

**READING BOROUGH COUNCIL**  
**REPORT BY EXECUTIVE DIRECTOR OF RESOURCES**

**TO: AUDIT & GOVERNANCE COMMITTEE**

**DATE: 14<sup>th</sup> JULY 2020**

**TITLE: CIPFA FINANCIAL MANAGEMENT CODE**

**SERVICE: ALL**

**WARDS: BOROUGHWIDE**

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**1. PURPOSE OF REPORT AND EXECUTIVE SUMMARY**

- 1.1. The Chartered Institute of Public Finance & Accountancy (CIPFA) has introduced a new code, The Financial Management Code 2019 (FM Code), which sets out for the first time, the standards of financial management for local authorities.
- 1.2. Full compliance with the FM Code will commence from 1 April 2021, with 2020/21 effectively being a shadow year.
- 1.3. An initial self-assessment of the Council's current standing against each of the Financial Management Standards was carried out in March 2020 by the Financial Planning & Strategy Manager in conjunction with the Council's Section 151 Officer using a RAG Rating approach (please refer to section 9 within the main body of this report for full details). In summary, the findings of the initial self-assessment against the 17 Financial Management Standards is as follows:

<b>RAG Rating</b>	<b>Progress Report</b>	<b>Number of Financial Management Standards</b>
GREEN	Compliance is being demonstrated	8
AMBER	Minor to Moderate improvements are required to demonstrate compliance	9
RED	Moderate to Significant improvements are required to demonstrate compliance	0
<b>TOTAL</b>		<b>17</b>

- 1.4. The results of the self-assessment indicate an overall rating of Amber. This correlates with the results of the CIPFA Financial Management Model Staff Survey which was issued to all staff within the Finance Team (58.7% completion rate) and indicated an overall score of 2.16 (Amber) out of 4.00.
- 1.5. CIPFA published an accompanying set of guidance notes to the FM Code in May 2020 which are attached as Appendix 2. These are intended to provide practical guidance to practitioners 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". Therefore, regular self-assessment exercises will be required in order to demonstrate compliance going forward.
- 1.6. CIPFA are running training events in September 2020 to introduce the Code and provide practical implementation tips. Consequently, a follow-up self-assessment exercise will be undertaken in January 2021 once the guidance notes have been fully considered, officers have been able attend one of the CIPFA training events and further work has been completed.

## 2. RECOMMENDED ACTION

**That Audit & Governance Committee note:**

- 2.1. The requirement to implement the Financial Management Code from 1<sup>st</sup> April 2021;
- 2.2. The findings of the initial FM Code Self-Assessment, and;
- 2.3. That a further self-assessment exercise will be undertaken in January 2021 and reported back to the Audit & Governance Committee in advance of full implementation of the FM Code from 2021/22.

## APPENDICIES

Appendix 1 - CIPFA Financial Management Code 2019

Appendix 2 - CIPFA Financial Management Code Guidance Notes 2020

## 3. BACKGROUND

- 3.1. The Chartered Institute of Public Finance & Accountancy (CIPFA) has introduced a new Financial Management Code (FM Code) which is attached as Appendix 1. This sets out for the first time, the 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 FM Code has been introduced because the exceptional financial pressures faced by local authorities in recent years have revealed concerns about fundamental weaknesses in financial management and the ability of some organisations to maintain services in the future.

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.

- 3.4. CIPFA's intention is that the Financial Management Code (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.
- 3.5. 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. 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 the Chief Financial Officer (CFO) should satisfy their statutory responsibility for good financial administration. 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.
- 4.2. CIPFA considers application of the FM Code to be the collective responsibility of each authority's organisational leadership 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 will include executive committees, elected mayors, portfolio holders with delegated powers and key committees of the authority as well as senior officers.

#### **5. APPLICATION**

- 5.1. CIPFA has recognised the ambition within the Code, as well as the timescale and wider resource challenges facing local authorities. As a result, CIPFA considers 2020/2021 to be 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.

- 5.2. The first full year of compliance with the FM Code will therefore be 2021/22, though earlier adoption is encouraged.

## 6. COMPLIANCE

- 6.1. 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.
- 6.2. 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.

## 7. CIPFA PRINCIPLES OF GOOD FINANCIAL MANAGEMENT

- 7.1. 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.
- 7.2. 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.
- 7.3. 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.

## **8. CIPFA FINANCIAL MANAGEMENT STANDARDS**

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

## **9. FM CODE SELF-ASSESSMENT**

- 9.1. An initial 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:

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

- 9.2. The following table summarises the self-assessment RAG Rating for each standard. A more detailed analysis per standard is provided in sections 9.4 to 9.49.

Standard Reference	Financial Management Standard	RAG Rating
<b>Section 1: The Responsibilities of the Chief Finance Officer and Leadership Team</b>		
A	The leadership team is able to demonstrate that the services provided by the authority provide value for money.	AMBER
B	The authority complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government.	GREEN
<b>Section 2: Governance and Financial Management Style</b>		
C	The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.	AMBER
D	The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016).	AMBER
E	The financial management style of the authority supports financial sustainability.	GREEN

<b>Section 3: Long to Medium-Term Financial Management</b>		
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
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
<b>Section 4: The Annual Budget</b>		
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
<b>Section 5: Stakeholder Engagement and Business Plans</b>		
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
M	The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.	AMBER
<b>Section 6: Monitoring Financial Performance</b>		
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
<b>Section 7: External Financial Reporting</b>		
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.	GREEN
Q	The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.	AMBER

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

- 9.3. 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. Self-Assessment RAG Rating: AMBER.**

- 9.4. As the 2017/18 and 2018/19 audit and value for money opinions are currently outstanding, external assurance on improvements since 2016/17 cannot yet be provided. However, it is anticipated that in light of the significant improvements made to the robustness of the 2017/18 budget, the 2018/19 Medium Term Financial Planning process, budget monitoring arrangements and the delivery of significant savings, this assessment will move to Green.
- 9.5. Examples of improvements made since 2016/17 include:
- £33m of savings delivered 2017/18-2019/20
  - No services have had to be cut in setting balanced & robust annual budgets
  - The current Medium-Term Financial Strategy invests in Highways and Leisure through the Capital Programme
  - No Housing Benefit Subsidy clawback from DWP as part of the Housing Benefit Subsidy audit process
  - The Council's reserves have returned to sustainable levels and are now around the average level when compared to all unitary authorities
  - Adult Social Care & Health Services have been delivered within budget for the last 2 years which is against the national trend
  - Significant reduction in the overspend on Children's Services
  - An improved OFSTED rating in respect of Children's Services from "inadequate" in 2016 to "requires improvement to be good" in 2019

**Standard B. Self-Assessment RAG Rating: GREEN.**

- 9.6. 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
  - 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
  - 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
  - must lead and direct a finance function that is resourced to be fit for purpose
  - must be professionally qualified and suitably experienced
- 9.7. 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 and therefore a Green RAG Rating has been determined.

## **Section 2: Governance and Financial Management Style**

### **Standard C. Self-Assessment RAG Rating: AMBER.**

- 9.8. 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.
- 9.9. The 2019/20 report, which is a separate item on the agenda of this Audit & Governance Committee meeting, reports a limited assurance level.
- 9.10. In response to longstanding process and procedural issues raised by both internal and external audit, the Executive Director for Resources has launched and implemented a new Finance Improvement Programme. This is overseen by the Finance Improvement Board, which is chaired by the Executive Director and meets fortnightly to ensure momentum. The Programme includes a number of workstreams that focus on improving specific areas including Accounts Payable, Accounts Receivable, Chart of Accounts, Final Accounts and Reconciliations. Operationally the Programme is being coordinated and managed on an interim basis by Chris Tidswell from CIPFA. Individual projects are being led from within the Team. The initial phase of the Finance Improvement Programme aims to address some of the fundamental improvements required during 2020. The second phase of the programme, beginning later in 2020, will focus on organisational wide financial management, training and governance arrangements.
- 9.11. This Improvement Programme aims to deliver the improvements needed to improve this rating to Green.

### **Standard D. Self-Assessment RAG Rating: AMBER.**

- 9.12. The Council's published draft Statement of Accounts for 2017/18 and 2018/19 contain Annual Governance Statements that set out the Council's governance arrangements in conjunction with the CIPFA/SOLACE Delivering Good Governance in Local Government Framework. However, as these sets of accounts have not yet had their external audit opinions given, external assurance that the framework has been complied with is currently outstanding. The audit of the 2017/18 accounts is currently being finalised and 2018/19 will commence in August 2020 alongside the 2019/20 accounts.
- 9.13. Currently an Amber RAG Rating is appropriate but with the caveat that external assurance is outstanding.

**Standard E. Self-Assessment RAG Rating: GREEN.**

- 9.14. CIPFA have recently published a Financial Resilience Index which uses a basket of indicators to measure each individual authority's financial resilience in comparison with local authority comparator groups.
- 9.15. Based on the latest data available, in terms of the indices relating to levels of financial reserves, the Council's position is now around the average compared to all unitary authorities, which is a significant improvement from the 2017/18 position.
- 9.16. Considering the above, a Green RAG Rating has been determined.

**Section 3: Long to Medium-Term Financial Management**

**Standard F. Self-Assessment RAG Rating: GREEN.**

- 9.17. A separate report, the "Chief Finance Officer's Report on the Robustness of the Council's 2019/20 Budget" was presented to Council on 25 February 2020, alongside the "2020/21 Budget and Medium Term Financial Strategy to 2023" 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.
- 9.18. 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.
- 9.19. The Council has carried out a credible and transparent financial resilience assessment therefore a Green RAG Rating has been determined.

**Standard G. Self-Assessment RAG Rating: AMBER.**

- 9.20. 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.
- 9.21. 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, that 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 2021/22 will be reviewed with a view to expanding into the longer term. Therefore, currently an Amber RAG Rating has been determined.

**Standard H. Self-Assessment RAG Rating: GREEN.**

- 9.22. 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.
- 9.23. 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.
- 9.24. 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.
- 9.25. The Council is also required to set annual Prudential Indicators to ensure that external debt is kept within sustainable prudent limits.
- 9.26. 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.

**Standard I. Self-Assessment RAG Rating: AMBER.**

- 9.27. 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. Self-Assessment RAG Rating: GREEN.**

- 9.28. 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 11 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. Self-Assessment RAG Rating: GREEN.**

- 9.29. A separate report, the "Chief Finance Officer's Report on the Robustness of the Council's 2019/20 Budget" was presented to Council on 25 February 2020, alongside the "2020/21

Budget and Medium Term Financial Strategy to 2023” 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.

9.30. A Green RAG Rating is therefore appropriate.

## **Section 5: Stakeholder Engagement and Business Plans**

### **Standard L. Self-Assessment RAG Rating: AMBER.**

9.31. A public consultation on the 2020/21 budget ran from 19 December 2019 to 19 January 2019 and was promoted through the Council’s main communication channels (website, email, social media, local press and partner organisations) as well as sent to the full Council Tax email database of circa 40,000 contacts. A summary of the consultation was included in section 3 of the “2020/21 Budget and Medium-Term Financial Strategy to 2023” report to Council on 25 February 2019.

9.32. Additionally, the budget was informed by a resident’s survey which identified highways as a key priority and a £9m investment into this area was built into the Capital Programme as a result.

9.33. The Reading Transport Strategy 2036 is currently open for consultation until 30 August 2020 to ensure that residents have their say to ensure that the Council delivers the transport infrastructure and investment that Reading needs going forward.

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

9.35. 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.

9.36. 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 MTFP refresh process for 2020/21 to facilitate compliance with this standard going forward. An Amber RAG Rating is therefore currently applied.

### **Standard M. Self-Assessment RAG Rating: AMBER.**

9.37. The Council utilises a variety of models in respect of capital investment appraisals but there does not have a defined or documented standard approach.

9.38. A review of all existing models will be carried out and a preferred methodology agreed, documented and communicated to all relevant stakeholders to ensure a consistent and common approach.

9.39. It is therefore considered that an Amber RAG Rating is currently appropriate.

## **Section 6: Monitoring Financial Performance**

### **Standard N. Self-Assessment RAG Rating: GREEN.**

9.40. 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.

9.41. 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. Self-Assessment RAG Rating: AMBER.**

9.42. 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. However, it is considered that this reporting could be improved by providing further analysis of aged debt by analysing over additional periods and by providing a list of the largest outstanding debts.

9.43. Bi-annual reports on the Council's borrowing and investment positions are produced for the leadership team. 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.

9.44. It is therefore considered that an Amber RAG Rating is appropriate at this stage.

9.45. Improvements to the reporting on outstanding debt are currently being made and will be included as part of the monthly financial performance reporting for 2020/21.

## **Section 7: External Financial Reporting**

### **Standard P. Self-Assessment RAG Rating: GREEN.**

9.46. 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.

- 9.47. “The Independent Auditor’s Report to the Members of Reading Borough Council for the year ended 31 March 2017” (included within the Statement of Accounts 2016/17) gave the external 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 2016/17”.
- 9.48. It should be noted that the 2017/18 and 2018/19 audit opinions on the respective Statement of Accounts are currently outstanding. Therefore, whilst it is not anticipated nor suggested that the Council’s compliance with this standard will have changed, current external audit opinion confirming compliance is outstanding at this point in time. However, a Green RAG Rating is considered appropriate.

**Standard Q. Self-Assessment RAG Rating: AMBER.**

- 9.49. The presentation of the final outturn figures and variations from budget are clear and transparent. However, whilst the 2017/18 and 2018/19 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.

## **10. CIPFA FINANCIAL MANAGEMENT (FM) MODEL STAFF SURVEY**

- 10.1. The CIPFA FM Model Staff Survey was issued to all members of the finance team on the 15th of April with a final completion date of 13<sup>th</sup> of May.
- 10.2. The Survey was undertaken to gauge the Teams own views on financial management within the Council compared to the best practice statements contained within the model.
- 10.3. The survey was issued to a total of 46 staff and completed by 27 (58.7%).
- 10.4. The overall score for was 2.16 out of a maximum of 4.00. On the standard scoring methodology this indicates competent and would be a 2\*\* star rating and amber. The threshold for a 3\*\*\* would be a score of 2.50.
- 10.5. Moving forward a review of all budget managers will be undertaken to gauge satisfaction with the service and to inform compliance with the Code.
- 10.6. The scoring matrix is as follows:

<b>Initial Scoring</b>	<b>Management Dimensions</b>			
	<b>Leadership</b>	<b>People</b>	<b>Processes</b>	<b>Stakeholders</b>
<b>Financial Management Style</b>				
<b>Delivering Accountability</b>	****	**	***	***
<b>Supporting Performance</b>	***	*	**	*
<b>Enabling Transformation</b>	*	*	*	*
<b>Overall Star Rating</b>	**			

### Analysis of Scoring Dimensions

#### 10.7. Leadership

- The Council scored well indicating that the organisation has an effective framework of financial accountability that is clearly understood and applied. Further development work was identified re ownership and accountability at budget holder level.
- Scoring was also good for supporting performance showing that the organisation has a developed financial strategy to underpin medium and longer-term financial health. Also, that the organisation integrates its business and financial planning so that it aligns resources to meet current and future outcome focussed business objectives and priorities.
- The weakest area was under enabling transformation which assesses how well the organisation's leadership integrates financial management into its strategies to meet future business needs.

#### 10.8. People

- Areas for improvement are around ensuring the organisation identifies its financial competency needs and puts arrangements in place to meet them, has access to sufficient financial skills to meet its business needs and that managers understand they are responsible for delivering services cost effectively and are held accountable for doing so. This encompasses financial literacy being diffused throughout the organisation so that the financial implications of decisions are clearly understood.
- The two weaker areas were how the organisation manages its finance function to ensure efficiency and effectiveness and also how the organisation develops and sustains its financial management capacity.

#### 10.9. Processes

- From a perspective of delivering accountability the score overall was positive at 2.71 and 3\*\*\*. The highlights were around budgets being accrual-based and robustly calculated, that treasury management is risk based. Also, that RBC manages its investments and cash flows, its banking, money market and capital market transactions, balancing risk and financial performance.
- The main area of weakness was maintaining processes to ensure that information about key assets and liabilities in its balance sheet is a sound and current platform for management action.
- Under supporting performance, the score was overall at 2\*\* with a good score as a consequence of the medium-term financial planning process underpinning fiscal discipline, the focus on achieving strategic priorities and the delivery of a dynamic and effective business plan.  
The weaker area was under transformation and how or if the organisation continually re-engineers its financial processes to ensure delivery of agreed outcomes.

#### 10.10. Stakeholders

- Delivering accountability scored well with 3\*\*\* highlighting that the organisation provides external stakeholders with evidence of the integrity of its financial conduct and performance, and demonstrates fiscal discipline including compliance with statutory/legal/regulatory obligations. Though the latter element of the statement will have reduced the score due to current issues with final accounts.
- Supporting performance and enabling transformation both indicate some room for improvement. This score may well be higher if the survey audience had included stakeholders and their perspective.

### 11. NEXT STEPS

- 11.1. Both the March 2020 FM Code Self-Assessment exercise and the May 2020 Survey by the Finance Team indicate an Amber rating with regards to FM Code compliance, identifying either areas that need further improvement or the absence of external confirmation of compliance. A number of these areas (Standards A, C, D & Q) are in part dependent on the audit of previous years' Statement of Accounts, the process for which is in hand and progress is reported elsewhere on the agenda.
- 11.2. The majority of the residual areas, e.g. financial processes, training and financial reporting will be addressed through the Finance Improvement Programme which is being led by the Executive Director of Resources as described above. The initial phase of the Programme which is already underway aims to address the required process improvements during 2020. The second phase, beginning later in 2020, will focus on organisational wide financial management and governance improvements.
- 11.3. The Council's planning horizon for its Capital Strategy and ensuring stronger linkage between service plans and the MTFS will be addressed as part of the Council's annual MTFS refresh and Corporate Planning processes. [Standards G, I, L].

11.4. Standardising the Council's business planning and options appraisal methodologies will be addressed by the Corporate Improvement Team. [Standard M]

## **12. FINANCIAL IMPLICATIONS**

12.1. There are no direct financial implications arising from this report.

## **13. LEGAL IMPLICATIONS**

13.1. 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.

13.2. There are no legal implications arising directly from this report.

## **14. RISK**

14.1. There are inherent risks regarding non-compliance with the FM Code which include risks to financial sustainability, financial resilience, financial and service planning and delivery as well as to the Council's reputation.

14.2. This self-assessment was conducted in advance of the publication of the FM Code's guidance notes and in advance of the training CIPFA are providing in September. A further self-assessment will therefore be undertaken in Q4 prior to the new financial year.

## **15. EQUALITIES IMPACT ASSESSMENT**

15.1. No equalities impact implications have been identified as arising from this report.

## **16. ENVIRONMENTAL IMPLICATIONS**

16.1. No environmental implications have been identified as arising directly from this report.