

Report to:	Audit and Governance Committee	Date of Meeting:	Wednesday 19 July 2023
Subject:	Financial Management Code		
Report of:	Executive Director of Corporate Resources and Customer Services	Wards Affected:	(All Wards)
Cabinet Portfolio:	Regulatory, Compliance and Corporate Services		
Is this a Key Decision:	No	Included in Forward Plan:	No
Exempt / Confidential Report:	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. This requires an annual assessment of the Council's compliance with the code and is accompanied by an action plan for improvement.

Many areas of good practice in financial management are 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 principles of good financial management
- (2) Note the approaches and lessons learnt from the implementation of the FM Code
- (3) 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
- (4) 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:

Resource Implications (Financial, IT, Staffing and Assets): 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.	
Legal Implications: 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.	
Equality Implications: There are no equality implications.	
Impact on Children and Young People: Yes Whilst the FM Code itself does not have a direct impact on Children and Young People, the service requirements around Value for Money (VfM), which involves finding a balance between achieving relatively low cost, high productivity and valued outcomes, affects all service areas including those providing support to Children and Young People.	
Climate Change Implications:	
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 7289/23.....) and Chief Legal and Democratic Officer (LD 5489/23....) 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.

Contact Officer:	Andrew Bridson
Telephone Number:	07813543320
Email Address:	andrew.bridson@sefton.gov.uk

Appendices:

The following appendices are attached to this report:

Appendix – Action Plan Progress Update

Background Papers:

None

1. Introduction/Background

- 1.1 During the past few years, it has been widely publicised that a number of authorities have encountered real financial difficulties with some issuing Section 114 notices or requiring other elements of government intervention and support.
- 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. A follow-up review was presented in June 2022 which identified progress against the action plan and further areas to improve compliance with the Code.
- 1.5 This report presents the output from a further review which was conducted in 2023, updates to the action plan and output from a review conducted by CIPFA into the experiences of Local Authorities implementing the FM Code and lessons learned.

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. **Implementation of the FM Code: Approaches and Lessons Learned**

3.1 In late 2022, CIPFA published their findings following a review into the different approaches adopted in implementing the FM Code and they identified 8 lessons learned which can support local authorities in further improving their compliance with the FM Code and maximising its beneficial impact. These lessons include:

1. The FM Code reinforces good financial management practice

3.2 *“The FM Code brings together established financial management principles and standards in one place. And it does so in a way that helps authorities to ‘sell’ these principles and standards to others across their organisation and to embed them into their organisations’ ways of working.”*

3.3 These principles and standards are not new but represent good financial management practice and help to improve financial understanding and awareness.

2. Authorities do not have to do everything at once

3.4 *“Authorities do not have to achieve perfect compliance with the FM Code from the outset. They can take action over time to improve on their initial level of compliance as they strengthen their financial management practices.”*

3.5 Whilst some standards within the code offer a binary state of compliance others are more subjective. This allows local authorities to identify baseline performance and then seek to improve over time while enhancing financial management arrangements and producing a growing base of evidence to support compliance with the Code.

3. The FM Code helps authorities to see the bigger picture

- 3.6 *“By bringing together the principles and standards that together contribute to effective financial management, the FM Code allows authorities to take a holistic view of the arrangements in place across their organisations to manage their financial resources effectively.”*
- 3.7 The FM Code provides authorities with the opportunity to take a step back, view the big picture and reflect on current practices and how these can be improved.

4. Authorities need to interpret the FM Code in the light of their local context

- 3.8 *“The subjective nature of some aspects of the FM Code – for example, the difficult-to-define notion of value for money – means that authorities need to interpret some of the requirements of the FM Code in the light of their individual local circumstances.”*
- 3.9 The FM Code applies to different types of public authorities and this review has been conducted in the context of a local Council and its specific challenges.

5. Compliance can be more work than authorities might anticipate

- 3.10 *“For many authorities, the process of assessing compliance and, in particular, collating the evidence to support their assessment, has proven to be more time- and resource intensive than they had anticipated at the outset.”*
- 3.11 This is driven by the need to take views from across the organisation. However, many of the activities required to improve compliance are already being undertaken with the FM Code simply bringing these together into one place. CIPFA has also provided accompanying guidance notes to support this process.

6. The FM Code itself will not ensure financial stability

- 3.12 *“While the FM Code sets out the standards required to demonstrate sound financial management, compliance with the FM Code is not in itself sufficient to ensure the financial resilience or sustainability of individual authorities or of the sector as a whole.”*
- 3.13 CIPFA recognise that there are many internal and external factors beyond a local authority's financial management arrangements that can impact on financial resilience and sustainability such as: service demands; funding settlements; cost pressures; central government decisions; and many more. Compliance with the code will not mitigate these but will help to identify issues when they arise, assess their impact and respond to them proactively and promptly.

7. Authorities need to consider how they will report against the FM Code

- 3.14 *“Many authorities have shared their self-assessment of compliance internally with their audit committee and/or with some other forum of elected office-holders, such*

as their executive or cabinet or, for policing bodies, the police and crime commissioner. The most common way in which authorities have reported on their compliance to an external audience is in their annual governance statement.”

- 3.15 In the case of Sefton, the FM Code review is included on the Audit and Governance Committee workplan – with updates led by the Finance Service in consultation with the Senior Leadership Board, the Service Manager Finance and the Chief Internal Auditor. The output from the exercise is also subject of review and initial approval by the Council's Monitoring Officer, prior to presentation to Members and then shared with the Council's external auditor in due course.

8. Financial management needs to be embedded across the organisation

- 3.16 *“It is important that the development of robust financial management arrangements is accompanied by a drive to ensure that these arrangements are embedded across the organisation. They cannot be an add-on. Rather, they need to be an integral part of how the authority thinks and works.”*
- 3.17 This cannot be achieved by the Finance Service alone. It requires an overarching culture of financial management that is embraced by Members, senior leaders, managers and staff alike so that the principles and standards of financial management are embraced even when the finance team is not involved directly in a particular activity.

4. Self-Assessment and Action Plan

- 4.1 As part of the budget setting process for 2023/24, the Council's finance service has completed an update of the self-assessment of compliance with the Code and progress against the latest Action Plan that was presented to Audit and Governance Committee in June 2022. 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.
- 4.2 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.
- 4.3 An update to the Action Plan, including progress in implementing improvements, is attached at the appendix to this report.
- 4.4 The key areas of progress and ongoing activity include:
- **Contract Procedure Rules (CPRs)**
 - As reported previously, an update to the CPRs was 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.

CIPFA Graduate Trainee Programme / Succession Planning / Recruitment

- This action relates to succession planning arrangements within the Council's Finance Service and recruitment within Internal Audit.
- Trainees continue to gain a range of experience across the whole finance function contributing towards ensuring that the Finance team continues to be suitably resourced and fit for purpose in future. Three trainees have now qualified and are in substantive posts within the service.
- Sefton's cohort of trainees continue to develop well. Trainees were recognised for their successes as part of National Apprenticeship Week by the Council and by CIPFA. Trainees also received nominations for PQ Awards for their outstanding commitment and dedication and one trainee received a certificate for the Best Overall Performance in CIPFA's Financial Management examination for their exemplary performance.
- Other development opportunities have been made available to existing staff within the service.
- Recruitment for the post of VAT Officer is underway. It is critical that this post is filled to ensure that the Council's VAT requirements are met.
- New members of the Internal Audit service have been appointed and a new placement has been made for a CIPFA Graduate Trainee to provide additional support. Options are being considered to fill the remaining vacancies.

Partnership Agreements

- The Annual Governance Statement 2021/22 highlighted that not all Assistant directors had provided assurances with respect to the review of Partnership Arrangements as required by the Council's Financial Procedure Rules. Assistant Directors have been reminded to provide such assurances.

Progress is being made with regard to this action. The Financial Procedure Rules were updated to clarify the requirements around Partnership Arrangements to support Assistant Directors in meeting these requirements and these updates were shared with Assistant Directors.

Supplementary guidance is being developed for officers and will be issued in due course. This guidance will be subject to internal review by the relevant officers before it is finalised and issued to Executive Directors and Assistant Directors.

This will support Executive Directors and Assistant Directors to carry out their responsibilities regarding partnership arrangements in line with the FPRs and to make evidence available to provide assurance that partnership arrangements are being adhered to.

Governance Documentation

- Work in relation to the update to the Code of Corporate Governance is ongoing. This has been included within the Audit and Governance Committee Annual Work Programme and the next update is scheduled to be presented in March 2024.

Demand Management

- This action related to supporting the financial resilience of the authority.
- As per the Revenue and Capital Budget Plan 2023/24 – 2025/26 and Council Tax 2023/24 report presented to Council on the 2nd March 2023, demand led budgets across the Council are a significant proportion of the Council's budget. The budget has increased over recent years to include additional contributions to these areas which reflects an ever-increasing demand and further significant increases in these budgets were approved by Council for 2023/24. The report identifies, from the initial work of the Adult Social Care workstream, savings of £3.300m were identified in 2020/21, which were built into the Base Budget for 2021/22. The continuing work of the Adult Social Care workstream identified further savings of £3.800m, which partly relates to the full year impact of previously implemented savings, as well as new savings that have been identified. Of these, £2.800m were built into the 2022/23 Base Budget, with £1.000m assumed to be achieved in 2023/24. These savings are considered to be permanent at this stage but will continue to be reviewed.
- In response to the recent OFSTED inspection of Children's Social Care, an Improvement Plan was developed, and this will be supported by an appropriate financial plan which will be included within the Council's Medium Term Financial Plan (MTFP). The Revenue and Capital Budget Plan 2023/24 – 2025/26 and Council Tax 2023/24 report presented to Council on the 2nd March 2023 highlights the significant additional investment made in the service. The action is classified as GREEN as the improvement plan has been produced and aligned to the MTFP. However, the significant increase to the budget limits the Council's overall budget flexibility and therefore it is critical that expenditure is maintained within the approved budget. This remains the largest threat to the financial stability of the Council.

High Needs Budget

- This action relates to the need for financial sustainability with respect to the High Needs budget and associated strategic and operational plans and reporting.
- The Revenue and Capital Budget Plan and Council Tax report presented to Council on 2nd March states that the budget continues to face severe cost pressures and was forecast to be overspent by over £5m by the end of 2022/23. Initiatives to help reduce the costs are being rolled out and work is ongoing with mainstream schools to include more SEND children. However, more work is required and additional investment anticipated with a forecast overspend in 2023/24 expected to increase the overall deficit balance.

The Council is on the Delivering Better Value Programme and the findings will be reported to Council and Cabinet as part of the quarterly reviews and this will need to inform the resulting action plan.

The statutory override is in place until 2026 and it is at that point that this financial risk could crystallise if this moves from being a DSG issue to being funded by the General Fund as the Council does not have the reserves to fund this.

As per the report, it is therefore essential that the service's strategic and operational plans result in it delivering the service within the annual allocation

at the earliest opportunity. In addition, it is essential that both members and officers engage with DFE, DLUHC and Treasury to understand the potential policy decision at 2026 and work with and lobby those departments on the impact of current deficits across the sector, the impact on financial sustainability, the fact this remains a DSG issue and options to address this in the long term.

Finance Business Partnering Project / Financial Training

- This action relates to improvements to monitoring financial performance.
- The project relating to the rollout of a business partnering approach across the Council is largely complete with further work being undertaken to embed this approach in Children's Social Care and Adult Social Care.
 - Financial policies and procedures and service schemes of financial delegation continue to be updated at regular intervals, communicated those with delegated budget responsibility and are readily available via the Council's intranet
 - A new dedicated budget forecasting IT solution has been implemented and this was supported by appropriate training for those with delegated budget responsibility and staff within the Finance Service.
 - The Cabinet Reporting Template will be reviewed as part of this project.

Additional work is being carried out regarding the arrangements for budget delegation within Adult Social Care so that the full benefits of the new approach can be realised.

Reserves Strategy

- This action relates to monitoring elements of the balance sheet that post a risk to the financial sustainability of the authority.
- The Reserves Strategy was set out within the Robustness of the 2023/24 Budget Estimates and the Adequacy of Reserves – Local Government Act 2003 - Section 25 as presented to Council on 2nd March 2023. This included a risk-based assessment and identified a reserves level of 6.5% of the Council's net budget – resulting in a General Fund reserve. The allocation within the budget 2023/24 report brings the balance to c£16.9m minimum by next year with a range of £1.0m. The level of reserves will continue to be reviewed each year.

It is essential that each year a balanced outturn is delivered so that there is no requirement to call on this balance as it remains below the associated risk levels for the Council. It is therefore recommended that the reserves strategy of the Council is revisited as part of the next Medium Term Financial Plan.

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

Value for Money (VfM)

- The FM Code is clear on the requirement that services demonstrate that they achieve VfM. Therefore, services should demonstrate that they achieve VfM and compare themselves against nearest neighbours and statistical comparators with the findings reported back into senior leaders to support decision making. This should be an annual review.

Internal Audit and Finance Team Capacity Reviews

- The volume, range and complexity of work and demands on these teams has increased significantly over recent years including work linked to changes in Adult Social Care, Children's Social Care, High Needs and support required in relation to the Towns Fund. Therefore, a full review of the capacity of these teams should be undertaken including benchmarking against other local authorities to ensure that the teams are suitably resourced and fit for purpose.

Member Training and Development

- This action relates to good governance arrangements.
- Audit and Governance Committee approved a programme of briefing sessions for committee members and substitutes in March 2022. An update was presented to committee in March 2023 including a number of recommendations for the briefing sessions and the associated training and development including additional Treasury Management training for all Councillors.

Targeted Training

- Additional targeted training is being provided during 2023/24 to Children's Social Care which represents a major proportion of the Council's budget and that has received significant additional investment in recent years. This will cover: the requirements of the Constitution, finance, performance, risk, audit and procurement.

Reserves Strategy

- The Reserves Strategy should be reviewed in full as part of the next 3-year budget plan 2024/25 to 2026/27 as when compared to nearest neighbours and statistical comparators the Council's overall level of general fund and earmarked reserves are low.

High Needs Deficit Balance

- This action supports the financial sustainability of the authority through the monitoring a significant balance sheet risk.
- The strategic and operational plans with respect to High Needs need to be robust, deliverable and affordable. The development and monitoring of the associated plans needs to be a key feature of the quarterly reports to Cabinet.

4.6 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 June 2022.

5. **Conclusion**

- 5.1 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.