



Please reply to:

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Date: 1 July 2024

Notice of meeting

Audit Committee

Date: Tuesday, 9 July 2024

Time: 7.00 pm

Place: Council Chamber, Council Offices, Knowle Green, Staines-upon-Thames TW18 1XB

To the members of the Audit Committee

Councillors:

J. Button (Chair)

J.P. Caplin

P.N. Woodward

K. Howkins (Vice-Chair)

L. E. Nichols

J.R. Boughtflower

H.R.D. Williams

Independent Member: P. Briggs

Substitute Members: Councillors M. Arnold, T. Burrell and C. Bateson

Councillors are reminded that the Gifts and Hospitality Declaration book will be available outside the meeting room for you to record any gifts or hospitality offered to you since the last Committee meeting.

Spelthorne Borough Council, Council Offices, Knowle Green

Staines-upon-Thames TW18 1XB

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Agenda

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- 1. Apologies and Substitutes**

To receive any apologies for absence and notification of substitutions.
- 2. Minutes** **5 - 12**

To confirm the minutes of the meeting held on 19 March 2024.
- 3. Disclosures of Interest**

To receive any disclosures of interest from Councillors in accordance with the Council's Code of Conduct for members.
- 4. Internal Audit Plan 2024/25** **13 - 26**

To consider the Internal Audit Plan 2024-25.
- 5. Internal Audit Charter 2024-25** **27 - 40**

To consider the Internal Audit Charter 2024-25.
- 6. Corporate Risk Management** **To Follow**
- 7. Annual Internal Audit Report and Opinion for 2023/24** **41 - 82**

To note the Annual Internal Audit report for 2023/24 and the annual audit opinion on the Council's internal control environment, risk management and governance arrangements.
- 8. Annual Governance Statement 2023-24** **83 - 112**

To consider the draft Annual Governance Statement and endorse the improvement actions identified in the statement.
- 9. Updated Review of Self-Assessment against CIPFA Financial Management Code and Self-Assessment against the final Best Value Indicators for Use of Resources** **113 - 260**

To note and approve the self-assessments and identify any areas for focusing on further improvement.
- 10. Public Interest Report Recommendations - Action Plan** **261 - 266**

To note the update and actions following on from the July 2023 report setting out the proposed actions in response to the recommendations within the Public Interest Report.

11. External Audit Update

**Verbal
Report**

To receive a verbal update on the work of the External Auditors

12. Forward Plan

267 - 270

To consider the Forward Plan for committee business.

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**Minutes of the Audit Committee
19 March 2024**

Present:

Councillor J. Button (Chair)
Councillor K. Howkins (Vice-Chair)

Councillors:

M. Arnold J.R. Boughtflower
M. Bing Dong L. E. Nichols

Independent Member:

P. Briggs

In Attendance: Councillor C. Bateson

11/24 Apologies and Substitutes

There were no apologies

12/24 Minutes

The minutes of the meeting held on 29 January 2024 were approved as a correct record.

13/24 Disclosures of Interest

In relation to item 10, Councillor Nichols advised that he was on the board of Knowle Green Estates Ltd.

14/24 Grant Thornton Audit Plan

The Committee considered the draft Grant Thornton Audit Plan presented by Joanne Brown (Key Audit Partner for Spelthorne) and Keith Mungadzi (Audit Manager) who advised that it would be completed as they gained a better understanding of the Council. Keith Mungadzi highlighted some of the key aspects of the plan including a summary of the significant risks, value for money arrangements, and sector updates.

The Committee queried whether there would be any compensation as the delay in audited accounts was not due to the Council. The Deputy Chief Executive reminded the Committee that the backlog was not related to Grant Thornton but rather to BDO (the previous auditors) and advised that the regulators have stated auditors should be fairly paid for work that was done, where work had not been carried out then there would be no fee. There would not be any compensation. The Committee asked how much BDO were likely to be paid and were advised that it was too early to say.

The Committee asked how they would be kept updated by Grant Thornton. Joanne Brown advised that there would be regular reports which would include a sector update and a progress paper. At the end of the audit there would also be an audit finding report and an annual auditor's report.

The Committee queried why our audit bill would be higher than that of Elmbridge and were advised that one reason would be our level of commercial investments. The Committee asked what Grant Thornton's approach would be to the Commercial property portfolio and were informed that they would use their own expert valuer to challenge the valuation assumptions.

The Committee asked what consideration would be given to the Public Interest Report issued by KPMG. Joanne Brown stated that sometime had passed since the PIR was issued but it would be referenced in the value for money work. This would also be considered by BDO in their value for money work for the period 2018-2023. Joanne Brown further stated that there would be a need to better understand what the current auditors were doing and what their plans were under the current backstop arrangements.

The Committee asked whether the Bluebox system would be looked at as part of the audit work and were advised that this was not a system they were currently aware of but would be followed up.

The Committee asked whether, when producing this plan, a review of current accounting policies had been carried out. Joanne Bown advised that a brief review of policies had taken place and looked to be in accordance with the code. Some points on the unaudited accounts had been raised with officers with a view to assisting with the drafting of the 2023/24 accounts.

The Committee **resolved** to note the draft Audit Plan.

15/24 Spelthorne response to the consultation on external audit arrangements

The Committee received a report from the Deputy Chief Executive on Spelthorne's response to the consultation on external audit arrangements and reminded Councillors that a draft of the response had been circulated for comments and that the feedback received had been incorporated. The Deputy Chief executive advised that a primary concern was around the number of disclaimers that would be issued and how that would be communicated to

external stakeholders. BDO would be producing five sets of draft statements of accounts and disclaimers, along with a value for money opinion which would be presented to this Committee in September.

The Committee requested if additional training could be provided to members prior to the September meeting and this was agreed.

The Committee queried whether they could have access to some of the CIPFA publications and were advised that this would be possible, however due to the volume of publications produced, the Committee would need to identify which ones they were interested in.

The Committee queried why the national backlog had occurred and were advised that there were several reasons; the large number of agencies involved, audit firm size, a limited number of audit partners with the ability to sign-off accounts, the increasing complexity of the Financial Reporting Council's expectations, and capacity and experience challenges within audit companies and councils.

The Committee **resolved** to note the Government consultation on:

1. Reset
2. Recovery of national arrangements for external audit of local government
3. Longer term reform of external audit recommendations.

16/24 Updated Review of Self Assessment against CIPFA Financial Management Code

The Committee received a report from the Deputy Chief Executive on self-assessments against the CIPFA Financial Management Code and the DLUHC Best Value Theme for Use of Resources. The Committee were advised that the CIPFA Financial Management Code had been introduced in 2019 and that the self-assessment should be a living document. The Deputy Chief Executive suggested that external review of the self-assessment would be useful, and that Southern Internal Audit Partnership may be able to include it within their audit plan. The Committee were supportive of this idea.

The Committee queried whether having another LGA Finance Peer Review would be appropriate and were advised that this could be discussed with the LGA to gauge their opinion on the frequency of reviews but stated there would be cost and resourcing considerations also.

The Committee identified that the layout of Appendix D and E made them difficult to read. The Committee went on to identify several out-of-date references in Appendix B including reference to Overview and Scrutiny Committee and a discrepancy in the amount in the Sinking Fund. The Committee queried the reference to quarterly monitoring reports and advised these had not been received. The Chief Accountant advised that two e-mails providing access to Centros had been sent out and this would be followed-up on to see why they had not been received by members. The Deputy Chief

Executive agreed that there were elements within Appendix B that needed updating and agreed that this would be done and the report brought back to this Committee in July. The Chief Accountant advised the Committee that Finance had been working with Assets on modelling and assumptions for the Sinking Fund.

The Committee suggested the following changes may be useful; the inclusion of more recurring KPI's, clarification on authority levels in terms of financial stewardship, more information on the culture of the organisation specifically how the culture was set at the top level, and that the self-assessment should be conducted by different people each time. The Deputy Chief Executive advised that there were several different structure around financial stewardships, some of which were set out in the Constitution. He went on to state that DLUHC had a Best Value Theme Indicator on Culture which could provide a more rounded view.

The Committee **resolved** to:

1. Note the refreshed self-assessment against the CIPFA Financial Management Code
2. Note the self-assessment against the DLUHC Best Value Theme for Use of Resources.

17/24 Corporate Risk Management

The Committee received a report from the Audit Manager on the significant strategic risks to the Council in delivering its priorities.

The Committee received one question from a member of the public in relation to this agenda item:

Question One from Kath Sanders

Question: *We are told three times in Appendix A that SBC has “participated in a review of capital risk mitigation with DLUHC and CIPFA” and is “in the process of taking on board any improvement suggestions”.*

What are the improvement suggestions and when will the full report be published?

Response from the Chair: *Many thanks for your question.*

Whilst it is true that approximately twelve months ago officers and some councillors had constructive but confidential discussions with CIPFA colleagues, this has not yet led to any formal report or communication from DLUHC. This is in contrast for example with Runnymede Borough Council who were having similar discussions at the same time and who before Christmas received a Best Value non-statutory report from DLUHC.

Therefore we do not know what, if any, improvement recommendations we may receive from DLUHC or when, if ever, we will receive a formal set of recommendations. In the discussions with CIPFA we covered a number of

strands including issues we were already addressing such as further periodic review by external experts of the performance of the investment assets portfolio (JLL recently reported to Development Sub-Committee), enhancing internal audit resilience and capacity (Council in February voted to move its internal audit arrangements to the Southern Internal Audit Partnership).

The Internal Audit Manager identified that the format and presentation of the Risk Register has been refreshed following implementation of a new system, this included removal of surplus content.

The Committee queried why the information on risk relating to the Local Plan had not been updated following the Extraordinary Environment & Sustainability meeting on 29 February 2024. The Internal Audit Manager advised that while she was presenting the report, individual risk owners were responsible for updating information relating to specific risk areas. It was agreed that this would be updated prior to the report being presented to Corporate Policy and Resources Committee in April 2024.

The Committee requested clarification around risk category 7 (Corporate Capacity, Resources, Recruitment and Retention) and asked why there was nothing related to the hiring of contractors on increased salaries for a special role that did not exist within the Council. The Internal Audit Manager advised that under the mitigating actions, reference was made to the Corporate Establishment Review which did address the issue of contractors. The Deputy Chief Executive advised the Committee that hiring of contractors was carried out in accordance with procurement rules, Contract Standing Orders, and reports would have been presented to relevant Committees.

The Committee asked why the risk around Borrowing (risk category 5) was given a score of 9 and queried whether it should be higher. The Deputy Chief Executive advised that the risk was focused on the rising interest rates and that mitigations were in place to minimise the risk including; Treasury Management Strategy 2023-24, support from specialist treasury management advisors, and application of the CIPFA Code of Practice and Prudential and Treasury Management Codes.

The Committee queried why the Council would be moving to a zero-based budgeting approach. The Deputy Chief Executive advised that there were significant challenges ahead and that Councils would likely see a reduction in grant allocations and the amount of business rates that could be retained. The Chief Accountant added that zero-based budgets would ensure that services were in line with the Corporate Plan and would provide an opportunity to rebuild budgets in a robust manner. The Deputy Chief Executive advised that while zero-based budgeting was normally a one-off exercise it could take more than one budget cycle to do thoroughly.

The Committee **resolved** to consider the significant strategic risks and issues highlighted in the report and present them to the Corporate Policy and Resources Committee, ensuring continued wider reporting of the Corporate Risk Register and actions across other Committees.

18/24 Counter-Fraud, Bribery and Corruption Strategy

The Committee received a report on the Council's Counter Fraud, Bribery and Corruption Strategy from the Internal Audit Manager, who advised that fraud cases were perceived to be on the increase and highlighted that Customer Services were participating in a Countywide Single Person Discount exercise.

The Committee asked for clarification around external and internal fraud. The internal Audit Manager stated that this would be made clearer in any future review.

The Committee **resolved** to:

1. Endorse the Council's Counter Fraud, Bribery and Corruption Strategy which forms part of the Council's Constitution
2. Approve the changes recommended to the Council's Counter Fraud, Bribery and Corruption Strategy.

19/24 Accounting Policies

The Committee received a report from the Chief Accountant on the 2023-2024 Accounting Policies for Spelthorne Borough Council alongside those for its subsidiaries Knowle Green Estates Ltd and Spelthorne Direct Services Ltd.

The Chief Accountant advised that while there was a view that Accounting Policies for Council's had become too complex and should be reduced, it was felt that in light of having no audit for five years, the policies should remain as they are at present and then work would be done with Grant Thornton to remove some of the immaterial policies.

The Committee **resolved** to note the 2023-24 accounting policies.

20/24 KGE Accounts

The Committee received a report from the Chief Accountant on the audited financial statements for Knowle Green Estates (KGE) for year end 31 March 2023. The Chief Accountant advised that on a trading basis, KGE was not in a good position and had made a loss. However, the increase in value of housing stock had given KGE a paper profit of £1.2m.

The Chief Accountant informed the Committee that there had been challenges with the accounting aspect of Bluebox and lack of expertise within the team in operating it. The Chief Accountant further advised that with Centros it could be customised to fit what was required for KGE. The Committee queried whether Centros would replace Bluebox and were advised that Bluebox worked very well as a tenancy management system but there were concerns around resilience relating to Bluebox accountancy.

The Committee identified that the report should state that Corporate Policy and Resources Committee is responsible for oversight of KGE.

The Deputy Chief Executive advised that the Board of KGE had been working with officers at ways to close the revenue gaps and that the Local Authority Housing Fund (LAHF) acquisitions had helped to improve the position.

The Committee suspended Standing Orders suspended and agreed to extend the meeting to 10:30pm.

The Committee **resolved** to note the report and in particular the unqualified audit report.

21/24 SDS Accounts

The Committee received a report from the Deputy Chief Executive on the audited financial statements for Spelthorne Direct Services Ltd (SDS) for year end 31 March 2023 and advised that the report should state that the Neighbourhood Services and Enforcement Committee had oversight responsibility of SDS.

The Committee queried what the life span was for the vehicles used by SDS and was advised that for the diesel vehicles, the life expectancy was seven years but through good maintenance this had been extended to ten years.

The Committee asked why there had been an increase in audit fees from £3,500 in 2022 to £10,000 in 2023 and were advised that this was reflective of the work required; SDS was still a young company with associated challenges, and that SDS was a subsidiary of a major group and as such influences the risk assessment by the auditors.

The Committee **resolved** to note the report and particularly the unqualified audit report.

22/24 Forward Plan

The Committee considered its Work Programme for the remainder of the 2023 - 2024 Municipal year.

The Chair advised the Committee that the date of the July meeting had been changed from 25 July to 09 July.

The Deputy Chief Executive advised that Southern Internal Audit Partnership would be present at the July meeting to present their audit plan.

The Committee queried who would be presenting the Procurement update in July as the lead officer would be leaving and were assured that another lead officer would be available to present the report.

Resolved that the Committee Work Programme for the remainder of the 2023 - 2024 Municipal year, be approved with the agreed changes.

The Committee thanked Punita for all her hard work.

Meeting finished at 22:08

23/24 Actions arising from Meeting

The following actions arose from the meeting:

The Deputy Chief Executive agreed to refresh the CIPFA Self-Assessment and bring it to the July 2024 Audit Committee

The Committee Manager agreed to arrange further Audit Training prior to the September meeting. Grant Thornton have offered to provide a half-hour training session prior to a Committee meeting.

Audit Committee

09 July 2024



Title	Internal Audit Plan 2024-25
Purpose of the report	To approve
Report Author	Neil Pitman, Head of Southern Internal Audit Partnership
Ward(s) Affected	All Wards
Exempt	No
Exemption Reason	N/A
Corporate Priority	Community Addressing Housing Need Resilience Environment Services
Recommendations	Committee is asked to approve the Internal Audit Plan 2024-25
Reason for Recommendation	In accordance with the Public Sector Internal Audit Standards (PSIAS), the Audit Committee are required to approve the Internal Audit Plan.

1. Summary of the report

What is the situation	Why we want to do something
Each year in conformance with Public Sector Audit standards (PSIAS) Internal Audit produces a risk-based audit plan setting out the programme of work. This aims to provide independent and objective assurance to management and the Audit Committee, in relation to the effectiveness of the framework of internal control, risk management and governance.	<ul style="list-style-type: none"> The internal audit plan provides the mechanism through which the Chief Internal Auditor can ensure most appropriate use of internal audit resource to provide a clear statement of assurance on risk management, internal control, and governance arrangements. The outcomes of the audit work programme will inform the annual audit opinion for 2024/25.
This is what we want to do about it	These are the next steps

<ul style="list-style-type: none"> • In producing the Internal Audit Annual Plan for 2024/25 the Chief Internal Auditor has applied a risk-based approach in line with PSIAS and focussed on areas of higher priority that align with the Council's corporate priorities and objectives. (See Appendix A) • Consideration has been given to current and emerging risks (and opportunities) facing the Council during 2024/25, and senior management were consulted in deriving the annual plan. 	<ul style="list-style-type: none"> • Corporate Management Team and Group Heads to note the proposed schedule for undertaking planned assurance assignments set out at Appendix A and confirm it is agreeable. • The Audit Committee to approve the Internal Audit Plan for 2024/25 at the meeting of 9th July 2024. • Progressing delivery of the Internal Audit Plan 2024/25.
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1.1 This report seeks to present the Internal Audit Plan for 2024-25 in accordance with the requirements of the Public Sector Internal Audit Standards (Appendix A).

2. Key issues

2.1 The aim of internal audit's work programme is to provide independent and objective assurance to management, in relation to the business activities, systems or processes under review that:

- The framework of internal control, risk management and governance is appropriate and operating effectively; and
- Risks to the achievement of the Council's objectives are identified, assessed, and managed to a defined acceptable level

2.2 The internal audit plan provides the mechanism through which the Chief Internal Auditor (Head of Southern Internal Audit Partnership) can ensure most appropriate use of internal audit resource to provide a clear statement of assurance on risk management, internal control, and governance arrangements.

2.3 Internal audit focus should remain proportionate and appropriately aligned to key areas of organisational risk.

2.4 All auditable areas of review remain within the audit universe and are subject to ongoing assessment. The audit plan will remain fluid to ensure that internal audit is able to react to new and emerging risks along with the changing needs of the Council.

2.5 Other reviews, based on criteria other than risk, may also be built into the work plan. These may include 'mandatory' audits or reviews requested or commissioned by management. Any commissioned review must be able to

clearly demonstrate a contribution to the audit opinion on risk management, control, and governance.

3. Options analysis and proposal

- 3.1 The Audit Committee are requested to approve the risk based Internal Audit Plan for 2024/25 in line with PSIAS, to support the provision of independent assurance to the authority on the adequacy of internal control, governance and risk management arrangements.

4. Financial management comments

- 4.1 The Internal Audit Annual Plan includes reviews of functions and systems that are financially material and therefore represent greater risk to the authority. Issues presenting adverse financial consequences or threats to the Council's financial position apply to a range of workstreams on the plan.
- 4.2 To support special investigations (relating to suspected internal fraud or irregularity) there may be a requirement to bring in subject matter experts and Investigators.

5. Risk management comments

- 5.1 In producing the Internal Audit Annual Plan for 2024/25 the Chief Internal Auditor has ensured that a risk-based approach has been applied in line with audit standards (PSIAS) and focussed on areas of higher priority that align with corporate priorities and objectives. Consideration has been given to current and emerging risks (and opportunities) facing the Council during 2024/25. Due regard has been taken of the pending Best Value Inspection to avoid unnecessary duplication.

6. Procurement comments

- 6.1 None

7. Legal comments

- 7.1 The Public Sector Internal Audit Standards (PSIAS) are mandatory further to the Accounts and Audit (England) Regulations 2015. The PSIAS require public bodies to establish and deliver a risk-based internal audit plan and for this to be approved by the Audit Committee.

8. Other considerations

- 8.1 None

9. Equality and Diversity

9.1 Equality and diversity are key considerations that feature in the assessment of risk and audit needs.

10. Sustainability/Climate Change Implications

10.1 Sustainability is a key consideration and features in the assessment of risk and audit needs.

11. Timetable for implementation

11.1 Applicable for the period 1 April 2024 – 31 March 2025

12. Contact

12.1 Neil Pitman, Head of Southern Internal Audit Partnership
neil.pitman@hants.gov.uk

Background papers: None

Appendices:

Appendix A – Internal Audit Plan 2024-25

Southern Internal Audit Partnership

Assurance through excellence
and innovation

SPELTHORNE BOROUGH COUNCIL INTERNAL AUDIT PLAN 2024-25

Prepared by: Neil Pitman, Head of Southern Internal Audit Partnership

May 2024

Introduction

The role of internal audit is that of 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'.

The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively.

The Council's response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisation's objectives.

The aim of internal audit's work programme is to provide independent and objective assurance to management, in relation to the business activities; systems or processes under review that:

- the framework of internal control, risk management and governance is appropriate and operating effectively; and
- risk to the achievement of the Council's objectives is identified, assessed and managed to a defined acceptable level.

The internal audit plan provides the mechanism through which the Chief Internal Auditor can ensure most appropriate use of internal audit resources to provide a clear statement of assurance on risk management, internal control and governance arrangements.

Internal audit focus should be proportionate and appropriately aligned. The plan will remain fluid and subject to on-going review and amendment, in consultation with the relevant stakeholders to ensure it continues to reflect the needs of the Council. Amendments to the plan will be identified through the Southern Internal Audit Partnership's continued contact and liaison with those responsible for the governance of the Council.

Your Internal Audit Team

Your internal audit service is provided by the Southern Internal Audit Partnership. The strategic lead will be Neil Pitman, Head of Southern Internal Audit Partnership, supported by Punita Talwar, Audit Manager.

Conformance with Internal Auditing Standards

The Southern Internal Audit Partnership service is designed to conform to the Public Sector Internal Audit Standards (PSIAS). Under the PSIAS there is a requirement for audit services to have an external quality assessment every five years. In September 2020 the Institute of Internal Auditors were commissioned to complete an external quality assessment of the Southern Internal Audit Partnership against the PSIAS, Local Government Application Note and the International Professional Practices Framework.

In selecting the Institute of Internal Auditors (IIA) a conscious effort was taken to ensure the external assessment was undertaken by the most credible source. As the authors of the Standards and the leading Internal Audit authority nationally and internationally the IIA were excellently positioned to undertake the external assessment.

In considering all sources of evidence the external assessment team concluded:

'The mandatory elements of the IPPF include the Definition of Internal Auditing, Code of Ethics, Core Principles and International Standards. There are 64 fundamental principles to achieve with 118 points of recommended practice. We assess against the principles. It is our view that the Southern Internal Audit Partnership conforms to all 64 of these principles.'

'We have also reviewed SIAP conformance with the Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN). We are pleased to report that SIAP conform with all relevant, associated elements.'

Conflicts of Interest

We are not aware of any relationships that may affect the independence and objectivity of the team which are required to be disclosed under internal auditing standards.

Spelthorne Borough Council – Corporate Plan 2024 – 2028

Spelthorne Borough Council agreed their Corporate Business Plan 2024 to 2028 in February 2024.

The Corporate Plan is the Council’s top level strategic document that together with supporting strategies sets their priority areas of work and how resources will be used to achieve them.

The Plan, ‘**Putting our residents at the heart of everything we do**’ sets out the Administration’s priorities over the next five years and defines the goals for the Borough based on the following priorities:



Community

To place the needs of the Borough at the heart of everything we do; supporting residents to live healthy and fulfilling lives and empowering communities so they feel included, valued, supported, and safe.

Addressing housing need

To support the delivery of high-quality housing and solutions to allow residents to live independently which meets the needs of all sections of the community at every stage of life, addressing the challenges around availability, affordability, and homelessness.

Resilience

To ensure prudent management of our finances and resources and create a climate in which businesses and individuals can thrive. Work with our partners to maintain our preparedness for emergencies.

Environment

To work with our residents, suppliers, and partners to minimise our impact on the environment and achieve our Council goal of ‘net zero’ carbon emissions by 2030. To maintain a clean and attractive Borough which supports biodiversity.

Services

To deliver a wide range of high-quality community focused and accessible services for everyone who lives and works in Spelthorne, striving for continuous improvement in all aspects of our work and providing excellent customer care.

These priorities are underpinned by seven ‘values’ which collectively add up to a more sustainable Borough: environmentally, socially, and economically.



Council Risk

The corporate risks assessed by the Council are a key focus of our planning for the year to ensure it meets the organisation's assurance needs and contributes to the achievement of their objectives.

Risk Category	Description	Residual Risk Score
1a - Housing – Development and Targets	Alternative Development delivery options	12
1a - Housing – Development and Targets	Timelines for delivery	12
1a - Housing – Development and Targets	Local Plan	12
1a - Housing – Development and Targets	Housing Development Programme	12
1b - Housing – Affordable	Housing Supply and Demand	12
1b - Housing – Affordable	Housing provision and addressing need	12
2 - Economy	Long Term uncertainty of macroeconomic environment	9
2 - Economy	Cost of doing Business crisis	9
3 - Financial Resilience and Commercial Assets	Commercial investment portfolio	9
4 - Financial Resilience and Supporting Communities	Financial Pressures - increased costs	9
4 - Financial Resilience and Supporting Communities	Restricted borrowing levels	9
4 - Financial Resilience and Supporting Communities	Financial Pressures - Cost of Living Crisis and increased demand on Council Services	12
5 - Treasury Management	Return on Investments	9
5 - Treasury Management	Borrowing	9
6 - Climate Change	Climate Change threat and impact	9
6 - Climate Change	Responding and adapting to Climate Change	12
6 - Climate Change	Integration into decision making	12
6 - Climate Change	Targets for Climate Change	9
7 - Corporate Capacity, Resources , Recruitment and Retention	Corporate capacity	12
7 - Corporate Capacity, Resources , Recruitment and Retention	Recruitment and retention	12
8 - Equality, Diversity and Inclusivity	Legislative requirements	9
8 - Equality, Diversity and Inclusivity	Coordinated approach	9
9 - Working arrangements across LG tiers	Change Management	9
9 - Working arrangements across LG tiers	Strategic decisions	9

*extract from Corporate Risk Register (extract 19.03.2024)

We will monitor the corporate risk register closely over the course of the year to ensure our plan remains agile to the rapidly changing landscape.

Developing the Internal Audit Plan 2024/25

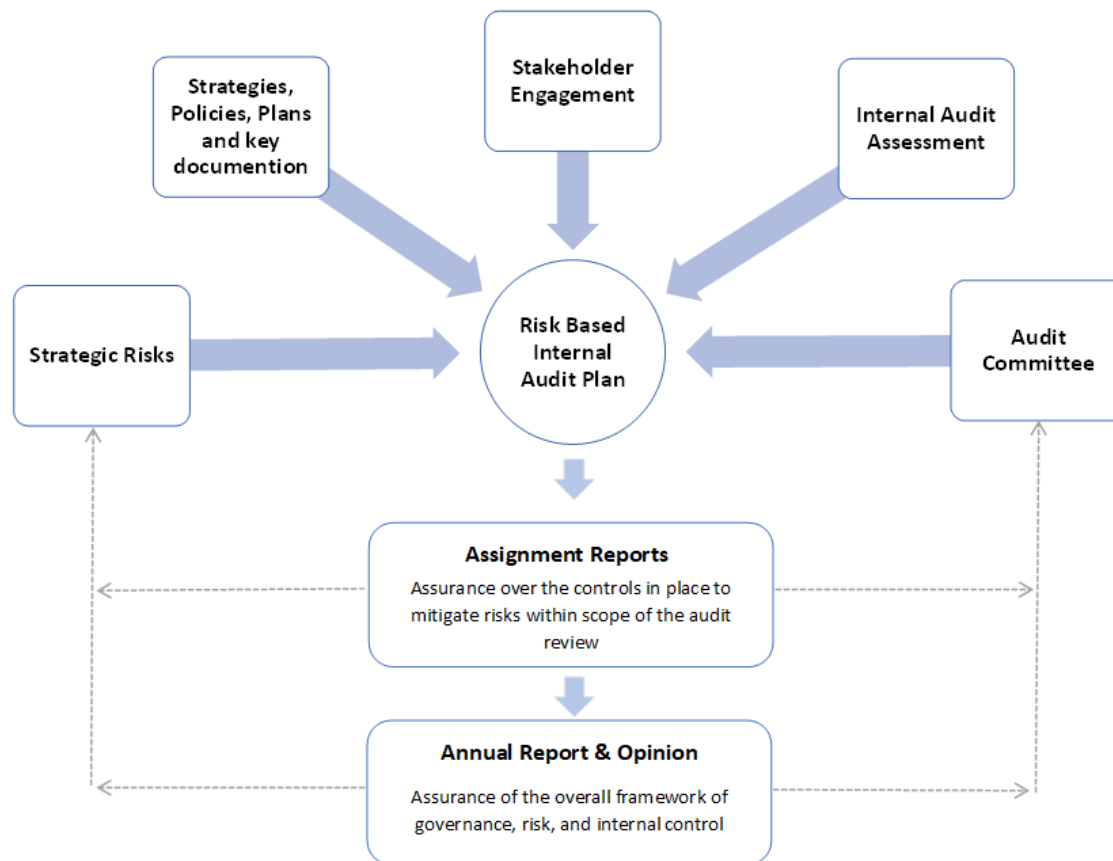
In accordance with the Public Sector Internal Audit Standards there is a requirement that internal audit establish a risk-based audit plan to determine the resourcing of the internal audit service, consistent with the organisation’s goals.

Based on conversations with key stakeholders, review of risk registers, key corporate documents and our understanding of the organisation, the Southern Internal Audit Partnership have developed an annual audit plan for the coming year.

Audit planning is a perpetual process throughout the course of the year to ensure we are able to react to new and emerging risks and the changing needs of the organisation.

The Council are reminded that internal audit is only one source of assurance and through the delivery of our plan we will not, and do not seek to cover all risks and processes within the organisation.

We will however continue to work closely with other assurance providers to ensure that duplication is minimised, and a suitable breadth of assurance is obtained.



Internal Audit Plan 2024-25

Audit Review	Audit Sponsor (Executive Director)	Indicative Scope	Corporate / Directorate Risks	Proposed Timing
Governance				
Risk Management	Deputy Chief Executive	Assurance on the framework and embeddedness of risk management		Q4
Corporate Plan	Chief Executive	To review the governance, monitoring, and delivery of the short-term actions for 2024-25.		Q3
Best Value – Post Inspection	Chief Executive	Contingency to support assurance / advisory work post the Best Value inspection.		Q4
Contract Management	Deputy Chief Executive & S151	To review the effectiveness of contract management arrangements in respect of commercial assets (Cushman & Wakefield).	✓	Q4
Procurement	Chief Executive	To provide assurance for the preparedness of the new Procurement Act and ongoing compliance with Contract Standing Orders.		Q3
Core Financial				
Council Tax	Deputy Chief Executive & S151	Cyclical review of core financial system		Q4
Accounts Receivable & Debt Management	Deputy Chief Executive & S151	Cyclical review of core financial system		Q4
Community				
Reinforced Autoclaved Aerated Concrete	Deputy Chief Executive & S151	Assurance over the inspection and reporting of RAAC within Council owned buildings		Q3
Health and Safety (frontline Services)	Deputy Chief Executive	Assurance over the maintenance and delivery of health and safety across front line service at the Depot (Refuse/Street Cleansing/Grounds Maintenance) and compliance with relevant legislation.		Q4

Audit Review	Audit Sponsor (Executive Director)	Indicative Scope	Corporate / Directorate Risks	Proposed Timing
Commercial Waste (SDS)	Deputy Chief Executive	Governance arrangements to support Spelthorne Direct Services in the management & delivery of commercial waste services.		Q3
Addressing Housing Need				
Affordable Housing / Homelessness	Deputy Chief Executive & S151	Cross cutting review across Housing and Environmental Health to review the escalating demands for affordable housing and implications for high-cost B&B etc.	✓	Q4
Building Control	Deputy Chief Executive	Provide assurance on the preparedness and implementation of the new Building Regulations. To consider the risks to future service provision / operating model.		Q2
Resilience				
CIPFA Financial Management Code Self-Assessment and Use of Resources	Deputy Chief Executive & S151	To provide an independent assessment of the Council's compliance against the Financial Management Code and assessment of the Use of Resource.	✓	Q2
Savings Realisation	Deputy Chief Executive & S151	Assurance on the governance and delivery of the 2024-25 savings proposals.	✓	Q4
Environment				
Tree Maintenance	Deputy Chief Executive	Assurance over the effective inspection and maintenance of Council owned trees across the Borough.		Q2
Services				
ITIL Assurance Mapping	Deputy Chief Executive	Undertake a full review of the IT environment against the Information Technology Infrastructure Library (ITIL) and map against existing assurance provision (1st, 2nd, and 3rd line) to determine most effective use of internal audit resource		Q2
Cyber – Staff Training & Awareness	Deputy Chief Executive	Assurance over controls in place to ensure staff are adequately trained to mitigate the risk of a successful cyber attack through staff actions.		Q4

Audit Review	Audit Sponsor (Executive Director)	Indicative Scope	Corporate / Directorate Risks	Proposed Timing
Equality, Diversity & Inclusivity	Deputy Chief Executive	Assurance the Council are compliant in their duties to equality, diversity and inclusivity.	✓	Q3
Other				
Management	-	SIAP ongoing maintenance of the plan, management action follow-up, liaison with external audit, attendance at Corporate Management Team and Audit Committee		Q1 – Q4
Total Days				250

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Deputy Chief Executive & S151	Chief Executive	Deputy Chief Executive
Terry Collier	Daniel Mouawad	Lee O’Neil

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Audit Committee

09 July 2024



Title	Internal Audit Charter 2024-25
Purpose of the report	To approve
Report Author	Neil Pitman, Head of Southern Internal Audit Partnership
Ward(s) Affected	All Wards
Exempt	No
Exemption Reason	N/A
Corporate Priority	Community Addressing Housing Need Resilience Environment Services
Recommendations	Committee is asked to approve the Internal Audit Charter 2024-25
Reason for Recommendation	In accordance with the Public Sector Internal Audit Standards (PSIAS), the Audit Committee are required to annually approve the Internal Audit Charter.

1. Summary of the report

What is the situation	Why we want to do something
The Public Sector Internal Audit Standards (PSIAS) requires that all internal audit activities maintain an 'internal audit charter.' This defines the purpose, authority, and responsibility for the internal audit service consistent with the Definition of Internal Auditing, the Code of Ethics, and the Standards.	<ul style="list-style-type: none"> Regular review and communication of the internal audit charter helps to maintain awareness across senior management and the Audit Committee. The charter reinforces how the core principles that articulate internal audit effectiveness (for example independence and objectivity) are applied at the Council.
This is what we want to do about it	These are the next steps
To present the Internal Audit Charter 2024/25 to the Corporate	The Audit Committee are requested to approve the Internal Audit Charter

<p>Management team and the Audit Committee for approval in accordance with requirements of the PSIAS.</p>	<p>2024/25 in line with PSIAS, to support the provision of independent assurance to the authority and in defining the internal audit activity's purpose, authority, and responsibility.</p>
---	---

1.1 This report seeks to present the Internal Audit Charter 2024-25 to the Audit Committee in accordance with the requirements of the Public Sector Internal Audit Standards.

2. Key issues

2.1 The Accounts and Audit (England) Regulations 2015 state:

'a relevant body 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.'

2.2 The Public Sector Internal Audit Standards (attribute standard 1000) requires that all internal audit activities maintain an 'internal audit charter'.

2.3 The charter is a formal document that defines the internal audit activity's purpose, authority and responsibility consistent with the Definition of Internal Auditing, the Code of Ethics and the Standards.

2.4 The internal audit charter establishes internal audits position within the organisation including:

- Recognising the mandatory nature of the Public Sector Internal Audit Standards
- Defining the scope of internal audit responsibilities.
- Establishing the responsibilities and objectives of internal audit.
- Establishing the organisational independence of internal audit.
- Establishing accountability and reporting lines (functional and administrative).
- Setting out the responsibilities of the board and the role of statutory officers with regard to internal audit.
- Arrangements that exist with regard anti-fraud and anti-corruption.
- Establishing internal audit rights of access.
- Defining the terms 'board' and 'senior management' for the purpose of internal audit; and
- Arrangements in place for avoiding conflicts of interest.

2.5 In accordance with the Standards the internal audit charter should be reviewed annually (minimum) and approved by senior management and the Audit Committee.

2.6 Appendix A provides a draft copy of the internal audit charter 2024-25 for review and comment.

3. Options analysis and proposal

- 3.1 The Audit Committee are requested to approve the Internal Audit Charter 2024/25 in line with PSIAS, to support the provision of independent assurance to the authority and in defining the internal audit activity's purpose, authority, and responsibility.

4. Financial management comments

- 4.1 None

5. Risk management comments

- 5.1 In not maintaining an approved Internal Audit Charter the organisation is not compliant with the legislative requirements of the Accounts and Audit (England) Regulations 2015.

6. Procurement comments

- 6.1 None

7. Legal comments

- 7.1 The Public Sector Internal Audit Standards (PSIAS) are mandatory further to the Accounts and Audit (England) Regulations 2015. The PSIAS require public bodies to have an Audit Charter and for this to be reviewed annually, communicated and approved by the Audit Committee.

8. Other considerations

- 8.1 None

9. Equality and Diversity

- 9.1 The Internal Audit Charter underpins the internal audit planning process. Equality and diversity are key considerations and feature in the assessment of risk and audit needs.

10. Sustainability/Climate Change Implications

- 10.1 The Internal Audit Charter underpins the internal audit planning process. Sustainability is a key consideration and features in the assessment of risk and audit needs.

11. Timetable for implementation

- 11.1 Applicable for the period 1 April 2024 – 31 March 2025

12. Contact

12.1 Neil Pitman, Head of Southern Internal Audit Partnership
neil.pitman@hants.gov.uk

Background papers: Public Sector Internal Audit Standards (2017)

Appendices:

Appendix A – Internal Audit Charter 2024-25



Southern Internal Audit Partnership

Assurance through excellence
and innovation

SPELTHORNE BOROUGH COUNCIL

Internal Audit Charter 2024/25

Prepared By: Neil Pitman, Head of Southern Internal Audit Partnership
May 2024

Internal Audit Charter – 2024/25

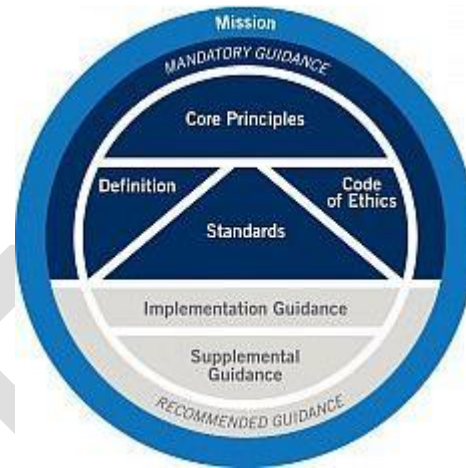
Introduction

The Public Sector Internal Audit Standards (the Standards) provide a consolidated approach to audit standards across the whole of the public sector providing continuity, sound corporate governance and transparency.

The Standards form part of the wider mandatory elements of the International Professional Practices Framework (IPPF) which also includes:

- the mission;
- core principles;
- definition of internal audit; and
- Code of Ethics.

The Standards require all internal audit activities to implement and retain an 'Internal Audit Charter'.



The purpose of the Internal Audit Charter is to formally define the internal audit activity's purpose, authority, and responsibility.

Mission and Core Principles

The IPPF 'Mission' aims *'to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.'*

The 'Core Principles' underpin delivery of the IPPF mission:

- 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; and
- Promotes organisational improvement.

Authority

The requirement for an internal audit function in local government is detailed within the Accounts and Audit (England) Regulations 2015, which state that a relevant body must:

‘undertake an adequate and effective internal audit of its accounting records and of its system of internal control in accordance with the proper practices in relation to internal control’.

The standards for ‘proper practices’ in relation to internal audit are laid down in the Public Sector Internal Audit Standards (updated 2017).

Purpose

The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements. Internal audit plays a vital role in advising the Council that these arrangements are in place and operating effectively. The Council’s response to internal audit activity should lead to the strengthening of the control environment and, therefore, contribute to the achievement of the organisation’s objectives.

This is achieved through internal audit providing a combination of assurance and consulting activities. Assurance work involves assessing how well the systems and processes are designed and working, with consulting activities available to help to improve those systems and processes where necessary.

The role of internal audit is best summarised through its definition within the Standards, as an:

‘independent, objective assurance and consulting activity designed to add value and improve an organisations 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’.

Responsibility

The responsibility for maintaining an adequate and effective system of internal audit within Spelthorne Borough Council lies with the Deputy Chief Executive & S151 Officer.

For the Council, internal audit is provided by the Southern Internal Audit Partnership.

The Chief Internal Auditor (Head of Southern Internal Audit Partnership) is responsible for effectively managing the internal audit activity in accordance with the ‘Mission’, ‘Core Principles’, ‘Definition of Internal Auditing’, the ‘Code of Ethics’ and ‘the Standards’.

Definitions

For the purposes of this charter the following definitions shall apply:

The Board – the governance group charged with independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting. At the Council this shall mean the Audit Committee.

Senior Management – those responsible for the leadership and direction of the Council. At the Council this shall mean the Council's Management Team (MAT).

Position in the organisation

The Chief Internal Auditor reports functionally to the Board, and organisationally to the Group Head Corporate Governance (Monitoring Officer)

The Chief Internal Auditor has direct access to the Chief Executive who carries the responsibility for the proper management of the Council and for ensuring that the principles of good governance are reflected in sound management arrangements.

The Chief Internal Auditor has direct access to the Deputy Chief Executive & S151 Officer who has statutory responsibility as proper officer under Section 151 of the Local Government Act 1972, for ensuring an effective system of internal financial control and proper financial administration of the Council's affairs.

Where it is considered necessary to the proper discharge of the internal audit function, the Chief Internal Auditor has direct access to elected Members of the Council and in particular those who serve on committees charged with governance (i.e. the Audit Committee).

Internal audit resources

The Chief Internal Auditor will be professionally qualified (CMIIA, CCAB or equivalent) and have wide internal audit and management experience, reflecting the responsibilities that arise from the need to liaise internally and externally with Members, senior management and other professionals.

The Group Head Corporate Governance and Deputy Chief Executive & S151 Officer will provide the Chief Internal Auditor with the resources necessary to fulfil the Council's requirements and expectations as to the robustness and scope of the internal audit opinion.

The Chief Internal Auditor will ensure that the internal audit service has access to an appropriate range of knowledge, skills, qualifications, and experience required to deliver the audit strategy and operational audit plan.

The annual operational plan will identify the resources required to complete the work, thereby highlighting sufficiency of available resources. The Chief Internal Auditor can propose an increase in audit resource or a reduction in the number of audits if there are insufficient resources.

'Senior Management' and *'the Board'* will be advised where, for whatever reason, internal audit is unable to provide assurance on any significant risks within the timescale envisaged by the risk assessment process.

The annual operational plan will be submitted to *'senior management'* and *'the Board'*, for approval. The Chief Internal Auditor will be responsible for delivery of the plan. The plan will be kept under review to ensure it remains responsive to the changing priorities and risks of the Council.

Significant matters that jeopardise the delivery of the plan or require changes to the plan will be identified, addressed, and reported to *'senior management'* and *'the Board'*.

If the Chief Internal Auditor, *'the Board'* or *'Senior Management'* consider that the scope or coverage of internal audit is limited in any way, or the ability of internal audit to deliver a service consistent with the Standards is prejudiced, they will advise the Group Head Corporate Governance & Monitoring accordingly.

Independence and objectivity

Internal auditors must be sufficiently independent of the activities they audit to enable them to provide impartial, unbiased, and effective professional judgements and advice.

Internal auditors must maintain an unbiased attitude that allows them to perform their engagements in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not subordinate their judgement on audit matters to others.

To achieve the degree of independence and objectivity necessary to effectively discharge its responsibilities, arrangements are in place to ensure the internal audit activity:

- retains no executive or operational responsibilities.
- operates in a framework that allows unrestricted access to *'senior management'* and *'the Board'*.
- reports functionally to *'the Board'*.
- reports in their own name.
- rotates responsibilities for audit assignments within the internal audit team, and
- completes individual declarations confirming compliance with rules on independence, conflicts of interest and acceptance of inducements.

If independence or objectivity is impaired in fact or appearance, the details of the impairment will be disclosed to *'Senior Management'* and *'the Board'*. The nature of the disclosure will depend upon the impairment.

Due professional care

Internal auditors will perform work with due professional care, competence, and diligence. Internal auditors cannot be expected to identify every control weakness or irregularity, but their work should be designed to enable them to provide reasonable assurance regarding the controls examined within the scope of their review.

Internal auditors will have a continuing duty to develop and maintain their professional skills, knowledge and judgement based on appropriate training, ability, integrity, objectivity, and respect.

Internal auditors will apprise themselves of the *'Mission', Core Principles', Definition of Internal Auditing'*, the *'Code of Ethics'* and the *'Standards'* and will work in accordance with them in the conduct of their duties.

Internal auditors will be alert to the possibility of intentional wrongdoing, errors and omissions, poor value for money, failure to comply with management policy and conflicts of interest. They will ensure that any suspicions of fraud, corruption or improper conduct are promptly reported in accordance with the Council's Anti-fraud and Corruption Policy.

Internal auditors will treat the information they receive in carrying out their duties as confidential. There will be no unauthorised disclosure of information unless there is a legal or professional requirement to do so. Confidential information gained in the course of internal audit work will not be used to effect personal gain.

Access to relevant personnel and records

In carrying out their duties, internal audit (on production of identification) shall have unrestricted right of access to all records, assets, personnel, and premises, belonging to the Council or its key delivery partner organisations.

Internal audit has authority to obtain such information and explanations as it considers necessary to fulfil its responsibilities. Such access shall be granted on demand and not subject to prior notice.

Scope of Internal Audit activities

The Chief Internal Auditor is responsible for the delivery of an annual audit opinion and report that can be used by the Council to inform its governance statement. The annual opinion will conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The Council assume a Key Stakeholder role within the Southern Internal Audit Partnership (SIAP). The SIAP currently provides internal audit services to a wide portfolio of public sector clients (Annex 1) through a variety of partnership and sold service delivery models.

A range of internal audit services are provided (Annex 2) to form the annual opinion for each member / client of the SIAP. The approach is determined by the Chief Internal Auditor and will depend on the level of assurance required, the significance of the objectives under review to the organisation's success, the risks inherent in the achievement of objectives and the level of confidence required that controls are well designed and operating as intended.

In accordance with the annual audit plan, auditors will plan and evaluate their work so as to have a reasonable expectation of detecting fraud and identifying any significant weaknesses in internal controls.

Managing the risk of fraud is the responsibility of line management and strategic responsibility for reactive and proactive fraud work sits with the Deputy Chief Executive & S151 Officer who through an agreement with Reigate & Banstead Borough Council ensure any suspected or detected public fraud or corruption was investigated.

The Council participates in the National Fraud Initiative (NFI) in which data from the Council's main systems are matched with data supplied from other local authorities and external agencies to detect potential fraudulent activity.

The Deputy Chief Executive & S151 Officer will commission resource to undertake any internal investigations required and notify SIAP of any suspected or detected fraud to inform their opinion.

SIAP will review the governance arrangements to prevent, detect and investigate fraud and irregularities on a cyclical basis.

Reporting

Chief Internal Auditor's Annual Report and Opinion

The Chief Internal Auditor shall deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

The annual internal audit report and opinion will conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

The annual report will incorporate as a minimum:

- The opinion.
- A summary of the work that supports the opinion, and
- A statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

Senior Management

As those responsible for the leadership and direction of the Council. It is imperative that the Council's Management Team (MAT) are engaged in:

- approving the internal audit charter (minimum annually).
- approving the risk based internal audit plan.
- receiving communications from the Chief Internal Auditor on the internal audit activity's performance relative to its plan and other matters.
- making appropriate enquiries of management and the Chief Internal Auditor to determine whether there are inappropriate scope and resource limitations, and
- receiving the results of internal and external assessments of the quality assurance and improvement programme, including areas of non-conformance.

The Board

Organisational independence is effectively achieved when the Chief Internal Auditor reports functionally to the Board. Such reporting will include:

- approving the internal audit charter.
- approving the risk based internal audit plan.
- receiving communications from the Chief Internal Auditor on the internal audit activity's performance relative to its plan and other matters, including the annual report and opinion.
- making appropriate enquiries of management and the Chief Internal Auditor to determine whether there are inappropriate scope or resource limitations.
- receiving the results of internal and external assessments of the quality assurance and improvement programme, including areas of non-conformance, and
- approval of significant consulting services not already included in the audit plan, prior to acceptance of the engagement.

Review of the internal audit charter

This charter will be reviewed annually (minimum) by the Chief Internal Auditor and presented to 'Senior Management' and 'the Board' for approval.

Southern Internal Audit Partnership – Client Portfolio

Strategic Partners:	Hampshire County Council
Key Stakeholder Partners:	West Sussex County Council Havant Borough Council East Hampshire District Council Winchester City Council New Forest District Council Mole Valley District Council Epsom & Ewell Borough Council Reigate & Banstead Borough Council Tandridge District Council Crawley Borough Council Arun District Council Guildford Borough Council Hart District Council Runnymede Borough Council Spelthorne Borough Council
Blue light Key Stakeholder Partners:	Hampshire & IoW Fire & Rescue Authority West Sussex Fire Service Office of the Hampshire & IoW Police & Crime Commissioner / Hampshire & IoW Constabulary Office of the Sussex Police & Crime Commissioner / Sussex Police Force Office of the Surrey Police & Crime Commissioner / Surrey Police Force
External clients:	Waverley Borough Council Rushmoor Borough Council Hampshire Pension Fund West Sussex Pension Fund New Forest National Park Authority Ringwood Town Council Lymington & Pennington Town Council Langstone Harbour Authority Chichester Harbour Authority Littlehampton Harbour Authority Isle of Wight College

Assurance Services

- **Risk based audit:** in which risks and controls associated with the achievement of defined business objectives are identified and both the design and operation of the controls in place to mitigate key risks are assessed and tested, to ascertain the residual risk to the achievement of managements' objectives. Any audit work intended to provide an audit opinion will be undertaken using this approach.
- **Developing systems audit:** in which:
 - the plans and designs of systems under development are assessed to identify the potential weaknesses in internal control and risk management; and
 - programme / project management controls are assessed to ascertain whether the system is likely to be delivered efficiently, effectively, and economically.
- **Compliance audit:** in which a limited review, covering only the operation of controls in place to fulfil statutory, good practice or policy compliance obligations are assessed.
- **Quality assurance review:** in which the approach and competency of other reviewers / assurance providers are assessed in order to form an opinion on the reliance that can be placed on the findings and conclusions arising from their work.
- **Fraud and irregularity investigations:** Internal audit may also provide specialist skills and knowledge to assist in or lead fraud or irregularity investigations, or to ascertain the effectiveness of fraud prevention controls and detection processes. Internal audit's role in this respect is outlined in the Council's Counter Fraud and Corruption Strategy.
- **Advisory / Consultancy services:** in which advice can be provided, either through formal review and reporting or more informally through discussion or briefing, on the framework of internal control, risk management and governance. It should be noted that it would not be appropriate for an auditor to become involved in establishing or implementing controls or to assume any operational responsibilities and that any advisory work undertaken must not prejudice the scope, objectivity and quality of future audit work.

Audit Committee

9th July 2024



Title	Annual Internal Audit Report & Opinion for 2023/24
Purpose of the report	To note
Report Author	Punita Talwar, Internal Audit Manager
Ward(s) Affected	No
Exempt	No
Exemption Reason	Not Applicable
Corporate Priority	All Priorities Community Addressing Housing Need Resilience Environment Services
Recommendations	Committee is asked to: 1. Note the Annual Internal Audit Report for 2023/24. 2. Note the annual audit opinion on the Council's internal control environment, risk management and governance arrangements.
Reason for Recommendation	Not applicable.

1. Summary of the report

What is the situation	Why we want to do something
<ul style="list-style-type: none"> Internal audit activity provides the Audit Committee and senior management with objective assurance and advice, supporting the strengthening of governance, risk management and control processes, as well as protecting and sustaining organisational value. This is achieved through delivery of an approved risk- 	<ul style="list-style-type: none"> Public Sector Internal Audit Standards (PSIAS) and the revised Global Internal Audit Standards introduced from 2024 require an annual summary report and independent audit opinion to be provided to key stakeholders. The annual audit opinion can be used by the Council to inform and support its annual governance statement (for 2023/24), which

based audit plan comprising an annual programme of work.	forms part of the Council's financial statement of accounts for publication by the statutory deadline (31.5.2024).
This is what we want to do about it	These are the next steps
<ul style="list-style-type: none"> • Report on audit findings, recommendations and outcomes of internal audit activity for 2023/24. • Present an overall annual audit opinion for the Council on the effectiveness of its systems of internal control, risk management and governance arrangements. This has been informed primarily from the annual programme of audit and advisory work undertaken, whilst also taking account some wider sources of assurance. 	<ul style="list-style-type: none"> • The Audit Committee and corporate management team to note the annual audit opinion provided for Spelthorne Borough Council, as well as the key themes and issues arising from internal audit activity for the period 2023/24. • Group Heads and Managers to implement agreed audit recommendations or advisory points raised during 2023/24 to ensure risks continue to be managed, which will continue to be monitored.

1.1 The Audit Manager is responsible for delivering an annual audit opinion for 2023/24 and summary report that can be used by the Council to inform and support its annual governance statement. The opinion represents a key source of assurance for the authority, considered by External Audit, the Audit Committee, Corporate Management Team and other stakeholders.

1.2 This report seeks to summarise Internal Audit findings and sets out the independent audit opinion for the 2023/24 period. This opinion relates to the Council's systems of internal control, risk management and governance arrangements.

2. Key issues

2.1 In providing an opinion on the adequacy of the authority's internal control environment, risk management and governance arrangements and assessing the overall level of assurance to be given for 2023/24, this has been based on the following:

- (a) Written reports and conclusions drawn from all Internal audit work completed relating to the approved risk-based audit plan for 2023/24 and revised programme presented to the Audit Committee in November 2023. Internal Audit provided assurance across 10 review areas relating to the 2023/24 audit plan. Three further assurance reviews relating to the 2022/23 audit plan were also completed during 2023.
- (b) Matters arising from planned assurance reviews underway (2 review areas)

- (c) Audit advisory and support work.
- (d) Audit follow up exercises undertaken.
- (e) The Corporate Risk Register which also takes account of the Council's risk exposure to wider externalities.
- (f) Consideration of wider sources of assurance (for purpose of forming the annual audit opinion greater reliance has however been placed on points a to e).
- (g) Due to the External Audit backlog in auditing the authority's financial statement of accounts in recent years which of course is a national issue across the Local government sector, this has meant that Internal Audit have not been able to consider the wider assurances from External Audit work in forming the annual internal audit opinion for 2023/24.

Annual Internal Audit Opinion

2.2 There are not considered to be any impairments or limitations in the scope of internal audit for the 2023/24 financial year that have adversely impacted forming an independent audit opinion. The audit opinion of the Internal Audit Manager for the 2023/24 period is set out below.

Annual Internal Audit Opinion 2023/24

Relevant considerations in undertaking assurance work and producing the annual audit opinion are set out at point 1 below:

(1) The ongoing significance of evolving wider externalities have continued to exacerbate many of the Council's strategic risks and challenges in delivery of corporate priorities and objectives. Financial risk represents a common theme carrying high impact across many of the Council's strategic risks, and overlaps with other competing crises and significant pressures, with some reflecting sector wide issues.

The opinion of the Internal Audit Manager concludes on the overall adequacy and effectiveness of the Council's framework of governance, risk management and internal control. On balance **reasonable assurance** can be provided across these areas and the Council has many established systems of internal control. Scope for improvements to both the design and operation of internal controls in effectively managing risks and delivering objectives have been raised or recommended in some areas.

Internal Audit have consulted managers (corporate management team, Group Heads and service managers) to discuss improvement actions to address risks and enhance the robustness of systems of internal control and governance arrangements. Where actions have been taken to address issues arising from audit work performed, this is acknowledged.

Reasonable Assurance

There are generally sound systems of governance, risk management and control in place across the organisation. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of some of the strategic and operational objectives.

Punita Talwar, Internal Audit Manager

2.3 The annual audit opinion should be considered in conjunction with thematic insights arising from Internal Audit’s work along with other key assurance sources, set out below at paragraph 2.4. Sections 1 to 5 of the table at paragraph 2.4 represent the more critical themes/issues/risk areas for the Council and these are also highlighted as significant matters in the Annual Governance Statement. They are also reflected in the Council’s Corporate Risk Register.

More detailed reference to Internal Audit’s work for 2023/24 across a range of assurance and wider work categories is included at Appendix 1. It should be noted that these reflect matters that came to the attention of Internal Audit during the review and cannot be regarded as a complete set of all the control weaknesses that exist or all the improvement areas. It remains the responsibility of management to develop and maintain sounds system of internal control, risk management and governance arrangements. Under work category A – Objective assurance assignments for 2023/24, an ‘open’ or ‘closed’ status is recorded against each area. An ‘open’ status is granted where agreed audit recommendations or advisory points are assessed as outstanding/underway/to be addressed rather than implemented which would denote a ‘closed’ status for the audit.

2.4 Thematic insights arising from Internal Audit’s work 2023/24 including the most significant risk areas from the Council’s Corporate Risk Register

<u>Issues Identified/Risk Implications Relates to 2023/24 Period</u>	<u>Action and status</u>
<p><u>1.Wider Externalities and competing crises</u></p> <p>Exposure to wider externalities and other pressures are continuing to present competing levels of crises. The worsening financial and housing crisis across the local government sector continues to have adverse effects, impacting communities. Consequently, the Council continues to encounter some challenge in the context of delivering corporate priorities. <i>(This is elaborated further in the subsequent paragraph).</i></p> <p>The ongoing significance and impact of wider evolving externalities such as the macro-economic environment (including the knock-on effect of elevated inflation, accelerated interest rates and cost of borrowing over a sustained prior period), and geopolitical tensions have continued to exacerbate the Council’s financial challenges in delivering corporate</p>	<p><u>1.Management Action</u></p> <p><i>The Corporate Risk Register highlights how the Council’s risk exposure to wider externalities continues to present some adverse impact and ongoing challenges in terms of the Council’s financial sustainability, economic prosperity, Housing Development programme, and provision of housing need. The local mitigation measures and prioritised actions to alleviate the identified risks have been drawn out in the Corporate Risk Register.</i></p>

<p>priorities. These factors coincide with increased service demands to support communities during a continued Cost-of-Living crises, housing crisis and Cost of Doing Business crises. Inevitably, the Council cannot exert control or influence over the direction of these evolving wider externalities and therefore the extent to which it can reduce, control, or mitigate such risks remains focused around localised measures.</p>	
<p><u>2.Financial risk</u></p> <p>(i)Financial risk remains a strategic theme carrying high impact across several risk categories on the Council's Corporate risk register. Ongoing financial pressures, challenges and local authority funding constraints (similar to other Councils) continue to have a significant impact on the Council's budgetary position and financial sustainability in delivering corporate priorities and services. A balanced budget has been produced for 2024/25, although additional budgetary challenges from 2026/27 have been identified by Finance and communicated by the Corporate Management Team (if a Fair Funding Review and Business Rates reset happens then).</p> <p>(ii)In the context of financial risk, externalities and wider factors have continued to significantly affect the financial viability of each housing development scheme project leading to rising overall costs, and risk of adverse financial position of the Council. In responding to this threat, the Council decided to suspend direct delivery of the Housing development programme from mid-September 2023. Options are being explored with a view to minimising the proportion of accumulated capital costs (£10-£15m) to be charged to the Council's Revenue</p>	<p><u>2.Management Action</u></p> <p><i>(i)Please refer to the Council's Corporate Risk Register for a range of actions underway or planned in alleviating the ongoing financial challenges. This includes progressing the medium-term financial strategy, application of earmarked financial reserves to the Council's budget with forecast over 4 years, quarterly monitoring of the efficiency savings programme and extent of cashable savings target being delivered, and the introduction of zero-base budgeting as part of the 2025/26 budget cycle. A Surrey Wide Financial Resilience Review has been undertaken in 2023/24 to ascertain a holistic County position.</i></p> <p><i>(ii)Please refer also to the first management action under category 3 below in terms of progressing a new Development Delivery strategy, which may over time support mitigation of current holding costs being incurred on development sites (once outcomes are delivered on sites).</i></p>

<p>budget, with ongoing management of this risk. In addition, holding costs of £1.6m per annum relating to the housing delivery schemes are continuing to be incurred until outcomes are delivered on the sites. These factors continue to present a significant financial impact on the Council's budgetary position.</p>	
<p><u>3.Housing – Development and Targets</u></p> <p>(i)Further to the Council's decision to suspend direct delivery of the Housing development programme from mid-September 2023, this has/will further impact timelines for delivery of housing schemes and development targets (both affordable and general housing).</p> <p>(ii) The existing Local Plan is no longer fit for purpose and has become significantly out of date. Various factors have led to significant delays in the examination and adoption of the Local Plan, which are likely to continue to impact on the ability to bring forward the appropriate quantum of housing development. Therefore, preparation and adoption of a New Local Plan to meet future need and strengthen affordable housing policy remains a work in progress.</p> <p>Due to further pausing of the Local Plan Examination Hearings until Spring 2024, as a result of the decisions made at the Extraordinary Environment and Sustainability Committee on 29.2.24, a number of specific risks and challenges presented include (as identified and reported in the Corporate Risk Register): (a) additional pressure on SBC Local Plan to meet the housing need of other boroughs (b) a lack of certainty around Housing Delivery (c) legal challenge (d)prospect of unsuitable developments (e)</p>	<p><u>3.Management Action</u></p> <p><i>(i)Subject to Member approval, the Council will be progressing a Development Delivery strategy to accelerate housing outcomes across the sites currently owned by the Council. The new Member driven strategy aims to support robust and timely decision making by applying established criteria to inform and guide decisions relating to future development delivery approaches. This will be further supported by the overarching Asset Management Strategy.</i></p> <p><i>(ii) The views of the Environment Agency have been received on the revised Strategic Flood Risk Assessment. In response, the Council is considering whether there is scope to develop some mutually acceptable amendments to address the concerns raised by the EA, whilst still ensuring the future safety of residents. Proposed amendments to the Local Plan will then be put forward to the Planning Inspector to enable him to reach a view on whether the Council is able to re-commence the independent Examination of the draft Local Plan.</i></p>

<p>adverse publicity and reputational damage.</p>	
<p><u>4.Housing –Supply and Demand; Addressing Need and Provision</u></p> <p>(i)Lack of affordable housing supply increases homelessness with increased demand for temporary or social housing. The demand for temporary housing increased significantly over the last year for a variety of reasons and is expected to increase further. The housing crisis is therefore increasing the need to spend on temporary accommodation to support residents, impacting further the ‘financial risk’ theme referred to above under category 2.</p> <p>(ii)Geopolitical factors continue to present increased demand in supporting refugee communities and consequently managing the provision of suitable and secure housing.</p> <p>(iii)More asylum seekers have/are presenting to the Council in need of housing support partly due to the increased rate of determination of asylum seeker claims by central government.</p>	<p><u>4.Management Action</u></p> <p><i>Please refer to the Council’s Corporate Risk Register category 1B. Some examples of how the risks are being managed are referred to below.</i></p> <p><i>(i)Quarterly Strategic Action Plan monitoring and review relating to Housing and Homelessness Strategies.</i></p> <p><i>Collaborative working with Registered Social Landlords and Partners to pursue delivery of affordable housing need and manage pipeline of units.</i></p> <p><i>The Local Authority Housing Fund initiative - LAHF capital grant rounds 1 & 2 are being drawn upon to support provision of temporary accommodation (see below also).</i></p> <p><i>(ii) Acquisition of properties to support refugees forms an important strategy that the Council is pursuing. (Partly funded from the Local Authority Housing Fund - LAHF capital grant rounds 1 & 2). This is intended in the longer term to support general housing need.</i></p> <p><i>(iii)The Council is lobbying for additional funding support in recognition of the resourcing and financial impact of more asylum seekers presenting in need of housing support.</i></p>
<p><u>5.Climate Change and Environmental Sustainability</u></p> <p>The adverse impact of Climate Change is already being felt through greater extremes of weather (storms with heavier rainfall and heatwaves). As referred to in the Corporate Risk Register, instances are increasing and likely to continue. Ongoing focus will need to be given to prioritising mitigation measures in managing the significant impact of these risks, as</p>	<p><u>5.Management Action</u></p> <p><i>The Council are continuing to review its preparedness for Climate Change and the register sets out many examples of risk management strategies currently in place or underway. The Council are continuing to roll out a comprehensive Carbon Literacy training programme to inform and educate individuals, with a view to supporting improved integration of environmental considerations in planning and delivering services.</i></p>

<p>well as adaptation to environmental change.</p> <p>The impact of extreme weather can be fatal (in the summer of 2023 there were 72,000 excess deaths reported in Europe due to the extreme heat and 4500 in the UK in 2022). This also impacts on the economy and puts at risk safety, livelihood, homes, and properties. Actions required by the Council, for example in responding to the recent severe flooding occurrences is seriously draining the Council's resources.</p>	
<p><u>6. Periodical review of procedural practices and policy frameworks</u></p> <p>Some audit assignments identified scope for updating procedural practices documentation and associated policies. Whilst this may not necessarily be regarded as a priority task in the context of wider service pressures, it remains important that officers have a clearly defined, relevant and current procedural and policy framework within which to operate that encompasses key internal control processes. Organisational or service restructures and staffing changes may result in a transfer or loss of knowledge, and a documented practices framework is also useful to support business continuity arrangements.</p>	<p><u>6.Management Action</u></p> <p><i>During 2023/24 the Council have already identified the need to develop more robust central monitoring mechanisms to ensure that key procedural documentation and policy frameworks are scheduled for timely review and regular reporting.</i></p> <p><i>Appendix A incorporates several audit recommendations raised around periodical review and refreshing of procedural practices documentation and associated policies for specific functions audited in 2023/24. In some areas these have been implemented.</i></p>
<p><u>7.Audit Trails and Decision Making</u></p> <p>It was identified that better evidencing to demonstrate officer and management checks being undertaken for some financial systems/wider processes would help to support/reinforce accuracy and validity of data input including where changes are initiated.</p> <p>There are some systems where certain elements of audit trails were</p>	<p><u>7.Management Action</u></p> <p><i>Appendix A incorporates several audit recommendations around the need for better audit trails in some areas, as well as enhanced transparency to demonstrate relevant stages in supporting officer decision making. These are being taken forward.</i></p>

<p>found to be weak or incomplete. For example, demonstrating how a decision has been derived on a housing application submitted should be efficiently integrated into routine practices so that the rationale for decisions and actions are transparent and can be ascertained by someone who has had no prior involvement with the process.</p>	
<p><u>8. Corporate Procurement</u></p> <p>Whilst an appropriate framework is in place (and has been strengthened since the prior internal audit), the audit identified that requirements need to be re-enforced to all Procuring Officers to ensure adherence to Contract Standing Orders. Compliance monitoring processes across a range of areas also need to be strengthened and embedded to enable prompt identification of issues or trends arising. Contract management processes across various stages of the cycle including the Contracts Register also require enhancements.</p>	<p><u>8. Management Action</u></p> <p><i>A management action plan was produced during autumn 2023 to take forward the audit recommendations. A progress update was presented to the Audit Committee at the meeting of 30th January 2024 by the former Procurement lead officer including key developments around delivering a comprehensive training programme and continued awareness raising. Some next steps were discussed at that time.</i></p> <p><i>Appendix A incorporates recommendation status advised previously. Due to interim resourcing arrangements in place, the interim Procurement Manager may wish to update the status further of recommendations in due course.</i></p>

3. Options analysis and proposal

3.1 There are no options being raised.

4. Financial management comments

4.1 During 2023/24, the Audit Manager led on overseeing and coordinating counter fraud measures across the authority in promoting strategy implementation. During 2023/24, a total of 529 suspected fraud referrals (these related specifically to high-risk public fraud service areas) were passed to Reigate and Banstead's Counter Fraud team for investigation, with 525 cases reported as reviewed. Overall fraud losses prevented/detected for the financial year 2023/24 amount to £367k (rounded). This incorporates both notional and cashable savings. It is based on notional financial savings/methodology set by the NFI (Cabinet Office) derived from their estimated financial savings/losses to the public purse across each of the high-risk public fraud categories and is broken down in the table below.

Spelthorne's quantified Counter Fraud Returns for 2023/24 (Public Fraud)

Category	Positive Outcomes (Number of cases)	Notional Savings £	Cashable Savings £	Proportion of quantified cashable savings to Spelthorne £	Proportion of annual fraud return %
Housing Register Applications	17	£55,080	£0	Nil reported	15%
Homeless and Prevention	15	£48,600	£0	Nil reported	13.25%
Social Housing Fraud	2	£186,000	£0	Nil reported	50.7%
Council Tax Reduction Scheme and Housing Benefits	7	-	£55,270.19 (CTRS – 20,340.72) (HB – 34,929.47)	CTRS – £6,079 based on 11% HB £34,929.47	15.1%
Council Tax – SPD * refer also to <u>additional</u> SPD returns generated from the targeted Countywide exercise	4	-	£21,822.49	£2,400 based on 11%	5.95% *
Totals for 2023/24	45	£289,680	£77,092.68	£43,408.47	Total fraud savings £366,772 (Columns 3+4)

*In addition, Spelthorne participated in a County wide Single Person Discount (SPD) data matching exercise. The Customer Services team have reported that from this initiative 829 SPD'S were removed of which 76 have been re-instated.

An extract from the report produced by the service provider NEC is set out below which surmises key financial outcomes from the exercise:

'NEC provided the Council with a 5.46 % reduction in the number of SPDs claimed, inclusive of 16 general CTR cases and 184 CTR non responder cancellations. Excluding the 200 returns, the cancellation rate is 4.0% This subsequently resulted in additional Council Tax revenue in excess of £296,425.37 for the Council which in turn, equates to an average cancellation

value of £536.03 per SPD removed by NEC. Please note, savings do not include returned accounts.

5. Risk management comments

- 5.1 Please refer to the table under section 2.4 for key themes, issues, and risk implications for the Council, highlighted through the work of Internal Audit (relating to 2023/24) including how these will be addressed or mitigated. Implementation of audit recommendations will reduce risks for the authority and enhance the robustness of the control environment which is acknowledged by the Councils Management Team and the Audit Committee.
- 5.2 Failure to undertake internal audit work to the required professional standards reduces the level of compliance with the mandatory Public Sector Internal Audit Standards (PSIAS) and the new Global Internal Audit Standards launched in 2024, with a requirement to fully apply to the new auditing standards from 2025. It would also lessen the reliability of assurance provision to the Council regarding the effectiveness of control systems in place and could result in an increase in the Council's annual external audit fee. Whilst External Audit cannot place reliance on the work of Internal Audit, discussion and insight may inform aspects of respective work programmes.

6. Procurement comments

- 6.1 There are none being raised as part of this report.

7. Legal comments

- 7.1 The Public Sector Internal Audit Standards (PSIAS) are mandatory further to the Accounts and Audit (England) Regulations 2015. Production of an annual audit report and annual audit opinion forms a requirement under PSIAS, reinforced under the new Global Internal Audit Standards that have taken effect from 2024 with full implementation stipulated by the Chartered Institute of Internal Auditors (Global) for all internal audit professionals and service providers by 2025.

8. Other considerations

- 8.1 There are none.

9. Equality and Diversity

- 9.1 Equality, Diversity and Inclusivity represents a risk category included on the Corporate Risk Register, along with a risk improvement action.

10. Sustainability/Climate Change Implications

- 10.1 There is inclusion on the Council's Corporate Risk Register, given that it represents a significant strategic risk category. In addition, an internal audit review was undertaken as part of the 2023/24 audit programme.

11. Timetable for implementation

- 11.1 Implementation of audit recommendations and audit status (open or closed) will continue to be periodically monitored as part of the follow up process. Some Managers incorporate audit follow up as part of the continuous performance management process when holding performance clinics with individual officers, which provides a further mechanism to promote and embed a robust control environment.

12. Contact

12.1 Punita Talwar, Audit Manager. P.Talwar@splethorne.gov.uk.

Background papers:

Internal audit reports

Internal audit working papers

Correspondence or discussions on risks and controls/issues arising

Audit Advisory and support work

Corporate Risk Register (published)

Counter Fraud Returns

Appendices:

Appendix A – Work areas undertaken by the Internal Audit Service relating to 2023/24

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Internal Audit Plan Area for 2023/24	Specific area & Accountable officer (s)	Assurance Opinion (See key) *(Where Applicable)	Recommendations and/or advisory points raised	Status at June 2024 (Agreed/ Implemented/Outstanding) **
Category 1. Assurance Assignments (Audits) **Please note that where audits have an 'Open' Status, this denotes outstanding recommendations. A 'closed' status is recorded if all agreed recommendations and advisory points are fully implemented.				
1.Audit Assignment Final audit report issued June 2023	Communications Head of Communications & Customer Experience	Substantial assurance	1 advisory point raised - scope for more formalised media awareness training or brief awareness sessions to be arranged that covers existing staff. It is acknowledged that induction sessions are held for new starters.	Open Audit. Agreed and partially implemented. A new Communications section to assist staff has been published on SpelNet which incorporates a media protocol. Social media training has been arranged for Members in February 2024.
2.Audit Assignment Final audit report issued July 2023	Housing Benefit Overpayments Group Head Community Wellbeing and Housing Benefits Manager	Reasonable Assurance	1 advisory point raised - Whilst the Housing Benefit Overpayment policy was still considered fit for purpose, a refresh of the policy is timely as it was last undertaken in 2019, with periodical review going forward. <i>Residual Risk area:</i> Significant cumulative overpayment debt of £3m+ continues and	Closed Audit. Agreed and implemented in October 2023. The residual risk area is recognised by the service area, and the bad debt

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			remains an inherent risk to the service area and the Council due to the statutory limitations on how much Housing Benefit Overpayment (HBO) can be recovered given the challenges of dealing with families earning a low income. It is recognised that a bad debt provision is in place to cover most of this sum.	provision is periodically reviewed by Finance in relation to outstanding debt levels.
3.Audit Assignment Final audit report issued August 2023	Climate Change and Environmental Sustainability Group Head Commissioning and Transformation	Reasonable Assurance	1 advisory point was raised recognising continued importance for relevant teams to liaise in advance of decision-making processes, including when acquiring residential properties, to ascertain climate change and sustainability implications. This is with a view to supporting robust integration measures into wider Council decision making and holistic approaches in delivering Spelthorne’s Climate Change strategy. The review confirmed all prior recommendations raised in the audit of 2021 had been implemented. There were no recommendations raised as part of the 2023/24 audit.	Open Audit. Agreed and being implemented.

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<p>4.Audit Assignment Final audit report issued September 2023</p>	<p>Treasury Management Chief Accountant</p>	<p>Reasonable Assurance</p>	<p>Recommendation 1. Treasury Management Policy Statement to be reviewed and updated and made available for public inspection.</p> <p>Advisory Point 1 – Establishing a second assigned officer trained up on Cashbook reconciliations would provide increased team resilience where officers are on leave or absent.</p> <p>Advisory Point 2 - A refresh of Treasury Management Practices 5 is timely to ensure that the dealing arrangements accurately reflect the current position in practice.</p>	<p>Closed Audit.</p> <p>Recommendation 1. Implemented. The policy statement has been revised and appended to the latest Treasury Management Strategy approved in January 2024, ensuring inclusion on the Council’s website.</p> <p>Advisory Point 1 – current and future arrangements for the Cash Book reconciliation have been advised. No further response is required.</p> <p>Advisory Point 2 – Implemented.</p>
<p>5.Audit Assignment Final audit report issued January 2024</p>	<p>Gifts and Hospitality Group Head Corporate Governance</p>	<p>Reasonable Assurance</p>	<p>Recommendations relate to: Recommendation 1a - Periodical review of the Gifts and Hospitality Policy to ensure it remains current and relevant. Recommendation 1b – In promoting understanding of the Gifts and Hospitality</p>	<p>Open Audit. Some target dates not reached. 1a. Aim to implement by end of June 2024.</p>

	CX Secretariat		<p>policy requirements and underpinning principles, to deliver awareness raising sessions on a biennial basis or other frequency deemed appropriate.</p> <p>Recommendation 2 - All instances of Gifts and Hospitality offered should be promptly submitted and recorded in the collated Gifts and Hospitality Register which is publicised for completeness and transparency purposes. There may be scope for a completeness check to be undertaken at periodical intervals.</p> <p>Recommendation 3a - Greater use of the electronic form (rather than manual entry) for submissions of gifts and hospitality offered.</p> <p>Recommendation 3b - Establishing an integrated authorisation and challenge process ahead of gifts and hospitality being accepted, which would provide the Monitoring Officer with an opportunity to review the declaration made ensuring that any issues with the suitability of the Gift and / or Hospitality offered, could be discussed.</p>	<p>1b. Implemented and ongoing. Group Head of Corporate Governance raised awareness of the Policy at the November staff meeting (15.11.23).</p> <p>2. Partially addressed. The Monitoring Officer has agreed to reinforce the need for timely notification and submissions of instances of gifts and hospitality offered. Target November 2024.</p> <p>3a. Agreed and taken effect.</p> <p>3b. Liaison will take place with the IT team in developing the online form for authorisation intervention stage. Target November 2024.</p>
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			<p>Recommendation 3c. The Monitoring Officer could be assigned the role of reviewing and authorising Gifts and Hospitality declarations raised by Officers and Members, with the Chief Executive maintaining some higher-level oversight as considered necessary.</p> <p>Recommendation 4(i) - The Mayoral PA to review the Council’s Gifts and Hospitality register once a month to identify any entries where either Officers or Members have recorded ‘donated item to Mayors Charity’.</p> <p>Recommendation 4(ii) Establish and maintain a record to capture and account for donated items in terms of subsequent actions of charitable use and applicable dates. This is with a view to developing a control process.</p>	<p>3c. This is dependent on implementation of recommendation 3b.</p> <p>4i. Implemented and ongoing.</p> <p>4ii. Establishing record keeping systems and pursuing measures to ascertain charitable use.</p>
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<p>6.Audit Assignment</p> <p>Final audit report issued April 2024</p>	<p>IT Audit – Disaster Recovery</p> <p>Group Head Commissioning and Transformation</p> <p>Applied Resilience (External Service provider)</p> <p>IT Audit Manager</p>	<p>Limited Assurance</p>	<p>Recommendations are set out below:</p> <ol style="list-style-type: none"> 1. The IT Risk Register to be finalised and reviewed. 2. To confirm formalisation of ongoing contractual arrangements with Applied Resilience are in place. 3. The Strategic Business Continuity Plan to include details of testing the plan including the frequency. 4. The IT Team to keep a centralised copy of the strategic BCP and ICT DR Plan so that it is accessible and available on request as required. 5. Further to review of the Emergency Plan the next steps require that the plan is approved by the corporate management team and relevant Committee. 	<p>Open Audit</p> <ol style="list-style-type: none"> 1. Agreed for implementation July 2024. 2. New contract to be put in place from September 2024. 3. Under the emergency planning/business continuity plans testing is undertaken and the plan document will take account of the audit recommendation. August 2024. 4. Agreed and will require the Applied Resilience Service to provide updated versions to the IT team. 5. Target to implement by June 2024. 6 & 7. Unlikely to implement failover core switches and failover routers due to cost.

			<ol style="list-style-type: none"> 6. Core switch resilience to be implemented as soon as possible. 7. Resilience for the network router infrastructure to be implemented as soon as possible. 8. The Council to satisfy itself that departmental business continuity plans are regularly updated and are in date. 9. The Council to satisfy itself that an appropriate Disaster Recovery plan is in place and is fit for purpose. 	<p>In managing associated risks, the Council already pay for support for these items so that, in the event of failure, the items are replaced on the same day.</p> <p>8.To confirm by June 2024.</p> <p>9.Managment response to be provided for recommendation 9.</p>
<p>7.Audit Assignment</p> <p>Final audit report issued June 2024</p>	<p>Housing Register & Allocation Process</p> <p>Group Head Community Wellbeing</p> <p>Strategic Lead - Housing /Housing Options Manager</p>	<p>Reasonable Assurance</p>	<ol style="list-style-type: none"> 1.The requirements for documenting assessment decisions to be reviewed to ensure that the rationale for decisions taken is clearly recorded. 2. The wording on the website and/or application form to be reviewed / strengthened to highlight to applicants upfront that any initial banding decision will be provisional and subject to the full verification process. 3.Relevant training needs to be identified and training sessions put in place, in order to reduce the number of errors at the initial banding stage. 	<p>Open Audit</p> <p>1.Agreed to implement and target 1st August 2024.</p> <p>2.Agreed to implement and target 1st July 2024.</p> <p>3.Agreed to implement and target 1st July 2024.</p>

			<p>4.Consideration to be given to introducing a management spot check of applications. This could be based around a figure (e.g. 10%) or focusing on areas which are more complex / more errors are made (e.g. 100% of care leaver cases).</p>	<p>4.Agreed to implement by 10th June 2024.</p>
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<p>8.Audit Assignment</p> <p>Final audit report issued June 2024</p> <p>Group Head Commissioning and Transformation to sign off report.</p>	<p>Payroll</p> <p>Group Head Commissioning and Transformation</p> <p>Human Resources Managers x 2</p>	<p>Substantial Assurance</p>	<p>A data analytics exercise was undertaken of standing payroll data and concluded an overall positive assurance for the areas tested.</p> <p>Scope for some internal control enhancements were identified as part of wider review of key controls. Recommendations are set out below:</p> <p>1.Management may wish to consider exploring the reporting options available within the current software package (iTrent) to ensure that this is fit for purpose in terms of management information to allow appropriate scrutiny of the data.</p> <p>2.HR / Payroll teams to review the processes in place for secondary checking of iTrent data input by independent officers to ensure that appropriate evidence is maintained. This could involve formal notes or sign offs being added to the electronic documents, or email confirmations being retained on file.</p> <p>3.Group Heads and Service Managers to be reminded of the importance of completing the</p>	<p>Open Audit</p> <p>1. The Service Managers have concluded that reporting options in iTrent do not enable deep dive review of the data across every process activity. Further system upgrades may improve this. No further management action is planned at this stage.</p> <p>2. Agreed. This will be incorporated into the System Administrator Post responsibilities subject to recruitment taking place. Target date dependant on successful recruitment.</p> <p>3.Agreed.When the next bi-annual review is undertaken</p>
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			bi-annual Establishment List checks to ensure that it remains accurate and up to date.	(due July 2024) Managers will be reminded of the importance to complete.
9.Audit Assignment Draft audit report issued April 2024 Chief Accountant to sign off report.	Main Accounting Chief Accountant	Substantial Assurance	Recommendations are set out below: 1.Guidance to be produced in relation to New User requests for Centros (Council’s main financial system), to ensure that these are completed accurately and appropriately authorised. 2.As the Purchase Ledger VAT Suspense account is not manually reviewed by Council officers, a query should be raised with the software provider to gain clarity on the use of the account and the impact of having a non-zero balance on the account.	Open Audit 1.Agreed to refresh form and guidance. Target 30.6.24. 2.Agreed - target 31.5.24.
10.Audit Assignment Draft audit report issued April 2024 Chief Accountant to sign off report.	Creditors Chief Accountant	Reasonable Assurance	The status of some prior audit recommendations was verified and reported on. Most of these had been actioned with a couple of areas outstanding for perusal relating to refreshing Job descriptions for all roles and responsibilities and reviewing the necessity for use of cheques as a future payment method to Suppliers. Further recommendations arising from the 2023/24 audit are set out below:	Open Audit

			<p>1.(i)Procedure notes for the accounts payable team/function to be reviewed to ensure these are up to date and incorporate key control processes. Details should be included of when they were last reviewed, who carried out the review, and the next expected review date.</p> <p>1(ii)A periodic review of procedures should also be scheduled and assigned to a named officer/post to ensure these remain up to date moving forward and serve as a reference point for all staff including new starters.</p> <p>2. (i)The Payments team to ensure that all verification checks and management checks in relation to supplier bank details changes are recorded as diary notes.</p> <p>2(ii)Where requests come from internal sources, ensure that all relevant supporting evidence is provided to ensure the accuracy and validity of the change to supplier bank details.</p> <p>3.Ensure that all authorised signatory emails are kept and filed appropriately with each BACS payment run to evidence the key authorisation stage undertaken prior to the payments being released.</p>	<p>1(i)Agreed – target November 2024.</p> <p>(1ii) Agreed- target November 2024.</p> <p>2(i,ii)Agreed target November 2024.</p> <p>3.Agreed target November 2024.</p>
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			<p>4.(i)The format of the Duplicate Payments monitoring spreadsheets to be reviewed to ensure that details of the actions being taken, the individual officers responsible and the management checks carried out are all formally recorded.</p> <p>4(ii)Specific timeframes and frequency intervals for chasing suppliers to be set to ensure a consistent approach is adopted prior to passing cases over to Sundry Debts for recovery.</p>	4 (i,ii).Agreed target November 2024.
11.Audit Assignment	Commercial Assets Group Head Assets	To be confirmed	<p>Audit observations and findings included the following areas:</p> <p>1.A positive assurance relates to recent development and strengthening of the overall governance framework for the investment portfolio such as establishing a new overarching Asset Management strategy underpinned by related strategies and policies. Setting up more robust performance management arrangements for the investment portfolio has progressed to improve the quality of outcome reporting.</p> <p>2.Some inaccuracies and inconsistencies of data presented in asset business plans require rectification. Going forward the various elements of supporting information should</p>	Open Audit

			<p>feed in accurately and consistently to any higher-level data being reported when refreshing business plans, ensuring decisions and actions can be validated.</p> <p>3. It was noted that several asset business plans report significant losses anticipated in terms of net income forecast for specific future years and this will need to be reflected in performance management information across individual assets.</p> <p>4. Lease process – It is important to ensure that all decisions relating to rent reviews are documented even if the decision is for no action to be taken at that point in time.</p>	
12. Audit Assignment	<p>Financial Resilience</p> <p>Chief Finance Officer</p> <p>Chief Accountant</p>	Not concluded	<p>Terms of Reference produced and discussed, and fieldwork in progress. It is acknowledged that measures for monitoring and reporting cashable savings being delivered as part of the Council’s efficiencies programme have been further developed and strengthened in terms of control design. Testing the effectiveness of operation of such controls will not form part of this audit given they will take effect from the end of Q1 2024/25.</p> <p>In acknowledging external sources of assurance/external critique reviews with</p>	Any recommendations arising will be reported in due course.

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			specialist expertise advising the Council, the importance of maintaining a coordinated approach and improvement plan to continue to address any necessary actions remains pivotal.	
13. Audit Assignment	Property Development (Housing Development Programme) Group Head Assets	Not applicable	Further to discussion with the Group Head of Assets it has been agreed that this audit would not be undertaken as there are no tangible aspects to review during 2023/24 given the Council’s decision in September to suspend direct delivery of property schemes. It is noted that a new development delivery strategy is to be implemented.	Not Applicable
14. Audit Assignments x 3 (i)-Creditors (Final report - September 2023) (ii)-Cross Cutting review of Planning and Property development (Final report- November 2023)	Completion, finalisation and oversight of prioritised assignments from 2022/23	See subsequent rows below for further details	Internal Audit have completed fieldwork, testing, risk and control analysis, meetings, and held several discussions around findings, observations and improvement actions. Final reports have been issued across all three areas.	Open and Closed Audits. See below three rows.

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(iii)- Procurement (Final report – December 2023)				
14i Audit Assignment Final audit report issued September 2023	Creditors Chief Accountant	Reasonable Assurance	<p>Recommendation 1. To implement an effective control that includes an additional check of the various payment methods to ascertain whether a potential duplicate payment has occurred.</p> <p>Recommendation 2. Measures have been proposed and discussed with a view to reducing the risk of duplicate payments in some scenarios and will require coordinated efforts across Budget Managers, Service Accountants and Finance. Full details are referred to in the audit report.</p> <p>Recommendation 3. Management should endorse the importance of reconvening the National Fraud Initiative (NFI) data matching exercise which incorporates Creditors data as this represents an important internal control process and advocates counter fraud measures.</p> <p>Recommendation 4. Management to undertake periodical data cleansing and housekeeping exercises of the supplier</p>	<p>Closed Audit.</p> <p>All recommendations have been agreed to take forward in managing risk.</p> <p>Recommendation 1 –Agreed to address risk by adapting CHAPS form, target date 30.9.23. Actioned.</p> <p>Recommendation 2. A management action plan has been outlined , target implementation 30.9.23. Actioned.</p> <p>Recommendation 3 – commenced and target date for completion November 2023. The data matching exercise has been completed with investigation of potential duplicates underway.</p>

			<p>database (Creditors dataset) to reduce risks of duplicate payments and strengthen controls in this area. Such exercises would also present a better picture of the scale of suppliers in use across the authority. The groups of duplicate suppliers identified during the audit review should help to inform this exercise.</p> <p>Recommendation 5. Duplicate Payment record keeping arrangements should be enhanced to ensure the consistent accuracy and reliability of the data held within the spreadsheet. Management should consider enhancing the effectiveness of recovering Duplicate Payments by promptly transferring cases to the Sales Ledger team.</p>	<p>Recommendation 4. Agreed to undertake annually and target date of June 2024 for first exercise due to other team priorities and restructure. On track to take place during quarter 1 of 2024/25.</p> <p>Recommendation 5. Agreed for implementation as a regular ongoing process. Target date 30.9.23. This has partially progressed, and a revised recommendation has been issued in April 2024 to strengthen monitoring and record keeping. (Please refer to earlier category 10 for details)</p>
14ii. Audit Assignment Final audit report issued November 2023	Cross cutting review of Planning and Property Development	Reasonable Assurance	<p>Recommendation 1. Councillors to be periodically reminded of where/when appropriate Declaration of Interest is required to be submitted in line with the Code of Conduct. In addition, Officers (Committee Service) should ensure this is consistently</p>	<p>Open Audit. (Latest status to be provided)</p> <p>Recommendation 1 – Agreed to implement, target date of December 2023. Declarations of interest are a</p>

	<p>Group Head Corporate Governance/Group Head Assets/ Group Head Place, Protection and Prosperity</p>		<p>included on the relevant agenda(s) to serve as a prompt to Members.</p> <p>Recommendation 2. All officers present/in attendance as part of the Development Sub-Committee or Planning Committee should be documented as part of the meeting minutes to ensure transparency and demonstrate professional representation. In addition, the relative voting split relating to the various developments should be recorded as part of the meeting minutes for completeness.</p> <p>Advisory Point- Under the Committee structure there is not a specific requirement to have a separate overview and scrutiny function (unlike under a Cabinet model) and due to the significant scale of Council business this may not be deemed practical. Nonetheless, the new administration provides a timely opportunity to review the adequacy of the level of embedded scrutiny operating within the Committees (prior internal audit review of the Committee system in April 2022 already highlights this issue and a recommendation was raised at that time).</p>	<p>standard item on committee agendas.</p> <p>Recommendation 2 – Agreed to implement, target date of December 2023.</p> <p>Status update required- (TBC) Service area to confirm whether the level of embedded scrutiny within the Committee system has been considered further as part of the latest review of the Committee structure.</p>
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<p>14iii. Audit Assignment Final report issued December 2023</p>	<p>Corporate Procurement Group Head Corporate Governance</p>	<p>Reasonable Assurance</p>	<p>Whilst an appropriate framework is in place (and has been strengthened since the prior internal audit), the requirements need to be re-enforced to all Procuring Officers to ensure adherence to Contract Standing Orders. Compliance monitoring processes across a range of areas also need to be strengthened and embedded to enable prompt identification of issues or trends arising. Contract management processes across various stages of the cycle including the Contracts Register also require enhancements. Internal audit recommendations are set out below.</p> <ol style="list-style-type: none"> 1. Standardised processes to be established to capture all relevant approvals in line with Contract Standing Order requirements. 2. A distinct Procurement landing page to be developed on Spelnet to ensure that all relevant procurement policies and guidance is easily accessible. 3. Advertising requirements to be re-enforced to all Procuring Officers to ensure that all procurement exercises are carried out in accordance with Contract Standing Orders. 4. Action to be taken to ensure that contracts are signed prior to the start date of the 	<p>Open Audit</p> <p>The former Procurement Manager produced an action plan to take forward the audit recommendations and provided an update to the Audit Committee in January 2024. It is acknowledged that an interim Procurement Manager is currently in post, and may advise further of the latest status of any prior outstanding recommendations.</p> <ol style="list-style-type: none"> 1. Agreed to implement. Target November 2023. 2. Implemented. 3. The Procurement manager is proposing a change be made to Contract Standing orders (CSO'S) regarding advertising requirements.
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			<p>contract. Processes should also be reviewed to establish appropriate mitigating measures to ensure that the Council’s interests are adequately protected in the event that it is not possible for the contract to be signed prior to the start date (for example ensuring that suppliers are operating subject to standard or enhanced Purchase Order terms, depending on the nature of the contract).</p> <p>5.Contract signing requirements to be re-enforced to all relevant officers to ensure that enhanced limitation period protection is put in place for contracts above £100,000 in line with Contract Standing Orders and Constitution requirements.</p> <p>6.Contract Standing Order requirements to be re-enforced to Procuring Officers to ensure that all requirements are adhered to by third party consultants, with appropriate supporting evidence to be provided by the consultant and retained on the contract file.</p> <p>7.The Evaluation Matrix document to be signed off in all cases, with details of the Evaluation Panel recorded on the document.</p>	<p>This will be taken forward as part of the current review of CSO’S.</p> <p>4.Partially addressed during September/October with some further actions underway in liaison with other Service areas.</p> <p>5. Action to take this forward has been completed in October 2023.</p> <p>6. Partially addressed through training sessions delivered, with some further actions underway in liaison with other Service areas.</p> <p>7. Action to take this forward has been completed.</p>
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			<p>8.(Prior audit recommendation re-issued) Compliance monitoring processes to be developed and embedded, including:</p> <ul style="list-style-type: none"> a) 6 monthly compliance reviews of spend against the Contract Standing Orders. b) Review of Purchase Orders over £20,000 to manage non-compliant spend. c) Implement an annual planned schedule of contract management audits, in line with the Contract Standing Orders requirements. <p>9a.The Managing Contracts procedure to be reviewed to incorporate how monitoring outcomes should be recorded. (b)A process to be put in place to facilitate central oversight of key contracts, with monitoring outcomes recorded centrally. (c)Implement contract review alerts on the new contract management system for all contracts that are due to expire, with responsibilities clearly outlined for overseeing contract forward planning.</p> <p>10. Exemptions procedure to be re-enforced to all relevant officers to ensure that all waivers are appropriately logged and reported, to enable greater transparency and allow for</p>	<p>8a.Agreed to implement. Target December 2023</p> <p>8b.Implemented.</p> <p>8c.Agreed to implement. Target 30th November 2023.</p> <p>9a.Completed.</p> <p>9b.Agreed to implement. Target 30th November 2023.</p> <p>9c.Agreed to implement. Target 24th October 2023</p> <p>10. Partially addressed with some further actions underway in liaison with other Service areas. Target 31st October 2023.</p>
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			<p>appropriate scrutiny of the decision making process.</p> <p>11.Roles and responsibilities and associated processes for populating the Contracts Register to be reviewed/updated and re-iterated to Procuring Officers to ensure that all relevant contractual agreements are captured in line with Transparency Code requirements.</p> <p>12.Current Contracts Register data to be reviewed to ensure that all relevant information is captured in accordance with the Transparency Code, and to ensure that the Contracts Register contains up to date information. Furthermore, robust mechanisms continue to be developed to ensure that the Contracts Register remains fit for purpose.</p>	<p>11. Agreed to implement. Target 31 December 2023.</p> <p>12. Agreed to implement. Target by 30th November 2023.</p>
Internal Audit Plan Area for 2023/24	Category 2 - Audit Follow Up Drive			
9.Audit Follow Up Drive Position Statement issued July 2023.	Follow up of status of audit recommendations for 2021/22 and 2022/23 to assess implementation.	<p>Work undertaken in Quarter 1 & 2 as scheduled.</p> <p>The recommendations followed up span across several service areas. The follow up drive concluded that the implementation rate of recommendations could be improved, and this message has been reiterated.</p>		

Appendix A – Annual Audit Report 2023/24

		Status of recommendations and advisory points raised across more recent audits that coincides with this latest reporting period for 2023/24 is referred to above.
Internal Audit Plan Area for 2023/24	Category 3 – Audit Committee (PSIAS)	
10. Statutory Reporting and Audit Committee	Several processes undertaken and reports produced during the year in accordance with the Audit Committee Work Programme	<p>Audit Committee cycle for 2023/24 - July, November, January and March. Chair Briefings (Audit Committee and CPRC) and Committee meetings.</p> <p>Requirements for the July 2023 meeting delivered:</p> <ul style="list-style-type: none"> • Annual Audit Report, Key Themes document and Audit opinion for 2022/23 • Input to Annual Governance Statement • Revision to audit assurance opinions • Training session for the Audit Committee, liaison with external trainer and input to training material <p>Requirements for the November 2023 meeting delivered:</p> <ul style="list-style-type: none"> • Internal Audit Plan reprioritisation 2023/24 and status • Interim Audit Report of work activity and assurance provision April to October 2023 <p>Requirements for the January 2024 meeting delivered:</p> <ul style="list-style-type: none"> • Annual review of Internal Audit Effectiveness and External Quality Assessment recommendations <p>Requirements for the March 2024 meeting delivered:</p>

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		<ul style="list-style-type: none"> Reporting relating to wider assurance work, corporate roles and responsibilities (Corporate Risk Management and Corporate Counter Fraud) <p>Requirements for the July 2024 meeting – Annual Audit Report, Key Themes document and Audit opinion for 2023/24</p>
Internal Audit Plan Area for 2023/24	Category 4 – External Quality Assessment (PSIAS)	
11. Continuous Improvement	Periodic External Quality Assessment for Internal Audit Services forms an essential requirement under the Global Internal Audit Professional Practice Framework (IPPF) and Public Sector Internal Audit Standards (PSIAS)	Reciprocal arrangement undertaken with two other Surrey authorities during November to December to assess conformance with the Public Sector Internal Audit Standards (PSIAS). As part of the External Quality Assessment process, a substantial self-assessment documentation has been completed to ascertain compliance across a significant number of categories, and supporting evidence collated for validation/review. The independent review concluded that Spelthorne’s Internal Audit Service ‘generally conform’ to the PSIAS which is a positive overall rating, with many areas of good practice highlighted. Recommendations and action plans promoting continuous improvement were subsequently discussed and reported to the Corporate Management Team and Audit Committee.
Internal Audit Plan Area for 2023/24	Category 5- Corporate Roles and Responsibilities – Corporate Risk Management	
12. Corporate Risk Management	Corporate Risk Register	Identification, analysis, monitoring and reporting on strategic risk management. The Corporate Risk Register represents the Council’s most significant strategic risks, with updating, reporting and presentation of the register to Management team, Audit Committee and CPRC undertaken three times a year. The Corporate Risk Management Group has representation from

		<p>Group Heads and Managers across the authority and provides an opportunity to discuss emerging and evolving risks and issues.</p> <p>The Internal Audit Manager delivered some refresher training and guidance at a Manager’s Briefing in February on effective risk management strategies/approaches and reinforced differences between internal controls and mitigations.</p>
13. Corporate Risk Management (Additional Work Area)	New Risk Management System	<p>In improving and modernising the visuals, design, presentational and reporting aspects of the Corporate Risk Register, the Internal Audit Manager collaborated closely with the ICT team. This included several stages of activity (scoping/planning/requirements/design and build/data input/testing etc) in progressing the development of an in-house central system for corporate risk management to support future input, analysis, collation and reporting. The refreshed Corporate Risk Register was presented to the Audit Committee in the new format in March and well received. The changes provide a further opportunity to promote and embed risk management principles and good practice such as risk ownership.</p>
Internal Audit Plan Area for 2023/24	Category 6- Corporate Roles and Responsibilities – Corporate Counter Fraud	
14. Corporate Counter Fraud	<p>Public authorities have a duty to support fraud preventative measures as well as deterrence, detection and investigation of fraud to minimise financial losses from being incurred and to ensure scarce public resources are not wasted or diverted from</p>	<p>The Council’s Counter Fraud Strategy forms part of the Council’s Constitution and was reviewed and refreshed in February.</p> <p>High level oversight, coordination and monitoring of counter fraud outcomes and initiatives for tackling high risk public fraud through continued collaborative working with the Service Provider, other internal services, and wider partners.</p>

	<p>residents/customers who need the service.</p>	<p>Quantified fraud reporting of outcomes continues. This is based on central government methodology and estimated financial losses if the fraud occurrence were to continue and remain undetected. The NFI (Cabinet Office) presents applicable financial savings to the public purse across each of the high-risk public fraud categories.</p> <p>Spelthorne’s overall returns and savings delivered through reducing losses from fraud and error across high-risk public fraud categories for 2023/24 amount to £367k (rounded), incorporating both notional and cashable savings. The cover report provides an analysis of returns across each of the high-risk categories.</p> <p>Promoted counter fraud strategy measures, targeting areas where the authority would benefit from utilising counter fraud specialist support to investigate suspected fraud which could potentially derive positive outcomes. Meetings with the Group Head Commissioning and Transformation and the Customer Services team concluded that going forward a focus on small business rate relief would be relevant as this represents a high-risk fraud area. The Customer Services team participated in a Countywide SPD exercise for Council Tax which has concluded positive results achieved where claimants are found not to be eligible for the 25% SPD discount applied. It has led to additional Council Tax revenue of more than £300k for the Council (chargeable against individual taxpayer accounts).</p> <p>The Data Matching Exercise is progressing well to target social housing fraud and the Strategic Lead for Housing is leading on the project. Potential matches have been identified and are being investigated with higher risk cases being prioritised.</p>
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		Counter Fraud messages have been developed further for the wider public to promote continued awareness and facilitate reporting.
Internal Audit Plan Area for 2023/24	Category 7 – Audit Support, advice and insight	
15.Audit Support, advisory work and insight	There is a growing expectation from Internal Audit professional practice bodies for Internal Audit to provide professional advice to the business (not decision making) during a climate of accelerating risk and challenge. This goes beyond core audit assurance work.	<p>Reactive and pro-active support, advice and insight has been provided to services, corporate groups and management team on a wide range of risk, control and governance issues. Input has been provided to the ‘risk considerations sections’ within Committee reports spanning a range of service areas which has required identification of risk and controls relating to the subject area.</p> <p>Attendance at Working Groups to gain insight into risks and issues, and in an advisory capacity such as Corporate Risk Management Group, Procurement Board and the Corporate Debt Group.</p> <p>Government Grant declarations submitted by the Audit Manager supported by reasonableness checks, verification and documentation review.</p>
Internal Audit Plan Area for 2023/24	Category 8 – Service Management including Contract Management	
<p>Planning, scoping and direction across a diverse work programme relating to audit, risk and assurance. Monitoring progress and delivery of expected outcomes, ongoing coordination of work activities, liaison across service areas, finalisation and completion of several work areas.</p> <p>Audit plan scheduling and reprioritisation as required.</p> <p>Continuous Performance Management and 1-1’s</p> <p>Dotted reporting Lines liaison and reporting; Chair of Audit Committee liaison; Independent Member of Audit Committee liaison</p>		

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<p>Undertaken procurement exercise to support delivery of the 2023/24 audit work programme. Client contractor meetings and Auditor liaison to promote smooth delivery and support contract management.</p> <p>Internal Audit templates and procedural manual refreshed and updated to ensure they remain current.</p> <p>Managers Briefings monthly meetings; Marketplace Event for new Councillors</p> <p>Future Internal Audit Service Provision and TUPE process</p> <p>Managing ad hoc service requests</p>	
Internal Audit Plan Area for 2023/24	Category 9 – All other tasks in supporting service delivery (examples only)
<p>Corporate Processes – such as production of Service Plans; Health and Safety; Budget Management ; GDPR (Surrey Heartlands).</p> <p>Continuous Professional Development to keep abreast of topical issues and technical developments including revised mandatory Professional Internal Audit Standards scheduled undergone consultation phase, launched by the Chartered Institute of Internal Auditors (CIIA) in January 2024 with an expected conformance implementation across the Internal Audit profession by January 2025.</p> <p>Corporate Training</p> <p>Share Point transition, Housekeeping and Data Cleansing</p>	

*Key to Assurance Opinions

Substantial Assurance	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.
Reasonable Assurance	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.
Limited Assurance	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.
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.

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Audit Committee



9th July 2024

Title	Annual Governance Statement 2023-24
Purpose of the report	To make a decision
Report Author	<i>Terry Collier, Deputy Chief Executive</i>
Ward(s) Affected	All Wards
Exempt	No
Exemption Reason	N/A
Corporate Priority	This item is not in the current list of Corporate
Recommendations	<p>Committee is asked to:</p> <p>The Audit Committee is asked to approve the draft Annual Governance Statement at Appendix 1 and endorse the improvement actions identified in the Statement</p>
Reason for Recommendation	The Committee has a statutory duty to review and approve on behalf of the Council the Annual Governance Statement.

1. Summary of the report

What is the situation	Why we want to do something
<ul style="list-style-type: none"> Councils have a statutory duty to undertake an Annual Governance Statement (AGS), reviewing risks and the appropriateness of controls and mitigations AGS required to be included by Councils in their Statement of Accounts Officers have reviewed governance and controls, in particular drawing on the Audit 	<ul style="list-style-type: none"> Ensure that we keep governance and risk mitigation under continuous review Committee to agree the AGS

<p>Manager's Annual Audit Opinion.</p> <ul style="list-style-type: none"> Following the end of 2023-24 the Council has been notified of a Best Value Inspection process 	
This is what we want to do about it	These are the next steps
<ul style="list-style-type: none"> For the Committee to constructive review and challenge the Statement and make suggestions as to refinements. 	<ul style="list-style-type: none"> Feed any amendments to the AGS into the draft AGS which was published as part of the draft Statement of Accounts published for 2023-24, prior to it being reviewed by the Council's external auditors.

1.1 The report appends the draft Annual Governance Statement (AGS) for 2023-24 for consideration by the Audit Committee.

1.2 The draft AGS is included in the draft Statement of Accounts for 2023-24. The AGS includes the Audit Managers Internal Audit Opinion for 2023-24 and highlights significant governance issues.

2. Key issues

2.1 The need to review arrangements for corporate governance and internal control and to produce the Annual Governance Statement (AGS), attached as Appendix A, is given statutory backing by the Accounts and Audit Regulations 2015. The CIPFA/SOLACE governance framework 'Delivering Good Governance in Local Government' brings together an underlying set of legislative requirements, governance principles and management processes. Crucially, it states that good governance relates to the whole organisation.

2.2 CIPFA has assigned proper practice status to the governance framework. It outlines six core principles of governance focusing on the systems and processes for the direction and control of the organisation and its activities through which it accounts to, engages with and (where applicable) leads the community. The degree to which the authority follows these principles should be declared in its Annual Governance Statement. It is this statement that has the legal backing of Regulation 4 of the Accounts and Audit Regulations. The Annual Governance Statement (AGS) sets out the framework within which internal control is managed and reviewed and the main components of the system, including the arrangements for internal audit. The AGS also identifies any areas of significant weakness in internal controls, and areas for improvement, and the actions taken to remedy these through risk mitigation and effective management.

2.3 The Annual Governance Statement relates to the system of governance arrangements and internal control as it applied during the financial year in this case, the 2022/23 financial year.

2.4 The Audit Commission's Code of Audit Practice states that the AGS and underlying process will form a key piece of evidence for auditors' work on the authority's arrangements to secure economy, efficiency and effectiveness. In summary, the AGS will form an increasingly important part of the external auditors' work and subsequent opinion on the control arrangements of the Council.

- Reviewing the effectiveness of Internal Control
- The scope of internal control spans the whole range of local authority activities and includes those controls designed to ensure that:
- Council strategies and policies are periodically reviewed and put into practice.
- There is compliance with law and regulation.
- Agreed procedures and processes are followed to mitigate or reduce risks of error, financial loss, fraud, bribery and corruption .
- Adequate arrangements for safeguarding the authority's assets and resources.
- Financial statements and other published information are reliable and accurate.
- There is the efficient and effective use of management and resources in the delivery of high quality services.

2.5 The CIPFA statement recommends that the Council should satisfy itself that it has obtained relevant and reliable evidence to support the Statement and sets out an assurance gathering process framework. This framework comprises the following stages:

- Establish principal statutory obligations and organisational objectives
- Identify key risks to their achievement
- Identify and evaluate key controls to manage principal risks
- Obtain assurances on the effectiveness of key controls
- Evaluate and identify gaps in controls and assurances
- Produce an action plan to address gaps and ensure continuous improvement in internal controls

Produce the Annual Governance Statement Report to Committee

2.6 The sources of assurance include:

- Published documents (e.g. Constitution)
- Corporate management team and managers throughout the organisation assigned with the ownership of risks and delivery of services

- The Monitoring Officer
- The Chief Financial Officer
- Internal Audit, particularly as summarised in the Internal Audit Annual Report for the year
- External Audit
- Review agencies and inspectorates- including in this particular year the Local Government Corporate Peer Challenge follow up review
- Reviewing and refreshing CIPFA Financial Management Code Self Assessment
- Self assessing against the Governance theme of the Best Value indicators
- Externally commissioned reviews such as reviews of the Council's establishment and of its Investment Assets portfolio
- Review of Corporate Risk Register by Management Team; Corporate Risk Management Group; Audit Committee and Cabinet

- 2.7 In undertaking the review and completing the Annual Governance Review all of the above sources of assurance have been taken into consideration.
- 2.8 Following the end of 2023-24, on 8th May the Department for Levelling up Housing and Community notified the Council that it was commissioning a Best Value Inspection in the context of the level of the Council's outstanding borrowing levels which will report to the Secretary of State by the end of August. The Council will positively engage with this review.
- 2.9 An important source of assurance is provided by the work of Internal Audit and several of the control issues identified in part 3 of the Statement relate to items identified in the Audit Services' Reports for 2023/24 which have been considered by the Audit Committee, particularly with respect to issues identified in the Corporate Risk Register.
- 2.10 It is important the actions identified with regard to the control issues are taken forward.

3. Options analysis and proposal

4. It is proposed that the Audit Committee approve the Annual Governance Statement for inclusion within the Statement of Accounts for 2023-24

5. Financial implications

- 5.1 Addressed within the statement

6. Risk considerations

- 6.1 Consult with Audit team (G.Audit@spelthorne.gov.uk) and detail any risk implications arising from the report and how these will be mitigated.

7. Procurement considerations

- 7.1 Having appropriate procurement arrangements, including Contract Standing Orders form part of good governance arrangements

8. Legal considerations

8.1 The Accounts and Audit Regulations require the Statement of Accounts to include a signed off Annual Governance Statement, failure to do so could result in qualification of the accounts

9. Other considerations

9.1 None.

10. Equality and Diversity

10.1 Good governance includes ensuring appropriate governance in place to address equality and diversity issues.

11. Sustainability/Climate Change Implications

11.1 Good governance will help the Council effectively address sustainability and climate change issues.

12. Timetable for implementation

12.1 If there are any amendments proposed by the Committee these will be fed into the AGS in the draft Statement of Accounts for 2023-24, this will be prior to the AGS the being reviewed by external auditors who will then comment on it in their annual audit report.

13. Contact

13.1 Terry Collier t.collier@spelthorne.gov.uk

Background papers:; There are none.

Appendices:

List as Appendix A Draft Annual Governance Statement for 2023-24.

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Appendix A

Annual Governance Statement 2023-2024

Introduction

As Leader and Chief Executive, we are acutely aware that everything the Council does relies upon a foundation of solid governance. Having come through the COVID 19 pandemic, we continue to be significantly impacted by the geo-political challenging landscape - the war in Ukraine, conflict in the Middle East, a Cost of Living Crisis, a cost of doing business crisis, and a housing crisis. The Cost of Living crisis created new pressures for our residents, businesses, communities and for the Council itself. This means that 2023-24 was yet another challenging year for the Council.

In May 2023, the Council held whole Borough elections which resulted in twenty-two new councillors and the formation of a new Administration made up four of the five Groups in the Chamber. The Administration is seeking to be an all-inclusive Council, further refining the Committee system and associated governance arrangements. To properly equip our new councillors, we provided a comprehensive induction programme in the early months after the May 2023 elections. In total there were 22 training modules for councillors.

We are charged by government to run the Council efficiently, effectively and economically. As a resident, you will rightly want reassurance that proper systems are in place and running properly to deliver the vital services on which you depend and we are pleased to present this Annual Governance Statement to explain how we deliver on these expectations, to outline what has been achieved over the last year and tell you about the improvements we are currently working on. We also set out action taken in the year to address any significant governance issues identified since the previous year's Governance Statement (2022/23).

Our commitment to good governance has seen a Committee System Working Group (CSWG) identify a new committee structure to further improve decision making processes. This was considered by the Standards Committee on 10 April 2024 and then Council later that month. It is anticipated that the revised committee structure will be in place from the May 2024 Annual Council Meeting. We have also continued to apply an overarching strategic framework in setting out the Council's corporate priorities and values in a new Corporate Plan that was approved by Council in February 2024.

We hope that in reading this Statement you will be encouraged to explore further the work of your Council. You can read all the documents to which we refer on our website and view Council meetings online to see how we do business. You can also discuss any of these matters with your local Councillor.

LGA Peer Review

During 2023-24 the Local Government Association (LGA) completed a 'Corporate Peer Challenge (CPC) Follow Up Review' of the Council to take stock of progress made against the original peer review undertaken in November 2022. A Corporate Peer Review challenge is where experienced officers and leaders from other local authorities visit a council to review how its governance operates, how it understands and responds to its financial challenges, how its management and leadership is working, how it engages with its communities and understands and responds to the challenges they are facing. LGA Peer challenges are

designed to support councils to drive improvements and efficiency and to assist local authorities to respond to local priorities and issues in their own way to the greatest effect. The original Peer Review took place in November 2022 and the Council received its report on 1st February 2023 ([Spelthorne BC CPC Report November 2022](#)), which was published and was considered by Full Council on 23 February 2023. This included a recommendation that Council agree to the development of an Action Plan to address the recommendations in the CPC report. Council agreed to accept these recommendations, subject to amending Recommendation 2 of the covering report to state, “to agree to the development of an Action Plan to address those recommendations and for this to be directed through the Corporate Policy and Resources Committee”.

The original CPC review made 12 key recommendations to the Council:

1. All Members need to identify what they have in common in terms of shared priorities and objectives for your Borough and your residents and use them to progress the delivery of your shared ambitions for Spelthorne.
2. Then share your agreed political ambitions for the Borough to create a longer-term vision embodied in a broadly agreed Corporate Plan.
3. Take the opportunity you now have to reset the officer / Member working relationship and agree how it will work differently going forward for the benefit of your residents.
4. The discrete but complementary roles of officers and Members need to be better understood by all to improve working relationships.
5. Take the time today to plan for tomorrow. Do not put off the ‘non-urgent strategic’ work you need to do.
6. Members need to respect officers’ roles and give them the time and space to focus on delivering the important priorities you have agreed.
7. Recognise the risk of continued poor behaviour by some Members and the likely impact on the organisation and your reputation as a Council and a place. Take steps to address it.
8. Continue your efforts to address the issue of outstanding audits of the financial accounts.
9. Review the working of the committee system by looking at best practice elsewhere to consider how to create a system that is fit for purpose.
10. Engage in financial training for Members to promote a better understanding of financial implications, project viability and creating robust business cases.
11. Improve the balance between communication and meaningful engagement whereby people feel listened to and heard. Use this in the context of evidence and need, to drive priorities and take people with you.
12. Consider how the LGA can continue to assist with the above recommendations on this reset journey.

Steps were taken by the Council to address issues outlined in the CPC Team’s comments/recommendations, such as a review of the current committee system, the development of a Member training programme following the May 2023 local borough elections, and commissioning in summer 2023 an independent Establishment Review, undertaken by South East Employers (SEE), which went to Corporate Policy and Resources Committee on 1st July 2023 and covered issues such as staff recruitment and retention, as well as reviewing

how staffing was structured. A Members Financial Reporting Working Group was set up for councillors to work with officers to help improve the clarity of financial reports. The Working Group proposed the “4 square” summary to be added to reports which has been implemented. The Working Group is looking at how reports can make greater use of graphical analysis, ensuring that reports do not include unexplained acronyms etc.. A Peer Review Action Plan was developed to address all 12 of the recommendations made by the CPC Team and this underpinned a position statement that was shared with the CPC Team in November 2023

The final version of the follow up review was received in March 2024 and was considered by Corporate Policy and Resources Committee in April 2024 along with an update on the progress made in the intermediate months, including approving the Council’s Corporate Plan 2024-28 and resetting the Member-officer relations in formulating a unified ‘Team Spelthorne’.

The detailed Corporate Plan setting out our corporate priorities, values and 135 short-, medium- and long-term actions was approved by Council in February 2024. Progress with these actions will be monitored and reported through a dashboard available to Councillors, and quarterly updates will be provided to the Corporate Policy and Resources Committee. An Annual Report will also outline progress across each year and where necessary the Corporate Plan will be adjusted to take on board any emerging issues and revised priorities.

The Council’s vision for the Borough

The Council in December 2023 approved the high-level elements of a new Corporate Plan for the period 2024-28 and in February 2024 Council agreed a detailed plan, including short-, medium- and long-term targets. The Plan sets out five key priorities under the acronym CARES.

Community: To place the needs of the Borough at the heart of everything we do: supporting residents to live healthy and fulfilling lives and empowering communities so they feel included, valued, supported and safe.

Addressing Housing Needs: To support the delivery of high quality housing and solutions to allow residents to live independently which meets the needs of all sections of the community at every stage of life, addressing the challenges around availability, affordability and homelessness.

Resilience: To ensure prudent management of our finances and resources and create a climate in which businesses can thrive. Work with partners to maintain our preparedness for emergencies.

Environment: To work with our residents, suppliers and partners to minimise our impact on the environment and to achieve ‘net zero’ emissions by 2030. To maintain a clean and attractive Borough which supports biodiversity.

Services: To deliver a wide range of high-quality community focused and accessible services for everyone who lives and works in Spelthorne, striving for continuous improvement in all aspects of our work and providing excellent customer care.

Each of the priorities have three underlying themes.

Cost of Living Crisis and Housing Crisis

The overwhelming challenge for us in the past year has been responding to the ongoing cost of living crisis and inflationary pressures and managing the ongoing uncertainty. These external pressures have both impacted on the Council directly, making it more challenging to balance our budget, but equally they have made the lives of our residents more difficult, with more people turning to the Council for assistance, such as with housing and homelessness.

The Council's need to respond to increasing levels of demand for housing support has generated the largest single growth-bid built into the 2024-25 Budget, which was for £900k towards meeting the increased need to spend on temporary accommodation.

Environment

The Council is committed to continuing to address climate change, and with various energy audits undertaken the Council is continuing to look at becoming net zero by 2030. Following planning approval for a flagship ultra-low energy use (Passivhaus) leisure centre, Construction is nearing completion on the Council's flagship, ultra-low energy (Passivhaus) 'Eclipse Leisure Centre', the UK's first full sized wet and dry Passivhaus leisure centre. This will potentially save 600 to 700 tonnes of carbon dioxide per annum. We continue to work with other authorities in Surrey to seek funding and improve best practice in developing climate change measures. We received £12k funding from the Net Zero Innovation Programme to develop a community-led initiative with Talking Tree, The Open University and Cobra collective, with the aim of bringing together local people to respond to the climate emergency, develop new practical initiatives and inform Council policy.

The Council has also supported various biodiversity initiatives in our parks and looked to communicate climate change messages on a regular basis, covering a range of topics.

Spelthorne Borough Council (SBC) has continued to roll out its Carbon Literacy training programme across staff and councillors. It is aiming to achieve silver level of accreditation where the majority of staff are certified as carbon literate. This training gives staff and councillors an understanding of the causes and effects of climate change as well the knowledge and motivation to reduce carbon emissions in their personal and work lives. Each member of staff or councillor who attends training makes two pledges about how they will reduce carbon emissions at work, helping to reduce the Council's emissions.

Every year SBC organises a conference for pupils from Primary Schools within the borough and the programme is now in its 15th year. Each school is invited to bring up to 6 students to take part in a daylong conference dealing with Environmentalism, Sustainability, Environmental Responsibility and Personal Environmental Impact.

The Council continues to actively participate in the development process for the River Thames Scheme, which will mitigate the impact of flooding in the Borough. During 2023-24, the Council's Planning and Environmental Health team have been responding to the consultation on the Development Consent Order for the Scheme. The Council has been publicising awareness of this consultation.

Service Delivery

In 2023 we progressed our digital transformation strategy and after a procurement process we are implementing a new customer portal to make it easier for residents to access services when and how they wish. We continue to work within all services to ensure we are as efficient and effective as possible through a continuous improvement process. Our project

management process was digitally improved to make it easier for services to complete relevant documents and introduced better reporting systems, the changing needs of our communities, adapting to meet new challenges, new ways of working and different ways of interacting with our communities.

The Corporate Plan feeds into the service plans of the different Council Services so that the organisation pulls in the same direction.

How we run the Council and its subsidiary companies

The Council is governed by democratically elected councillors and managed by professional staff. There is a clear demarcation of roles and numerous systems and processes in place to make sure that things get done properly:

Constitution. This document remains a modern and effective document. <https://democracy.spelthorne.gov.uk/ieListMeetings.aspx?CId=209&Info=1&MD=constitution> This has been reviewed during the course of the year as amendments have been made in the light of development of the committee system, recent events and changes in legislation. The most recent update to the Constitution was agreed by Council on 14 December 2023.

Policy Framework. We have a number of important policies which are approved by a majority of all councillors. These are reviewed regularly. One of key policies is the Local Plan and this is being reviewed at the present time.

Governance Framework. We adhere to standards jointly published by the Society of Local Authority Chief Executives (SOLACE) and the Chartered Institute of Public Finance and Accountancy (CIPFA). We ensure that these are kept under review. Corporate Governance refers to the arrangements and processes by which an organisation is directed, controlled, led and held to account. In the public sector it is important to achieve agreed outcomes whilst meeting the public interest.

Scrutiny of decisions. During the period to which this Annual Governance Statement covers, the majority of decisions are made by the Committees or delegated to officers. There are structures and processes in place to hold these to account. We have an Audit Committee which have cross party representation to review our risk management arrangements, performance, influence policy and review our decisions.

As a result of our strategic property investments (that the authority made up to 2018) that generates a commercial revenue stream that supports many community focused services, there continues to be a focus on how decisions around the management of these assets are made and how risks are mitigated and managed. Under the Constitution agreed in May 2021, a new sub-committee of the Corporate Policy and Resources Committee was established to deal with certain decisions relating to the delivery of housing, regeneration and assets projects, to enable timely decision making and to ensure appropriate democratic oversight.

Knowle Green Estates Ltd (KGE). We have ensured that it has independent auditors and that such audits feed into the Council's overall Statement of Accounts. In December 2020, two experienced Non-Executive Directors were appointed following a competitive recruitment process. The 2022-2023 annual report can be read [here](#). The Knowle Green Estates accounts are independently audited, as well as being reviewed by the Council's external auditors when they audit the Council's consolidated Group Accounts. The independently audited accounts

for 2022-23 received a clean audit opinion and show on the Total Comprehensive Income and Expenditure statement a £1.2m excess of income for the year, this was as a result of an upwards valuation in the Company's assets of £2.9m.

Spelthorne Direct Services Ltd (SDS): During 2020-21, the Council set up SDS to provide new local commercial waste services to businesses in the Borough and to help them more effectively recycle and minimise waste. SDS accounts are independently audited and the auditors have issued a clean audit opinion for the 2022-23 Accounts. Work has now started on preparing for the audit of the 2023-24 Accounts. The 2022–2023 annual report can be read [here](#).

How we manage the Council's finances

Nothing can happen in the Borough unless there is the money there to provide it. We have successfully delivered a programme of financial change. Our previous *Towards a Sustainable Future* programme delivered the sound basis on which we now proceed, which has enabled us to continue to provide our discretionary services for residents. An efficiency and transformation programme has been put in place for 2024-25 to ensure that the cashable savings built into the 2024-25 Budget are delivered. Progress against those targets will be reported on in the quarterly budget monitoring reports.

Commercial Property Investments

Thirty percent of the money we need to run the Council and provide services for residents now comes from our investment properties. It is essential that these investment work for us and that we protect them for the long-term. We have a range of measures in hand to ensure that this happens. We have already strengthened our staff resources and implemented changes to our governance systems to ensure that we are proactively and professionally managing this multi hundred million pounds portfolio. We will continue to do this. In response to the challenges of COVID-19 the Council put in place weekly review meetings, involving both senior councillors and senior officers, to assess performance collecting commercial rent. The Council's portfolio performed very well with more than 99.8% of the commercial rent invoiced for 2021-22 collected, 99.98% in 2022-23 and currently a draft figure of 99.1 % for 2023-24. (This slightly lower than previous years due to one tenant being in an administration process).

The Council has continued its strategy of mitigating future risk by setting aside a proportion of rental income into sinking funds to ensure that, if required, the Council has funds to offset short-term dips in rental income. At the end of 2024-25 the Sinking Funds Reserves balances stood at £35m, a slight drop of £3m from the previous year's balance of £38m. The Council had however been anticipating the need to make some use of the sinking funds reserves to offset the impact of some churn of tenants across the portfolio in-year (occupancy rate at the year-end 90%). During 2024-25, we will be undertaking a review of the sinking fund methodology, whilst also modelling and agreeing a refreshed strategy for the next fifty years. At the same time as the sinking funds reserves reduced by £3m in 2023-24, the Council has increased its general contingency reserve, the General Fund by £1m increasing the balance to £3.1m. This will provide the Council with additional resilience during turbulent times.

Dialogue with Department for Levelling Up, Housing and Communities; CIPFA Capital Assurance Review and Best Value Inspection

During 2023-24, the Department for Levelling Up-Housing and Communities (DLUHC) continued a dialogue a number of Councils with relatively high levels of debt. Spelthorne fell

into this group due to the nearly £1 billion it borrowed at fixed rates to acquire its investment assets (in the period 2016 up to 2018). The Council constructively engaged with DLUHC officers during summer/autumn 2022 through to summer 2023 and explained the Council's approach to mitigating debt on its investment assets through its Sinking Funds reserves. In February 2023, DLUHC Ministers decided to progress further the review by asking the Chartered Institute of Public Finance and Accountancy (CIPFA) to undertake a further Capital Assurance Review with authorities within scope (including Spelthorne). The review work was undertaken in February/March 2023 and CIPFA submitted their report to DLUHC in July 2023. The report can be seen here [Spelthorne Borough Council: Capital Assurance Review \(publishing.service.gov.uk\)](https://publishing.service.gov.uk) The report acknowledged that the investment asset portfolio is managed in a reasonably professional and proactive manner. However CIPFA stated as the portfolio has an anticipated 50-year lifespan (now 42 to 44 years before debt fully paid off) that. CIPFA suggested the Council would benefit from a more long-term management approach. The report commented on the Council's ambitious affordable housing plans which it was evaluating at the time of the review. At the time of the review those plans represented £325.2 million of borrowing over the next four years. Concerns were expressed that Finance was shorthanded, and internal audit arguably so. There were 12 recommendations made as follows:

1. Deployment of DLUHC expert independent support into SBC to assist with its immediate and ongoing financial challenges
2. The council's affordable housing plan should be subject to a rigorous viability assessment and options appraisal
3. Set tight future borrowing limits, providing for schemes that have commenced and for statutory requirements
4. Agree specific terms of reference for the review and treatment of the sinking fund
5. Subject the investment property portfolio to immediate fundamental assessment and ongoing review, including consideration of disposals
6. The council's financial management capacity and skills base should be assessed
7. The council should increase the capacity of its internal audit team
8. The council's approach to financial governance and decision making should be reviewed urgently
9. As part of the review of governance and decision making, any actual, perceptual or potential conflicts in relation to Council Officer/Member involvement with Knowle Green Estates and similar bodies should be assessed
10. Time-limit property valuer incumbency
11. Commission a review of the use of short-term borrowing
12. Ongoing review of business cases

In response, as requested by DLUHC, the Council issued a granular response to the CIPFA conclusions and recommendations, see [Spelthorne responds to Best Value Inspection letter - Spelthorne Borough Council](#). This included highlighting that the CIPFA review did not review as a key part of the Council's risk mitigation with respect to its investment assets and borrowing, its sinking funds reserves. The Council did consider carefully the recommendations and over the following twelve months did advance a number of actions. Following on from the discussions with CIPFA, the Council reviewed its approach towards capital risk management. This was combined with implementing an Action Plan to address the recommendations in the October 2022 Public Interest Report issued by the Council's external auditors. The steps taken by the Council since the CIPFA review include:

- In response in part to the impact of significantly higher interest rates and construction inflation, the Council in October 2023 took the decision to step back from seeking to directly deliver and finance housing delivery projects across the Borough. Instead, the Council agreed to continue to seek to address housing need but through a place making and joint venture strategy. This approach is being developed in collaboration with councillors and is being led by the Group Head for Assets.
- In October 2023 the Council reduced its forward borrowing limits by £280m
- This means once the Council's new leisure centre is completed there will be very limited capital programme spend required to be financed
- Council has reviewed its borrowing approach with its advisers, existing debt is fixed until maturity without a need for re-financing
- The Council's Audit Committee addressed concerns expressed with respect to its internal audit resilience by recommending to Council in February 2024 that the Council join the Southern Internal Audit Partnership (SIAP), the Council joined SIAP in April 2024 which will give it access to a large pool of internal audit expertise and resource.
- At the time of the CIPFA review the Council was completing a restructuring of the finance team which strengthened it, including creating two CIPFA trainee apprentice posts
- The Council participated in autumn 2023 in a Surreywide independent Financial Resilience review undertaken by LGA Improve
- The Council has further reviewed and refined its Committee governance arrangements including committees overseeing property matters
- The Council is time limiting valuers incumbency, and following CIPFA's suggestion commissioned a second parallel valuer of its investment assets, which was reported to its Development Sub-Committee
- Since it acquired its investment property assets in 2016-2018, the Council has periodically commissioned external experts to critically review our portfolio, the arrangements for managing those assets, and the risks and opportunities relating to those properties. The most recent independent review commissioned by the Council was undertaken by JLL and reported to the Council's Development Sub-Committee in February 2024 and to Audit Committee in March 2024. The review identified that most of the assets in the portfolio remained best in class and well placed to do well when the office market sector begins to recover when interest rates start to ease. The review considered the issue of future restructuring of the portfolio, including timing of disposals.

On 8th May 2024 the Department of Levelling Up Housing and Community wrote to Spelthorne notifying that it was commissioning a Best Value Inspection of the Council under the new Best Value framework (also confirmed by Government that day), and for the report to be submitted to the Secretary State by the end of August. The Inspection notification letter made reference to both the CIPFA Review and the LGA Peer Review and Peer Review follow up report. The inspection will seek direct, independent assurance that the Authority is making arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. The review has been requested in the context of ministers' concerns about the Council's high level of outstanding past borrowing and their desire to have assurance that risks are being managed appropriately. The Best Value Inspection follows on from the CIPFA review mentioned above. The Council welcomes the opportunity to engage with an independent review team and the chance to provide evidence of the appropriateness of arrangements in place. The Council will positively engage with the Inspection team.

Systems of internal control

Apart from the specific overview of the Council's investments and housing schemes, we have established systems and control processes in place to effectively manage risks, ensuring the day-to-day running of the business and the sound management of cash-flow. Managers are responsible and accountable for operating adequate systems of internal control to effectively manage risks within their Services, giving due consideration to fraud, bribery and corruption risks. We have a Chief Finance Officer (CFO), also known as the s151 Officer, who oversees these systems, and they are regularly audited proportionate to the level of risk. Internal Audit findings are raised with management, and recommendations reported to the Audit Committee. There is regular budget monitoring by the Corporate Policy and Resources Committee and these papers are published on our website for you to read. We have a Medium Term Financial Plan and we review our finances against this. The CFO is a member of the Council's senior Management Team.

Budget Process

The process has been reviewed to consider opportunities for improvement, including continuing to encourage collective ownership on financial management. As part of closing the Outline Budget gaps over the medium term we have confirmed with councillors and senior managers that we will be undertaking a zero-based budgeting exercise for the 2025-26 Budget which will feed into the next Budget process, alongside an efficiency programme which will cover all service areas.

Communicating effectively

As an authority we all need to make sure we are listening to all sections of our communities right across the borough and that there is trust and confidence in the way we make decisions. We know that the services we provide are better when we listen to the people who use them and when we work together with local communities.

Our priority is to build strong relationships with residents and businesses and forge links within our communities, so everyone feels included. One way we achieve this is through communicating effectively so that the Council's visions, priorities and outcomes are clearly understood and, most importantly, ensuring residents have the opportunity to challenge us, express ideas and shape the decisions which affect them.

Our internal stakeholders are equally important to shaping our priorities and there are several opportunities for employees to have their say. We encourage them to have their say on consultations as well as informing and involving colleagues at monthly all-staff briefings, listening to issues and concerns via staff surveys and an open-door management style, which all help to deliver team collaboration and innovation. In 2022, we also worked in partnership with the Local Government Association in delivering a Councillor Survey, which fed into the Peer Review process, and a review of the Committee Model of Governance which we now operate under. Work is underway for a 2024 survey, using the same template, which is planned for May. This will allow the authority to benchmark the results from two years ago.

Engaging with stakeholders

The Council has several ways it engages and communicates with residents and businesses in the Borough. We are always reviewing the most appropriate ways to communicate, from formal statutory consultations through to the Council's use of social media, website, the Customer Portal, Borough noticeboards and direct mail.

Growing our social media audience has been a priority and since March 2020 our followers reach has increased by 74% and is an integral engagement tool to interact with our residents. With the use of an accessibility tool on the website, all pages can change language, size or colour dependant on the user's need and personal requirements. We purchased new software for the website which monitors accessibility, and this is tracked weekly.

The Council adapted its communications over the past four years to best serve our residents. Our [engagement strategy](#) outlines this:

Consult: We hold frequent consultations about various issues and topics, including housing developments, health and wellbeing, arts and culture, budget setting and community safety. Consultations take on various forms, both online and in person to ensure maximum accessibility. Consultation results are then reported back to residents with an outline of next steps and decisions.

Listen: We will work with and listen to our communities and partners on various topics in order to improve Council services and find better ways of working. Various workshops and marketplace events are held, either in person or online with stakeholders having the opportunity to share ideas and highlight best practice.

Collaborate: We hold Residents' Associations forums where residents can discuss their concerns with the Leader of the Council and Council Officers; continue to develop strong partnerships in all sectors of our community, businesses, other authorities and health, so that knowledge, skills and expertise can be shared to help shape priorities and effectively deliver on them.

Empower: We promote community empowerment and democracy. Council meetings are streamed live on You Tube and residents are invited to watch in person in the council chamber and we also welcome petitions as an important way in which people can let us know their concerns.

Our engagement strategy adopts a holistic approach to ensure that we engage with as many residents as possible, especially from communities that are more difficult to reach. We are committed to continually driving forward community engagement and look for new ways, tools and platforms so that all residents can be heard, not just those who are the easiest to reach, or the most vocal.

How we are accountable

The Council is a democratic body and the powers which we exercise are derived from the electors. There are numerous systems in place to allow members of the public to get information, ask questions, challenge the Council and get involved. Ultimately the entire organisation is governed by residents just like you. This gives the Council tremendous strength in deciding what needs to be done in the Borough and how we prioritise scarce resources for best effect. You can consider some of the many ways to get involved:

- Raise issues through the Council's 'report-it' forms.
- Speak to your ward councillor or the Chair or Vice-Chair of the Committee responsible for the issue.

- Complain about services you think are not performing, or equally provide positive feedback when you think we are doing well.
- Request information under the Freedom of Information Act and the Environmental Information Regulations.
- Ask questions at the Council and the newly formed Spelthorne Partnership Assembly (which covers issues relevant to both Spelthorne and Surrey County Council).
- Present petitions.
- Speak at Planning Committee about applications in your neighbourhood.
- Join your local residents' association.

Almost all of the information you need can be found on our website (www.spelthorne.gov.uk) and we only restrict the publication of a very limited quantity of material where there is good reason, such as the need to respect the data protection rights of individuals or commercial confidentiality.

How we learn from complaints and feedback

The Council is always keen to hear from residents and staff about how it can deliver better services to residents. We also have feedback questionnaires for some services. We have a number of procedures in place:

- Our Complaints procedure is working well. However, we are always looking at ways to improve it.
- We have a staff whistleblowing procedure in place; this is highlighted as part of the staff induction process.

How we promote high standards in public office

The Council is committed to following the Nolan principles of public life which are:

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 and treat others with respect. They should actively promote and robustly support the principles and challenge poor behaviour wherever it occurs.

The Corporate Plan sets out the core values of the Council under the acronym PROVIDE. This stands for:

- Pride in our council and communities
- Responsive and respectful
- Open and accountable
- Value for Money
- Integrity
- Dependable
- Empowering and inclusive

It can be seen that there is a considerable synergy between the Council's values and the broader public sector Nolan values set out above.

The Council's values define the guiding principles and the culture of the Council and explain how the Council will act to achieve corporate priorities and objectives. The Council's values apply to all Officers and Members. These will be followed by a set of defined organisational behaviours to supplement the core values.

The Council has a dedicated Standards Committee. This Committee is guided by an Independent Chairman and Vice-Chairman. A Panel of Independent Persons is in place. They are consulted on any complaints against councillors to say whether they should be investigated.

We have numerous policies and procedures in the Constitution to back up a strong ethical approach to local government. In the year 1 April 2023 to 31 March 2024, there were 9 complaints against Members. This is a reduction from 11 during the previous year. One complaint is currently being investigated. A number have been rejected by the Monitoring Officer as being politically motivated or insufficient evidence to support the complaint. On 16 March 2022, the Council's Standards Committee approved revised arrangements for dealing with Member complaints. The revised procedure requires the Monitoring Officer to undertake a 2-step assessment to filter out complaints based on specified criteria. In accordance with the Council's Member Misconduct Complaints Procedure, the Independent Person's view is sought on all complaints that pass the 1st stage of the assessment criteria.

The Council has in place a policy(<http://www.spelthorne.gov.uk/article/18641/Gifts-and-hospitality-policy>) on Gifts, Hospitality and Sponsorship which applies to both staff and councillors. The policy was subject to internal audit during 2023/24 and Reasonable

Assurance was found. There are also policies dealing with Counter-Fraud, Bribery and Corruption and Whistleblowing.

External Audit

Whilst the KPMG, the Council's external auditors reported to the Audit Committee in March 2023 their intention to issue an unqualified opinion on the 2017-18 Statement of Accounts, the auditors signed off their opinion on the Accounts on 19th June 2023, this followed updating of the Annual Governance Statement for 2017-18. This followed on from the Public Interest Report (PIR) the external auditors issued in October 2022 and the qualified Value for Money Opinion for 2017-18. During 2023-24, the Audit Committee approved an Action Plan with the new Group Head for Assets, progress against which will be periodically reviewed. This included a revised Asset Management Strategy and Plan being agreed. The Asset Management Plan sets out the way the Council will manage its Assets, the frequency and timing of reporting performance of the portfolios against an agreed set of Key Performance indicators and an updated risk register, which will also form part of the annual and half yearly reporting.

The table below summarises which audit firm is responsible for auditing different years of accounts. The firms are not appointed by the Council but by Public Sector Auditor Appointments.

Accounts years responsible for auditing	Audit Firm
Up to and including 2017-18	KPMG
2018-19 to 2022-23	BDO
2023-24 to 2028-29	Grant Thornton

In large part due to the length of time it took KPMG to complete the 2017-18 audit opinions, combined with national external audit resourcing challenges, and uncertainties caused awaiting clarification as to how Government was going to clear the national backlog (at one stage 918 audit opinions were overdue, subsequently fall to approximately 600 prior to 2023-24 opinions), the Council now faces the unsatisfactory situation of having a backlog of statements of accounts without audit opinions for the period 2018-19 to 2022-23. Whilst the draft statements have been produced each year in time for the national deadlines and in accordance with national accounting guidance, we recognise that this does not give assurance to stakeholders. Unfortunately, the Government's solution of requiring audit firms to issue opinions either modified or disclaimers by 30th September 2024 may mean we will not get assurance on these accounts, and receive disclaimer opinions. However, the incoming auditors Grant Thorntons who are responsible for auditing from 2023-24 will be actively auditing the 2023-24 accounts. They may however have to give a qualified opinion for the 2023-24 Accounts if they are unable to receive sufficient assurance from the outgoing auditors BDO.

The Council continues to be very open to taking on board best practice from external sources, we have previously had positive discussions with the likes of the Local Government Association, National Audit Office, CIPFA and MHCLG. Finance will work with the new Group Head for Assets (who took up post on 14th March 2023), to develop an Action Plan, to build on what the Council is already doing, including: periodic reviews of financial health of tenants; annual review by councillor members of Development Sub-Committee of individual asset business plans and associated risk analysis for individual investment assets; an Asset

Management Plan (which includes KPIs); production of an Annual Investment and Regeneration Assets Report (which addresses the points raised in 6.9 of the Auditors report); and developing a portfolio risk register (assets risks already feature on the Council's overall Corporate Risk Register).

In addition, a corporate risk model/matrix was launched in 2021 as part of the revised Risk Management Policy and risk management training delivered to managers. Given this history of openness to engaging with external reviews the Council, as stated above, looks to positively engage with the Best Value Inspection process. Given that the Council is not acquiring any more investment assets, and indeed under the latest regulations it would not be allowed to do so, it is difficult to further diversify the portfolio through new acquisitions. It should be noted that whilst the investment assets portfolio is concentrated within the Borough and the surrounding Heathrow local economic functional area, as the Council's response to the PIR highlighted, we do have diversification across tenants in a broad range of sectors. However, when opportunities arise, such as investment premises becoming empty, we will undertake analyses to look at options, including disposal or utilisation in alternative use. This process is currently underway with one of the smallest assets in the portfolio. With the completion of more housing and regeneration schemes the Council's overall property portfolio will become more diversified.

The Council already produces and reports on KPIs relating to its assets in its Asset Management Plan and an Annual Report on Investment and Regeneration Assets. It will review these assets' KPIs to ensure they continue to be appropriate and, if necessary, we will expand and refine those KPIs. We will review the current KPIs against the KPIs suggested in paragraph 6.7 of the PIR. The Council in its detailed Revenue Budget has improved the transparency of the breakdown of the budgets for investment assets.

How we learn and improve

A LGA Financial Peer review (<https://www.spelthorne.gov.uk/peerreview>) was undertaken in 2020/21. There are recommendations within the report which we are actively taking forward with regular progress reports being made to Audit Committee. An LGA Corporate Peer Challenge (CPC) Review was undertaken in November 2022, and the CPC Team undertook a follow up visit in November 2023 to review progress against the recommendations they had made.

We periodically review our self-assessment against the CIPFA Financial Management Code to assure ourselves that we are appropriately owning and addressing financial management challenges. We took the latest self assessment to Audit Committee on the 19th March 2024. At the same Audit Committee, we also considered a self assessment against the DLUHC Best Value Theme indicators for Use of Resources.

The Council has an ongoing Continuous Improvement Programme (CIP) where the CIP team work with services to identify improvements and efficiencies in processes, systems and working practices, for example making improvements to make it easier for people to pay the Council online. This has resulted in efficiency savings both in terms of time and money.

Internal audit

Up until the end of 2023-24 the Council had a small internal audit team (supported by audit contractors as required) which provided independent assurance to management and the Audit

Committee on the adequacy of Council Services, and systems of internal control to reduce risk. This team has an annual internal audit plan which is discussed and agreed each year by the Audit Committee. The internal team operates to the Public Sector Internal Audit Standards (PSIAS). The effectiveness of internal audit is reviewed annually and an external quality assessment undertaken once every five years. An independent external review was undertaken in 2023, reporting that the service conformed well to the PSIAS, with many examples of good practice, and the findings and recommendations were communicated to the Audit Committee and Management Team.

During 2023-24, in part in response to the departure of a member of the Audit Team, the Council considered options for enhancing the resilience of internal audit, and following a selective process, Council at its February meeting voted to join the Southern Internal Audit Partnership (SIAP) with effect from 1st April 2024. The Internal Audit Manager has transferred across to SIAP.

Every year, the Internal Audit Manager issues an independent opinion in an annual report concluding on the overall adequacy and effectiveness of the Council's framework of governance, risk management and internal control (in future this will be provided by SIAP). This comments on the risks facing the Council and the adequacy of the Council's arrangements to manage those risks. It represents one of the key assurance statements the Council receives.

The Internal Audit Manager has reported on ten assurance reviews relating to the 2023/24 audit plan, of which three concluded substantial assurance provision, six concluded reasonable assurance and one was identified as 'limited assurance'. Audit recommendations carry a priority rating (low/medium/high) and these will be followed up taking account of target dates to confirm implementation status. Two further assurance assignments currently underway (overall assurance opinions not yet concluded) will be reported in the annual audit report for 2023/24 presented to Audit Committee, and matters arising so far have been considered for the annual audit opinion. Other relevant sources of assurance such as audit advisory work, the Council's Corporate Risk Register and risk exposure to Wider Externalities have been reviewed for the purpose of producing the overall audit opinion.

Annual Internal Audit Opinion 2023/24

Relevant considerations in undertaking assurance work and producing the annual audit opinion are set out at point 1 below:

(1)The ongoing significance of evolving externalities have continued to exacerbate many of the Council’s strategic risks and challenges in delivery of corporate priorities and objectives. Financial risk represents a common theme carrying high impact across many of the Council’s strategic risks, and overlaps with other competing crises and significant pressures, with some reflecting sector wide issues.

The opinion of the Internal Audit Manager concludes on the overall adequacy and effectiveness of the Council’s framework of governance, risk management and internal control. On balance **reasonable assurance** can be provided across these areas and the Council has many established systems of internal control. Scope for improvements to both the design and operation of internal controls in effectively managing risks and delivering objectives have been raised and recommended in some areas.

Internal Audit have consulted managers (corporate management team, Group Heads and managers) to discuss improvement actions to address risks and enhance the robustness of systems of internal control and governance arrangements. Where actions have been taken to address issues arising from audit work performed, this is acknowledged.

Reasonable Assurance	There are generally sound systems of governance, risk management and control in place across the organisation. Some issues, non-compliance or scope for improvement were identified which may put at risk the achievement of some of the strategic and operational objectives.
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Punita Talwar

Internal Audit Manager (Chief Audit Executive, Spelthorne Borough Council (2023/24))

Chartered Internal Auditor (CMIIA)

April 2024

The internal audit team has carried out a number of audits in accordance with the agreed annual plan. Full details of these recommendations, as well as any key themes and issues arising from Internal Audits work for 2023/24 are to be found on the Audit Committee pages of the Council’s website.

Internal audit resource during 2023/24 has been partially focussed around the evolving risks presented by the challenging economic and geo-political climate and recognising their wide reaching impact for the Council, audit support and advice, as well as wider risk and assurance workstreams.

Corporate Risk Management

The Council maintains a Corporate Risk Register, which is coordinated by the Internal Audit Manager and reported regularly to Management Team, Audit Committee and Corporate Policy and Resources Committee. The Corporate Risk Register identifies and evaluates the key corporate risks facing the Council, the controls and mitigating measures in place, and tracks outstanding issues to further address risk management. The register continues to focus on a smaller number of corporate (strategic) risks relating to effective delivery of the Corporate Plan Priorities/Objectives. It also aligns to methodology set out in the Corporate Risk Management Policy. The subsidiary companies have also produced risk registers and for consistency their format aligns closely with the Council's Corporate Risk Register. As part of ongoing development work on risk management, the Corporate Risk Register is also reported to the Corporate Policy and Resources Committee to promote collective ownership and accountability of the Council's most significant risks and issues. Mechanisms for cascading high level risk management information through to respective service committees has also been implemented. Progress has been made in exploring the development of a risk appetite framework for the Council as it is recognised that this supports more transparent and informed risk-based decisions, good governance and modern best practice. Soft implementation of a risk appetite framework has been pursued during 2023/24, with continued integration into the service planning process having been insightful in ascertaining service level risk appetites across the Council. A member approved risk appetite for the Council across key impact measures reflecting collaborative discussions with senior executive officers could further support and enhance the Council's overall risk maturity.

As part of the strategy of embedding risk management into all aspects of the Council's decision making, the Council's report template for Committees now includes a section on risks.

Audit Committee

Terms of reference are set out in Constitution. There are regular meetings and a work plan is published. Under the new Constitution there will continue to be an Audit Committee which now has an independent lay member, to add an additional external perspective and bring additional expertise to the Committee. Such measures contribute towards the overall effectiveness of Audit Committees through strengthened governance structures.

FOI/GDPR

We aim to ensure ongoing compliance with the General Data Protection Regulations and improve the Council's information governance arrangements. This workstream will continue to deliver, significant improvements in the Council's information governance arrangements.

The Group Head of Commissioning and Transformation is the Council's Senior Information Risk Owner who has responsibility for managing information risk across the council.

The Council's full time Data Protection Officer is responsible for overseeing data protection strategy and implementation.

The Council has clear processes for managing Freedom of Information Act, Environmental Information Regulations, and Data Protection Act requests. The aim of the process is to promote transparency across the organisation and deliver an efficient approach to handling requests.

Staff continue to ensure compliance with the Freedom of Information Act / Environmental Information Regulations, Data Protection Act, and Privacy and Electronic Communication Regulations. An audit of GDPR has been undertaken.

Monitoring includes reports to Management Team, internal and external audits and Information Commissioner reviews as appropriate.

Covid-19 has brought unprecedented challenges due to the need to share information quickly and adapt the way the Council's essential services work. Data protection staff are assisting colleagues to ensure that the Council only collects as much personal data as is strictly necessary for the relevant purposes and to continue to comply with Data Protection legislation.

How we will deal with significant governance issues

1. Action taken in the year to address governance issues raised in the previous AGS relating to 2022-23

Completed (with periodical reporting having been undertaken).

Refreshed Economic Prosperity strategy approved. Action completed with reporting structures widened to include Corporate Policy and Resources Committee (CPRC).

Action progressed in view of the LGA Corporate Peer review having been undertaken in November 2022 and reported in February 2023. The authority have produced an action plan to take these recommendations forward, and a follow up review is planned by the LGA for summer 2023 to assess implementation progress and support continued improvement

2. Review of significant governance issues arising during 2023-24 and how we are addressing them:

<u>Issues Identified/Risk Implications</u> <u>Relates to 2023/24 Period</u>	<u>Action and status</u>
<p><u>1.Wider Externalities</u></p> <p>Exposure to wider externalities and other pressures are continuing to present competing levels of crises. The worsening financial and housing crisis across the local government sector continues to have adverse effects, impacting communities. Consequently, the Council continues to encounter some challenge in the context of delivering corporate priorities. <i>(This is elaborated further in the subsequent paragraph).</i></p> <p>The ongoing significance and impact of wider evolving externalities such as the macro-economic environment (including the knock-on effect of elevated inflation, accelerated interest rates and cost of borrowing over a sustained prior period), and geopolitical tensions have continued to exacerbate the Council's financial challenges in delivering corporate priorities. These factors coincide with increased service demands to support communities during a continued Cost-of-Living crises, housing crisis and Cost of Doing Business crises. Inevitably, the Council cannot exert control or influence over the direction of these evolving wider externalities and therefore the extent to which it can reduce, control, or mitigate such risks remains focused around localised measures.</p>	<p><u>Management Action</u></p> <p>The Corporate Risk Register highlights how the Council's risk exposure to wider externalities continues to present some adverse impact and ongoing challenges in terms of the Council's financial sustainability, economic prosperity, Housing Development programme, and provision of housing need. The local mitigation measures and prioritised actions to alleviate the identified risks have been drawn out in the Corporate Risk Register.</p>
<p><u>2.Financial risk</u></p> <p>(i)Financial risk remains a strategic theme carrying high impact across several risk categories on the Council's Corporate risk register. Ongoing financial pressures, challenges and local authority funding constraints (similar to other Councils) continue to have a significant impact on the Council's budgetary position and financial sustainability in delivering corporate priorities and services. A balanced budget has been produced for 2024/25, although additional budgetary challenges from 2026/27 have been</p>	<p><u>Management Action</u></p> <p>(i)Please refer to the Council's Corporate Risk Register for a range of actions underway or planned in alleviating the ongoing financial challenges. This includes progressing the medium-term financial strategy, application of earmarked financial reserves to the Council's budget with forecast over 4 years, quarterly monitoring of the efficiency savings programme and extent of cashable savings target being delivered, and the introduction of zero-base budgeting as part of the 2025/26 budget cycle. A Surrey Wide Financial Resilience Review has been undertaken in 2023/24 to ascertain a holistic County position.</p>

<p>identified by Finance and communicated by the Corporate Management Team (if a Fair Funding Review and Business Rates reset happens then).</p> <p>(ii) In the context of financial risk, externalities and wider factors have continued to significantly affect the financial viability of each housing development scheme project leading to rising overall costs, and risk of adverse financial position of the Council. In responding to this threat, the Council decided to suspend direct delivery of the Housing development programme from mid-September 2023. Options are being explored with a view to minimising the proportion of accumulated capital costs (£10-15m) to be charged to the Council's Revenue budget with ongoing management of this risk. In addition, holding costs of £1.6m per annum relating to the housing delivery schemes are continuing to be incurred until outcomes are delivered on the sites. These factors continue to present a significant financial impact on the Council's budgetary position.</p>	<p>(ii) Please refer also to the first management action under category 3 below in terms of progressing a new Development Delivery strategy, which may over time support mitigation of current holding costs being incurred on development sites (once outcomes are delivered on sites).</p>
<p><u>3.Housing – Development and Targets</u></p> <p>(i) Further to the Council's decision to suspend direct delivery of the Housing development programme from mid-September 2023, this has/will further impact timelines for delivery of housing schemes and development targets (both affordable and general housing).</p> <p>(ii) The existing Local Plan is no longer fit for purpose and has become significantly out of date. Various factors have led to significant delays in the examination and adoption of a new Local Plan, which are likely to continue to impact on the ability to bring forward the appropriate quantum of housing development. Therefore, preparation and adoption of a New Local Plan to meet future need and strengthen affordable housing policy remains a work in progress.</p>	<p><u>Management Action</u></p> <p>i) Subject to Member approval, the Council will be progressing a Development Delivery strategy to accelerate housing outcomes across the sites currently owned by the Council. The new Member driven strategy aims to support robust and timely decision making by applying established criteria to inform and guide decisions relating to future development delivery approaches. This will be further supported by the overarching Asset Management Strategy.</p> <p>(ii) The views of the Environment Agency have been received on the revised Strategic Flood Risk Assessment. In response, the Council is considering whether there is scope to develop some mutually acceptable amendments to address the concerns raised by the EA, whilst still ensuring the future safety of residents. Proposed amendments to the Local Plan will then be put forward to the Planning Inspector to enable him to reach a view on whether the Council is able to re-commence the independent Examination of the draft Local Plan</p>

<p>Due to further pausing of the Local Plan Examination Hearings until Spring 2024, as a result of the decisions made at the Extraordinary Environment and Sustainability Committee on 29.2.24, a number of specific risks and challenges presented include (as identified and reported in the Corporate Risk Register): (a) additional pressure on SBC Local Plan to meet the housing need of other boroughs (b) a lack of certainty around Housing Delivery (c) legal challenge (d) prospect of unsuitable developments (e) adverse publicity and reputational damage.</p>	
<p><u>4.Housing –Supply and Demand; Addressing Need and Provision</u></p> <p>(i)Lack of affordable housing supply increases homelessness with increased demand for temporary or social housing. The demand for temporary housing increased significantly over the last year for a variety of reasons and is expected to increase further. The housing crisis is therefore increasing the need to spend on temporary accommodation to support residents, impacting further the ‘financial risk’ theme referred to above under category 2.</p> <p>(ii)Geopolitical factors continue to present increased demand in supporting refugee communities and consequently managing the provision of suitable and secure housing.</p> <p>(iii)More asylum seekers have/are presenting to the Council in need of housing support partly due to the increased rate of determination of asylum seeker claims by central government.</p>	<p><u>4.Management Action</u></p> <p>Please refer to the Council’s Corporate Risk Register category 1B. Some examples of how the risks are being managed are referred to below.</p> <p>(i)Quarterly Strategic Action Plan monitoring and review relating to Housing and Homelessness Strategies.</p> <p>Collaborative working with Registered Social Landlords and Partners to pursue delivery of affordable housing need and manage pipeline of units.</p> <p>The Local Authority Housing Fund initiative - LAHF capital grant rounds 1 & 2 are being drawn upon to support provision of temporary accommodation (see below also).</p> <p>(ii) Acquisition of properties to support refugees forms an important strategy that the Council is pursuing. (Partly funded from the Local Authority Housing Fund - LAHF capital grant rounds 1 & 2). This is intended in the longer term to support general housing need.</p> <p>(iii)The Council is lobbying for additional funding support in recognition of the resourcing and financial impact of more asylum seekers presenting in need of housing support.</p>
<p><u>5.Climate Change and Environmental Sustainability</u></p> <p>The adverse impact of Climate Change is already being felt through greater</p>	<p><u>5.Management Action</u></p> <p>The Council are continuing to review its preparedness for Climate Change and the register sets out many examples of risk management strategies currently in place or underway. The</p>

<p>extremes of weather (storms with heavier rainfall and heatwaves). As referred to in the Corporate Risk Register, instances are increasing and likely to continue. Ongoing focus will need to be given to prioritising mitigation measures in managing the significant impact of these risks, as well as adaptation to environmental change.</p> <p>The impact of extreme weather can be fatal (in the summer of 2023 there were 72,000 excess deaths reported in Europe due to the extreme heat and 4500 in the UK in 2022). This also impacts on the economy and puts at risk safety, livelihood, homes, and properties. Actions required by the Council, for example in responding to the recent severe flooding occurrences is seriously draining the Council's resources.</p>	<p>Council are continuing to roll out a comprehensive Carbon Literacy training programme to inform and educate individuals, with a view to supporting improved integration of environmental considerations in planning and delivering services.</p>
<p><u>6. Periodical review of procedural practices and policy frameworks</u></p> <p>Some audit assignments identified scope for updating procedural practices documentation and associated policies. Whilst this may not necessarily be regarded as a priority task in the context of wider service pressures, it remains important that officers have a clearly defined, relevant and current procedural and policy framework within which to operate that encompasses key internal control processes. Organisational or service restructures and staffing changes may result in a transfer or loss of knowledge, and a documented practices framework is also useful to support business continuity arrangements.</p>	<p><u>6.Management Action</u></p> <p>During 2023/24 the Council have already identified the need to develop more robust central monitoring mechanisms to ensure that key procedural documentation and policy frameworks are scheduled for timely review and regular reporting.</p> <p>Appendix A of the 2023/24 annual audit report incorporates several audit recommendations raised around periodical review and refreshing of procedural practices documentation and associated policies for specific functions audited in 2023/24. In some areas these have been implemented or are under discussion.</p>
<p><u>7.Audit Trails and Decision Making</u></p> <p>It was identified that better evidencing to demonstrate officer and management checks being undertaken for some financial systems/wider processes would help to support/reinforce accuracy and validity of data input including where changes are initiated.</p> <p>There are some systems where certain elements of audit trails were found to be</p>	<p><u>7.Management Action</u></p> <p>Appendix A of the 2023/24 annual audit report incorporates several audit recommendations around the need for better audit trails in some areas, as well as enhanced transparency to demonstrate relevant stages in supporting officer decision making. These recommendations are under discussion for perusal.</p>

<p>weak or incomplete. For example, demonstrating how a decision has been derived on a housing application submitted should be efficiently integrated into routine practices so that the rationale for decisions and actions are transparent and can be ascertained by someone who has had no prior involvement with the process.</p>	
<p><u>8. Corporate Procurement</u></p> <p>Whilst an appropriate framework is in place (and has been strengthened since the prior internal audit), the audit identified that requirements need to be re-enforced to all Procuring Officers to ensure adherence to Contract Standing Orders. Compliance monitoring processes across a range of areas also need to be strengthened and embedded to enable prompt identification of issues or trends arising. Contract management processes across various stages of the cycle including the Contracts Register also require enhancements.</p>	<p><u>8. Management Action</u></p> <p>A management action plan was produced during autumn 2023 to take forward the audit recommendations. A progress update was presented to the Audit Committee at the meeting of 30th January 2024 by the former Procurement lead officer including key developments around delivering a comprehensive training programme and continued awareness raising. Some next steps were discussed at that time.</p> <p>Appendix A of the annual audit report incorporates recommendation status and areas implemented or addressed as far as possible. The new Interim Procurement Manager may wish to update the status further of recommendations in due course.</p>

Conclusion

As we deal with the challenges of the next few years in light of the long-term impact of Covid-19, the Cost of Living, cost of doing business and housing crises together with wider externalities on our economy, health and well-being, you can be assured that we are doing so from a solid foundation with proper systems of internal control and governance.

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Cllr Joanne Sexton
Leader of the Council

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Daniel Charles Mouawad
Chief Executive

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Audit Committee 9th July 2024



Title	Updated Review of Self-Assessment against CIPFA Financial Management Code and Self-Assessment against the final Best Value Indicators for Use of Resources
Purpose of the report	To note and approve the self-assessments and identify any areas for focusing on further improvement
Report Author	Terry Collier, Deputy Chief Executive
Ward(s) Affected	All Wards
Exempt	No
Exemption Reason	N/A
Corporate Priority	All
Recommendations	To note and approve the self-assessments and identify any areas for focusing on further improvement
Reason for Recommendation	Good effective financial management and use of resources and ownership therefore of underpins everything the Council is seeking to deliver

1. Summary of the report

What is the situation	Why we want to do something
<ul style="list-style-type: none"> CIPFA issued the Financial Management Code in 2019 and it came into effect in 2022-23 Committee last reviewed the Self-Assessment against the Financial Management Code in March 2024 but identified the need for a more thorough updating. 	<p>Good effective financial management and ownership therefore of underpins everything the Council is seeking to deliver</p>

<ul style="list-style-type: none"> Committee in March reviewed Self-Assessment against Best Value draft guidance Use of Resources indicators 	
This is what we want to do about it	These are the next steps
<ul style="list-style-type: none"> Review the refreshed Self-Assessment against the Financial Management Code (Appendix A) Review the update self-assessment against the final version (published May 2024) of the Best Value Indicators for Use of Resources (Appendices B and C) 	<ul style="list-style-type: none"> Committee to critically review the Self-Assessments and make comments and suggestions as to any areas of amendment or further focus. To note (paragraph 8), from the Internal Audit Annual Plan for 2024-25 that SIAP will in Quarter 2 under an independent assessment of the Financial Management Code and Use of Resources

- 1.1 An initial Self-Assessment against the Code was reported to the Audit Committee in November 2020, a subsequent refreshed assessment was considered in November 2021. In March 2024 the Committee reviewed an updated self-assessment against the Financial Management Code. However, the Committee identified further scope for additional updating and asked that it came back to the July Audit Committee.
- 1.2 In March 2024 the Committee also considered a self-assessment against the draft Best Value Guidance indicators for Use of Resources issued by the Department of Levelling Up, Housing and Communities. The Committee felt the way the assessment was laid out was not easy to follow. So, the format has been revised (Appendix B and C). In May the final Best Value Guidance (Appendix E, section 4 defines the 7 themes and indicators) was issued with slight changes to the indicators, so officers have refreshed the self-assessment against the latest indicators.
- 1.3 The Chartered Institute of Public Finance and Accountancy (CIPFA) as part of a number of measures it put in place in response to concerns (even before COVID-19) around financial resilience of Councils introduced a new Financial Management Code (FM Code), see Appendix D. The FM Code came into effect from April 2020, in recognition of the pressures facing local authorities, full implementation was delayed until 2022-23. This allowed authorities a shadow year to work towards full implementation.
- 1.4 The Code focuses on Value for Money, Governance and financial management styles, financial resilience and financial sustainability. The Code identifies the risks to financial sustainability and introduces an over arching framework of assurance which builds on existing financial management good practice. The Code is a principles based approach, rather than prescriptive setting out six principles
- Leadership

- Accountability
- Transparency
- Standards
- Assurance
- Sustainability

Each of these principles is supported by a set of guidance standards against which Councils should be assessed.

1..11 In turn the Code is structured around 7 areas of focus:

- The Responsibilities of the Chief finance officer and Leadership Team – by “Leadership Team” CIPFA mean both senior managers and senior councillors
- 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

Each of these areas are supported by standards against which councils should be assessed.

1.12 Appendix A is an updated Self-Assessment against the principles set out by the FM Code.

2. Key issues

2.1 As part of the Council’s commitment to continuous improvement and focusing on how it can continue to improve financial management and governance it is appropriate that we refresh our assessments.. This is even more so the case now the Council is engaged with a Best Value Inspection process which will be assessing the Council in part against the Best Value indicators.

3. Options analysis and proposal

3.1 Option 1 to accept the two self-assessments as set out.

3.2 Option 2 Committee to make suggestions as to areas for further focus. As a Council committed to continuous improvement officers would welcome feedback from the Committee as to any aspects of the self-assessments which could be refined or action points arising from the self-assessments.

4. Financial management comments

The Financial Management code is designed to encourage and support more effectively financial management across organisations. Similarly the Use of Resources Best Value guidance is designed to ensure effective use of resources including financial resources.

5. Risk management comments

5.1 A key aspect of good financial management and use of resources is effective risk management. This is addressed in the two assessments.

6. Procurement comments

7.1 None

7. Legal comments

7.1 None.

8. Other considerations

8.1 When the Council first implemented the FM Code, following a workshop session with CIPFA we then used a Financial Peer Challenge review as an opportunity to obtain an independent external assessment to obtain some reassurance. Since the item last came to the Committee we have discussed with our new Internal Auditors, the Southern Internal Audit Partnership (SIAP) undertaking an independent review of our assessments against the Financial Management Code and the Best Value Use of Resources indicators. SIAP have agreed to do this, and as can be seen from the separate report on this agenda are planning to undertake this in quarter 2 of 2024-25. SIAP and the Best Value Inspection team will liaise with each in this work.

9. Equality and Diversity

9.1 There are no equality and diversity implications.

10. Sustainability/Climate Change Implications

10.1 None

11. Timetable for implementation

11.1 Ongoing. SIAP to undertake independent assessment in Quarter 2.

12. Contact

Terry Collier , Deputy Chief Executive

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Background papers: There are none.

Appendices:

Appendix A – Self Assessment against Financial Management Code

Appendix B – Self-Assessment against Best Value Use of Resources Theme – Well Performing Authority

Appendix C- Self-Assessment against Use of Resources Best Value Theme – Risk of Failure

Appendix D - CIPFA Financial Management Code

Appendix E - Best Value Standards and Intervention (May 2024) – Guidance

Appendix A

Spelthorne Self-Assessment Against Financial Management Code- Review as at March 2024

The Financial Management Code is published by the Chartered Institute of Public Finance and Accountancy (CIPFA). Councils are expected to seek to comply with the Code and to periodically review their compliance with the code.

Financial Management Standard A

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

As part of the medium term financial strategy of ensuring that the Council continues to be financially sustainable, the Council is putting renewed focus on transformation, and delivering cashable savings. This is particularly in the context of the expected Fair Funding Review in 2026-27 which is expected to reduce funding the Council receives from Government.

The Council has a digital transformation programme underway.

The Council will be presenting to Corporate Policy and Resources Committee on 8th July and Council 18th July its Productivity Plan in response to the Secretary of State's request. This will set out our approach to achieving value for money.

In order to ensure that the Council is maximising value for money from its use of assets, the Council, with some independent support and input, has completed a major refresh of its Asset Management Plan and its Investment Assets Strategy which has been approved by Corporate Policy and Resources Committee, Development Sub-Committee and Council

. Spelthorne has delivered below inflation council tax increases for the past 6 years; the increase for 2024-25 is 2.9%, compared to an inflation rate of 3.4% as measured by the Consumer Prices Index. Taking into account that some districts and boroughs have parishes, Spelthorne at the borough/parish level has the ninth lowest council tax level in Surrey. Move forward however, the Council will need to protect its council taxbase.

Moving forwards the Council is in discussion with Grant Thorntons to look to access their benchmarking data sets to help inform the Council evaluating opportunities for improving value for money.

Moving forwards, as part of the regular quarterly budget monitoring, councillors will receive reports on progress against delivery of cashable savings targets.

Financial Management Standard B

The authority complies with the CIPFA *Statement on the Role of the Chief Financial Officer in Local Government*.

The S151 officer is a member of the Corporate Management Team, which includes the Chief Executive, Deputy CEs, and Group Heads of services. The post of s151 officer as a member of the senior management team as set out in the Council's Constitution, has access to members and has active involvement in strategic decision-making.

Financial Management Standard C

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

Both Corporate Management Team (MAT) and Corporate Policy Resources Committee receive regular monitoring reports (quarterly salaries, income and treasury management for MAT; quarterly revenue and capital monitoring for MAT), and on issues relating to the Corporate Risk Register. The Corporate Risk Register is reported to every Audit Committee meeting. The Corporate Risk Register is reviewed by MAT and reported to Corporate Policy and Resources Committee three times per year, and are used to help target resources. Additionally, each service committee receives regularly revenue and capital monitoring report for the services within that committee's remit. It is acknowledged that in 2023-24 due to the pressures of producing the Budget the quarter 2 and quarter 3 monitoring reports slipped. An officers Corporate Debt Management Group meets regularly to review debt collection performance across services.. MAT and all councillors participate in 3 Budget Briefings per year at which budget issues and strategy are discussed. MAT supports the role of Internal Audit, which was by the decision of Council in February 2024 to move to the Southern Internal Audit Partnership. This will give the Council access to a wider pool of internal audit expertise and specialist skills and will improve the resilience of the service. challenging services (via managers and the finance team), and pursuing actions to mitigate performance issues that arise. MAT seeks to ensure that any new initiatives clearly identify any associated financial implications.

The senior officer and councillor leadership support the role of Internal Audit, which the Council in February 2024 approved moving across to the Southern Internal Audit Partnership. This will give the Council access to a wider pool of internal audit expertise and specialist skills and will improve the resilience of the service. The new partnership will bring a fresh perspective to the review of internal controls.

The leadership team seeks to continuously improve the usefulness and effectiveness of financial reporting and monitoring. The Corporate Risk Register has been regularly refined and presented in a more digestible format in response to feedback from Audit Committee. Following the transfer of Internal Audit to SIAP, the Council has reviewed its approach to the Corporate Risk Register with Deputy Chief Executive to act as the Corporate Lead for the CRR. The Granicus forms software system has been used to refresh and streamline the process for generating the CRR. It has been agreed with the

Members Financial Reporting Group that when Finance upgrades from Integra to Centros we will make use of the improved reporting functionality to improve reporting including provision of dashboard report. Officers are working with members of the Financial Reporting Group to improve the usefulness of reports. One change which has been implemented is the adoption of the 4 Square summary methodology for reports going to committees.

During the COVID-19 crisis, MAT and senior officers have provided weekly virtual meetings to all councillors on the impacts, including financial matters, of COVID-19, and on how the Council has been responding. This has continued beyond the Pandemic with fortnightly briefings on Monday open to all councillors which is then followed up with a written newsletter to councillors MAT has also communicated key issues to management and all staff through regular interactive meetings and briefings during this time.

Following the LGA Peer Review and follow up Review, the Administration and the senior officer leadership have sought to reset working relationships. The Administration receive fortnightly briefings on key decisions and issues.

The Council is open to and receptive to external review and suggestions as to how it can continue to enhance governance and controls. Following the KPMG Public Interest Report (PIR) it put in place a PIR Action Plan which was approved by Audit Committee in July 2023 (an update report is going to July 2024 Audit Committee. Associated with this the Council is currently in the process of recruiting an independent layperson to join the new Commercial Assets Sub-Committee.

Financial Management Standard D

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

As part of the annual process of producing the Annual Governance Statement (AGS), officers review our compliance with the Framework, together with the Local Code of Corporate Governance, the role of Audit Committee; and compliance with regulations. We have expanded the review process to include an assessment against the Best Value theme indicators for Governance. The Internal Audit role and function is covered in the AGS including the annual audit opinion of the internal control environment and adequacy of risk management and governance arrangements. Significant issues are set out in the AGS and monitored.

The Council has put in place an independent lay member on the Audit Committee who brings an additional independent perspective to help the Committee critically review internal control and governance issues.

Financial Management Standard E

The financial management style of the authority supports financial sustainability.

The Council invests resources in providing regular financial, risk and audit training for councillors. We provide three Budget Briefings per annum which are open to all councillors and are designed to give an informal opportunity for councillors to be briefed on financial issues and to understand the budget challenges and proposals. Treasury Management training for Councillors was provided by our advisers Arlingclose on 17th January 2024. A local government finance training session was provided for all councillors on 25th January 2024. The Council has provided regular training for members of the Audit Committee to assist them in scrutinising the Council's financial arrangements. This includes sessions on the role of the Audit Committee, risk management and understanding local authority financial accounts. Ahead of the statutory cut off for outstanding audited Statement of Accounts the Council will arrange a further session on understanding statements of accounts. The Council has put 50 FAQs with respect to its commercial acquisitions on its website. These explain further the Council's strategy to ensure financial sustainability.

The Council provides regular revenue and budget monitoring reports to Corporate Policy and Resources Committee of the overall Budget and Capital Programme position and to Management Team and individual monitoring reports for the service Committees. The Council has listened to feedback from councillors about the need to make financial reports easier to understand, this was also raised by the LGA Corporate Peer Review, and set up a Members Financial Reporting Working Group. This Group recommended the implementation of a "four square" report summary methodology which has been actioned. We are seeking to make reports more visual. We are implementing a glossary for financial reports to make them easier for councillors and lay readers to understand. As part of the three year Centros upgrade we are moving towards implementing dashboard reporting for both budget managers and councillors. All councillors receive monthly workflows which enable them to review spend against budget.

We are asking service managers to take more responsibility for their budgets to ensure greater ownership. This includes monthly review meetings between service managers and accountancy, regular review of income, variances and better forecasting by the services. One practical step being implemented currently, on the back of the upgrade of the financial system from Integra to Centros, is rolling out online budget monitoring which enables budget managers to directly review, comment and amend projections on the financial system.

The budget setting process involves members at every stage. SBC has a balanced budget for the coming financial year 2024-25 and continues to monitor income and expenditure against it. Moving from a Cabinet and Strong Leader model to a Committee Governance model has required a major rethink of the Budget process. Paul Taylor, as Chief Accountant, has brought forward the Budget production process to ensure sufficient time is available for service committees to consider impact of growth and savings relating to their areas. Officers will be working with Committee Chairs as members of Corporate Policy and Resources to have a corporate perspective focusing on how we balance

the overall budget as well as supporting the services under their individual committees.

The Budget process has been made more transparent than ever, with detailed budgets provided to each service committee before Christmas 2023. This year we have also provided a “Below the line” budget report with a detailed breakdown of the corporate below the line budgets.

There have been challenges around helping councillors understand the potential impact on the Council’s financial sustainability arising from councillors decisions on progressing residential development schemes potentially increasing pressures on the Council’s Revenue Budget. This led to the Council in October 2023 making the strategic decision to step back from directly seeking to fund and deliver housing and regeneration schemes on its sites and move to a place shaping/joint venture strategy.

The unanticipated COVID-19 impact has had major impacts on the Council’s financial position and is necessitating a change of approach to balancing the budget as a result of the reduction in sales, fees and charges income and increased inflationary pressures. The housing crisis is significantly increasing the need to spend on Temporary Accommodation. In response the Council has proactively maximised use of Local Authority Housing Fund capital grant funding to help it purchase properties for Temporary Accommodation to be managed by its housing company. This approach is significantly cheaper for the Council than using private B&B accommodation. The corporate management team (MAT) are working with the political leadership to ensure a clear focus on robustly prioritising and justifying any growth bids and to focus on identifying saving bids. Officers are looking to engage with councillors on strategic steers for the options to be pursued to close the Budget gaps over the Outline Budget period.

Managers are encouraged to take ownership of their budget and to be innovative in looking at how they can ensure the financial sustainability of their services. As part of the process of closing the budget gaps over the medium term we are looking to undertake a zero based budgeting exercise across all services as part of the 2025-26 Budget process. Parallel to this there will be a review across all services to identify opportunities to work more efficiently.

The Independent Living team is working in partnership with Mole Valley District Council continues to explore the use of smart technology and working with health sector partners to lever in additional funding.

The increase in income generation from investment assets supported service delivery and staffing provision rather than the service cuts experienced in previous years and by other councils. However as a result of the impacts of the pandemic we again need to have a strong focus on how we can do things more efficiently and make savings. Additional resource, funded from a slice of the commercial income, had been invested in support services, including the finance team, to ensure that the right skills and aptitudes are in place to help

support the organisation in focusing on and delivering financial sustainability and resilience. The finance function was strengthened with new posts in the accountancy and operations teams, along with a new treasury management system.

As the next step in improving resilience of the finance function we are progressing a partnership with Mole Valley to create a single finance team by April 2025. This will build on a common financial platform used by both councils and will look to align financial processes in both councils around best practice.

As the Council has looked through its housing delivery company to provide more affordable and key worker housing for its residents increased focus has been applied on ensuring robust viability analysis of both KGE as a whole and of individual residential developments, with the 50 year viability model covering profit and loss, balance sheet and cashflow having been revamped. Like other housing companies, Knowle Green Estates (KGE) is facing a cash flow challenge in its early years, before it moves into a cashflow positive position. In order to ensure that KGE can continue to be viable and help manage affordable and temporary accommodation the Council, easing pressures on the Council's homelessness the budgets, the Council in July 2024 is considering a proposal to provide a £2.5m cashflow injection into the Company. This would put the Company on a stable financial footing.

As reflected in the draft 2023-24 Statement of Accounts, the Council's cash backed reserves increased at the end of the financial year 2023-24 to just under £77m.

Financial Management Standard F

The authority has carried out a credible and transparent financial resilience assessment.

The Council invited the LGA in November 2020 to undertake an independent Corporate Finance Peer Review. In November 2022 the Council invited the LGA to undertake a Corporate Peer Challenge review. This was followed up with a Peer review in November 2023.

The Council is a member of the LGA Improve Benchmarking club which provides regular benchmarking of our reserves and capital health against other authorities. This analysis identified that as at 31 March 2023, as a result of the Council's building up its sinking funds reserves (balance at that point £37.8m) the Council had the highest ratio of revenue reserves to net revenue Budget of any district or borough council in England.

Across a number of service areas managers have been asked effectively to zero-base budget. For 2025-26 budget zero based budgeting will be applied across the board

As highlighted above a very considerable amount of additional work has been done to improve the viability analysis of KGE and individual residential schemes

with a clear focus now on the rental viability. This is to ensure that KGE does not get into a similar position as happened with the Croydon housing delivery company.

We have periodically invited external consultants to undertake critical reviews of our approach to managing risk with respect to our commercial assets. Most recently we commissioned JLL to undertake a critical review which was reported to Development Sub-Committee in February and Audit Committee March 2024. Under the Committee system the Council has set up the Development Sub-Committee to consider any viability assessment for developments or acquisitions (including the housing part funded by Local Authority Housing Fund. We have also formalised the Assets Portfolio Working Group which has representatives from Corporate Policy and Resources Committee and Development Sub-Committee which meet fortnightly to review collection performance for rental for commercial and retail assets.

In May 2024, the Department of Levelling Up, Housing and Communities (DLUHC) announced that it was commissioning a Best Value Inspection of the Council, particularly focused on how it is managing risk associated with its outstanding debt levels. This will provide a thorough independent external review and assessment of the Council's financial, governance and risk mitigations arrangements. The Council is positively engaging with the Best Value Inspection process.

Financial Management Standard G

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

The Council produces a 4 Year Outline Budget or Medium Term Financial Strategy which is reported to Corporate Policy and Resources Committee every year. For the 2024-25 Budget process, in the context of the risks of funding reductions in 2026-227, with Fair Funding, Business Rates retention/rebasing etc, the Council has sought to take a medium term approach in balancing its budget and in February 2024 (The Council is aware that as a result of the broader impacts of the COVID-19 pandemic, the Cost of Living Crisis, inflationary pressures, and particularly the housing crisis it, like other councils is facing a much more challenging budget position and that it needs to put in place a range of both short and medium term measures to close the gaps and ensure financial sustainability.

For its commercial asset acquisitions, the Council models at least 50 years into the future (the Elmsleigh acquisition modelled on 70 years) in order to identify future needs in capital expenditure to periodically refurbish the assets and to bear the risk of rent free and void periods. The Council's sinking funds methodology is designed to build up funds to cover future liabilities. As at the end of 2023-24, the balance in sinking funds was approximately £38m. The total cash backed reserves as at end of 23-24 were £72m. However during

period 2023-24 to 2025-26 the Council is aware that it needs to use a significant amount of the sinking fund reserves to cover dips in the rental income

Financial Management Standard H

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

The Council works closely with its Treasury Management advisers Arlingclose to ensure that it complies. At key stages in past the Council has obtained Counsel's Advice on interpretation. The Council has all the strategies/policies in place as required. Regular reporting to members on capital expenditure takes place.

Considerable time was invested by the Council in producing a detailed and easy to follow Capital Strategy supplemented by an Executive Summary and additional graphical analysis and colour coding. The Council reports on performance against its prudential indicators in both the half year and outturn treasury management reports.

The Council last made a debt for yield acquisition in 2018 and is now focused on managing effectively its existing investment asset portfolio in line with the Prudential Code and investing in housing delivery, service delivery (particularly the new leisure centre) and regeneration across the Borough

Financial Management Standard I

The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.

See response to Standard G above. There is a close link between the Corporate Plan and the Medium Term Financial Strategy. The Council has reinforced the link between service planning and budget planning, with service plans considered by Committees as the first step in the Budget process

Financial Management Standard J

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

The Council sets a balanced budget. The S151 officer has expanded his s25 and s26 sections in the Budget report. The Council consults representatives of the business community on its budget proposals The Council sets a council tax increase within the council tax referendum limits and a properly recorded vote takes place at Council meetings.

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.

See Standard J above. This part of the Budget report was significantly expanded for the 2020-21 Budget process. In the context of COVID-19 was expanded further for 2021-22, and has been continually refined since. The Council continues to monitor very carefully the adequacy of its sinking fund

reserves. Benchmarking suggested Spelthorne had the highest ratio of unallocated revenue reserves to net Budget of any district or borough council in the country. This has arisen as a result of the strategy of building up our sinking fund reserves (currently as at the end of 2023-24 £35m).

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.

Officers engage with and work closely with councillors on the long term financial strategy, plan and budget. Officers have brought forward proposals in the past for budget consultation with residents. Under the Committee governance model officers work with the Chairs (who are appointed on a party proportional basis) to ensure all groups and all committees understand the financial position.

For the 2024-25 Budget process, additional time was built into the budget, to allow for the individual service committees to scrutinise their growth and savings proposals.

Every February, the Council runs a session through Spelthorne Business Forum to engage with business community on the Council's Budget proposals.

Financial Management Standard M

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

The Council has a developed project management methodology designed to ensure that projects achieve deliverables on time and within budget. The Council has a thorough evaluation methodology for evaluation of asset acquisitions and this includes evaluation of financial robustness of tenants. The methodology for asset development projects has been strengthened by the creation of the Development Sub-Committee which reviews and signs off gateway stages. Asset projects now commence with a term sheet to make clear the key assumptions and anticipated deliverables.

The Council receives regular benchmarking information on its investment performance from its Treasury Management advisers.

The Council refreshed its Procurement Strategy. It has identified that in terms of spend the biggest area of spending is now its ambitious housing delivery and regeneration programme. In order to ensure that it maximises value for money in this area of spend it has developed and implemented framework contracts for professional construction related services and construction services.

Similarly robust business cases are prepared with appropriate professional advice for new ventures such as KGE or trade waste. This was the case for the new Leisure Centre proposals.

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.

As commented above MAT and the Corporate Policy and Resources Committee receive regular revenue, capital monitoring reports and Treasury management reports which flag emerging variances. Individual services also receive their own revenue and capital monitoring reports. There is also the monthly monitoring with Group Heads. Variances are probed and concerns are followed up and tracked using actions tracking. Budget monitoring has been expanded to focus particularly on the impacts of externalities.

The Corporate Risk Register on a quarterly basis goes to MAT, Corporate Policy and Resources Committee and Audit Committee. This is to ensure that both officer and political leadership of the Council have awareness of and ownership of the key corporate risks and associated controls and mitigations. An officer group, the Corporate Risk Management Group meets quarterly with representatives from all service areas to review risk and controls.

The Council is focused on identify and responding to significant risks, for example the risk of significant financial pressure on the Council informed the Council's pro-active approach to using Local Authority Housing Fund capital grant to acquire temporary accommodation to ease the pressures on its homelessness budget.

The MAT and senior officers meet weekly for a Development and Investment Group (DIG) to review performance in its commercial and residential assets and the progress of its residential development and regeneration schemes. The focus is on reporting by exception and identifying issues to be addressed and agreeing actions to be taken to address risks.

In October 2023, the Council considered options for addressing the risks of seeking to continue to deliver an ambitious multi-hundred million pounds residential delivery programme and agreed to step back and change direction, no longer seeking to directly deliver and finance but to achieve housing outcomes through a joint venture and place making strategy. A key risk moving forwards for the Council remains minimising adverse financial outcomes on its housing /regeneration sites.

Financial Management Standard O

The leadership team monitors the elements of its balance sheet which pose a significant risk to its financial sustainability.

We are focused on some aspects such as value of assets, level of borrowing and level of reserves. A number of new KPIs have been introduced as part of the refreshed AMP which will help. The Corporate Debt Group is putting place improved monitoring of debtors. Officer also monitor other things that could be on the horizon eg changes in legislation, climate change, new burdens grants for anything. New sources of income are also considered.

The Council has updated its Corporate Debt Policy and has a corporate Debt Group which meets regularly to ensure a holistic and joined up approach is taken to debt recovery. The Council makes good use of additional investigatory resource and expertise that Reigate and Banstead Council has in counter fraud, This has been particularly beneficial with respect to housing and a data matching initiative to target social housing fraud (subletting and illegal tenancy succession) has been approved (subject to funding).

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 s151 officer assumes these responsibilities in accordance with the Constitution, the scheme of delegation, and has responsibility for audit and internal control.

Financial Management Standard Q

The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.

See above comments.

The monthly monitoring by finance, MAT and the Corporate Policy and Resources Committee ensure continuous monitoring before the final outturn figures are produced. In addition to the formal reports, the combined Leadership team (ie MAT and Corporate Policy and Resources consisting of the service committee Chairs and Vice Chairs) meet informally at least three times a year in Budget Briefing to discuss budget implications of outturns, and issues relating to the budget process.

Officers are working with the Members Financial Reporting Group to continue to improve the usefulness and understandability of financial reports.

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Appendix B (revised May 2024): Use of Resources Best Value Theme- Assessment against characteristics of a well performing Authority Updated to reflect final Best Value Guidance Indicators

Description: An authority must have in place and properly deploy an effective internal control environment to safeguard the use of resources, and clear and effective processes to secure value for money. It must have appropriate financial management, reporting and regulation arrangements in place, in accordance with CIPFA's Financial Management Code, to govern the strategic and operational management of its investments, funding, assets and companies. This includes ensuring it has the appropriate skills and capacity in place, commensurate with the complexity of its finances, using specialist expertise when needed

Authorities must appropriately comply with the Prudential Framework in making investment and borrowing decisions and not take on excessive risk. They should have effective systems for identifying, reporting, addressing and reviewing financial risk and have consideration of CIPFA's Financial Resilience Index.

Investment decisions must have a commensurate level of scrutiny, transparency and approval to make sure that officers and members fully understand the risks.

Financial management and reporting should be supported by robust financial systems, record keeping and quality assurance, with appropriate use of specialist expertise and independent assurance when needed.

Authorities should respond to audit recommendations and address issues identified in a timely way.

Capacity constraints should be identified and recruitment to fill key posts prioritised. Succession planning needs should be considered, with a longer-term view as to when there might be a gap in senior, experienced officers

Yellow highlighting changes in final guidance compared to draft guidance.

Ref	Characteristics of a well-functioning authority	How we assess ourselves
1	<p>(a) Annually the Chief Finance Officer requests that Group Heads and senior management complete an assurance statement, reinforcing the importance of internal control. Management is accountable for implementing and operating adequate systems of internal control in managing risk.</p> <p>(b) An effective internal audit service that produces a risk based audit plan (programme of work) approved by the Audit Committee, and provides independent assurance on the adequacy of systems of internal control, governance and risk management arrangements. Recommendations issued if deemed necessary, aimed to enhance internal controls.</p> <p>(c) Monitoring system to ascertain status of audit recommendations (implementation).</p>	<p>(a) Signed annual assurance declarations from senior managers.</p> <p>(b) External Quality Assessment of Internal Audit's conformance to professional auditing standards at least once every 5 years. This is a key measure used in the internal audit sector to ascertain quality, professionalism and effectiveness of Internal Audit. The Independent assessment undertaken in 2023 concluded an overall positive rating for Spelthorne's Internal Audit based on universal gradings.</p> <p>Annual review of Internal Audit Effectiveness also highlights any continuous improvement measures.</p> <p>(c) Internal Audit recommendations are periodically followed up and status reported to Management Team and Audit Committee. Service Managers can be invited by the Audit Committee to explain delays in implementing recommendations.</p>

	<p>(d) Strategic risk register maintained, monitored and regularly reported. This aims to focus on the most significant risks facing the authority that impact the effective achievement of the Council's corporate priorities.</p>	<p>(d) Strategic risk register (Corporate Risk Register) maintained, monitored and regularly reported (3 times a year) to the senior executive management team, Audit Committee and wider Members. It takes into account the Council's risk exposure to wider externalities, including financial risk and the impact on delivery of corporate priorities.</p>
2	<p>The financial strategy and budgets are clearly aligned with strategic priorities and there is a robust process for reviewing and setting the budget.</p>	<p>Over the last two years a lot of work has gone into bringing the budget process forward and having the Service Plans reviewed and approved by Committees before feeding into the Budget process.</p> <p>The Corporate Plan has been refreshed and now set 2024-28, ending one year beyond the electoral cycle. The Corporate Plan priorities inform budget prioritization.</p> <p>We have done a considerable amount of work to make Budget process more transparent and engage more with councillors and work through the Committees. In 2024-25 we have prioritised addressing housing pressures which is both a statutory pressure and is also in line with one of our corporate priorities</p>
3	<p>The workforce and fixed assets are managed efficiently and effectively, with clear and credible strategies demonstrating how services will be delivered in the future, with an effective system for performance management.</p>	<p>The Council commissioned an independent review of its establishment by SEE which reported in 2023 to Corporate Policy and Resources Committee. SEE reported that the authority is being managed effectively with a pro-active approach to managing resources. Human Resources recruitment and retention risks are highlighted on the Corporate Risk Register.</p> <p>The Council has significantly grown its Assets team by setting aside some of the income from investment assets to fund posts. A number of experienced professionals have been recruited from the private sector. The Assets team pro-actively manages the investment assets portfolio which is reflected with a consistent collection rental rate in excess of 99.8% throughout the pandemic and cost of living crisis and a current void rate</p>

		<p>of less than 9%. The Council continually reviews and refines governance arrangements for oversight of assets activity</p> <p>The Council has refreshed its Assets Management Strategy, which links to the Capital Strategy.</p>
4	<p>A robust system of financial controls and reporting exists, which provide clear accountability and ensure compliance with statutory requirements and accounting standards.</p>	<p>The Finance team has been strengthened over the last few years with the addition of new posts and creation of two apprentice posts to grow new talent.</p> <p>Internal audit resilience is being strengthened by outsourcing to Southern Internal Audit Partnership to give the Council to a greater range of internal audit expertise and resource.</p> <p>Moving towards the Mole Valley-Spelthorne Finance partnership will provide an opportunity to compare processes and controls across the two authorities to align both around best practice.</p>
5	<p>Compliance with the Prudential Framework, a clearly presented Investment Strategy, Capital Strategy and Minimum Revenue Provision (MRP) policy exists.</p>	<p>We focus on complying with the Prudential Code, and have in place Investment Strategy, Capital Strategy which are approved on annual basis. The Capital Strategy particularly focused on risk management. We have a Minimum Revenue Policy (MRP) in Place and regularly liaise with our Treasury Management advisers to ensure that our approach is compliant. Our advisers provide periodic training for councillors with the last session being in January 2024.</p> <p>We report on performance against the potential indicators and any variance against those indicators.</p>
6	<p>A clear strategy exists to maintain adequate reserves.</p>	<p>The Reserves Strategy is reviewed and approved on an annual basis by Corporate Policy and Resources Committee. We have an approved strategy for sinking funds reserves. Officers have completed a refresh</p>

		<p>of the Sinking Funds modelling which will be brought to councillors.</p> <p>Based on independent benchmarking by LG Improve Spelthorne had the highest ratio of Revenue Reserves to Net Revenue Budget of any district or borough council at the end of 2022-23.</p> <p>As at the 31/3/24 the Council's cash backed reserves increased to just under £77m.</p>
7	<p>There is collective accountability for the budget and medium-term financial plan, rather than a siloed approach to management.</p>	<p>Under the Committee governance system at a political level there is ownership for the budget and Medium Term Financial Plan across the Committees with Corporate Policy and Resources Committee taking the Strategic lead.</p> <p>At an officer level MATplus takes ownership. We review our self-assessment against the CIPFA Financial Management Code to ensure that there is collective ownership for financial management issues. The Self Assessment against the Financial Management Code is highlighted to all members of MATplus.</p>
8	<p>There are regular financial reports to Cabinet and training for all members on finance.</p>	<p>Regular monitoring reports go to all service committees and to Corporate Management. The financial system has been upgraded to enable managers to more easily monitor and revise budget projections and to encourage ownership. A Members Financial Reporting Group was set up to focus on how we can make financial reports easier to understand for councillors. This has led to the implementation of the "four square" summary methodology for reports. Moving forwards we are looking to implement dashboard reporting. We are implementing added a glossary to financial reports to make them easier for councillors and lay readers to understand them.</p> <p>During 2024-25 3 Budget briefing sessions open to all councillors were provided to help councillors understand the financial</p>

		<p>challenges the Council is facing, the budget proposals and to provide an early strategic steer to officers. We also did a training session on local government financial matters. Our Treasury Management advisers provided a training sessions open to all councillors, and provide quarterly briefings to the Administration Group Leaders. Additionally there was a financial training session as part of the Members induction process.</p>
9	<p>Robust systems are in place to identify, report, address and regularly review financial risk.</p>	<p>The Council's Corporate Risk Management Policy was refreshed and approved by Audit Committee a few years ago. We have a section on risk in all reports going to committee. We are in the process of embedding a risk appetite methodology and have developed a framework for taking this forward, communicated with Senior Managers and Audit Committee, it is acknowledged that there is more work to be done to fully embed. Service Plans are required to focus on risk mitigation. The Corporate Risk Register is reviewed quarterly by Corporate Management Team, Audit Committee and Policy and Resources Committee</p> <p>In response to the Public Interest Report recommendations a separate Risk Register for our Investment Assets has been put in place.</p>
10	<p>Sustainable, competitive corporate functions including procurement and IT which deliver value for money.</p>	<p>In recent years we have expanded the procurement function to 3 posts. ICT is a challenging area to recruit to and to retain staff because we do not offer salaries in line with neighbouring authorities or the private sector. We have had a succession of interim procurement managers.</p> <p>The Council's Procurement strategy has been refreshed and also reviewed by Audit Committee.</p>
11	<p>The Audit Committee has the knowledge,</p>	<p>We have in place an independent member on the Audit Committee. The current such</p>

	skills and independent expertise to provide robust challenge and ensures effective controls are in place and issues addressed.	member has 30 plus years of audit experience, to help enhance the knowledge and expertise of the Committee. Regular training has been provided to the Audit Committee on the role of audit committees, risk management and understanding local authority accounts. The Audit Committee has within its remit the authority to call Managers to account before the Committee.
12	The purposes of companies are carefully considered and regularly reviewed, with effective governance and oversight arrangements in place.	<p>Given the early stages the Council's two subsidiary companies are in their life cycle, in line with CIPFA Local Authorities Companies guidance, the Council has representatives on the Board of both companies. Knowle Green Estates following a robust selective appointment process have two experienced (one with a housing background, and one with a finance background) non-executive directors who provide good independent challenge.</p> <p>Both companies report annually to their relevant Committees. KGE reports each November to Corporate Policy and Resources Committee as the shareholder representative, presenting the Annual Report of the Company and responding to councillors' questions.</p> <p>Both companies are independently audited and have regularly received clean opinions. The audit reports are reported to the Audit Committee.</p>
13	Effective project management of projects to enhance governance and effective use of resources.	<p>The Council's Project methodology requires Project Initiation Documents to be completed. The Council's projects team tracks projects and reports on progress to councillors.</p> <p>All major assets projects have their gateway stages reported to committee for review and sign off.</p> <p>All expenditure over £1million is subject to authorisation by Council.</p>

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Appendix C – Self Assessment against Best Value Indicators of Potential Failure for Use of Resources revised May 2024- updated against final Best Value Indicators

Description: An authority must have in place and properly deploy an effective internal control environment to safeguard the use of resources, and clear and effective processes to secure value for money. It must have appropriate financial management, reporting and regulation arrangements in place, in accordance with CIPFA's Financial Management Code, to govern the strategic and operational management of its investments, funding, assets and companies. This includes ensuring it has the appropriate skills and capacity in place, commensurate with the complexity of its finances, using specialist expertise when needed.

Authorities must appropriately comply with the Prudential Framework in making investment and borrowing decisions and not take on excessive risk. They should have effective systems for identifying, reporting, addressing and reviewing financial risk and have consideration of CIPFA's Financial Resilience Index.

Investment decisions must have a commensurate level of scrutiny, transparency and approval to make sure that officers and members fully understand the risks.

Financial management and reporting should be supported by robust financial systems, record keeping and quality assurance, with appropriate use of specialist expertise when needed.

Authorities should respond to audit recommendations and address issues identified in a timely way.

Capacity constraints should be identified and recruitment to fill key posts prioritised. Succession planning needs should be considered, with a longer-term view as to when there might be a gap in senior, experienced officers

Yellow highlighting new indicators in the final guidance compared to the draft guidance.

Ref	Indicators of Potential Failure	How we assess ourselves
1	<p>(A) A weak overall control environment goes beyond the more tangible systems of internal control – it encompasses the tone from the top and how this permeates attitudes, actions, behaviours and control consciousness of all across the Council.</p> <p>(B) Where Managers do not take responsibility for implementing and maintaining adequate systems of internal controls in managing risk, this may lead to poorly designed and functioning systems of internal control that may adversely impact delivery of services, objectives, and priorities. This may also lead to a higher risk of occurrences of erroneous transactions, reduced integrity of information and reporting, financial losses, fraud, impropriety, irregularity and/or weakened governance arrangements/governance failures. It may present in an increased level of adverse internal audit assurance opinions (limited or no assurance).</p> <p>(C) Significant delays in implementing agreed audit recommendation aimed to enhance and strengthen internal control in managing risk. This may</p>	<p>(A)- An Internal Audit review of workplace Culture has been undertaken previously.</p> <p>-Employee surveys and feedback / - HR may wish to comment</p> <p>(B)Overall assurance framework comprises 3 lines of defence standard industry model. Management represents the first line of defence so are responsible for managing their systems of internal control on an ongoing basis and highlighting/addressing any issues arising. Third line of defence comprises Internal Audit providing independent assurance.</p> <p>(B)Overall audit conclusion provided for internal audit assignment work undertaken (assurance opinion) which will form an important consideration for the annual audit opinion</p> <p>(B)Regular review and reporting of the Council's Constitution and related policies, for example Counter Fraud, Bribery and Corruption Strategy and Whistleblowing Policy (Confidential Reporting Code).</p>

	<p>present ongoing weaknesses in controls operating and therefore increased risk exposure.</p> <p>(D) Poor investment returns</p>	<p>(C) Audit recommendations followed up regularly and status reported to Management team and Members.</p> <p>(D) Regular review and reporting of Treasury Management activity and performance reporting , as well as future strategy and application of professional standards.</p> <p>Over the last 10 years the average interest return achieved on the Council's medium term funds has been 4.03% in line with the original objective of achieving a 4% annual return.</p> <p>Financial considerations section in Committee reports to embed consideration of financial implications.</p> <p>Risk management section in Committee reports to embed consideration of risk</p>
2	Absence of a deliverable and clear medium-term financial plan, approved by the authority's	Corporate Policy and Resources Committee considers and approve each year Outline Budget report-

	Cabinet or finance committee (as appropriate) and full council.	most recent Outline Budget report at 27 th November 2023 Corporate Policy and Resources Committee., containing medium term projections and medium term financial strategy. Medium term projections are updated and reported as part of Detailed Budget approved by Council
3	Council staff undertaking part-time work for full-time pay without compelling justification.	The Council is not trialling 4 day working weeks. We do not have staff undertaking part time working for full time pay.
4	Consistent overspends, frequent use of virements, and no credible plan to reduce unaffordable debt and maintain sustainable finances, and recurrent non-delivery of savings plans	<p>In most years, the Council has had underspends and achieved a significant outturn underspend for 2023-24 enabling it to protect its reserves. Limited use made of virements. While the Council has significant debt incurred in period 2016-18, it fixed the rates of interest (average 2.3%) and the debt is being paid down on an annual basis, and the income associated with the investment assets financed by the borrowing comfortably exceeds the financing costs.</p> <p>As part of the new Housing Delivery Place Making/Joint Venture strategy the Council is looking on a case by case basis at disposals/joint ventures across its housing regeneration sites.</p> <p>Investment Assets are financing costs, sinking funds set asides, and management costs contributing £10m per annum towards supporting the cost of discretionary services</p>

5	Avoidance of/failure to implement difficult budget decisions.	Council in October 2023 made the decision to step back from financing the housing and regeneration programme and to seek to advance through a new place making and joint venture strategy. The Council will however need to make decisions which achieve viable outcomes on these sites.
6	No evidence of transformation to create efficiency savings	<p>Pre-pandemic Council reduced its use of office space by 42% to free up West Wing to convert into affordable housing accommodation. Council is advancing a Digital Transformation Programme and is progressing several service collaborations with other councils including the finance partnership with Mole Valley.</p> <p>The 2024-25 Budget has some transformation savings built in and this will be delivered through an efficiency programme with regular monitoring and reporting on progress. The Council will be undertaking a Zero Based Budgeting exercise to feed into 2024-25 Budget process</p>
7	Lack of a regular review of the adequacy of reserves and the unplanned use of reserves in-year to balance an outturn position.	<p>Each year the Council's Reserves Strategy is taken to Corporate Policy and Resources Committee for review.</p> <p>The Council undertakes reserves benchmarking through LG Improves and this analysis feeds into the Reserves Strategy and Capital Strategy.</p> <p>Most year's there is net underspend and usually use of</p>

		<p>reserves is lower than that provided for in the Budget.</p> <p>Over the last seven years the Council has steadily increased its reserves- cash backed reserves (excluding CIL and developer contributions) were £62m at 31.3.23. LG Improve benchmarking has identified that as at March 2023 Spelthorne had the highest ratio of revenue reserves to net budgeted revenue expenditure of any district or borough council in England</p>
8	Unlawful or excessively risky borrowing and investment practices with no adequate risk management strategy in place for financial losses.	Council always seeks legal advice on significant or unusual transactions. Council is focused on effective risk mitigation strategies. We periodically bring external consultants to review our investment portfolio (most recently February 2024). The building up of the sinking funds reserves is a key part of the risk mitigation strategy.
9	Failure to manage the risks associated with companies.	The Council has studied the lessons from failures elsewhere such as Croydon, and has regard to CIPFA guidance on local authority companies, and Local Partnerships guidance. The Council has appointed two experienced Non-Executive Directors onto the Board of its Housing Management Company. Both its subsidiary companies are independently audited and reports annually to Corporate Policy and Resources Committee
10	An authority that has issued a Section 114 Notice.	We have never issued a S114 notice

11	Significant weaknesses identified in the annual audit report for financial sustainability, and/or statutory recommendations or a public interest report is issued.	<p>Annual audit report for 2022-23 did not identify significant weakness. Key themes drawn out from internal audit activity and wider assurance work were referred to in the annual audit report and Annual Governance Statement</p> <p>External auditors did issue, in October 2022, a public interest report for 2017-2018. Council has in response implemented an action plan</p> <p>DLUHC Commissioned a Best Value Inspection process to commence in May 2024</p>
12	High dependency on high-risk commercial income for service delivery and balancing budgets.	It is true that that equivalent to a third of the gross cost of total service expenditure is financed from commercial income. This is why there is a significant focus on managing and mitigating the associated risk
13	Non-compliance with accounting requirements regarding MRP.	We fully comply with both the letter and spirit of MRP requirements. We have always applied MRP to all our investment assests acquisitions. We undertook a review of our MRP compliance.
14	A finance function that is not fit for purpose owing to capacity or capability issues.	Council had a positive LGA Finance Peer Review in 2021. The Council has invested in growing the Finance team and upgrading the financial software platform. We have created two CIPFA apprentice posts. Looking to further enhance resilience and capacity by the Finance partnership with Mole Valley.

	Underinvestment in back-office services, which affects capacity and succession planning	Investment in Finance as set out above. We are investing to enhance capacity and resilience in Internal Audit by joining the Southern Internal Audit Partnership
15	Inefficient or uncompetitive procurement arrangements that do not deliver value for money	Considerable work has been undertaken to improve the procurement arrangements
16	IT that is not capable of doing the job for which it is designed.	<p>Equipment is kept up to date and refreshed regularly. Core infrastructure and end user devices are replaced on a 5 year cycle. Mobiles and tablets are replaced once they are no longer receiving security updates. All devices are managed centrally via InTune.</p> <p>The network is PSN accredited annually. The network is securely protected and high levels of logging and alerting are in place to protect against potential vulnerabilities. Microsoft E5 licensing is used for, amongst other things, delivery of security and compliance, emails, and telephony. All staff are equipped with suitable ICT equipment appropriate to their role. Virtual conferencing and communications technology is available to all staff. All staff are given mandatory cyber security training.</p> <p>The ICT team enabled the Council overnight to shift to working virtually during the pandemic. Modern virtual communications technology is used. Digital transformation for public facing interactions is underway. In-house</p>

		development of forms is facilitating improvements such as report it portal for residents and councillors
17	No presentation on financial performance/position to members or proper consideration of the annual financial report.	Outturn report goes to Corporate Policy and Resources Committee. Each year three "Budget Briefings" in July, October and January and provided to all councillors.

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THE CIPFA FINANCIAL MANAGEMENT CODE

[Consultation Version]

The CIPFA Financial Management Code

Objectives

The CIPFA Financial Management Code (CIPFA FM Code) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The CIPFA FM Code therefore sets the standards of financial management for local authorities.

The Code is based on a series of principles supported by specific standards and statements of practice 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 foreseen demands on services; and
- financially manage unexpected shocks in their financial circumstances.

The Code is consistent with other successful CIPFA codes and statements in being based on principles rather than prescription. Each local authority (and those bodies designated to apply the Code) must demonstrate that the requirements of the Code are being satisfied. Demonstrating this compliance with the CIPFA FM Code is a collective responsibility of elected members, the Chief Finance Officer and their professional colleagues in the leadership team.

Significantly, the CIPFA FM Code builds on the success of the CIPFA Prudential Code which requires local authorities to demonstrate the long term financial sustainability of their capital expenditure and associated borrowing. With this success came new financial freedoms to make local 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 FM Code has sought therefore to rely on the local exercise of professional judgement backed when appropriate by peer review.

The Applicability of the CIPFA Financial Management Code

1. CIPFA's intention is that the CIPFA Financial Management Code (CIPFA 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 CIPFA 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, and
 - in Northern Ireland are defined in legislation for the purposes of Part 1 of the Local Government Finance Act (Northern Ireland) 2011.
2. In addition to its alignment with the Prudential Code for Capital finance in Local Authorities (CIPFA 2017), the CIPFA FM Code also has links to the Treasury Management in the Public Sector Code of Practice and Cross Sectoral Guidance Notes, (CIPFA 2017) and the annual Code of Practice on Local Authority Accounting in the United Kingdom. In this way the CIPFA FM Code supports authorities by re-iterating in one place the key elements of these statutory requirements.
3. The CIPFA FM Code is also further supported by statutory requirement, expressed in a different manner across the different jurisdictions of the United Kingdom, for 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".
4. CIPFA's judgement is that compliance with the CIPFA FM Code is necessary for local authorities to demonstrate that they are meeting these important legislative requirements.
5. This legislation also makes sound financial management ultimately the responsibility of the Chief Finance Officer. With these responsibilities come obligations which are addressed in Section 1 of this Code. In England and Wales these responsibilities are further reinforced by Section 114 of the Local Government Finance Act 1988 which

requires the Chief Finance Officer to report to all the authority's councillors if there is or is likely to be unlawful expenditure or if expenditure in the year (including forecasted expenditure) is likely to exceed resources (including borrowings).

6. Section 114 does not apply to Scotland – instead the requirement to set a council tax which ensures a balanced budget is established in s93 (3) of the Local Government Finance Act 1992. In Northern Ireland, the equivalent duty – whilst not specified in statute – would rest with the authority's Chief Finance Officer in keeping with the statutory responsibility under section 54 of the Local Government Act (Northern Ireland) 1972.
7. 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
 - 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
 - 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

These statements are incorporated and, where necessary, elaborated in this CIPFA FM Code.

8. CIPFA considers the application of the CIPFA 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 Chief Finance Officer are both statutory and professional. Notwithstanding these specific expectations of CIPFA members, the primary purpose of the CIPFA FM Code is to establish how the Chief Finance Officer – regardless of whether or not they are a CIPFA member – should demonstrate that they are meeting their statutory responsibility for sound financial administration.
9. CIPFA believes that this FM Code merits the type of statutory backing given to some of 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 which at present has not been identified. CIPFA will continue to work with the jurisdictions of the different parts of the United Kingdom to provide statutory backing to the 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

10. Local authorities are required to apply the requirements of the CIPFA FM Code with effect from 1st April 2020. This means that to enable the 2020/21 budget to have been prepared in compliance with the Code significant elements of the CIPFA FM Code will have to be adopted before April 2020. Authorities will need to ensure that their governance and financial management style are fit in advance for this purpose. Additionally, they will have had to have initiated the longer term financial planning demanded by this Code.

The CIPFA Statement of Principles of Good Financial Management

11. The CIPFA 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 demonstrate 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 which for the first time sets explicit standards of financial management.
12. The underlying principles that inform the CIPFA 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 which 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 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 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 and includes political scrutiny and the results of both external audit, internal audit and inspection.
 - The long term **sustainability** of local services is at the heart of all financial management process and is evidenced by prudent use of public resources.
13. The CIPFA FM Code has been developed and tested in partnership with a range of different types of local authorities. Given the diversity of UK local government, it is not however possible (or desirable) for the Code to anticipate all eventualities. If any doubt arises as to whether or how the CIPFA 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 practice even if not explicitly ruled out by the Financial Management Standards contained in the CIPFA FM Code.

The Financial Management Standards.

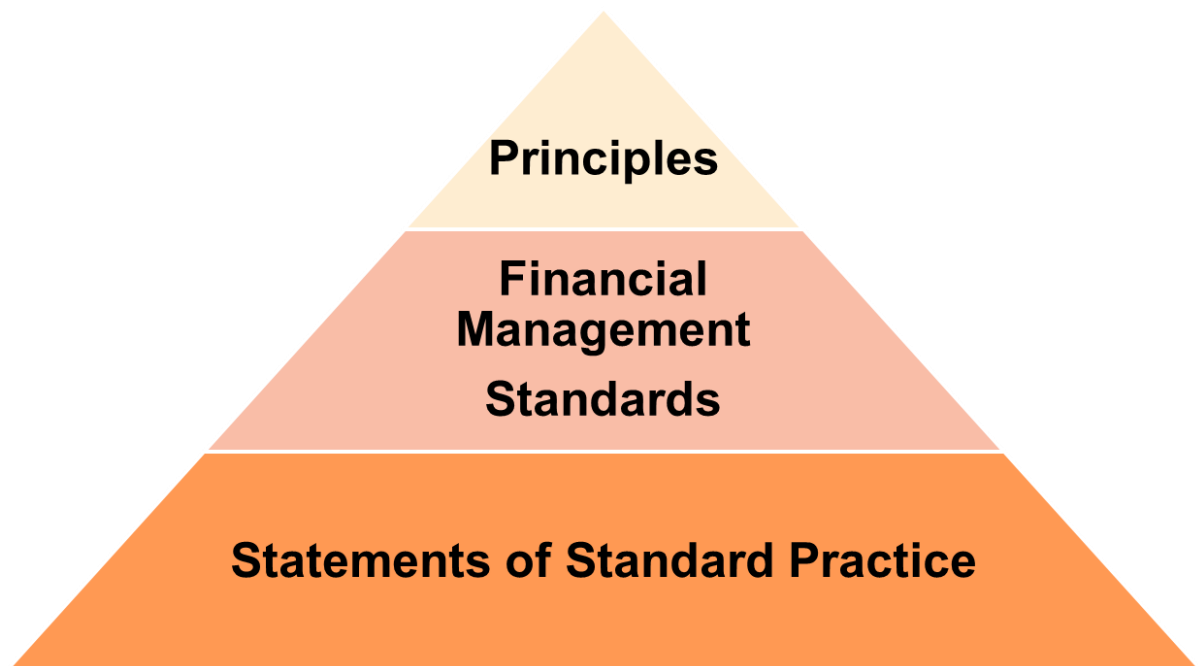
14. It is the duty of each local authority to adhere to the principles of financial management. To enable authorities to test their conformity with the CIPFA Principles of Good Financial Management, the CIPFA FM Code translates these principles into

- Financial Management Standards; and
- Statements of Standard Practice.

These Financial Management Standards and supporting Statements of Standard Practice provide the flexibility necessary for the CIPFA Principles of Good Financial Management to have practical application according to the different circumstances of each authority.

The Structure of the Code

15. The CIPFA Financial Management Standards are presented and explained in Sections 1 to 7 of the FM Code. These sections also introduce the Statements of Standard Practice which are shown with the FM Standards in the schedule on page 52 to 57. The principles set out in paragraph 12 are supported by defined financial management standards, the adherence to which will be by application of statements of standard practice. There is therefore a clear hierarchy. All principles require to be applied and the statements of standard practice set the minimum requirement to demonstrate adherence to the Code

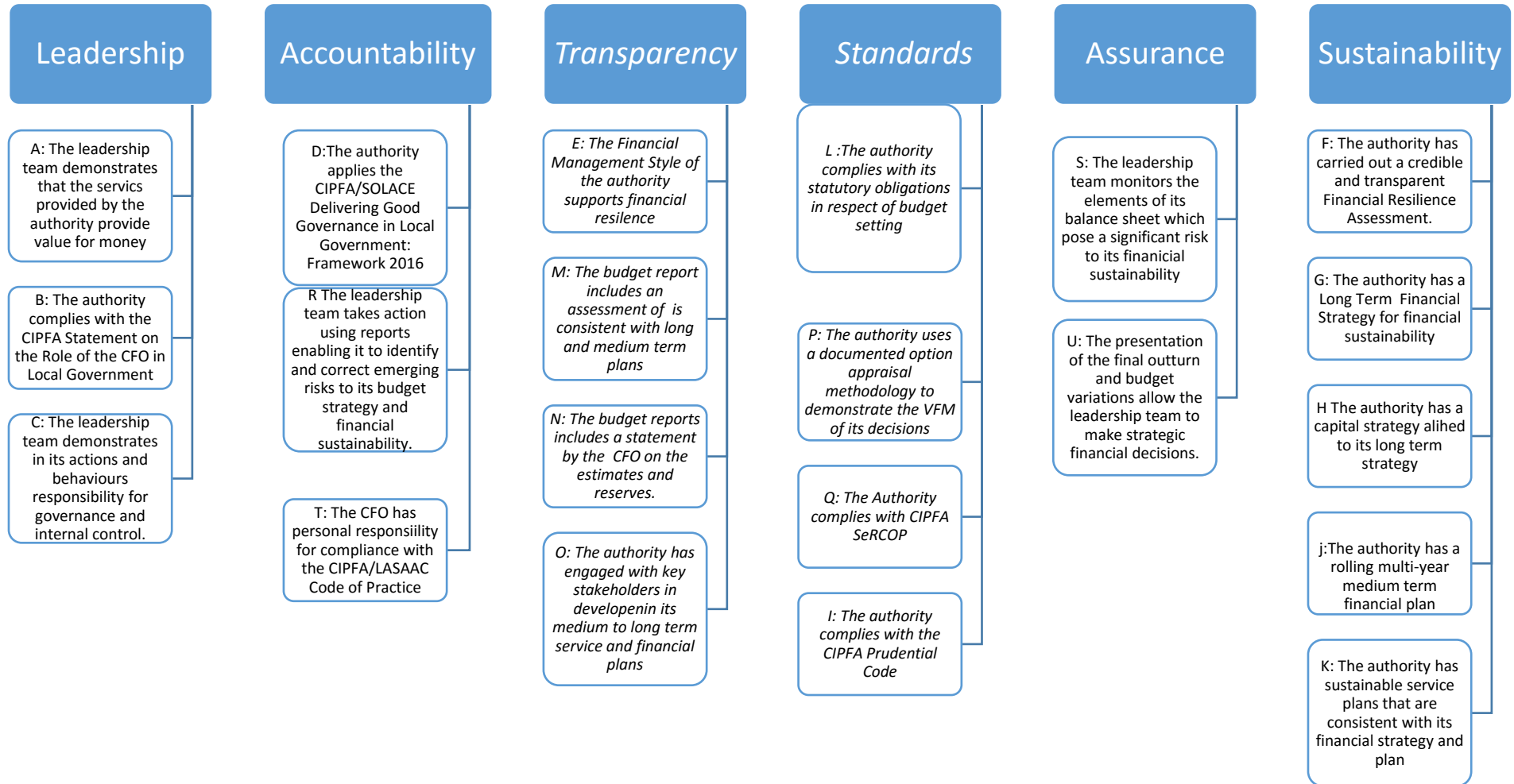


FM Standard Reference	CIPFA Financial Management Standards
	Section 1 The Responsibilities of the Chief Finance Officer and Leadership Team
A	The leadership team demonstrates that the services provided by the authority provide value for money.
B	The authority complies with the CIPFA Statement on the 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 has a Long Term Financial Strategy for financial sustainability.
H	The authority has a capital strategy aligned to its long term financial strategy
I	The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities
J	The authority has a rolling multi-year Medium Term Financial Plan
K	The authority has sustainable service plans that are consistent with its long term financial strategy and the medium term financial plan
	Section 4 The Annual Budget
L	The authority complies with its statutory obligations in respect of the budget setting process.
M	The budget report includes an assessment of its consistency with the current medium term financial plan and long term financial strategy.
N	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.
	Section 5 Stakeholder Engagement and Business Plans
O	The authority has engaged with key stakeholders in developing its long term financial strategy, medium term financial plan and annual budget.
P	The authority uses a documented option appraisal methodology to demonstrate the VFM of its decisions
Q	The authority applies the principles contained in the CIPFA Service Reporting Code of Practice and utilises appropriate costing techniques in the development of business cases.
	Section 6 Monitoring Financial Performance

R	The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.
S	The leadership team monitors the elements of its balance sheet which pose a significant risk to its financial sustainability.
	Section 7 External Financial Reporting
T	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.
U	The presentation of the final outturn figures and variations from budget allow the leadership team to make strategic financial decisions.

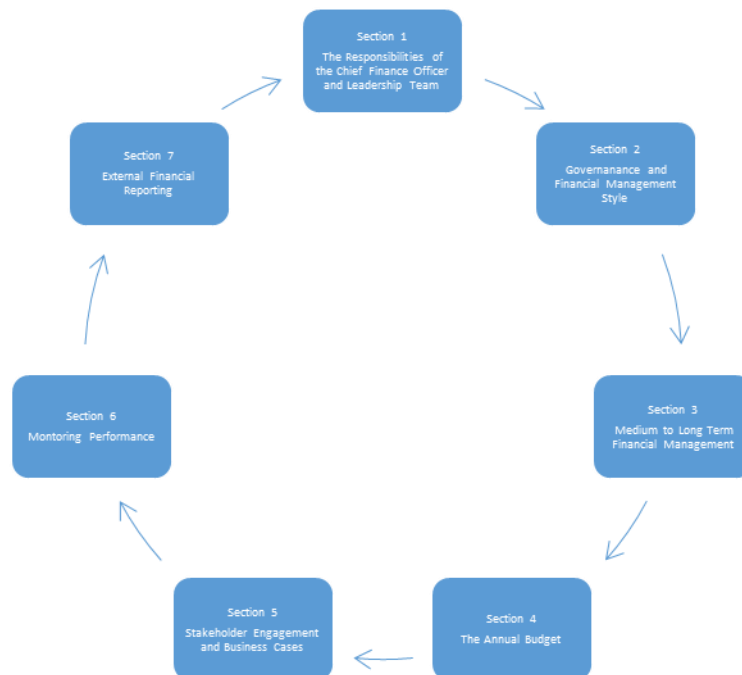
The following diagram maps the CIPFA FM Standards onto the Principles of Financial Management.

Mapping of CIPFA summarised Financial Management Standards onto CIPFA Principles of Good Financial Management (DRAFT)



16. Sections 1 and 2 of the FM Code 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 Chief Finance Officer 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 here there are recognised standards of best practice which authorities must adopt if their organisational culture is to be favourable for sound financial management. A 'tick box' compliance with these standards alone will not however be sufficient if they do not promote the behaviours necessary for good financial management.
17. The remaining sections 3 to 7 address the requirements of the financial management cycle starting in section 3 with 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 (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 provides the basis for the financial management cycle to restart on a sound basis.

The Virtuous Financial Management Cycle



18. 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. This compliance will typically but not always be demonstrated by documenting

compliance with the Statements of Standard Practice which underpin each of the CIPFA Financial Management Standards. It is most important that practitioners recognise that while compliance with the CIPFA Financial Management Standards is obligatory for compliance with the Code, the Code is not prescriptive about how this compliance is achieved. The Statements of Standard Practice are, as their name suggests, practices that are often to be found across local authorities, but CIPFA recognises that they are not universal and so are not prescribed by this Code.

19. As high level statements of proper practice, the overarching CIPFA Financial Management Standards do apply to the police service. CIPFA recognises, however, that this service has in some respects different practices from other local authorities. As a consequence it will need to demonstrate compliance with some of these Financial Management Standards by alternatives to the Statements of Standard Practice contained in this Code. In doing this they would be using on a more widespread basis the flexibility offered to all authorities in the practices used to comply with the Financial Management Standards.
20. Some of these Statements of Standard Practice refer to current legislative, regulatory or professional standards. These are likely to change over time, but this will result only in a change in how compliance with the CIPFA FM Standard is demonstrated and not a change in the Financial Management Standards. The distinction between Financial Management Standards and Statements of Standard Practice should enable the essential demands of the CIPFA FM Code to have longevity even though changes can be expected in some of the detailed application.
21. CIPFA may issue additional or replacement Statements of Standard Practice to support and clarify application of the FM Code. These statements of standard practice represent the minimum required to achieve compliance with this Code. Local authorities can develop their own local statements of standard practice and are encouraged to do so.
22. The CIPFA FM Code also uses Statements of Standard Practice in recognition of the need for the practical application of (some) Financial Management Standards 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.
23. Nonetheless, in acknowledging the need for proportionality in applying some aspect of the CIPFA 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 CIPFA 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, exception and unfamiliar. Essentially, the CIPFA FM Code recognises that getting the routine business right is crucial for good financial management.

24. So while flexibility in the application of the Statements of Standard Practice is appropriate, any departure from the Statements of Standard Practices must be demonstrated to still leave the authority able to satisfy both the Financial Management Standards and comply with the overarching Financial Management Principles. CIPFA's expectation is that CIPFA FM Code should be applied in this way on a 'comply or explain' basis. If necessary this requirement could be formalised by including it within the requirement of the Annual Government Statement – as has been done for the *CIPFA Statement on the Role of the Chief Finance Officer in Local Government*.

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

25. Local authorities in the United Kingdom use different democratic models. While the committee and the cabinet system is the most common there are also a number of direct elected mayors in England. Regardless of the detail, responsibility for corporate financial sustainability rests with those responsible for making executive decisions with the support of their professional advisors. The FM Code follows the practice of other CIPFA Codes 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. In the police service this leadership is provided by Police and Crime Commissioners and Chief Constables.
26. While the legislative context differs across the different jurisdictions of the United Kingdom, all local authorities must deliver value for money. So, while Financial Management Standard A is not supported by any specific Statements of Standard Practice, the need to comply with it should inform the application of the other Financial Management Standards and Statements of Standard Practice in the FM Code.

Financial Management Standard A

The leadership team demonstrates that the services provided by the authority provide value for money.

The Role of the Chief Finance Officer

27. The statutory role of the Chief Finance Officer (CFO) is a distinctive feature of local government in the United Kingdom. This role cannot however be performed in isolation but only with the support of the other members of the leadership team. The leadership team must recognise that responsibility for the financial management of the authority does not rest with the Chief Finance Officer alone, but with the actions of the leadership team both collectively and individually as elected members and senior officers.
28. Equally, the Chief Finance Officer 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. A situation in which the Chief Finance Officer is forced to act in isolation is characteristic of authorities in which financial management had failed and financial sustainability is threatened.
29. In the leadership team the Chief Finance Officer must provide timely, relevant and reliable financial advice, in accordance with the law and professional standards. To support Chief Finance Officers and authorities by setting out its understanding of the role, CIPFA has issued a *Statement on the Role of the Chief Finance Officer in Local Government*.

Financial Management Standard B

The authority complies with the CIPFA Statement on the Role of the Chief Financial Officer in Local Government

30. For the purposes of the CIPFA 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*.
31. CIPFA's statement on the role of the Chief Finance Officer in Local Government describes the roles and responsibilities of the Chief Finance Officer. It sets out how the requirements of legislation and professional standards should be fulfilled by the Chief Finance Officer 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.
32. The Statement also requires that if different organisational arrangements are adopted the reasons should be explained publicly in the authority's Annual Governance Report, together with how these deliver the same impact. Compliance with the CIPFA FM Code will equally demand this disclosure be made to explain how the Statement of Standard Practice is being met.
33. To enable authorities to demonstrate compliance with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government, its key elements are presented below as Statements of Standard Practice. In doing so the FM Code does not change the role of the Chief Finance Officer from that set out in the existing statement, but it presents its elements in a format that allows a systematic assessment of an authority's compliance.
34. CIPFA considers that it is important for the Chief Finance Officer to be at the 'top table' with a status at least equivalent to other members. This status must be respected in practice and not be simply a theoretical status based on a position in the organisation. This increases awareness of the importance of financial planning and closely aligns financial and wider business planning. While performing this key role within the leadership team CFOs also have a responsibility to advise those members not in executive or leadership roles.

Statement of Standard Practice B1

The Chief Finance Officer in a public service organisation is a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest

[From CIPFA: The Role of the Chief Financial Officer in Local Government (2016) p 7]

35. The statutory guidance issued by the Secretary of State under the 2000 Local Government Act (England and Wales) advises that local authorities will need to ensure that the Chief Finance Officer and the monitoring officer have access as necessary to meetings and papers and that members must consult with him/her

regularly. There is no equivalent legislative requirement in Scotland or Northern Ireland, but the guidance is equally relevant as a statement of good practice.

Statement of Standard Practice B2

The Chief Finance Officer 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 organisation's financial strategy

[From CIPFA: The Role of the Chief Financial Officer in Local Government (2016) p 7]

Organisations which are required to explain (rather than comply) should set out clearly how the associated risks will be managed and demonstrate notification of the risks to the political leadership.

36. The Chief Finance Officer should support members of the leadership team in seeking to match their financial competences with those necessary for their roles to be performed effectively. This would be done proportionately, with the focus being on those roles which carried the greatest financial responsibilities and hence financial management risk. Ultimately, however, the performance of the elected members and their professional advisers is not the responsibility of the Chief Finance Officer but of the political process and HR policies respectively. So, while the statutory role of the Chief Finance Officer must be recognised, at the same time all members of leadership team must recognise their own responsibilities in support of good financial management.

Statement of Standard Practice B3

The Chief Finance Officer must lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

[From CIPFA: The Role of the Chief Financial Officer in Local Government (2016) p 7]

The Chief Finance Officer should regularly review the skillsets of elected members and all officers with budget/financial management responsibility and ensure appropriate support is provided.

37. The wider finance function in an organisation encompasses those staff and systems deployed in processing financial transactions, achieving compliance and providing interpretation and advice regarding the financial situation outlook. Many of these functions will be performed by staff over whom the Chief Finance Officer does not exercise management control so in promoting sound financial management the Chief Finance Officer will need to rely on the commitment of other senior managers.
38. Good financial management requires technical professional knowledge, commercial and political awareness and 'soft' people orientated skills. The finance profession is in both the private and public sectors one in which professional and technical expertise is demonstrated by a full professional accounting or auditing qualification as well as, for some specialised roles, a credible technical qualification. A local authority should therefore ensure that its mix of qualified to unqualified finance staff gives it assurance that it has access to the right mix and level of financial skills.

Statement of Standard Practice B4

The Chief Finance Officer must lead and direct a finance function that is resourced to be fit for purpose

[From CIPFA: The Role of the Chief Financial Officer in Local Government (2016) p 7]

The Chief Finance Officer should regularly review the skill sets of all finance staff with senior budget/financial management responsibility and ensure ongoing appropriate support is provided.

The ratio of qualified staff as a proportion of total finance staff ensures that the finance function has the necessary financial competence.

39. One cost effective way of assessing costs and performance is by benchmarking, of which the ratio of qualified staff is an example. A more thorough review may be necessary to gain a more nuanced view of the qualitative performance of an authority's finance function. This could be undertaken as part of a wider review of the authority's financial management (see Section 2 of this Code).
40. While statute requires that the Chief Finance Officer is professionally qualified, this is evidently insufficient unless complemented by suitable experience and supported by continuing professional development. The Chief Finance Officer must be a highly experienced finance practitioner who is able to lead, coach, inspire and empower others. Additionally the Chief Finance Officer must be a strategic thinker able to operate at the highest levels both internally and externally.

Statement of Standard Practice B5

The Chief Finance Officer must be professionally qualified and suitably experienced.

[From CIPFA: The Role of the Chief Financial Officer in Local Government (2016) p 7]

The Chief Finance Officer must be able to demonstrate adherence to professional CPD requirements on an annual basis

41. Importantly, as a professionally qualified accountant the Chief Finance Officer should also have regard to their own professional body's Code of Ethics as well as that produced by International Ethics Standards Board for Accountants (IESBA) on behalf of the International Federation of Accountants (IFAC). CIPFA's interpretation of these responsibilities is that not only must the Chief Finance Officer demonstrate the highest standards of ethics but he or she must actively promote these standards across the local authority.
42. In the context of the CIPFA FM Code, this is especially relevant because sound financial management relies on the integrity of all those involved. The financial implications of alternative options needs to be evaluated and presented objectively. Unpalatable information should not be hidden because they bring with it potentially unwelcome consequences for those involved. Similarly, encouraging personal responsibility for budgetary control and wider management should not be done in a manner that creates perverse incentives that discourage the telling of bad news.

Statement of Standard Practice B6

The Chief Finance Officer should promote the highest standards of ethical behaviour in the conduct of financial management.

Professionally qualified staff should demonstrate an ongoing commitment to the principles of objectivity, integrity professional behaviour, professional competence, due care and confidentiality.

43. The Chief Finance Officer may not personally have detailed technical knowledge of all aspects of local government finance, but does need to have personal credibility when giving advice to the leadership team. This means that Chief Finance Officer should have in place a mechanism which ensures that he/she is properly advised on all aspects of local government finance at all times.

Statement of Standard Practice B7

To enable financially informed decision making:

The Chief Finance Officer should be able to provide the leadership team with sound advice on the key principles of local government finance; and

The Chief Finance Officer should be able to demonstrate a sound system which ensures the authority has access to high standards of technical financial advice.

44. While the whole leadership team has responsibility for compliance with the CIPFA Prudential Code for Capital Finance in Local Authorities (2017 Edition), the Prudential Code does include as specific responsibility on the Chief Finance Officer in respect of the capital strategy and associated treasury management.

Statement of Standard Practice B8

The Chief Finance Officer should report explicitly on the affordability and risk associated with the capital strategy and where appropriate have access to specialised advice to enable them to reach their conclusions.

The Prudential Code for Capital Finance in Local Authorities 2017 Edition Page 13

45. There are many different routes to the top finance role, so it is possible that Chief Finance Officers will not have encountered every aspect of local government finance during their earlier professional career. This is especially the case in respect of treasury management and the Local Government Pension Scheme (LGPS) which are typically the immediate responsibility of highly technical expert practitioners while at the same time being critical to the long term financial resilience of the authority.
46. The *CIPFA Treasury Management in The Public Services, Guidance Notes For Local Authorities Including Police Forces And Fire And Rescue Authorities (2018 Edition)* places specific responsibilities on the Chief Finance Officer

Statement of Standard Practice B9

The Chief Finance Officer must establish the reporting and monitoring processes, and integrate the treasury management indicators into the overall financial planning process.

CIPFA Treasury Management in The Public Services, Guidance Notes for Local Authorities including Police Forces and Fire and Rescue Authorities (2018 Edition) p9

47. CIPFA has also produced detailed guidance which includes a precise specification of the knowledge and skills relating to pensions that should be secured by a Chief Finance Officer for a Local Government Pension Scheme administering authority.

Statement of Standard Practice B10

The Chief Finance Officer of Local Government Pension Scheme (LGPS) administering authorities satisfies the requirements of the CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills (2013 edition)

48. This first section of this Code has stressed the responsibilities of the Chief Finance Officer. He or she is not alone responsible for financial management. It is for the leadership team to ensure that the authority's governance arrangements and style of financial management promote financial sustainability. These issues are addressed in the next section of the CIPFA FM Code.

Section 2: Governance and Financial Management Style

49. Without good governance a local authority cannot make the changes necessary for it to remain financially sustainable. So 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 also encourages better informed and longer-term decision making and as a consequence is essential for good financial management.
50. All those with a role in the financial management process need to maintain high values of integrity, transparency and accountability to the public, who have an interest in knowing how their taxes are being spent. This is especially the case when different decisions are made to restrict access to non-statutory services by techniques such as queuing and rationing. Political judgement is also needed to resolve any potential tensions between social outcomes (e.g. anti-poverty policies) and administrative efficiency (e.g. maximising income collection). An effective leadership team is one in which the primacy of the political process is wedded effectively to a recognition of the demands which the statutory framework and good practice place on all those in local government.

Good Governance

51. In local authorities the concept of the 'leadership team' will include executive committees, elected mayors, portfolio holders with delegated powers and other key committees of the authority. Responsibility for good governance rests with this leadership team, even though in practice it is delivered through 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 and accountability and demonstrable efficiency in the use of public resources.
52. The Chief Finance Officer is not the only professional adviser on the leadership team that has 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. ¹
53. Good governance is evidenced by actions and behaviours rather than only formal documentation and processes. The tone and action at the top are critical in this respect, and rest with the leadership team – including both senior officers and elected members - and not just the Chief Finance Officer. A successful leadership

¹ The legal basis of the Head of Paid Service's role is found in Section 4 of the Local Government & Housing Act 1989 and the monitoring officer Section 5 of the same Act.

team has a culture of constructive challenge that excludes an optimism bias in favour of a realism bias, built on rigorous examination of goals, underlying assumptions and implementation plans.

54. The Public Standards Committee has set out 'Seven Principles of Public Life' which it believes should apply to all in the public service. These are:

- **Selflessness:** Holders of public office should act solely in terms of the public interest. They should not do so in order to gain financial or other benefits for themselves, their family or their friends.
- **Integrity:** Holders of public office should not place themselves under any financial or other obligation to outside individuals or organisations that might seek to influence them in the performance of their official duties.
- **Objectivity:** In carrying out public business, including making public appointments, awarding contracts, or recommending individuals for rewards and benefits, holders of public office should make choices on merit.
- **Accountability:** Holders of public office are accountable for their decisions and actions to the public and must submit themselves to whatever scrutiny is appropriate to their office.
- **Openness:** Holders of public office should be as open as possible about all the decisions and actions that they take. They should give reasons for their decisions and restrict information only when the wider public interest clearly demands.
- **Honesty:** Holders of public office have a duty to declare any private interests relating to their public duties and to take steps to resolve any conflicts arising in a way that protects the public interest.
- **Leadership:** Holders of public office should promote and support these principles by leadership and example.

55. The last of the Nolan Principles is especially relevant to the leadership team as it is especially important that they demonstrate leadership and example in their standards of behaviour.

Financial Management Standard C

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

56. The *CIPFA/IFAC International Framework: Good Governance in the Public Sector* (Annex A to this FM Code) is intended to encourage better service delivery and improved accountability by establishing a benchmark for aspects of good governance in the sector. By international standards, local government in the United Kingdom 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.

57. The application of this CIPFA/IFAC 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 discharge their accountability for the proper conduct of business. Its statements of principles are in Annex B of this FM Code

Financial Management Standard D

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

58. 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 (AGS).

Audit

59. It is primarily the responsibility of the leadership team to maintain the financial sustainability of the authority. External auditors can however be expected to request evidence on, and will draw attention to any material concerns, regarding the financial sustainability of the authority. It is the role of the audit committee to ensure that this independent feedback on the soundness of financial management is made known to and addressed by the leadership team.

Statement of Standard Practice D1

The authority maintains an effective audit committee

Statement of Standard Practice D2

The audit committee receives and monitors the implementation of internal and external audit recommendations. When threats to the financial sustainability of the authority are identified by auditors the audit committee should ensure that the recommendations are communicated to the leadership team and that the committee are informed of the effectiveness of the leadership team's response.

60. The mandatory internal audit Standards for local government in the UK are the *Public Sector Internal Audit Standards (PSIAS)*, incorporating the Mission, Core Principles, Definition of Internal Auditing and the Code of Ethics as well as the Attribute and Performance Standards. The mission of internal audit which is embodied in these mandatory internal audit standards is a wide-ranging one: 'to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.' This should extend to considering the risks to financial sustainability and working to protect the authority from them.

Statement of Standard Practice D3

The authority has a PSIAS conformant internal audit function

Financial Management Style

61. 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 will not meet the demands of the present and the possibly even more challenging future. 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.

62. 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

63. 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 success in enabling of transformation is only achieved by a financial management style which supports performance and which in turn delivers accountability. Once these basic foundations have been soundly established, in response to increasing risk authorities need to move up through a hierarchy of financial management styles. This is especially 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.



[Diagram from CPA Australia - <https://www.cpaaustralia.com.au/training-and-events/corporate-learning-solutions/public-sector-financial-management-model>]

64. 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.

Delivering accountability

65. Delivering accountability is the traditional stewardship role of finance. It addresses the regulatory and accountability requirements (such as the need for annual financial statements and an external audit) but with little direct involvement in the organisation's activities. While in itself this basic style of financial control is insufficient to meet the challenges now facing local authorities, it is a fundamental requirement that should not be neglected or trivialised. Using resources effectively is the responsibility of every manager charged with delivering local authority services.

66. Local authority financial management is not just about accountants keeping track of income and expenditure; managers need to take ownership of their budget responsibilities. The leadership team must have a culture of collective responsibility for financial matters. A symptom of financial weakness is significant break down in the existing system of budgetary control (for example, illustrated by poorly understood or unchallenged variances), its replacement by expenditure freezes and other crude ad hoc systems and *in extremis* the issuing of a Section 114 Notice.

Statement of Standard Practice E1

The organisation has an effective framework of financial accountability that is clearly understood and applied throughout, from the political leaders, elected members to directors, finance officers and front line service managers.

[Adapted from CIPFA FM Model]

Supporting performance

67. Having worked with colleagues to secure accountability, the role of finance professionals is to act as business partners by using their expertise to support operational managers. With devolved financial responsibilities the leadership and managers need to be financially literate and finance professionals need to contribute challenge, interpretation and advice.

Statements of Standard Practice E2

Finance teams and the organisation they support are actively committed to continuous improvement focused on efficient and effective delivery and organisational performance.

[Adapted From CIPFA FM Model]

Enabling transformation

68. The third, most advanced style of financial management, is required to ensure financial sustainability. Transformation involves a significant change in approach to an organisation's operating model, its technology, processes and/or service delivery, in order to deliver better outcomes and improve efficiency. These changes bring new challenges for the finance function as the objective is to achieve continuous improvement. Nonetheless, traditional public sector financial disciplines remain important.

Statement of Standard Practice E3

Enabling transformation: the finance team have input into strategic and operational plans taking into account proactive risk management, clear strategic directions and focus-based outcomes

[From CIPFA FM Model]

69. These need to be communicated and addressed by the leadership team. The leadership team must have a culture of collective responsibility for financial matters.

Statement of Standard Practice E4

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 takers understand and manage the financial implications of their decisions.

[From CIPFA FM Model]

Peer and Critical Review

70. Each local authority has its own financial management style; many display excellent practices but all would benefit from a critical evaluation. A rigorous peer review is a good way of doing this; but while CIPFA advocates such peer review it does not mandate it. Nor does it mandate any specific approach except to note that it should be one that has credibility within the sector and its stakeholders. Where an authority has not been subject to a peer review it must demonstrate how it has assessed the effectiveness of its financial management and sought the benefits of new ideas and a different perspective.

Statement of Standard Practice E5

The financial management of the authority has been critically evaluated.

71. The leadership team should exercise judgement to determine when and how regularly its financial management should be critically evaluated. It would be essential in the event of systematic failure or after a period of rapid organisational change; but an incoming Chief Finance Officer may also use a critical evaluation to ensure compliance with the role's statutory and professional responsibilities.

72. 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

73. While the statutory local authority budget process continues to be an annual process (Section 4 below) a longer term perspective is essential if local authorities are to demonstrate their financial sustainability. Progress had been made in promoting medium term financial planning, by for instance multi-year term financial settlements between local and central government. With the era of austerity this ceased and there is some evidence that financial planning timescales are shortening.
74. While consequence of this short-term financial planning is that many authorities have only specified how savings will be achieved for the next financial year and even some of these may be targets rather than firm plans. An important indicator of an excessively short term approach is the existence of 'still to be found' gaps in saving plans. Arguably these may reflect political reality, but equally they may reflect an inability to face unwelcome realities. A failure to plan ahead indicates a lack of strategic thinking and an unwillingness to address difficult issues such as the possibility of ceasing some non-statutory services or changes in the delivering of those to which the authority remains committed.
75. Short-termism runs counter to both sound financial management and sound governance. *CIPFA/SOLACE Delivering Good Governance in Local Government: Framework* (2016), which is incorporated into these CIPFA FM Standards, makes explicit in elaborating its Principle C that the 'long-term nature and impact of many of local government's responsibilities mean that it should define and plan outcomes so that these should be sustainable'.
76. This more strategic approach required by the FM Code is characterised by a distinction between those savings for which there is a clear delivery plan, those which have been agreed in principle but do not yet have a clear implementation plan and those that are simply ideas. Only the first should feature in the annual budget; and even the success (or failure) of these need to be tracked over the medium term if the lessons learnt are to inform decision making.
77. One of the strengths of UK local government is its diversity, with even authorities of the same size and type having a different organisational culture. It is this that allows a close relationship between local authorities and the communities which they serve. Its style of financial management should reflect, for example, its reliance on local tax income or scope to utilise additional grant or trading income. 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.
78. Central government has encouraged the idea that local authorities can control their own financial destiny through measures such as promoting housebuilding and growing the local economy. CIPFA recognises that there are sharp contrasts in councils' inherent ability to take advantage of this approach since it has not always been backed up by a resources or operational freedoms. Nonetheless, 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.

Financial Resilience and Long Term Financial Strategy

79. 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.
80. In this Financial Resilience Assessment it is necessary to test the sensitivity of the authority's financial sustainability given alternative plausible scenario 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. Without such stress testing an authority cannot be regarded as financially sustainable and will be deemed to have failed that test.
81. The requirement to carry out a financial resilience assessment should be carefully distinguished from Statement of Standard Practice E5 by which authorities critically evaluate their financial management. Good financial management processes, validated by a critical evaluation, are important in promoting financial sustainability, but they do not guarantee that an authority has the resources to meet the demands placed on it.

Financial Management Standard F

The authority has carried out a credible and transparent Financial Resilience Assessment.

82. The starting point for this assessment will be an analysis of the latest audited financial statements. While external financial reporting (Section 7 of this Code) is in one sense the end of the financial management process it is also the starting point for the next cycle by providing a definite statement of the authority's financial position.
83. Importantly, the purpose of this financial resilience assessment is not to predict or forecast the future, but rather test and understand the authority's sustainability into an uncertain future. In this process optimism bias has to be avoided by encouraging critical challenge. The result will demonstrate that the authority understands its cost drivers and income sources and that the risks of existing delivery plans are clear and will inform the authority's strategic risk register.

Statement of Standard Practice F1

Financial resilience is tested against best and worst case scenarios which cover a wide range of financial demographic and social challenges.

84. One important way in which the objectivity of the financial resilience assessment can be demonstrated to be objective is by using an independent quantitative measure that allows the authority to measure and track the risks to which it is exposed. This is not achieved by ranking or comparison with other authorities but rather using an objective measure to identify financial risks.

Statement of Standard Practice F2

The authority uses independent objective quantitative measures to assess the risks to its financial sustainability.

85. The scope of the financial resilience assessment is likely to extend to an understanding of the risks associated with its most significant partners. This is necessary to ensure that essential public services are sustainable and to protect public body having to pay large compensation payments and from incurring other financial losses. 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 risks.
86. Demonstrating the financial resilience of a local authority will require a focus on the contingency planning and development of exit strategies for key contracts. The risk management of these will form part of the good governance processes set out in Section 2 and the financial evaluation of the contractual arrangements themselves will form part of the business case process addressed in Section 5 below. Good practice would be demonstrated, for example, by the presence of partnering risks in a properly managed corporate risk register.

Statement of Standard Practice F3

Decision making by the authority demonstrates a sound understanding of the risks associated with its strategic business partners.

87. 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 entity mission, together with the mix of interventions that the entity will adopt in delivering services to achieve the intended outcomes. In many cases a basis for this will already exist in a corporate plan.
88. 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 but subject to revision and fundamental change only when it is no longer fit for purpose.

Financial Management Standard G

The authority has a Long Term Financial Strategy for financial sustainability.

89. 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. But CIPFA would promote ambition and stress the need for a financial strategy that matches the need for a strategic approach to service planning. The underlying demand for key costs 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.
90. Authorities with a high level of infrastructure investment and associated external borrowing should adopt a correspondingly long term approach. 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. HRA business plans in England and Wales are already based on a 30 year time horizon.
91. The Long Term Financial Strategy will include proposals for which detailed implementation plans have yet to be developed. This presents a risk as some authorities have faced difficulties when ambitious transformation programmes based only on a promissory note of the potential for change have then failed to deliver. That said, ambition remains important so the solution is not to give up such ambition, but instead to find means (such as benchmarking) to carry out due diligence of such top-down programmes. These transformation programmes need still to be subject to sufficient 'due diligence' to enable the whole leadership team to be committed to the transformation programmes for which they are collectively responsible.

Managing the overall Balance Sheet

92. Balance sheet management in local authorities is about the better management of assets and liabilities to support service delivery 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 capital strategy, required by CIPFA's Prudential Code, 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.

Financial Management Standard H

The authority has a capital strategy aligned to its long term financial strategy

93. The property assets of the authority raise specific issues, so the authority can be expected to have an Asset Management Plan that allows a full understanding of maintenance liabilities of the estate developed from a full programme of condition surveys. It should set out how priorities are addressed and be based on a 'whole life' approach to maintenance.

Statement of Standard Practice H1

The authority has an asset management plan that reviews the condition, sufficiency and suitability of assets in the light of business needs, and ambitions of the Medium - Long Term Financial Strategy

The plan should evidence rigorous assessment of asset portfolio in relation to service delivery.

94. In addition to understanding its property assets, the authority needs to develop its long term financial strategy with an understanding of its other significant fixed assets and long term liabilities. A methodology for doing this is contained in *Balance Sheet Management in the Public Services: A Framework for Good Practice* (CIPFA, 2017).

Statement of Standard Practice H2

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.

The Prudential Code for Capital Finance in Local Authorities

95. The statutory requirements of the Prudential Code underpins elements of the long and medium term financial management considered in this section of the Financial Management Code. While the minimum requirement is for three year rolling capital and investment plans, paragraph E14 of the Prudential Code (2017 edition) stresses that a longer term approach is necessary to ensure that the capital strategy and asset management plans are sustainable.

Financial Management Standard I

The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities

96. One of the requirements of the Prudential Code is the requirement for a capital strategy, as modified in England by *Statutory Guidance on Local Government Investments (3rd Edition)*. Through the Prudential Code mandating the *Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (2017 Edition)* this will be accompanied by a treasury management strategy and investment plan.
97. CIPFA is not envisaging that the development of significant new reporting is required to demonstrate compliance with the CIPFA FM Code. The CIPFA Prudential Code

already requires authorities to demonstrate that the revenue consequences of proposed capital expenditure is affordable in both the short and long term. The FM Code adds to these minimum requirements the expectation that they will be applied on a longer term basis than has hitherto been the case.

Practical Medium Term Financial Planning

98. 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 for budget setting. The Medium Term Financial Plan 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. 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 of the Medium Term Financial Plan
99. The form of the Medium Term Financial Plan will be dependent upon the environment in which the authority exists, the challenges and opportunities it has identified and the level of infrastructure investment it makes. While the Long Term Strategy needs to be a stable point of reference, the Medium Term Financial Plan needs to be rolled forward annually to ensure that it reflects the latest detailed information.
100. The Medium Term Financial Plan should identify all the significant factors affecting the financial sustainability of the authority over the medium term. It includes specific quantitative and qualitative organisational targets and constraints. This plan balances the financial implications of objectives and policies against constraints in resources and provides the basis for decision making.
101. In contrast to the Long Term Financial Strategy, the Medium Term Financial Plan will be characterised by high quality plans to achieve its goals. A focus on the detail of execution is essential to turning policy goals into savings. For these reasons a 'bottom up' approach, starting point from a detailed understanding of current costs and business practices, is considered to be the preferred means of identifying savings in the medium to short term.

Financial Management Standard J
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The authority has a rolling multi-year Medium Term Financial Plan
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102. The Medium Term Financial Plan should enable the leadership team to have confidence in the concrete delivery of 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 K

The authority has sustainable service plans that are consistent with its Long Term Financial Strategy and Medium Term Financial Plan.

103. Integrated financial and service planning requires costings and other financial analysis to enable the leadership team to identify financial implications, assess and manage risk and promote the effective implementation of the financial strategy.

Statement of Standard Practice K1

The Medium Term Financial Plan should make reference to other organisational plans (e.g. workforce planning) and performance measures to demonstrate an alignment between service and financial planning.

104. CIPFA believes that the use of comparative data is essential to inform the development of credible service plans. Use of benchmarking data should be routine since every authority should have a firm understanding of how its costs and performance compare with comparable authorities. Councils should consider sharing information to identify basic facts, such as whether one provider is charging, without good reason, different authority' different prices for the same service. Local decisions reflecting different local demographics or decisions about service quality will create justified differences - but the implications of these local circumstances need to be made explicit.

Statement of Standard Practice K2

The authority has benchmarked the performance of its services against appropriate comparators.

105. A repeated failure to deliver financial and service plans may be a sign that an optimism bias is a feature of the calculations, such as making unrealistic assumptions about the quantity and pace of progress in achieving savings. A failure to plan and deliver savings in service provision to ensure the authority lives within its resources is a sign of financial stress. This builds up problems for future years. To ensure savings are delivered, each authority needs to develop in its Medium Term Financial Plan a single, consolidated, living document that tracks and evidences its saving plans – including what has been agreed and how much progress has been made. The savings plan should be formally provided to elected members and formally approved by Council.

Statement of Standard Practice K3

To inform the leadership team's decisions the authority has a single document tracking progress in the delivery of planned savings over the period of the Medium Term Financial Plan.

Reserves

106. Reserves are acknowledged in statute. Local authorities are directed to have regard to the level of reserves when considering its 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 of the Chief Finance Officer to advise the local authority on the appropriate level of reserves.
107. The assessment of the appropriate level of reserves, is a cornerstone of this Code. A well-managed authority will ensure that the reserves are not only adequate but are also necessary. There is a broad range within which authorities might reasonably operate depending on their particular circumstances, how this fits with the authority's financial strategy and how they will be used. CIPFA's latest guidance on these issues is to be found in *LAAP bulletin 99: Local Authority Reserves and Balances*.
108. In the absence of prescriptive legislation it has always been recognised that it should be a local decision to determine reserve levels. CIPFA's long held view has been that a generally applicable level of reserves is inappropriate, and that as a consequence it would stress that local authorities should have an approved strategy for its use of reserves. In setting clearer standards for financial management CIPFA intends to issue guidance to support the production of these strategies. In doing this care will be taken to distinguish contingencies from reserves and to recognise that authorities in different circumstances would have different risk appetite.
109. One sign of a systemic failure within the Medium Term Financial Plan is the unplanned use of usable reserves. The use of reserves is an acceptable budget financial strategy when it is done in recognition of the phased delivery of savings; but evidently it is not a sustainable alternative to a sustainable matching of financial plans to ongoing sustainable resources. To impose the necessary discipline the Medium Term Financial Plan should contain a clear statement on the planned and actual use of reserves.

Statement of Standard Practice K4

The authority publishes its plans for the use of reserves over the period of the Medium Term Financial Plan

The level of reserves at 31st March in any one year should not fall below the level previously agreed.

The authority should demonstrate adherence to the most recent guidance on reserves from CIPFA.

110. These plans for the use of reserves need to distinguish clearly between usable and unusable reserves and between the different uses to which usable reserves may be allocated. Reserves have a significant role in the effective financial management. As always some use of reserves to manage and cushion a clear and transparent savings programme over the medium term can be very sensible. However, the one-off use of reserves to avoid another cut in service level is unlikely to be good policy.

It does nothing to enhance financial sustainability and will make the following year even tougher in terms of the scale of cuts that have to be made.

Section 4: The Annual Budget

111. One of the principal objectives of this CIPFA 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. At the same time, the integrity of the annual budget preparation process needs to be protected at a time when the need to make difficult decisions may threaten its integrity.

112. The budget setting process of local authorities is closely regulated – from setting of budget, tax setting through to billing. The key principle is the council tax setting requirement:

- England, sections 31A, 42A of the Local Government Finance Act 1992 (as amended) and section 85 of the Greater London Authority Act 1999
- Wales, sections 32 and 43
- Scotland, 93 of the Local Government Finance Act 1992 and
- Rates (Northern Ireland) Order 1977 (as amended)

113. Local authorities need to ensure that they are familiar with these legislative requirements. In times of routine business compliance is straightforward, but in times of financial stress there may be pressures for delay or obfuscation in budget setting. In these circumstances it is likely that the Chief Finance Officer will need to work closely with the monitoring officer to ensure that the leadership team understand the statutory processes and timetable necessary to set a legal budget.

Financial Management Standard L

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

114. The annual report setting out the proposed budget for the coming year is a key document for the authority, but it does not stand alone since its contents should flow consistently and clearly from the content of the long term financial strategy and medium term financial plan. It will also demonstrate compliance with CIPFA's Prudential Code (Financial Management Standard I) The best local budget plans are those owned and articulated by the whole leadership team and senior managers not simply the Chief Finance Officer .

Financial Management Standard M

The budget report includes an assessment of its consistency with the current medium term financial plan and long term financial strategy.

115. It is especially important that the budget report should include the document tracking relative success or failure in the achievement of a comparison with the previous year's performance which should form part of the Medium Term Financial Plan (section 3 of this Code). This is essential to inform the elected members and service directors in the leadership team to evaluate the realism of the coming year's plans. For example, if a service overspent or failed to meet its savings targets in the previous year, a degree of professional scepticism should be applied to whether a more challenging target could be achieved. The spirit of challenge should be objective but the reasons for any overspend need to be explained. Understanding the

causes of failure so they are not repeated will be an essential component of any challenge.

Statement of Standard Practice M1

The annual report proposing the budget includes an analysis of the success/failures in achieving the spending plans of the previous year and of departures from the planned use of reserves and balances.

116. This assessment of the past successes or failures in the achievement of budget reductions will inform the assessment by the Chief Finance Officer of the robustness of the estimates and the adequacy of the proposed financial reserves – in England, Wales and Northern Ireland this is a statutory responsibility of the Chief Finance Officer². In fulfilling this important obligation the Chief Finance Officer may need to convey an unwelcome and challenging message as the principles of transparency must be uppermost. The council is required to take this statement into account when making its budget and taxation decisions. Experience has shown the Chief Finance Officers in authorities with financial resilience challenges are not always utilising this power to focus the mind of the organisation. This is therefore a subject on which CIPFA will be issuing guidance, including the use of objective measures of financial resilience.

Financial Management Standard N

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.

117. The statement of reserves should list those earmarked reserves that are material for assessing the financial resilience of the authority. This statement should be a more detailed 'snap-shot' of the analysis used to inform the medium term financial plan considered earlier in Section 3. It should, for instance, set out transparently the purposes for which the reserves are held and show the estimated opening balances for the year, details of planned additions/withdrawals and the estimated closing balances.
118. This Code determines that 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 Code will give important reassurance that the authority's financial management is able to manage those risks. These should be maintained at a level appropriate for the profile of the organisation'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

² For E & W Local Government Act 2003 Section 25 NI chief finance officers' duty to report on the robustness of estimates and the adequacy of reserves (under sections 4 and 6 of the Local Government and Finance Act (Northern Ireland) 2011

119. 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 below.

Section 5 Stakeholder Engagement and Business Cases

120. 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 relying principally on pro rata cuts to generate the savings necessary for financial sustainability in an era of austerity.
121. The challenge must not only be to how services are delivered, but also to what is delivered. These decisions must be made with a clear understanding of the statutory requirements and of wider legal implications of any decisions. In making these often difficult decisions the special role of elected members and the democratic process must be respected; a feature of local government is that the leadership team contains both elected members with an executive role and their advisers.

Stakeholder Engagement

122. Stakeholder consultation at the earliest stage of preparing the long term financial strategy 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 their ongoing delivery, promoting an enabling approach to public service delivery which, along with the active involvement of the third sector, may facilitate future reductions in service costs.
123. Stakeholder engagement is not just about public access to information but the active involvement of service users, stakeholders and partners in decisions about budgets, services, resource allocation and taxes. This is stressed in *Principle B of CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016)* with which the CIPFA FM Code requires compliance. Local authorities require clear, trusted channels of communication to engage effectively with all groups of stakeholders. All stakeholders, including service users, must be able to feedback and influence the way the authority uses public funds and the services it provides. Communication and consultation methods should be balanced and fair. An authority's processes should enable the interests of more vocal stakeholder groups to be balanced with other stakeholders' interests to ensure that no one group becomes too dominant.
124. Local democracy means that the residents are the primary stakeholders of local authorities. Consequently, local authorities will generally have a broader view of the issues affecting local communities and so will usually be in a better position to identify potential partners, bring commissioning and delivery bodies together, and then facilitate the development of shared aspirations and desired outcomes in response to those issues. But, in doing so, they will need to take account of the aims and objectives and associated sensitivities of potential partners.

125. This Code recognises that public service outcomes will not and cannot be achieved by any single body, sector or government. By focussing on outcomes at the start of the planning process, the involvement of stakeholders in the process encourages the identification of synergies with other public service providers to be identified as well as user input into how outcomes can best be achieved. The inextricable link between the outcome of achievements and allocation of resources means that authorities should extend the boundaries of cross- organisational engagement to include, for example, when appropriate:

- Health bodies;
- Charitable bodies
- Private sector partners and suppliers; and
- Other government bodies

126. The objective must be to avoid cost shunting, and rather to align local public services to maximise the synergies between them to reduce costs and improve services. CIPFA's publication *Aligning Local Public Services: The overview* sets out the context within which local bodies need to consider innovative ways in which to work in partnership to deliver local public services economically, effectively and efficiently

127. This engagement with local delivery partners should demonstrate consideration of alternative service delivery models, including joint service delivery and the practicality of delivery by external partners. In some authorities options of this type may be unpalatable to elected members of the leadership team and local politicians more generally. The Chief Finance Officer and other advisors on the leadership team therefore have an important responsibility to ensure that the costs and benefits of the elected members' preferred options are assessed against the other possibilities available. This may be done by the use of formal decision making techniques such as SWOT (strengths, weaknesses, opportunities, threats) and PESTLE (which focuses on external political, economic, social, technological, legal and environmental forces)

128. In addition to Council Tax and NNDR, local authorities have numerous income streams, from culture and sport to libraries, transport, waste management and parking. Decisions on such fees and charges often raise difficult political choices; but in reaching them elected members need clear information on the income options and likely impact. The necessity of systematically reviewing the affordability of non-statutory services will raise similar challenges. The authority will need to be responsive to its operating environment by seeking and responding to information on customer and stakeholder service and spending priorities that impact on its financial sustainability.

Financial Management Standard O

The authority has engaged with key stakeholders in developing its long term financial strategy, medium term financial plan and annual budget

Business Cases

129. Financial sustainability will be dependent upon difficult and often complex decisions being made. High-level vision statements are necessary, but they are not a substitute for sound financial assessments of policies and plans. The authority's

decisions must be informed by clear business cases informed by the application of appropriation option appraisal techniques.

Financial Management Standard P

The authority uses a documented option appraisal methodology to demonstrate the VFM of its decisions

130. It is the responsibility of Chief Finance Officer's to ensure that all material decisions are supported by an option appraisal which is 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 simple approach for decisions of low value and/or low risk.

Statements of Standard Practice P1

Option appraisal complies with IFAC/PAIB Project and Investment Appraisal for Sustainable Value Creation: Principles in Project and Investment Appraisal (Annex C to this Code)

131. Any division and separation between financial and management accounting in developing business cases is untenable since required accounting treatments will determine the implications for the General Fund balance. To wait until the accounts closure process to determine the correct accounting treatment may be too late. The financial implications of material decisions and alternative service delivery models will often be dependent on the correct application of financial reporting standards. This will especially be the case for innovative partnership arrangements or new forms of capital investment. The accounting implications of policy decisions should be addressed and clearly demonstrated as part of the decision making process.

Statement of Standard Practice P2

The accounting treatment of material decisions is considered and demonstrated as part of the formal option appraisal process.

132. Once the financial reporting standards have been correctly applied to each option, the application of an option appraisal methodology and the presentation of the results in an informative way to the leadership team is reliant of proper costing techniques. Hitherto management accounting had not been governed by a framework of international standards familiar to financial accountants, but this is changing with initiatives such as the [IFAC/PAIB Project and Investment Appraisal for Sustainable Value Creation: Principles in Project and Investment Appraisal](#). CIPFA's Service Reporting Code of Practice (SeRCOP), originally introduced to promote consistent financial reporting by local government, and now also provides the management accounting standards for the production of statistical and benchmarking data for local authorities.

Financial Management Standard Q

The authority applies the principles contained in the CIPFA Service Reporting Code of Practice and utilises appropriate costing techniques in the development of business cases

133. CIPFA's Service Reporting Code of Practice (SeRCOP) includes a formal definition of total cost which must be used, for instance, in statistical returns to central government or when the full cost of a service needs to be recovered. However the SeRCOP stresses that total cost may not always be appropriate. Costing for decision-making purposes will often require the use of different techniques; it will also require that all relevant costs, and only relevant costs, are taken into account, whether they form part of total cost or not. For example, there are strong arguments for reflecting the costs of early retirement in management accounts so that service managers can see the cost as well as the benefit of such decisions, and as a way of ensuring management discipline. Such costs are not within the SeRCOP total cost of individual services for consistency reasons, and so parallel accounting systems may be required, using total cost for external reporting, charging and comparisons and other accounts for internal management purposes.
134. Authorities will also need to decide whether the revenue cost of capital arising from, for example, interest charges element (to reflect the full cost of using non-current assets in the provision of a service) should be included in any costing for decision-making or charging purposes.

Section 6: Performance Monitoring

135. 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 R

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

136. Significant unplanned overspends and/or carrying forward undelivered saving into the following year are a sign that an authority is not translating its policy decisions into actions. It also creates the conditions for further financial pressures and possibly service reductions in subsequent years. But the warning signs could 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.
137. The first line of defence against budgetary failure is the quality of information available to managers. Front line service managers and budget holders will want to ensure that financial and service performance are aligned with budget plans. An authority needs an effective finance systems that provides all decision makers with one version of the truth.

Statement of Standard Practice R1

Timely financial and performance information is available to managers via the appropriate systems.

Financial and performance management systems are engineered to provide relevant data at a sufficiently accurate level.

When appropriate, budgets are profiled to support effective budgetary control through the financial year.

The organisation ensures that information is appropriately tailored and streamlined to avoid the risk of 'data overload'.

138. At its most basic, financial monitoring is necessary to allow control over spending and service delivery. For this purpose financial and other management information needs to be accurate and timely and embedded in a system of internal control that focusses on controls, probity, compliance and accountability. But financial management information is only valuable if it results in action. For this purpose the real time financial and performance information needs to be periodically collated for management review and action. Most importantly, the details of these performance monitoring arrangements must ensure that personal responsibility for each budget is

established and recognise that routine longstanding but still best practices are followed.

Statement of Standard Practice R2

All Financial monitoring reports include:

- *The name of the budget holder responsible for the information presented*
- *Accruals based financial information*
- *Include the approved budget against which monitoring is taking place.*
- *A forecast for the remainder of the budget period,*
- *Service performance information and*
- *is shown, for instance by reconciliations, to be consistent with the aggregate position for the authority.*

139. Responsibility for the aggregate of a local authority's budgets is the responsibility of the leadership team. The information presented needs to be sufficient for the team to determine whether there is any necessity to revisit the medium term financial plan and even long term financial strategy. The causes of budget over or under spends may not be immediately obvious, so the presentation of this information needs to be accompanied by an analysis of the causes. These could be changes or unexpected developments in the external environment or in the internal operations of the authority.

Statement of Standard Practice R3

Financial monitoring reports for high risk budgets are:

- *Scrutinised by the leadership team of the organisation on (as a minimum) monthly basis.*

- *Financial monitoring reports for steady state/low risk budgets are:*

-*Received by budget holders on a monthly basis*

-*Received (in aggregate) by the leadership team on a regular basis (in aggregate) by the leadership team.*

140. Financial monitoring should act as catalyst for timely intervention in advance of the annual budget setting process. Responsibility for addressing budgetary failures must in the first instance rest with budget holders. There still needs, however, to be a process for amending service budgets when they have been subject to fundamental changes to the operational environment. It is important that steps are taken to maintain budgetary discipline in such circumstances as otherwise a loss of control would undermine the financial sustainability of that service or even the authority. Except in the most extreme circumstances, it is likely that the overspending of some budgets will be accompanied by the underspending of others. An authority needs to be clear as to which emerging underspends may be retained by the budget holder and which should be corporately pooled in support of the financial sustainability of

the authority. Wider assessment will determine whether any underspend indicates a failure of performance or failure to deliver services.

141. The leadership team needs to have clear criteria which determine when such budget flexibility is appropriate; budgetary control is undermined if frequent amendments become the norm. These exceptional in-year changes should usefully be distinguished from the general revision or recalibration of in-year budgets which typically takes place when the detailed budget for the forthcoming year is prepared.

Statement of Standard Practice R4

The authority has arrangements which allow annual service budgets to be recalibrated in response to unforeseen developments.

142. The overall financial performance of an authority will be determined not only by service expenditure controlled by operational managers, but also by "below the line" non-service budgets for which expenditure is controlled corporately. These will vary according to the particular management arrangements of the authority. It is therefore important that the leadership team report receives a regular comprehensive update that sets the regular financial monitoring information in its wider context.

Statement of Standard Practice R5

At the financial monitoring period end the leadership team receives a set of financial statements with forecast outturn for the year ahead

143. In addition the financial sustainability of the authority may be affected by the performance of partners and subsidiaries in which it has a financial interest. Financial and risk management needs to take place at the level of the group entity and not just of the level of the local authority parent. Recent experience with Carillion has shown that even the largest companies providing outsourcing and public service are not necessarily as financially sustainable as their size and prominence in the market would suggest. Financial pressures have also created a new level of interest around commercial arrangements. In some cases these have become a method to balance the books or promise future financial sustainability, which brings both new and often large risks.

Statement of Standard Practice R6

There are appropriate arrangements in place for reporting and managing the financial performance of each of the organisation's delivery partnerships and collaborative arrangements.

144. The project management and cost control of capital projects is a specialist skills which are of critical importance if local authorities are to deliver the financial savings and improved service depended on the timely completion of complex schemes.

Statement of Standard Practice R7

There are appropriate arrangements in place for the project management and cost control of capital projects.

145. Local authorities do not customarily monitor the 'in year' performance of their balance sheet, beyond possibly tracking the use of balances. This contrasts with the private sector, in which the production a monthly balance sheets is common practice. The regularly production of a balance sheet brings with it costs that, historically have been judged to be too high by authorities. Increasing the use of capital resources and complex financial transactions means that more attention should now be given to the balance sheet to gain an understanding of significant assets and long term liabilities. A methodology for doing this is contained in *Balance Sheet Management in the Public Services: A Framework for Good Practice* (CIPFA, 2017).

146. 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. The recording of assets and liabilities, and the ability to report on these, can also be a statutory responsibility for authorities.³

Financial Management Standard S

The leadership team monitors the elements of its balance sheet which pose a significant risk to its financial sustainability.

Statements of Standard Practice S1

Unplanned and planned use of reserves are reported [quarterly] to the management team of the organisation and to Council.

Statement of Standard Practice S2

Management accounts include an appropriate level of balance sheet information to meet business needs and evidence of monitoring of material items

147. Local authorities should, for example be interested in their unusable reserves as these include liabilities that the council tax setting and other statutory provisions have allowed local authorities to defer to be charged against taxation and reserves in future years. 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*

³ As specified by: see SI 2015/234 - Local Government, England And Wales The Accounts and Audit Regulations 2015 Section 4; SSI 2014/200 The Local Authority Accounts (Scotland) Regulations 2014 Section 6 – especially sub-section 2 (b); WSI 2014/3362 (W337) The Accounts and Audit (Wales) Regulations 2014 section 6 – especially sub-section 2 (b); and NISR 2015/106 The Local Government (Accounts and Audit) Regulations (Northern Ireland) 2015 Section 5.

Services: Code of Practice and Cross-Sectoral Guidance Notes (CIPFA 2017).
Compliance with the Treasury Management is a requirement of satisfying the Prudential Code (Financial Management Standard I.)

Section 7: External Financial Reporting

148. Taxpayers and citizens have a legitimate stake in understanding how public money has been used and managed so they have typically been seen as the audience of external financial reporting. But the customary distinction between internal financial management and external financial reporting should be treated with extreme caution. In providing the definitive audited statement of the authority's financial position and financial performance, the statutory accounts provide a secure foundation for financial management. This supports accountability and thus good financial management by allowing the leadership team and other stakeholders to:

- 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.

149. The external financial reporting process in local authorities is substantially regulated by statutory provisions both in primary and secondary legislation. Local authorities are required to produce their statutory statements of accounts (annual accounts in Scotland) 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
- the Accounts and Audit (Wales) Regulations 2014.

150. These regulations all require that local authorities present a 'true and fair' view of the financial performance and financial position of the authority. Separate statutory provisions also require that local authorities follow proper accounting practices which include regulations but also importantly include the Code of Practice on Local Authority Accounting in the United Kingdom which is issued annually.

151. CIPFA's statement on the role of the Chief Finance Officer Local Government sets out the Chief Finance Officer responsibilities for producing the accounts and financial records for those accounts. The CIPFA Statement requires that the annual accounts are published on timely basis to communicate the authority's activities and achievements, its financial position and performance and 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.

Financial Management Standard T

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*.

152. 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 showing how public money is used. The importance of the budget and budget monitoring for local authorities is paramount and is discussed in detail in other parts of this Code but without the audited statement of accounts to confirm the outturn for previous year there can be no assurances about the baseline on which the current budget is founded. Financial reporting therefore should not take place in a vacuum. It must provide the accountability link between planned performance and spending and the outcomes – financial and more – that are achieved. The authority, its management and the Chief Finance Officer, must provide the user with the links between the consumption of resources and the value that has been created.

153. It is key therefore that the budgetary process is brought together with the veracity of the financial reporting process to ensure that the council, its leadership and governance understand how effectively its resources have been utilised during the year including a process which explains how material variances from initial and revised budgets 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.

Financial Management Standard U

The presentation of the final outturn figures and variations from budget allow the leadership team to make strategic financial decisions.

154. The presentation of the annual accounts both closes the financial management cycle and initiates the start of the next financial cycle with the rolling forward and review of the medium term financial plan and in some circumstances a reappraisal of the credibility of the long term financial strategy and the financial resilience of the authority (Section 3 above).

Financial Resilience and Financial Reporting

155. The statutory accounts will provide important information on the financial sustainability of the authority though it should be underlined that it is not the only source of this information. Regulations across the UK determine what councils can charge to the General Fund and hence against income and expenditure in a particular year. The most significant of these statutory accounting requirements under the regulations for most local authorities are the IAS 19 (Employee Benefits as adopted by the Code) pension reserve position and/ or the statutory accounting entries for capital finance with the capital adjustment account. While items such as pensions liabilities and depreciation may not immediately affect the authority's usable reserves, an understanding of the extent of these unfunded liabilities is critical to reaching a conclusion on intergenerational equity and exposing the burden being built up for future taxpayers.

156. The local authority balance sheet is based on IFRS (as adopted by the Code) and includes liabilities that local authorities may not fund using taxpayer resources until a future date. When an authority has a negative net worth, this indicates that future taxpayers (whether through Council Tax or indirectly through government grants) will be funding some of the cost of providing services which have been delivered in

the past.

157. It is likely that there are a number of authorities who are already in a negative net worth position. This doesn't mean they are not a going concern. Local authorities are required to operate within the financial reporting framework set out in the Local Government. As a consequence, while authorities must budget for a positive General Fund Balance, they are not required to maintain a positive net worth. It will be important that this position is presented effectively to the readership of the financial statements in accordance with the requirements of the Accounting Code.
158. In demonstrating that they are a going concern basis, local authorities need to show that they are able to meet their liabilities according to when that is legally required by the regulations, not immediately when these liabilities are recognised in accordance with the accounting requirements in the IFRS-based Code i.e. those accounting requirements in the Code that are based on IFRS only (the Code also includes the statutory accounting requirements). This approach should ensure liabilities such as the pension's liability are met in the long run. The future funding of these liabilities will be met mainly by a combination of council tax (which authorities have a legal power to raise) business rates, and local government finance settlements. It is expected that future cash flows, aligned with authorities' budget processes, will provide sufficient resources to finance future liabilities, and hence a going concern basis is appropriate.
159. Notwithstanding these general comments an authority will need to consider whether the effect of the authority's negative net worth results in any going concern issues for any part of the authority, this is normally unlikely to be the case if the negative net worth position is as a result of the timings of the statutory requirements as outlined above.
160. One of the objectives of the financial statements is to present the economic activity of the council i.e. its financial position and financial performance so that it is useful to a wide range of users for assessing the stewardship of an authority's management and for making economic decisions. Financial reporting standards as adopted by the Code require expenditure to be recorded irrespective of whether it is funded or unfunded. So where expenditure has been incurred the Code requires that it is properly recognised in the Comprehensive Income and Expenditure Statement. Where expenditure exceeds income a deficit will be recognised in accordance with the presentation requirements of that Statement.
161. Where the deficit position and other adjustments to General Fund balances mean that the cumulative position is such that the General Fund is in deficit this will be recognised in the Balance Sheet – this is likely also to be at the point at which the Chief Finance Officer should be taking appropriate statutory action as discussed in earlier chapters. Explanatory notes and appropriate description will be required if this has a material impact on the presentation of a local authority's financial performance (the Comprehensive Income and Expenditure Statement) and its financial position (the Balance Sheet).

Stakeholder Engagement and Financial Reporting

162. Section 5 of this Code recognises the importance of effective stakeholder engagement. Traditionally, any external engagement in financial reporting arises directly and solely from the statutory financial reporting requirements. Increasingly complex financial information can be difficult to communicate effectively to a lay audience. Nevertheless, the need to report externally (irrespective of complexity) has increased in recent years and the demand for local authority financial information is not restricted to the period associated with the financial statements.

163. This Code requires Chief Financial Officers to actively engage with stakeholders and to determine a local strategy to produce regular external financial information in addition to annual financial statements. Financial information can be provided in a range of formats, which includes, but is not restricted to:

- Simplified financial statements;
- Extracted key points of information from time to time such as financial instruments, assets, investment properties for specified audiences;
- Simplified or summarised information which reports periodic progress against budget (as reported to elected members);
- The indexed position of the local authority as included within CIPFA's index/dashboard
- The level of local taxation and how it relates to local service delivery.

Schedule of CIPFA Financial Management Standards and Statements of Standard Practice

	Section 1 The Responsibilities of the Chief Finance Officer
A	The leadership team demonstrates 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
B1	The Chief Finance Officer in a public service organisation is a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver the organisation’s strategic objectives sustainably and in the public interest. [From CIPFA: The Role of the Chief Financial Officer in Local Government (2016) p 7]
B2	The Chief Finance Officer 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 organisation’s financial strategy. [From CIPFA: The Role of the Chief Financial Officer in Local Government (2016) p 7] Organisations which are required to explain (rather than comply) should set out clearly how the associated risks will be managed and demonstrate notification of the risks to the political leadership.
B3	The Chief Finance Officer must lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively. [From CIPFA: The Role of the Chief Financial Officer in Local Government (2016) p 7] The Chief Finance Officer should regularly review the skillsets of elected members and all officers with budget/financial management responsibility and ensure appropriate support is provided.
B4	The Chief Finance Officer must lead and direct a finance function that is resourced to be fit for purpose [From CIPFA: The Role of the Chief Financial Officer in Local Government (2016) p 7] The Chief Finance Officer should regularly review the skillsets of all finance staff with senior budget/financial management responsibility and ensure ongoing appropriate support is provided. The ratio of qualified staff as a proportion of total finance staff ensures that the finance function has the necessary financial competence.
B5	The Chief Finance Officer must be professionally qualified and suitably experienced. [From CIPFA: The Role of the Chief Financial Officer in Local Government (2016) p 7] The Chief Finance Officer must be able to demonstrate adherence to professional CPD requirements on an annual basis

Schedule of CIPFA Financial Management Standards and Statements of Standard Practice

B6	The Chief Finance Officer should promote the highest standards of ethical behaviour in the conduct of financial management. Professionally qualified staff should evidence ongoing benchmarking against the principles of objectivity, integrity professional behaviour, professional competence, due care and confidentiality.
B7	To enable financially informed decision making: The Chief Finance Officer should be able to provide the leadership team with sound advice on the key principles of local government finance; and The Chief Finance Officer should be able to demonstrate a sound system which ensures the authority has access to high standards of technical financial advice.
B8	The chief finance officer should report explicitly on the affordability and risk associated with the capital strategy and where appropriate have access to specialised advice to enable them to reach their conclusions. [The Prudential Code for Capital Finance in Local Authorities 2017 Edition Page 13]
B9	The chief finance officer must establish the reporting and monitoring processes, and integrate the treasury management indicators into the overall financial planning process [CIPFA Treasury Management in The Public Services, Guidance Notes For Local Authorities Including Police Forces And Fire And Rescue Authorities (2018 Edition) p9]
B10	The Chief Finance Officer of Local Government Pension Scheme (LGPS) administering authorities satisfies the requirements of the CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills (2013 edition)
	Section 2 Governance and 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)
D1	The authority maintains an effective audit committee
D2	The audit committee receives and monitors the implementation of internal and external audit recommendations. When threats to the financial sustainability of the authority are identified by auditors the audit committee should ensure that the recommendations are communicated to the leadership team and that the committee are informed of the effectiveness of the leadership team's response.
D3	The authority has a PSIAS conformant internal audit function
E	The Financial Management Style of the authority supports financial sustainability

Schedule of CIPFA Financial Management Standards and Statements of Standard Practice

E1	The organisation has an effective framework of financial accountability that is clearly understood and applied throughout, from the political leaders, elected members to directors, finance officers and front line service managers. [Adapted from CIPFA FM Model]
E2	Finance teams and the organisation they support are actively committed to continuous improvement focused on efficient and effective delivery and organisational performance. The organisation has an effective framework of financial accountability that is clearly understood and applied throughout, from the political leaders, elected members to directors, finance officers and front line service managers. [Adapted from CIPFA FM Model]
E3	Enabling transformation: the finance team have input into strategic and operational plans taking into account proactive risk management, clear strategic directions and focus-based outcomes
E4	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 takers understand and manage the financial implications of their decisions.
E5	The financial management of the authority has been critically evaluated
	Section 3: Long to Medium Term Financial Management
F	The authority has carried out a credible and transparent Financial Resilience Assessment.
F1	Financial resilience is tested against best and worst case scenarios which cover a wide range of financial demographic and social challenges.
F2	The authority uses independent objective quantitative measures to assess the risks to its financial sustainability.
F3	Decision making by the authority demonstrates a sound understanding of the risks associated with its strategic business partners.
G	The authority has a Long Term Financial Strategy for financial sustainability.
H	The authority has a capital strategy aligned to its long term financial strategy
H1	The authority has an asset management plan that reviews the condition, sufficiency and suitability of assets in the light of business needs, and ambitions of the Medium - Long Term Financial Strategy The plan should evidence rigorous assessment of asset portfolio in relation to service delivery.

Schedule of CIPFA Financial Management Standards and Statements of Standard Practice

H2	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.
I	The authority complies with the CIPFA Prudential Code
J	The authority has a rolling multi-year Medium Term Financial Plan
K	The authority has sustainable service plans that are consistent with its long term financial strategy and the medium term financial plan.
K1	The Medium Term Financial Plan should make reference to other organisational plans (e.g. workforce planning) and performance measures to demonstrate an alignment between service and financial planning.
K2	The authority has benchmarked the performance of its services against appropriate comparators.
K3	To inform the Leadership Team's decisions the authority has a single document tracking progress in the delivery of planned savings over the period of the Medium Term Financial Plan.
K4	The authority publishes its plans for the use of reserves over the over the period of the Medium Term Financial Plan The level of reserves at 31st March in any one year should not be fall below the level previously agreed. The authority should demonstrate adherence to the most recent guidance on reserves from CIPFA's Local Authority Accounting Panel
	Section 4: The Annual Budget
L	The authority complies with its statutory obligations in respect of the budget setting process
M	The budget report includes an assessment of its consistency with the current medium term financial plan and long term financial strategy.
M1	The annual report proposing the budget includes an analysis of the success/failures in achieving the spending plans of the previous year and of departures from the planned use of reserves and balances.
N	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.
	Section 5: Stakeholder Engagement and Businesses Cases
O	The authority has engaged with key stakeholders in developing its long term financial strategy, medium term financial plan and annual budget.
P	The authority uses a documented option appraisal methodology to demonstrate the VFM of its decisions

Schedule of CIPFA Financial Management Standards and Statements of Standard Practice

P1	Option appraisal IFAC/PAIB Project and Investment Appraisal for Sustainable Value Creation: Principles in Project and Investment Appraisal (Annex C to CIPFA FM Code)
P2	The accounting treatment of material decisions is considered and demonstrated as part of the formal option appraisal process.
Q	The authority applies the principles contained in the CIPFA Service Reporting Code of Practice and utilises appropriate costing techniques in the development of business cases
	Section 6: Performance Monitoring
R	The authority takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.
R1	Timely time financial and performance information is available to managers via the appropriate systems. The systems are engineered to provide relevant data at a sufficiently accurate level. The organisation ensures that information is appropriately tailored and streamlined to avoid the risk of 'data overload'.
R2	All Financial monitoring reports include: <ul style="list-style-type: none"> • The name of the budget holder responsible for the information presented • Accruals based financial information • Include the approved budget against which monitoring is taking place. • A forecast for the remainder of the budget period, • Service performance information and <p>- is shown, for instance by reconciliations, to be consistent with the aggregate position for the authority.</p>
R3	Financial monitoring reports for high risk budgets are: <ul style="list-style-type: none"> • Scrutinised by the leadership team of the organisation on (as a minimum) monthly basis. • Financial monitoring reports for steady state/low risk budgets are: <ul style="list-style-type: none"> • Received by budget holders on a monthly basis • Received (in aggregate) by the leadership team on a regular basis (in aggregate) by the leadership team.
R4	The authority has arrangements which allow annual service budgets to be recalibrated in response to unforeseen developments.
R5	At the financial monitoring period end the leadership team receives a set of financial statements with forecast outturn for the year ahead

Schedule of CIPFA Financial Management Standards and Statements of Standard Practice

R6	There are appropriate arrangements in place for reporting and managing the financial performance of each of the organisation’s delivery partnerships and collaborative arrangements.
R7	There are appropriate arrangements in place for the project management and cost control of capital projects.
S	The authority monitors the elements of its balance sheet which pose a significant risk to its financial stability
S1	Unplanned and planned use of reserves are reported [quarterly] to the management team of the organisation and to Council.
S2	Management accounts include either a full balance sheet or an appropriate level of balance sheet information to meet business needs and evidence of monitoring of material items
	Section 7 External Financial Reporting
T	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..
U	The presentation of the final outturn figures and variations from budget allow the leadership team to make strategic financial decisions.

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 optimize 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.

**CIPFA/ SOLACE Delivering Good Governance in Local Government: Framework
 \ 2016 Edition Core principles of good governance**

Acting in the public interest requires a commitment to and effective arrangements for:

- A. Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law
- B. Ensuring openness and comprehensive stakeholder engagement
- 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
- H. effective accountability

**IFAC/PAIB Project and Investment Appraisal for Sustainable Value Creation
(Extract from <https://www.ifac.org/publications-resources/project-and-investment-appraisal-sustainable-value-creation-1>)**

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 in a DCF analysis should properly reflect the systematic risk of cash flows attributable to the project being appraised, and not the systematic risk of the organization undertaking the project.
- D. A good decision relies on an understanding of the business and should be considered and interpreted in relation to an organization'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.

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.

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.

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

An annual statement setting out the income and expenditure of the council along with its assets and liabilities.

Audit Committee

A special committee of the council that reviews the financial management and accounts of the council.

Balance Sheet

A statement showing the assets and liabilities of the council.

Capital Budget

The money a council spends on investing in new buildings, infrastructure and expensive pieces of 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.

Code of Practice on Local Authority Accounting in the United Kingdom

A code produced by CIPFA/LASAAC that sets out how councils should show transactions in their accounts and the format of the accounts.

Earmarked Reserve

Money set aside for future use on a specific area of expenditure.

External Audit

An external review of the council's accounts and systems.

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.

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.

Provision

Money set aside against a specific future liability.

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.

Treasury Management

The management of the cash balances and borrowing needs arising from the council's cash flows.

Treasury Management Code

A 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.

[List of codes, guidance and publications referred to or relevant]

[Incomplete draft list for illustrative purposes.]

Audit Commission Strategic Financial Management in Councils: Delivering Services with a Reduced Income (2010)

CIPFA, Code of Practice on Local Authority Accounting in the United Kingdom 2018/19

CIPFA The Prudential Code for Capital Finance in Local Authorities (2017 Edition)

CIPFA Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes (2017 Edition)

CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills (2013 Edition)

CIPFA Pensions Finance Knowledge and Skills framework: Technical Guidance for Pensions Practitioners in the Public Sector (2010)

CIPFA's Position Statement: Audit Committees in Local Authorities and Police 2018

CIPFA/IFAC International Framework: Good Governance in the Public Sector

CIPFA The Role of the Chief Financial Officer in Local Government

CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016 Edition)

CIPFA/SOLACE Delivering Good Governance in Local Government: Framework Review of annual governance statements 2016/17

CIPFA (Insight) Looking Forward: Medium-term financial strategies in the UK public sector

CIPFA (Insight) Building Financial Resilience Managing Financial Stress in Local Authorities

CIPFA (Insight) Accountability, performance and transformation Learning from the CIPFA FM Model

CIPFA (Insight) Balancing Local Authority Budget

CIPFA Financial reporting in the public sector An Introductory Guide to in the United Kingdom

CIPFA Audit Committees: Practical Guidance for Local Authorities and Police (2018 Edition)

CIPFA Delivering Excellent Public Finance: CIPFA's Whole System Approach to Public Financial Management Volumes 1 and 2

IASAB Public Sector Internal Audit Standards

National Audit Office, Financial Management Maturity Model

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Appendix E

Statutory Best Value Guidance Applies to England

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Print this page

Ministerial foreword

Local councils are the frontline of democracy. They play a vital role in our communities and are critical partners as we level up the nation. We need our councils to support everyone, including the most vulnerable. They must be able to make our towns, cities, villages and communities great places to live where every citizen, no matter their circumstances, can thrive. That means providing the effective and efficient local services – from schools, social care and waste collection – that people want and deserve. To do that, they must make the most of every penny they receive from taxpayers to achieve better results for the communities they serve.

Councils in this country tend to have a robust record of transparency, probity, scrutiny and accountability – a reputation worth protecting. Most councils are also committed to continuous improvement and transformation, and strive to achieve value for money when carrying out their functions. Yet as well as celebrating the best of local

government, we must also act when the high standards we expect are not met. The cause of devolution and decentralisation is set back by the glaring failures of some councils. It is right that the government intervenes in these circumstances using powers under the Local Government Act 1999. The government recognises the importance of councils' independence and accountability to communities, and does not use these powers lightly. At the same time, we will take all necessary steps to protect residents and uphold the good name of local government.

Under the 1999 Act, local authorities must legally deliver what is termed 'Best Value' – a council must be able to show that it has arrangements to secure continuous improvement in how it carries out its work. This guidance provides more clarity on the use of powers under the Act where this Best Value Duty is not, or is at risk of not, being met. And where these standards are not upheld, it sets out the models of statutory and non-statutory intervention available, with stages of escalation.

Existing guidance on 4 day working weeks makes it clear that local authorities should not be practicing such arrangements. This is part-time work for full-time pay and it is government's view that these practices are unlikely to adhere to the Best Value Duty. This guidance demonstrates that we will take action where an authority is not using its resources effectively and does not have a credible workforce strategy.

This guidance has been developed for local authorities, including combined authorities and combined county authorities, in England, but I encourage all best value authorities to bear its principles in mind. Prompt intervention to identify and address challenges is always the better approach. When we collectively put appropriate support in place before failure takes root, we can protect citizens and taxpayers from more severe consequences.

It is also the case that in tackling weaknesses earlier, we can expect to see more inspections and locally instigated reviews. This transparency and challenge should be welcomed by all councils that seek continuous improvement – the core aim of the Best Value Duty.

To support the improvement of local government further, we have established the Office for Local Government (Oflog). Oflog provides authoritative and accessible data and analysis to increase understanding about the performance of local authorities, warn when they are at risk of serious failure, and support the sector to improve

itself. Oflog will play a key role supporting local government to improve performance, productivity, and value for money for residents.

Already, residents fortunate to live in the very best, flagship authorities benefit from a culture relentlessly focused on achieving best value across all public services, even where current performance is good. This guidance will help all authorities in their efforts to reach the same high bar.

The Rt Hon Michael Gove MP
Secretary of State for Levelling Up, Housing and Communities

1. Introduction

1. Local authorities are democratically elected bodies that exercise a range of statutory and discretionary functions for the benefit of local communities, and which operate in accordance with a range of statutory requirements. Local authorities are responsible for ensuring proper democratic accountability, transparency, public scrutiny and audit of their activities, and are subject to external scrutiny from their external auditor and a number of government bodies including Ofsted, the Care Quality Commission, the Office for Local Government (Oflog) and the Local Government and Social Care Ombudsman. The department, the local government sector and others are responsible for oversight of different aspects of local government accountability and assurance. The department's Accounting Officer is responsible for ensuring a sector-wide local accountability system is in place and that it remains robust. The department's Accounting Officer and officials provide the Secretary of State with advice and analysis on the sector's risk and instances where central government intervention is necessary.

2. The Best Value Duty relates to the statutory requirement for local authorities and other public bodies defined as best value authorities in [Part 1 of the Local Government Act 1999](#) ("the 1999 Act") to "make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness". In practice, this covers issues such as how authorities exercise their functions to deliver a balanced budget ([Part 1 of the Local Government Finance Act 1992](#)),

provide statutory services, including adult social care and children's services, and secure value for money in all spending decisions.

3. Best value authorities must demonstrate good governance, including a positive organisational culture, across all their functions and effective risk management. They are also required, pursuant to [section 3 of the 1999 Act](#), to consult on the purpose of deciding how to fulfil the Best Value Duty. The annual process of setting the authority's budget, the corporate plan and the medium-term financial plan provides a key opportunity to conduct such consultation. This is the stage at which consultation will best assist the authority in deciding how to make arrangements to secure continuous improvement.

4. Failure to deliver best value can occur within any aspect of governance, the delivery of services or financial management. To help local authorities to achieve best value, government funds a programme of improvement support, primarily via the Local Government Association, that includes a wide range of sector-led support activities for members and officers, including peer challenges, mentoring and the dissemination of best practice. Government expects local authorities to participate in the sector-led improvement initiatives available to them, to take up any offers of sector support or seek their own bespoke support if they require, and to be open to challenge. Government also expects all local authorities to have a corporate or finance peer challenge at least every 5 years, to publish the outcomes and deliver on the recommendations of that review, and to complete a progress review within a year. Improvement support is also provided for specific service areas such as in social care, public health, planning and transport. For example, the Sector Led Improvement Partners Programme for Children's Social Care, where local authorities can request support from high-performing peers to help them improve.

5. Government has also established the [Office for Local Government \(Oflog\)](#) to increase transparency and accountability by providing an authoritative and accessible source of information about the performance and health of the sector. This guidance may be updated as Oflog develops further, but Oflog's current work falls under 3 broad headings:

- Inform: Increase understanding - among citizens, civil society, central government and local government itself - about data on the performance of local authorities.

- Warn: Help identify local authorities that are at risk of failure but have not raised the alarm themselves.
- Support: Support local government to improve performance, productivity, and value for money: championing best practice, improving data capability and rationalising a complex data landscape.

6. Where, over a period of time, continuous improvement is not demonstrated sufficiently, the 1999 Act grants the Secretary of State powers to intervene to ensure compliance with the Best Value Duty. These powers include taking action to protect the public purse and ensure significant or long-term failings are corrected and performance is raised to an acceptable and sustainable level.

7. This statutory guidance on the Best Value Duty is issued under [section 26 of the 1999 Act](#). The following best value authorities are required to have regard to this guidance: county and district councils, London borough councils, combined and county combined authorities^{[footnote 1](#)}, the Common Council of the City of London, the Greater London Authority so far as it exercises its functions through the Mayor and the Council of the Isles of Scilly.

8. Although not a requirement, it would be good practice for all best value authorities to be mindful of the principles set out in this document in order to ensure they deliver the Best Value Duty. In exceptional cases, and recognising the existence of other inspection and intervention regimes across government, the Secretary of State may intervene in these authorities as listed below where there is clear and significant failure:

- National Park authorities (for National Parks in England)
- The Broads Authority
- The Common Council of the City of London in its capacity as a police authority^{[footnote 2](#)}
- Fire and rescue authorities (as defined by the Fire and Rescue Services Act 2004 as amended)
- London Fire Commissioner
- Waste disposal authorities
- Integrated transport authorities
- Economic prosperity boards
- Sub-national transport bodies
- Transport for London

This guidance provides greater clarity to the local government sector on how to fulfil the Best Value Duty by describing what constitutes best value, the standards expected by the department and the models of intervention at the Secretary of State's disposal in the event of failure to uphold these standards. It supplements [Revised best value guidance](#) issued in 2015 which sets out reasonable expectations of the way authorities should work with voluntary and community groups, and small businesses. It also supplements [statutory guidance on the making and disclosure of Special Severance Payments](#) and [non-statutory guidance on digital infrastructure](#). This guide should not be taken as a definitive guide to the interpretation of the legislation, which is reserved for HM Courts.

2. Best value powers

10. The Secretary of State has powers under [section 10 of the 1999 Act](#) to appoint a person to carry out an inspection into an authority's compliance with the Best Value Duty. This power may be exercised to provide evidence for the Secretary of State to make a judgement on whether to intervene, but an inspection is not formally required prior to statutory intervention (see [section 7 of this guide for the various models of statutory intervention](#)).

11. Where the Secretary of State is satisfied that an authority is failing to carry out its functions in compliance with the Best Value Duty, [section 15 of the 1999 Act](#) provides powers for the Secretary of State to intervene on a statutory basis in that authority. These powers include the ability to:

- Direct a local inquiry to be held into the exercise by the authority of specified functions
- Direct the authority to carry out a review of its exercise of specified functions
- Direct the authority to take any action which the Secretary of State considers necessary or expedient to secure its compliance with the requirements of the Best Value Duty, and
- Direct that a specified function or functions of the authority be exercised by the Secretary of State or a person nominated by them (referred to as "commissioners" in previous interventions) for a specified period

12. The Secretary of State’s decision to intervene, when, and what form that intervention should take relies on the analysis of a complex set of data and circumstances, set out in [section 4 of this guide](#). Weighing up the degree and impact of failure on local residents requires an element of judgement and consideration of the confidence in a local authority’s capacity, capability and commitment to lead its own improvement.

3. Guiding principles

13. Government’s approach to ensuring all authorities carry out their functions in compliance with the Best Value Duty is based on the following guiding principles.

Local accountability

14. Accountability should primarily be to local residents and businesses through public meetings, transparent decision-making and ultimately at the ballot box. Statutory intervention will only be used when there are significant and extensive indications of failure and authorities are not delivering to the high standards which their local communities have a right to expect. As far as possible, government will look to existing local checks and balances in the system to mitigate risks of failure. Where there are indications that the local authority is not complying with these checks and balances, government may seek additional assurances or intervene to secure compliance with the Best Value Duty.

Continuous improvement

15. Every best value authority must make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. The reference to “making arrangements” makes it clear that the Best Value Duty is concerned more with intentions, namely securing improvement in the way in which an authority

performs its functions, than outcome. This means that while authorities are not expected to be perfect, they should prioritise learning and development throughout the organisation and always strive to learn from past mistakes, address under-performance, and avoid continuing in a direction where failure is evident. Errors and poor performance should be clearly isolated and exceptional rather than repeated or systemic, and should not be significant in value, governance, or have wider implications. Lessons learned and the steps taken to address mistakes and poor performance should be clearly documented in the authority's Annual Governance Statement.

Openness to challenge and support

16. Best value authorities are responsible for their own performance. Government expects these authorities to make their own arrangements to secure continuous improvement in the way in which their functions are exercised. This includes being open to external challenge and scrutiny, including in the form of regular peer challenges and participating in the broad range of formal and informal improvement initiatives available to authorities. It also means using performance indicators, operating in a transparent manner and being responsive to challenge from the press, public and local communities more generally. Authorities should use [Oflog's Local Authority Data Explorer](#) to benchmark performance against similar authorities and collaborate to identify and share best practice across the sector. Authorities should be clear in their Annual Governance Statements about how they are delivering improvements over time against any recommendations made by external parties. Authorities are also expected to have a sense of collective responsibility for the performance of the sector as a whole and engage in sector-led support to other councils and benchmarking.

Expectations

17. Government should be clear in its expectations of an authority to demonstrate it is securing best value in key areas such as governance, culture, finances and service delivery (see [section 4 of this guide on the department's best value themes](#)). These expectations, clarified in this guidance, should be shared with the

sector and reflect what most local authorities already do or are striving to achieve. Authorities need to demonstrate, through their Annual Governance Statements, that they are making arrangements to secure continuous improvement in all these areas on an ongoing basis and at the necessary pace. An inability or reticence to acknowledge clear failings and/or resistance to external challenge or scrutiny is indicative of failure to secure best value. However, it is the Secretary of State's decision to ascertain whether the Best Value Duty is being met and judgements will be made based on the circumstances of each case, including the financial challenges within which the local authority is operating.

Prevention

18. Local authorities should take responsibility for identifying early warning signs and act appropriately to address potential failures at the earliest opportunity by participating in the sector-led improvement initiatives available to them. Government will engage early with local authorities showing signs of not complying with the Best Value Duty and will work with them to create meaningful, locally-tailored solutions to prevent challenges from escalating. It will act swiftly to investigate significant indications of failure and determine the appropriate support or model from a range of statutory and non-statutory options. This guidance highlights relevant indicators and signals of potential failure, but this should not be taken as an exhaustive list as each local authority and the context it operates in is different.

Meeting the cost of failure

19. Whilst most authorities want to do the right thing, if government was to reward failure by funding necessary improvement where there is best value failure, this could risk introducing a financial motive to fail. Leaders, both official and elected, should take responsibility for their actions rather than being bailed out by government. While local leaders are held to account for the impact of their decisions at the ballot box, authorities should apply performance management procedures in line with their usual policies where there is failure. The financial cost of failure should be met locally, as far as possible.

The lifecycle of an intervention

20. Current and previous interventions have shown that when failure in a local authority has been more widespread than the evidence first demonstrates, the requirement to expand commissioner powers has delayed improvement. Expanding rather than reducing the scope of the intervention can have a negative effect on an authority's confidence and momentum with progress. In cases where there has been significant failure in a particular functional area or areas and where commissioners have been appointed, the department will therefore make a default presumption that failure may be more pervasive. In such cases, commensurate powers relating to governance, finance and senior appointments will be provided to commissioners on appointment, unless there is good reason not to provide the default powers. Commissioners may also be provided with the power to take any action that they reasonably require to avoid incidents of poor governance or financial mismanagement that may give rise to the risk of further best value failure. Such powers may not need to be used but will empower commissioners to accelerate the discovery phase of an intervention to ensure potential failure in any function is quickly identified, and to promptly address any additional issues that may arise in order to accelerate improvement. This ultimately should support the intervention ending within the fastest possible timeframe.

21. A statutory intervention should de-escalate over time. The ending of an intervention should be based on an agreed exit strategy, with clear indicators of success, which is developed by the commissioners and the authority together as early as possible in the intervention. This exit strategy should be sufficiently flexible to reflect the journey that the local authority is making. See [section 8](#) for further details.

4. Defining best value

22. The Best Value Duty is concerned with making arrangements to secure continuous improvement. To provide greater clarity to the sector on how to fulfil their Best Value Duty, this statutory guidance sets out 7 overlapping themes of good practice for running an authority that meets and delivers best value. These 7 best value themes build on the lessons learned from past interventions, including those which the department published in June 2020, and

reflect what most local authorities already do or are striving to achieve. While these themes are all interdependent, strong governance, culture, and leadership underpin effective partnerships and community engagement, service delivery, and the use of resources. Continuous improvement is the outcome of all the themes working well together.

Diagram 1: Seven best value themes



- Continuous improvement
- Leadership
- Governance
- Culture

- Use of resources
- Service delivery
- Partnerships and community engagement

23. There is no single version of 'good' – different aspects might look different in different areas – but these 7 themes represent the key areas where authorities should be able to demonstrate they are making effective arrangements to secure continuous improvement in the way in which its functions are exercised. Inspection and intervention, described in later sections, are contingencies for the Secretary of State to use in the event that they consider these themes of good practice are not, or are at risk of not, being met.

24. Local authorities are not expected to perform perfectly, given the complex set of legal responsibilities and inherent levels of risk authorities must manage, but should strive for excellence and be able to demonstrate they are making effective arrangements to secure continuous improvement in each of these areas.

25. A detailed description of these themes, including characteristics of a well-functioning local authority and indicators used to identify challenges that could indicate failure, is set out below. This is an illustrative list of indicators including both qualitative and quantitative data and no single metric automatically leads to inspection or intervention. Decisions to intervene pursuant to the 1999 Act will only be taken when there are significant, systemic and extensive indications of failure and it is anticipated that these will present across more than one best value theme. Decisions will be based on a holistic judgement of all available information and considered engagement with authorities to understand the environment they are operating within and their capacity, capability and commitment to lead their own improvement.

26. There is significant variation in the functions of individual combined authorities, including county combined authorities, as well as those local authorities which have agreed individual devolution deals, which will need to be considered when assessing their performance. In addition, combined authorities typically have fewer services to deliver and have more of a focus on strategic delivery and developing partnerships and community engagement, as well as local assurance frameworks, which will be considered when assessing the different themes, although all still apply. For constituent councils of combined authorities, working with their

devolution partners will be of particular note when considering Partnerships and Community Engagement.

1. Continuous improvement

Description

Making arrangements to secure continuous improvement in performance and outcomes in relation to the exercise of all functions is a core requirement for achieving best value, and should be done whilst reflecting local priorities.

These arrangements will include inviting independent external challenge and scrutiny, in the form of regular service specific as well as corporate or finance peer challenges, engaging with the range of sector support initiatives on offer and informal experience sharing among peers.

Lessons learnt and the steps taken to address mistakes and poor performance should be clearly documented in the authority's Annual Governance Statement.

Local authorities should also have a sense of collective responsibility for the performance of the sector and help other authorities to improve.

The Chartered Institute of Public Finance and Accountancy (CIPFA) /Society of Local Authority Chief Executives (SOLACE) Delivering Good Governance in Local Government Framework, along with the Centre for Governance and Scrutiny and Localis [Governance Risk and Resilience Framework](#) can help authorities to identify, understand, and act on risks to good governance.

Characteristics of a well-functioning authority

- An organisational-wide approach to continuous improvement, driven by an established transformation function or programme, with frequent monitoring, performance reporting and updating of the corporate and improvement plans.
- The use of performance indicators and Oflog's Local Authority Data Explorer to manage risk and to benchmark against similar authorities and manage risk.

- Participation in Oflog's programme of webinars to share best practice between local authorities, to help improve performance, productivity and value for money.
- The authority's scrutiny function is challenging, robust and contributes to the efficient delivery of services.
- The authority arranges a corporate or finance peer challenge at least every five years, acts promptly on any recommendations given, and publishes the report of that review and progress updates.
- The authority is willing to work with the external auditor and Local Government and Social Care Ombudsman to proactively identify areas for improvement and responds promptly and effectively to recommendations.
- Professional development and appraisal at all staff levels is built into day-to-day work, with poor performance identified, monitored and effectively addressed, and good performance recognised.
- The Annual Governance Statement, prepared in accordance with the CIPFA/ SOLACE Good Governance Framework, is the culmination of a meaningful review designed to stress-test both the governance framework and the health of the control environment.
- Innovation is encouraged and supported within the context of a mature approach to risk management.
- Resident engagement informs improvement efforts.
- The authority shares a sense of collective responsibility for the sector's performance and supports other authorities to improve.

Indicators of potential failure

- A culture of denial and lack of openness to constructive advice and challenge
- A lack of awareness and reluctance to acknowledge weaknesses and engage with the sector support on offer (such as no corporate peer challenge in the past five years or alternative external assessment).
- Evidence that attempts at improvement have not been effective over a sustained period of time.
- The Annual Governance Statement is not used as an improvement document, is developed by officers without member oversight, is not updated annually and/or is generic in tone and content.
- Lack of engagement with and/or poor quality or non-existent member and officer training and development offer.

- A lack of ‘good quality’ data and insight to understand services.
- Existence of multiple and/or uncoordinated improvement plans.

2. Leadership

Description

Effective political and administrative leaders who have a clear vision and set of priorities for their area, are key to building local economic growth, social cohesion and a healthy local democracy.

When they model positive and effective leadership behaviours at all levels, this can be beneficial to a local authority’s overall culture and governance.

It is essential that all officers with statutory responsibility, including the Chief Finance Officer (Section 151 Officer or Section 73 Officer in the case of combined authorities and combined county authorities) and Monitoring Officer uphold their duties, both individually and collectively and provide reports to the Chief Executive/Head of Paid Service and, as necessary, to full Council. Statutory officers must work effectively together, have access to the highest levels of council decisions and have a voice in important decisions.

An authority that either fails to recruit to its statutory officer posts on a permanent basis over an extended period of time or has a high turnover in these roles indicates instability and potential wider cultural concerns.

When this is compounded by many senior positions being appointed to on an interim basis over an extended period, this can signal a problem.

All-out as opposed to multiple elections within the four-year cycle can enhance political stability and reduce ongoing campaigning that can hinder improvement.

Characteristics of a well-functioning authority

- Members provide quality leadership by setting a clearly articulated, achievable and prioritised vision for officers to follow that puts place and local people at its heart. Senior

officers have the capacity and capability to provide the authority with effective strategic direction.

- The authority's corporate plan is evidence based, current, realistic and enables the whole organisation's performance to be measured and held to account. The authority's financial strategy and delivery arrangements are aligned with priorities in the corporate plan, and respond appropriately to local need, including the plans of partners and stakeholders.
- Members and officers, particularly those with statutory responsibility, including the Head of Paid Service, Section 151 and Monitoring Officer, uphold their duties and speak truth to power.
- The Monitoring Officer is sufficiently supported and protected to allow them to enforce regulations and codes of conduct without fear.
- Strong financial management and reporting, in accordance with the CIPFA Financial Management Code, runs throughout the whole organisation.
- Robust systems are in place and owned by members for identifying, reporting, mitigating and regularly reviewing risk.
- Effective succession planning, with the recruitment and development of officers with the necessary skills, ensures organisational resilience.
- Members and senior officers maintain constructive relationships and engage effectively with external stakeholders and the wider local community.
- A demonstrable commitment to leadership and member development, including specialist training for key roles
- Effective and timely responses to issues with acceptance of the need to make changes and without a culture of blame.

Indicators of potential failure

- A lack of corporate capacity or capability, resulting in a lack of strategic direction, oversight and sense of accountability.
- Leadership losing sight of the authority's role and function as a leader of place and provider or enabler of services to local residents and businesses.
- A lack of understanding of public sector standards, the Nolan Principles and appropriate behaviour.
- Corporate plan is out of date, unrealistic and unaffordable and/or has too many priorities.
- Poor quality financial management.
- Section 151, Section 73 and Monitoring Officers do not have direct lines of communication to the Head of Paid Service, do

- not demonstrate ownership and accountability, or are not involved in important decisions.
- Risk management is not effective, owned corporately and/or embedded throughout the organisation.
 - A lack of political and/or organisational stability, with high leadership turnover, key posts remaining vacant or an overreliance on interim officers, creating a lack of continuity and/or decisions in the long-term interests of the authority.
 - Leadership at both political and managerial levels is distracted and involved to an unhealthy extent in internal battles.
 - The absence of fit for purpose and regularly reviewed approaches to workforce planning, procurement, risk and IT.
 - A loss of stakeholder and public confidence.
 - A sense of insularity, a failure to tolerate internal or external challenge, and to recognise the need for improvement.
 - Decisions that are perceived as being difficult are avoided or deferred.

3. Governance

Description

In a well-run council officers and members will have a clear understanding of the democratic mandate as it operates in the organisation.

There will be clear and robust governance and scrutiny arrangements in place that are fit for purpose, appropriate to the governance arrangements adopted locally (executive / committee system), and in accordance with statutory or sector guidance such as [statutory guidance on overview and scrutiny](#) and the Centre for Governance and Scrutiny's [governance risk and resilience framework](#). These arrangements should be understood by members and officers alike, reviewed regularly and accurately described in the Annual Governance Statement.

Decision-making processes, within clear schemes of delegation, should be transparent, regularly reviewed, clearly followed and understood, enabling decision-makers to be held to account effectively. There should also be evidence of the decisions following good public law decision making principles (reasonableness, rationality, proportionality, legality, fairness etc).

Codes of conduct and HR processes should be to sector standard and ensure effective support for whistle-blowers.

Characteristics of a well-functioning authority

- Effective procedures are in place and followed to ensure members and all officers comply with the Nolan Principles, relevant codes of conduct and policies, including procurement. This includes adequate protections and support for whistle-blowers and adherence to Contract Procedure Rules.
- Scrutiny and internal audit functions are challenging, robust, valued and contribute to the efficient delivery of public services.
- Public reporting on value for money, performance and the stewardship of resources is completed in a timely and understandable way, with transparent responses to recommendations from internal and external audit, and regulators.
- Risk awareness and management informs every decision.
- Full Council, alongside the Audit Committee, reviews governance arrangements and takes an effective overview of the systems of control, audit and governance.
- Appropriate financial, commercial, legal and other specialist expertise is obtained, including from external sources, and due diligence completed on any important or novel decision.
- Committees and individuals charged with governance have the appropriate information, support, experience and expertise to perform their role.
- Proper member oversight (as shareholders) of companies and partnership bodies, in accordance with the [Local Authority Company Review Guidance](#), and their existence is regularly and independently reviewed.
- Performance management and quality assurance information effectively measures outcomes and is frequently interrogated.
- Lessons are learned from complaints.

Indicators of potential failure

- Significant weaknesses identified in annual audit reports, and/or statutory recommendations or a public interest report issued.
- A lack of appropriate action in response to allegations of corruption or maladministration.
- Political or ideological activity by officers in politically restricted roles

- Key decisions are made in informal meetings and are not effectively recorded, leading to a lack of clarity on who is responsible for them.
- Decisions made without seeking appropriate advice.
- Decisions are revisited or not fully implemented in a way that is not transparent.
- Scrutiny functions are undermined without the ability to effectively monitor or call-in decisions or influence overall strategy.
- Internal audit does not meet PSIA standards and fails to consider identified high risks.
- The effectiveness of the audit committee is undermined and there is not regard to CIPFA's guidance on audit committees.
- There are no meaningful risk registers at a corporate level and risks are not owned by senior leaders. Risk registers appear to downplay some risks and lack action to mitigate risk.
- Performance management information is not consistently used, does not measure outcomes where relevant and underperformance is not effectively addressed.
- Excessive secrecy and failure to apply councillors' need to know.
- A refusal to investigate allegations of breaches of Member/officer codes of conduct.

4. Culture

Description

Culture describes how the established governance procedures and leadership are exercised in practice, whether they are respected by the letter or in spirit.

The culture of a local authority is determined by an agreed set of shared values, ethics and beliefs, how decisions are made, as well as how elected members and officers behave, interact and carry out their roles.

The organisation should act as one, rather than in siloes, with a cohesive sense of one authority running though all operations.

Characteristics of a well-functioning authority

- Members and officers promote and demonstrate the highest ethical standards and appropriate working behaviours through established shared values and ways of working.
- A culture of cooperation, respect and trust between members and officers, and between departments exists, along with a commitment to transparent decision-making.
- A culture of compliance with legislation, strategies, policies and procedures throughout the organisation.
- Civil working relationships (and communication) between Group Leaders despite political disagreements.
- A commitment to promoting transparency and sharing information with the public.
- The existence of a proactive and welcoming attitude to external challenge and scrutiny.
- Decision-making is taken at the right level, with staff empowered to do their jobs consistent with the scheme of delegation.
- Respect for a councillor's need to know and enquire.
- Appropriate processes are in place to address issues such as harassment and bullying.
- An accessible whistleblowing policy, of which there is wide awareness and confidence that it will work.
- Demonstrable steps to engage openly and honestly with staff.

Indicators of potential failure

- An environment which allows for widespread failure to follow due process, the constitution, and codes of conduct.
- Risks are covered up rather than identified to protect reputations.
- A lack of appropriate action in response to allegations of corruption or maladministration.
- The respective roles of members and officers, and the interface between them, are rejected or misunderstood, and over-involvement of members in operational decisions or of officers in setting strategic political vision.
- A culture of bullying, distrust and broken relationships exists.
- The organisation is unable to respond effectively to issues because processes and procedures have become overly bureaucratic rather than being focussed on assurance and robust governance.
- Under- or non-engagement of the standards regime, with doubt cast on its credibility and legitimacy.

- Disciplinary and complaints systems are not deployed, leading to a sense that certain individuals can act improperly with impunity.
- High numbers of staff grievances and staff turnover due to morale issues.
- High numbers of standards complaints by members against members are upheld.
- Poor outcomes identified from staff surveys.
- A culture of secrecy and overuse of urgency arrangements, confidential or delegated action reports and a failure for such reports to be reported in a form which allows scrutiny.
- Members and officers have limited understanding of declarations of interest and gift/hospitality registers, which are not monitored or regularly updated.
- Published documents are hard to find or drafted to obscure certain points.

5. Use of resources

Description

An authority must have in place and properly deploy an effective internal control environment to safeguard the use of resources, and clear and effective processes to secure value for money. It must have appropriate financial management, reporting and regulation arrangements in place, in accordance with CIPFA's Financial Management Code, to govern the strategic and operational management of its investments, funding, assets and companies. This includes ensuring it has the appropriate skills and capacity in place, commensurate with the complexity of its finances, using specialist expertise when needed.

Authorities must comply with the Prudential Framework in making investment and borrowing decisions and not take on excessive risk. They should have effective systems for identifying, reporting, addressing and reviewing financial risk and have consideration of CIPFA's Financial Resilience Index.

Investment decisions must have a commensurate level of scrutiny, transparency and approval to make sure that officers and members fully understand the risks.

Financial management and reporting should be supported by robust financial systems, record keeping and quality assurance, with appropriate use of specialist expertise and independent assurance when needed.

Authorities should respond to audit recommendations and address issues identified in a timely way.

Capacity constraints should be identified and recruitment to fill key posts prioritised. Succession planning should be considered, with a longer-term view as to when there might be a gap in, experienced senior officers. Special severance payments should only be considered in exceptional cases.

Characteristics of a well-functioning authority

- The financial strategy and budgets are clearly aligned with strategic priorities and there is a robust process for reviewing and setting the budget.
- The workforce and fixed assets are managed efficiently and effectively, with clear and credible strategies demonstrating how services will be delivered in the future, with an effective system for performance management.
- A robust system of financial controls and reporting exists, which provide clear accountability and ensure compliance with statutory requirements and accounting standards.
- Compliance with the Prudential Framework, a clearly presented Investment Strategy, Capital Strategy and Minimum Revenue Provision (MRP) policy exists.
- A clear strategy exists to maintain adequate reserves.
- There is collective accountability for the budget and medium-term financial plan, rather than a siloed approach to management.
- There are regular financial reports to Cabinet and training is available for all members on finance.
- Robust systems are in place to identify, report, address and regularly review financial risk.
- Sustainable corporate functions including procurement and IT which deliver value for money.
- The Audit Committee has the knowledge, skills and independent expertise to provide robust challenge and ensures effective controls are in place and issues addressed.
- The purposes of companies are carefully considered and regularly reviewed, with effective governance and oversight arrangements in place.

- Effective project management of projects to enhance governance and effective use of resources.

Indicators of potential failure

- Absence of a deliverable medium-term financial plan, approved by Cabinet or finance committee (as appropriate) and Full Council.
- Council staff undertaking part-time work for full-time pay without compelling justification.
- Consistent overspends, frequent use of virements, no credible plan to reduce unaffordable debt and maintain sustainable finances, recurrent non-delivery of savings.
- Avoidance of/failure to implement difficult budget decisions.
- No evidence of transformation to create efficiency savings.
- Lack of a regular review of the adequacy of reserves and the unplanned use of reserves in-year to balance an outturn position.
- Unlawful or excessively risky borrowing and investment practices with inadequate risk management strategy in place for losses.
- Failure to manage the risks associated with companies, joint ventures and arms-length bodies.
- Issuance of a Section 114 Notice.
- Audit report identifies significant weaknesses in sustainability, and/or statutory recommendations or public interest report issued.
- Late publication of unaudited and audited financial statements, a modified audit opinion that indicates significant financial reporting or financial management issues, audit recommendations ignored.
- High dependency on high-risk commercial income for service delivery and balancing budgets.
- Non-compliance with accounting requirements, including MRP.
- Not fit for purpose finance function with limited capacity/capability.
- Underinvestment in corporate services, which affects capacity to deliver and succession planning.
- Inefficient or uncompetitive procurement arrangements that do not deliver value for money.
- IT that is not capable of doing the job for which it is designed.
- No presentation on financial performance/position to members or proper consideration of the annual financial report.

6. Service delivery

Description

Well-run local services are customer- and citizen-focused, and meet the needs of diverse communities. They should improve outcomes for the people who use them and achieve the best balance of cost and quality (having regard to economy, efficiency and effectiveness).

Service plans should be evidence based and clearly aligned to the local authority's priorities and strategic plans, which will reflect the priorities identified through community planning. Services should take account of feedback from citizens and service users, and be scrutinised by a transparent and robust performance framework.

Poor individual services can often be an indication of broader governance and financial weaknesses within an authority.

Equally, corporate governance failure almost certainly will at some point negatively impact how services are delivered locally, in terms of missed opportunities or silo working and a failure to make strategic connections.

Local authority data, the assessments of other government departments and service regulators and ombudsmen identify whether services are being delivered efficiently and effectively, and whether authorities are responsive to customer complaints.

Authorities should benchmark service provision with comparable authorities, for example by using the metrics available on [Oflog's Local Authority Data Explorer](#).

Characteristics of a well-functioning authority

- Service plans are clearly linked to a local authority's priorities, strategic plans and longer-term planning – a golden thread that runs through to individual objectives and accountability.
- Service delivery is evidence-based, customer and citizen focused, and meet the needs of different groups within the community.
- Users are satisfied with the level and quality of services provided.
- The authority has an effective and accessible complaints process and provides appropriate redress.

- Service improvements recommended by regulators and the Ombudsman are implemented at the earliest opportunity.
- The authority has complete, timely and accurate data, and the skills to interpret it, to inform decisions.
- There are clear and effective mechanisms for scrutinising performance across all service areas. Performance is regularly reported to the public to ensure that citizens are informed of the quality of services being delivered.
- Procurement processes ensure economic, efficient and effective outcomes of contract procurement and management.
- The authority achieves the best balance of cost and quality, considering the resources available, in delivering services, having regard to economy, efficiency and effectiveness.
- The local authority takes an innovative approach when considering how services will be designed and delivered in the future.

Indicators of potential failure

- Significant weaknesses identified in the annual audit report for economy, efficiency and effectiveness, and/or statutory recommendations or a public interest report issued.
- Critical reports from regulator, inspectorate and/or ombudsman show failings which may have resulted in intervention by other government departments.
- Intervention from other government departments is not delivering results.
- A high rate of upheld complaints made to Ombudsmen and the lack of an action plan(s) to address areas of concern.
- Data quality is poor and there is a lack of capacity or capability to interpret it to inform decisions.
- Services data suggests poor performance and outcomes compared to similar local authorities.
- Transformation is in name only. Opportunities for efficiency savings and improvements are not assessed in a meaningful way. Unusual or novel solutions are pursued that lack rigour or adequate risk appraisal.
- The approach to commissioning, contracting and contract management is weak, resulting in poor quality public services that do not represent value for money.
- Excessive use of contract Standing Order waivers.
- Poor tracking of benefits realisation on service improvement.

7. Partnerships and community engagement

Description

Driving local economic growth, promoting social cohesion and pride in place is increasingly dependent on the effectiveness of partnerships and collaborative working arrangements with a range of local stakeholders and service users.

Authorities should have a clear understanding of and focus on the benefits that can be gained by effective collaborative working with local partners and community engagement. Partnerships can maximise opportunities for sharing resources, achieving outcomes and creating a more joined-up offer that meets the needs of residents and local service users. Stronger and more effective partnerships can also lead to better community engagement, for example working through partners to engage more effectively.

Appropriate governance structures should be in place to oversee these arrangements, and the process of consultation and engagement should be inclusive, open and fair. There are statutory requirements on local authorities to engage with Integrated Care Partnerships, Integrated Care Boards, Community Safety Partnerships, safeguarding adults and children's boards, Youth Offending Management Boards and many others. There are also [statutory best value requirements](#) around consultation and on considering the social value of services when reviewing service provision. An inclusive approach that accepts challenge is an indicator of a confident organisation.

Characteristics of a well-functioning authority

- There is a shared vision for the local area which has been co-produced with partners, businesses and communities to maximise resources and ensure best value across service areas.
- An organisational culture exists that recognises the value of working with public sector systems and local partners to improve policy development, local economic growth and investment, better services, and customer-focused outcomes.
- There is early and meaningful engagement and effective collaboration with communities to identify and understand local needs and assets, and in decisions that affect the planning and delivery of services. In some cases, this involves the co-design and/or co-production of services.

- Evidence of joint planning, funding, investment and use of resources to demonstrate effective service delivery, but transparent and subject to rigorous oversight.
- Partners and local residents are involved in developing indicators and targets, and monitoring and managing lack of performance. The authority may be beginning to experiment with more participative forms of decision-making.
- The authority drives social and environmental value in their place through mechanisms like procurement and employment.

Indicators of potential failure

- Lack of appropriate governance in partnership arrangements.
- Weak ambition or unrealistic or infeasible plans fails to seize opportunities for building prosperity and opportunity for local people and businesses, promote social cohesion and pride in place.
- A lack of meaningful consultation and engagement, including with communities that are representative of the diversity of the local area.
- Poor outcomes identified from resident or partner engagement.
- Poor or non-existent communication with partners on issues impacting on their business.

5. Assurance and early engagement

27. The department and the local government sector, with others, are responsible for the local government accountability system, with the department's Accounting Officer tasked with ensuring this system remains robust. A key element of this is making sure that the public is protected from instances of local authority failure.

28. The department's local government stewardship function continually reviews the health of local authorities' governance, financial management processes, including commercial operations and the sustainability of authorities' medium-term financial outlooks, and delivery of corporate and key services. The 7 best value themes identified in [section 4 of this guidance](#) provide the analytical framework for this assessment. The information reviewed combines the use of:

- National data metrics, including from Oflog's Local Authority Data Explorer
- Published documents from local authorities (Annual Governance Statement, committee papers, statement of accounts, and locally commissioned reviews)
- Auditors' annual reports and other reporting
- reports from inspectorates such as Ofsted and the Care Quality Commission
- Reports from the Local Government and Social Care Ombudsmen
- LGA corporate peer challenge reports and any follow-up reports
- Residents' and MPs' letters where they raise concerns under the Best Value Duty

29. The department, working alongside the Financial Reporting Council (FRC) in its role as incoming shadow system leader for local audit, engages with local authority auditors. The department also works closely with other organisations in the local audit system, such as the National Audit Office (NAO) which, through the Code of Audit Practice, outlines auditors' responsibilities to report on local public bodies' arrangements for securing value for money through economy, efficiency and effectiveness in the use of their resources, as well as auditors' powers to make statutory recommendations and issue Public Interest Reports.

30. The department is committed to working in partnership with other government departments to share intelligence on common challenges, ensure a co-ordinated and collaborative approach across government, and to be assured of local authorities' compliance with the Best Value Duty. Government departments set and monitor performance against their own standards and failure to meet these standards should be first managed by the relevant department directly, such as the Department for Education (DfE), the Department of Health and Social Care (DHSC), the Department for Environment, Food and Rural Affairs (Defra), Department for Transport (DfT), and the Home Office. However, in these circumstances if concerns continue for two or more years despite local attempts to improve and there is evidence available, the Department for Levelling Up, Housing and Communities will consider whether the lack of improvement constitutes failure to meet the Best Value Duty.

31. The department has recently taken additional powers of intervention through the Levelling Up and Regeneration Act 2023. These powers provide a flexible range of interventions for the department to investigate and remediate extreme risk in relation to a local authority's investment and borrowing. Intervention in a local authority will be considered when a trigger point is breached with respect to certain risk metrics, which fall into the following categories:

- Proportionality of debt (e.g., total debt compared to Total Service Expenditure)
- Proportion of commercial investments
- Types of debt (e.g., novel credit arrangements and loans)
- Not setting aside adequate Minimum Revenue Provision (a statutory duty to make sufficient provision to repay debt)

32. Close engagement with government departments is particularly important when an authority of concern is already subject to statutory intervention. The Secretary of State for Levelling Up, Housing and Communities will consult with other Secretaries of States prior to using best value powers to start an intervention where another department already has inspection or intervention frameworks to assess and further understand any wider context. This does not compromise the Secretary of State's independent legal authority to exercise best value powers under the 1999 Act.

33. Collating the information outlined in the paragraphs above enables the department to gain a deeper understanding of those authorities that may be facing challenges and showing some of the indicators of potential best value failure set out in [section 4 of this guide]#defining-best-value). This could mean that those authorities may not be properly complying with the Best Value Duty. In some circumstances, evidence of past failure may also be taken into account by the Secretary of State in deciding whether to exercise his or her statutory powers. The department also engages with a range of other non-departmental organisations working with the local government sector.

34. Where the department becomes aware of quantitative or qualitative indicators of potential failure being met, officials from the department may look to engage constructively with the local authority to provide an opportunity to understand their organisational challenges in relation to governance, finances and service delivery, including local partner and market delivery, and to gain assurance of how they are being managed. The purpose of this form of early

engagement is to prevent any challenges experienced by the local authority from escalating by seeing how the authority is engaging with, or plans to engage with, sector support and identifying what form of additional support (if any) is needed. Local authorities demonstrating early indications of failure may also be invited to discuss their arrangements for securing continuous improvement with the minister responsible for local government. Where sufficient assurance is not provided, the department may write formally to obtain assurance that the authority is taking steps to manage its challenges. This may include the formal issuance of a Best Value Notice, the models for which are set out below.

(Non-statutory) Best Value Notice

A senior civil servant, on behalf of the minister with responsibility for local government, writes formally to the Chief Executive of an authority, copied to the Section 151 Officer and Monitoring Officer, to state the department's concerns on the available evidence and to set out the department's expectations of the authority in providing assurance of progress. The Notice will request that the authority engages directly with the department to provide assurance of improvement. This engagement could include requesting that the authority provides a timebound improvement plan containing details of the arrangements the authority has made and proposals to secure the improvement needed. Where an improvement plan is already in place, officials may specify the need for further information, ongoing engagement, or greater assurance of that plan. The Notice may also request that the authority reports back to the department at specified junctures.

The department may challenge an authority's improvement plan if it is considered insufficiently robust, feasible or timely. Officials will also determine progress against the authority's improvement plan, based on the evidence provided by the authority and may draw on sector peer support to do so. Further action may be needed if the requested information is not provided to the department by a specified date or if progress is not satisfactory.

The Notice will normally remain in place for 12 months, after which time, should the department deem it necessary to continue to seek assurance of the authority's improvement progress, it will be reissued. The Notice may be withdrawn or escalated at any point based on the available evidence.

To ensure the authority's improvement work is transparent and open to external scrutiny, the department will publish Best Value Notices on gov.uk and will expect the authority to publish all related documents on its website.

Best Value Notices provide an opportunity for early engagement with an authority that is exhibiting indicators of potential best value failure and where there is confidence that the authority may have the capability and capacity to make its own arrangements to secure continuous improvement. They also ensure the authority's improvement work is transparent and open to external scrutiny. Best Value Notices may also be used to obtain assurance from an authority that has previously been subject to intervention that they will continue to meet their Best Value Duty, or as a form of longer term non-statutory intervention where there is evidence of limited best value failure and confidence that the authority has the willingness, capability and capacity to leads its own improvement.

Example: Best Value Notices were issued to Cambridgeshire and Peterborough Combined Authority and Middlesbrough Council in January 2023, setting out the department's concerns and the importance of pace and rigour in delivery of their locally led improvement frameworks. The Notices were reissued at the end of the initial 12-month period for a further 6-month period.

Best Value Notice and requirement to provide information under section 230 of the Local Government Act 1972

A Best Value Notice (as described above) is issued stating the department's concerns on the available evidence and requiring the authority, under the general power in [section 230 of the Local Government Act 1972](#), to provide relevant information.

Section 230 of the 1972 Act requires local authorities (including combined authorities) to send the Secretary of State any information with respect to their functions that the Secretary of State may require or may be required by either House of Parliament. Statutory Best Value Notice may only be issued to those authorities to which section 230 of the 1972 Act applies.

Failure to engage with the department and to provide the requested information may lead to further action.

Alongside requesting information using section 230 of the 1972 Act, the department could also request that the authority provides a timebound improvement plan containing details of the arrangements

the authority has made and proposals to secure the improvement needed.

The Notice will normally remain in place for 12 months, after which time, should the department deem it necessary to continue to seek assurance of the authority's improvement progress, it will be reissued. The Notice may be withdrawn or escalated at any point based on the available evidence.

Statutory as opposed to non-statutory requests for improvement information are issued when an authority is unwilling to engage constructively and promptly comply with requests for information from the department. They provide an opportunity for the department to engage on a statutory basis with an authority that is exhibiting early indicators of potential best value concern and where there is limited confidence in the authority's willingness to make arrangements to secure continuous improvement

Example: This power has yet to be used.

Exceptional financial support

35. Since 2020, the government has agreed to provide a number of local authorities with support via the Exceptional Financial Support framework, following requests from these councils for assistance to manage financial pressures that they considered unmanageable.

36. Support provided via this framework is usually provided in the form of a capitalisation direction. Capitalisation directions permit a local authority to meet revenue costs through capital resources, for example by taking out additional borrowing, or by using capital receipts generated by asset sales. Using capital resource for revenue purposes is outside the normal rules of local authority accounting and, as such, ministers will only consider agreeing to this in exceptional circumstances.

37. It is a principle of the exceptional financial support process that authorities meet the costs of support over time, as far as possible. The department will work with a relevant authority, and commissioners if appointed, to consider all available options for managing costs locally, including additional cost reductions. In all cases, the government has set a clear expectation that the

authorities continue to manage and mitigate their financial pressures. In all cases, the government expects these local authorities to take into account the need to reduce wasteful expenditure and ensure every area is making best use of taxpayers' money.

38. Any support is provided on an exceptional basis, and on the condition that each local authority is subject to an external assurance review which is focused on, at a minimum, their financial position and their ability to meet any or all of the identified budget gap without additional borrowing. Authorities are expected to respond effectively to the challenges and recommendations highlighted in their external assurance reviews and provide regular updates to the department on progress.

39. The department continues to keep the financial position of local authorities under close review and any authority concerned about its financial position should engage with the department on a confidential basis. The department is clear, however, that any financial support agreed will be provided openly and transparently and any decisions to provide such support will be published on GOV.UK.

The role of the Office for Local Government

40. To support the improvement of local government further, we have established the Office for Local Government (Oflog). Oflog is providing authoritative and accessible data and analysis about the performance of local government and supporting its improvement, thereby increasing accountability in the local government sector. It aims to increase understanding about the performance of local authorities, identify local authorities that are at risk of failure but have not raised the alarm themselves, and support local government to improve performance, productivity, and value for money.

41. Oflog's Local Authority Data Explorer is a crucial tool for councils and combined authorities to understand their own performance compared to other statistically similar authorities. The Data Explorer will serve as a useful prompt for local authorities to identify potential areas for improvement and other councils with which to share best practice. It will also help citizens hold local leaders to account and increase transparency.

42. There is a key role for Oflog to play in better understanding what the early warnings signs of failure in local authorities are, and how it can enable more effective prevention. Oflog's early warning system will have two main components. The first is a new internal desk-based system (using both quantitative data and soft intelligence) to identify councils and combined authorities potentially at risk of developing serious problems of leadership, governance, or culture. The second is a set of 'early warning conversations' with some councils and combined authorities identified as potentially at-risk, to establish the type and degree of risk, and make recommendations for improvement.

43. There are many examples of exemplary performance in local government. Oflog intends to play a role in identifying, celebrating and promoting excellence, cultivating a peer-to-peer learning environment. Oflog has already commenced a series of webinars with local authorities to share best practice across the sector, and in the longer term, Oflog aims to offer new analytical insights and reports on good practice and provide expert support to strengthen council performance.

44. Oflog does not have powers to intervene in a local authority in the manner of a regulator. The standards, models and powers for interventions set out in this guidance belong to the department.

45. The department's best value analysis to inform judgements to inspect or intervene will, however, be improved through Oflog's objective to increase transparency of performance in the sector. The organisation's early warning system and support aim to complement and work with (not duplicate nor conflict with) other mechanisms for warning and support in the wider local government ecosystem.

46. Oflog will maintain close relationships with other bodies involved in overseeing and supporting the performance of local government to regularly take stock of the wider regulatory and stewardship environment to ensure its work complements the work of others. This guidance may be updated as Oflog's role continues to develop.

6. Evidencing failure

47. The Secretary of State must be satisfied that an authority is failing to carry out its functions in compliance with the Best Value Duty before intervening on a statutory basis under [section 15 of the 1999 Act](#). If, based on the department's assessment using the 7 best value themes identified in [section 4 of this guidance](#), an authority is found to be exhibiting some characteristics that may indicate best value failure, but there is insufficient evidence available for the Secretary of State to make an informed judgement, the Secretary of State may appoint a person to carry out an inspection of the authority's compliance with the Best Value Duty. The Secretary of State may also direct the inspector to provide recommendations for improvement.

48. Failure, or the risk of future failure, can also be evidenced in other types of expert independent assessments. These include reports commissioned by local authorities, those from other recognised independent bodies, for example external auditors or inspectorates, or government commissioned reviews, such as an external assurance review of a local authority's financial management and resilience, and/or governance, since financial failure is often a presenting symptom of broader failure. These external assurance reviews have in the past been commissioned by the department following a local authority's request to the department for support via the exceptional financial support framework (see [section 5 of this guide](#)). They provide a valuable source of evidence to determine the underlying drivers of the authority's request for financial support and what remedial actions are required by the local authority to achieve financial sustainability. The assessments may also identify whether there is cause for concern in other areas of the local authority which may necessitate further investigation, for example in relation to leadership, governance and service delivery.

49. [Annex A](#) sets out the process for statutory inspection in more detail.

Best Value Inspections

Best Value Inspections provide the Secretary of State with a formal assessment of whether an authority is complying with the Best Value Duty. They can also help determine the steps required by an authority to address the concerns or issues identified by the inspection, either on their own or with the support of external intervention.

The powers relating to a statutory Best Value Inspection are contained in [sections 10-13 of the 1999 Act](#). They cover the appointment of an inspector and (if required) an assistant inspector, the powers and duties of an inspector particularly around access to documents, the requirement of the authority being inspected to pay reasonable fees to the inspector, the submission of the inspector's report to the Secretary of State and its subsequent publication.

An inspector is appointed by the Secretary of State to lead an inspection, based on specific experience and expertise. The scope of the inspection is published, which will focus on specific functions of an authority in relation to its governance, financial management, service delivery or a combination.

Inspections may be appropriate when an authority is exhibiting some characteristics that may indicate best value failure, including taking no steps to acknowledge or address ongoing challenges, but where there is insufficient evidence available for the Secretary of State to make a judgement. However, this is not an exhaustive description of scenarios where an inspection may be appropriate.

Example: Following a series of police investigations into corruption and misconduct in public office, a [Best Value Inspection of Liverpool City Council](#) was conducted from December 2020 to March 2021. The matters covered by the inspection were the authority's planning, highways, regeneration and property management functions and the strength of associated audit and governance arrangements.

Independent reports

Other independent reports may also provide evidence of best value failure or risk of failure, and the extent of that failure. There are a range of independent expert assessments which may satisfy the Secretary of State's standards with regards to scope, independence and quality. They include government commissioned reports such as external assurance reviews, reports commissioned by local authorities, or those from other recognised independent bodies, for example auditors and inspectorates. The progress reports of local improvement boards are also very useful sources of evidence. The Secretary of State may decide to intervene in an authority based on the evidence contained in these independent reports.

An independent report may be commissioned when an authority is exhibiting some characteristics that may indicate best value failure. The findings of an independent expert analysis can help determine the steps required by an authority to address the concerns or issues

identified in that report, either on their own or with the support of external intervention. However, this is not an exhaustive description of scenarios where an independent report may be appropriate.

Example: Slough Borough Council requested exceptional financial support in 2020/21 and a condition of that support was an external assurance review of the Council's financial position and wider governance arrangements. The review, which was similar to a Best Value Inspection in terms of scale, scope and quality, identified a range of concerns, including evidence of best value failure, and included recommendations for improvement. Based on this evidence of best value failure, the Secretary of State took the decision to appoint commissioners to Slough.

7. Models of intervention

Non-statutory measures

50. Non-statutory measures aimed at ensuring compliance with the Best Value Duty do not involve the Secretary of State using the powers in the 1999 Act. They are usually appropriate for addressing failure or risk of future failure that does not appear to be systemic in an authority and where that authority has the willingness, capability and capacity to improve. Authorities that can demonstrate how they are addressing failure, and where the department is confident that continuous improvement can be sustained without statutory intervention, are most likely to be subject to non-statutory measures. These arrangements may be initiated by the authority or at the department's request. The Secretary of State retains the option to move to statutory intervention if an authority's improvement progress is not satisfactory.

Improvement boards

The establishment of an improvement board, panel or taskforce made up of individuals with relevant experience and skills, who will provide support, advice and challenge to an authority. As the board does not have any statutory powers, its members are involved in an advisory capacity.

Membership of the board and its terms of reference are usually determined by the authority but can also be proposed by the department (in agreement with the authority), depending on the level of assurance required by the Secretary of State. The department will need to be confident the authority will make sensible appointments and set sufficiently robust terms of reference. Where it does not have that confidence, the department may make its own appointments and direct the authority to follow the advice of the improvement board, triggering it to move to a statutory footing under [section 15\(5\) of the 1999 Act](#) (see Directions to a best value authority, below).

Improvement boards may be used when an authority demonstrates failures or risk of future failure which is not systemic and there is confidence that the authority has the willingness, capability and capacity to sustain continuous improvement, but external expertise and challenge would result in more efficient recovery. However, this is not an exhaustive description of scenarios where an improvement board may be appropriate.

Example: A condition of Wirral Metropolitan Borough Council's request to the department for exceptional financial support in 2020/21 was completion of an external assurance review. This Review identified a range of concerns, including poor financial governance and management and the need to strengthen oversight and scrutiny. The Council agreed to implement the Review's recommendations and established a locally led improvement panel to provide oversight of its improvements and report regularly to the Council and Secretary of State.

Sector-led intervention

An authority of concern may be partnered with another authority with a track record of delivering good governance and effective service delivery in the area(s) of concern. This arrangement does not change local lines of accountability, with the host authority maintaining responsibility for the delivery of its functions. A supportive authority will be asked by the Secretary of State to assist, and the success of the local partnership and the authority's improvement is set and monitored by the Secretary of State. The option of alternative forms of intervention remains if progress is insufficient.

Sector-led intervention may be appropriate when an authority demonstrates failures or risk of future failure but is prepared to accept support from a willing and able local partner authority with the capacity to assist its improvement journey. It may be helpful if the two authorities share geography and strategic partners. However, this is

not an exhaustive description of scenarios where a sector-led intervention may be appropriate.

Example: Evidence of service and governance failures, and a breakdown of relationships at West Sussex County Council contributed to the resignation of the Leader in early autumn 2019. The authority agreed with the Secretary of State to develop a local partnership approach to improvement and accepted a comprehensive support package from neighbouring East Sussex County Council and the Local Government Association. This involved establishing a strong executive leadership team which would report directly to the Secretary of State on progress and a programme of member-to-member support, which played a key role in the authority's improvement. East Sussex's Chief Executive formally became joint Chief Executive of both authorities in January 2020 and the Secretary of State monitored improvement progress until early 2021.

Statutory intervention

51. Statutory directions under [section 15 of the 1999 Act](#) can be made in relation to authorities where, from the available evidence, the Secretary of State is satisfied that the authority is failing to comply with the Best Value Duty. There are two main models of statutory intervention, and the Secretary of State will determine in each case what is the most appropriate option, based on the evidence of failure.

52. A statutory intervention – either with directions to the authority only or commissioner-led with directions to the authority – will usually be preceded by an announcement that the Secretary of State is 'minded to' intervene. This allows for a period of representations from the authority and other interested parties (generally 10 working days) on the reasoning and evidence behind the proposed intervention and on the proposed package itself. This process can however be bypassed in exceptional situations where there is sufficient urgency. If, after considering any representations received and all the relevant available evidence, the Secretary of State still considers that a statutory intervention is necessary, he will make Directions as set out in the minded to letter (subject to any amendments arising from representations received).

53. [Annex A](#) sets out the process for statutory intervention in more detail.

Directions only statutory intervention

Under [section 15\(5\) of the 1999 Act](#), the Secretary of State may direct an authority to take any action which he or she considers necessary or expedient to secure its compliance with the Best Value Duty. This action may be anything the Secretary of State deems necessary. This might include, for example, the preparation of an improvement plan and the content of that plan, the requirement to report on the delivery of that plan, and the establishment of an improvement panel to provide external support and challenge. Directions can be issued on their own and without the simultaneous appointment of commissioners. They are time-limited and will automatically lapse unless further directions are issued.

The Secretary of State may also direct an authority to carry out a review of how it exercises specific functions (section 15(2) of the 1999 Act) or direct a local inquiry to be held into the exercise by the authority of specified functions (section 15(3) of the 1999 Act).

The decision to direct an authority to take certain actions is based on evidence, such as from an inspection or another comparable source, confirming that best value failure has occurred and there is limited confidence in the authority's ability to improve independently. In exceptional circumstances where the Secretary of State is satisfied that the need for action is sufficiently urgent, directions can be issued without a minded-to period.

Directions to a local authority may be appropriate where there is evidence of significant but not widespread best value failure in the authority, and that authority has some capacity but limited commitment to improve on its own. However, this is not an exhaustive description of scenarios where the use of Directions may be appropriate.

Example: To ensure the transformational work being undertaken by the London Borough of Croydon continued at sufficient pace, the Secretary of State issued Directions in July 2023 to amend its improvement plan, to report periodically to the Secretary of State on its delivery and to support the Improvement and Assurance Panel, which had the effect of putting that Panel on a statutory footing.

Directions for a commissioner-led intervention

Under [section 15\(6\) of the 1999 Act](#), the Secretary of State may direct that some or all of the functions of an authority be exercised by the Secretary of State or his or her nominee (commissioners) for a specified period until that authority is in a sustainable position to comply with the Best Value Duty. This may include the appointment of a managing director commissioner to provide additional capacity at the senior level, who can be appointed as Head of Paid Service, to aid implementation of an improvement plan and to drive the cultural change required.

Commissioners receive powers to exercise functions to accelerate improvement, including default powers relating to governance, finance and senior appointments. These powers have not been exercised frequently by commissioners as it is the role of commissioners, as far as possible, to guide members and officers to make the right decisions and be accountable locally for those decisions.

Commissioners are appointed by and directly accountable to the Secretary of State. Their fees are set by the Secretary of State and met by the council under intervention, and they must adhere to the Seven Principles of Public Life (the Nolan Principles).

The authority has a statutory requirement to comply with any instructions of the Secretary of State or their nominated commissioner in relation to the exercise of specified functions and provide such assistance as the Secretary of State or the commissioner may require for the purpose of exercising that function.

Commissioners will be expected to establish an exit strategy for returning functions to the authority (see [section 8 of this guidance](#)) and ahead of Directions expiring, will provide a judgment on the authority's progress in meeting its Best Value Duty. Commissioners are also expected to create their own governance and operational arrangements, and to set an example to the authority around transparency in decision-making by publishing key decisions and the minutes of any Boards they create. Commissioners provide regular reports to the Secretary of State on the progress made by the authority and any concerns at defined intervals and these reports, along with ministers' responses to them, are published on gov.uk. They are supported by a Chief of Staff, who provides support from the department.

Concurrently, the authority is usually also directed to take any action which the Secretary of State considers necessary and expedient to

secure its compliance with the Best Value Duty (see Directions to the best value authority intervention model above).

Commissioners will be expected to give their views to ministers on the scope of their powers, which may result in an extension or reduction in the scope of the directions mid-intervention.

It is also possible for the Secretary of State to appoint an authority as an inspector or commissioner instead of a named individual.

Directions for a commissioner-led intervention may be appropriate where there is evidence of best value failure in an authority, and that authority has limited capacity and commitment to improve on its own. However, this is not an exhaustive description of scenarios where the appointment of commissioners may be appropriate.

Example: Following a Best Value Inspection of Northamptonshire County Council, which found evidence of poor financial management and a culture that discouraged challenge, the Secretary of State appointed commissioners in May 2018 to exercise all functions associated with the governance and scrutiny of the authority's strategic decision making, of strategic financial management, and of functions relating to the appointment and dismissal of statutory officers. The commissioners remained in place until March 2021 when the authority and neighbouring authorities were abolished and replaced with the two newly created unitary authorities of North Northamptonshire and West Northamptonshire.

Diagram 2: Starting an intervention

Assurance monitoring

1. Is the authority experiencing significant challenges?
2. Are we assured the authority is managing its challenges?

Early engagement

3. Is the authority willing able to provide an improvement plan and report progress? (Yes - Best Value Notice; No - Best Value Notice and section 230 requirement to provide information)
4. Are we assured the authority is managing its challenges?

Evidencing failure

5. Does independent and robust evidence of failure exist?
6. Will the authority agree to an independent review? (Yes - Independent review; No - Best Value Inspection)

Models of intervention

7. Is there evidence of Best Value failure? (No - Best Value Notice / Non-statutory improvement board / Sector led-intervention; Yes - go to next step)
8. Is that failure systemic? (No - Non-statutory improvement board / Local inquiry into exercise of specific functions; Yes - Directions only statutory intervention)
9. Is the authority able and committed to lead its own improvement? (Yes - Directions only statutory intervention; No - Commissioner led statutory intervention)

8. Exiting intervention

54. Each intervention is unique and in determining whether and when an intervention should end, it is important to ensure that reasonable standards are applied that clearly relate to the nature of failure identified in that particular local authority. Local authorities are not expected to be perfect before an intervention ends. The aim of all interventions is to resolve incidents of failure to the point where the authority can demonstrate that it now has the capacity and capability to sustain its own journey of continuous improvement without the need for further external involvement. It is important that this is both demonstrable and well established. Commissioners or, where appropriate, chairs of statutory improvement and assurance boards are responsible for assessing the levels of risk and confidence that the Secretary of State can rely on when determining whether or not to end an intervention. This should be addressed directly in reports to the Secretary of State in advance of intervention directions expiring. Ultimately it is the Secretary of State's decision, based on the assurances provided to him or her by commissioners/board chairs when an intervention should end.

55. To assist in making a judgment it is essential that commissioners/board chairs and the authority work together from the outset to develop a clear road map which identifies what the intervention intends to achieve and the route the authority should

take to exit intervention, noting that this may change over time. This will enable the authority to focus its efforts on improvement, to share a sense of achievement and confidence, and to maintain momentum with progress. The details of that exit strategy will be unique to each authority experiencing intervention; it will depend on the nature of local failings and be sufficiently flexible to reflect the journey that the local authority is making. It will identify measurable criteria – “proxies for success” – in relation to individual functions and service areas which are specific and capable of being evidenced. The characteristics of a well-run authority, included in [section 4 of this guide](#), give an indication of how those criteria may look.

56. When sufficient improvement has been made and the authority can demonstrate it is able to sustain its own journey of continuous improvement, the Secretary of State will consider evidence from the commissioners/board chairs and any other relevant sources such as peer challenges before handing functions back to the authority. A turnaround programme that takes too long is likely to result in increased intervention. In a situation where progress has been made, commissioners/board chairs should consider steps to de-escalate the intervention prior to the Directions ending. De-escalating could include changing approach and/or reducing time spent at the authority which, once signalled to the Secretary of State, is at the discretion of commissioners/board chairs. De-escalation may also include the full or partial return of functions, depending on the level of progress made by the authority in specific areas, which would also require Secretary of State approval. For example, a function may be returned to the authority but with continued commissioner oversight, or a certain function(s) may be returned whilst others are retained by the commissioners until further progress is made.

57. When approaching the likely end of an intervention, it would be good practice if authorities establish a plan for continuing with improvement which commissioners/board chairs could include as part of their final report to the Secretary of State. An independent review may also be commissioned to give reassurance to the Secretary of State, as well as to the authority and local residents, on the progress made and to set the future improvement agenda for the authority to focus on. If commissioners/board chairs lack confidence in the authority’s ability to continue its own improvement journey unaided, they may recommend further intervention to provide continued assurance of progress to the Secretary of State. This could take the form of the Secretary of State withdrawing commissioners but requiring the authority to report on progress against an

improvement plan for a fixed period before completely ending the intervention.

Annex A: The end-to-end process of interventions

Diagram 3: Strategic view of the intervention process

Assurance and early engagement

The department's local government stewardship function, working closely with other government departments and the Local Government Association, continually reviews the health of local authorities' governance, financial management and delivery of corporate and key services.

The department engages with local authorities to understand their organisational challenges, gain assurance of how they are managing these challenges and help identify what form of support (if any) is needed.

Where assurance is not provided, the department may write to an authority stating its concerns and request that they provide a timebound improvement plan, report back to the department on progress and publish all related documents.

Options:

- Best Value Notice
- Best Value Notice and requirement to provide information under section 230 of the Local Government Act 1972

Evidencing failure

If an authority is exhibiting some characteristics that may indicate best value failure, including taking no steps to acknowledge or address ongoing challenges by engaging with sector-led improvement, but there is insufficient evidence available for the Secretary of State to make an informed judgement, the Secretary of State may commission an inspection to determine whether best value failure has occurred.

Failure or the risk of future failure can be evidenced in other types of expert independent assessments, for example local authority-commissioned reports, auditor or inspectorate reports, or government commissioned reviews.

Options:

- Best Value Inspection
- Another independent assessment

Best value inspection

Where there are concerns, the Secretary of State can use powers under section 10 of the 1999 Act to appoint an inspector to carry out an inspection of the authority's compliance with the Best Value Duty in relation to specified functions.

Once an inspector has been identified by the Secretary of State, a formal letter of appointment will be sent to them, setting out the evidence leading to the inspection, the deadline for the Inspector's report and guidance on the areas the Inspector should focus on.

The Inspector's letter of appointment will be sent to the Chief Executive of the authority under inspection with a covering letter setting out the reasons for the inspection, details of the appointment, the deadline for the Inspector's report and a description of the requirements placed on the authority (access to documents, IT and records, payment of fees and expenses, provision of office space and general cooperation).

The Secretary of State will consider the findings and evidence set out in the inspector's report and decide appropriate next steps. This could be to:

- Continue close monitoring of the local authority by the department and offer appropriate targeted support, if the inspection finds no evidence of Best Value failure.
- Non-statutory intervention, if the inspection confirms limited best value failure and the authority has the willingness, capability and capacity to lead its own improvement.
- Statutory intervention, where failure is systemic and the Secretary of State has limited confidence in the authority's ability to improve independently.

Non-statutory intervention

A form of non-statutory intervention may be appropriate if an authority demonstrates failures or risk of future failures that are not systemic and there is confidence that the authority has the willingness, capability and capacity to sustain continuous improvement, but external expertise and challenge would result in more efficient recovery.

Membership of an improvement board, panel or taskforce and its terms of reference are usually determined by the authority but can also be proposed by the department (in agreement with the authority), depending on the level of assurance required by the Secretary of State. The department will need to be confident the authority will make sensible appointments and set sufficiently robust terms of reference. Where it does not have that confidence, the department may make its own appointments, triggering the improvement board to move to a statutory footing (under section 15(5) of the 1999 Act).

Options:

- Improvement boards
- Sector-led intervention

Statutory intervention

If an authority does not have the willingness, capability and capacity to improve without external support and, based on the evidence, the

Secretary of State is satisfied that the authority is failing to comply with the Best Value Duty, the Secretary of State's decision to intervene pursuant to section 15 of the 1999 Act will be communicated formally to the authority through a "minded to" letter issued by officials (unless the situation is sufficiently urgent). The decision will also be announced by a Statement (written or oral) to both Houses in Parliament, if Parliament is sitting. The "minded to" letter will set out the reasons underlying the proposed intervention package and, if the Secretary of State proposes to appoint commissioners, the likely extent of their powers.

The authority and other interested parties, for example, elected members and residents, will have the opportunity to make representations on the Secretary of State's proposals within a fixed time period (generally 10 working days). If, after considering any representations received and all the relevant available evidence, the Secretary of State still considers that a statutory intervention is necessary, the Secretary of State will make Directions as set out in the minded to letter (subject to any amendments arising from representations received).

The authority will be informed of the Secretary of State's decision by means of a letter from a senior departmental official to the Chief Executive which will also contain the final Directions and associated Explanatory Memorandum. The decision will also be announced by a Statement (written or oral) to both Houses in Parliament. Where appropriate, the Secretary of State will also appoint commissioners.

During the intervention, regular reports on progress to the Secretary of State will be expected. There may also be some consideration of changes to the original Directions, either to extend the powers or duration, or to hand back functions to the authority.

The statutory intervention will end when the authority can demonstrate that it now has the capacity and capability to sustain its own journey of continuous improvement without the need for further external involvement. The Secretary of State will consider evidence from the commissioners, where appropriate, and any other relevant sources before ending the intervention.

An independent review may also be required to give assurance to the Secretary of State, as well as to the authority and local residents, on the progress made and to set the future improvement agenda for the authority to focus on.

Options:

- Directions only intervention, including local review or inquiry
- Commissioner-led intervention

Annex B: Further statutory best value guidance

[Revised best value statutory guidance on working with voluntary and community groups, and small businesses](#) (March 2015)

[Statutory guidance on the making and disclosure of Special Severance Payments by local authorities in England](#) (May 2022)

[Guidance on access agreements](#)

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Audit Committee

9th July 2024



Title	Public Interest Report Recommendations – Action Plan
Purpose of the report	To provide an update on the proposed actions to address recommendations in the Public Interest Report (PIR)
Report Author	<i>Coralie Holman, Group Head Assets</i>
Ward(s) Affected	All Wards
Exempt	No
Exemption Reason	N/A
Corporate Priority	This item is not in the current list of Corporate Priorities but still requires a formal update to be provided to the Audit Committee.
Recommendations	Committee is asked to: To note the update and actions following on from the July 2023 report setting out the proposed actions in response to the recommendations within the Public Interest Report.
Reason for Recommendation	To ensure the Audit Committee have been fully updated on progress in respect of the actions responding to the recommendations within the PIR report.

1. Summary of the report

What is the situation	Why we want to do something
<ul style="list-style-type: none"> In December 2022 the Council agreed a response to the KPMG PIR report In July 2023 an action plan was agreed by Audit committee to develop an amended strategy to monitor performance of the Council’s investment portfolio and mitigate risk 	<ul style="list-style-type: none"> Ensure wider governance and assist Councillor understanding. Ensure greater reporting, engagement with and involvement of Councillors within strategic decision making
This is what we want to do about it	These are the next steps
<ul style="list-style-type: none"> Note the work undertaken in order to monitor and action the risk 	<ul style="list-style-type: none"> Continue to progress a proactive asset management approach including greater reporting,

<p>attached to the Council's investment portfolio.</p>	<p>engagement with and involvement of Councillors within strategic decision making</p>
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2. Key issues

History

- 2.1 On 8th December 2022, the Council considered and agreed a response to the recommendations made within the Public Interest Report (*PIR*) issued by KPMG. This report focused on acquisitions of investment assets made in the period up to 2018/19. Since 2018, the Council has not made any investment asset acquisitions.
- 2.2 KPMG made 5 recommendations which were accepted by the Council. Recommendations 1-3 which focused on legal matters were considered to have been fully addressed at the time a report was taken to Audit Committee in March 2023 providing an update on the 5 recommendations. The March 2023 report advised further work would be undertaken to build on work the Council was already doing to fully address recommendations 4 & 5 which were largely focused on Assets related issues
- 2.3 In July 2023 a further report was taken to Audit Committee setting out in detail, a strategy for monitoring the rental income performance of the investment portfolio, mitigating risk, and producing a suite of KPIs that determine the success of this performance and connected risk. At this meeting Audit Committee approved the strategy.
- 2.4 This current report provides an update on the strategy approved in July 2023 and relates to recommendations 4 & 5 only of the PIR report.
- 2.5 Recommendation 4 of the PIR set out **“The Council should develop its investment property portfolio modelling to bring these in line with the expected practice of an institutional investor. This should include robust stress testing and sensitivity analysis which incorporates scenarios that cover the highest level of risk for expenditure, revenue, tenant behaviour and external socio-economic factors. Consideration should also be given to the diversification of the portfolio and whether this should be addressed over medium to longer term.”**
- 2.6 Recommendation 5 of the PIR set out, **The Council should develop an action plan as part of the management of its investment portfolio which addresses each of the weaknesses identified in paragraph 6.9 (of the PIR). It was suggested this action plan should be linked to a portfolio risk register, which monitors each of the KPIs, tenant performance and risk to the debt repayment strategy for each investment property asset.**

3. Current position

- 3.1 Some 12 months later the strategy has been implemented with the actions below, having been undertaken, completed, and approved either Full Council or the relevant Council committee or in the process of being progressed, in order to monitor and action the risk attached to the Council's Investment Assets.

- Sinking Fund earmarked reserves modelling – *an initial refresh of modelling has been completed, councillors will shortly be briefed on this.*
- Suite of appropriate Key Performance Indicators (KPIs), now incorporated into the 2024 – 2028 Asset Management Plan – *completed.*
- Assets specific risk register - with focus on tenancy performance and risk to the debt repayment strategy for each investment property asset. Will be published as part of 2024 – 2028 Asset Management Plan – *completed.*
- New Suite of Asset Management documents - *completed.*

3.2 The new suite of Asset Management documents (the structure of which is shown below) is in a form agreed with Councillors as part of active Councillor/Officer focused workshops. Councillors set the overarching Asset Management Strategy and the operational aspects of this are detailed in the Asset Management Plan, which sets out how officers will undertake day to day operations. This suite of documents which includes the Risk Register and KPIs (within the Asset Management Plan), provides a robust explanation of how each of the 3 Council's asset portfolios are managed, and how the portfolios interlink to meet the 3 objectives set out below:

- Support delivery of the Council's front-line services.
- Contribute to delivery our Corporate Plan objectives.
- Achieve and demonstrate best value in everything we do (best value not always being financial).



3.3 The Council has always proactively and competently managed its land and property holdings. This is specifically demonstrated by collection rates for invoiced rental even throughout the Pandemic and Cost of Living crisis always being in excess of 99% and the current void rate being 9.72% compared to

the wider South East Office market at 21.9% (MSCI data). The relationships nurtured with tenants has been a key part of achieving such high levels of rent collection. The outputs from the proactive asset management approach are monitored against the KPIs which are then reported mid-way through and at the end of the financial year via the Investment report.

4. Next Steps

- 4.1 Re-assurance of the proactive approach by the Council's internal team was and will continue to be needed via independent reviews (latest being in December 2023 by Jones Lang LaSalle), greater reporting, and engagement with and involvement of Councillors within strategic decision making. This will ensure wider governance and assist Councillor understanding. Specifically, the reporting approach will provide an initial outlook at the priorities of the forthcoming year via the Asset Investment Strategy at the beginning of each financial year. A mid-year investment report in the autumn each year and end of financial year reporting in the form of an annual investment review in the summer each year.
- 4.2 Councillor guidance, scrutiny and decision making will be further enhanced from June 2024 with the Development Sub Committee, which previously focused on both the Investment and Development portfolios being replaced with two new committees, The Commercial Assets Sub Committee (CASC) and Business Infrastructure & Growth Committee (BIG). Whilst BIG will not focus on the Commercial Assets, CASC will have a bespoke focus on all matters 'commercial' and once fully formed will include at least one external member with specialist property knowledge to provide scrutiny and further support Councillor understanding in advance of decision making.
- 4.3 Where appropriate specialist external consultants will also be invited to present work, they have undertaken at the CASC meetings to ensure Councillors have the ability to ask questions and seek clarity on as aspect of the work undertaken.

5. Options

- 5.1 Note the comments within this report to enable the new strategy to continue to be progressed as set out within this report - **This is the recommended option.**
- 5.2 Seek changes to be made to the current strategy. **This is not the recommended option** because the new suite of documents and approach to reporting and governance has been developed and agreed via officer and member workshops and approved by Full Council or the relevant Council Committee.

6. Financial Implications

- 6.1 There are no direct financial implications connected to this 'to note' report.

7. Risk management comments

- 7.1 None

8. Procurement comments

- 8.1 None

9. Legal comments

- 9.1 The Local Audit and Accountability Act 2014 (“2014 Act”) governs and prescribes the way in which the Council should deal with an external auditor’s formal Report in the Public Interest.
- 9.2 The recommendation in this report demonstrates that the Council has considered the Public Interest Report in accordance with the 2014 Act and is taking the necessary action to address matters raised regarding management of the investment portfolio in a longer-term financial model.

10. Other considerations

- 10.1 None at this stage.

11. Equality and Diversity

- 9.1 Not applicable.

12. Sustainability/Climate Change Implications

- 12.1 Not applicable

13. Timetable for implementation

- 13.1 The strategy has already been implemented and adopted as an on-going workstream.

14. Contact

Coralie Holman (Assets Team) Email: c.holman@spelthorne.gov.uk

Background papers:

Asset Management Strategy

<https://www.spelthorne.gov.uk/assetmanagementstrategy>

Asset Management Plan <https://www.spelthorne.gov.uk/article/19655/Asset-Management-Plan>

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Spelthorne Borough Council Services Committees Forward Plan and Key Decisions

This Forward Plan sets out the decisions which the Service Committees expect to take over the forthcoming months, and identifies those which are **Key Decisions**.

A **Key Decision** is a decision to be taken by the Service Committee, which is either likely to result in significant expenditure or savings or to have significant effects on those living or working in an area comprising two or more wards in the Borough.

Please direct any enquiries about this Plan to CommitteeServices@spelthorne.gov.uk.

Spelthorne Borough Council

Service Committees Forward Plan and Key Decisions for 9 July 2024 to 26 September 2024

Anticipated earliest (or next) date of decision and decision maker	Matter for consideration	Key or non-Key Decision	Decision to be taken in Public or Private	Lead Officer
Audit Committee 09 07 2024	Annual Internal Audit Report and Opinion for 2023/24	Non-Key Decision	Public	Punita Talwar, Audit Manager
Audit Committee 09 07 2024	Annual Governance Statement 2023-24	Non-Key Decision	Public	Terry Collier, Deputy Chief Executive
Audit Committee 09 07 2024	Audit Charter	Non-Key Decision	Public	Neil Pitman, Head of Southern Internal Audit Partnership
Audit Committee 09 07 2024	Corporate Risk Management	Non-Key Decision	Public	Lee O'Neil, Deputy Chief Executive
Audit Committee 09 07 2024	External Audit Update	Non-Key Decision	Public	Terry Collier, Deputy Chief Executive
Audit Committee 09 07 2024	Internal Audit Plan 2024/25	Non-Key Decision	Public	Neil Pitman, Head of Southern Internal Audit Partnership
Audit Committee 09 07 2024	PIR Report Review	Non-Key Decision	Public	Coralie Holman, Group Head Assets
Audit Committee 26 09 2024	Annual Review of Confidential Reporting Code	Non-Key Decision	Public	Karen Limmer, Corporate Governance Officer

Date of decision and decision maker	Matter for consideration	Key or non-Key Decision	Decision to be taken in Public or Private	Lead Officer
Audit Committee 26 09 2024	Corporate Risk Management	Non-Key Decision	Public	Lee O'Neil, Deputy Chief Executive
Audit Committee 26 09 2024	External Audited Accounts	Non-Key Decision	Public	
Audit Committee 26 09 2024	Interim Internal Audit Report	Non-Key Decision	Public	Punita Talwar, Audit Manager
Audit Committee 26 09 2024	Procurement Progress Update	Non-Key Decision	Public	Karen Limmer, Corporate Governance Officer
Audit Committee 26 09 2024	Value for Money Statement	Non-Key Decision	Public	

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