

Meeting of:	Governance and Audit Committee
Date of Meeting:	Monday, 22 April 2024
Relevant Scrutiny Committee:	Corporate Performance and Resources
Report Title:	Financial Management Code Update 2023/24
Purpose of Report:	To consider the Council's compliance with the Financial Management Code 2023/24, preparation for 2024/25 and prospects for improvement.
Report Owner:	Report of the Executive Leader and Cabinet Member for Performance and Resources
Responsible Officer:	Matt Bowmer, Head of Finance/S151 Officer
Elected Member and Officer Consultation:	Senior Leadership Team have been consulted on the review included in Appendix 1 to this report
Policy Framework:	This is a matter for Executive decision by Cabinet.
<ul style="list-style-type: none"> • The Financial Management Code (FM Code) is a code that has been introduced by CIPFA to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. It was prepared for the first time in February 2022 and attached is the update for 2023/24. • For 2023/24 there has also been some independent assessment with the Council's Internal Audit section reviewing a number of elements of the officer self assessment. • Each local authority (and those bodies designated to apply the FM Code) must demonstrate that the requirements of the code are being satisfied. Demonstrating this compliance with the FM Code is a collective responsibility of elected members, the Chief Finance Officer (CFO) and their professional colleagues in the leadership team. • The updated review has been considered by the Council's Senior Leadership Team and is being reported to Cabinet and Governance and Audit Committee for comment. • The Council is required to evidence its assessment of compliance with the code and identify any areas for further improvement. 	

Recommendations

1. Governance & Audit Committee is recommended to review the Statement on Compliance with the Financial Management Code and the contents of the review set out in Appendix 1 and forward any comments on to Cabinet.

Reasons for Recommendations

1. To ensure that the Council's compliance with the Financial Management Code is considered by Members as part of their collective responsibility for compliance with the Code.

1. Background

- 1.1 The Financial Management Code (FM Code) is a code that has been introduced by CIPFA to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability.
- 1.2 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."
- 1.3 The FM Code has been introduced because the exceptional financial circumstances faced by local authorities in recent years have revealed concerns about fundamental weaknesses in financial management, particularly in relation to organisations that may be unable to maintain services in the future. There is much good practice across the sector, but the failures of a small number threatens stakeholders' confidence in local government as a whole. Most importantly, the financial failure of just one local authority is one too many because it brings with it a risk to the services on which local people rely.
- 1.4 Each local authority (and those bodies designated to apply the FM Code) must demonstrate that the requirements of the code are being satisfied. Demonstrating this compliance with the FM Code is a collective responsibility of elected members, the chief finance officer (CFO) and their professional colleagues in the leadership team. It is for all the senior management team to work with elected members in ensuring compliance with the FM Code and so demonstrate the standard of financial management to be expected of a local authority is met. In doing this the statutory role of the section 151 officer will not just be recognised but also supported to achieve the combination of leadership roles essential for good financial management. CIPFA considers application of the FM Code to be a collective responsibility of each authority's organisational leadership team.
- 1.5 The first full year of compliance with the FM Code was 2021/22 and the Council is required to evidence its assessment of compliance with the code and identify

any areas for further improvement annually. The review is being brought to Cabinet and Governance & Audit Committees a little later than for the past two years in order for it to fully reflect on the most recent financial year. Further following comment at Governance & Audit Committee in 2023 there has also been some independent verification of elements of the officer self assessment by the Council's Internal Audit section.

- 1.6 Appendix 1 sets out the review updated for the 2023/24 and Appendix 2 is the report of the Internal Audit section.
- 1.1 CIPFA states that: the manner in which compliance with the FM Code is demonstrated will be proportionate to the circumstances of each local authority. Importantly, however, contextualising the FM Code cannot be done according only to the size of the authority but also according to the complexity and risks in its financial arrangements and service delivery arrangements.

2. Key Issues for Consideration

- 2.1 The code introduces the CIPFA Statement of Principles of Good Financial Management. These principles are the benchmarks against which all financial management should be judged. CIPFA's view is that all financial management practices should comply with these principles.
- 2.2 The six Principles are set out below:
 - 1. **Organisational leadership** – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.
 - 2. **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.
 - 3. 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.
 - 4. Adherence to professional **standards** is promoted by the leadership team and is evidenced.
 - 5. 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.
 - 6. 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.

- 2.3** The FM Code translates these principles into financial management standards. These financial management standards will have different practical applications according to the different circumstances of each authority and their use should therefore reflect this.
- 2.4** A full consideration of the Council's compliance with the Financial Management Code in 2023/24 is set out in Appendix 1 of this report and is summarised below.
- 2.5** **S151 Officer's Statement of Compliance with the Financial Management Code April 2024.**
- 2.6** Having considered the six principles of the Financial Management Code and the Financial Management Standards that underpin these principles the S151 considers that the Council complies well with the Financial Management code with strong prospects for improvement. It is considered that the Council demonstrates excellent collective responsibility to uphold these Financial Management Standards as evidenced in Appendix 1.
- 2.7** The S151 Officer is a key member of the Senior Leadership Team (SLT) and the SLT works well to take collective responsibility of the principles of good financial management. This report in draft format has been considered by the members of the Senior Leadership Team during March 2024.
- 2.8** The Senior Leadership Team have had full involvement in the 2024/25 budget preparation process and the Medium Term Financial Plan and Capital Programme proposals. SLT have received regular updates on the budget progress alongside dedicated time on Cost Pressures, Savings and Reserves.
- 2.9** Wider sessions have also been held with Heads of Service and Cabinet Members at key times during the budget setting process along with a session in the autumn to brief Council Staff on the budget challenges and explore options to address the budgetary issues and ways to support staff through this process. A briefing for Head teachers was also held during this period.
- 2.10** Communication with the S151 and Leader, Director of Corporate Resources and Chief Executive as members of the Budget Working Group has been weekly throughout the budget setting process and ensures that this group has good understanding of the development of the budget for 2024/25.
- 2.11** Business Cabinet meets regularly to ensure Members of the Executive are briefed on emerging issues and includes issues of significance to the Financial Management of the Council.
- 2.12** Scrutiny Committees have regular oversight of the Council's Monitoring and Budget Proposals and Corporate Performance and Resources Scrutiny receives the recommendations of Scrutiny as part of the Budget process which is then referred to Cabinet.

- 2.13** The Draft Budget for Consultation, Draft Capital Programme have been subject to review and recommendation by all Scrutiny Committees and the School's Budget Forum during February 2024.
- 2.14** Governance and Audit Committee provides robust scrutiny of the Council's Financial and Governance issues and this scrutiny continues to operate effectively having been strengthened by the appointment of three additional Lay Members to the Committee in May 2022.
- 2.15** The areas of further development identified in Appendix 1 will be progressed in the coming year and will inform the next assessment of the Council's performance against The Code. The independent review by Internal Audit did identify the need to record progress against the action plan and this recommendation has been accepted.

Next Steps

- 2.16** It is recommended that Governance & Audit Committee note the contents of this report and Appendix 1 and forward any comments on to Cabinet prior to approval of the statement.
- 2.17** The Action Plan will be updated to reflect the Internal Audit recommendation.

1. How do proposals evidence the Five Ways of Working and contribute to our Well-being Objectives?

- 2.18** A key measure of the Financial Management Code is that 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.
- 2.19** The Council's approach to Financial Management reflect the 5 ways of working which are:
- Looking to the long term - The Council prepares a Medium Term Financial Plan and 10 year Capital Strategy and takes a strategic approach to ensure services are sustainable and that future needs and demand for services is understood.
 - Taking an integrated approach - The Council's builds financial sustainability and resilience through partnership working.
 - Involving the population in decisions – As part of the budget proposal process there has been engagement with residents, customers and partners.

- Working in a collaborative way – The Council recognises that more can be achieved and better services can be provided by collaboration and it encourages this as a way of working in the future.
- Understanding the root cause of issues and preventing them – The budget and monitoring processes are proactive and allows an understanding of the financial position so that issues can be tackled at the source.

3. Climate Change and Nature Implications

- 3.1** The Council is building consideration of the Climate and Nature implications into the revenue and capital budget preparation process. It is also integrating consideration of Environmental, Social and Governance principles into its Capital and Treasury Management decisions. This is an area for further development in future years as the Council progresses towards the Net Zero 2030.

4. Resources and Legal Considerations

Financial

- 4.1** The Council's compliance with the Financial Management Code demonstrates that Council understands and demonstrates the collective responsibility to deliver good financial management across the organisation. The benefits of good financial management are set out in the 6 principles.

1. Organisational leadership

Benefits - Financial management underpins and is aligned with the strategic direction of the organisation. Financial management is embedded into organisational culture and this ensures that the organisation's resources and budget setting is aligned with the strategic direction of the organisation.

2. Accountability

Benefits - Financial planning reflects scenarios based on most accurate data that the organisation has available and is aligned with the council's risk management. Decisions are based on timely accurate supporting data and full analysis through business cases that consider whole life costs.

3. 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.

Benefits – Members and Officers are aware of their collective responsibility for good financial management and this understanding plays a central role in decision making.

4. Adherence to professional standards is promoted by the leadership team and is evidenced.

Benefits – Financial Management utilises best practice and up to date guidance from across the sector.

5. 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.
Benefits – Senior Leadership Team and Members receive assurance on Good Financial Management and the overall control environment of the Council.
6. 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.
Benefits – Sustainable decisions are enabled by good financial management and helps the Council to deliver prudent use of public resources, deliver the Council’s commitments under Wellbeing of Future Generations and Project Zero

Employment

- 4.2 The Section 151 Officer is a Statutory Post and as set out in the CIPFA Statement on the Role of the Chief Finance Officer in Local Government.
 - The Chief Financial Officer (CFO) is a member of the Senior Leadership Team (SLT) and attends Cabinet and Full Council.
 - The CFO post holder is fully qualified and fulfils the CPD requirements associated with their professional qualification.

Legal (Including Equalities)

- 4.3 The Council is required to demonstrate that it complies with the CIPFA Financial Management Code.
- 4.4 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.”

5. Background Papers



Vale of Glamorgan Council
Financial Management Code – April
2024

The Financial Management Code (FM Code) is a code that has been introduced by the Chartered Institute of Public Finance & Accountancy (CIPFA) to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability.

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.”

The FM Code has been introduced because the exceptional financial circumstances faced by local authorities have revealed concerns about fundamental weaknesses in financial management, particularly in relation to organisations that may be unable to maintain services in the future. There is much good practice across the sector, but the failures of a small number threatens stakeholders’ confidence in local government as a whole. Most importantly, the financial failure of just one local authority is one too many because it brings with it a risk to the services on which local people rely.

In recent years an increasing number of English Authorities have been witnessed submitting Section 114 notices. Whilst in England the Department for Levelling Up, Housing and Communities has publicly stated that it will not allow Local Authorities to fail, an increasing number of authorities are requiring rescue packages and financial interventions. In Wales the Local Authority landscape is quite different and it is good practice for the Council to document how good financial management is embedded in the governance structures and collective behaviours across the Council.

Each local authority (and those bodies designated to apply the FM Code) must demonstrate that the requirements of the Code are being satisfied. Demonstrating this compliance with the FM Code is a collective responsibility of elected members, the Chief Finance Officer (CFO) which at the Vale of Glamorgan is the Head of Finance/Section 151 Officer and their professional colleagues in the Strategic Leadership Team (SLT). It is for all colleagues in the SLT to work with elected members in ensuring compliance with the FM Code and so demonstrate the standard of financial management to be expected of a local authority. In doing this the statutory role of the Section 151 Officer will not just be recognised but also supported to achieve the combination of leadership roles essential for good financial management. CIPFA considers application of the FM Code to be a collective responsibility of each authority’s organisational leadership team.

The Council is required to evidence its assessment of compliance with the code and identify any areas for further improvement.

The Code introduces the CIPFA Statement of Principles of Good Financial Management. These principles are the benchmarks against which all financial management should be judged. CIPFA’s view is that all financial management practices should comply with these principles.

The 6 Principles are set out below;

1. **Organisational leadership** – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.
2. **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.
3. 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.

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6. 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.

The FM Code translates these principles into financial management standards. These financial management standards will have different practical applications according to the different circumstances of each authority and their use should therefore reflect this.

CIPFA states that; the manner in which compliance with the FM Code is demonstrated will be proportionate to the circumstances of each local authority. Importantly, however, contextualising the FM Code cannot be done according only to the size of the authority but also according to the complexity and risks in its financial arrangements and service delivery arrangements.

Financial Management 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

Assessment - Partly Comply

Evidence of Compliance with Standard

The Council aims to deliver high quality services that provide value for money and which are aligned to the needs and priorities of the local community.

- All Cabinet and Scrutiny reports consider the financial impact of the recommendations and are reviewed as part of the clearance process by key members of the SLT.
- The quarterly performance report includes consideration of the Council uses its resources to achieve the Council's wellbeing objectives.
- The SLT has been involved throughout the preparation of the budget with dedicated workshops reviewing all cost pressures, savings proposals and reserves taking collective responsibility for developing proposals for a balanced budget aligned with the Council's corporate objectives.
- The Council prepares a balanced budget with assessment of cost pressures and likely pay awards and other inflationary pressures each year.
- New Part 6 duties introduced by the Local Government & Elections Act have required the Council to demonstrate Value for Money so performance reporting and the new Annual Self-Assessment approach have drawn further linkages with the Corporate Governance

Statement and value for money has been used as the framework for the Annual Self-Assessment Report.

- The Council produces a fully funded five year capital programme as part of the annual budget process, schemes include a mix of asset renewal and service enhancement/development schemes. A ten year capital strategy underpins this programme.
- Contract management and local procurement arrangements are regularly reviewed as part of the Internal Audit Work Programme.
- All contracts over £75,000 must go through a formal approval process. A register of contracts is maintained in Accountancy and a full contract register is being compiled by the Procurement team, options are currently being considered for refinement of these processes to minimise duplication of data and effort.
- Committee reports have been amended to provide members with information relating to the impact of decisions on Climate and Nature Emergency alongside matters of finance, employment and legal consideration.

Areas for further development

- Further consideration of Social Value will be required as part of future consideration of the Value for Money of schemes and the new Procurement Strategy.
- As part of the Council's preparation for the introduction of the new leasing standard IFRS16, new procedures will be introduced to bring lease arrangements onto the balance sheet and this will necessitate a more formal VFM and sign off process to these types of arrangements.

B: The authority complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government.

Assessment - Fully Comply

Evidence of Compliance with Standard

- The Chief Financial Officer (CFO) is a member of the SLT and attends Cabinet and Full Council.
- The CFO or Deputy sits on strategic project boards and steering groups for high level projects such as Sustainable Communities for Learning.
- The CFO post holder is fully qualified and fulfils the CPD requirements associated with their professional qualification.
- The resourcing of the finance function is regularly reviewed and the CFO has regular one to one meetings with management staff within the finance function, a regular Departmental Management Team (DMT) meeting is held.
- The CFO is required to clear Cabinet reports and sign off any Emergency Powers with financial implications.

- The CFO is a key member of the Budget Working Group.
- The Council's new Section S151 Officer commenced his post in April 2022, he has a broad range of experience in the role across a number of English Authorities. The CFO reports directly to the Chief Executive on S151 matters.

Section 2 Governance and Financial Management Style

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

Assessment - Fully Comply

Evidence of Compliance with Standard

- The SLT consists of the Chief Executive, five Corporate Directors, the Council's Monitoring Officer, the Council's Section 151 Officer, and the Head of Human Resources.
- The roles and responsibility of Corporate Officers are defined in agreed job profiles and set out in the Council's Constitution.
- Performance is reviewed on an annual basis in accordance with the Chief Officer Appraisal process. The Chief Executive is responsible and accountable to the Council for all aspects of management including promoting sound governance, providing quality information/support to inform decision-making and scrutiny, supporting other statutory officers, and building relationships with all Councillors.
- The SLT has a standard work programme - which includes a regular report of Internal Audit programme and findings of Audit Wales work, the budget setting programme, corporate risk management and contract monitoring.
- The SLT team demonstrates collective responsibility for governance and internal control. An extended SLT involving all Heads of Service meets regularly to consider corporate risks and opportunities, including discussions on the collective responsibility for the Council's finances.
- The Governance & Audit Committee receives regular updates on the work programme of the Internal Audit Service, the opinions given on individual completed audits as well as the Head of Internal Audits Annual Report.
- The effective operation of the Governance & Audit Committee has been further enhanced by the appointment in 2022 of three new lay members to the Committee and changes to the remit of the Committee introduced by the Local Government and Elections Act.
- The Governance & Audit Committee receives regular reports on the Council's Corporate Risks and Risk Management arrangements as well as regular reports from Audit Wales.

Areas for further development

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

Assessment - Fully Comply

Evidence of Compliance with Standard

- The Delivering Good Governance Framework has been used to structure the Annual Governance Statement since 2016/17 and is reviewed annually as part of producing this document.
- The Council has approved and adopted a Code of Corporate Governance which is consistent with the principles of the CIPFA and SOLACE Framework - Delivering Good Governance in Local Government 2016.
- Key officers feed in to the production of the Annual Governance Statement which is considered by the SLT before presentation to the Governance & Audit Committee for approval
- The Annual Self-Assessment Report which was published in Autumn 2023 presents a position statement on the Council's performance retrospectively over the past year in delivering the Council's priorities as set out in the Annual Delivery Plan aligned to the Corporate Plan. Self-assessment of performance is an important way for the Council to identify the capacity and ability to deliver continuous improvement by identifying areas of strength and those requiring particular focus in coming years.
- The Strategic Insight Board has been enhanced and streamlined using a wide range of data sources (including a blend of operational and national research and information) to identify issues and take action. The Board supports the corporate governance arrangements relating to integrated planning activities and reports to SLT and Cabinet.
- The Head of Internal Audit's annual opinion on the adequacy and effectiveness of the Council's framework of governance, risk management and control for 2022/23. is: "Reasonable Assurance". The opinion states that, based on the work completed by the Regional Internal Audit Shared Service for the financial year, no significant cross-cutting control issues have been identified that would impact on the Council's overall control environment. The weaknesses that have been identified are service specific.

Areas for further development

- Reflect on the first iteration of the Annual Self-Assessment process and make amendments as required to further make links with the Annual Governance Statement.

E: The financial management style of the authority supports financial sustainability.

Assessment - Fully Comply

Evidence of Compliance with Standard

- The Council has a successful track record of delivering a balanced budget made possible by its robust approach to managing finances which incorporates an effective corporate framework for financial planning, financial management and control. These arrangements enable the Council to regularly review and challenge financial performance and monitor spend against budgets.
- A full Medium Term Financial Plan was developed in October with detailed consideration of cost pressures and consideration of potential funding sources.
- The Draft Budget for Consultation that was brought to Cabinet on 18th January 2024 is a balanced budget with a full list of savings proposals that will require further analysis prior to submission as part of the final proposals that will be brought to Council on 29th February 2024.
- The Council is able to utilise reserves to support the delivery of ambitious capital schemes and as part of a planned budget strategy whilst maintaining prudent provision in earmarked reserves.
- The reserves of the Council have been reviewed by SLT as part of the preparation of the Final Budget proposals to mitigate some unplanned use in 2023/24 and effectively align reserves to the key risks of the Council.
- Reserve balances and projections are reported to Council on at least three occasions each financial year.
- The Council has an Independent Treasury Management Adviser and adopts a Treasury Management that prioritises the security and liquidity of its investments.
- All Capital Bids are prioritised by directorates and reviewed by the Insight Board to ensure a coordinated and consistent approach to the distribution of funding including consideration of sustainability issues.
- The cost pressures and capital bids are discussed by senior departmental staff and the service accountant and through dedicated sessions by the SLT and the Executive prior to setting the final budget proposals.
- The budget setting and management process is developed and delivered collaboratively, for example, including Heads of Service in the discussions around proposals and spending controls.

Areas for further development

Reflect on the budget setting process and document for the next year.

Section 3: Long to medium-term financial management

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

Assessment - Fully Comply

Evidence of Compliance with Standard

A Financial Sustainability Assessment was prepared by Audit Wales and is considered by SLT, Cabinet, Corporate Performance & Resources Scrutiny Committee and Governance & Audit Committee. The findings are incorporated as part of the Budget setting process and the closure of accounts process.

The most recent financial sustainability assessment concluded that;

- The Council is in a healthy financial position and has a sustainable financial approach over the medium term, with a planned use of earmarked reserves although faces some significant funding challenges in respect of Social Care, Schools and Homeslessness in line with the National trends reported by other LAs.
- The Council has a healthy level of reserves and its plans to use them are generally sustainable despite some unplanned use in 2023/24.
- The Council has a mixed track record of identifying and delivering savings to support its financial sustainability but has made good progress in 2023/24 and has identified a mix of tactical and transformational savings proposals as part of the 2024/25 budget process.
- The Council has a strong liquidity position meaning it can meet its financial obligations as they fall due for repayment.

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

Assessment - Fully Comply

Evidence of Compliance with Standard

- Financial Sustainability is regularly assessed by Audit Wales.
- The Council's long term sustainability is considered as part of the preparation of the Capital Strategy, Medium Term Financial Plan and Treasury Management Strategy.
- The long term implications of proposals are considered as part of each report taken to Committee and is required by statute under the obligations of the Wellbeing of Future Generations Act.
- In order to comply with the requirements of the Prudential Code the Council must assess the long term implications of Treasury decisions.

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

Assessment – Fully Comply

Evidence of Compliance with Standard

- The Council applies the requirements of the Prudential Code to its Treasury Management and Capital Strategy.
- The Accountancy and Treasury Management function attend regular training events as required by their professional body and MIFID II registration.
- The Council is also in receipt of regular updates and advice from the Council's independent Treasury Management advisers on the application of the Prudential Code and additional guidance issued by WG, PWLB and CIPFA.
- Members also receive annual and induction Treasury Management training which will cover aspects of the Prudential code.
- Members will be requested to complete a self assessment questionnaire to assess their skills and any gaps in their knowledge prior to the Treasury Management training to enable additional training to be provided as required.

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

Assessment – Fully Comply

Evidence of Compliance with Standard

- The Council has an up to date Medium Term Financial Plan which is reviewed annually and referred back to as part of the Budget Strategy, Budget for Consultation and Final budget proposals.
- The Medium Term Financial Plan considers a number of scenarios to improve the robustness of the planning assumptions.
- The Council's Medium Term Financial Plan clearly links to the priorities outlined in the Corporate Plan and the proposals of the Capital Strategy to ensure they are financially viable and that the MTFP is closely aligned with the business planning cycle.
- Each of the Council's 15 Service Plans contain information relating to the use of resources to support service delivery, and a consideration of risks within each area of the organisation.

Section 4: The annual budget

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

Assessment – Fully Comply

Evidence of Compliance with Standard

- For the financial year 2024/25 the Council will meet its statutory deadlines for setting a balanced budget and setting the level of Council Tax by 11th March 2024. These were also met in 2023/24.
- The Council meets its statutory deadlines in respect of setting the schools' budget. These were also met for the 2023/24 budget.
- The Council met its statutory deadlines for 2024/25 for approving the Treasury Management PIs and a MRP Policy by 31st March 2024. These were also met in 2023/24.
- The Council prepares a Capital Strategy, Treasury Management Strategy and Medium Term Financial Plan.

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.

Assessment - Fully Comply

Evidence of Compliance with Standard

- The robustness of estimates and adequacy of reserves are confirmed as part of the Final Budget Proposals 2023/24 which were reported to Cabinet on 29th February 2024 and to Full Council on 6th March 2024.
- The Final Budget Proposals 2023/24 reported to Cabinet on 29th February 2024 include confirmation of the robustness of estimates and adequacy of reserves.
- Reserves are reported three times a year to Council as part of the Budget Strategy and Final budget proposals and Closing Report, the monitoring of reserves is also included in the regular monitoring reports that are taken to Scrutiny Committees quarterly.

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.

Assessment - Fully Comply

Evidence of Compliance with Standard

- The Council's planning and decision-making processes are designed to include consultation with stakeholders and the submission of views by local people.
- In 2022 the Council published its Public Participation Strategy and launched the Participate Programme. This programme seeks to increase the reach of involvement, engagement and consultation activities, enhance our involvement of seldom heard voices and provide a clear link to the role of elected members in representing the views of residents.
- During the year a number of high-profile public engagement and consultation exercises were undertaken which have informed the Council's refreshed Medium Term Financial Strategy. These include the consultation on the Annual Self-Assessment (confirming relevance of the Council's Wellbeing Objectives and indicating areas for improvement), Annual Delivery Plan and Public Services Board's Wellbeing Assessment and Plan. These have informed the activity set out in the Council's strategic plan for 2023/24, with linkages made with the Financial Strategy.
- The Council carries out a consultation with local residents as part of the annual budget cycle and this is reported as part of the Final budget proposals. As part of the preparation for the 2024/25 budget, the Council carried out a four week consultation that opened on 20th January and ran until 15th February. The budget will also be informed by the results of other consultations that have been carried out during 2023/24; most notable was the Life in the Survey which sought to better understand what residents need from the Council and the output from this fed into the Budget for Consultation in January.
- Regular consultation with Schools Budget Forum is an integral part of the annual cycle and this includes a meeting with the Leader, Chief Executive and CFO as part of the annual budget cycle.
- Directorates feed into the budget process by submitting cost pressures, savings proposals and capital bids. These are discussed in annual meetings with Directors, Heads of Service and the Budget Working Group and in detail by the Senior Leadership Team.
- The Local Government and Elections (Wales) Act 2021 introduces changes covering electoral reform, public participation, governance and performance and regional working. This will have an impact on the way the Council operates and measures will need to be implemented to comply with the Act. The preparatory work undertaken by the Council includes an action plan to ensure that Senior Officers and Members are aware of the provisions within the Act and this will include consultation regarding the establishments of Corporate Joint Committees (CJCs).

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

Assessment - Fully Comply

Evidence of Compliance with Standard

- The Council recognises that informed decision making is a fundamental part of good governance.
- Decision makers receive objective analysis of a variety of options indicating how intended outcomes would be achieved together with the risks associated with those options.
- In determining how services and other courses of action should be planned and delivered the Council is increasingly engaging with internal and external stakeholders.
- The Capital Bids process requires a Business Case to be completed for all bids in excess of £300k and for revenue projects which are categorised as high risk.
- The Project management toolkit documents an option appraisal methodology with examples and will be updated in 2024/25 to support the next phase of the Council's savings programme and corporate objectives.
- Full Business Cases using the Five Cases Model are prepared for 21st Century Schools (renamed as Sustainable Communities for Learning) submissions.
- The Council has recently updated the Business Plan for Waste Management to reflect the budget position and further review a number of scenarios in the context of a volatile market, a changing delivery model and a number of capital bids.

Financial Management Standards - 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.

Assessment - Fully Comply

Evidence of Compliance with Standard

- SLT has a rolling work programme and is regularly updated on the Council's revenue and capital budget positions, contract management issues and the progress of the Internal and External Audit Work Programme.
- The Head of Internal Audit has regular meetings with the Head of Finance.
- A quarterly strategic risk review is undertaken and reported to Governance & Audit Committee and Cabinet, and corporate risk is referenced in the quarterly performance reports to all scrutiny committees.
- The Chief Executive and CFO are key participants in the Budget Working Group process.

- The SLT have been involved through regular discussion and dedicated workshops in the review of Cost Pressures, Savings and Reserves.
- A Savings tracker has been developed to monitor and support the delivery of savings during 2023/24, this will continue to be utilised in 2024/25 alongside any savings not achieved in 2023/24 and any unawarded cost pressures.

O: The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability

Assessment - Fully Comply

Evidence of Compliance with Standard

- The Capital Programme is monitored via a regular meeting with Leader and S151 Officer and Chief Executive.
- A Corporate Asset Management Strategy is prepared by Property Services and Estates.
- Major schemes and projects are managed via a dedicated project board of senior officers.
- The Council is currently working to update the Carbon Management Strategy for the Council, reflecting the Project Zero Challenge Plan and the Council's decarbonisation targets.
- Financial impact is assessed as part of all Cabinet and Council decisions.
- The Pension liability is assessed triennially and the S151 Officer liaises with Cardiff and Vale Pension Fund and AON, the actuary, before setting a contribution rate that recovers the pension deficit in a prudent and sustainable manner.
- The Council has engaged an independent Treasury Management adviser to give the Council advice on the Council's borrowing and investments.

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.

Assessment - Fully Comply

Evidence of Compliance with Standard

- The Section 151 Officer reviews the Council's annual Statement of Accounts and complies with the responsibilities as set out.
- The Statement of Accounts is signed by the Section 151 Officer.
- The Section 151 Officer considers the level of assurance provided by Head of Internal Audit as part of their regular meetings and the regular reports to Governance and Audit Committee on the audit programme.

- Regular meetings are held between key members of the Senior Finance Team and the Council's External Auditors Audit Wales to monitor the progress of the accounts and any emerging issues.

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

Assessment - Fully Comply

Evidence of Compliance with Standard

- The SLT review their budget areas' outturn figures at SLT (and the Council's position as a whole) as part of the closure of accounts process.
- The Closure of Accounts reports are reviewed by key members of the Senior Leadership team before they are reported to Cabinet.
- Monitoring reports for revenue and capital are regularly taken to Senior Leadership Team, Scrutiny Committee and Cabinet.

Action Plan for Improvement 2023/24

Description of Task	Progress	Additional Steps Required
Reflect on the budget setting process and document for the next year.	The 2024/25 budget setting process was informed by lessons learnt from 2023/24 and had a greater emphasis on sustainability. Schools were not set a target and transformation savings were encouraged.	The MTFP has unfunded cost pressures and therefore more work to evidence financial sustainability is required.
Reflect on the first iteration of the Annual Self-Assessment process and make amendments as required to further make links with the Annual Governance Statement.		
Further consideration of Social Value will be required as part of future consideration of the Value for Money of schemes and the new Procurement Strategy.	The 2023 Policy & Strategy has strengthened arrangements to deliver Social Value.	The arrangements still need to be piloted on a practical basis.
As part of the Council's preparation for the introduction of the new	Arrangements are in place and briefings have taken place with the SLT and Strategic Insight Board	

<p>leasing standard IFRS16, new procedures will be introduced to bring lease arrangements onto the balance sheet and this will necessitate a more formal VFM and sign off process to these types of arrangements.</p>		
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Action Plan for Improvement 2024/25

Description of Task	Target Date	Outcome
<p>Reflect on the budget setting process and document for the next year.</p>	<p>30 June 2024</p>	<p>Better understanding of the underlying budget required for Scrutiny when reviewing Cost Pressures in Autumn.</p>
<p>Review the approach to supporting schools with a deficit budget – consider benchmarking and external challenge</p>	<p>30 September 2024</p>	<p>Clearly documented consistency of approach and challenge.</p>
<p>Review Capital Bids to reflect current funding challenges</p>	<p>30 September 2024</p>	<p>Consider a long list and fewer focussed priority bids to manage workload.</p>

Professional, Approachable, Independent

Internal Audit Report



FINANCIAL MANAGEMENT CODE

2023/24

Draft Report Issued

8th April 2024

Final Report Issued

12th April 2024

Report Authors

Courtney Phillips – Graduate Auditor

Richard Tomlinson – Senior Auditor

Joan Davies – Audit Manager

Report Distribution


**Gemma Jones - Operational Manager,
Accountancy Resource Manager**

**Matt Bowmer - Head of Finance, Section
151 Officer**



**REGIONAL INTERNAL AUDIT SERVICE /
GWASANAETH ARCHWILIO MEWNOL RHANBARTHOL**



AUDIT OPINION		RECOMMENDATION SUMMARY	
	High Priority	0	
	Medium Priority	0	
	Low Priority	1	
	Total	1	
<p>SUBSTANTIAL ASSURANCE</p> <p>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.</p>			
<p>STRENGTHS & AREAS FOR IMPROVEMENT</p>			
<p>During the audit a number of strengths and areas of good practice were identified as follows:</p> <ul style="list-style-type: none"> • The information included within the Council's Self-Assessment on Compliance with the Financial Management Code is accurate and verifiable. • The information included within the Council's Self-Assessment on Compliance with the Financial Management Code is relevant to the Financial Management Code and CIPFA's Statement on the Role of the Chief Finance Officer in Local Government. • Although all areas identified for improvement in the 2022/23 Self-Assessment have been carried forward to 2023/24, progress has been made against 75% of these areas. <p>The following key issue was identified during the audit which needs to be addressed:</p> <ul style="list-style-type: none"> • Full details on steps taken to address all areas identified for improvement, progress made against these areas and any further improvements required are not explicit in the Council's Self-Assessment. 			

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1. INTRODUCTION & BACKGROUND

An audit of the Financial Management Code has been undertaken in accordance with the RIAS 2023/24 Internal Audit Plan.

This report sets out the findings of the audit and provides an opinion on the adequacy and effectiveness of internal control, governance and risk management arrangements in place. Where controls are not present or operating satisfactorily, recommendations have been made to allow Management to improve internal control, governance and risk management to ensure the achievement of objectives.

The Financial Management Code, published by CIPFA in 2019, aims to support good practice in financial management and assist local authorities in demonstrating their financial sustainability. Local authorities are required to demonstrate that the requirements of the code are satisfied and the processes they have in place satisfy the principles of good financial management. Demonstrating this compliance with the FM Code is a collective responsibility of elected members, the Chief Finance Officer (CFO) and their professional colleagues in the leadership team.

The Council first produced a report detailing their compliance with the Financial Management Code in 2022.

2. OBJECTIVES & SCOPE OF THE AUDIT

The purpose of the audit is to provide assurance on the adequacy and effectiveness of the internal control, governance and risk management arrangements in respect of Financial Management Code.

Audit testing was undertaken in respect of financial year(s) 2022/23 & 2023/24.

The purpose of the audit is to provide assurance that the information presented within the Council's Statement on Compliance with the Financial Management Code is accurate and where appropriate, provide recommendations to management prior to the scheduled update to Governance and Audit Committee on 22nd April 2024.

The scope of the audit included:

- Reviewing the self-assessment of compliance to the code, specifically the responsibilities of the Chief Finance Officer and Leadership Team and providing recommendations where appropriate.
- Verifying the actions taken to address areas of improvement identified within the 2022/23 Statement of Compliance update.

3. AUDIT APPROACH

Fieldwork took place following agreement of the audit objectives.

A draft report has been prepared and provided to Management for review and comment with an opportunity given for discussion or clarification.

The final report will incorporate Management comments together with a Management Action Plan for the implementation of recommendations.

Governance & Audit Committee will be advised of the outcome of the audit and may receive a copy of the Final Report.

Management will be contacted and asked to provide feedback on the status of each agreed recommendation, once the target date for implementation has been reached.

Any audits concluded with a no assurance or limited assurance opinion will be subject to a follow up audit.

4. ACKNOWLEDGMENTS

A number of staff gave their time and co-operation during the course of this review. We would like to record our thanks to all of the individuals concerned.

The work undertaken in performing this audit has been conducted in conformance with the Public Sector Internal Audit Standards.

The findings and opinion contained within this report are based on sample testing undertaken. Absolute assurance regarding the internal control, governance and risk management arrangements cannot be provided given the limited time to undertake the audit. Responsibility for internal control, governance, risk management and the prevention and detection of fraud lies with Management and the organisation.

Any enquires regarding the disclosure or re-issue of this document to third parties should be sent to the Head of the Regional Internal Audit Service via awathan@valeofglamorgan.gov.uk

FINDINGS & RECOMMENDATIONS

1. COMPLIANCE WITH THE FINANCIAL MANAGEMENT CODE

Control Objective:

To ensure that the information reported in the Self-Assessment of Compliance to the Code is accurate and relevant.

The Auditor sampled Section 1(A) & Section 1(B) of the Council's 2023/24 Self-Assessment on Compliance to the Code, to determine if statements made by the Council to evidence compliance with the Financial Management Code were accurate and could be supported.

Strengths:

- Section 1(A) of the Financial Management Code requires that the leadership team is able to demonstrate that the services provided by the Authority provide value for money. The Council have included nine statements, within the 2023/24 Self-Assessment of Compliance to the Code, to support that the Council comply with this section of the code. All nine statements made were accurate, verifiable and relevant to the Code.
- Section 1(B) of the Financial Management Code requires the Authority to comply with the CIPFA statement on the Role of the Chief Finance Officer. The Council have included seven statements, within the 2023/24 Self-Assessment of Compliance to the Code, to support that the Council comply with this section of the code. All seven statements made were accurate and verifiable. Additionally, all seven statements made were relevant to the principles of CIPFA's Statement on the Role of the Chief Finance Officer in Local Government.

2. ACTIONS TAKEN AGAINST AREAS IDENTIFIED FOR IMPROVEMENT

Control Objective:
To verify the actions taken to address areas identified for improvement reported in the Council’s Self-Assessment of Compliance to the Code 2022/23.

The Council identified four areas for further development in the 2022/23 Self-Assessment of Compliance to the Code.

Strengths:

- Although all four areas previously identified for improvement in the 2022/23 Self-Assessment of Compliance to the Code remain an area identified for development in the Council’s current Self-Assessment, progress has been made against three of these areas and this progress is detailed in the 2023/24 Self-Assessment. The actions taken to date to address these areas were accurate and verified by the Auditor.

Ref. & Priority	Finding / Weakness	Risk	Recommendation
2.1 Low	<p>An update is not provided in the Council’s 2023/24 Self-Assessment on Compliance to the Financial Management Code in respect of any progress made or actions planned to address the following area previously identified for improvement:</p> <p><i>“Reflect on the first iteration of the Annual Self-Assessment process and make amendments as required to further make links with the Annual Governance Statement.”</i></p> <p>Additionally, the following area previously identified for further development and also</p>	<p>Areas identified for improvement remain unaddressed; progress against areas previously identified for improvement and actions planned to address areas of development are unclear.</p>	<p>The Action Plan for Improvement 2023/24 should record any progress made against each task and document additional steps required to achieve compliance with the Financial Management Code for each listed task.</p>

Ref. & Priority	Finding / Weakness	Risk	Recommendation
	<p>carried forward into 2023/24 was :</p> <p><i>“As part of the Council’s preparation for the introduction of the new leasing standard IFRS16, new procedures will be introduced to bring lease arrangements onto the balance sheet and this will necessitate a more formal VFM and sign off process to these types of arrangements.”</i></p> <p>Although progress made has been documented, additional steps required to address this area have not been stated.</p>		

MANAGEMENT ACTION PLAN

Report Ref & Priority	Recommendation	Agreed (Y/N)	Management Comments	Job Title of Officer Responsible	Date to be Implemented
<p>2.1 Low</p>	<p>The Action Plan for Improvement 2023/24 should record any progress made against each task and document additional steps required to achieve compliance with the Financial Management Code for each listed task.</p>	<p>Y</p>	<p>Action plan will be amended accordingly to reflect progress and steps</p>	<p>OM Accountancy and Head of Finance in consultation with SLT</p>	<p>30th April 2024</p>

DEFINITIONS

AUDIT ASSURANCE CATEGORY CODE	
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.

RECOMMENDATION CATEGORISATION	
Risk may be viewed as the chance, or probability, one or more of the systems of governance, risk management or internal control being ineffective. It refers both to unwanted outcomes which might arise, and to the potential failure to realise desired results. The criticality of each recommendation is as follows:	
High Priority	Action that is considered imperative to ensure that the organisation is not exposed to high risks.
Medium Priority	Action that is considered necessary to avoid exposure to significant risks.
Low Priority	Action that is considered desirable and should result in enhanced control.