

Title:	CIPFA's Financial Management Code Self-Assessment Update
Meeting:	Audit Committee
Date:	24 April 2024
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 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 cope with volatility caused by unpredictable changes in the demands and costs of local 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 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 The financial year 2023/24 has been incredibly challenging for a lot of people and most local authorities have highlighted some real concerns around their financial resilience and future sustainability. The current operating environment, unavoidable cost pressures and complexity of local service demand across local government has never been more challenging, particularly for upper tier local authorities. Numerous Councils have announced or have given warnings of financial distress.
- 3.6 This operating environment has clearly had a significant impact on the Council's approved financial plans for 2023/24. The details have been reported within the Finance and Corporate Performance Report 2023/24 – Period 4¹, Finance and Corporate Performance Report 2023/24 – Period 6² and Finance Performance Report 2023/24 – Period 8³ to September 2023, November 2023 and January 2024 Cabinet meetings respectively.

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

²<https://democracy.southend.gov.uk/documents/s59751/Report%20of%20Exec%20Director%20Finance%20and%20Resources.pdf>

³<https://democracy.southend.gov.uk/documents/s60218/Report%20of%20Exec%20Director%20Finance%20and%20Resources.pdf>

- 3.7 The challenge of delivering a balanced financial outturn for 2023/24 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 direct influence or control, and all have happened at great pace, since the Council's 2023/24 budget was approved in February 2023. This means that some very difficult choices, prioritisation and reductions of previously approved spending plans for both capital and revenue during 2023/24 had to be considered and implemented. The final outturn position for 2023/24 will be presented to the June 2024 Cabinet meeting.
- 3.8 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 likelihood that current Government departmental spending plans will be affected by the impending general election. Given the unprecedented series of events over the last few years Central Government have continued to provide the Local Government sector with only single year financial settlements. It is hoped that following the conclusion of the next general election that 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. Depending on the timing of the election, this approach may not occur until the 2026/27 budget round.

4. Self-assessment

- 4.1 The Council has 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 standards 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 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 15 standards and demonstrable compliance, but with recognised scope for further improvement for the remaining 2 standards.

- 4.4 These 2 standards were also recognised as having scope for further improvement in last year's self-assessment. Despite it being a challenging year, progress has been made but it was felt that further strengthening particularly around enhanced awareness and consistent embedding across the Council's wide range of service is still required. 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.
- 4.5 Sufficient improvements have been made for one standard which was previously recognised as having scope for further improvement and it is now assessed as green. However, it has been determined that some additional work is still required to ensure consistency and embedding of compliance against 'Standard I' as highlighted in the following section.
- 4.6 In addition to the improvements recommended for the 2 standards rated as amber that are reported within 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 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 (see paragraph 3.8).]
 - 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.
- 4.7 This FM Code self-assessment should be viewed in the context of the prevailing conditions that the Council has been forced to work within over the last couple of financial years. There has been significant media coverage around the huge challenges that have been faced by local authorities as a direct consequence of international, national and local economic factors and conditions. The contributory factors include the uncertainty around the financial impact of potential future national policy changes, increasing cost and local demand pressures, high levels of inflation and supply chain issues.

- 4.8 Despite these multitude of financial pressures and challenges, the Council remains in a relatively more financially resilient position than many 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 continues to remain financially sustainable. This is a challenge that nearly every local authority is facing and the overall financial management arrangements within the Council must continue to remain robust and fit for purpose.
- 4.9 In October 2022, the Local Government Association and a team of peers visited the council to conduct a Corporate Peer Challenge. The report following that 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 “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”. We have continued to build on the strength of these arrangements, but the 2022/23 and 2023/24 financial years have been unprecedented in the scale of financial challenge.
- 4.10 In line with their standard procedures, the original peer team returned to the Council in December 2023 to review progress and to provide ongoing support and advice for improvement. Their report outlined the financial environment and the work undertaken to address future forecasted budget gaps. A strong and consistent message arising from the progress review was the need to maintain focus on the delivery of identified savings plans and medium-term financial resilience. The peer team further highlighted the importance of future local service re-design and transformation to deliver this ambition.
- 4.11 The Government effectively only issued a one-year funding settlement for 2024/25, which given the commitment to financial reform, has increased the risk and uncertainty around the potential impact of levels of funding in future years. The overall level of net cost reduction required by the Council to bridge a medium to long term deficit by 2028/29 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.
- 4.12 A refreshed Corporate Plan for 2023 to 2027 has been approved and published which will be underpinned by our commitment to future financial sustainability. Integrated service plans have been strengthened and continued for 2024/25. These include key objectives, service performance indicators, approved budget levels, approved savings/income generation initiatives, risk assessments and service commitments which combined will illustrate contributions to the delivery of the objectives contained within the Corporate Plan.

- 4.13 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.
- 4.14 Discussions have previously been held with the Corporate Leadership Team and will be ongoing, to support 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 further embed the importance of securing value for money across all areas of the Council via the Knowing Your Business programme.
 - development of a clear strategy, proportionate governance, and prioritisation of a programme of service design and transformation will continue to evolve and the already identified changes to target operating models will be implemented.
- 4.15 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 Corporate Plan. This work will also be included as part of taking forward the Council's transformation programme which could result in new ways of working in the future and as our commitment to improving efficiency and productivity to enhance our financial sustainability.
- 4.16 The Council is required to apply the CIPFA/SOLACE Delivering Good Governance in Local Government framework. The 2023/24 Annual Governance Statement will be organised by the SOLACE principles and will go beyond describing what has been achieved to set out how effective those measures have been. We are also learning from councils which have face finance and governance challenges so that we can make appropriate improvements to the contents of the Annual Governance Statement and associated actions plans to ensure it is a more meaningful document.
- 4.17 It should be noted that in February 2024 Public Sector Audit Appointments published its latest update on the number of audits outstanding. It showed that, as at 31 December 2023, for the 2022/23 financial year only 10% of Local Government bodies had received audit opinions. Once the Council's 2022/23 Statement of Accounts are adopted, signed and published, we will have caught up with the backlog of unaudited accounts in time for the closedown and publication of the 2023/24 Statement of Accounts and their subsequent audit with our newly appointed external auditors KPMG. The report for adoption of the 2022/23 Statement of Accounts is included elsewhere on this agenda.

- 4.18 It should also be noted that the NAO's Code of Audit Practice 2020 for external audit of local government that came into force from the audit of the 2020/21 financial year onwards. 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 each year. The results of this review for 2022/23 will be included within our external auditor's Annual Report as part of the completion of their independent audit of 2022/23.

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 where possible, 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 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 where appropriate.

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 – Financial Management Code Action plan

Report Authorisation

This report has been approved for publication by:

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	Name:	Date:
S151 Officer	Joe Chesterton	16/04/2024
Monitoring Officer	Susan Zeiss	16/04/2024
Executive Director	Joe Chesterton	16/04/2024
Relevant Cabinet Member	Councillor Cox	16/04/2024