

Report to:	Audit and Governance Committee	Date of Meeting:	Wednesday 19 June 2024
Subject:	Financial Management Code		
Report of:	Executive Director of Corporate Resources and Customer Services	Wards Affected:	(All Wards)
Cabinet Portfolio:	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 (FD7686/24) and Chief Legal and Democratic Officer (LD5786/24) 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:

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. Follow-up reviews were presented in June 2022 and July 2023 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 2024, 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 learned were reported to Audit and Governance Committee as part of the update in July 2023 and have been reproduced again as a reminder for the Committee.

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 then 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 2024/25, 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 July 2023. 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. New legislation - the Procurement Act 2023 - is due to come into effect from October 2023. The Contract Procedure

Rules will be reviewed and updated again in advance of this date to ensure compliance with the new legislation.

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 are gaining a range of experience across the whole finance function through a system of rotations through a number of different disciplines during their 3 - 4 year training period.
- Four of the nine trainees recruited over the past years have now qualified and the majority are now in substantive posts within the service. This represents an increase of one since the last update and a further three trainees are due to qualify in the summer of 2024 pending exam success.
- In addition, a further two CIPFA Graduate Trainees have been recruited and are due to start in placement in September 2024. It has also been agreed to support another existing member of the finance service to undertake CIPFA which ensures the service is bringing new talent into the authority but also developing and providing opportunities for existing staff within the service.
- Sefton's cohort of trainees continue to develop well. Trainees have been 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.
- The CIPFA Graduate Trainee Programme is seen as critical to ensuring that the service continues to be suitably resourced and fit for purpose over the medium to long term.
- Continued investment is being made in the finance service, with officers actively engaged in training programmes including those delivered by CIPFA, the Association of Accounting Technicians (AAT), other partner organisations and also through participation in the Council's Senior Leadership Development Programme. Finance staff are also given opportunity to develop further through practical application of the knowledge, skills and behaviours in the workplace.
- Recruitment to the post of VAT Officer was completed following the retirement of the previous postholder in July 2023. This is a critical role to ensure that the Council's VAT requirements are met.
- Further recruitment has taken place regarding the Internal Audit service since the last update to Audit and Governance Committee in July 2023 and new members of the Internal Audit service have been appointed. In addition, the CIPFA Graduate Trainee placement setup during 2023/24 has proved to be mutually beneficial with the trainee providing additional support to Internal Audit and also benefiting from the enhanced and well-rounded experience that this placement offers for their own individual development.

Finance Service / Internal Audit Capacity Reviews

- The volume and range of Audit work has increased significantly over recent years. Therefore, it was previously reported that a full review of the capacity of the Internal Audit team was required. A re-structure of the Risk and Audit team

has now been undertaken to reflect the capacity of the internal Audit Team. Recruitment of an additional Principal Auditor has been included in the re-structure alongside approval to appointment of a full time Trainee ICT Auditor.

- The previous update to Audit and Governance recognised that the range and complexity of support required from the Finance team has changed in recent years as a result of changes within Adults Social Care, Children's Social Care, High Needs and support required in relation to the Town Deal. As part of the review of the capacity of the Finance team, approval has been given for additional support at the strategic finance level to support Adults and Children's Social Care.

Partnership Agreements

- The previous update to Audit and Governance Committee recommended that supplementary guidance be produced to clarify the requirements of the Financial Procedure Rules with respect to Partnership Arrangements so that this can support Assistant Directors to meet these requirements.
- 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 under development for officers and is in draft form 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 now complete. This was included within the Audit and Governance Committee Annual Work Programme and the update was approved by the Committee on the 6th September 2023.

Member Training and Development

- This action relates to good governance arrangements.
- An update report was presented to Audit and Governance Committee on the 20th March 2024. This sets out the programme for 2024/25 based on the Core Areas of Knowledge for Audit and Governance Committee Members as outlined by the Chartered Institute for Public Finance and Accountancy (CIPFA) together with a Treasury Management course which is offered to all Members. Audit and Governance Committee also endorsed the importance of all Audit and Governance Committee Members and Substitutes buying into and showing commitment to training and development.

Targeted Training

- The previous update to Audit and Governance stated that additional targeted training was being provided during 2023/24 to Children's Social Care which represents a major proportion of the Council's budget and has received

significant additional investment in recent years. This was to cover: the requirements of the Constitution, finance, performance, risk, audit and procurement.

- In addition, a session has been delivered to senior managers within the service focussing on governance requirements.
- Following on from the approval of the changes to the Children's Services staffing structure by Cabinet in May 2024, targeted financial training will continue to be made available to support existing and new officers within the service.

Demand Management

- This action related to supporting the financial resilience of the authority.
- As per the Revenue and Capital Budget Plan 2024/25 – 2026/27 and Council Tax 2024/25 report presented to Council on the 29th February 2024, demand led budgets across the Council continue to represent 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 2024/25.
- The report identifies, the Adult Social Care budget experienced additional pressure in 2023/24 as a result of increased demand and increased costs and that significant additional cost pressures will continue into 2024/25 alongside further demand and cost pressures. Additional investment has been provided for within the budget. However, the report states that the current budget planning assumption will be considered further during the Council's first quarter budget review of 2024/25 with any further pressure either arising from 2023/24 or in 2024/25 requiring additional savings to be made.
- For Children's Social Care, the MTFP has been aligned to the Services Improvement Plan that was signed off by the then Director of Children's Services and communicated to the DFE commissioner. All assumptions have been reviewed as part of the budget process.
- The report states that improvements in practice have resulted in more children being placed in more appropriate settings at a lower cost. This has continued throughout the year and therefore shows a positive direction of travel.
- 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.

Reserves Strategy

- The previous update to Committee included a recommendation that the Council's 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.
- This was completed as part of the budget setting process as per the Revenue and Capital Budget Plan 2024/25 – 2026/27 and Council Tax 2024/25 report presented to Council on the 29th February 2024. The report states that General Balances have been increased and are considered appropriate for 2024/25 and that any use of reserves must be replenished in the following year.

High Needs Budget / Deficit Balance

- This action relates to the need for financial sustainability with respect to the High Needs budget and associated strategic and operational plans and reporting.
- As per the Revenue and Capital Budget Plan 2024/25 – 2026/27 and Council Tax 2024/25 report presented to Council on the 29th February 2024, the budget continues to face severe cost pressures with a significant overspend in 2023/24 and an increased overall deficit balance at the end of the financial year.
- The 2014 SEND reforms, while raising expectations and extending support from birth to 25 years, did not initially come with adequate uplifts in funding to reflect the significant increased cohort numbers and complexity of children and young people. The annual uplifts to the High Needs Budget have not increased in line with the significant increases in SEND demand each year.
- The increase to the High Needs funding allocation for 2024/25 is well below the 2023/24 level of High Needs expenditure.
- Some of the initiatives to help reduce costs and generate future cost efficiencies have started to be rolled out during 2023/24, including growing the number of inhouse places in special schools and resourced units to meet future demand and hourly rates of SEN Inclusion support have been uplifted to current pay levels to support keeping children with EHCPs in mainstream settings.
- Much more work is required in 2024/25 and over the coming years including investment in the expansion special school places and SEN Resource Unit places attached to mainstream schools. This will require significant Capital funding to help this process. It is hoped, that by growing in-house places across the Council's current provision, that this will help reduce (though not eliminate) the need for high cost, out of Borough placements at independent special schools and non-maintained special schools in the future.
- The Delivering Better Value (DBV) Programme commenced in January 2023 and has brought representatives appointed by the DfE together with key officers of the Authority, to share and analyse the Council's High Needs data and decision making, with a view to ensuring our actions to restrain and control High Needs spending are in line with general best practice and that they are the right approach to take. Plans have been set out and these will be monitored as to progress. This programme does carry with it some funding nationally (£55m), £1m of which has now been made available to Sefton to help develop in-house changes, which is underway. The DBV programme is not prescriptive on the Council, nor will it carry funding to off-set any of the accumulated deficit on High Needs. Members will continue to be kept updated on High Needs spending on an ongoing quarterly basis via the standard reporting channels.

Finance Business Partnering Project / Financial Training

- The previous update to Audit and Governance Committee stated that the project relating to the rollout of a business partnering approach across the Council is largely complete. This has now been completed in full.

- 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.
- Following on from the approval of the changes to the Children's Services staffing structure by Cabinet in May 2024, the budgeted establishment will be updated accordingly, and further associated work linked to the business partnering project will be progressed during 2024/25.
 - Similarly, work has been progressing in relation to budget delegation within Adult Social Care including the approval of the latest Scheme of Financial Delegation which clearly set outs budgetary delegation to individual officers within the service. The budget will be reviewed to ensure alignment with these delegations and then support and training will be provided to those officers so that the full benefits of the new approach can be realised during 2024/25.
 - So far, the project has focussed on revenue budget monitoring, but a project team will be setup to support the implementation for the Capital Programme and the associated schemes. The target date for this is 2025/26.

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

Assets

- This action relates to the importance of keeping accurate inventory and stock records to support the achievement of Value for Money (VfM)
- To ensure compatibility with the latest operating system, software and for cyber security purposes, the Council intends to procure a significant number of new ICT devices during 2024/25. Therefore, it is recommended that a detailed reconciliation of service inventory and stock lists is conducted following this procurement to ensure that these have been updated accordingly.

Transformation Programme

- This action recognises the importance of the Council's Transformation Programme in achieving financial resilience and sustainability.
- The Transformation Programme – focussing on the Core Business, the Growth Programme and a number of Change Projects including service development and transformation projects – is the vehicle to deliver financial resilience and sustainability. Therefore, it is important that the different elements, as highlighted within the budget report, are progressed.

Schools Deficit Balances / Support to Schools

- It is recommended – as per the budget report – that the work is completed to understand the risk presented to the Council regarding the deficit balance on some schools and also the scale of financial resources currently within the Council that support schools. A report on this will be presented to Cabinet and Council by the Assistant Director for Children's services in 2024/25.

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 July 2023.

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.