

OPEN

Finance Sub Committee

12 September 2024

CIPFA Financial Management Code (FM Code) Self Assessment & Action Plan 2023/24

Report of: Adele Taylor, Interim Director of Finance and Customer Services (s151 Officer)

Report Reference No: FSC/02/24-25

Ward(s) Affected: All

Purpose of Report

- 1 This report updates the Council's progress in implementing the Chartered Institute of Public Finance & Accountancy (CIPFA) Financial Management (FM) Code and presents the 2023/24 Self-Assessment, as reported to the Committee in March 2024, for approval together with a draft Action Plan for approval.

Executive Summary

- 2 As set out in the previous update report to the Finance Sub-Committee in March 2024, this report presents the 2023/24 self-assessment for approval and provides the draft action plan in respect of gaps identified in the Council's self-assessment against the FM Code, also for approval.
- 3 The self-assessment and action plan are presented following two informal briefings with the Finance Sub-Committee in June 2024 where each Principle and Standard of the code were discussed in detail and allowed members to consider in more detail the self-assessment and any necessary actions that may be needed to bring any standard higher up the RAG Ratings. This report also reiterates what the Code is, and why Local Authorities must comply with the guidance provided by CIPFA.
- 4 A further report will be presented to the Finance Sub-Committee in January 2025 to update on the latest 2024/25 in year progress against the Action Plan and also provide an updated self-assessment position against the FM Code.

- 5 The self-assessment position as at March 2024 is detailed in Appendix 2 and the draft Action Plan is detailed in Appendix 3.

RECOMMENDATIONS

The Finance Sub Committee is recommended to:

1. consider the contents of the report and the 2023/24 self-assessment against the principles of CIPFA FM Code and the action plan.
2. Approve the 2023/24 self- assessment position (as at March 2024) in Appendix 2 – Cheshire East Council’s current level of compliance with the CIPFA Financial Management Code Framework.
3. Approve the Action Plan as presented in Appendix 3.

Background

- 6 The Chartered Institute of Public Finance & Accountancy (CIPFA) launched a Financial Management Code (FM Code) in 2019 with an original implementation date scheduled for 2021/22. However, in recognition of the pressures that have been placed on Local Authorities in dealing with the coronavirus pandemic, CIPFA concluded that while the first year of compliance can remain as 2021/2022, it can do so within a more flexible framework where a proportionate approach can be taken. In practice this means that adherence to some parts of the Code will demonstrate a direction of travel with reference made in the Annual Governance Statement in respect of the organisation’s compliance with the principles of the FM Code.
- 7 The FM Code sets out seventeen standards of financial management for local authorities – these are referred to in Appendix 1. The FM Code is designed to support good practice in financial management and to assist local authorities to demonstrate their financial sustainability.
- 8 Local government finance in the UK is governed by legislation, regulation, and professional standards. The general financial management of a local authority, however, has not until now been supported by a professional code. The Code was introduced in recognition of the exceptional financial circumstances faced by local authorities and due to fundamental weaknesses in financial management revealed in some organisations in

recent years and concerns about the financial sustainability of some Councils.

- 9 CIPFA's intention is that the FM Code will have the same standing as the Prudential Code for Capital Finance in Local Authorities (CIPFA, 2017), which promotes the financial sustainability of local authority capital expenditure and associated borrowing.
- 10 The FM Code itself does not have legislative backing, however it applies to all local authorities but recognises that some have different structures and legislative frameworks. Where compliance with the Code is not possible, adherence to the principles is still considered appropriate.

Responsibility

- 11 Application of the FM Code is a professional responsibility of all finance staff and establishes how the Chief Financial Officer (CFO) demonstrates that they are meeting their statutory responsibility for sound financial administration.
- 12 However, CIPFA considers application of the Code to be the collective responsibility of each authority's organisational leadership team, not just the responsibility of the CFO or the finance team. For the purposes of the Code the 'Leadership Team' is defined as the collective group of elected members and senior officers. Therefore, for CEC it includes committees of the authority as well as senior officers.

Compliance

- 13 It is for the individual authority to determine whether it meets the standards and to make any changes that may be required to ensure compliance. Authorities should be able to provide evidence that they have reviewed their financial management arrangements against the standards and that they have taken such action as may be necessary to comply with them.
- 14 It is important to note, also, that the financial management standards are minimum standards. Some authorities may feel that their own financial management arrangements exceed the standards set out in the FM Code.

CIPFA Principles of Good Financial Management

- 15 The FM Code applies a principle-based approach. It does not prescribe the financial management processes that local authorities should adopt. Instead, it requires that an authority demonstrates that its processes satisfy the principles of good financial management for an authority of its size, responsibilities, and circumstances and that they are proportionate

to the risks to the authority's financial sustainability posed by the twin pressures of scarce resources and the rising demands on services.

16. The underlying principles that inform the FM Code have been developed in consultation with senior practitioners across the sector 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.

17. The 6 Principles of Good Financial Management set out in the FM Code are:

- **Organisational leadership** – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.

- **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.

- **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.

- Adherence to **professional standards** is promoted by the leadership team and is evidenced.

- 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.

- 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.

CIPFA Financial Management Standards

18. The FM Code sets out the seventeen CIPFA Financial Management Standards with detailed explanatory notes – a summary table is provided in Appendix 1.

FM Code Self-Assessment

19. Cheshire East Council undertook an initial officer high level review exercise of the Council's process, procedures and governance arrangements to understand the baseline compliance against the FM Code and Standards.

- 20 This initial review indicated that the Council is generally complying with the overall principles of the CIPFA FM Code, with some improvements required within some specific areas.
- 21 The interim report in November 2023 recommended a further re-assessment exercise to bring the Council's current processes and practices and governance arrangements up to date for the 2023/24 year.
- 22 An update report in March 2024 provided the latest re-assessment position and developed further the initial officer high level assessment to include a self-assessment RAG Rating for each standard.
- 23 This current report provides a high-level action plan (Appendix 3), to be adopted to address improvements to those standards that are not currently rated as green will be made.
- 24 The self-assessment exercise to benchmark Cheshire East Council's current processes and practice against the FM Standards has been undertaken using a RAG Rating approach as set out below (also set out in Appendix 2).

RAG Assessment	Description
5	Achieves Best Practice
4	Substantial Compliance / Minor Areas of improvement
3	Reasonable Compliance / Some Areas of improvement
2	Minimum Compliance / Significant Areas of improvement
1	Does not meet requirements of the code

- 25 The following table summarises the 2023/24 self-assessment RAG Rating for each standard as at March 2024. The detailed analysis per standard is provided in Appendix 2.

Table 1: Financial Management Code Summary Self-Assessment

Standard Reference	Financial Management Standard	RAG Rating
	Principle 1: Organisational Leadership – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture	

A	The leadership team can demonstrate that the services provided by the authority provide value for money.	3
B	The authority complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government.	4
O	The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.	2
Principle 2 : Accountability – financial management is based on medium-term financial planning which drives the annual budget process supported by effective risk management, quality supporting data and whole life costs		
D	The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016)	4
P	The chief finance officer has personal responsibility for ensuring that the statutory accounts provided to the local authority comply with the Code of Practice on Local Authority Accounting in the United Kingdom	4
Q	The presentation of the final outturn figures and variations from budget allow the leadership team to make strategic financial decisions.	4
Principle 3: Transparency – 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.		
L	The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget	4
M	The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.	3
Principle 4: Standards – Adherence to professional standards is promoted by the leadership team and is evidenced.		

H	The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities – <i>amended since March 2024 due to ongoing Capital Review / Capital Programme affordability</i>	2
J	The authority complies with its statutory obligations in respect of the budget setting process	4
K	The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement of the adequacy of the proposed financial reserves	4
Principle 5: Assurance – 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.		
C	The leadership team demonstrates in its actions and behaviours, responsibility for governance and internal control.	4
F	The authority has carried out a credible and transparent financial resilience assessment	3
N	The leadership team takes action using reports, enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.	3
Principle 6: Sustainability – 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.		
E	The financial management style of the authority supports financial sustainability	3
G	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members	4
I	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members	3

26 The self-assessment process will need to continue to be carried out annually in future (after the year end) to demonstrate ongoing compliance

with the FM Code. In addition, an interim update is to be provided to the Finance Sub-Committee in January 2025.

- 27 The Action Plan (Appendix 3) has been developed from the self-assessment exercise as at March 2024. The Council is going through a significant period of transformation and change following the recent Peer Review, DMA Review, CIPFA Resilience Review and Transformation programme, it is envisaged that the outcomes and actions relating to these reviews and resulting action plans will, where appropriate, be reflected in the next re-assessment exercise to be reported to the Finance Sub Committee in January 2025.

Implications and Comments

Monitoring Officer/Legal

- 28 The FM Code itself does not currently have legislative backing, although CIPFA have set out their intention to pursue this. CIPFA's judgement is that compliance with the FM Code will assist local authorities to demonstrate that they are meeting existing important legislative requirements.
- 29 There are no legal implications arising directly from this report.

Section 151 Officer/Finance

- 30 The delivery of strong financial management is fundamental to the delivery of the Council's strategic aims.
- 31 There are no direct financial implications arising from this report.

Policy

- 32 There are no Policy implications.

Equality, Diversity and Inclusion

- 33 There are no Equality, Diversity or Inclusion Implications.

Human Resources

- 34 There are no Human Resources Implications.

Risk Management

- 28 Failure to demonstrate compliance with the FM Code as described above could in future result in a qualification of the accounts which may lead to further audit costs in future as well as an adverse impact on the Councils reputation.

Rural Communities

35 There are no Rural Communities implications.

Children and Young People including Cared for Children, care leavers and Children with special educational needs and disabilities (SEND)

36 There are no Children and Young People including Cared for Children, care leavers and Children with special educational needs and disabilities (SEND) Implications.

Public Health

37 There are no Public Health implications.

Access to Information	
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Appendices:	Appendix 1 – CIPFA Financial Management Code Standards Appendix 2 – CEC Draft Compliance CIPFA Financial Management Code 2023/24 (March 24) Appendix 3 – Draft CIPFA FM Code Action Plan Appendix 4 - Glossary
Background Papers:	The Chartered Institute of Public Finance & Accountancy (CIPFA) launched a Financial Management Code (FM Code) 2019. Draft Annual Governance Statement 2023/24 CIPFA Financial Management Code (FM Code) - update report – Finance Sub Committee 25 March 2024.