

# Audit and Governance Committee

10 April 2024



**Reading**  
Borough Council  
Working better with you

<b>Title</b>	CIPFA Financial Management Code 2023/24
<b>Purpose of the report</b>	To note the report for information
<b>Report status</b>	Public report
<b>Report author</b>	Stuart Donnelly, Financial Planning & Strategy Manager
<b>Lead Councillor</b>	Councillor Terry, Deputy Leader of the Council and Lead Councillor for Corporate Services & Resources
<b>Corporate priority</b>	Our Foundations
<b>Recommendations</b>	1. That The Audit and Governance Committee note the findings of the Financial Management Code Self-Assessment for 2023/24.

## 1. Executive Summary

- 1.1. The Chartered Institute of Public Finance & Accountancy (CIPFA) launched the 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 1<sup>st</sup> 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 has been required to assess compliance with the FM Code since 1<sup>st</sup> April 2021.
- 1.3. The 2023/24 self-assessment has identified significant progress against the following key areas:
  - i) The external audit of the 2019/20 Statement of Accounts gave an unqualified opinion for the first time since 2015/16. The 2020/21 Statement of Accounts are also expected to be unqualified;
  - ii) The 2021/22 and 2022/23 Draft Statements of Accounts have now been published;
  - iii) The Capital Strategy has been extended from 3 years to 5 years;
  - iv) A 75% increase in the number of responses to the Council’s budget engagement exercise.
- 1.4. Furthermore, in light of the current Local Authority external audit system being broken with significant delays to completion of prior year audit processes, where appropriate this self-assessment for 2023/24 has an increased focus on more relevant and timely

evidence relating to the current situation rather than placing the emphasis on the most recent external audit opinions.

- 1.5. As a result of these improvements, this self-assessment has identified that four standards (standards A, D, L and P) have improved from a previous rating of Amber to Green. All other standards remain as per the 2022/23 assessment.
- 1.6. 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**

<b>RAG Rating</b>	<b>Progress Report</b>	<b>Number of Financial Management Standards (April 2023)</b>	<b>Number of Financial Management Standards (April 2024)</b>	<b>Movement</b>
<b>GREEN</b>	Compliance is being demonstrated.	8	12	4
<b>AMBER</b>	Minor to Moderate improvements are required to demonstrate compliance.	9	5	(4)
<b>RED</b>	Moderate to Significant improvements are required to demonstrate compliance.	0	0	0
<b>TOTAL</b>		<b>17</b>	<b>17</b>	<b>0</b>

- 1.7. A total of 12 standards (71%) have been RAG rated as Green with the remaining 5 (29%) as Amber. The results of the self-assessment indicate an overall rating of Amber.
- 1.8. Further improvements are anticipated in the coming year as the Council continues on a trajectory towards an overall Green rating.

## **2. Policy Context**

### **Background**

- 2.1. The Chartered Institute of Public Finance & Accountancy (CIPFA) launched a Financial Management Code (FM Code) in 2019 with an implementation date of 1<sup>st</sup> April 2021 attached at Appendix 1. It sets out seventeen standards of financial management for local authorities.
- 2.2. The FM Code is designed to support good practice in financial management and to assist local authorities to demonstrate their financial sustainability.
- 2.3. 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.
- 2.4. 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.

- 2.5. 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.
- 2.6. 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.

### **Responsibility**

- 2.7. Application of the FM Code is a professional responsibility of all finance staff and establishes how the Chief Financial Officer (CFO) demonstrates that they are meeting their statutory responsibility for sound financial administration.
- 2.8. 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.

### **Compliance**

- 2.9. 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.
- 2.10. 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.

### **CIPFA Principles of Good Financial Management**

- 2.11. 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.
- 2.12. 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.
- 2.13. 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.

### CIPFA Financial Management Standards

2.14. 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).

## 3. The Proposal

### FM Code Self-Assessment

3.1. 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
<b>GREEN</b>	Compliance is being demonstrated.
<b>AMBER</b>	Minor to Moderate improvements are required to demonstrate full compliance.
<b>RED</b>	Moderate to Significant improvements are required to demonstrate full compliance.

3.2. The following table summarises the self-assessment RAG Rating for each standard. A more detailed analysis per standard is provided in sections 3.4 to 3.59, including an explanation of the reason for any changes.

**Table 3. Financial Management Standard Self-Assessment**

Standard Reference	Financial Management Standard	RAG Rating (April 2023)	RAG Rating (April 2024)
<b>Section 1: The Responsibilities of the Chief Finance Officer and Leadership Team</b>			
<b>A</b>	The leadership team is able to demonstrate that the services provided by the authority provide value for money.	<b>AMBER</b>	<b>GREEN</b>
<b>B</b>	The authority complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government.	<b>GREEN</b>	<b>GREEN</b>
<b>Section 2: Governance and Financial Management Style</b>			

<b>C</b>	The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.	<b>GREEN</b>	<b>GREEN</b>
<b>D</b>	The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016).	<b>AMBER</b>	<b>GREEN</b>
<b>E</b>	The financial management style of the authority supports financial sustainability.	<b>GREEN</b>	<b>GREEN</b>
<b>Section 3: Long to Medium-Term Financial Management</b>			
<b>F</b>	The authority has carried out a credible and transparent financial resilience assessment.	<b>GREEN</b>	<b>GREEN</b>
<b>G</b>	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.	<b>AMBER</b>	<b>AMBER</b>
<b>H</b>	The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities.	<b>GREEN</b>	<b>GREEN</b>
<b>I</b>	The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.	<b>AMBER</b>	<b>AMBER</b>
<b>Section 4: The Annual Budget</b>			
<b>J</b>	The authority complies with its statutory obligations in respect of the budget setting process.	<b>GREEN</b>	<b>GREEN</b>
<b>K</b>	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.	<b>GREEN</b>	<b>GREEN</b>
<b>Section 5: Stakeholder Engagement and Business Plans</b>			
<b>L</b>	The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.	<b>AMBER</b>	<b>GREEN</b>
<b>M</b>	The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.	<b>AMBER</b>	<b>AMBER</b>
<b>Section 6: Monitoring Financial Performance</b>			
<b>N</b>	The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.	<b>GREEN</b>	<b>GREEN</b>
<b>O</b>	The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.	<b>AMBER</b>	<b>AMBER</b>
<b>Section 7: External Financial Reporting</b>			
<b>P</b>	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.	<b>AMBER</b>	<b>GREEN</b>
<b>Q</b>	The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.	<b>AMBER</b>	<b>AMBER</b>

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

- 3.3. 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: GREEN (previous rating AMBER)**

- 3.4. 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 audit processes relating to the 2019/20 Statement of Accounts were subsequently concluded in May 2023, which included the following VFM opinion:

**Basis for Adverse Conclusion**

**Informed Decision Making:**

- Maintaining a sound system of internal control

During the 2017/18 audit 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.

The deficiencies in the systems of internal control were still in place during 2019/20 and the Council has not made adequate progress in rectifying the lack of controls. This is evidence of weakness in arrangements in informed decision making.

In order to perform appropriate work to issue our audit opinion, we took a substantive approach to our audit and therefore did not rely on controls.

**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, July and October 2019 and March 2020 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**

In our opinion, based on the work undertaken in the course of the audit, having regard to the guidance issued by the Comptroller and Auditor General (C&AG) in April 2020, we are not satisfied that, in all significant respects, Reading Borough Council and Group put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2020.

- 3.5. The VFM work for 2020/21 was not completed at the time when the Draft Audit Results Report for 2020/21 was presented to Audit & Governance Committee in September 2023. It is anticipated that the Final audit Results Report for 2020/21 will be presented to Audit & Governance Committee in April 2024 on the same agenda as this report. At the time of writing, the updated draft notes that Ofsted formally lifted their intervention in February 2021 and the positive direction of travel in respect of improving economy, efficiency and effectiveness but reports that weakness in arrangements still remain in both areas during 2020/21. The adverse opinion is therefore currently anticipated to remain for 2020/21.
- 3.6. Ofsted carried out a focussed visit on Children's Services in September 2023, in line with the Inspection of Local Authority's Children's Services (ILACS) framework. The headline findings were that:
- "Senior leaders have made improvements to services for children in care and plans are clear about what is needed to make further progress. They acknowledge the need to further embed the recent changes to their participation offer and corporate parenting panel. They recognise that they need to move swiftly to fully implement these changes to ensure that children benefit in a timely way."
- 3.7. As set out in more detail within Standard C, the Internal Audit Annual Assurance Report of the Chief Auditor, gives the Chief Auditor's opinion on the overall adequacy and effectiveness of the organisation's governance arrangements, risk management and internal control environment. The 2022/23 report, presented to Audit & Governance Committee on 20<sup>th</sup> July 2023, reported a reasonable assurance level, which maintained the improvement position reported for 2021/22 from the previous limited assurance level awarded in both the 2020/21 and 2019/20 reports.
- 3.8. The latest residents survey reported that the percentage who agreed that Reading Borough Council provides value for money has decreased from 47% in 2022 to 42% in 2023. It is likely that the responses to this survey have at least in part been influenced by the national cost of living crisis.
- 3.9. As this self-assessment relates to 2023/24, and the latest opinion received from the Council's external auditors relates to 2019/20, it has been determined that more reliance should be placed on more relevant and timely evidence. Given that the Ofsted intervention was lifted in February 2021, the September 2023 focussed visit recognised improvements made and that the 2021/22 and 2022/23 Internal Audit Assurance Reports have given an opinion of reasonable assurance, on balance it is considered that the self-assessment rating for 2023/24 should change to Green.

**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)**

- 3.10. 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).
- 3.11. 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 (No Change)**

- 3.12. 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.
- 3.13. The 2022/23 report, presented to Audit & Governance Committee on 20<sup>th</sup> July 2023, reported a reasonable assurance level, which maintained the improvement position reported for 2021/22 from the previous limited assurance level awarded in both the 2020/21 and 2019/20 reports. Key highlights from the report include:
- A reduction in the number of internal audit reports that received limited or no assurance in 2022/23 (26%), compared to 2021/22 (38%) and 2020/21 (45%);
  - Journal control remains robust, with well-defined segregation of duties and appropriate approval/authorisation of journals. There are clear descriptions and supporting documentation to journals, together with timely processing of journals during 2022/2023;
  - The governance arrangements underpinning budgetary control have improved. Equally, the Medium-Term Financial Strategy (MTFS), which was approved by Council in February 2023, delivered a balanced budget in 2023/24 without the need to draw on reserves and set out a provisionally balanced budget for 2024/25;
  - A review of governance arrangements in place for monitoring the Council's Housing Revenue Account (HRA), undertaken in 2021/2022, flagged several areas for improvement. A subsequent 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;
  - The first stage of the Financial Transformation Programme has concluded, addressing several key audit concerns, such as separation of duties between the setting up of providers and the paying of invoices, bank reconciliation, budget and performance monitoring.



- 3.14. A Green RAG Rating has been determined for 2023/24 based on the aforementioned 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: GREEN (previous rating AMBER)**

- 3.15. The Council's published draft Statement of Accounts for 2020/21, 2021/22 and 2022/23 all contain 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, the most recently audited set of accounts (2019/20) were issued in May 2023 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 31<sup>st</sup> March 2020. At the time of writing this report, the 2020/21, 2021/22 and 2022/23 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 2020/21 accounts is anticipated to conclude on 8<sup>th</sup> April 2024 but it is likely that the adverse opinion will be retained.
- 3.16. . This rating is currently anticipated to turn to Green for 2021/22 in light of the direction of travel noted by the external auditors and the fact that the 2021/22 Internal Audit Assurance Report, presented to Audit & Governance Committee on 19<sup>th</sup> July 2022, reported a reasonable assurance level (which has been maintained for 2022/23 as set out in Standard C above), which was an improvement from the limited assurance level awarded in both the 2020/21 and 2019/20 reports.
- 3.17. In line with the approach taken in assessing Standard A, for 2023/24 it is more appropriate to place more reliance on relevant and timely evidence. Therefore, taking into consideration the noted direction of travel by the external auditors, that the Ofsted intervention was lifted in February 2021, the September 2023 focussed visit recognised improvements made and that the 2021/22 and 2022/23 Internal Audit Assurance Reports have given an opinion of reasonable assurance, on balance it is considered that the self-assessment rating for 2023/24 should change to Green.

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

**Self-Assessment RAG Rating: GREEN (No Change)**

- 3.18. 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.
- 3.19. Based on the latest data available (2022/23), in terms of the indices relating to levels of financial reserves, the Council is placed as the 14<sup>th</sup> highest among 51 Unitary authorities, up from 23<sup>rd</sup> the previous year, as councils increasingly draw down from reserves to balance budgets. As outlined in Appendix 1 of the Chief Finance Officer's Report on the Robustness of the 2024/25 Budget, the Council's reserves are forecast to reduce over the 2024/25-2026/27 Medium Term Financial Strategy period.
- 3.20. 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.

- 3.21. The 2024/25 Budget was approved in February 2024 and includes a total forecast drawdown of £3.084m from earmarked reserves. However, a budget gap of £6.026m for 2025/26, reducing to £3.691m for 2026/27 is forecast which will need to be closed.
- 3.22. 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.
- 3.23. In light of the findings of the 2022 Peer Challenge and the updated CIPFA Financial Resilience Index, the rating for this standard has been retained as Green. It is however important to note that the current financial climate remains challenging, reserves are forecast to reduce over the current MTFs period 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**

#### **Standard F. The authority has carried out a credible and transparent financial resilience assessment.**

#### **Self-Assessment RAG Rating: GREEN (No Change)**

- 3.24. A separate report, the "Chief Finance Officer's Report on the Robustness of the Council's 2023/24 Budget" was presented to Council on 27<sup>th</sup> February 2024, alongside the "2024/25 Budget and Medium-Term Financial Strategy 2024/25-2026/27" 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.

- 3.25. 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.
- 3.26. The Council has carried out a credible and transparent financial resilience assessment therefore a Green RAG Rating has been determined.

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

**Self-Assessment RAG Rating: AMBER (No Change)**

- 3.27. 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 years 2 and 3 of the Medium Term Financial Strategy do not currently balance.
- 3.28. The Council's Capital Strategy 2024/25, approved by Council in February 2024, has been extended from 3 years to 5 years giving a longer term view. Consideration needs to be given as to extending this further for example to 10 years to give the long term view that the Capital Strategy guidance is really looking for.
- 3.29. This standard has been assessed alongside Standards I and L. Although Standard L is now rated Green, Standard I is rated as Amber. Additionally, due to the current forecast budget gaps in 2025/26 and 2026/27, it is considered that the Amber RAG Rating is retained.

**Standard H. The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities.**

**Self-Assessment RAG Rating: GREEN (No Change)**

- 3.30. 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.
- 3.31. 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.
- 3.32. 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.
- 3.33. The Council is also required to set annual Prudential Indicators to ensure that external debt is kept within sustainable prudent limits.
- 3.34. 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. The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.**

**Self-Assessment RAG Rating: AMBER (No Change)**

- 3.35. 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)**

- 3.36. 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<sup>th</sup> 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)**

- 3.37. A separate report, the "Chief Finance Officer's Report on the Robustness of the Council's 2024/25 Budget" was presented to Council on 27<sup>th</sup> February 2024, alongside the "2024/25 Budget and Medium Term Financial Strategy 2024/25-2026/27" 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.

- 3.38. 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: GREEN (previous rating AMBER)**

- 3.39. The public was consulted as part of the 'Budget Engagement', which ran from 15<sup>th</sup> December 2023 until 19<sup>th</sup> January 2024. The budget engagement exercise received 661 responses, which is a substantial increase from the 378 responses received last year. A summary of the responses was included within the "2024/25 Budget and Medium-Term Financial Strategy 2024/25-2026/27" report to Council on 27<sup>th</sup> February 2024.
- 3.40. 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.

- 3.41. The engagement analysis highlighted that the top service areas for suggested spend were Roads Maintenance, Children's Social Care and Adult Social Care. The proposed Revenue Budget and Capital Programme responds to this feedback by investing in these services. For 2024/25, the Highways Infrastructure Programme scheme has a capital allocation of £6.509m. Adult Social care will receive an additional £5.464m in revenue funding and has a capital allocation of £4.270m. Children's Services will receive an additional £7.414m in revenue funding and has a £9.470m capital allocation.
- 3.42. The Council consulted with local business rates payers on 5<sup>th</sup> February 2024 as part of its statutory requirements.
- 3.43. Whilst consultation with stakeholders is clearly demonstrated, some councils utilise more interactive consultation tools that encourage a higher level of engagement.
- 3.44. 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. The Council's published Capital Strategy for 2024/25 has been extended to 5 years to move towards a longer term view.
- 3.45. On balance, it is considered that a Green RAG Rating is now justifiable however there remains room for improvement in terms of exploring the future use of more interactive consultation tools that encourage a higher level of engagement and the further extension of the Capital Strategy.

**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)**

- 3.46. 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 2024/25 budget planning process.
- 3.47. There are examples of strong revenue business cases but there are also examples where the quality and level of detail needs to be improved.
- 3.48. The Capital Programme Board will develop a new prioritisation matrix during 2024/25 as well as reviewing all existing models 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.
- 3.49. The revenue and capital business case templates were fully reviewed and implemented in 2023/24 for 2024/25 Budget Setting processes and are now considered to be fit for purpose and more user friendly to enable improved completion and subsequent decision making.
- 3.50. Overall, as improvements are still required in respect of the capital investment process, the rating has remained 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)**

- 3.51. 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.
- 3.52. 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)**

- 3.53. 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.
- 3.54. Quarterly reports on the Council's borrowing and investment positions, including the Treasury Management Prudential Indicators 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.
- 3.55. During 2023/24, a number of improvements to the financial information reported through to the Corporate Management Team and Policy Committee were made including the inclusion of visual aids such as graphs. These reports included:
- Monthly revenue and capital budget monitoring forecasts;
  - Outstanding debt levels of sundry debt (this will be further developed in 2024/25);
  - Collection Fund (Council Tax and Business Rates) collection performance.
- 3.56. Further reporting relating but not limited to the following will be developed during 2024/25:
- The CIPFA Financial Resilience Index (this is currently used as part of the budget setting reports but its use could be expanded);
  - Reserve assessments (currently reported as part of budget setting reports and at Outturn but could be included within the quarterly Performance and Monitoring Reports);
  - Commercial Investment Performance and Risk;
  - Loans to the Council's wholly owned companies
- 3.57. 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 there still a number of areas that still require development, it is

considered that an Amber RAG Rating is still appropriate at this stage but that this will facilitate the rating to move to Green for 2024/25.

## **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: GREEN (Previous Rating AMBER)**

- 3.58. 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.
- 3.59. The Independent Auditor's Report to the Members of Reading Borough Council for the year ended 31<sup>st</sup> March 2020 (included within the Statement of Accounts 2019/20) gave an unqualified 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 2019/20".
- 3.60. It should be noted that the 2020/21, 2021/22 and 2022/23 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, the unqualified opinion in 2019/20 and the findings set out in the Draft Audit Results Report for 2020/21 indicating that an unqualified opinion will be given for 2020/21 is positive.
- 3.61. It is therefore considered that a Green RAG rating is now appropriate.

### **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)**

- 3.62. The presentation of the final outturn figures and variations from budget are clear and transparent. However, whilst the 2020/21, 2021/22 and 2022/23 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.

#### **Next Steps**

- 3.63. This self-assessment has shown that the Council is able to demonstrate reasonable compliance with most areas of the Financial Management Code, however there are still a small number of standards that require further improvements in order to change from an Amber to a Green rating.
- 3.64. 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 24 months and is in a much stronger position to continue to deliver improvements in financial management in the coming year.
- 3.65. 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 2024/25, to be reported to Audit & Governance Committee in April 2025.

- 3.66. The high level action plan, attached as Appendix 1, identifies those standards, including setting out the necessary improvements required to those standards that are not currently rated as green.

#### **4. Contribution to Strategic Aims**

- 4.1. The delivery of strong financial management is fundamental to the delivery of the Council's strategic aims.

#### **5. Environmental and Climate Implications**

- 5.1. No environmental or climate implications have been identified as arising directly from this report.

#### **6. Community Engagement**

- 6.1. Community engagement is assessed through the residents' survey.

#### **7. Equality Implications**

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

#### **8. Other Relevant Considerations**

- 8.1. There are none.

#### **9. Legal Implications**

- 9.1. 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.

- 9.2. There are no legal implications arising directly from this report.

#### **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.

### **Appendices**

#### **1. Financial Management Code Action Plan**