

 <p><b>Brent</b></p>	<p align="center"><b>Audit and Standards Advisory Committee</b> 6 February 2024</p>
	<p align="center"><b>Report from the Corporate Director of Finance and Resources</b></p>
	<p align="center"><b>Lead Member – Deputy Leader &amp; Cabinet Member for Finance, Resources &amp; Reform (Councillor Shama Tatler)</b></p>
<p align="center"><b>CIPFA Financial Management Code and Redmond Review – Update Report</b></p>	
<b>Wards Affected:</b>	All
<b>Key or Non-Key Decision:</b>	Not Applicable
<b>Open or Part/Fully Exempt:</b> <small>(If exempt, please highlight relevant paragraph of Part 1, Schedule 12A of 1972 Local Government Act)</small>	Open
<b>List of Appendices:</b>	None
<b>Background Papers:</b>	None
<b>Contact Officer(s):</b> <small>(Name, Title, Contact Details)</small>	<p>Minesh Patel Corporate Director of Finance and Resources Tel: 020 8937 6528 Email: <a href="mailto:Minesh.Patel@brent.gov.uk">Minesh.Patel@brent.gov.uk</a></p> <p>Rav Jassar Deputy Director of Finance Tel: 020 8937 1487 Email: <a href="mailto:Ravinder.Jassar@brent.gov.uk">Ravinder.Jassar@brent.gov.uk</a></p>

## 1. Executive Summary

- 1.1. On 7 December 2021, this committee received a report entitled *CIPFA Financial Management Code and Redmond Review – Progress Report* which set out progress to that date on a programme of works that the council was undertaking to improve its financial management.
- 1.2. This report provides an update to that report with a review of the outcome of the work to implement CIPFA's Financial Management (FM) Code and the independent review by Sir Tony Redmond into the effectiveness of external audit and transparency of financial reporting in local authorities (the Redmond Review).

## **2.0 Recommendation(s)**

The Committee is asked to:

- 2.1 Note the content of this report and its conclusion that work on the CIPFA FM Code is now complete and future work on the Redmond Review will be incorporated into the plan and timetable for the closing of the 2024/25 accounts.

## **3.0 Detail**

### **3.1 Contribution to Borough Plan Priorities & Strategic Context**

- 3.1.1 The CIPFA Financial Management code underpins all aspects of financial management within the Council which enables the delivery of the priorities and objectives within the Borough Plan.

## **4.0 CIPFA's Financial Management Code**

*What is it?*

- 4.1 CIPFA created the Financial Management (FM) Code to consolidate existing requirements and create a new best practice context underpinned by the tenet that good financial management is an essential element of good governance and longer-term service planning, which are critical in ensuring that local service provision is sustainable. The CIPFA FM Code is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The FM Code sets out the standards of financial management for local authorities.
- 4.2 The FM Code has several components, including the CIPFA Statement of Principles of Good Financial Management. These six principles are the benchmarks against which all financial management should be judged. To enable authorities to test their conformity with the six principles, the FM Code translates these principles into 17 financial management standards (FMS), which form the essence of what needs to be implemented.

*Where is Brent?*

- 4.3 For work planning, the Council divided the FM Code activity into seven workstreams each of which had sub-tasks, that taken together define the elements of work required to implement the financial management standards.
- 4.4 The December 2021 report to this committee provided an analysis of progress to that date. A key finding was that only 16% of the FM Code requirements had been met in full at that point; of the remaining 84%, 36% were nearly met whereas 48% were only partially met.
- 4.5 To focus and direct activity, the Council carried out a self-assessment against the 17 financial management standards in the CIPFA FM Code and identified

two areas that required substantial work: the medium term financial strategy (MTFS) and the Financial Resilience Assessment. A detailed project plan was compiled that covered the whole programme of work to implement the FM Code, but targeted improvements in those areas as a priority.

*Progress to date*

4.6 The table below sets out the workstreams and activities in the project plan and the outcome of the work undertaken to implement the FM Code.

**Table 1 – Outcome of the FM Code Implementation**

<b>Workstream</b>	<b>Activities</b>	<b>Benefits</b>	<b>End Products</b>	<b>Status</b>
<b>1 CFO</b>	<ul style="list-style-type: none"> <li>Review Value for Money framework and Role of Chief Finance Officer</li> <li>Review Finance Team to ensure that it is fit for purpose</li> </ul>	<ul style="list-style-type: none"> <li>Improvements to the economy, efficiency and effectiveness of service procurement and provision</li> <li>Consideration of Equity as part of VfM</li> </ul>	<ul style="list-style-type: none"> <li>Improved Value for Money framework</li> <li>Compliance with CIPFA CFO requirements</li> <li>Fit for purpose Finance team</li> </ul>	Completed
<b>2 Governance</b>	<ul style="list-style-type: none"> <li>Review of governance arrangements to gain trust in application of internal controls and to ensure</li> <li>financial management style supports financial sustainability</li> </ul>	<ul style="list-style-type: none"> <li>Improved decision making with greater transparency</li> <li>Builds trust amongst key stakeholders</li> <li>Lessens risk of legal challenge</li> </ul>	<ul style="list-style-type: none"> <li>Main financial reports amended to ensure financial management style geared towards financial sustainability and improved governance.</li> </ul>	Completed
<b>3 MTFS</b>	<ul style="list-style-type: none"> <li>Creation of Financial Resilience Assessment</li> <li>Integration of financial resilience into authority's strategic plan</li> <li>Affordable, prudent and sustainable capital investment</li> <li>Translation of the long-term financial strategy into medium-term financial plan</li> </ul>	<ul style="list-style-type: none"> <li>FRA provides a tool to assess financial sustainability as part of long-term planning framework</li> <li>Prudent capital investment strategy linked to revenue plans</li> <li>Long-term financial strategy and improved medium term financial planning</li> </ul>	<ul style="list-style-type: none"> <li>Financial Resilience Assessment undertaken</li> <li>New long-term financial planning framework supported by revised MTFS and Prudential Indicators</li> <li>New cycle of financial year which links budget setting, budget monitoring and outturn reporting into a coherent long term financial strategy</li> </ul>	Completed
<b>4 Budget</b>	<ul style="list-style-type: none"> <li>Review budget setting arrangements to ensure compliance with statutory obligations</li> </ul>	<ul style="list-style-type: none"> <li>Besides compliance, this review will contribute to new long-term planning framework and financial sustainability</li> </ul>	<ul style="list-style-type: none"> <li>Reserves Strategy, revised s25 section in Budget Report on robustness of estimates and adequacy of reserves</li> </ul>	Completed
<b>5 Stakeholders</b>	<ul style="list-style-type: none"> <li>Improve process for engaging with stakeholders in effective consultation</li> </ul>	<ul style="list-style-type: none"> <li>Better understanding of stakeholder views and reduced risk of legal challenge</li> </ul>	<ul style="list-style-type: none"> <li>Improved stakeholder engagement process via a variety of channels including</li> </ul>	Completed

Workstream	Activities	Benefits	End Products	Status
	<p>to set the authority's financial and services priorities</p> <ul style="list-style-type: none"> <li>Option appraisal methodology to demonstrate Value for Money</li> </ul>		<p>online and Brent Connects meetings. Improved Options Appraisal framework</p>	
<b>6 Performance</b>	<ul style="list-style-type: none"> <li>Identify and correct emerging risks to budget strategy and long term financial sustainability</li> <li>Create an environment within which effective management of the balance sheet is promoted and valued</li> </ul>	<ul style="list-style-type: none"> <li>Risk management and the monitoring of balance sheet are essential parts of the new financial framework which provides assurance on financial sustainability</li> </ul>	<ul style="list-style-type: none"> <li>Improved risk management framework and risk register.</li> <li>Periodic balance sheet monitoring to inform the financial planning process</li> </ul>	
<b>7 Reporting</b>	<ul style="list-style-type: none"> <li>Compliance with principles and practices of accounting that are required to give a 'true and fair' view of the authority's financial position</li> <li>Outturn Report facilitates strategic financial decisions</li> </ul>	<ul style="list-style-type: none"> <li>The Outturn Report is tailored to ensure it informs of the financial planning process with past data whilst enabling members to make informed decisions</li> </ul>	<ul style="list-style-type: none"> <li>Revised outturn report closely align with its target outputs. Demonstrable compliance with Code of Practice on Local Authority Accounting.</li> </ul>	Completed

### Reviews

- 4.7 The work undertaken under the aegis of the FM Code Programme has been subject to review by both internal and external audit.

#### *Internal Audit - CIPFA Financial Management Code Self-Assessment*

- 4.8 This audit provided assurance over the following sub-processes:
- Oversight and governance
  - Development of the MTFS high-risk action plans
  - Development of the financial resilience action plans
- 4.9 The auditors concluded that "the governance structure and arrangements for the programme are clearly defined and documented" with "the individual roles and responsibilities of the programme team clearly defined and documented, and well understood". "For the financial resilience assessment, a paper has been created to outline the Council's approach to the assessment, which is aligned with the CIPFA FMC Guidance document."

#### *External Audit – Value for Money Report*

- 4.10 The Council's external auditors, Grant Thornton, are required to report in detail on whether the Council has put in place proper arrangements to secure Value for Money (VfM) in respect of economy, efficiency and effectiveness in its use of resources. This includes taking properly informed decisions and managing key operational and financial risks so that the Council can deliver its objectives and safeguard public money. This is assessed under the following areas: Financial Sustainability; Governance; and Improving economy, efficiency, and effectiveness.
- 4.11 This work therefore aligns with key aspects of the FM Code work which covers governance and reporting arrangements, financial planning including measures to ensure financial resilience and financial sustainability and increased value for money by improved to the economy, efficiency, and effectiveness of the council's activities.
- 4.12 The auditors' report will presented to Full Council on 29 February and considered at the same time as the budget report. The report concluded that there have been no significant weaknesses identified in the Council's VfM arrangements and only improvement recommendations are made. Overall, the commentary from the auditors in respect of financial sustainability is positive, recognising that in line with significant challenges faced by other local authorities, the Council has been compelled to make tough decisions in order to balance its budget and ensure it maintains its finances on a sustainable footing. The auditors found that the Council's financial planning both short and longer term was based on sound judgements. The report notes that the Council has a good track record in setting and achieving balanced budgets and identifying and responding to financial risks.

#### *Appraisal*

- 4.13 Overall, the FM Code implementation programme has been successfully completed and the intended benefits have been realised. This work has ensured that the Council has sound financial management arrangements in place that are not only compliant with CIPFA's FM Code but are also fit for purpose. This offers a solid foundation for future reviews of the Council's financial position to ensure financial resilience and financial sustainability. This approach more vital than ever at a time of economic volatility with the council facing limited and reducing resources.

#### *Further Work*

- 4.14 Whilst all the tasks set out in the original project plan are now complete, there is scope to review and improve the current arrangements. Indeed, the Financial Resilience Assessment undertaken as a part of this work has identified three areas for improvement.
- **Performance Management** - Performance, financial and risk management information need to be aligned and cross referenced to provide a full picture of the Council's service delivery. Benchmarking

needs to be put on a more regular and formal basis, using tools such as dashboards.

- **Links to Other Plans** - Links between the various plans, particularly policy plans (Borough Plan) and forward financial plans (MTFS, Capital Strategy) should more clearly articulated in a joined up policy and financial framework.
- **Effective Medium and Long-Term Planning** - further work is needed on risk identification and management, and more robust modelling of demographic and other service pressures would do much to improve budget setting and medium term financial planning. Also, there is much that can be done to improve longer term service and financial planning, in particular by focusing on identifying significant known and forecast future resource requirements. They could include the need for asset renewal and replacement (something the HRA already does in its 30-year business plan) and demographic change and demand forecasts (something undertaken when planning future school rolls).

## 5.0 Redmond Review

*What is it?*

- 5.1 In September 2020, Sir Tony Redmond reported to the Government the recommendations of his review of the oversight of local audit and the transparency of local authority financial reporting. The latter part of his investigation is pertinent here. The recommendations for a simplification of local authority accounts, in particular by including a service-based outturn statement, have been accepted by CIPFA, but not yet implemented.

*Where is Brent?*

- 5.2 CIPFA have put forward proposals that in part address the Redmond recommendations on the Statement of Accounts as part of their proposed changes to the *Code of Practice on Local Authority Accounting (ACOP)*. The key proposal is to add a summary of financial information to the Narrative Report in the accounts. This is only a partial solution as it provides further supplementary information, not a refocused and reformatted replacement of existing financial statements. Indeed, as this table would be part of the Narrative Report, and not part of the main statements, it would not be audited with the same rigour as the main accounts. It would however deliver one of the key objectives of the Redmond Review by improving the transparency and clarity of the information in the accounts for the non-accountant reader.

*Progress to date*

- 5.3 CIPFA's proposals are for summary financial information to include:
- a) A summary of service outturn per service in comparison to an authority's budget as reported in the council tax leaflet and reconciled to the amounts

charged to a revenue account in accordance with statutory provisions, i.e. the reported surplus or deficit per paragraph 3.4.2.105 l) c) of ACOP in the expenditure and funding analysis. This will be accompanied by the explanations of major variances from the budget reported in the council tax leaflet.

- b) Where applicable an analysis of outturn against spend shall be provided for the Housing Revenue Account. This will be accompanied by the explanations of major variances in the budget reported to housing rent payers.
- c) A summary of the local authority's financial position based on its reported Balance Sheet per paragraph 3.4.2.62 of ACOP including minimum requirements.
- d) An analysis of an authority's usable reserves.
- e) An authority's capital expenditure for the current and preceding year and forecast for the following three years. A short explanation of the authority's capital programme including major capital projects.
- f) The authority's underlying need to borrow to finance capital expenditure, i.e. its reported capital financing requirement in accordance with paragraph 4.1.4.3 5 of ACOP; borrowing as a proportion of a council's total income for the current and preceding year and forecast for the following three years and an explanation of what the trends indicate in terms of capital financing.
- g) A summary of any significant commercial activities and their risks.

#### *Further Work*

- 5.4 As the requirements governing the Narrative Report allow authorities to disclose additional information, provided that they include the items on the ACOP checklist and that the additional information is consistent with the main accounts, there is freedom to add voluntarily the information in CIPFA's proposal. Brent already makes additional disclosures such as in the tables added last year. Early implementation of this change will put the Council in a good position to comply with the final requirements when they come into force. The Council therefore intends to adopt CIPFA's proposal and add a summary of financial information section to the Narrative Report in the Statement of Accounts for 2024/25.

## **6.0 Conclusion**

- 6.1 As a result of the review undertaken, this report concludes that work on the CIPFA FM Code is now complete and future work on the Redmond Review should be incorporated into the plan and timetable for the closing of the 2024/25 accounts.

**7.0 Financial Considerations**

7.1 There are no cost or budgetary implications arising from this report.

**8.0 Legal Considerations**

8.1 None.

**9.0 Equality, Diversity & Inclusion (EDI) Considerations**

9.1 None.

**10.0 Climate Change and Environmental Considerations**

10.1 None.

**11.0 Human Resources/Property Considerations (if appropriate)**

11.1 None.

**12.0 Communication Considerations**

12.1 None.

**Report sign off:**

***Minesh Patel***

Corporate Director of Finance and Resources