

Title: CIPFA's Financial Management Code: Council Self-Assessment Compliance Status Update (Sept 2023)

Meeting: Audit Committee

Date: 25 October 2023

Classification: Part 1

Key Decision: No

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Executive Councillor: Councillor Cox, Leader (Cabinet Member for Special Educational Needs & Disability)

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 2023.

2. Recommendations

1.2 **The Audit Committee notes that the Council's latest mid-year self-assessment continues to demonstrate overall compliance with CIPFA's Financial Management Code.**

1.3 **The Audit Committee notes the progress against the Financial Management Code action plan that was reported to the Audit Committee on 26 April 2023.**

1.4 **The Audit Committee 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 2024.**

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 become even more critical due to the current unprecedented levels of financial distress being reported by so many local authorities right across the country. Many upper tier local authorities including Southend-on-Sea are now dealing with huge increases in service demand post the Covid-19 pandemic, combined with unavoidable rapid increases in operating costs across almost every aspect of their organisations. Locally, this operating environment had a significant impact on the Council's approved financial plans for 2022/23 with the Council ending the financial year with the largest level of reported overspending since it became a Unitary Authority on 1 April 1998. Following years of strong financial management, the Council had sufficient reserves to cope with the impact of this outcome for that year as a 'one-off' critical event. The Council cannot continue to overspend at that level and the 2023/24 financial forecast is now putting the Council at serious risk and challenging its future ongoing viability. This has been reported in the Finance and Corporate Performance Report 2023/24 – Period 4¹ to September Cabinet.
- 3.5 The challenge of delivering a balanced financial outturn for 2023/24 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 2023/24. This means that some very difficult choices and prioritisation of existing approved spending plans for both capital and revenue during 2023/24 continue to be considered.

¹<https://democracy.southend.gov.uk/documents/s58913/Report%20of%20Executive%20Director%20Finance%20and%20Resources.pdf>

4. Progress against the last self-assessment action plan

4.1 In March 2023 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.

4.2 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

4.3 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 14 standards and demonstrable compliance, but with recognised scope for further improvement for the remaining 3 standards. The Council’s overall FM arrangements are generally sound but the unprecedented level of uncontrollable financial challenges being incurred at pace, that is being faced right across the local government sector, is placing severe pressure on most organisations just to remain financially viable and sustainable.

4.4 The proposed new 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.

4.5 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
I - The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans	Amber	Green

- 4.6 The challenges that have been set out in paragraphs 3.4 and 3.5 has 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 and 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.
- 4.7 It should be noted that, although the Council faces challenges to its financial sustainability, this is not due to any weakening of its 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 increased service cost and demand increase, are affecting the whole Local Government sector.
- 4.8 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. No significant weaknesses have been reported by our external auditors, following their review of our arrangements for delivering VFM for both 2020/21 and 2021/22.
- 4.9 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 was also proposed to further 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 decisions
 - N: The leadership team takes action using reports, enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.
- 4.10 Progress to 30 September in these three 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.
 - 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 2024/25 – 2028/29) to the November 2023 Cabinet meeting.
 - M: The Council:
 - is bringing 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.
- 4.11 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.

5. Reasons for Decisions

- 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.

6. Other Options

- 6.1 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.

7. Financial Implications

- 7.1 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 improved outcomes for local residents.

8. Legal Implications

- 8.1 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 that its functions.

9. Carbon Impact

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

10. Equalities

10.1 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.

11. Consultation

11.1 Consultation has taken place with key stakeholders.

Background Papers

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

12. Appendices

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