

# Southend-on-Sea City Council

Report of the Executive Director (Finance and Resources)

to

**Audit Committee**

on

**26th April 2023**

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Agenda  
Item No.

**6**

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

### ***A Part 1 Public Agenda Item***

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#### **1. Purpose of Report**

- 1.1 To update the Audit Committee on the Council's annual self-assessment outcome against the expectations of CIPFA's Financial Management Code.

#### **2. Recommendations**

- 2.1 The Audit Committee notes the Council's annual review against the expectations of CIPFA's Financial Management Code, takes assurance that the Council's arrangements have been self-assessed as compliant, and endorses the action plan to deliver further improvements**
- 2.2 The Audit Committee agrees to keep the Council's compliance status against CIPFA's Financial Management Code under review by endorsing the requirement for an annual self-assessment to continue to be reported to the Audit Committee every April, with a six-monthly update on any resulting action plan between each-self assessment.**

#### **3. Background**

- 3.1 In October 2019 CIPFA published the Financial Management Code (FM Code) which is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. It essentially sets the standards of financial management arrangements for local authorities.
- 3.2 It is based on a series of principles which 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 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 1st 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 Covid-19 pandemic and unavoidable rapid increases in operating costs across almost every aspect of the organisation due to high levels of inflation. Additional service and advisory arrangements have also had to be developed 'in-year' to try to support the most vulnerable in our communities in response to the cost-of-living crisis and to administer locally the energy support schemes introduced by the Government throughout 2022.
- 3.5 The financial year 2022/23 has been incredibly challenging for most people and most local authorities have highlighted some real concerns around their financial resilience and future sustainability. An independent national analysis undertaken by Grant Thornton in 2022 suggested that as many as 1 in 6 local authorities could run out of money as early as 2023/24, without substantial additional funding and/or significant budget reductions. The operating environment, unavoidable cost pressures and complexity of local service demand for local government has never been more challenging.
- 3.6 This operating environment has had a significant impact on the Council's approved financial plans for 2022/23. The details have been reported in the Resourcing Better Outcomes – Finance and Corporate Performance Report 2022/23 – Period 4<sup>1</sup>, Resourcing Better Outcomes – Finance and Corporate Performance Report 2022/23 – Period 6<sup>2</sup> and Resourcing Better Outcomes – Finance and Corporate Performance Report 2022/23 – Period 8<sup>3</sup> reports to September, November and January Cabinet respectively.
- 3.7 The challenge of delivering a balanced financial outturn for 2022/23 has been significant. Nearly all the financial pressures that the Council is now experiencing have been caused by external factors where the Council has had no influence or control, and that have happened at great pace, since the Council's 2022/23 budget was approved in February 2022. This means that some very difficult choices and prioritisation and reductions of existing approved spending plans for both capital and revenue during 2022/23 had to be considered. The outturn position for 2022/23 will be presented to the June 2023 Cabinet meeting.

<sup>1</sup><https://democracy.southend.gov.uk/documents/s53058/Report%20of%20Deputy%20Chief%20Executive%20Executive%20Director%20Finance%20and%20Resources.pdf>

<sup>2</sup><https://democracy.southend.gov.uk/documents/s53882/Report%20of%20Exec%20Director%20Finance%20and%20Resources.pdf>

<sup>3</sup><https://democracy.southend.gov.uk/documents/s54669/Report%20of%20Exec%20Director%20Finance%20and%20Resources.pdf>

#### 4. Self-assessment

4.1 The Council committed to review and refresh the self-assessment against each of the 17 standards contained within the FM Code. Officers in finance and audit have reviewed the Council's current practices, and the evidence of their utilisation, to complete that self-assessment. Officers have 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. This has 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

4.2 The results of this updated review undertaken by officers is represented by the diagram shown at Appendix 1. This illustrates that the Council is self-assessed as achieving overall compliance with the expectations of the FM Code. The Council meets the minimum expectations for all 17 standards, with good compliance for 14 standards and demonstrable compliance, but with recognised scope for further improvement for the remaining 3 standards.

4.3 In addition to the improvements recommended for the 3 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 is also proposed to enhance the already compliant arrangements in respect of the following 4 standards:

- C: The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control
- L: The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.
- M: The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decision.
- N: The leadership team takes action using reports, enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.

4.4 This FM Code self-assessment should be viewed in the context of the prevailing conditions within which the Council has worked over the last financial year. Despite the financial challenge arising from the continuing national and local conditions, including the uncertainty around the financial impact of forthcoming national policy changes, increasing cost and demand pressures, inflation and supply chain issues, the Council remains in a relatively stronger and more financially resilient position than several other local authorities. It must be noted however that the Council must reduce its overall cost base (net operating costs) in the medium term in order to ensure that it remains financially sustainable. This is a challenge that nearly every local authority is facing. The overall Financial Management arrangements within the Council remain robust.

- 4.5 The report following the recent LGA Peer Review found that “Over the past 2 years (2020/21 and 2021/22) the council’s financial management has been strong.” It also found that “The council has a structured approach to developing its financial strategy which includes a 10-year Financial Sustainability Strategy, a 5-year Medium Term Financial Strategy and a Capital Investment Strategy aligned to the Southend 2050 outcomes.” The report also referenced that “that the finance team are respected and capable and that the council has demonstrated a sound approach to the management of its finances over the past 10 years”.
- 4.6 The Government effectively only issued a one-year funding settlement for 2023/24, which given the commitment to financial reform, has increased the risk and uncertainty around future year funding levels. The overall level of net cost reduction required by the Council to bridge a medium to long term deficit by 2027/28 requires a programme of work that not only supports the development of net cost reduction and transformation opportunities at a service level, but that also considers how these opportunities can be integrated into a renewed, sustainable, operating model. A new transformational blueprint has been developed that looks to provide a roadmap and framework for building a Council that is fit for the future. There will be a phased implementation of the new Transformational Change Programme, the first phase of which will include functional maturity assessments across all service areas. A maturity assessment is an effective tool to assess and understand the current state of a service across a range of dimensions. The results help to identify how far away from the acceptable level of agreed standard the service is.
- 4.7 A new Corporate Plan for 2022 to 2026 has been approved and published which will be underpinned by our commitment to future financial sustainability. New integrated service plans will be introduced for 2023/24. These include key objectives, service performance levels, risks, approved budgets, risk assessments and service commitments which combined will illustrate contributions to the delivery of the Corporate Plan.
- 4.8 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.
- 4.9 Discussions have been held with the Corporate Leadership Team to confirm the:
- results of the self-assessment
  - areas where we should focus our resources to deliver improvements
  - commitment to continue to create the right conditions to embed good financial management, with clear ownership and accountability for delivering better outcomes
  - need to embed the importance of securing value for money across all areas of the Council via the Knowing Your Business programme.
- 4.10 The findings of the self-assessment have resulted in the proposed action plan, included at Appendix 2. This plan outlines the steps that the Council will take 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 new Corporate Plan, the Southend 2050 Ambition, Roadmap and Priority Outcomes. This work will also be included as part of taking forward the Council's transformational blueprint which could result in new ways of working in the future and as our commitment to supporting our workforce and improving our productivity to enhance our financial sustainability.

- 4.11 It should also be noted that the NAO's Code of Audit Practice 2020 for external audit of local government that came into force for the audit of the 2020/21 financial year. This outlined an updated approach that external auditors have taken 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 has formed part of the evidence provided to the external auditors to inform their review. The results of this review for 2020/21 are reported as part of the external auditor's Annual Report (which is included elsewhere on this agenda) as part of the completion of their independent audit of 2020/21.

### **Reasons for Recommendations**

- 5.1 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.

### **Corporate Implications**

- 6.1 **Contribution to the Corporate Plan and Southend 2050 Ambition**  
The corporate financial management arrangements underpin the operational effectiveness of the Council's corporate governance arrangements and specifically monitors progress of managing financial sustainability and the use of financial resources associated with the successful delivery of our Southend 2050 Ambition, Corporate Plan and Outcomes.
- 6.2 **Financial Implications**  
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 improved outcomes for local residents.
- 6.3 **Legal Implications**  
The Accounts and Audit Regulations 2015 require the Council to ensure that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions.
- 6.4 **People Implications**  
Any people implications arising from managing the Council's finances will be considered through the Council's normal business management processes.

#### 6.5 Property implications

Any property implications arising from managing the Council's finances will be considered through the Council's normal business management processes.

#### 6.6 Consultation

Consultation has taken place with key internal stakeholders.

#### 6.7 Equalities and Diversity Implications

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.

#### 6.8 Risk Assessment

Failure to implement a robust and fit for purpose financial management framework increases the risk that Council objectives will not be delivered.

#### 6.9 Value for Money

Effective forecasting and timely management of the finances of the Council is a key factor in preventing waste, inefficiency and unnecessary or unplanned use of resources.

#### 6.10 Community Safety Implications

Any community safety implications arising from identifying and managing risk will be considered through the Council's normal business management processes.

#### 6.11 Environmental Impact

Any environmental implications arising from managing the Council's finances will be considered through the Council's normal business management processes.

### 6. Background Papers

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

### 7. Appendices

- Appendix 1 – Illustration of Self-Assessment Findings
- Appendix 2 – Financial Management Code Action plan