities who responded to NAFAO benchmarking request (19 authorities). This indicates that RBC DPA numbers are similar to most of its statistical neighbours (9 of 16 authorities had fewer than 5 DPAs) and general LA comments on the statutory return highlight the common issues across LAs nationally with securing debts for DPAs.	Complete	Green	Amber
273 22/23	DACHS	**Deferred Payment**	**The operational performance of services supporting the deferred payment scheme should be evaluated through a service level agreement e.g., Social Workers, FAB team, and Legal Services.**	2	Dec-22	11/07/2022	Work is taking place to set out service requirements to share with senior management teams involved in supporting the DPA scheme. This work links to work going on under 271 22/23, which would then form the basis of a proposed service level agreement across services involved with the DPA scheme.	51 to 75	Amber	Amber
274 22/23	DACHS	**Deferred Payment**	**To confirm the completeness of records and confirm the assurance status of the assets to be used as security for a loan, a single master register should be established to clarify those people with existing DPAs and the status of their interim funding arrangements, deferred payments, or solicitors undertaking.**	2	Sep-22	11/07/2022	DPA register has been established (based on Mosaic workflow step report with key data fields manually added in) and in use. A report specification has been drafted for Mosaic and will be submitted to our performance team in early 2023 (so that it will be more efficient to maintain and update).	Complete	Green	Green
275 22/23	DACHS	**Deferred Payment**	**This information should be used to help identify DPA debt and status of security, and visa-versa.**	2	Sep-22	11/07/2022	As above, the DPA Register (and an equivalent for Interim Funding Arrangements) is reviewed monthly at debt monitoring meetings.	Complete	Green	Amber
288 22/23	DACHS	**Deputyship and Appointeeship**	**It should be ensured that all Officers are aware of the existence of relevant policies and procedures. In addition, existing documentation should be reviewed to ensure there is sufficient detail and that they reflect current processes. Professional advice should be from RBC's legal (and other) teams as relevant to ensure that processes/procedures meet all required legal and best practice requirements and that actions are in clients' best interests (for example professional financial advice in relation to asset transfers/sales).** **Consideration should be given to archiving/deleting old versions of procedures to avoid confusion.**	2	31/12/2022	02/11/2022	All of the team is aware of where the office processes are held on file, we have started to intodudce processes on Caspar. There are easy guide tick lists to follow that have been created. An Independent Financial Advisor (IFA) has been sourced for clients that hold over £50k; All processes are being reviewed; they will be saved in one central place on SharePoint for the team to access - all old processes have been deleted.	76 or more	Green	Green

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289 22/23	DACHS	Deputyship and Appointeeship	It is recommended that a full review of processes is undertaken by the Transformation Team with a view to streamlining them, moving away from manual processes/multiple spreadsheets, and to a more automated/workflowed approach. This would help identify progress, delays and approaching deadlines, enabling timely action to be taken. Working from one central document is preferable to using a number, some of which are located on personal drives, which is reliant on Officers updating them - SharePoint could help alleviate this problem. In association with this, an investigation should also be undertaken into the capabilities of NEC Document Management system (the system replacing i@w, the Council's current electronic document management system). It would also be beneficial to clearly document the calculations, including amounts/dates used, to determine deputy's and appointees' fees.	1	31/03/2023	02/11/2022	Being completed by outside agency TVX Kate WIcks team	51 to 75	Amber	Amber
297 23/24	DACHS	Direct Payments	The procedures, processes, and templates for reviewing and setting up direct payment applications should be reviewed annually to ensure these remain effective, efficient, and secure. The following areas require attention:- • Ensuring a signed direct payment agreement is held for all payments. • Ensure a Mosaic Purchase Order is raised. • Ensuring all payment setups are checked and authorised by ERRG prior to payment. • Ensuring there are no conflicts of interest between officers advocating, approving, and monitoring and the people receiving a direct payment.	2	30/04/2023	28/02/2023	A review is underway of procedures, processes and templates related to Direct Payment set up. All procedures will be documented as part of this review. The review will ensure the separation of duties identified in this audit. A review of monitoring processes will follow. Declarations of interest will be completed by all Direct Payment staff. A new Direct Payments function is in the process of being set up, which will separate the setting up of a direct payment from monitoring. Regular audits to be in place to check that ERRG approve all direct payments, that purchase orders are being raised & a signed direct payment agreement is held.	26 to 50	Amber	n/a
298 23/24	DACHS	Direct Payments	A review of all current direct payment authorisations and agreements should be undertaken to ensure payments are valid and to ensure that the proper sign-offs and documentations are in place.	1	28/02/2023	28/02/2023	A review of all current direct payment authorisations and agreements is underway. Retrospective action will be taken if authorisations are not in place.	26 to 50	Amber	n/a
299 23/24	DACHS	Direct Payments	Validation checking and system exception report controls should be introduced to ensure information or complete and accurate e.g., making sure officers are identified in relation to their role. This will help improve transparency in demonstrating separations of duties and declarations of interests.	2	31/01/2023	28/02/2023	Declarations of interest will be completed by all Direct Payment staff, requiring Officers to state both name and role on forms. The new Direct Payment setup function role will also ensure a separation of duties. Separations of duty will be checked in regular audits. System exception report controls will be explored with the Mosaic team.	25 or less	Red	n/a
300 23/24	DACHS	Direct Payments	Policy and procedure confirmation is required on how inflationary uplifts should be communicated and applied to the 'care' and 'non-care' aspects of the direct payment scheme, to ensure the DP payment remains appropriate to needs	2	01/05/2023	28/02/2023	A procedural note for direct payment inflationary uplifts will be written. Direct payment inflation is agreed by the DMT on an annual basis and applied to relevant accounts.	25 or less	Red	n/a

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301 23/24	DACHS	**Direct Payments**	**The payment expenditure audit approach and procedures for carrying out and providing assurance on direct payment expenditure should be reviewed annually by the Adult Social Care directorate. E.g., It has been suggested to the Principal PBS Officer that the service could carry out themed reviews to either support or direct the current approach: - • Balance of funds (why aren't these being used?) • Confirmation of direct payment agreement & approval of key controls • Duration between reviews • Risk identified from the previous review The findings of these expenditure reviews should be summarised to provide a clear status overview and to inform the approach of future reviews and the Annual Governance Statement.**	2	01/05/2023	28/02/2023	An annual review will be carried out by the Principal Officer to report on: Balance of funds, personal budget agreements, key controls, reviews, risks. This review will then be made available to the DMT. It is not unusual for a Direct Payment user to have a surplus balance where a service is temporarily suspended, for example when an individual is admitted to hospital or family members/carers have taken on the caring role for a short period. A 4 week contingency is considered appropriate to allow short term increases in care, which may result from a change in need e.g. discharge from hospital after a period of inpatient stay. In some cases this may indicate a change in need, which can be referred to a care worker to review with the individual and carers. Following the pandemic a number of Direct Payment users have also chosen alternative options and changed behaviours that have meant a reduction in some services. For example, older people have chosen in some instances not to return to Older People Day Services for fear of COVID and have found alternatives to meet social isolation and food nutritional needs. The Direct Payment team monitors accounts to identify excessive surplus accounts. The majority of Direct Payment accounts are Pre-Paid Card accounts and managed bank accounts that the Council has access to balance information. Direct Payment users have been encouraged over time to transition to these new methods as they provide a more robust monitoring of accounts.	25 or less	Red	n/a
302 23/24	DACHS	**Direct Payments**	**The reasons for unspent balances should be obtained and recorded on the Monitoring spreadsheet so that this can be discussed with the client's care worker to decide if they need assistance, reassessment, or if funds should be recovered, or stalled on Fusion were paid directly. These decisions should be reviewed and approved.**	2	15/02/2023	28/02/2023	Reasons for unspent balances will be recorded on the DP Monitoring workstep in Mosaic, along with confirmation of having reported this to the appropriate ASC operational worker/team. These decisions will be reviewed and approved by the senior DP monitoring officer.	25 or less	Red	n/a
303 23/24	DACHS	**Direct Payments**	**Investigate the use of Allpay and Paycoll summary reports to obtain an overview of the total value of used and unused funds throughout the financial year.**	2	01/05/2023	28/02/2023	Allpay have submitted this request to their development team. An interim workaround is being used to generate this report. Payroll companies will be asked what functionality they have for summary reporting.	26 to 50	Amber	n/a
304 23/24	DACHS	**Direct Payments**	**A cost-benefit analysis should be carried out to establish if it would be beneficial to increase the resource of the DP Support Team to help: - • Recuperate funds • Inform the allocation of funds**	2	01/08/2023	28/02/2023	Analysis to be carried out - resource to complete this to be identified. Additional resource to be sought if a subsequent business case demonstrates the need.	25 or less	Green	n/a

25 or less	6
26-50	10
51-75	11
76+	13
Complete	9
Total	**49**

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READING BOROUGH COUNCIL

REPORT BY DIRECTOR OF FINANCE

TO:	AUDIT & GOVERNANCE COMMITTEE		
DATE:	12th APRIL 2023		
TITLE:	EXTERNAL AUDITOR UPDATE		
LEAD COUNCILLOR:	COUNCILLOR TERRY	PORTFOLIO:	CORPORATE AND CUSTOMER SERVICES
SERVICE:	FINANCE	WARDS:	BOROUGHWIDE
LEAD OFFICER:	MARK SANDERS	TEL:	0118 937 4431
JOB TITLE:	CHIEF ACCOUNTANT	E-MAIL:	Mark.Sanders@reading.gov.uk

1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY

1.1 A representative from the Council's External Auditor EY will provide a verbal update on the 2019/20 audit and will present a draft Audit Results Report for 2020/21 which is included as an Appendix to this report.

2. RECOMMENDED ACTION

2.1 That the Committee notes EY's update on the accounts process.

2.2 That the Committee notes the Draft Audit Results Report for 2020/21.

3. CONTRIBUTION TO STRATEGIC AIMS

3.1 The external audit process includes the approval of the annual Statement of Accounts results and the publication of accurate, transparent financial information which gives a true and fair view of Reading Borough Council's economic performance and financial stability.

4. ENVIRONMENT AND CLIMATE CHANGE IMPLICATIONS

4.1 None arising.

5. COMMUNITY ENGAGEMENT AND INFORMATION

5.1 This report will include where appropriate any feedback from public inspection of accounts.

6. EQUALITY IMPACT ASSESSMENT

6.1 Not applicable.

7. LEGAL IMPLICATIONS

7.1 Part Five of the Accounts and Audit Regulations 2015 requires authorities to allow the public to inspect the accounts for a single period of 30 working days and stipulates that this must include the first 10 working days of June of the financial year immediately following the financial year to which the accounts relate. The Council was unable to comply with this requirement in respect of the financial years 2017/18 to 2021/22 as the accounts were not ready for inspection.

8. FINANCIAL IMPLICATIONS

8.1 The audit fees will be reported in due course.

9. BACKGROUND PAPERS

9.1 Previous Closing Accounts updates reports to the Audit & Governance Committee.

Reading Borough Council and Group Draft Audit Results Report

5 April 2023

Year ended 31 March 2021

Building a better working world

Audit & Governance Committee

Reading Borough Council

Council Offices

Reading

5 April 2023

Dear Audit & Governance Committee Members

We are pleased to attach our draft audit results report for 2020/21. This report summarises our preliminary audit conclusions in relation to the audit of Reading Borough Council and Group for 2020/21 and also updates the Audit & Governance Committee.

Our audit of Reading Borough Council and Group for the year ended 2020/21 is well progressed.

As set out in our executive summary, a number of issues have arisen as a result of COVID-19 which impacted on our audit. We will need to assess at the conclusion of the audit the impact of our findings on the Authority's financial statements.

This report is intended solely for the use of the Audit & Governance Committee, other members of the Authority, and senior management. It should not be used for any other purpose or given to any other party without obtaining our written consent.

We would like to thank your staff for their help during the engagement.

We look forward to discussing the content of the report at the next Audit & Governance Committee meeting on 12 April.

Yours faithfully

Maria Grindley

Partner, For and on behalf of Ernst & Young LLP

Encl

Contents

Public Sector Audit Appointments Ltd (PSAA) have issued a 'Statement of responsibilities of auditors and audited bodies'. It is available from the Chief Executive of each audited body and via the PSAA website (www.psaa.co.uk). This Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The 'Terms of Appointment (updated April 2018)' issued by PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Audit Results Report is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Hywel Ball, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

01 Executive Summary

Executive summary

Scope update

Materiality - In our audit planning report tabled at the January 2023 Audit & Governance Committee meeting, we provided you with an overview of our audit scope and approach for the audit of the financial statements. We updated our planning materiality assessment using the draft financial statements and have also reconsidered our risk assessment. Based on our planning materiality measure of 1% of gross expenditure on provision of services and performance materiality at 50% of planning materiality:

Materiality	Audit Plan - Group	Audit Plan – Council
Planning	£5.61 m	£4,73 m
Performance	£2.81 m	£2.36 m
Reporting	£0.28 m	£ 0.24 m

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Group Scoping:

There has been no changes to report in our Group Scoping. For the purposes of in-scope components Reading Transport Limited (RTL) and Brighter Futures for Children (BFFC) are in-scope with Homes for Reading being review scope only.

Executive Summary

Scope update

In our audit planning report for the January 2023 Audit and Governance Committee meeting, we provided Members with an overview of our audit scope and approach for the audit of the 2020/21 financial statements. We carried out our audit in accordance with this plan. We note below some key considerations arising as a result of Covid-19.

Changes to reporting timescales

- As a result of COVID-19, new regulations, the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 No. 404 came into force on 30 April 2020. This announced a change to the publication date for final, audited accounts from 31 July to 30 November 2020 for all relevant authorities. As Reading Borough Council is behind on its delivery of audited accounts this timeline has not been met for the 2020/21 statements. We are working closely with the Council to work efficiently through multiple open audit years.

Changes to our risk assessment as a result of COVID-19

- Valuation of Property Plant and Equipment (PPE) and Investment Property (IP) - The Royal Institute of Chartered Surveyors (RICS), which sets the standards for property valuations, has issued guidance to valuers highlighting that the uncertain impact of COVID-19 on markets might cause a valuer to conclude that there is a material uncertainty. Caveats around this material uncertainty have been included in the year-end valuation reports produced by the Authority's valuers. We consider that the material uncertainties disclosed by the valuers gave rise to an additional risk relating to disclosures on the valuation of PPE and IP.
- Disclosures on Going Concern – We are required to consider management's going concern assessment and the impact of COVID 19. We considered the unpredictability of the current environment gave rise to a risk that the Local Authority would not appropriately disclose the key factors relating to going concern, underpinned by management's assessment on the effects of COVID-19 and the Local Authority's actual year-end financial position and performance.

Changes to the scope of our audit as a result of COVID-19

- We followed up any impact of COVID-19 on how internal controls operated, and revisited the risks around the valuation of PPE and investment property, and how officers had challenged the valuations provided to them by their specialists.

Information Produced by the Entity (IPE): We identified an increased risk around the completeness, accuracy, and appropriateness of information produced by the entity due to the inability of the audit team to verify original documents or re-run reports on-site from the Authority's systems. We undertook the following to address this risk:

- Used the screen sharing function of Microsoft Teams to evidence re-running of reports used to generate the IPE we audited; and
- Agreed IPE to scanned documents or other system screenshots.

Executive summary

Auditor responsibilities under the new Code of Audit Practice 2020

Under the Code of Audit Practice 2020 we are still required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. The 2020 Code requires the auditor to design their work to provide them with sufficient assurance to enable them to report to the Council a commentary against specified reporting criteria (see below) on the arrangements the Council has in place to secure value for money through economic, efficient and effective use of its resources for the relevant period.

The specified reporting criteria are:

- Financial sustainability
  How the Council plans and manages its resources to ensure it can continue to deliver its services;
- Governance
  How the Council ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness:
  How the Council uses information about its costs and performance to improve the way it manages and delivers its services.

Status of the audit – Value for Money

We have previously reported to the Committee the changes to the arrangements for our work on Value for Money (VFM) resulting from the updated NAO Code for 2020/21. We are currently completing our assessment work and assessing the Council against the three sub-criteria. This includes arranging meetings with senior officers to understand in detail the arrangements in place.

As at the date of this report we have identified two risks of significant weaknesses in arrangements specifically in relation:

- Maintaining a Sound System of Internal Control;
- Working with Partners and Third Parties

Both of these sub-criteria were qualified in our work on VFM in prior years i.e. 2018/19 and 2019/20.

We will provide an update at the Audit & Governance Committee meeting on the status of our work on the VFM Commentary and specifically our progress in coming to a conclusion on the identified risks. This update will also include the timelines for receipt of the VFM Commentary and our conclusions against each of the three sub-criteria. For further details on VFM see Section 5 of this report.

Executive Summary

Areas of audit focus

Our Audit Planning Report identified key areas of focus for our audit of Reading Borough Council's financial statements This report sets out our observations and conclusions, including our views on areas which might be conservative, and where there is potential risk and exposure. We summarise our consideration of these matters, and any others identified, in the "Key Audit Issues" section of this report.

We ask you to review these and any other matters in this report to ensure:

- There are no other considerations or matters that could have an impact on these issues;
- You agree with the resolution of the issue; and
- There are no other significant issues to be considered.

Status of the audit

Our audit of Reading Borough Council & Group's financial statements for the year ended 31 March 2021 is well progressed and we have performed the procedures outlined in our Audit Planning Report.

We will need to assess at the conclusion of the audit the impact of our findings on the Authority's financial statements. In prior years we have qualified our audit report in a number of areas. For further details see the auditor report in Section 3. We will provide an update in respect of the timeline for completion of the 2020/21 audit at the Audit & Governance Committee meeting.

Audit differences

We have identified a number of audit differences which have been adjusted by management (subject to receipt and review of the final statement of accounts). Details can be found in Section 4 Audit Differences.

We are working through the accounting transactions of some of the last agreed amendments and therefore we are expecting some further additions to those included at Section 4.

Executive Summary

Other reporting issues

We have reviewed the information presented in the Annual Governance Statement for consistency with our knowledge of the Authority. Our work on this area is still ongoing and we have no material findings to report from the work completed to date.

We are normally required to perform the procedures required by the National Audit Office (NAO) on the Whole of Government Accounts submission. Given the delay in the certification of the audit we may not need to complete the WGA procedures for 2020/21 as the national submission deadline has now passed.

We have no other matters to report.

Control observations

We have adopted a fully substantive approach, so have not tested the operation of controls.
During the audit we identified a number of observations and improvement recommendations in relation to management's financial processes and controls. These are set out in Section 7 of this report.

Independence

In our Audit Planning Report for 2020-21 presented at the January 2023 Audit & Governance Committee meeting we confirmed our independence.
Please refer to Section 9 for our update on Independence.

Communications

Throughout the year we have attended the Audit & Governance Committee, presenting reports as appropriate. We also ran an Audit & Governance Committee. workshop at the beginning of the audit to talk through the audit approach in more detail and we have also met with the management team multiple times throughout the audit to discuss audit progress and rising findings. Details of our communications with the Audit & Governance Committee meeting is included at Appendix A.

02 Areas of Audit Focus

Significant risk

Risk of fraud in revenue and expenditure recognition, through inappropriate capitalisation of revenue expenditure

What is the risk?

Under ISA240 there is also a presumed risk that revenue may be misstated due to improper recognition of revenue. In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition. For Reading Borough Council, we consider this risk to be present in:

- Additions to property, plant and equipment.
- Revenue expenditure funded from capital under statute
- Inappropriate transfers between the Housing Revenue Account (HRA) and the General Fund.

We have considered the capitalisation of revenue expenditure on property, plant and equipment as a specific area of risk given the extent of the Authority's capital programme.
In addition there is a risk where transfers between the HRA and general result in incorrect treatment of HRA revenue expenditure.

What judgements are we focused on?

How management decides on appropriate capitalisation of revenue expenditure, including classification between the General Fund and Housing Revenue Account.

What did we do?

We sample tested additions to property, plant and equipment to ensure that they have been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised.

What are our conclusions?

To date we have not identified any issues with management's accounting policies or practices in relation to opting to finance expenditure from capital sources.

We focused our testing on property, plant and equipment, investment property, and REFCUS capital additions.

Our testing of capital additions to date has not identified any instances where expenditure had been inappropriately capitalised, or any inappropriate transfers between the Housing Revenue Account and the General Fund.

As our work is currently ongoing it is possible that we may identify errors in our testing and we will provide an update at the Audit & Governance Committee meeting.

Significant risk

Misstatements due to fraud or error

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.

What did we do and what judgements did we focus on?

We have:

- asked management about risks of fraud and the controls to address those risks;
- asked about the oversight given by those charged with governance of management's processes over fraud; and
- considered the effectiveness of management's controls designed to address the risk of fraud.

We also performed mandatory procedures regardless of specifically identified fraud risks, including:

- testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements;
- assessing accounting estimates for evidence of management bias; and
- evaluating the business rationale for significant unusual transactions.

We used our data analytics capabilities to assist with our work, including journal entry testing. We assessed journal entries for evidence of management bias and evaluated for business rationale.

What are our conclusions?

Based on the work completed to date, we have not identified any evidence of material management override. We have not identified any instances of inappropriate judgements being applied or management bias. We have not identified any transactions during our audit which appeared unusual or outside the Council's normal course of business.

Our work on journal entry testing is still in progress and we will provide an update at the Audit & Governance Committee meeting with regard to the remaining audit fieldwork completed since this report has been drafted.

Significant risk

Potential misstatement in valuation of land, buildings and investment properties due to significant judgements involved

What is the risk?

The Local Authority Accounting Code of Practice require the Council to make extensive disclosures within its financial statements regarding its land and buildings. The net book value of Property, Plant and Equipment (PPE) represents a significant balance (£1,016 million as at 31 March 2020) in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Investment Property balances were also material at £79 million as at 31 March 2020.

Management is required to make material judgements and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

Additionally, the uncertain impact of COVID-19 on valuations and the material uncertainty clause included in the year-end valuation report reinforced our view that this should be classified as a significant risk.

What did we do and what judgements did we focus on?

We have:

- Considered the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- Involved our internal valuation specialists to review a sample of PPE and Investment Properties;
- reviewed the internal challenge of external valuations by the Council's surveyor;
- Sample tested key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre) and challenged the key assumptions used by the valuers;
- Considered the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE, and annually for Investment Property. We also considered if there are any specific changes to assets that have occurred and whether these have been communicated to the valuers;
- Reviewed assets not subject to valuation in 2020/21 to confirm that the remaining asset base is not materially misstated;
- Considered changes to useful economic lives as a result of the most recent valuation;
- Tested to confirm that accounting entries have been correctly processed and disclosed within the financial statements;
- Ensured the appropriate disclosure has been made in the accounts concerning any material uncertainty relating to year end valuations; and
- Considered whether the disclosures relating to the above required an Emphasis of Matter within our audit opinion.

Significant risk

Potential misstatement in valuation of land, buildings and investment properties due to significant judgements involved (continued)

What are our conclusions?
In our reconciliation between the valuation report of the Authority's valuer and the balance reported in the accounts, we have noted a significant difference in the properties namely Oracle (£7.99m), Alice Burrows Home (£1.2m) and Amethyst Lane Development Site (£1.81m). The council is the process of challenging the valuation of these properties with the Authority's valuer and we are still waiting for the results of this process. As part of our valuation testing procedures, we have selected a sample for review by our internal specialists and this work is currently in progress. In addition to the testing undertaken by our internal specialists the audit team also tested a number of assets across both PPE and Investment Properties. This work is currently in progress as well. Apart from the items noted above our work to date, has not identified any material issues we need to report to you. We will provide an update at the Audit & Governance Committee meeting.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What did we do?
Going Concern Compliance with ISA 570 This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after. The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, which for the Council will be the audit of the 2020/21 financial statements. The revised standard increases the work we are required to perform when assessing whether the Council is a going concern. It means UK auditors will follow significantly stronger requirements than those required by current international standards; and we have therefore judged it appropriate to bring this to the attention of the Audit Committee. The CIPFA Guidance Notes for Practitioners 2019/20 accounts states 'The concept of a going concern assumes that an authority's functions and services will continue in operational existence for the foreseeable future. The provisions in the Code in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting.' NAO guidance notes to auditors accepts that whilst the technical position regarding the going concern basis of accounting is clear, there may be a tension between the going concern assumption and the significant resource issues some authorities are facing. It is therefore important that authorities and auditors are aware of the requirements for assessing going concern in the local government context and consider the requirements of IAS 1 and the accounting code. Where relevant, this may require the inclusion of appropriate disclosure, for example within the narrative report.	We have: • Challenged and tested management's identification of events or conditions impacting going concern (i.e. the impact of Covid-19 on fees and charges), particularly areas where there is the risk of management bias • Carried out a greater amount of work to challenge management's assessment of going concern, which has included auditing cashflow forecasts covering a period of 12 months from the date of issuing the audited financial statements. • Applied necessary consideration regarding the appropriateness of financial statement disclosures around going concern • Carried out our work in the context of, and with due consideration of, the Practice Note 10 definition of public sector Going Concern Our work on Going Concern has started and we have made some initial enquiries of management for supporting documentation. We will conclude our work on Going Concern at the same time as the conclusion of the audit as the disclosures and data need to reflect the current position as at the date of the audit sign off. We will provide an update at the Audit & Governance Committee.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What did we do?
Group accounts: differences in accounting policies of the components We performed the group scoping for the subsidiaries of Reading Borough Council in 2020/21 and identified no new significant components. We will continue to focus on Reading Transport Limited and Brighter Futures For Children Limited which are both significant components, and Homes for Reading remains review scope only for our 2020/21 audit. We are aware that all the subsidiaries follow FRS102 for their accounts preparation, while the Council's group accounts follow the CIPFA Code, supported by IFRS.	We: • Identified material subsidiary balances and transactions consolidated in the Group accounts and assessed whether the accounting treatment of those amounts complies with the Group accounting policies and also the CIPFA Code; • Where exceptions were identified, we requested management's assessment and reviewed it for reasonableness; • Instructed the relevant component auditors to report to us under the group accounting policies; • Checked additional disclosure requirements in the Group accounts of the Council. Our work on Group accounts and accounting is ongoing and we will provide an update at the Audit & Governance Committee meeting once completed.
Potential error in the accounting treatment of cash reconciling items in main bank account reconciliation During the 2018/19 audit, we identified an issue on unexplained and untraceable cash reconciling items in the main bank account reconciliation of the Council. Management was required to provide resolution over the related issue noted in 2018/19. However, initial discussion with the management revealed that the same issue still exists and management is currently working on this to resolve the issue. As a result of the above issue, we believe that there is a higher inherent risk that errors in accounting treatment of the related cash reconciling items may occur.	We: • Obtained management's revised bank reconciliations for the main bank account/s. • Performed a review of the bank reconciliation of the main accounts focusing on the bank reconciling item and testing at lower thresholds. • Assessed the accounting treatment of the reconciling items and trace the journal entries made to identify any inappropriate treatment. Our work on the Bank Reconciliations is ongoing and we will provide an update at the Audit & Governance Committee once completed.

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be matters that we report on

What is the risk/area of focus?	What did we do?
<u>Accounting for Covid-19 related grant funding</u> The Council has received a significant level of government funding in relation to Covid-19. Whilst there is no change in the CIPFA Code or accounting standard (IFRS 15) in respect of accounting for grant funding, the emergency nature of some of the grants received and in some cases the lack of clarity on any associated restrictions and conditions, means that the Council will need to apply a greater degree of assessment and judgement to determine the appropriate accounting treatment in the 2020/21 statements.	We considered the Council's judgement on material grants received in relation to whether it is acting as: • An Agent, where it has determined that it is acting as an intermediary; or • A Principal, where the Council has determined that it is acting on its own behalf. We: • Have selected a sample of Covid-19 grants received in year, for each item in our sample we have reviewed the Council's accounting treatment as agent or principal. We have sought technical support on the treatment of two grants received in year. • Agreed with the accounting treatment applied by the Council with no issues. The work is substantially complete and subject to internal review. We will provide an update at the Audit & Governance Committee meeting.
<u>Valuation of defined benefit pension scheme</u> The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Oxfordshire County Council. The Council's pension liability is a material estimated balance and is required to be disclosed on the Council's balance sheet. At 31 March 2020 this totalled £551.4 million. The information disclosed is based on the IAS 19 report issued by the Pension Fund actuary to the Council. Accounting for these schemes involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on its behalf. We are required to undertake procedures on the use of the use of the actuary as management's expert and the assumptions underlying fair value estimates.	• Our internal testing for the defined pension liability is substantially complete and subject to internal review. From the work completed to date we have not identified any material amendments and will provide an update at the Audit & Governance Committee meeting; • Assessed the work of the Pension Fund actuary (Barnett Waddingham) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by Public Sector Auditor Appointments for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; • We have not received the IAS 19 Assurance Letter from the auditor of the Berkshire Pension Fund. We are aware from other local auditors that this delay has been significant for them and that they have been unable to conclude their respective audits. • We used our internal specialists to assess the acceptability of the Scheme's liability for disclosures as at 31 March 2021. These were independently assessed as being within an acceptable range of <2%.

Other areas of audit focus (continued)

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What did we do?
Inappropriate infrastructure asset recognition and derecognition An issue was raised via the NAO's Local Government Technical Group as to whether local authorities should be assessing if there is any undepreciated cost remaining in the balance sheet for replaced components that need to be de-recognised when the subsequent expenditure is added. It was highlighted that this could also lead to issues related to the reporting of gross historical cost and accumulated depreciation as elements of depreciated historical cost. This is a national issue impacting the majority of clients holding material infrastructure assets. Legislation has recently been passed which offers a time limited resolution to the matter through a Statutory Instrument and also an adaptation of the CIPFA Code Therefore, we considered this as a higher inherent risk due to the timing of this report and the fact that we have been unable to yet audit the Council's proposed response to the new legislation. Asset registers do not tend to record infrastructure capital expenditure with sufficient detail to enable identification of prior cost of replaced parts/components and related accumulated depreciation. Given this lack of record keeping, it is not possible to identify the cost and accumulated depreciation balances that need to be de-recognised. The issue affects additions to infrastructure from 2010/11 when IFRS was adopted by the CIPFA code of practice. Infrastructure Assets have a Gross Book Value of £307.3 m as at 31 March 2021.	We have: • Reviewed the time-limited legislation passed in December 2022 to address the matter; and • Assessed the Council's proposed response, including any associated accounting adjustments and disclosures, to the revised legislation. This work is well progressed and we will provide an update at the Audit & Governance Committee.

03 Draft Audit Report

To Follow at Conclusion of Audit

Reading Borough Council 2020-21

Our opinion on the financial statements

04 Audit Differences

Audit Differences

In the normal course of any audit, we identify misstatements between amounts we believe should be recorded in the financial statements and the disclosures and amounts actually recorded. These differences are classified as "known" or "judgemental". Known differences represent items that can be accurately quantified and relate to a definite set of facts or circumstances. Judgemental differences generally involve estimation and relate to facts or circumstances that are uncertain or open to interpretation.

Summary of adjusted differences agreed to date

We highlight the following known misstatements greater than £0.242 million (audit difference) which have been corrected by management that were identified during the course of our audit:

<u>The following are differences identified by either the Council or the audit team that were agreed to be adjusted in the financial statements</u>

1) Financial Instruments: We noted a £5 million disclosure error in Note 28 Financial Instruments in respect of the value for long-term debtors.

There are a number of other disclosure errors currently under EY review. As the audit is still ongoing it is possible that further adjustments may arise.

05 Value for Money

Value for money

The Council's responsibilities for value for money (VFM)

The Council is required to maintain an effective system of internal control that supports the achievement of its policies, aims and objectives while safeguarding and securing value for money from the public funds and other resources at its disposal.

As part of the material published with its financial statements, the Council is required to bring together commentary on its governance framework and how this has operated during the period in a governance statement. In preparing its governance statement, the Council tailors the content to reflect its own individual circumstances, consistent with the requirements of the relevant accounting and reporting framework and having regard to any guidance issued in support of that framework. This includes a requirement to provide commentary on its arrangements for securing value for money from their use of resources.

Risk assessment

Page 372

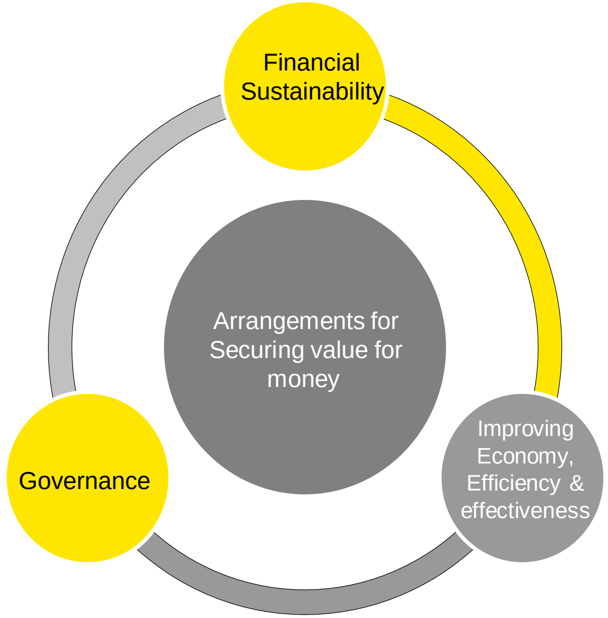
We have previously reported to the Committee the changes in the arrangements to the VFM for 2020/21.

We are finalising our risk assessment work and assessing the Council against the three sub-criteria. This includes arranging meetings with senior officers to understand in detail the arrangements in place.

As at the date of this report we have identified 2 Significant Risks in respect of assessing the previous weakness in arrangements reported in 2019/20.

The qualification in 2019/20 was in respect of 2 of the 3 sub-criteria under the previous VFM arrangements: Informed Decision Making with a focus on maintaining a sound system of internal control and Working with Partners and Third Parties.

We will provide an update at the July Audit & Governance Committee meeting. This update will also include the timelines for receipt of the VFM Commentary and our conclusions against each of the three sub-criteria.



Value for money

Planning and identifying VFM risks

The NAO's guidance notes require us to carry out a risk assessment which gathers sufficient evidence to enable us to document our evaluation of the Council's arrangements, in order to enable us to draft a commentary under the three reporting criteria. This includes identifying and reporting on any significant weaknesses in those arrangements and making appropriate recommendations. This is a change to 2015 Code guidance notes where the NAO required auditors as part of planning, to consider the risk of reaching an incorrect conclusion in relation to the overall criterion.

In considering the Council's arrangements, we are required to consider:

- The Council's governance statement
- Evidence that the Council's arrangements were in place during the reporting period;
- Evidence obtained from our work on the accounts;
- The work of inspectorates (such as Ofsted) and other bodies; and
- Any other evidence source that we regard as necessary to facilitate the performance of our statutory duties.

We then consider whether there is evidence to suggest that there are significant weaknesses in arrangements. The NAO's guidance is clear that the assessment of what constitutes a significant weakness and the amount of additional audit work required to adequately respond to the risk of a significant weakness in arrangements is a matter of professional judgement. However, the NAO states that a weakness may be said to be significant if it:

- Exposes – or could reasonably be expected to expose – the Council to significant financial loss or risk;
- Leads to – or could reasonably be expected to lead to – significant impact on the quality or effectiveness of service or on the Council's reputation;
- Leads to – or could reasonably be expected to lead to – unlawful actions; or
- Identifies a failure to take action to address a previously identified significant weakness, such as failure to implement or achieve planned progress on action/improvement plans.

We should also be informed by a consideration of:

- The magnitude of the issue in relation to the size of the Council;
- Financial consequences in comparison to, for example, levels of income or expenditure, levels of reserves, or impact on budgets or cashflow forecasts;
- The impact of the weakness on the Council's reported performance;
- Whether the issue has been identified by the Council's own internal arrangements and what corrective action has been taken or planned;
- Whether any legal judgements have been made including judicial review;
- Whether there has been any intervention by a regulator or Secretary of State;
- Whether the weakness could be considered significant when assessed against the nature, visibility or sensitivity of the issue;
- The impact on delivery of services to local taxpayers; and
- The length of time the Council has had to respond to the issue.

Value for money

Responding to identified risks

Where our planning work has identified a risk of significant weakness, the NAO's guidance requires us to consider what additional evidence is needed to determine whether there is a significant weakness in arrangements and undertake additional procedures as necessary, including where appropriate, challenge of management's assumptions. We are required to report our planned procedures to the audit & governance committee.

Reporting on VFM

In addition to the commentary on arrangements, where we are not satisfied that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources the 2020 Code has the same requirement as the 2015 Code in that we should refer to this by exception in the audit report on the financial statements.

However, a new requirement under the 2020 Code is for us to include the commentary on arrangements in a new Auditor's Annual Report. The 2020 Code states that the commentary should be clear, readily understandable and highlight any issues we wish to draw to the Council's attention or the wider public. This should include details of any recommendations arising from the audit and follow-up of recommendations issued previously, along with our view as to whether they have been implemented satisfactorily.

Status of our 2020/21 VFM planning

We have yet to complete our detailed VFM work. We are also likely to focus on the governance arrangements the Council has established to ensure that informed decisions are taken on policies and projects likely to have a significant impact on the Council's medium term financial plans and finances.

06 Other Reporting Issues

Other reporting issues

Consistency of other information published with the financial statements, including the Annual Governance Statement

We must give an opinion on the consistency of the financial and non-financial information in the Statement of Accounts 2020/21 with the audited financial statements.

We must also review the Annual Governance Statement for completeness of disclosures, consistency with other information from our work, and whether it complies with relevant guidance.

Financial information in the Statement of Accounts 2020/21 and published with the financial statements was consistent with the audited financial statements. We noted a number of internal casting and consistency errors which have been accepted and corrected by management.

We have not yet completed the reviewed of the Annual Governance Statement.

Whole of Government Accounts

Alongside our work on the financial statements, we also review and report to the National Audit Office on your Whole of Government Accounts return. The extent of our review, and the nature of our report, is specified by the National Audit Office.

Given the delays in certifying the 2020/21 accounts we are not required to complete the certification as the national WGA certification for 2020/21 has been completed and closed for further submissions. This was also the position for the 2020/21 WGA submission.

Other reporting issues

Other powers and duties

We have a duty under the Local Audit and Accountability Act 2014 to consider whether to report on any matter that comes to our attention in the course of the audit, either for the Authority to consider it or to bring it to the attention of the public (i.e. "a report in the public interest"). We did not identify any issues which required us to issue a report in the public interest.

We also have a duty to make written recommendations to the Authority, copied to the Secretary of State, and take action in accordance with our responsibilities under the Local Audit and Accountability Act 2014. As at the date of this report we have not identified any issues.

Other matters

As required by ISA (UK&I) 260 and other ISAs specifying communication requirements, we must tell you significant findings from the audit and other matters if they are significant to your oversight of the Authority's financial reporting process. They include the following:

- Significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures;
- Any significant difficulties encountered during the audit;
- Any significant matters arising from the audit that were discussed with management;
- Written representations we have requested;
- Expected modifications to the audit report;
- Any other matters significant to overseeing the financial reporting process;
- Related parties;
- External confirmations;
- Going concern;
- Consideration of laws and regulations; and
- Group audits

We have nothing further as at the date of this report that we need to draw to the attention of the Audit & Governance Committee.

07 Assessment of Control Environment

Assessment of Control Environment – 2019/20 and 2020/21

Financial controls

It is the responsibility of the Authority to develop and implement systems of internal financial control and to put in place proper arrangements to monitor their adequacy and effectiveness in practice. Our responsibility as your auditor is to consider whether the Authority has put adequate arrangements in place to satisfy itself that the systems of internal financial control are both adequate and effective in practice.

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. As we have adopted a fully substantive approach, we have therefore not tested the operation of controls.

Although our audit was not designed to express an opinion on the effectiveness of internal control we are required to communicate to you significant deficiencies in internal control.

We have identified a number of significant deficiencies in the design or operation of an internal control that might result in a material misstatement in your financial statements of which you are not aware.

We wish to follow up on the matters previously reported in 2019/20 and to assess the status of these issues. We have also assessed the control findings for 2020/21 and report these to the next Audit & Governance Committee.

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The table below provides an overview of the 'high' 'moderate' and 'low' rated observations we have from the 2019/20 and 2020/21 audit. At the completion of the audit we will issue a formal management letter containing all of the identified points.

	High	Moderate	Low	Total
New issues raised in FY 19/20	0	1	0	1
New issues raised in FY 20/21	1	2	0	3

Key:

- (Green) A weakness which does not seriously detract from the internal control framework. If required, action should be taken within 6–12 months.
- (Yellow) Matters and/or issues are considered to be of major importance to maintenance of internal control, good corporate governance or best practice for processes. Action should be taken within six months.
- (Red) Matters and/or issues are considered to be fundamental to the mitigation of material risk, maintenance of internal control or good corporate governance. Action should be taken either immediately or within three months.

The matters reported on the next slide are limited to those that we identified during the audit and that we concluded are of sufficient importance to merit being reported to you. We will consider management's responses and report progress against these as part of future reporting to the Audit & Governance Committee.

Assessment of Control Environment – Reported in 2019/20 and 2020/21

Area	Approval of new reserves
Rating	
Observation	During the audit we identified a number of reserves which had been created but which did not have formal approval.
Management comment	Agreed. We will ensure that in future all reserves have formal approval as part of the regular communication of financial reporting through to those charged with governance.

Area	Clearing of suspense account and holding codes
Rating	
Observation	During the review of the short term debtor, we noted cash suspense account on credit balance which were not applied or cleared against the short term debtor account. We would expect that all suspense and holding accounts should be cleared and segregated from the rest of general ledger accounts for financial statement reporting.
Management comment	

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Assessment of Control Environment – Reported in 2019/20 and 2020/21

Area	Bank reconciliation was incorrectly performed and was not carried out frequently	Rating	Red

Observation

During the 2018/19 audit, we noted that the bank reconciliation process was not performed in a monthly basis until January 2019.

In 2018/19 and 2019/20, our substantive procedures revealed that the bank reconciliation was not carried out correctly. We obtained our assurance over the existence of bank balance through bank confirmation and the bank statement; however, the client cannot provide explanation for some of the reconciling items reported in the bank reconciliation.

In 2020/21, we have noted that bank reconciliation was carried out and reviewed by the senior management of the team, however there were transaction relating to cash in transits account were not included in the bank reconciliation provided.

Management comment

Area	Inconsistencies in the supporting documents received and the records of the starters and leavers	Rating	Yellow

Observation

Our substantive testing on the starters and leavers during the 2019/20 and 2020/21 revealed various inconsistencies in the records and the supporting documents received for employees starting in the Council and the employees leaving the Council. Some of the inconsistencies noted includes the following:

2019/20 Findings

- Inconsistency in the start date as per the first payslip and the stater form for some of new joiner
- Last pay slip date is after the leaver date for some of the leaver sample selected.

2020/21 Findings

- Some employees signature is not contained in the contract or the contract has not been provided at all
- Some employees start date as per the form/contract does not tie back joining date communicated in the listing

The control recommendation is that the management should maintain a centralised record keeping and monitoring of the documents processed by HR and the payroll team should make sure that the documents are complete prior to updating the records in the payroll system.

Management comment

08 Data Analytics

Use of Data Analytics in the Audit

▶ Data analytics – revenue and expenditure recognition and payroll

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

- Help identify specific exceptions and anomalies which can then be the focus of our substantive audit tests; and
- Give greater likelihood of identifying errors than traditional, random sampling techniques.

In 2020/21, our use of these analysers in the authority's audit included testing [journal entries and employee expenses], to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

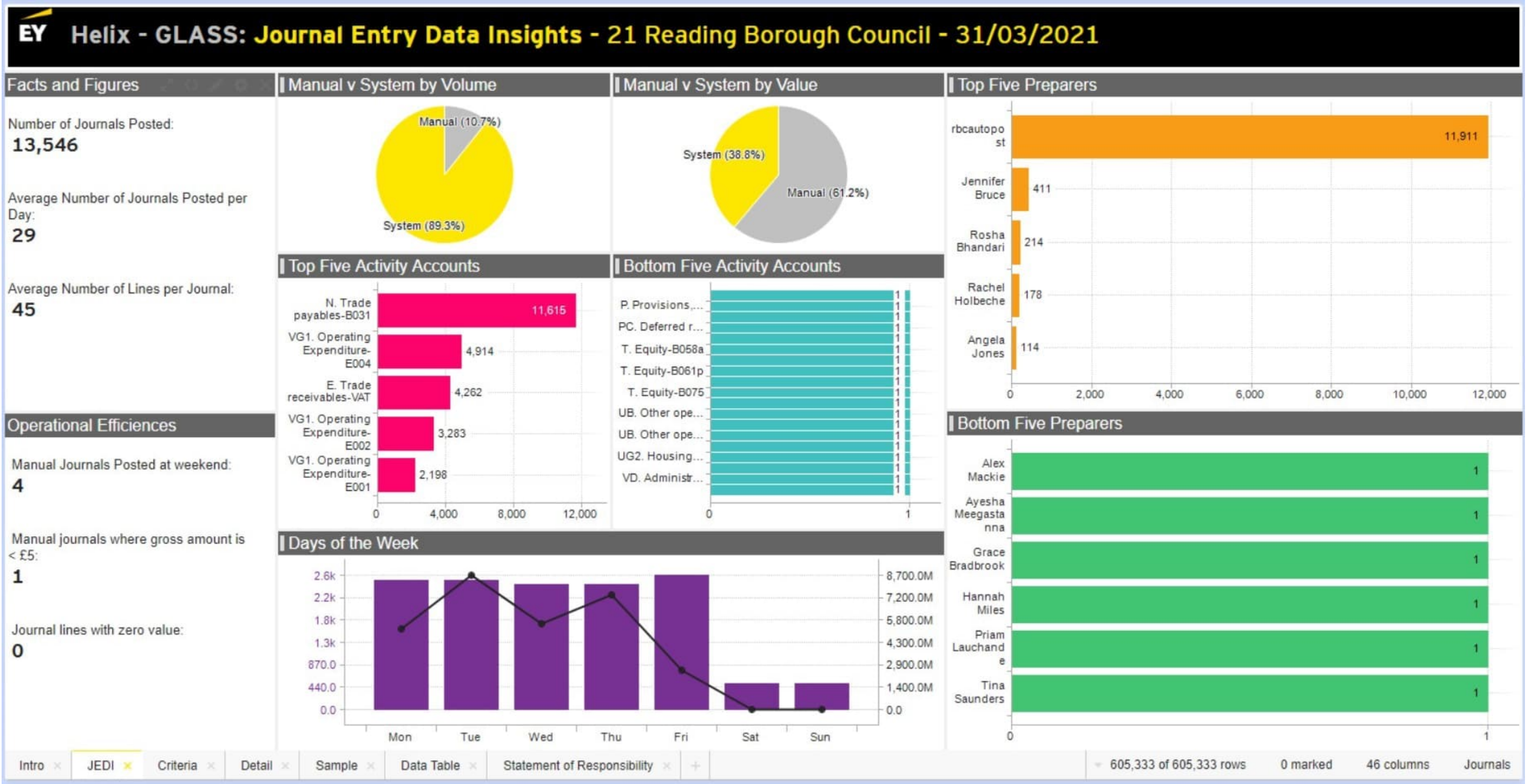
Journal Entry Analysis
We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our audit planning report.

Payroll Analysis
We also use our analysers in our payroll testing. We obtain all payroll transactions posted in the year from the payroll system and perform completeness analysis over the data, including reconciling the total amount to the General Ledger trial balance. We then analyse the data against a number of specifically designed procedures. These include analysis of payroll costs by month to identify any variances from established expectations, as well as more detailed transactional interrogation.

Journal Entry Data Insights

The graphic outlined below summarises the journal population for 2020/21. We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year-end, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions.

The purpose of this approach is to provide a more effective, risk focused approach to auditing journal entries, minimising the burden of compliance on management by minimising randomly selected samples.



Journal Entry Testing

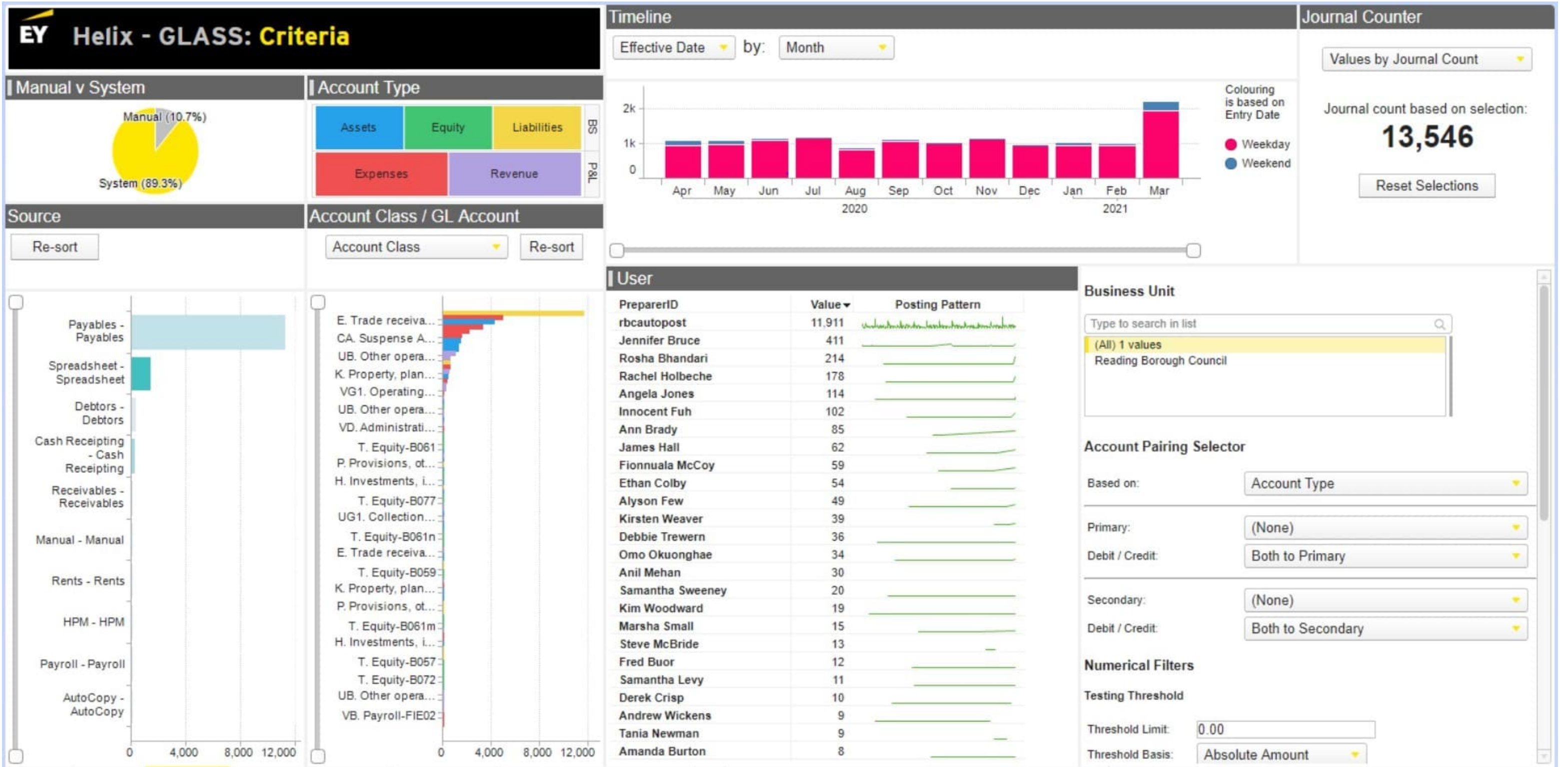
What is the risk?

In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

What judgements are we focused on?

Using our analysers we are able to take a risk based approach to identify journals with a higher risk of management override, as outlined in our audit planning report.

Journal entry data criteria – 31 March 2021



What did we do?

We obtained general ledger journal data for the period and have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments, and journals entries that are subject to a higher risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable.

What are our conclusions?

We isolated a sub set of journals for further investigation and obtained supporting evidence to verify the posting of these transactions and concluded that they were appropriately stated.

Payroll Analyser Insights

The graphic outlined below summarises the payroll data for 2020/21. We review transactions for payroll at a more granular level, which allows us to identify items with a higher likelihood of containing material misstatements or to identify unusual patterns within a population of data and to design tests of details. This allows us to provide a more effective and risk focused audit on payroll, improving efficiency for both audit and the management as we reduce the need for evidence support for larger random sample.

EY Helix | Payroll Analyzer

1. Payroll overview

Client name: Reading Borough Council | Year end: 31-Mar-2021
Project name: 21 Reading Borough Council - Payroll Analyser - P1-12 | Analysis date: 31-Mar-2021

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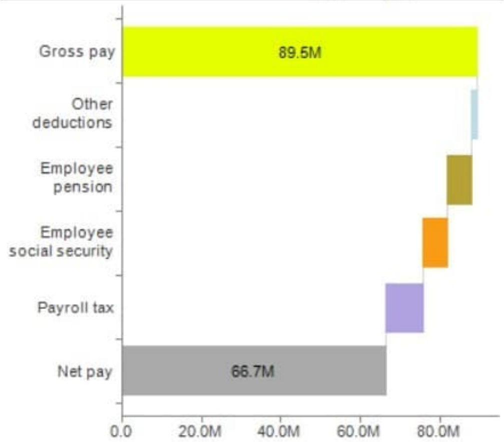
1.0 What are the components of gross pay?

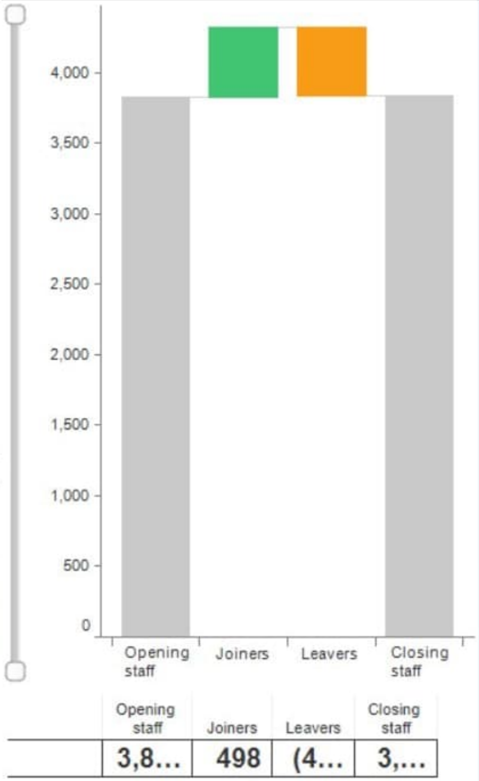
1.1 What are the deductions from gross pay?



1.2 What are the summary numbers behind wages & salaries?

	Components	Amount	% of Gross
Total gross pay	Gross pay	89,471,789	100.0%
Gross pay components	Basic pay	85,947,076	96.1%
	Bonuses	0	0.0%
	Holiday pay	108,443	0.1%
	Other gross1	1,613,741	1.8%
	Other gross2	452,985	0.5%
	Other gross3	546,459	0.6%
	Overtime	803,085	0.9%
Net pay & deductions	Net pay	66,651,305	74.5%
	Other deductions	1,269,288	1.4%
	Employee pension	6,136,339	6.9%
	Employee social security	6,347,658	7.1%
	Payroll tax	9,067,198	10.1%
Employer contributions	Employer pension	19,847,270	22.2%
	Employer social security	8,022,410	9.0%

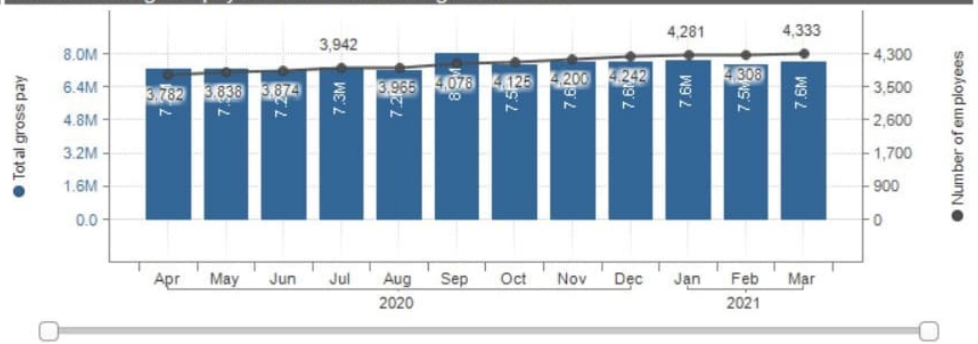
1.5 What is the staff turnover?



1.3 What does the data tell me?

	Gross	#/%
Staff turnover		11.25%
Employees not in master file	0.0	5
Employees not in transactions	0.0	0
Payments after leave date	723.4k	288
Payments before join date	0.0	0
Largest gross payment	90.1k	
Average gross payment	1.8k	
Smallest gross payment	-3.3k	
Highest paid employee : Median employee		8.49

1.4 How does gross pay and headcount change over time?

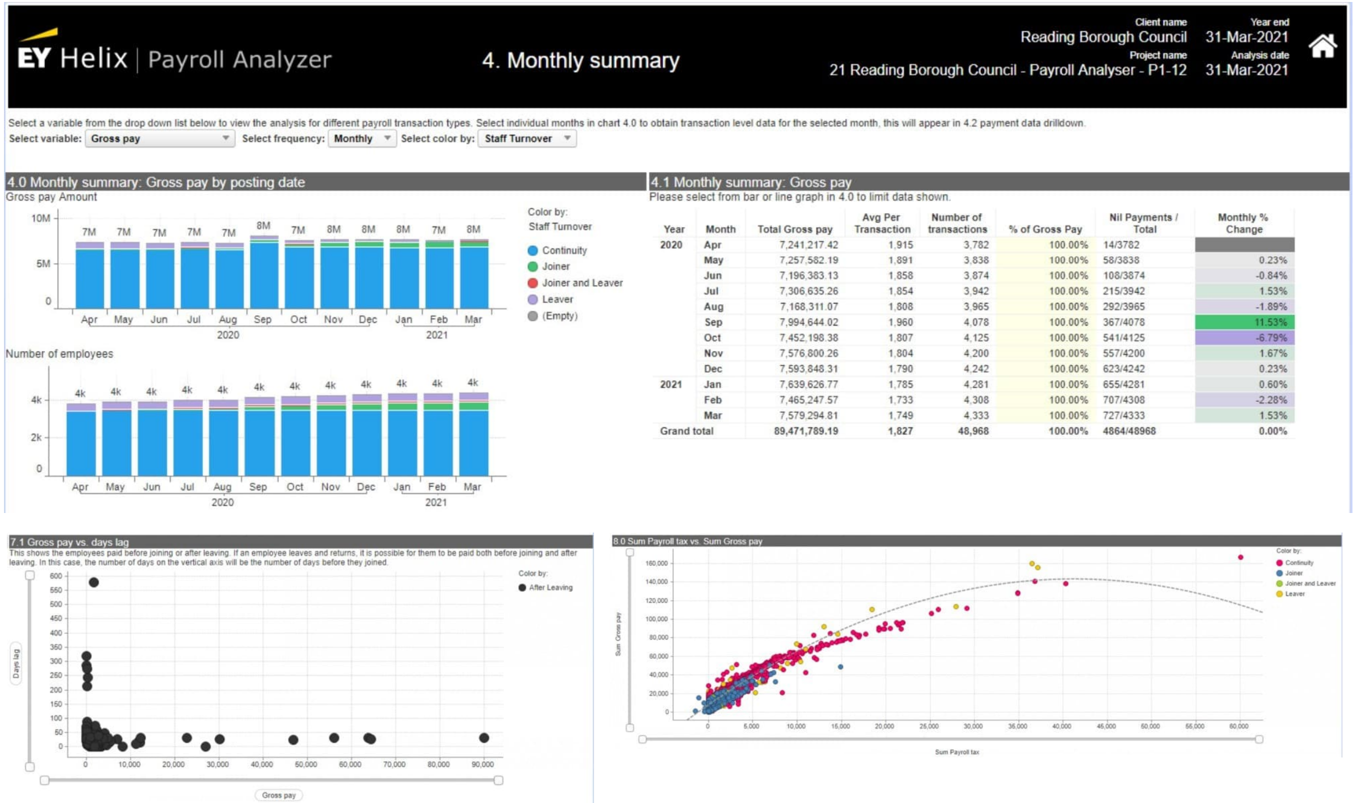


Payroll Testing

What judgements are we focused on?

Using our analysers we are able to identify anomalies in the payroll data which allow us to focus our testing and enquires over unusual or unexpected transactions.

Payroll Data – 31 March 2021



Year	Month	Total Gross pay	Avg Per Transaction	Number of transactions	% of Gross Pay	Nil Payments / Total	Monthly % Change
2020	Apr	7,241,217.42	1,915	3,782	100.00%	14/3782	
	May	7,257,582.19	1,891	3,838	100.00%	58/3838	0.23%
	Jun	7,196,383.13	1,858	3,874	100.00%	108/3874	-0.84%
	Jul	7,306,635.26	1,854	3,942	100.00%	215/3942	1.53%
	Aug	7,168,311.07	1,808	3,965	100.00%	292/3965	-1.89%
	Sep	7,994,644.02	1,960	4,078	100.00%	367/4078	11.53%
	Oct	7,452,198.38	1,807	4,125	100.00%	541/4125	-6.79%
	Nov	7,576,800.26	1,804	4,200	100.00%	557/4200	1.67%
	Dec	7,593,848.31	1,790	4,242	100.00%	623/4242	0.23%
2021	Jan	7,639,626.77	1,785	4,281	100.00%	655/4281	0.60%
	Feb	7,465,247.57	1,733	4,308	100.00%	707/4308	-2.28%
	Mar	7,579,294.81	1,749	4,333	100.00%	727/4333	1.53%
Grand total		89,471,789.19	1,827	48,968	100.00%	4864/48968	0.00%

What did we do?

We obtained payroll data for the period and have used our analysers to identify unusual payments based on expectations of average pay per designation, date inconsistencies where payments made to individuals after they have left the organisation or before they have joined and payments made in the year that appear anomalous compare to average monthly payments.

We then tested the anomalies to determine if they were appropriate and reasonable.

What are our conclusions?

We isolated a sub set of anomalies for further investigation and obtained supporting evidence to verify the posting of these transactions and concluded that they were appropriately stated.

09 Independence

Confirmation

We confirm that there are no changes in our assessment of independence since our confirmation in our audit planning board report dated January 2022.

We complied with the FRC Ethical Standards and (the requirements of the PSAA's Terms of Appointment. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning of regulatory and professional requirements.

We consider that our independence in this context is a matter which you should review, as well as us. It is important that you and your Audit & Governance Committee consider the facts known to you and come to a view. If you would like to discuss any matters concerning our independence, we will be pleased to do this at the meeting of the Audit & Governance Committee meeting on 12 April 2023.

We confirm we have undertaken non-audit work outside the NAO Code requirements in relation to our work on Teacher's Pensions and Housing Capital Receipts. We have adopted the necessary safeguards in our completion of this work.

Relationships, services and related threats and safeguards

The FRC Ethical Standard requires that we provide details of all relationships between Ernst & Young (EY) and your Authority, and its directors and senior management and its affiliates, including all services provided by us and our network to your Authority, its directors and senior management and its affiliates, and other services provided to other known connected parties that we consider may reasonably be thought to bear on the our integrity or objectivity, including those that could compromise independence and the related safeguards that are in place and why they address the threats.

There are no relationships from 1st April 2018 to the date of this report, which we consider may reasonably be thought to bear on our independence and objectivity.

Services provided by Ernst & Young

Below includes a summary of the fees that you have paid to us in the year ended 31 March 2020 in line with the disclosures set out in FRC Ethical Standard and in statute. Full details of the services that we have provided are set out in the following table. Further detail of all fees has been provided to the Audit & Governance Committee.

We confirm that none of the services listed in the following table have been provided on a contingent fee basis.

As at the date of this report, there are future services which have been contracted and a written proposal to provide non-audit services has been submitted. These non-audit services are in respect of Housing Capital Receipts, Teacher's Pensions and Housing Benefits for 2020/21.

Fee analysis

As part of our reporting on our independence, we set out below a summary of the fees paid for the year ended 31st March 2021.

We confirm that we have undertaken non-audit work outside the NAO Code requirements. We undertook work on Housing Capital Receipts and Teacher's Pensions. We have adopted the necessary safeguards in completing this work and complied with Auditor Guidance Note 1 issued by the NAO.

	Final Fee 2020/21	Scale Fee 2020/21	Scale Fee 2019/20	Final Fee 2018/19
	£	£	£	£
Total Audit Fee – Code work	TBC**	108,938	108,938*	382,905*
Housing Benefits	TBC	34,591	34,591	18,623
Non-audit work – Housing Capital Receipts	TBC***	7,500	7,500	7,000
Non-audit work – Teacher's Pensions	11,000	11,000	11,000	10,500
Total non-audit services	TBC***	53,091	53,091	36,123

All figures are exclusive of VAT

* – Due to the extensive and pervasive issues identified during the 2019/20 audit, certification was delayed by approximately 1 year and required significant additional audit input including significant specialist input. The 2018/19 accounts were qualified on a number of specific areas. An additional fee of £273,967 was incurred and this was approved by Public Sector Audit Appointments Ltd (PSAA) in February 2022 following review of EY audit documentation and meetings with officers. The total fee of £382,905 includes the additional fee of £273,967 and the scale fee of £108,938. As the 2019/20 audit is still in progress we have not yet determined the final fee for 2019/20.

** – Given the issues identified in the 2018/19 and 2019/20 audits, including qualification of the accounts in 2018/19, the VFM qualification in 2019/20 and the increased risk profile of the audit from previous qualifications, there will be additional fee on the 2019/20 audit. As the audit is still not complete we have not yet agreed this additional fee. Similar to 2018/19 the additional fee will be subject to approval by PSAA Ltd.

*** - Certification has not yet been completed due to some technical issues. We will provide an update when the claim is fully certified.

10 Appendices

Appendix A

Audit approach update

We summarise below our approach to the audit of the balance sheet and any changes to this approach from the prior year audit.

Our audit procedures are designed to be responsive to our assessed risk of material misstatement at the relevant assertion level. Assertions relevant to the balance sheet include:

- Existence: An asset, liability and equity interest exists at a given date
- Rights and Obligations: An asset, liability and equity interest pertains to the entity at a given date
- Completeness: There are no unrecorded assets, liabilities, and equity interests, transactions or events, or undisclosed items
- Valuation: An asset, liability and equity interest is recorded at an appropriate amount and any resulting valuation or allocation adjustments are appropriately recorded
- Presentation and Disclosure: Assets, liabilities and equity interests are appropriately aggregated or disaggregated, and classified, described and disclosed in accordance with the applicable financial reporting framework. Disclosures are relevant and understandable in the context of the applicable financial reporting framework

Balance sheet category	Audit Approach in current year	Audit Approach in prior year	Explanation for change
Trade and other receivables	Substantively tested all relevant assertions	Substantively tested all relevant assertions	No change in approach
Trade and other payables	Substantively tested all relevant assertions	Substantively tested all relevant assertions	No change in approach
Tangible fixed assets	Substantively tested all relevant assertions	Substantively tested all relevant assertions	No change in approach

Appendix B

Summary of communications

Date	Nature	Summary
January 2023	Report	The draft 2020/21 Audit Plan, including confirmation of independence, was issued to the Audit Committee.
January – April 2023	Meeting	The audit team met weekly with the finance team including the Director of Finance to review the query log and discuss progress on the audit
January - April 2023	Meeting	The Partner and senior members of the audit team met with the Audit Committee and senior members of the management team to provide an update on the status of the audit and to discuss the draft audit plan and audit results report and specifically to discuss timelines for completion of the 2020/21 audit and also the indicative planned timescales for completion of the 2020/21 audit.
April 2023	Report	The draft 2020/21 Audit Results Report, including confirmation of independence, was issued to the Audit Committee.
April 2023	Meeting	The Partner and senior members of the audit team met with the Audit Committee and senior members of the management team to provide an update on the status of the audit and to discuss the draft audit plan and audit results report and specifically to discuss timelines for completion of the 2019/20 audit and also to discuss significant findings arising from the 2019/20 and 2020/21 audits.

In addition to the above specific meetings and letters the audit team including the partner in charge of the audit met with the management team multiple times throughout the audit and held calls to discuss audit findings and specific technical issues.

Appendix C

Required communications with the Audit & Governance Committee

There are certain communications that we must provide to the Audit Committees of UK clients. We have detailed these here together with a reference of when and where they were covered:

		Our Reporting to you
Required communications	What is reported?	When and where
Terms of engagement	Confirmation by the audit and governance committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter.	Audit planning report presented to the January 2023 Audit & Governance Committee
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified.	Audit planning report presented to the January 2023 Audit & Governance Committee
Significant findings from the audit	• Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures • Significant difficulties, if any, encountered during the audit • Significant matters, if any, arising from the audit that were discussed with management • Written representations that we are seeking • Expected modifications to the audit report • Other matters if any, significant to the oversight of the financial reporting process • Findings and issues regarding the opening balance on initial audits	Draft Audit results report presented to the April 2023 Audit & Governance Committee meetings

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: • Whether the events or conditions constitute a material uncertainty • Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements • The adequacy of related disclosures in the financial statements	Draft Audit results report presented to the April 2023 Audit & Governance Committee meeting
Misstatements	• Uncorrected misstatements and their effect on our audit opinion • The effect of uncorrected misstatements related to prior periods • A request that any uncorrected misstatement be corrected • Material misstatements corrected by management	Draft Audit results report presented to the April 2023 Audit & Governance Committee meeting
Subsequent events	• Enquiry of the Audit Committee where appropriate regarding whether any subsequent events have occurred that might affect the financial statements.	Draft Audit results report presented to the April 2023 Audit & Governance Committee meeting
Fraud	• Enquiries of the audit committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the Authority • Any fraud that we have identified or information we have obtained that indicates that a fraud may exist • Unless all of those charged with governance are involved in managing the Authority, any identified or suspected fraud involving: a. Management; b. Employees who have significant roles in internal control; or c. Others where the fraud results in a material misstatement in the financial statements. • The nature, timing and extent of audit procedures necessary to complete the audit when fraud involving management is suspected • Any other matters related to fraud, relevant to Audit Committee responsibility.	Draft Audit results report presented to the April 2023 Audit & Governance Committee meeting

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
Related parties	Significant matters arising during the audit in connection with the Authority's related parties including, when applicable: • Non-disclosure by management • Inappropriate authorisation and approval of transactions • Disagreement over disclosures • Non-compliance with laws and regulations • Difficulty in identifying the party that ultimately controls the Authority	Draft Audit results report presented to the April 2023 Audit & Governance Committee meeting
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence. Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: • The principal threats • Safeguards adopted and their effectiveness • An overall assessment of threats and safeguards • Information about the general policies and process within the firm to maintain objectivity and independence Communications whenever significant judgments are made about threats to objectivity and independence and the appropriateness of safeguards put in place.	Audit planning report and audit results report presented to the April 2023 Audit & Governance Committee meeting

Appendix C

		Our Reporting to you
Required communications	What is reported?	When and where
External confirmations	• Management's refusal for us to request confirmations • Inability to obtain relevant and reliable audit evidence from other procedures.	Draft Audit results report presented to the April 2023 Audit & Governance Committee meeting
Consideration of laws and regulations	• Subject to compliance with applicable regulations, matters involving identified or suspected non-compliance with laws and regulations, other than those which are clearly inconsequential and the implications thereof. Instances of suspected non-compliance may also include those that are brought to our attention that are expected to occur imminently or for which there is reason to believe that they may occur • Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the audit committee may be aware of	We have not identified any material instances or non-compliance with laws and regulations.
Significant deficiencies in internal controls identified during the audit	• Significant deficiencies in internal controls identified during the audit.	Draft Audit results report presented to the April 2023 Audit & Governance Committee meeting
Group Audits	• An overview of the type of work to be performed on the financial information of the components • An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components • Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work • Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted • Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements.	Audit planning report and draft audit results report presented to the January 2023 Audit & Governance Committee. Draft Audit results report presented to the April 2023 Audit & Governance Committee meetings

Appendix C

Our Reporting to you

Required communications	What is reported?	When and where
Written representations we are requesting from management and/or those charged with governance	• Written representations we are requesting from management and/or those charged with governance	Draft Audit results report presented to the April 2023 Audit & Governance Committee meeting
Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	• Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Draft Audit results report presented to the April 2023 Audit & Governance Committee meeting
Auditors report	• Any circumstances identified that affect the form and content of our auditor's report	Draft Audit results report presented to the April 2023 Audit & Governance Committee meeting
Fee Reporting	• Breakdown of fee information when the audit planning report is agreed • Breakdown of fee information at the completion of the audit • Any non-audit work	Audit planning report and draft audit results reports presented to the January 2023 & April 2023 Audit & Governance Committee meetings
Value for Money Reporting	• VFM Commentary and conclusions	Auditors Annual Report including VFM Commentary to be presented to the September 2023 Audit & Governance Committee meeting

Appendix D

Outstanding matters

The following items relating to the completion of our audit procedures are outstanding at the date of the release of this report:

Item	Actions to resolve	Responsibility
Receipt of final signed Statement of Accounts 2020/21 and Letter of Representation	Management to update the Statement of Accounts for all agreed amendments including disclosures. At the conclusion Management and TCWG to review and sign the Statement of Accounts and Letter of Representation	Management, TCWG and EY
Going Concern	EY to review all evidence supporting the use of the Going Concern assumption for the preparation of the 2020/21 Council and Group Statement of Accounts	Management and EY
Income and Expenditure (I&E) Testing	EY to complete final review of I&E testing and to complete assessment of errors identified	Management and EY
Property, Plant and Equipment (PPE) and Investment Property (IP) Testing	EY to complete final review and documentation of PPE and IP sample testing. Outcome from testing by EY internal specialists to be considered and communicated to officers.	Management and EY
IAS 19 Pensions Liability Testing	EY to conclude work on IAS 19 Liability testing.	Management and EY
Short term debtors and Short term creditors	EY to conclude on the other areas under short term debtors and short-term creditors. Please note that samples or clarification may be raised depending on the review of the balances.	Management and EY
All other disclosures	EY team to complete work on All Other disclosures	Management and EY
Cash and cash equivalents	Bank reconciliation for the year 2020/21 and supporting schedules of the cash in transit. EY is monitoring the bank confirmation responses received.	Management and EY
Group	Work required to complete work on Group scoping	Management and EY
Value for Money (VFM)	EY to complete review of VFM for 2020/21 and to assess the potential for a modification of the Value for Money Conclusion	Management and EY

Management representation letter

Draft Management Rep Letter

Ernst & Young
FAO: Maria Grindley
Apex Plaza
Forbury Street
Reading
RG1 1YE

This letter of representations is provided in connection with your audit of the consolidated and Council financial statements of Reading Borough Council (“the Group and Council”) for the year ended 31 March 2021. We recognise that obtaining representations from us concerning the information contained in this letter is a significant procedure in enabling you to form an opinion as to whether the consolidated and Council financial statements give a true and fair view of the Group and Council financial position of Reading Borough Council as of 31 March 2021 and of its financial performance (or operations) and its cash flows for the year then ended in accordance with, for the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 for the Group and Council.

We understand that the purpose of your audit of our consolidated and Council financial statements is to express an opinion thereon and that your audit was conducted in accordance with International Standards on Auditing, which involves an examination of the accounting system, internal control and related data to the extent you considered necessary in the circumstances, and is not designed to identify - nor necessarily be expected to disclose - all fraud, shortages, errors and other irregularities, should any exist.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

We acknowledge the mis-statements which you have identified during your audit. We comment further on the unadjusted mis-statements schedule later in this letter but for the sake of clarity any reference to unadjusted mis-statements refers solely to items not subject to any of the specific areas of qualification as noted above.

Accordingly, we make the following representations, which are true to the best of our knowledge and belief, having made such inquiries as we considered necessary for the purpose of appropriately informing ourselves:

Management representation letter

Draft Management Rep Letter

A. Financial Statements and Financial Records

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 for the Group and Council.
2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the consolidated and Council financial statements. We believe the consolidated and Council financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Group and Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 and are free of material misstatements, including omissions. We have approved the consolidated and Council financial statements.
3. The significant accounting policies adopted in the preparation of the Group and Council financial statements are appropriately described in the Group and Council financial statements.
4. As members of management of the Group and Council, we believe that the Group and Council have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 for the Group and Council that are free from material misstatement, whether due to fraud or error. We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.
5. We believe that the effects of any unadjusted audit differences, summarised in the accompanying schedule, accumulated by you during the current audit and pertaining to the latest period presented are immaterial, both individually and in the aggregate, to the consolidated and Council financial statements taken as a whole. We have not corrected these differences identified by and brought to the attention from the auditor because [please specify reasons]
6. We confirm the Group and Council does not have securities (debt or equity) listed on a recognized exchange.

B. Non-compliance with law and regulations, including fraud

1. We acknowledge that we are responsible for determining that the Group and Council's activities are conducted in accordance with laws and regulations and that we are responsible for identifying and addressing any non-compliance with applicable laws and regulations, including fraud.
2. We acknowledge that we are responsible for the design, implementation and maintenance of internal controls to prevent and detect fraud.
3. We have disclosed to you the results of our assessment of the risk that the consolidated and Council financial statements may be materially misstated as a result of fraud.
4. We have disclosed to you, and provided you full access to information and any internal investigations relating to, all instances of identified or suspected non-compliance with law and regulations, including fraud, known to us that may have affected the Group or Council (regardless of the source or form and including, without limitation, allegations by "whistleblowers") including non-compliance matters:
   - involving financial statements;
   - related to laws and regulations that have a direct effect on the determination of material amounts and disclosures in the consolidated or Council's financial statements;
   - related to laws and regulations that have an indirect effect on amounts and disclosures in the financial statements, but compliance with which may be fundamental to the operations of the Group or Council's activities, its ability to continue to operate, or to avoid material penalties;
   - involving management, or employees who have significant roles in internal controls, or others; or
   - in relation to any allegations of fraud, suspected fraud or other non-compliance with laws and regulations communicated by employees, former employees, analysts, regulators or others.

Management representation letter

Management Rep Letter (cont.)

C. Information Provided and Completeness of Information and Transactions

1. We have provided you with:
   - Access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other matters;
   - Additional information that you have requested from us for the purpose of the audit; and
   - Unrestricted access to persons within the entity from whom you determined it necessary to obtain audit evidence.
2. All material transactions have been recorded in the accounting records and all material transactions, events and conditions are reflected in the consolidated and Council financial statements, including those related to the COVID-19 pandemic.
3. We have made available to you all minutes of the meetings of the Council and committees (or summaries of actions of recent meetings for which minutes have not yet been prepared) held through the year to the most recent meeting of the Audit & Governance Committee on 27 March 2023.
4. We confirm the completeness of information provided regarding the identification of related parties. We have disclosed to you the identity of the Group and Council's related parties and all related party relationships and transactions of which we are aware, including sales, purchases, loans, transfers of assets, liabilities and services, leasing arrangements, guarantees, non-monetary transactions and transactions for no consideration for the year ended, as well as related balances due to or from such parties at the year end. These transactions have been appropriately accounted for and disclosed in the consolidated and Council financial statements.
5. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable.
6. We have disclosed to you, and the Group and Council has complied with, all aspects of contractual agreements that could have a material effect on the consolidated and Council financial statements in the event of non-compliance, including all covenants, conditions or other requirements of all outstanding debt.
7. From the date of our last management representation letter dated 29 September 2021 through the date of this letter we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.

Management representation letter

Management Rep Letter (cont.)

D. Liabilities and Contingencies

1. All liabilities and contingencies, including those associated with guarantees, whether written or oral, have been disclosed to you and are appropriately reflected in the consolidated and Council financial statements.
2. We have informed you of all outstanding and possible litigation and claims, whether or not they have been discussed with legal counsel.
3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent. No guarantees have been given to third parties.

E. Going Concern

1. Note 1 to the consolidated and Council financial statements discloses all the matters of which we are aware that are relevant to the Group and Council's ability to continue as a going concern, including significant conditions and events, our plans for future action, and the feasibility of those plans.

F. Subsequent Events

1. Other than the events described in Note 6 to the consolidated and Council financial statements, there have been no other events , including events related to the COVID-19 pandemic, subsequent to year end which require adjustment of or disclosure in the consolidated and Council financial statements or notes thereto.

G. Other information

1. We acknowledge our responsibility for the preparation of the other information.
2. We confirm that the content contained within the other information is consistent with the financial statements.

H. Group audits

1. There are no significant restrictions on our ability to distribute the retained profits of the Group because of statutory, contractual, exchange control or other restrictions other than those indicated in the Group financial statements.

2. Necessary adjustments have been made to eliminate all material intra-group unrealised profits on transactions amongst Council, subsidiary undertakings and associated undertakings.

I. Ownership of Assets

1. Except for assets capitalised under finance leases, the Group and Council has satisfactory title to all assets appearing in the balance sheet(s), and there are no liens or encumbrances on the Group and Council's assets, nor has any asset been pledged as collateral. All assets to which the Group and Council has satisfactory title appear in the balance sheet(s).
2. There are no formal or informal compensating balance arrangements with any of our cash and investment accounts. .

J. Reserves

1. We have properly recorded or disclosed in the consolidated and Council financial statements the useable and unusable reserves.

Management representation letter

Management Rep Letter (cont.)

K. Use of the Work of a Specialist – Pensions, Property, Plant and Equipment and Provision Valuation Specialists

1. We agree with the findings of the specialists that we engaged to evaluate the valuation assertion on pensions, property, plant and equipment and provisions and have adequately considered the qualifications of the specialists in determining the amounts and disclosures included in the consolidated and Council financial statements and the underlying accounting records. We did not give or cause any instructions to be given to the specialists with respect to the values or amounts derived in an attempt to bias their work, and we are not otherwise aware of any matters that have had an effect on the independence or objectivity of the specialists.

L. Estimates – Pensions, Property, Plant and Equipment and Provisions

1. We believe that the measurement processes, including related assumptions and models, used to determine the accounting estimate(s) have been consistently applied and are appropriate in the context of CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 for the Group and Council.
2. We confirm that the significant assumptions used in making the asset valuation estimates appropriately reflect our intent and ability to carry out planned uses of assets valued.

M. Estimates (cont'd)

3. We confirm that the disclosures made in the consolidated and Council financial statements with respect to the accounting estimates are complete, including the effects of the COVID-19 pandemic and made in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2020/21 .

4. We confirm that no adjustments are required to the accounting estimates and disclosures in the consolidated and Council financial statements due to subsequent events, including due to the COVID-19 pandemic.

N. Retirement benefits

1. On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Yours faithfully,

____

Darren Carter - Director of Finance

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Councillor Josh Williams - Chair of the Audit & Governance Committee

Appendix F

Regulatory update

Since the date of our last report to the Audit & Governance Committee, there have been a number of regulatory developments. The following table provides a high level summary of those that have the potential to have the most significant impact on you:

Name	Summary of key measures	Impact on Reading Borough Council
Code of Audit Practice 2020	• The updated Code of Audit Practice issued by the National Audit Office has introduced some significant changes to the requirements regarding auditors' work on the value for money conclusion, which will be applicable from 2020/21.	• The NAO are currently updating the Auditor Guidance Notes which will set out how the new Code of Audit Practice should be applied when carrying out value for money work. As such, the impact remains to be confirmed. • Further updates will be provided when possible.
Going Concern - ISA (UK) 570 (Revised September 2019)	• The standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, however EY expects to early-adopt the revised standard for all of our audits of periods ending on or after 30 June 2020. • This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after.	• Practice Note 10, which sets out how the auditing standards are applied in a public sector context, is currently being revised, including in light of the updated standard for Going Concern. As such, the impact is not clear at this stage. • Further updates will be provided when possible.
Independence	• The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and will be effective from 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to companies that are UK Public Interest Entities (PIEs) . This prohibition will also extend to any UK parent and apply to all worldwide subsidiaries. A narrow list of permitted services will continue to be allowed.	• We will continue to monitor and assess all ongoing and proposed non-audit services and relationships to ensure they are permitted under the FRC Revised Ethical Standard 2019 which will be effective from 15 March 2020. Non-audit services which are in progress as at 15 March 2020 and are permitted under the existing ethical standard will be allowed to continue under the existing engagement terms until completed. We will work with you to ensure orderly completion of the services or where required, transition to another service provider within mutually agreed timescales.

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ED None

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