

## CIPFA FINANCIAL MANAGEMENT CODE

Strong financial management is an essential part of ensuring public sector finances are sustainable. The Financial Management Code (FM Code) provides guidance for good and sustainable financial management in local authorities and assurance that authorities are managing resources effectively.

It requires authorities to demonstrate that the processes they have in place satisfy the principles of good financial management. The FM Code identifies risks to financial sustainability and introduces a framework of assurance. This framework is built on existing successful practices and sets explicit standards of financial management. Complying with the standards set out in the FM Code is the collective responsibility of elected members, the Group Director Finance & Corporate Resources (CFO) and colleagues on the leadership team. Complying with the FM Code will help strengthen the framework that surrounds financial decision making.

The code applies to all local authorities and by following the essential aspects of the FM Code, local authorities are providing evidence to show they are meeting important legislative requirements in their jurisdiction.

The underlying principles that inform the Code will assist in determining whether a local authority is financially sustainable. They are as follows:

- Organisational **leadership**: demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.
- **Accountability**: based on medium term financial planning that drives the annual budget process supported by effective risk management, quality supporting data and whole life costs.
- Financial management is undertaken with **transparency** at its core using consistent, meaningful and understandable data, reported frequently with evidence of periodic officer action and elected member decision making.
- Adherence to professional **standards** is promoted by the leadership team and is evidenced.
- Sources of **assurance** are recognised as an effective tool mainstreamed into financial management, including political scrutiny and the results of external audit, internal audit and inspection.
- 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 is aligned with the *Prudential Code for Capital Finance in Local Authorities* and has links to the *Treasury Management in the Public Sector Code of Practice* and the annual *Code of Practice on Local Authority Accounting in the UK*. In this way, the FM Code reiterates the key elements of the statutory requirements of these other codes.

The FM Code sets out a number of financial management standards that it believes must be evidenced, and provides exemplification on each. Set out below is the authority's current assessment of how it believes it currently complies with the requirements.

**Financial Management Standard A: The leadership team is able to demonstrate that the services provided by the authority provide value for money.**

The achievement of value for money is the collective responsibility of elected members and senior officers, who together make up an authority's leadership team.

The Council seek to ensure that it achieves value for money in the delivery of its services through its formal governance structures, its ongoing challenge of service costs through the budget setting cycle and performance management arrangements. Arrangements are summarised below.

*Clear Governance Structures*

The Council's Scheme of Delegation sets out decision-making responsibilities in relation to Full Council and committees, including Cabinet and those delegated to officers.

Where key decisions are made they require a business case in the form of a Cabinet, Capital Procurement Committee report or a delegated powers report (DPR). All reports are required to be considered by finance to determine financial implications and in the case of procurement decisions compliance with procurement procedures. These reports also contain an assessment of whole-life costs and overall set out the value for money implications of decisions before they are made.

*Scrutiny Arrangements*

The Council has an effective Scrutiny function which leads scrutiny reviews in key areas of service delivery. For example, the Children and Young People Commission looks at all services for children and young people, including those provided across Children and Education Services. This includes areas such as the presentation of the annual report of the City & Hackney Safeguarding Children Partnership to the commission for review. This includes the governance and accountability arrangements, new safeguarding arrangements and focused on the immediate actions taken following in response to Covid 19.

Recent reviews undertaken by Scrutiny Commissions include

Improving young disabled people's access to universal services in Hackney' set out to improve the numbers of children with a disability accessing universal services. A new approach to commissioning youth services now includes disability as an essential criteria for bidders' submissions.

Living in Hackney carried out a review on 'Licensing the Private Rented Sector' produced an initial evidence base to support the establishment of a formal licensing scheme.

Health in Hackney conducted a review into the support that Adult Carers receive and examined the current offer to carers in Hackney. Adult Services was embarking on designing a new model of support for carers. The recommendation from this review informed the design of the new model of support.

The Skills Employment and Growth Commission's Future world of work and skills review recommended closer working between Hackney Works and HLT's adult learning team to create a seamless pathway for residents and support a wider cohort to upskill. The 2 teams merged into one recently to develop this way of working. Hackney Works now have a number of different support streams for residents in the borough.

In addition to reviews each Commission runs a Cabinet Member Question Time session with their relevant Cabinet Members where they are held to account. The Mayor's Question time sessions are held by the Scrutiny Panel. The Scrutiny Panel, as well as ensuring no overlap of the work or Commissions, also looks at cross cutting issues in single items and requires the Cabinet Member and Group Director for Finance and Corporate Resources to present regular updates on the budget and the Overall Financial Position of the Council.

### Audit Arrangements

The Audit Committee has an explicit requirement through its terms of reference to consider the Council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.

It discharges this requirement through its receipt of regular reports from service areas, oversight of internal and external audit work (including the VFM audit opinion) and a specific Performance Report through which it scrutinises performance trends and performance against targets against a range of key indicators. From these reports the Committee determines areas for 'deep dive' reviews to gain further insight and assurance.

### Council boards

The Council establishes joining Member/officer boards to ensure there is appropriate oversight for key areas of business where there is significant risk and expenditure. For example:

- The Britannia Board was established to provide ongoing oversight of this major masterplan project. This ensures there is appropriate scrutiny and challenge to the project in between key decisions taken by the Cabinet.
- A Member Oversight Board with a shadow officer structure was established to provide oversight to Children's development work to move Children's Services from an Ofsted Requires Improvement judgement in December 2019 to an ambition of 'Outstanding' within a two-year timeframe.
- The Housing Development Board was established as part of the Governance of the Council's housing regeneration programme. The Board provides strategic direction for the Council's housing delivery and regeneration portfolio. Specifically it oversees and contributes to the Regeneration Programme business cases taking into account the impact on the overall programme viability, it takes decisions related to critical activities and manage any interdependent decision making that may impact the approved programmes, it ensures that interdependencies are being appropriately and effectively managed, gives direction on stakeholder, member and communication strategies, and monitors the delivery of the programme and assuring the realisation of programme benefits.

### Clear objectives and strategy based on local need

The Council's Community Strategy 2018-28 sets out our overarching vision for Hackney over the decade to 2028. It provides direction for all of the Council's decision making throughout this period and a focus for our work in partnership with residents, businesses, local organisations and community groups. The strategy was produced in partnership with local people and organisations in our community over a period of three years ensuring it is reflective of the lived experiences of residents in our borough.

### Effective service and financial planning

The Council adopts, delivers and keeps under review a Corporate Plan for each new four year local electoral term. The Corporate Plan will be in line with the ten year Community Strategy, but it sets out how the Council will use its resources and its workforce to help achieve the Mayor's manifesto over the shorter elected period of office. Both the Community Strategy and the Corporate Plan and any related delivery plans or annual updates are publically available.

The leadership team (Members and officers) are fully engaged in the financial planning process through Cabinet HMT and HMT meetings at which the budget proposals are reported and fully discussed and challenged where appropriate. The expectation is that services continuously challenge the costs incurred to ensure services are delivered as efficiently, effectively and economically as possible with the leadership team challenging proposals in the context of Council objectives and service priorities.

### Financial regulations

Part 4 of the Council's Constitution (July 2020) includes the Financial Procedure Rules which provide the framework for the financial administration of the Council with a view to ensuring that the Council's financial affairs are conducted in a sound and proper manner, constitute value for money and minimise the risk of legal challenge to the Council. The Financial Procedure Rules are considered in conjunction with the Procurement Framework and the Scheme of Delegation.

### Procurement regulations

All procurement activities must be carried out, in accordance with the Council's Contract Standing Orders as set out in Part 4 of the Constitution, but also in compliance with the Council's General Scheme of Delegation to Officers. The Contract Standing Orders set out procurement routes applicable to various levels of spend, and in addition a risk management framework is in place for procurements above £100k. The application of the risk framework and the estimated value of the requirement determine the governance arrangements which are applicable to individual procurements. All procurements assessed as medium or high risk go through the Council's procurement gateway process with decisions taken by the Cabinet Procurement Committee for high risk or Hackney Procurement Board for medium risk procurements.

### Contract management arrangements

Contract managers are responsible for monitoring contracts to ensure that suppliers are delivering against specifications and maintaining records of supplier performance. Arrangements are proportionate to the value and risk of the contracts.

Support is provided from the Procurement Team for the management of high risk and key strategic contracts

### Risk management arrangements

Hackney's Risk Strategy clearly details the approach which the Council takes towards managing and reporting risk. The process is clearly outlined where risks are identified at service level, which are then considered (if relevant or serious enough) at a Divisional and then Directorate level. Then if appropriate, they may be categorised as Corporate risks - those which could potentially threaten the core objectives of the entire organisation. Leadership teams are involved in managing risks at all levels, whether at service level where management teams review risk registers, or at senior management level (Hackney Management Team) where the overall Corporate Risk Register is reviewed at least every six months. Audit Committee also plays an important role in ensuring effective risk management occurs throughout the organisation. Each Directorate presents their risk register to the Committee on an annual basis, and the Corporate register is reviewed at every other meeting (with a headline summary provided at every single meeting). This ensures a high level of scrutiny in order for Members to feel assured that the right arrangements are in place. These high level reviews also ensure that throughout the organisation, management teams are aware of the importance of considering their risks and how to effectively manage them.

Detailed risk registers are also maintained at a project level basis to ensure risks to outcomes are fully considered and mitigated appropriately.

The Risk Strategy (and Policy) are reviewed biennially, and were last ratified by the Audit Committee in October 2020.

### Efficiency reviews

Services are expected to consider the efficiency of the services they deliver on an ongoing basis. Proposals for improved efficiency improve the bedrock of directorate budget savings proposals each year including for 2021/22.

### Benchmarking

The Council employs benchmarking at a range of levels including:

- reviewing performance compared to other authorities to inform performance target setting and performance monitoring (for example, data sets reported through to the Children's Management team)
- benchmarking of costs to determine areas to consider for efficiency savings (for example, use of CFO insights) and engage in formal cost benchmarking such as those initiated by London Councils (CSC benchmarking).
- Utilising professional networks to undertake more focussed and bespoke benchmarking exercises to inform service planning and change - for example, Childrens benchmarking exercise initiated in summer 2020 and initial review of capital monitoring processes.
- Adult Social Care benchmarking of unit costs across London to ensure efficient use of resources and to ensure best practice in commissioning arrangements. This has been through the ASC-FR statistical returns and through regular ADASS budget surveys as well as responded to ad hoc requests for benchmarking facilitates through the ADASS Finance Leads group.

- Housing Services use the Housemark Benchmarking data to underpin Transformation work in Housing Services. Key performance indicators are set annually for each service area in Housing Services informed by this benchmark data and we aim to set targets that will improve our Housemark quartile ranking, thereby improving services to residents. Discussions with service managers take place annually which includes reviewing the previous years performance outturn, reviewing our quartile position against the Housemark benchmark where that KPI is reported against before setting a new challenging target with a view to improve our overall quartile performance. The reports produced by Housemark have provided valuable insights into the impact of the pandemic in the Housing sector in particular with gas safety, rent arrears, and responsive repairs across different organisations, and given us the ability to measure the impact of Covid in Hackney and assess whether the impact is in line with national trends or unique to Hackney. We also regularly use Housemark in addition to other other benchmarking activities to look at best practice across the sector when we undertake any service improvement project work.
- Environmental Operations use benchmarking data to assess the cleanliness of our streets. It uses the national Local Environmental Quality Indicator, to compare the cleanliness of Hackney's street with other local authorities and to ensure continuous improvement in our performance. NI195 covers litter, detritus, graffiti and flyposting. It has been developed to measure the cleanliness of the local environment, as a member of the public would see it. It is important to independently review our local environmental quality to identify key issues and assess standards. It's also crucial to monitor the impact and effectiveness of campaigns and interventions that aim to reduce littering, improve local places and increase recycling. The surveys produce information to help managers improve resource efficiency and the attractiveness of an area. This benefits visitors, residents, businesses and workers.

#### Peer reviews

The authority invites representatives of other authorities to review the delivery of specific services, to use their experience to assess how well these services are performing and to make recommendations for improvement. Examples include the peer review of Adult Services (2018) and more recently as part of the response to the inspection of Children's Services by Ofsted the Council has engaged an experienced ex-DCS as a challenge partner to support the journey from 'Requires Improvement' to 'Outstanding.'

#### Monitoring of Performance Data

The Council has a suite of performance indicators which it collects on a regular basis as well as in a large number of services access to 'live' management data on current service performance (via Qlik). Performance (data and progress against projects etc) is monitored at all levels or the organisation to ensure that the Council is delivering its objectives (as laid out in the Corporate Plan and statutory obligations).

Performance is monitored at local management level as well as Directors, group Director, HMT and Cabinet members. HMT, Directors and Cabinet members have access to on line performance dashboards which have the top PIs (agreed by HMT/Cabinet) for the Council updated as new data becomes available. Regular review of these takes place at meetings of HMT and between HMT and Cabinet Members and the Mayor. The Council's Head of Service responsible for

performance also meets the Chief Executive monthly to update on performance issues and emerging issues and trends.

The Council's Audit Committee has also compiled a dashboard of KPIs which are reported on each quarter to the committee with relevant Directors available to answer questions and address concerns.

### User surveys

The authority undertakes a periodic survey of users of particular services, designed to assess the extent to which these services meet users' needs and to identify opportunities for improvement. This is in the form of a residents survey and more focused surveys where specific services changes are required or where specific feedback is required. In ASC, the annual service user survey and bi-annual carers survey are monitored by services and used to inform strategic decisions and service planning. Education Services uses a variety of forums to take account of stakeholder expectations including an annual customer survey with all schools and setting purchasing services through our traded offer. Schools' Forum is a statutory meeting that acts as a consultative body regarding school funding in the borough.

User surveys underpin the service improvement planning across a range of services provided by the Council such as the Leisure Centre Annual User Survey, this survey assesses the likelihood of customers to recommend the service to others and is used to inform service improvement plans. We also undertake targeted user surveys for specific service improvements, an example of this is the Estate Recycling Programme which working towards improving the existing waste and recycling facilities across housing estates. At each phase we carry out in depth surveys and engagement with affected residents to gain a better understanding of their need and requirements in respect of waste and recycling on their estates and this informs the design of waste management arrangements.

### External assessments

The authority engages with statutory and non-statutory external reviews of its services, such as Ofsted reviews of children's social care services, and seeks to use the results of these reviews to improve the operation and management of the services under review.

In December 2019 the Council received a 'Requires Improvement' judgement following the inspection of Children's Services. An action plan for improvement has been agreed with Ofsted to respond to specific recommendations. In parallel a Members Oversight Board and a Children's Leadership and Development Board (cross-Council officers group with external challenge partner) are overseeing a strategy to move Children's Services to 'Outstanding' in two years.

In December 2018 the Council's Housing with Care was inspected by the Care Quality Commission (CQC) and was rated 'inadequate.'. Following the development and implementation of an action plan for improvement in July 2019 the services was

### Equality impact assessments

The authority undertakes equality impact assessments of policies, activities and services, to ensure that they do not – deliberately or inadvertently – discriminate against certain groups or individuals, especially those that are disadvantaged or vulnerable. Equality impacts considerations are embedded in decision-making



processes - for example, decisions on budget proposals, the procurement impact assessment (PRIMAS), organisational change procedures all require the consideration of equalities impacts.

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

*The CFO in a local authority is a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver the authority's strategic objectives sustainably and in the public interest*

The Group Director of Finance and Corporate Resources (GDFCR) is a key member of the Hackney Management Team reports to the Chief Executive, is professionally qualified and is actively engaged on all matters of strategy direction and delivery. All key decisions require financial implications to be considered by a representative of the CFO and the CFO personally signs off on all Level 1 Cabinet of Cabinet Procurement decisions.

*The CFO in a local authority must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered and aligned with the authority's overall financial strategy*

The GDFCR leads the Council's financial strategy to deliver against its objectives. This includes the development of the medium term financial plan and the annual budget cycle.

The Council has a strong track record of ensuring that a balanced budget is planned and delivered despite considerable reductions in Government funding and significant cost pressures. This is a result of a considered approach to resource allocation which reflects the impact demand-led services can have on expenditure and the volatility this can bring. For example, measured allocation of budget growth with earmarked reserves set aside to mitigate risk.

All key decisions require financial implications to be considered by a representative of the CFO and the CFO personally signs off on all Level 1 Cabinet of Cabinet Procurement decisions. Beyond this the GDFCR has representation on directorate management teams which ensures there is an awareness of emerging issues and/or service developments and that financial impacts both long and short term are fully considered at an early stage in the process.

*The CFO in a local authority must lead the promotion and delivery by the whole authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently, and effectively*

The GDFCR maintains a continuous review of the Financial Procedure Rules and financial schemes of delegation as set out in the Council's constitution. Furthermore the GDFCR provides regular budget updates to meetings of senior managers, setting out financial performance, forecasts and the challenges ahead. As set out above the GDFCR has representation on directorate management teams which ensures that sound financial management remains at the forefront of operations.

*The CFO in a local authority must lead and direct a finance function that is resourced to be fit for purpose*



The GDFCR leads a mix of qualified and non-qualified working professionals with the requisite skills to carry out their roles effectively.

The Council invests in CIPFA and other recognised training regimes to ensure staff have the appropriate skills and knowledge to deliver an effective service.

Additional skills, for example, tax advice where transactions are complex, will be bought in where it is considered necessary to enhance in-house skills and experience.

There are sufficient numbers in the finance teams - and the impact of any staff reductions on the ability to provide a robust level service are always considered before any restructures are undertaken of finance teams. Teams have appropriate access to ICT and relevant software packages to support the work they do.

*The CFO in a local authority must be professionally qualified and suitably experienced*

The GDFCR is CIPFA qualified and has over 10 years experience as the Council's section 151 officer over which time the Council has demonstrated sound financial management as evidenced by successive external audit reports and annual outturn.

**Financial Management Standard C: The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control**

*Establishing a clear framework for governance and internal control*

The Constitution sets out how the Council operates, how decisions are made and the procedures that are followed to ensure that decisions are taken efficiently and transparently and that those who make the decisions are accountable to local people. Some of these procedures are legal requirements while others are how the Council has chosen to conduct its business.

The Council's governance structure is set out in the Constitution including the role of the Executive (Cabinet) and Overview and Scrutiny. All committees have formal, agreed terms of reference (also contained within the Constitution), setting out the scope of their responsibilities. Terms of reference are regularly reviewed and updated in line with good practice. They also have a defined membership and a suitable, pre agreed schedule of meetings and work plan.

All meetings of the committees forming part of the authority's governance structure have a published agenda and have its proceedings and decisions recorded in formal, written minutes which are available on the Council website (with the exception of exempt information). Members of the committee, and others who may reasonably wish to address the committee, are given adequate notice of such meetings as set out in the Constitution.

The responsibility for Council and Executive functions are set out in Part 3 of the Constitution including Council functions which cannot be the responsibility of the Executive, Role and function of the elected Mayor and the officers scheme of delegations.

The Council has an effective system of internal control in place which it reviews and reports on annually through the annual governance statement which is also subject to review by internal audit on an annual basis. Furthermore the internal audit

provides assurance through its programme of cyclical and annual reviews of elements of the control framework.

Financial Procedure Rule 19 clearly defines partnership arrangements and states that all Councillors and Officers currently involved in or considering 'partnership' working shall have regard to the Council's Partnership Code of Practice and ensure compliance with it.

#### *Establishing clear arrangements for assurance and accountability*

Internal Audit is an in-house service which conforms to the Public Sector Internal Audit Standards. Conformity with these standards is verified by external assessment at least once every five years.

The Council ensures that the head of internal audit is able to fulfil their role effectively, in line with the responsibilities set out in the CIPFA Statement on the Role of the Head of Internal Audit (2019). This includes direct lines of communication to the Chair of the Audit Committee and the Chief Executive if circumstances require.

Internal audit works to an agreed plan which is developed following a review of the authority's governance and internal control arrangements, the environment within which the authority operates and the risks and challenges that it faces. Internal audit is resourced adequately and reports to the Audit Committee. The Audit Committee approves the audit plan and receives regular progress reports against the plan.

Hackney's Risk Strategy clearly details the approach which the Council takes towards managing and reporting risk. The process is clearly outlined where risks are identified at service level, which are then considered (if relevant or serious enough) at a Divisional and then Directorate level. Then if appropriate, they may be categorised as Corporate risks - those which could potentially threaten the core objectives of the entire organisation. Leadership teams are involved in managing risks at all levels, whether at service level where management teams review risk registers, or at senior management level (Hackney Management Team) where the overall Corporate Risk Register is reviewed at least every six months. Audit Committee also play an important role in ensuring effective risk management occurs throughout the organisation. Each Directorate presents their risk register to Committee on an annual basis, and the Corporate register is reviewed at every other meeting (with a headline summary provided at every single meeting). This ensures a high level of scrutiny in order for Members to feel assured that the right arrangements are in place. These high level reviews also ensure that throughout the organisation, management teams are aware of the importance of considering their risks and how to effectively manage them.

There is a well established Audit Committee in place in accordance with the principles in CIPFA's Position Statement on Audit Committees in Local Authorities and Police (2018) and the supporting guidance publication. Its responsibilities include receiving reports on and monitoring the implementation of internal and external audit recommendations - receiving regular progress reports on a quarterly basis. The Audit Committee also has delegated responsibility in relation to oversight of the treasury management function (receiving update reports at each meeting), risk management arrangements (receiving reports from each of the directorates on a cyclical basis) and receives regular reports on performance of the Council. Based on the information received it commissions and leads deep dive reviews in specific

areas, for example, this year it reviewed capital monitoring arrangements (report January 2021 Audit Committee).

### *Espousing high standards of governance and internal control*

The Council's Code of Conduct for officers provides a framework and outlines core behaviours. It forms part of the employment contract, is readily accessible on the intranet and is required to be read and understood by every Council employee.

Hackney Council has adopted this Code of Conduct for Members in accordance with the Localism Act 2011. The Code assists the Council in complying with its duty to promote and maintain high standards of conduct by its Councillors and co-optees and forms part of the Council's constitution (section 5.1).

The Council maintains a register of interests for senior officers and members. This is updated annually as a matter of course and declaration of interests is a standard item on the agenda at all Council meetings. Any potential conflicts are brought to the attention of the Director and steps put in place to ensure that the position of the Council is not compromised by any such conflict.

The Council is open to constructive challenge and consults openly with key stakeholders, staff and residents as part of the decision-making processes as evidenced in Cabinet and other committee reports. We regularly consult the public and other interested groups such as businesses about our plans. Outcomes of these consultations on our [Consultation Hub](#).

The Overview and Scrutiny Committees provide regular challenge through its work and this can lead to reports advising and making recommendations on policies and service delivery.

The Council's decisions are supported by a robust evidence base. This includes ensuring all options are explored, the consideration of impacts of decisions (for example, budget savings decisions) and use of options appraisals and consultation with relevant stakeholders. Where considered necessary, the Council will engage external experts to support decision making processes, for example treasury management advisors, tax advice and bespoke advice for major decisions on a project by project basis.

### *Creating, maintaining and nurturing a culture of governance and internal control*

The leadership team demonstrates a high standard of governance and internal control at all times and embraces conscientiously the authority's governance and internal control processes - this is evidenced through transparent decision-making processes; attendance of the leadership team at meetings where performance is reviewed (Audit Committee, Scrutiny Committees), engagement in audit processes and follow up.

The Council reviews its constitution on a regular basis, taking on board new developments in good practice. Current reviews include reviews of Committee ToR in conjunction with Committee Chairs and other key stakeholders.

The Council seeks development and quality mark opportunities, for example, it was rated 'Excellent' on the [Equality Framework for Local Government](#) in 2013 and 2018 - [Local Government Association's assessment](#).

The Council is proactive in its promotion of its values within its workforce - this is embedded through the 'Check In' processes, conducted at all levels of the organisation and rewarded through the Hackney Stars awards and the Big Thank You initiative.

#### **Financial Management Standard D: The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016)**

The Council adheres with the requirements set out within the CIPFA/ SOLACE Delivering Good Governance in Local Government: Framework (2016) as evidenced in the process for the completion of the annual governance statement (AGS) which provides a detailed and evidenced based record of compliance.

In summary each Group Director is required on an annual basis to review the internal controls in operation in their directorate informed by:

- Review of completed Control Assurance Matrices for services within the directorate
- The performance management arrangements for services
- The risk management processes in place within services
- Other corporate management, monitoring and review processes, and
- Review work undertaken by internal audit, the external auditors and any other review agencies or assurance providers.

They are also required to confirm that:-

- Statutory obligations (where relevant) and objectives have been established
- Risks to the achievement of objectives have been identified
- Key controls have been identified and evaluated to manage risks,
- Mechanisms are in place to obtain assurance on the effectiveness of performance management as well as key controls.
- Declarations of interest are complete and up to date in respect of myself, managers and where necessary for other staff in my directorate, and the related party disclosures are complete.

As part of the process the Group Director is required to highlight any areas of exception or non-compliance. The primary evidence base for the statement is the controls assurance matrix which records areas of assurance, required standards and compliance along with evidence at service level. Once complete the statement and supporting matrix is forwarded to Internal Audit for review and testing prior to aggregation as part of the preparation of the annual accounts.

#### **Financial Management Standard E: The financial management style of the authority supports financial sustainability**

The financial management style of the authority is reflective of the four dimensions reflected in the financial management code, namely Leadership, People, Processes and Stakeholders.

##### Leadership

##### *Delivering Accountability:*

The Group Director of Finance and Corporate Resources (GDFCR) is a key member of the Hackney Management Team reports to the Chief Executive, is professionally qualified and

is actively engaged on all matters of strategy direction and delivery. Beyond this the GDFCR has representation on directorate management teams which ensures there is an awareness of emerging issues and/or service developments and that financial impacts both long and short term are fully considered at an early stage in the process.

Part 4 of the Council's Constitution (July 2020) includes the Financial Procedure Rules which provide the framework for the financial administration of the Council with a view to ensuring that the Council's financial affairs are conducted in a sound and proper manner, constitute value for money and minimise the risk of legal challenge to the Council. The Financial Procedure Rules are considered in conjunction with the Procurement Framework and the Scheme of Delegation. Compliance with these rules are mandatory and subject to cyclical review as part of the annual Internal Audit Plan.

Within the annual budget-setting process the authority's leadership team sets income requirements, including taxation income, and allocates resources to different activities in order to achieve its objectives. This is evidenced in the annual tax base report to Cabinet and the Annual Budget setting report to Cabinet and Full Council. The authority monitors its financial and activity performance in delivering planned outcomes through monthly reports to Cabinet - the OFP report provides an overview of financial performance at Council and individual directorate level.

### *Supporting performance*

The authority has a developed Medium Term Financial Plan which is regularly updated to take account of new and emerging circumstances. This factors in forecast cost pressures, savings proposals and know, and estimated impacts of future funding levels. In financial plans, resources are aligned to meet current and future objectives and priorities as evidenced in the Annual Budget Report.

The GDFCR leads a mix of qualified and non-qualified working professionals with the requisite skills to carry out their roles effectively. The Council invests in CIPFA and other recognised training regimes to ensure staff have the appropriate skills and knowledge to deliver an effective service. Additional skills, for example, tax advice where transactions are complex, will be bought in where it is considered necessary to enhance in-house skills and experience.

### *Enabling transformation*

The Council's financial management approach supports the change agenda and service transformation. Finance staff support is integral in the change process through the challenge they provide and financial modelling developed to test and support change programmes. The GDFCR's Directors sit on directorate management teams and are also invited on to key transformation project boards - e.g. Children's Leadership and Development Board following the Ofsted 'Requires Improvement' judgement and the Customer Services Board.

### People

#### *Delivering accountability*

The GDFCR leads a mix of qualified and non-qualified working professionals with the requisite skills to carry out their roles effectively.

The Council invests in CIPFA and other recognised training regimes to ensure staff have the appropriate skills and knowledge to deliver an effective service.

Additional skills, for example, tax advice where transactions are complex, will be bought in where it is considered necessary to enhance in-house skills and experience.

#### *Supporting performance*

The Council has a long established business partnering approach with finance staff reporting through to the GDFR officer but embedded in service management teams and structures. Directors of Finance attend DMT and report on financial performance and this is replicated at divisional level and in individual Head of Service budget meetings. Finance staff also participate in induction training for staff and GDCFR regularly provides finance update to senior managers - tiers 1-3 meetings.

#### *Enabling transformation*

See under 'delivering accountability' above - the Council invests in the finance function to ensure that it is equipped to deliver a service which supports change. This is evidenced in objectives set out in service reviews of the finance functions as well as in recruitment where the need to add value and support change is clearly articulated.

#### Stakeholders

##### *Delivering accountability*

The Council through its committee structures provides external stakeholders with evidence of the integrity of its financial conduct and performance, and demonstrates fiscal discipline including compliance with statutory, legal and regulatory obligations. In particular reference is made to standard Cabinet reports which evidence these considerations and the reports received by the Audit Committee on performance, treasury management, internal and external audits and deep dive reviews, all of which are in the public domain.

##### *Supporting performance & Enabling transformation*

The Council has a developed approach to stakeholder and consultation engagement which is evidenced in its approach to co-production and consultation across the range of services in respect of both business as usual processes to service transformation and more wide ranging customer insight exercises. From consultation and engagement with tenants and leaseholders, through wide-ranging consultation on the wider community strategy to focussed engagement pieces such as the Young Futures Commission and in relation to the Early Help review.

#### **Financial Management Standard F: The authority has carried out a credible and transparent financial resilience assessment**

The Group Director of Finance and Corporate Resources with his Finance Management Team reviewed the outcomes from the Cipfa resilience indices. This was shared with the Mayor, Cabinet Member of Finance and Chief Executive and we have regard to the indices in the work that we do.

This summary of the Council's performance in relation to the FM Code is completed in the midst of the second wave of Covid19 in the midst of a national lockdown which is increasing pressure on public services, businesses and individuals alike. Of note is:

- Emergency grants are currently meeting additional Covid19 costs and we monitor the impact on an ongoing basis.
- There is a significant draw down on reserves to meet non-Covid related service pressures. This will not impact on the level of un-earmarked revenue reserves. Some budget growth is factored in 2021/22 to meet some of these service pressures and services are developing plans to reduce spend. The high risk areas are in Children's and Adults services. The GDFR chairs a budget board covering this remit and receives regular progress reports through that forum.
- The Council reviews its MTFP on a regular basis. Of course, this is within an evermore uncertain context given Covid19, one-year settlements, delays to both the Fair Funding Review and a sustainable adult social care solution. This year there has been a focus on balancing the budget for 2021/22 but recognition and commitment from the leadership team that the savings proposals development process rolls on beyond budget setting for the coming year to proposals for the medium term.
- Savings plans for the next financial year are fully developed and have been through a robust scrutiny process. In addition, there are agreed savings proposals in place for 2022/23 and 2023/24 but recognition that further plans will be required. On the latter point areas for review have been identified and plans in place to develop these into robust savings proposals.

The Council has effective financial management systems in place including:

- Monthly financial reporting at overall Council and service level through to Cabinet.
- Regular finance reporting to directorate management teams and divisional meetings.
- Regular finance updates by the GDFCR to HMT, Cabinet/HMT and to managers tier 1-3 including the medium term financial strategy.
- Regular meetings with budget holders and finance support identifying significant budget variations.

As well as revenue reporting referred to above, Capital Update reports are reported on a monthly basis to Cabinet and the Capital Programme is subject to quarterly review.

There is a well established capital bid and approval process and the annual budget report contains the Council's capital strategy. Historically the Council has had very low borrowings but is cognisant that this is likely to change in the next few years if we are to maintain our estate and deliver against housing targets. In response to this and in line with good practice to continue to review and challenge established practice the Council is undertaking a Council-wide Capital Management Review in the coming months.

Historically and in common with other authorities, the Council's capital programming has demonstrated significant optimum bias. As we move towards becoming a borrowing authority it becomes increasingly important that within realistic parameters that we improve on this. The Audit Committee recently led a deep dive review on this and a number of actions have been agreed to improve on this.

The Council is outward looking in terms of its performance monitoring and this includes financial performance and responds to benchmarking information requests both corporately and in service areas and reviews outputs to inform future planning. The Council also



utilises cost benchmarking to determine areas to consider for efficiency savings (for example, use of CFO insights) and engages in formal cost benchmarking such as those initiated by London Councils (CSC benchmarking) and utilises professional networks to undertake more focussed and bespoke benchmarking exercises to inform service planning and change - for example, Childrens benchmarking exercise initiated in summer 2020 and initial review of capital monitoring processes.

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

The Council reviews its Medium Term Financial Plan (MTFP) on a regular basis and reports this through to members. This was reviewed in the summer in the midst of Covid19 and is subject to a current refresh. This is reflective of the ongoing uncertainty brought about by single-year settlements, significant one-off funding sources and the potential impact of the delayed Fair Funding Review. The Council does not have a financial plan developed beyond this timeframe at present and will consider the merits in this in the coming year.

The MTFP clearly sets out assumptions made and the risks to those assumptions both internal (e.g. delivery of savings, unmanaged cost pressures) and external factors such as Government funding and the impact on other income sources such as NNDR and commercial rents from the general economic position.

The Council uses scenario planning where circumstances are considered highly volatile (for example, the 2021/22 budget was developed in this context) and this was reported to members. This is also used at a more granular level for specific volatile service areas, for example, adults and children's social care.

**Financial Management Standard H: The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities**

The Prudential Code for Capital Finance in Local Authorities (the Code) was originally implemented in 2004/05 and the latest version is 2017. This is a professional Code that sets out a framework for self-regulation of capital spending, in effect allowing authorities to invest in capital projects, through borrowing, without any imposed limit as long as they are affordable, prudent and sustainable.

The Prudential Code requires the Council to agree and monitor a minimum number of prudential indicators which for housing authorities are separated into HRA and non-HRA elements. These indicators are mandatory but can be supplemented with local indicators if this aids interpretation. The Council sets these indicators as part of the budget setting process and these are set out in the annual budget report. Performance against these are reported through to the Audit Committee on a quarterly basis as part of the capital update report.

The Council has a capital strategy in place and this is reviewed on an annual basis and is approved as part of the budget setting process. This covers all of the areas suggested in *CIPFA's The Prudential Code for Capital Finance in Local Authorities: Guidance Notes for Practitioners, 2018*. The Council has recently kicked off a capital management review following a high-level restructure of services, this aims to ensure existing capital budget setting and monitoring remain fit for purpose in the context of the need to increase borrowing to fund the capital programme over the next three years. Specifically the review aims to ensure that:

The capital programme aligns with the Council's key strategic priorities

There is a clearly understood and agreed capital strategy and aligned governance framework in place

The capital programme is affordable in terms of capital resources available and the impact on revenue budgets.

The capital budget setting and bid process is transparent and efficient and in alignment with CE restructure and strategic capital function.

Consistent governance and decision making processes are in place across an overarching capital programme strategy

That the right skill sets are in the right place in the organisation to develop, monitor and deliver the capital programme.

There are effective arrangements to update capital cash flow projections for the short, medium and long term.

Overall, the Council continues to be in compliance with CIPFA's Prudential Code for Capital Finance in Local Authorities 2018 and systems and processes remain fit for purpose.

### **Financial Management Standard I: The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans**

The Council has a Medium Term Financial Plan (MTFP) which it reviews on a regular basis and reports this through to members. This was reviewed in the summer in the midst of Covid19 and is subject to a current refresh. This is reflective of the ongoing uncertainty brought about by single-year settlements, significant one-off funding sources and the potential impact of the delayed Fair Funding Review.

The MTFP sets out the economic context and assumptions made and the risks to those assumptions both internal (e.g. delivery of savings, unmanaged cost pressures) and external factors such as Government funding and the impact on other income sources such as NNDR and commercial rents from of the general economic position.

The MTFP update in July reflected that COVID-19 crisis will almost certainly have a long term impact on the Council's financial position and require the Council to review and update its medium term financial strategy to ensure that the Council is still able to deliver the outcomes of the Corporate Plan and maintain its financial resilience. As a starting point, a first attempt was made at modelling a three-year forecast on the basis of the 2021/22 Medium case scenario but with so much uncertainty concerning the key elements, it was emphasised that it must be regarded as an illustrative forecast only with further updates to come.

The MTFP noted:

- Great uncertainty surrounds external funding levels in 2022/23 and 2023/24 consequent upon the likely advent of Fair Funding during this period, the possible delay to the rating review and the introduction of the new Government's spending plans. We believe that the external funding position is clearer for 2021/22, as we expect a rollover of funding from 2020/21.
- There is also great uncertainty about the Government's plans for funding social care post 2021/22 - the Green paper continues to be delayed. In particular, we don't know whether the Government will continue its approach of one-off or short-term funding solutions or develop a more sustainable solution. For 2021/22, we are again, assuming a rollover of existing grants.
- The long term position on SEND and its funding remain unclear and the financial impact of the likely increasing numbers of unaccompanied asylum seeking children (UASC) is also not clear.
- The implications of Brexit on the public purse and the economy in future years are unknown and there is also considerable uncertainty about the future path of public sector pay.
- Significant uncertainty regarding the economic consequences for both the national and local economy means that it is very difficult to predict the full financial impact on the Council over the medium term as much will depend on the timing of any COVID-19 related restrictions being fully lifted and speed and strength with which the local and national economy recovers, and how the economy is altered by the COVID-19 crisis. Any prolonged downturn will negatively impact various of our income streams such as Council Tax and Business Rates (through its impact on the taxbase growth and collection rates), additional Business Rates income from pooling, commercial waste income, parking and commercial property rents.

The next iteration will reflect updates on these significant risks, although many of these will remain.

The Council uses scenario planning where circumstances are considered highly volatile (for example, the 2021/22 budget was developed in this context) and this was reported to members. This is also used at a more granular level for specific volatile service areas, for example, adults and children's social care.

In respect of capital, as set out above the Council has a capital strategy which is being reviewed in the context of current financial parameters as part of the capital management review. There are in place asset management plans at departmental level (Education, Highways, Corporate and Housing etc) - the Capital Management Review will consider the join up on these with particular regard to the capital programme.

### **Financial Management Standard J: The authority complies with its statutory obligations in respect of the budget setting process**

The Council complies with its statutory obligations in respect of the budget setting process. This is set out and clearly evidenced in the annual budget setting report.

Budget development is led by the Group Director of Finance and Corporate Resources in consultation and collaboration with the rest of the leadership including members.

In accordance with the Local Government Finance Act 1992, the Council's budget includes the expenditure that the authority estimates it will incur in the year in performing its function, an allowance for contingencies in relation to this expenditure and the financial reserves that the authority estimates it will need to raise in the year to meet its estimated future expenditure such financial reserves as might be required to fund deficits generated in previous periods.

The Council has a sound track record of financial management and the current circumstance continues to test this. The 2021/22 budget sets aside additional contingencies in respect of Covid19 and the impact of the October 2020 cyberattack. The leadership team are clear about the main pressure areas which are a risk to financial sustainability and alongside the development of cost savings proposals the GDFCR sets aside specific earmarked reserves to mitigate against these risks. The GDFCR is fully aware of S114 responsibilities and the circumstances under which such a notice should be issued.

Performance against the budget is reported to Cabinet on a monthly basis at Council-wide and service level. The GDFCR is aware of areas of cost pressure and their magnitude.

**Financial Management Standard K: The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement of the adequacy of the proposed financial reserves**

The Council has taken a long term and strategic approach to managing the budget gap over a number of years and this has allowed and continues to allow proposals to be developed to cover a range of years to enable services to be properly and fully reviewed. The authority enjoys a high measure of financial stability and has over a number of years managed its finances well. Inevitably there are several risks to the budget, and these are set out in the budget report including cost pressures in relation to demand led services which have been increased as a result of the pandemic along with the measures in place to mitigate these risks.

The clear advice of the Group Director, Finance and Corporate Resources set out in the budget report is that the current level of General Balances should be held at the existing position of £15m which is in line with our current policy to not allow the general balance to drop below £15m and to hold earmarked reserves for a range of specific purposes.

To summarise, as recorded in the budget report, based upon the measures in place to manage the delivery of the savings, the provisions made in relation to contingency sums, levels of reserves and balances the GDFCR is of the view that the estimates are sufficiently robust and reserves adequate on the basis that no allocations unless already planned are undertaken.

**Financial Management Standard L: The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget**

Council's Community Strategy 2018-28 sets out our overarching vision for Hackney over the decade to 2028. It provides direction for all of the Council's decision making throughout this period, including budget setting and a focus for our work in partnership with residents, businesses, local organisations and community groups. The strategy was produced in

partnership with local people and organisations in our community over a period of three years ensuring it is reflective of the lived experiences of residents in our borough.

The Council adopts, delivers and keeps under review a Corporate Plan for each new four year local electoral term. The Corporate Plan will be in line with the ten year Community Strategy, but it sets out how the Council will use its resources and its workforce to help achieve the Mayor's manifesto over the shorter elected period of office. Both the Community Strategy and the Corporate Plan and any related delivery plans or annual updates are publically available. As set out in the budget report, the annual budget is a financial exposition of the corporate plan - providing that thread back through to stakeholder engagement.

In addition to this, at a day to day level, the Council has a developed approach to stakeholder and consultation engagement which is evidenced in its approach to co-production and consultation across the range of services in respect of both business as usual processes to service transformation (including those integral to budget decisions) and more wide ranging customer insight exercises. From consultation and engagement with tenants and leaseholders, through wide-ranging consultation on the wider community strategy to focussed engagement pieces such as the Young Futures Commission and in relation to the Early Help review.

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

The Council undertakes options appraisals in respect of difficult decisions. All Cabinet reports require the author to identify options considered and rejected.

At a more granular level decisions will be supported by recognised options appraisal techniques. These are particularly pertinent to complex capital schemes. Sensitivity analysis is considered on a routine basis where relevant, for example around key variables such as house prices and cost inflation. Where necessary the process will also call for the input of external expertise - particularly where schemes are high in value and risk.

The results of option appraisals are reported to members and where not commercially sensitive will be contained within Cabinet reports. Reports are clear on risks around specific options and the mitigations to address these risks.

**Financial Management Standard N: The leadership team takes action using reports, enabling it to identify and correct emerging risks to its budget strategy and financial sustainability**

Regular and timely reports are provided to Cabinet HMT on the budget position in the current year, including emerging risks and action taken to mitigate, and on future risks. A good example of this is the July report which updated in relation to the Covid impact on the Council's finances in the current year and the impact on the MTFP and action which was required from the leadership team to respond to the crisis.

At Cabinet HMT on a more routine basis, regular reports have focused on material risks most recently in relation to Covid19, the cyber attack and social care. On the latter the requirement for action plans to be developed is paramount and this is underway overseen by the Budget Board which is chaired by the GDFR.

At Directorate level the finance team provide regular updates to directorate management teams and support third tier managers in understanding their budget, cost pressures and developing recovery actions. Information provided is accessible and understandable - with use of visuals where appropriate.

**Financial Management Standard O: The leadership team monitors the elements of its balance sheet which pose a significant risk to its financial sustainability**

The Council is aware of and monitors the elements of the balance sheet which pose a significant risk to financial sustainability.

Long-term and short term investments

The Council adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the Council to approve a treasury management strategy before the start of each financial year. In addition, the Ministry of Housing, Communities and Local Government (MHCLG) issued revised Guidance on Local Authority Investments in March 2010 that requires the Council to approve an investment strategy before the start of each financial year.

The Treasury Management Strategy is reviewed and approved on an annual basis as part of the budget setting process. This strategy includes security and liquidity indicators (i.e. credit rating and short term cash availability). Updates against this strategy are reported to the Audit Committee on a quarterly basis. At an operational level the Head of Treasury, Banking and Accounts Payable monitors the position on a day to day basis and provides weekly updates to the Director, Financial Management.

Debtors

The Council monitors the collection of debt from main income sources on a routine basis and has historically achieves the targets set. Performance is reported to the Audit Committee on a quarterly basis. 2020/21 has proved challenging due to Covid19 and the cyberattack and the impact this has had particularly on residents and businesses ability to pay (Covid) and debt chasing activities (Covid and the cyber attack). Government funding has in part mitigated against the impact of this, but there are some areas, notably commercial property income where there is no compensatory scheme in place. BDPs are being reviewed and reserves set aside specifically for areas where impacts are expected to continue into 2021/22 with no identified compensation. 2021/22 budgets set in context of risk around collection rates.

Cash

The Council maintains an up to date cash flow forecast which is updated on a daily basis. The Council maintains a prudent head room and ensures it operates within the treasury management indicators set within the Treasury Management Strategy.

Current liabilities

The cash flow forecast includes regular payments (for example, payroll, precepts, loan repayments) where payment dates are known and also estimates for other outgoings and

regular income sources. As above this is monitored and updated on a daily basis. The Treasury Management Strategy also includes liquidity indicators. Additionally payment against targets are reviewed. The Council is confident that it maintains sufficient liquid balances such that it can meet liabilities as they become due.

### Provisions and Reserves

The Council makes appropriate provisions for bad debts and other known liabilities which are reviewed in light of changed circumstances (for example, the impact of Covid and the cyber attacks) in setting its budget. The Council also sets aside earmarked funds for areas where there is risk to the annual budget, for example, looked after children placements and where additional resource has been identified as required for a time limited basis. For the coming year specific earmarked funds have been set aside for one-off Covid 19 pressures and the Council's response to the cyberattack.

### Pension liabilities

The Council has a liability to fund part or all of the future pensions which are payable to retired employees. The measurement of these liabilities is reflected on the balance sheet, but we are not required to fund them (i.e. reduce usable reserves) when the liabilities are incurred. These liabilities are managed in the longer term, including adjustments to the employer's annual contributions to the LGPS based on actuarial review.

There is a Pensions Committee in place which oversees the Pension Fund which receives regular updates on the performance and administration of the fund from officers and our pension fund advisors. This provides further assurance that pension liabilities are appropriately managed.

### Long term borrow

The Council sets its prudential indicators in line with the Code of Practice on an annual basis and provides regular updates against these in its Treasury Management updates to the Audit Committee.

The Council has a comparatively low level of long-term external borrowing at circa £75m and the impact on the revenue budget of interest payments is offset by interest from investments. MRP is currently budgeted for at a corporate level.

The Council has an ambitious capital programme going forward and further borrowings are required, as reflected under Financial Management Standard 'H' above is embarking on a capital management review to ensure processes and procedures remain fit for purpose in this new context.

**Financial Management Standard P: The chief finance officer has personal responsibility for ensuring that the statutory accounts provided to the local authority comply with the Code of Practice on Local Authority Accounting in the United Kingdom**



The GDFCR is aware of responsibilities in terms of the preparation of the annual financial standards and these are routinely produced in line with the statutory deadline and in accordance with the Code of Practice on Local Authority Accounting in the UK.

The statements themselves are of course subject to external audit and are routinely given a clean opinion in line with the audit deadline. The Audit Committee have oversight of this process including any recommendations arising from the audit and the external auditors have confirmed they are satisfied with the Council's processes in place.

For 2019/20 accounts deadlines were extended to 31 August for draft accounts, but the Council produced the accounts by mid June, well in advance of this deadline. With regret the audit process was protracted this year and the extended audit deadline of the end of November 2020 was missed due to the auditors raising late queries including missing a piece of work on ICT arrangements.

In addition, the external auditors continue to leave an 'open' VFM audit opinion due to the cyberattack which the Council was subject to in October 2020. This will be revisited once the auditors are in a position to review the Council's recovery work in response to the cyberattack. However, the auditors have confirmed that nothing has come to light during the work undertaken in support of the VFM conclusion that would indicate that the Council does not have appropriate arrangements in place to secure value for money.

**Financial Management Standard Q: The presentation of the final outturn figures and variations from budget allow the leadership team to make strategic financial decisions**

A final outturn against budget report is presented to Cabinet which identifies main variance against budget.

In reality this tends to reflect very little movement from the February forecast position which provides a detailed analysis of financial performance against spend against budget and sets out main cost pressure areas. This puts cost pressures in the context of external factors such as legislative changes and for this year Covid19. It also reflects on demand pressures in service areas and highlights areas for management action.