

Audit Committee

25th November 2021



Title	Update of LGA Corporate Finance Peer Review Action Plan and CIPFA Financial Management Self-Assessment
Purpose of the report	To note
Report Author	Terry Collier, Chief Finance Officer
Ward(s) Affected	All Wards
Exempt	No
Exemption Reason	N/A
Corporate Priority	Financial Sustainability
Recommendations	Committee is asked to: The Committee is asked to note a) Update on progress against the Action Plan for recommendations made by the LGA Corporate Peer Review on Finance b) Updated Self-Assessment against the principles set out in the CIPFA Financial Management Code.
Reason for Recommendation	Important that the Committee is given the chance to review the progress being made against the Peer Review Action Plan and to view the updated Financial Management Code Self-Assessment as we approach 2022-23 when the Code is now intended to fully take effect.

1. Key issues

A) LGA Corporate Peer Review on Finance- Action Plan

- 1.1 The Council invited the Local Government Association to undertake a Corporate Peer Challenge review focused on the Council's finances. Peer Reviews involve experienced local government officers, including an experienced chief executive, along with an experienced leader, constructively reviewing opportunities for improvement. This was originally scheduled to take place in spring 2020 but was postponed due to the COVID-19 pandemic. The review was rearranged to be undertaken as the first virtual review of a council in November 2020. The draft report was received in the January 2021 and the

final report issued in late January 2021. An action plan was presented to and approved by Cabinet in April 2021.

- 1.2 The Peer Review undertook a thorough exercise with the team spending around 300 hours developing its findings and this report. The Review team met a range of officers from across the organisation and at different levels including Chief Finance Officer and Corporate Management Team, Group Heads, Assets Manager, Audit Manager, and a range of councillors including Leader, Finance Portfolio Holder, Deputy Leaders, Cabinet, Chair of Audit Committee, Chair of Overview and Scrutiny.
- 1.3 The Review team whilst recognising the strong response the Council made to the COVID-19 emergency identified a number of opportunities for improvements which are set out in 24 recommendations. Some of the recommendations extend beyond purely financial matters, for example the Peer Review team suggested (recommendation 1) that the Council “pause, reflect, align” to refresh its Corporate Strategy and priorities and to become clearer in what it is wishing to prioritise which in turn will drive future budget prioritisation decisions.
- 1.4 The April 2021 report commented a number of recommendations had already in part been addressed examples being:
 - the Reserves Strategy (part of recommendation 11) was refreshed and considered by both Overview and Scrutiny and Cabinet in January 2021 as part of the 2021-22 Budget process.
 - Additional time was built into the Budget process for scrutiny with two sessions at Overview and Scrutiny (recommendations 10, 12. 22)
 - Additional scenario planning built into the Outline Budget process (recommendations 3 and 10)
 - The Medium Term Financial Strategy was refreshed (recommendation 3 and 12) as part of the 2021-22 Budget process
 - Improving the embedding of risk management (recommendation 16) with a refresh of the Corporate Risk Management Policy and production of an executive summary which will now be rolled out via training across services
 - The reports talks about making clear the Council’s appetite for subsidising social housing, the Administration in January 2021 called an Extraordinary Council to set out its aspiration to deliver at least 50% affordable rental units on all the Council’s residential schemes (recommendation 24)
 - Improving the focus on programme management (recommendation 5) with the establishment of the Assets Programme Board which will be a sub-committee of the new Policy and Resources Committee.
- 1.5 Since then, further progress has been made against the recommendations, see Appendix 1 which is an updated progress summary against the Action Plan. In particular note below position on each recommendation and RAG assessment of progress):
 - Recommendation 1 “Ensure that there is alignment of key strategies and priorities and that they are supported by a clear and sustainable financial

strategy. The Council may need to: pause – reflect – realign” – Corporate Policy and Resources Committee is progressing a new Corporate Plan for 2021-23 which will inform the prioritisation within the 2022-23 Budget Process and the Capital Strategy 2022 - 2025. Increased focus has also been placed on the relationship between the Council’s Housing Strategy and how that should direct the work of Knowle Green Estates Ltd (KGE) **Amber**

- Recommendation 2 “Be clear on your priorities, articulate what non-prioritisation means and how resources are aligned within the finite capacity of the organisation” – MAT have briefed staff at staff briefings on the new draft priorities. Group Heads and Managers have been asked to prioritise any growth bids taking into account the new priorities. As part of the Budgeting process Chairs and Vice Chairs and Committee will be looking at aligning budget proposals with priorities. **Amber**
- Recommendation 3 “Understand and manage risk and its impact on future financial performance and sustainability” – Concise summary of refreshed Corporate Risk Strategy produced and approved by Audit Committee. Training sessions on risk run for managers led by Group Head of Corporate Governance and Audit Manager. A training on risk management has been provided to councillors. **Green**
- Recommendation 4 “Improve capital programme scheme implementation performance and be satisfied that delivery vehicles can successfully realise the scale of ambition” – Development Sub-Committee set up to provide clear asset project initiation and gateway sign off governance. Terms sheets implemented for new projects. A competitive process undertaken to appointed experienced Non-Executive Directors who bring added value to KGE. **Green**
- Recommendation 5 “Ensure that effective programme and project management is embedded across the organisation for both capital and revenue spend reflecting internal controls and proportionate risk management.” – Development Sub-Committee established. A corporate programme manager has been appointed within Transformation and Commissioning and the newly appointing postholder is already reviewing approach to programme and project management. **Green**
- Recommendation 6 “To continue to promote openness and transparency by ensuring decisions are taken at the most appropriate level in accordance with a practical and proportionate scheme of delegation” – Council moved to new Committee governance with political proportionality embedded. New Constitution and scheme of delegation approved. **Green**
- Recommendation 7 “Recognise and articulate the challenges ahead for both capital and revenue in the present day and medium to longer term.” – November 8 Budget Briefing to members of Corporate Policy and Resources Committee (CPRC) highlighted the challenges ahead in medium term for both capital and revenue. KGE Business Plan being refreshed on a 50 year basis. **Green**
- Recommendation 8 “Continue to recognise the importance of the investment and commercial income stream to the revenue budget in

reporting.” - detailed budget for 2022-23 will make more transparent the resources underpinning the delivery of investment income. Assets Working Group set up on a formal basis to ensure Chair and Vice Chair of CPRC have sight of and approve actions with respect to investment, commercial and municipal assets **Amber**

- Recommendation 9 “Consider simplifying financial reporting to members to make it clearer what options the council faces. Within this, model different scenarios and openly consider the impacts of these on financial sustainability”. Chair of CPRC has agreed that this is to be actioned once the Finance system is moved to Centros (Spring 2022) and able to apply more powerful reporting functionality. Officers to consider inviting further external perspectives on our financial reporting. Reports will have more visual and clearer highlighting of issues (Half Year Treasury Management Report a small step in this direction). **Amber**
- Recommendation 10 “Extend scenario planning for the refreshed Medium-Term Financial Strategy (MTFS) scenarios beyond the existing worst-case approach which is modelled for the sinking fund reserve” – Budget Briefing 8th November 2021 for CPRC considered a number of scenarios (model has been refreshed to make easier to flex and explore different parameters). KGE integrated model (Profit and Loss, Balance Sheet and cashflow) has been refreshed. A considerable number of permutations with respect to developments and heights have been explored on a fifty year basis. **Green**
- Recommendation 11 “Ensure you have clear strategies on the core elements of financial planning and bring them together – Reserves Strategy, (including Sinking Fund), Commercial Strategy, Housing Strategy” – Reserves Strategy to be go to November CPRC for annual refresh **Amber**
- Recommendation 12 “Work collaboratively within a culture of cooperative working between members and officers to continually refresh the Medium Term Financial Strategy (MTFS).” – MTFS discussed with members of CPRC on 8th November Budget Briefing and Outline Budget report going to November CPRC meeting **Green**
- Recommendation 13 “Consider bringing an independent voice to the Audit Committee to strengthen overall audit resilience”. Independent lay member of Audit Committee approved as part of the new Council Constitution. Officers liaising with Councillors to ensure short listed candidates are interviewed and recommendation to be made to December Council **Green**
- Recommendation 14 “Ensure outcomes of budget consultations and engagement with stakeholders are clearly reported to members as part of the budget setting process.” – Budget consultation in November 2021 with residents, businesses and staff and the outcome of that consultation will be reported to members in budget briefings and at Full Council when the budget is agreed **Green**

- Recommendation 15 “Continue to explore further opportunities for Scrutiny Committee to be engaged in strategy development and financial decision-making and review.” – Overview and Scrutiny does not exist under the new Constitution. However, the scrutiny function has been embedded in all of the Committees (for example, capital and revenue monitoring reports go to the individual committees for their review before being considered by CPRC). Chairs and Vice Chairs are actively engaged in budget briefings. No longer applicable
- Recommendation 16 “Consider how to ensure that co-ordination of risk management activity throughout the organisation is appropriately embedded and resourced with a strong corporate overview” – See recommendation 3 above. **Green**
- Recommendation 17 “Ensure that the council’s compliance with the statutory duty to consult representatives of nondomestic ratepayers – section 65 LGFA 1992 is clearly communicated and the results of this are seen to clearly influence decision-making.” Addressed through annual Spelthorne Business Forum Budget meeting. **Green**
- Recommendation 18 “Continue to keep the capacity and skills of the finance function under review, and ensure it is fit for purpose.” New Chief Accountant undertaking a structure review in parallel with exploring partnership with Mole Valley designed to address resilience. **Amber**
- Recommendation 19 “Continue to regularly review the resourcing of Internal Audit to ensure it is appropriately resourced to reflect the scale of risk the council is managing.” A growth bid has been submitted for an apprentice in Internal Audit. **Amber**
- Recommendation 20 “Consider how to better integrate the key functions of the council to deliver financial sustainability and build a strong culture of shared risk management that encompasses assets, property, income, and service delivery.” Culture of risk management being addressed through embedding risk management across the organisation as reported above. Additional focus on programme management with Programme Manager for Digital Transformation appointed and new Development Sub-Committee in place. **Amber**
- Recommendation 21 “Explore how to maximise all opportunities for community and service improvements, such as more effective use of section 106 agreements.” Recovery plan looking to build on creative partnership working undertaken during Pandemic. CIL Task Group regularly making recommendations. **Green**
- Recommendation 22 “Consider how to engage staff and stakeholders in the refresh of the council’s MTFS and promote a wide understanding of the council’s future options” Budget consultation in November 2021. Regular updates on Budget position provided at staff briefings and at councillors briefings. **Green**
- Recommendation 23 “Have an open dialogue about the financial implications of the council’s emerging priorities, including potential impacts on the council’s borrowing” Being addressed as part of the 2022-23 Budget process, at the 8th November Budget briefing. Also

report on the cost of delays which went to Development Sub-Committee on 1 November highlighted the very significant potential revenue budget impacts of delaying delivery of residential schemes. **Amber**

- Recommendation 24 “Consider what does a diverse mix of housing really mean for the borough? How will the council use both Private Rented Sector and Market Sale to meet local need and to deliver financial returns?” Considered by Councillors at Extraordinary Council Meeting on 25th January 2021 which decided to accept strategy of council developments delivering at least 50% affordable rental units. Kept under regular review by Development Sub-Committee. **Amber**

1.6 It can be seen from above that it is felt progress is being made against all the recommendations, with thirteen of the recommendations considered to have a Green status, ten with an amber status and one recommendation no longer applicable.

CIPFA Financial Management Code Self Assessment

1.7 There is a certain amount of overlap between the Peer Review focus and the issues falling within the CIPFA Financial Management Code (FM Code). Hence why a refreshed FM Code Self Assessment is being brought back to the Committee alongside the review of the Peer Review Action Plan. An initial Self Assessment against the Code was reported to the Audit Committee in November 2020.

1.8 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). Although the FM Code comes into effect from April 2020, in recognition of the pressures facing local authorities, full implementation was delayed until 2022-23. This allows authorities a shadow year to work towards full implementation

1.9 On the eve of COVID-19 lockdown in February 2020 officers and Cabinet members invited CIPFA to the Council Officers to do a workshop on the requirements of the new code.

1.10 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
- 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.

1.11 Appendix 2 is an updated Self Assessment against the principles set out by the Code.

2. Options analysis and proposal

Finance Peer Review Action Plan

- 2.1 The recommended option is for the Committee to note the Action Plan and recommend that progress is regularly reported to the future meetings of the Committee.
- 2.2 Alternatively the Committee may wish that some of the recommendation responses are further refined.

CIPFA FM Code Self Assessment

- 2.3 The recommended option is for the Committee to note the Self-Assessment recommend that progress is regularly reported to the future meetings of the Committee.
- 2.4 Alternatively the Committee may wish that some elements of the Self-Assessment are further refined.

3. Financial implications

- 3.1 The Action Plan and the FM Code Self-Assessment will support the Council's ability to meet the challenges generated by the COVID-19 economic impacts and uncertainties as we move into Recovery and to ensure that we continue to manage our finances effectively

4. Other considerations

- 4.1 In responding to the recommendations around policy clarity and prioritisation the Council will have regard to Equality impacts and where relevant will undertake Equality Impact Assessments, for example if decisions are made about changing the way services are provided.

5. Equality and Diversity

5.1 In determining the alignment of resources with priorities, account will be taken of equality impacts and where appropriate equality impact assessments will be undertaken.

6. Sustainability/Climate Change Implications

6.1 In addressing recommendations around policy prioritisation, one of the clear priorities will be tackling Climate Change.

7. Timetable for implementation

7.1 The Peer Review Action Plan has a set of target implementation dates

Background papers: (There are none.

Appendices:

Appendix A: Updated as at November 2021 Finance Peer Review Action Plan

Appendix B : Updated as at November 2021 CIFPA FM Code Self Assessment