

<b>Report to:</b>	Audit and Governance Committee	<b>Date of Meeting:</b>	22 June 2022
<b>Subject:</b>	Financial Management Code		
<b>Report of:</b>	Executive Director of Corporate Resources and Customer Services	<b>Wards Affected:</b>	(All Wards)
<b>Cabinet Portfolio:</b>	Regulatory, Compliance and Corporate Services		
<b>Is this a Key Decision:</b>	No	<b>Included in Forward Plan:</b>	No
<b>Exempt / Confidential Report:</b>	No		

### Summary:

The Chartered Institute of Public Finance and Accountancy (CIPFA) have issued a Financial Management (FM) Code which aims to ensure a high standard of financial management in local authorities. An assessment of the Council's current compliance with the code together with an action plan for improvement was reported to Audit and Governance in March 2021.

Many areas of good practice in financial management were highlighted within the compliance assessment. The purpose of this report is to provide an update on progress in implementing the action plan for further improvements and also to identify additional actions to further improve compliance.

### Recommendation(s):

It is recommended that the Committee:

- (1) Note the progress in implementing the actions which have been carried out to further improve both compliance with the Code and financial management across the authority
- (2) Note the additional actions identified to further improve compliance

### Reasons for the Recommendation(s):

To demonstrate the extent to which the Council complies with the FM Code and progress in implementing improvements. This will support good financial management, governance and risk management within the authority.

**Alternative Options Considered and Rejected:** (including any Risk Implications)

Compliance with the FM Code is not a statutory requirement and so the Council could choose not to adopt it. However, adopting good practice in relation to financial management is an effective tool for managing risk. CIPFA also state that its members must comply with it as one of their professional obligations.

**What will it cost and how will it be financed?**

**(A) Revenue Costs**

There are no direct revenue costs associated with this report.

**(B) Capital Costs**

There are no direct capital costs associated with this report.

**Implications of the Proposals:**

<b>Resource Implications (Financial, IT, Staffing and Assets):</b> Any costs associated with the actions linked to areas for improvement will be either met from existing budgets or subject to separate approval as required.	
<b>Legal Implications:</b> Section 151 of the Local Government Act 1972 states that “every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs”. CIPFA’s judgement is that compliance with the FM Code will assist local authorities to demonstrate that they are meeting these important legislative requirements.	
<b>Equality Implications:</b> There are no equality implications.	
<b>Climate Change Implications:</b>	
Have a positive impact	N
Have a neutral impact	Y
Have a negative impact	N
The Author has undertaken the Climate Emergency training for report authors	Y

**Contribution to the Council’s Core Purpose:**

Effective management of the Council’s financial affairs supports each theme of the Council’s Core Purpose.

Protect the most vulnerable: See comment above
Facilitate confident and resilient communities: See comment above
Commission, broker and provide core services: See comment above
Place – leadership and influencer: See comment above
Drivers of change and reform: See comment above
Facilitate sustainable economic prosperity: See comment above
Greater income for social investment: See comment above
Cleaner Greener See comment above

## **What consultations have taken place on the proposals and when?**

### **(A) Internal Consultations**

The review of compliance with the Financial Management Code, and the identification of further improvements, has been led by the Finance Service in consultation with the Senior Leadership Board. The final document as included at the appendix to this report has also been the subject of review and initial approval by the Council's Monitoring Officer, prior to presentation to Members.

The Executive Director of Corporate Resources and Customer Services (FD 6840/22) and Chief Legal and Democratic Officer (LD 5040/22) have been consulted and any comments have been incorporated into the report.

### **(B) External Consultations**

Officers of the Finance Service have attended events delivered by CIPFA in relation to the Financial Management Code to obtain advice and guidance and to understand other local authority approaches to compliance.

### **Implementation Date for the Decision**

Immediately following the Committee.

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## **Appendices:**

The following appendices are attached to this report:

Appendix – Action Plan Progress Update

## **Background Papers:**

“Audit and Governance Terms of Reference”, “Members’ Code of Conduct” and “Revisions to Employee Code of Conduct” – as presented to Council 20<sup>th</sup> May 2021

“High Needs Funding Allocations” – as presented to Council on the 20<sup>th</sup> January 2022

“Sefton High Need Funding Allocation 2022/23 Update” – as presented to Cabinet on the 3<sup>rd</sup> February 2022

“Robustness of the 2022/23 Budget Estimates and the Adequacy of Reserves – Local Government Act 2003 - Section 25” and “Revenue and Capital Budget Plan 2022/23 – 2024/25 and Council Tax 2022/23” – as presented to Council on the 3<sup>rd</sup> March 2022

“Audit and Governance Committee Work Programme 2022-2023” - as presented to Audit and Governance Committee on the 16<sup>th</sup> March 2022

Sefton Council - Contract Procedure Rules 2022

Annual Governance Statement 2021/22

### **1. Introduction/Background**

- 1.1 During the last three years and especially in the last 12 months, it has been widely publicised that a number of authorities have encountered real financial difficulties with some issuing Section 114 notices.
- 1.2 To support financial sustainability, CIPFA have produced a Financial Management (FM) Code to ensure that financial management is of the required standard across local authorities. For the first time the FM Code sets out the standards of financial management for local authorities. This Code was launched in November 2019 and at that stage authorities were advised that they should introduce this in 2020/21 prior to full implementation in 2021/22. This should also be considered by local authorities alongside the annually published CIPFA resilience index.
- 1.3 The Code is based on establishing Principles of Good Financial Management with these being translated into financial management standards. Each local authority has to then detail how it meets these standards through self-assessment and what improvements are required in order to ensure compliance.
- 1.4 An initial review the Council’s self-assessment was carried out in early 2021, together with the development of an action plan that was presented to Members of Audit and Governance committee for consideration in March 2021.

## 2. The CIPFA Statement of Principles of Good Financial Management

- 2.1 The FM Code applies a principle-based approach rather than prescribing the financial management processes that local authorities should adopt. They have been developed by CIPFA in consultation with senior practitioners from local authorities and associated stakeholders. The principles have been designed to focus on an approach that will assist in determining whether, in applying standards of financial management, a local authority is financially sustainable.
- 2.2 The principles include:
- i. Organisational **leadership** – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.
  - ii. **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.
  - iii. 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.
  - iv. Adherence to professional **standards** is promoted by the leadership team and is evidenced.
  - v. 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.
  - vi. 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.
- 2.3 CIPFA's view is that all financial management practices should comply with these principles.

## 3. Self-Assessment and Action Plan

- 3.1 As part of the budget setting process for 2022/23, the Council's finance service has completed a review of the self-assessment of compliance with the Code and progress against the Action Plan that was presented to Audit and Governance Committee in March 2021. This included input from the Strategic Leadership Board to reflect that financial management and good practice needs to be embedded across the Council and at all levels of the organisation.
- 3.2 The action plan set out activities to improve compliance with the Code. These were not necessarily new, with many already being progressed, but were brought together in one place to show what is being done to sustain and improve good financial management across the Authority.
- 3.3 An update to the Action Plan, including progress in implementing improvements, is attached at the appendix to this report.

### 3.4 The key areas of progress and ongoing activity include:

#### **Contract Procedure Rules (CPRs)**

- An update to the CPRs has been completed – including changes linked to the UK's exit from the EU – which supports the achievement of Value for Money for the authority. Further action is anticipated in the next 12-28 months to capture any additional legislative requirements.

#### **Benchmarking**

- Benchmarking is used across a range of Council services and is used to inform the budget setting process. Most significantly this is used within Adult Social Care which represents a major element of the Council's budget. Benchmarking is used to compare fee levels across the Liverpool City Region to inform the fee setting process and to demonstrate Value for Money (VfM). The Local Government Association (LGA) also completed a review of benchmark costs for Children's Social Care in 2021 which has been considered as part of the budget setting process.

#### **CIPFA Graduate Trainee Programme / Succession Planning / Recruitment**

- Successful recruitment and development of trainee finance professionals is contributing towards ensuring that the Finance team continues to be suitably resourced and fit for purpose in future.
- Other development opportunities have been made available to existing staff within the service.
- Further options are being developed to support recruitment to the Internal Audit Service.

#### **Internal Audit Development Action Plan**

- Progress continues to be made with respect to delivering the outcomes associated with the Action Plan including developing the skills of the team; continuous review of the Internal Audit report; and reviewing and updating working practices to reflective changes in the Internal Audit Manual.

#### **Governance Documentation**

- Updates to the Terms of Reference of the Audit and Governance Committee and the Officers' and Members Code of Conduct have been approved with further updates included in the Work Programme.
- Work in relation to updates to the Code of Corporate Governance is ongoing.

#### **Finance Business Partnering Project / Financial Training**

- Finance Policies and Procedures and Service Schemes of Delegation continue to be reviewed on a regular basis and updated. These support the requirements of the Council's Financial Procedure Rules as approved within the Constitution.
- Work to deliver a new IT solution to support the budget monitoring process – together with financial training - is ongoing with a target implementation date of Summer / Autumn 2022.

#### **Demand Management**

- This action related to supporting the financial mesalliance of the authority. The Revenue and Capital Budget Plan 2022/23 – 2024/25 and Council Tax 2022/23 report presented to Council on the 3<sup>rd</sup> March 2022 identified a number of workstreams and dedicated projects to address the challenges faced by demand led services such as Adult Social Care, Children Social Care, Public Health and Home to School Transport. These projects continue

to be progressed and the financial implications will be reported as part of the Council's standard budget monitoring process.

#### **Reserves Strategy**

- The reserves held should be at an appropriate level to support the financial sustainability of the authority. The Reserves Strategy was set out within the Robustness of the 2022/23 Budget Estimates and the Adequacy of Reserves – Local Government Act 2003 - Section 25 as presented to Council on 3<sup>rd</sup> March 2022 and the budget for 2022/23 includes an increase to the level of reserves. It is critical that a balanced outturn is achieved each year to ensure an appropriate level of reserves is maintained and this will continue to be reported via the Council's corporate budget monitoring process.

#### **High Needs / Secondary Schools Deficits**

- This action involved giving consideration to how risks associated with High Needs and Secondary Schools Deficits are reported.
- For High Needs, a report was taken to Council on the 20<sup>th</sup> January 2022 detailing the current situation with respect to funding, including associated risks, and quarterly updates will be provided to Cabinet and Council as required.
- For Secondary School Deficits, each school has a robust budget recovery plan which in the first instance must demonstrate how the annual budget will be brought back into balance as soon as possible. In future years, the plan details how any accumulated deficit balance will be repaid to the Council. Licensed deficit budgets must be signed off by the Council's Section 151 Officer and Statutory Director of Children's Services (DCS).

3.5 Additional actions to improve compliance identified since the last review include:

#### **Governance Framework / Internal Control**

- The core governance framework is in place across the organisation. The importance of this framework will be subject to continual reinforcement and review to make sure it is embedded.
- The Council continually reviews the internal control arrangements that exist and reports on them to Audit and Governance Committee. Where there are areas for improvement found, these will be the subject of further review to address the issues identified.
- This review includes: the implementation of audit recommendations and ensuring compliance with the agreed risk management approach of the Council - including Corporate Risk Registers and Business Continuity Plans and continual reviews of working arrangements by Heads of Service.

#### **Partnership Agreements**

- The Annual Governance Statement 2021/22 highlights that not all Heads of Service have provided assurances with respect to the review of Partnership Arrangements as required by the Council's Financial Procedure Rules. Heads of Service have been reminded to provide such assurances. This will be confirmed in the next Annual Governance Statement update.

#### **Children's Social Care OFSTED**

- In response to the recent OFSTED inspection of Children's Social Care, an Improvement Plan is being developed and this will be supported by an appropriate financial plan which will be included within the Council's Medium Term Financial Plan (MTFP). Any additional investment made in the service will have an impact on the Council's budget flexibility and therefore it is critical

that any actions included within the Improvement Plan are both deliverable and financially sustainable.

- 3.6 It is clear from this assessment that there are many areas of good practice in financial management evident across the organisation and that good progress has been made in implementing further improvements since the last report in Audit and Governance Committee in March 2021.

#### 4. **Conclusion**

- 4.1 The CIPFA Financial Management Code is intended to be a live document to support continuous improvement of financial management. This will continue to be reviewed and updated annually and progress on the activities included within the Action Plan will be presented to a future meeting of the Audit and Governance Committee.