

From: John Betts, Interim Corporate Director - Finance

To: Governance & Audit Committee, 9 October 2024

Subject: Financial Management Code of Practice - Compliance Assessment

Classification: *Unrestricted*

Summary: The report outlines the extent to which the Local Authority can demonstrate that it is satisfying the requirements of the Chartered Institute of Public Finance and Accountancy's Financial Management Code of Practice.

Recommendation(s):

That the Committee comments on and endorses the assessment of compliance against the Financial Management Code for 2024/25, as part of its Annual Governance Statements considerations.

Introduction

1. The Chartered Institute of Public Finance and Accountancy (CIPFA) launched the Financial Management Code of Practice (FM Code), with a flexible introduction in 2021/22, when local authorities were dealing with the COVID-19 pandemic. The FM Code was developed on behalf of the then Ministry of Housing, Communities and Local Government (MHCLG), in the context of increasing concerns about the financial resilience and sustainability of local authorities.
2. The FM Code clarifies how Chief Finance Officers should satisfy their statutory responsibility for good financial administration, as required in section 151 of the Local Government Act 1972 and emphasises the collective financial responsibility of the whole leadership including the relevant Elected Members.
3. Local authorities are expected to demonstrate that the requirements of the FM Code are being satisfied. Officers have previously undertaken this assessment internally. Compliance with the Code has previously been reported by Internal Audit to this committee. However, good practice would suggest that the assessment should be considered by those charged with governance. As part of the Code of Corporate Governance, the Constitution of the County Council also states that it "will comply with the principles and standards of the CIPFA Financial Management Code"¹. This will be the first time that this committee has considered the Council's compliance with the FM Code.

¹ At section 26.6

4. The report sets out the outcome of the compliance self-assessment undertaken for this financial year (2024/25), which finds that the Council is well placed to meet the requirements of the FM Code.

Summary of the Code

5. The FM Code sets out the principles by which authorities should be guided in managing their finances and the specific standards that they should, as a minimum, seek to achieve. Compliance with the code is obligatory but is not currently referenced in legislation, meaning that it is not statutory guidance.
6. However, the FM Code draws heavily on existing statutory guidance:
 - Role of the Chief Financial Officer in Local Government
 - Prudential Code for Capital Finance
 - Code of Practice on Local Authority Accounting in the United Kingdom
7. The FM Code is designed to be flexible to the nature, needs and circumstances of individual authorities. It is up to each authority to determine the extent to which it complies with the Code and to identify what action it may wish to take to better meet the standards that the Code sets out.
8. It does not prescribe the financial management processes that local authorities should adopt. Instead, the code requires that a local authority demonstrates that its processes satisfy the principles of good financial management for an authority of its size, responsibilities and circumstances.
9. The FM Code has six key themes aimed at strengthening the financial resilience and sustainability of local authorities:
 - i. Organisational leadership – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.
 - ii. Accountability – based on medium-term financial planning that drives the annual budget process supported by effective risk management, quality supporting data and whole life costs.
 - iii. 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.
 - iv. Adherence to professional standards is promoted by the leadership team and is evidenced.
 - v. Sources of assurance are recognised as an effective tool mainstreamed into financial management, including political scrutiny and the results of external audit, internal audit and inspection.

- vi. The long-term sustainability of local services is at the heart of all financial management processes and is evidenced by prudent use of public resources.
10. Performance against the six key themes is measured by 17 standards which are arranged over seven sections:
 - (i) The responsibilities of the chief finance officer and leadership team
 - (ii) Governance and financial management style
 - (iii) Long to medium-term financial management
 - (iv) The annual budget
 - (v) Stakeholder engagement and business plans
 - (vi) Monitoring financial performance
 - (vii) External financial reporting
 11. The 17 standards are set out in full in Annex 1.

Status of the FM Code

12. The Redmond Review into local authority financial reporting and external audit which reported in September 2020 included a specific recommendation for MHCLG to review its current framework for seeking assurance that financial sustainability in each local authority in England is maintained. Although not prescribed in the formal recommendation, the review noted that MHCLG could give the FM Code statutory status and require local authorities to report on compliance with the Code in their Annual Governance Statement, with auditors expected to report on material breaches. A response from MHCLG was published in 2021 but did not provide any further update on the status of the FM Code.

Compliance Assessment 2024/25

13. It is for the individual authority to determine whether it meets the standards and to make any changes that may be required to ensure compliance. Authorities should be able to provide evidence that they have reviewed their financial management arrangements against the standards and that they have taken such action as may be necessary to comply with them.
14. An assessment has been made of the Council's current compliance with the 17 Standards in the FM Code. The assessment has been made initially within the Finance service, and has then been tested with the Corporate Management Team. The final test is to check whether the assessment chimes with the understanding of committee members.
15. A self-assessment exercise to benchmark the Council's current processes and practice against the FM Standards has been undertaken using a RAG Rating approach as set out below:

Assessment	Description
GREEN	Compliance is being demonstrated.
AMBER	Minor to Moderate improvements are required to demonstrate full compliance.
RED	Moderate to Significant improvements are required to demonstrate full compliance.

16. The provisional assessment has identified that the Council remains well placed to evidence compliance with the FM Code. Where relevant, proposed further actions that can be taken to enhance compliance have been included in the assessment. The Summary Assessment is included at Annex 1.

17. The Summary Assessment should also be considered alongside the Chief Finance Officer's statutory report on the budget (Section 25 Report)² as supporting evidence of the consideration given to the financial management arrangements and control frameworks that are in place, when commenting on the robustness of the proposed budget. Where action can be taken to strengthen and enhance compliance with the FM Code, these will be taken forward, reported and be monitored through actions emanating from the Annual Governance Statement.

Annex: Financial Management Code of Practice – Summary Compliance Assessment 2024/25

Background papers: None

² <https://democracy.kent.gov.uk:9071/documents/g9324/Public%20reports%20pack%2019th-Feb-2024%2009.30%20County%20Council.pdf?T=10>

See pages 13 to 20

Self Assessment against the CIPFA Financial Management Code Standards

Section 1: The responsibilities of the chief finance officer and leadership team			
A	The leadership team is able to demonstrate that the services provided by the authority provide value for money.		
	Self Assessment Evidence	Rating	Further Action
	<p>The Council is committed to delivering value for money across all its services. Financial implications are considered as part of every decision report and comprehensive business cases are completed to support financial decisions where appropriate. In addition, our Operating Standards have been updated to include a “Considering Best Value” section, to ensure there is a wide understanding of what best value means.</p> <p>Whilst our external auditors conduct an independent review of value for money, and they have reported positively on our financial management and the Council’s use of resources, they have also identified weaknesses related to financial sustainability, governance, and improving economy, efficiency and effectiveness. These recommendations are all picked up as part of the Governance Recommendations Improvement Plan</p> <p>The Commercial & Procurement division ensures that contracts and purchasing obtain best value across the different services. Contract Standing Orders (“Spending the Council’s Money” document has been updated and will be further amended for changes in the Procurement Act later this year.</p> <p>In recent years we have undertaken comparison of KCC spending against comparable authorities from a number of sources. These include a subscription to LG Futures Financial Intelligence Toolkit, the Local Government Inform interactive tool and Society of County Treasurers benchmarking. The main value for money tool we will look to use this year is LG Inform. This includes trend data over a number of years and we have already produced a suite of benchmark information for main services.</p>	Amber	Necessary improvements (particularly as identified by the external auditors) to be monitored through the Governance Recommendations Improvement Plan (GRIP), as reported to Governance & Audit committee.
B	The authority complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government.		
	The responsibilities of the Chief Finance Officer (Corporate Director of Finance) are set out within the Council’s constitution and the Financial Regulations. The Corporate Director of Finance is a member of the Corporate Management Team (CMT) and reports directly to the Chief Executive. All Committee, Council and CMT reports are subject to review by the Corporate Director of Finance, supported by the finance team, ensuring that financial	Green	

implications of decisions are clearly documented and properly considered. The finance team's permanent full-time equivalent staff has an appropriate mix of professionally qualified accountants (CIPFA/ACCACIMA), part qualified, holding the AAT qualification and those who are actively studying for a professional accountancy qualification (CIPFA)/ACCA). Team members are supported through technical and on the job training and are encouraged to take opportunities to enhance their skills and knowledge, ensuring that there is resilience within the team. The Interim Corporate Director of Finance is a professionally qualified accountant with over 30 years of local government finance experience.

Ensure that any new, permanent Corporate Director – Finance has the appropriate knowledge, experience and skills through the recruitment process.

Section 2: Governance and financial management style

C	The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.		
	Self Assessment Evidence	Rating	Further Action
	<p>These principles around effective governance and internal control are set out for staff and Members within the Constitution and Financial Regulations. CMT regularly receives reports and briefings regarding governance and control, including regular updates on governance matters from the Monitoring Officer as well as internal audit reports.</p> <p>Decisions are made and communicated using the appropriate channels, financial regulations are updated biannually or annually if significant changes are required, processes are adhered to that align with the financial regulations and procedures. Every budget manager is required to sign a Resource Allocation Statement (RAS) before the start of the financial year.</p>	Green	
D	The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016).		
	The Council's approach to applying the CIPFA/SOLACE Delivering Good Governance in Local Government Framework is to set out the actions it has taken or plans to take within its Annual Governance Statement (AGS) to ensure that high standards of governance are delivered and maintained. The AGS is reviewed regularly and is seen as a living document rather than an exercise only undertaken annually. Recent AGS have acknowledged that further actions still need to be taken to further improve governance within the Council.	Amber	Monitor delivery of the actions in the Governance Recommendations Improvement Plan (GRIP), as reported to Governance & Audit committee.
E	The financial management style of the authority supports financial sustainability.		
	<p>The Council's Constitution details committee functions and Member and officer delegations. The Financial Regulations support the Constitution and include the Scheme of Delegation. There is a detailed quarterly budget monitoring report and performance management report to Cabinet which includes information on how budget pressures/projected overspends are being managed as well as progress on savings delivery, monitoring of reserves, Treasury Management and Prudential Indicators. Business partners and revenue finance accountants regularly challenge budget managers through the monitoring process and regular meetings with senior officers within the service. Monitoring in the future will also be against key, specific management action to bring the forecast overspend down. Savings plans are also challenged and monitored against. The Council's budget process also takes full account of risk and financial sustainability which is ultimately reflected in the Corporate Director - Finance's Section 25 Assurance</p>	Amber	Undertake a review of the skillsets of Budget Holders (following implementation of Oracle Cloud) and members (particularly post County elections) and offer further training where required (in this year, around development of savings plans)

	<p>Statement to the County Council. The use of Resource Accountability Statements for budget holders to commit to managing their budgets is one practical example of the financial management style of the Council. The other is the development of a longer term capital programme.</p> <p>Recent overspends indicate that there is still work to do in this area.</p>		
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Section 3: Long to medium-term financial management

F	The authority has carried out a credible and transparent financial resilience assessment.		
	Self Assessment Evidence	Rating	Further Action
	<p>The CIPFA Financial Resilience Index provides some context to the Council's financial position compared to that of other similar councils. Both the overall level of reserves and change in reserves are towards the upper quartile of risk. In response, a major review of all our reserves was undertaken which resulted in us planning to increase our general reserves to 5% of our revenue budget over the course of the MTFP. The review also set out new governance procedures around the creation and use of reserves, including a business case requirement for the drawdown of corporate reserves.</p> <p>The Council has also developed a longer term capital programme to manage the optimism bias that often results in significant slippage.</p> <p>The annual budget process includes an independent Section 25 assurance on the robustness of budget and medium-term financial plan, and adequacy of reserves. This assurance statement is considered by full Council at the annual budget meeting and Council is asked to agree to have regard to the contents of the report when making decisions about the budget. The report includes an evaluation of the background to budget preparations including evaluation of risks and uncertainties, the deliverability of the proposed budget and financial sustainability of the Council.</p> <p>A comprehensive budget report is presented to Council including recommendations to agree the capital programme and financing, revenue budget and medium-term financial plan, council tax levels, Kent pay scheme and key strategies. The report sets out the background to the budget and capital programme including how the financial plans support the council's strategic priorities, the requirements to set a balanced budget, budget consultation, equalities considerations, local government finance settlement, schools funding, a summary of the budget proposals, capital budget strategy and draft programme, revenue budget strategy and draft budget, and levels of reserves. Appendices include high level summaries of capital programme and revenue budget/medium term financial plan, detailed capital programme and revenue budget, revenue budget variation statements, reserves policy, budget risks and assessment of reserves, budget risk register, key strategies (capital strategy, treasury strategy and investment strategy) and MRP statement.</p>	Green	

G	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.	Green	Relationships with Key strategic partners should be reviewed to ensure they contribute to the achievement of the Authority's objectives
	Risks to financial sustainability are regularly reviewed and reported to the Governance & Audit Committee and Policy & Resources Committee. The Council has a Strategic Reset Programme and a 3 year Medium Term Financial Plan (MTFP) which is reviewed and updated annually. Specific reports are presented to Cabinet, P&R Committee and Scrutiny Committee – recent examples include reports to Cabinet on the financial risks arising from high inflation and the Covid monitoring reports to P&R setting out how covid funds were being managed.		
H	The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities.	Green	
	The Council complies with the requirements of the Prudential code, and prepares its Capital, Investment and Treasury Management strategies with reference to this. Prudential Indicators are reported on in the quarterly monitoring report which goes to Cabinet. The Council's capital strategy has been approved by Full Council and contains a range of indicators set with reference to the Prudential Code for Capital Finance. Capital spending is monitored by the services and a cross directorate capital officer group meets regularly to review changes and business cases to the capital programme which are then presented to CMT and the Cabinet Member for Finance for sign off. Treasury Management reports are presented to Governance and Audit committee on a quarterly basis and then to full Council half yearly, a synopsis is also included in the quarterly monitoring report.		
I	The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.	Green	Review whether more explicit references to other strategic plans are required in any future MTFP papers.
	Yes, although with spending reviews only providing a one year position, detailed rolling multi-year MTFP's have not been provided in recent years. Development of the MTFP incorporates modelling to provide decision makers with options and assumptions made. Consultation with stakeholders, including officers, Members, residents and external partners takes places as part of the development of the MTFP. The capital, treasury management and investment strategies support the revenue strategy, and all documents are presented to full Council for approval. The MTFP presented to council for approval in February this year did include a fully balanced position over the 3 years. The overall strategy for the budget and MTFP is to ensure that the Council continues to plan for revenue and capital budgets which are affordable, reflects the Council's strategic priorities, allows the Council to fulfil its statutory responsibilities and continues to maintain and improve the Council's financial resilience. However, it is also important that spending plans take account of the local priorities of the Council, Kent residents and businesses, and local communities. This is not always an easy combination and involves some difficult		

	<p>decisions about service levels and provision both for the forthcoming year and over the medium term. In reaching this balance the Council has regard to bearing down on spending growth (particularly future price and demand increases) while making the necessary investments to support improvement and delivering savings/income generation.</p>		
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Section 4: The annual budget

J	The authority complies with its statutory obligations in respect of the budget setting process.		
	Self Assessment Evidence	Rating	Further Action
	The council complies with the statutory obligations for budget setting. A balanced budget was approved by Full Council in February 2024 for 2024/26. The Corporate Director of Finance issued a balanced Section 25 report, recognising the pressures and savings the Council faced going forward, whilst acknowledging the Council had the capacity and capability to deliver, as long as tough decisions were taken and subsequently implemented.	Green	
K	The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.		
	The Corporate Director of Finance's statement on the robustness of estimates and adequacy of reserves is presented to Full Council. A number of reserves are held to mitigate future financial risks and the full Council agreement to plan to deliver general reserves of 5% of the net revenue budget, whilst also supporting the assessment on the adequacy of reserves.	Green	

Section 5: Stakeholder engagement and business plans

L	The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.		
	Self Assessment Evidence	Rating	Further Action
	<p>A range of key stakeholders including Corporate Management Team (CMT), service heads and the Cabinet are fully involved and engaged in the budget and MTFP discussions and process. In addition, Finance and Governance provide dedicated support to Opposition groups for their alternative budgets / budget amendments.</p> <p>The council undertakes public consultation on the budget strategy for the forthcoming year in advance of publishing budget plans. The results of the resident consultation are considered by Members and CMT with a formal report and analysis of the responses. A separate report on the responses is presented as part of the budget scrutiny and approval process.</p> <p>The draft budget proposals are subject to full scrutiny process through Cabinet committees and scrutiny committee as well as formal consultation with Trade Unions and key stakeholders</p> <p>Individual policy proposals within the budget plan are subject to detailed consultation and equality impact assessment prior to implementation.</p>	Green	
M	The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.		
	The Capital Strategy sets out the definition of capital expenditure and how that spend can be financed. It also sets out a number of core principles for consideration. Investment appraisals and detailed business cases are presented as part of the annual review of the capital programme. These need to identify where the funding is to be met, revenue implications, both additional spend and savings and any other pressure e.g. tax implications. These are then presented to Members as part of the strategic priorities and decision-making process. Risks are also identified within these business cases. These are built into the capital programme. Any reserves drawdown request requires a business case, for example the ICT and Strategic Reset Programme reserves.	Green	

Section 6: Monitoring financial performance

N	The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.						
	<table border="1"> <thead> <tr> <th data-bbox="248 300 1435 336">Self Assessment Evidence</th> <th data-bbox="1435 300 1588 336">Rating</th> <th data-bbox="1588 300 2134 336">Further Action</th> </tr> </thead> <tbody> <tr> <td data-bbox="248 336 1435 1185"> <p>The budget report includes a comprehensive budget risk register together with a risk assessment. These risks and their mitigations in the budget are assessed as part of budget scrutiny as well as part of the approval of the Budget itself. However, as the Council has overspent in its last two years, not all risks have been completely mitigated.</p> <p>The finance monitoring report is presented to CMT and Cabinet on a quarterly basis. It has been enhanced to consider risk areas and areas of high spend and separate reports are presented on specific areas as and when directed. The monitoring report also looks at the delivery of savings. The latest reserves monitoring position is also included within the quarterly finance report. CMT meet weekly, allowing for urgent matters to be raised outside of the quarterly reporting process. There are comprehensive directorate and corporate risk registers which are regularly presented to the Executive and Governance & Audit committee and are regularly reviewed and updated.</p> <p>Finance has reviewed the monitoring timetable for preparing informal monthly to CMT and senior Members. Raw data (meeting with over 600 budget managers) is normally available within a month, but the narrative, validation and sign off normally takes several weeks. Consequently, between the more formal Quarterly monitoring reports, monthly reports are produced for high value, high risk budgets, to indicate trends and potential overspends, which are discussed with the service. The monthly reports also provide an update on the progress against delivery of key savings in the MTFP which fall under the umbrella of the Strategic Reset Programme Board (SRP Board). The SRP team more generally, covers monitoring of the delivery of savings from three lenses (budget monitoring, data analytics and activity/performance) to provide a broader, richer perspective.</p> </td> <td data-bbox="1435 336 1588 1185">Amber</td> <td data-bbox="1588 336 2134 1185"></td> </tr> </tbody> </table>	Self Assessment Evidence	Rating	Further Action	<p>The budget report includes a comprehensive budget risk register together with a risk assessment. These risks and their mitigations in the budget are assessed as part of budget scrutiny as well as part of the approval of the Budget itself. However, as the Council has overspent in its last two years, not all risks have been completely mitigated.</p> <p>The finance monitoring report is presented to CMT and Cabinet on a quarterly basis. It has been enhanced to consider risk areas and areas of high spend and separate reports are presented on specific areas as and when directed. The monitoring report also looks at the delivery of savings. The latest reserves monitoring position is also included within the quarterly finance report. CMT meet weekly, allowing for urgent matters to be raised outside of the quarterly reporting process. There are comprehensive directorate and corporate risk registers which are regularly presented to the Executive and Governance & Audit committee and are regularly reviewed and updated.</p> <p>Finance has reviewed the monitoring timetable for preparing informal monthly to CMT and senior Members. Raw data (meeting with over 600 budget managers) is normally available within a month, but the narrative, validation and sign off normally takes several weeks. Consequently, between the more formal Quarterly monitoring reports, monthly reports are produced for high value, high risk budgets, to indicate trends and potential overspends, which are discussed with the service. The monthly reports also provide an update on the progress against delivery of key savings in the MTFP which fall under the umbrella of the Strategic Reset Programme Board (SRP Board). The SRP team more generally, covers monitoring of the delivery of savings from three lenses (budget monitoring, data analytics and activity/performance) to provide a broader, richer perspective.</p>	Amber	
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O	The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.						
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Section 7: External financial reporting

P	The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the Code of Practice on Local Authority Accounting in the United Kingdom.		
	Self Assessment Evidence	Rating	Further Action
	The Council produces fully Code compliant statement of accounts. The accounts are reviewed and signed off by the S151 officer. The Council has a long history of unqualified accounts. The Council generally has a good external audit report and has been recognised for quality working papers and its early closing prior to Covid and the timetable changes.	Green	
Q	The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions		
	The final outturn report is presented to CMT and Cabinet. The report provides the final outturn position and detail of significant variances against capital and revenue budgets. The outturn report also includes any cash limit changes that need to be made for the following financial year, subsequent to the annual budget being agreed by full Council. The monthly and quarterly budget monitoring processes enable early identification of issues and allow management action to be identified.	Green	