

Title: CIPFA's Financial Management Code: Council Self-Assessment Compliance Status Update (Sept 2024)

Meeting: Audit Committee

Date: 23 October 2024

Classification: Part 1

Key Decision: No

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Executive Councillor: Councillor Collins - Cabinet Member for Finance, Assets and Investments

1. Executive Summary

1.1 To provide an update to the Audit Committee of the Council's continued compliance with CIPFA's Financial Management Code and to report on progress against the action plan that resulted from the Council's previous self-assessment undertaken in March 2024.

2. Recommendations that Audit Committee:

2.1 Notes that the Council's latest mid-year self-assessment continues to demonstrate overall compliance with CIPFA's Financial Management Code.

2.2 Notes the progress against the Financial Management Code action plan that was reported to the Audit Committee on 24 April 2024.

2.3 Notes the next annual self-assessment of the Council's compliance status against CIPFA's Financial Management Code will be undertaken and reported to the Audit Committee in April 2025.

3. Background

- 3.1 In October 2019 CIPFA published the Financial Management Code (FM Code) which was designed to support good practice in financial management and to assist local authorities in demonstrating their approach to delivering financial sustainability. It essentially sets the standards for financial management arrangements for local authorities.
- 3.2 It is based on a series of principles that are supported by specific standards which are considered necessary to provide the strong foundation to:
- Financially manage the short, medium and long-term finances of a local authority
 - Manage financial resilience to meet unforeseen or unpredictable demands on services
 - Manage unexpected shocks in their financial circumstances.
- 3.3 The FM Code has six core principles and within those it has 17 minimum standards (A-Q) that came into effect from 1 April 2020, with the first full year of compliance being the 2021/22 financial year.
- 3.4 The importance and significance for all local authorities to understand and seek compliance with the FM Code has been highlighted by the significant financial challenges facing the country and local government generally. The Council is now dealing with the combination of huge increases in service demand post the pandemic and cost of living impacts on our local residents, together with significantly higher operating costs across almost every aspect of the organisation, linked to high levels of inflation over a sustained period.
- 3.5 This operating environment across the whole Local Government sector has clearly had a significant impact on the sector's financial resilience and future sustainability. The details of the impact on the Council's approved financial plans for 2024/25 have been reported within the Finance and Corporate Performance Report 2024/25 – Period 4¹.
- 3.6 The challenge of delivering a balanced financial outturn for 2024/25 is significant and it is in the best interests of the Council for all Officers and Elected Members to work closely and collaboratively together at pace to control all areas of identified overspending and to ensure that any adverse variances are brought back as close as possible to the approved budget for 2024/25. This means that some very difficult choices and prioritisation of existing approved spending plans for both capital and revenue during 2024/25 continue to be considered.
- 3.7 Continuing to remain a financially resilient and sustainable local authority is a significant challenge now and in future years. Medium term financial and business planning has been made more difficult by the uncertainty around Government departmental spending plans, given the recent change in Government. The detailed analysis of the Chancellor's budget speech on 30 October and the announcement containing the parameters of the future Local Government finance settlement will be critical for the Council's financial and business planning. A one-year settlement is expected this time around. but it is hoped that in the subsequent year, the Government will return to developing 3-year Comprehensive Spending Reviews for Government departments. However challenging this may be, it would at least provide greater certainty to the sector.

¹<https://democracy.southend.gov.uk/documents/s63321/Report%20of%20Exec%20Director%20Finance%20and%20Resources.pdf>

4. Internal Audit of the Council’s arrangements to maintain Financial Sustainability

4.1 On behalf of Internal Audit, PWC have undertaken a review of the Council processes in place to monitor its long-term financial stability. The draft report identified “that the Council has a governance structure in place to support the development of the Medium-Term Financial Strategy. There are also monitoring arrangements in place that will allow leadership to have oversight of the Council’s spend against budget. This has enabled the Council to have clear sight of the risks related to financial stability, including the ongoing weakness of Local Government finances, demand pressures and the subsequent impact on Southend’s financial position. Southend will need to deliver significant savings in the next five years to balance its budget. This will require the Council to transform its operations to deliver these savings.” A summary of the final report will be reported to the next Audit Committee.

5. Progress against the last self-assessment action plan

5.1 In March 2024 the Council reviewed and refreshed the self-assessment against each of the 17 standards contained within the FM Code. Officers in finance and audit reviewed the Council’s current practices, and the evidence of their utilisation, to complete that self-assessment. Officers reviewed the evidence of the Council’s current arrangements compared to the FM Code’s expectations and expressed their degree of confidence about how well these arrangements met the FM Code’s expectations.

5.2 This resulted in a RAG rating that is being used to report the status of compliance against each standard:

Red	Not compliant
Amber	Compliant but with scope for further improvement
Green	Compliant

5.3 The results of the latest review undertaken by officers is represented by the diagram shown at Appendix 1. This illustrates that the Council was self-assessed as still achieving overall compliance with the expectations of the FM Code. The Council meets the minimum expectations for all 17 standards, with good compliance for 15 standards and demonstrable compliance, but with recognised scope for further improvement for the remaining 2 standards.

5.4 For these 2 standards it was felt that further strengthening is still required, particularly around enhanced awareness and consistent embedding across the Council’s wide range of services. In addition, there are new considerations that have now been introduced including the requirement to develop and submit Local Productivity Plans to Central Government and locally the need to evaluate the impact of the Council’s new governance arrangements for Transformation and Performance.

5.5 The proposed action plan and progress to 30 September is included at Appendix 2. This plan outlines the steps that the Council is taking to deliver further improvements to existing arrangements to ensure enhanced compliance with the expectations of the FM code while also supporting the delivery of the Council’s aims and priorities. This work will also be included in the Council’s Change Programme underpinning the delivery of the new Corporate Plan.

5.6 The following table sets out our assessment of the progress made against each of the standards that were self-assessed as requiring further improvement and the anticipated rating at the time of the next assessment in April 2024:

Financial Management Standard	Self-Assessment RAG rating	Anticipated RAG rating at the next Self-Assessment
A – The leadership team is able to demonstrate that the services provided by the authority provide value for money (VFM)	Amber	Amber
E – The financial management style of the authority supports financial sustainability	Amber	Amber

5.7 The challenges that have been set out in paragraphs 3.4 to 3.7 have meant that the Council's capacity and focus has been directed at investigating the financial sustainability challenges that it faces, taking immediate remedial actions and planning future mitigations. Whilst the actions set out in Appendix 2 remain valid and appropriate, the momentum of delivery has slowed whilst the focus of officers has been placed on the need to urgently reduce all non-essential expenditure and / or generate extra income whilst maintaining local service provision.

5.8 It should be noted that, although most of the Local Government sector, including the Council, continues to face challenges to its future financial sustainability, this is not due to any weakening of its local financial management arrangements. The arrangements have actually helped the Council to identify and highlight the scale of the local financial challenges, cost drivers and impact in a timely manner. Most of these unavoidable external factors, including increases in service costs and demand, are affecting the whole Local Government sector.

5.9 It should also be noted that the National Audit Office's Code of Audit Practice 2020 for external audit of local government that took effect from the audit of the 2020/21 financial year has updated the approach that external auditors will be taking to delivering their review of the Council's Value for Money (VFM) arrangements. The Council's findings from the self-assessment against the FM Code forms part of the evidence provided to the external auditors to inform their yearly review. Following external audit's most recent review of our arrangements for delivering VFM the 2022/23 Auditors' Annual Report (considered at Item 8 on tonight's agenda) concluded that there were no significant weaknesses in the Council's arrangements to maintain financial sustainability.

5.10 However, one significant weakness is being reported by our external auditors in relation to the Council's governance arrangements for 2022/23, specifically with regards to the Council's leadership (including member/officer relationships), governance and decision-making which was also noted in the LGA Corporate Peer Challenge in October 2022.

5.11 In addition to the improvements recommended for the 2 standards rated as amber that are reported in the action plan at Appendix 2, additional work to ensure consistency and embedding of arrangements throughout the Council was also proposed to further enhance the already compliant arrangements in respect of the following 5 standards:

- C: The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control
- I: The authority has a rolling multi-year medium term financial plan consistent with sustainable service plans. [Levels of resilience testing have been enhanced to assess the potential impact of changes in the type and cost of demand on the overall medium-term financial plan.]
- L: The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget. [It is difficult to engage with stakeholders when the Council does not currently have any certainty over the Government's future departmental spending plans and have only received a one-year settlement
- M: The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions
- N: The leadership team takes action using reports, enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.

5.12 Progress to 30 September in these four areas is as follows:

- C: The Council is:
 - undertaking a review of the Constitution that sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people, to ensure that this provides the most effective way of working.
 - undertaking a review of risk management arrangements to ensure that these are operating effectively across the organisation.
 - working to deliver against a refreshed Corporate Plan 2024-2028 that sets out our areas of focus in four overarching priorities, details the outcomes we wish to achieve, the actions we will take to deliver them and how we will resource the necessary activity. It covers the council's priorities and is an important tool to help focus our effort and resources on the right areas.
 - working to deliver against a refreshed set of Service Plans for 2024/25 that provide the Golden Thread between the work of individuals and teams to support delivery of the Corporate Plan.
- I: The Council:
 - will give consideration to the final agreed management actions from the Financial Sustainability Audit and how they will be implemented in the next refresh of the MTFs as part of the 2025/26 budget round.
- L: The Council:
 - has highlighted the scale of the financial challenges and the requirement for difficult choices on service levels to be made in the future.
 - has committed to recast its medium-term financial plan (potential scale of budget gap 2025/26 – 2029/30) to the November 2024 Cabinet meeting.
- M: The Council:
 - continues to bring Value for Money considerations into sharper focus across all services given the significant financial challenges the Council faces.

- has shifted the focus of the work being undertaken on project and programme activity to the transformation programme and creating a centre of excellence and community of best practice.
 - N: The Corporate Leadership Team receive monthly financial performance reports that highlight all budget variances and emerging risks that require the development of remedial savings plans and / or appropriate spending reductions. A link to the report for Period 4 can be found on page 2 of this report. The development and content of the report will be kept under review to ensure it remains relevant and appropriate.
- 5.13 Whilst demonstrating best practice in all areas would always be ideal it is acknowledged that with the finite level of resources available, sensible judgements need to be made. The Council needs to have confidence in its arrangements and compliance with the Code, but also to ensure that arrangements are proportionate and represent a good use of limited available resources. The proposals in this report will be kept under review but it is considered that this fine balance has been achieved, and no extra costs will be incurred as a result of this assessment and recommended way forward.

6. Reasons for Decisions

- 6.1 One of the purposes of the Audit Committee is to provide independent assurance on the adequacy of the internal control framework, therefore understanding the Council's compliance with the expectations of CIPFA (the sectors' standard setter) in respect of financial management assists the Committee to achieve this purpose.

7. Other Options

- 7.1 Other improvements could be recommended but the ones in this report balance the need to have confidence in the Council's arrangements whilst ensuring that they are proportionate and represent a good use of limited resources.

8. Financial Implications

- 8.1 Any financial implications arising from effectively managing the Council's financial position will be considered through the normal financial management processes. Proactively managing the Council's finances results in improved utilisation of limited resources, better VFM including reduced costs and where possible, improved outcomes for local residents.

9. Legal Implications

- 9.1 The Accounts and Audit Regulations 2015 require the Council to ensure that its financial management is adequate and effective and that it has a sound system of internal control which facilitates the effective exercise of its functions.

10. Carbon Impact

- 10.1 Any carbon impact arising from managing the Council's finances will be considered through the Council's normal business management processes.

11. Equalities

- 11.1 Corporate equalities considerations have been considered in the drafting of the financial management arrangements and any specific equality related risks have been identified for the Council.

12. Consultation

- 12.1 Consultation has taken place with key stakeholders.

13. Report Authorisation

This report has been approved for publication by:		
	Name:	Date:
S151 Officer	Joe Chesterton	11/10/2024
Monitoring Officer	Susan Zeiss	11/10/2024
Executive Director	Joe Chesterton	11/10/2024
Relevant Cabinet Member	Cllr Collins: Cabinet Member for Finance, Assets and Investment	14/10/2024

14. Background papers

- CIPFA's Financial Management Code 2019
- CIPFA's Financial Management Code Guidance Notes 2020

15. Appendices

- Appendix 1 – Illustration of Self-Assessment Findings
- Appendix 2 – FM Code Progress Against Action plan