

APPENDIX 3

Interim Review of Cheshire East Council's compliance with the CIPFA Financial Management Code

Introduction

The CIPFA Financial Management (FM) code sets the standards of financial management for local authorities. It is designed to support effective practice in financial management and to assist local authorities in demonstrating their budgetary sustainability. The code complies with other legislation and associated CIPFA codes and is evidence of compliance with statutory and professional frameworks. All local authorities are required to demonstrate full compliance with the Code by 31 March 2022 or provide a full explanation relating to areas of non-compliance, noting though that a Local Authority 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.

Demonstrating compliance with the CIPFA FM Code is a collective responsibility including the Leader of the Council, Members, the Chief Finance Officer, and their professional colleagues in the leadership team. This report is a self-assessment and review of the Council's compliance with the standards as set out in the FM Code. It documents the detail of what is expected within the standard. It also records evidence of areas of compliance, non-compliance and documents any further actions required to meet and/or improve current processes in place.

This report is to be considered alongside the Draft 2022/23 Annual Governance Statement (AGS), noting that the 2021/22 and 2022/23 (2 year) External Audit Value for Money (VfM) reports are being finalised and that following reflection of the findings some areas of this draft assessment may be subject to change.

Principles of good financial management

The code is a principle-based approach. There are six principles:

1. Leadership
2. Accountability
3. Transparency
4. Standards
5. Assurance
6. Sustainability

The six principles are translated into seventeen Financial Management standards (denoted from A-Q) as shown on page 3.

Assessment of compliance

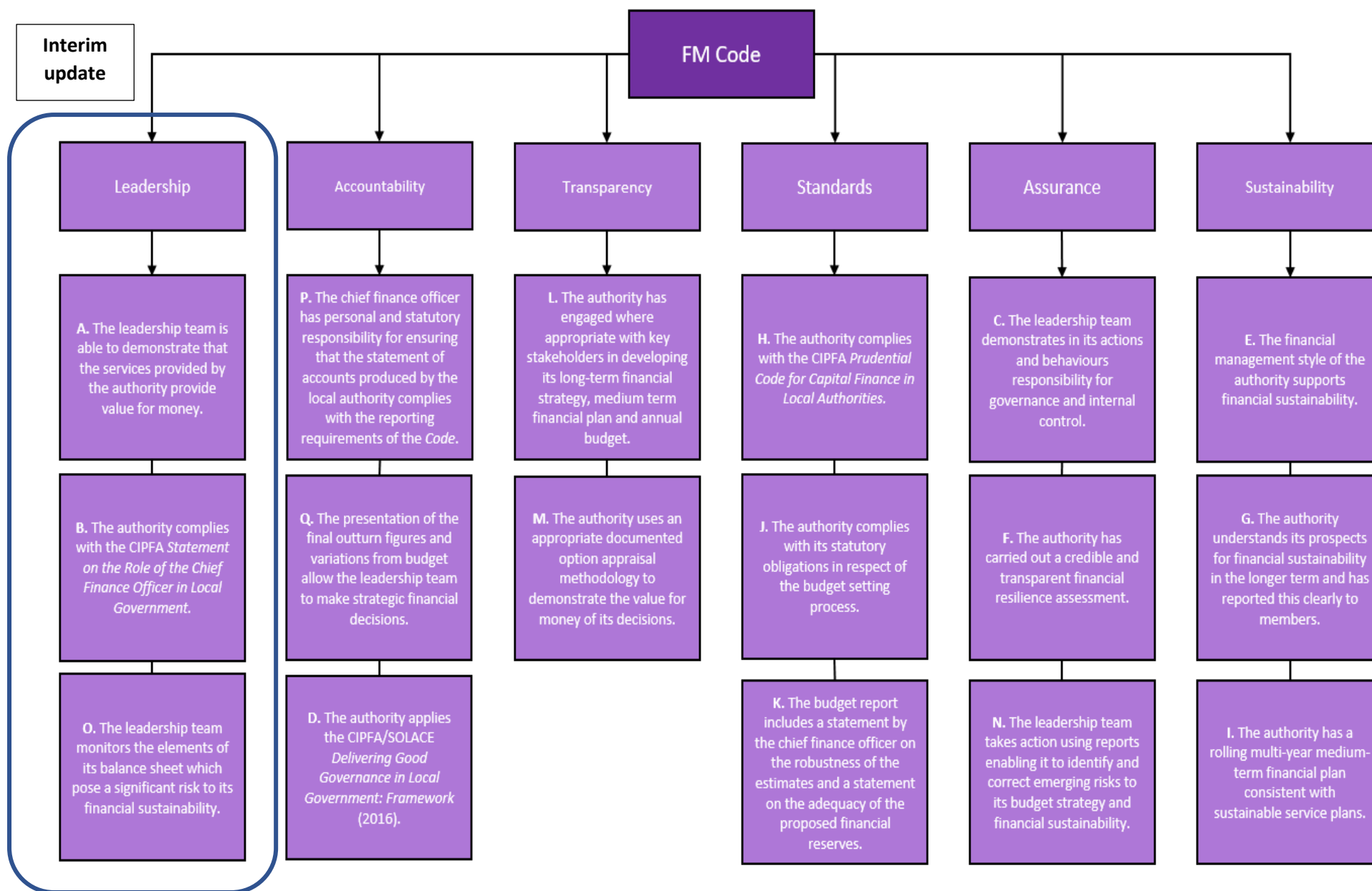
The following tables set out the latest self-assessment of the Council's ability to demonstrate that it meets the requirements of the FM Code for Principle 1 Leadership.

The plan is that by 31 March 2024, each of the seventeen standards will have been re-assessed against the following definitions:

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

At this stage of the review – **Principle 1 Organisational Leadership** has been reviewed to demonstrate the level of compliance and any actions regarding areas of improvement.

A full re-assessment of all the FM Code Principles and Standards is ongoing and will be brought back to the Finance Sub Committee before the end of the financial year. The aim of the full re-assessment will be to demonstrate the overall level of compliance in line with the above RAG Rating and highlight any key themes that have been noted for improvements and associated action plans.



Leadership

Principle 1: Organisational Leadership – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture

Standard A (page 22): The leadership team can demonstrate that the services provided by the authority provide value for money.

What we need to do	What we are doing (evidence of compliance)	Gap Analysis	RAG	Action Plan
<p>Compliance with FM Code requires an authority to achieve value for money and be able to demonstrate that its services represent value for money</p> <p>Promote/achieve value for money - examples</p> <ul style="list-style-type: none"> • Clear Governance structure • Corporate Plan (clear objectives and strategy based on local need) • Effective Service and Financial planning • Financial Regulations • Procurement Regulations • Contract Management • Risk Management 	<ul style="list-style-type: none"> - Governance arrangements have moved to the Committee System (Council Nov. 2019 - Link) <ul style="list-style-type: none"> ○ Structure of Committees approved ○ Committee Terms of Reference (ToR) approved ○ Chairs / Members appointed (Link) ○ Committee meeting schedule and workplans approved ○ Annual Review of Committee System Report (CPC June 2023) ○ Reports to all decision making committees produced in line with a 	<ul style="list-style-type: none"> • Appointments to CLT – currently interim arrangements in place to cover the Executive Director – Corporate Services and Executive Director – Place. A new interim chief executive, David Parr OBE is set to be appointed by Full Council on 18.10.2023, recruitment is underway to find a new permanent Chief Executive. • Align New Corporate Plan (CP) to be aligned Committees • Performance Framework for Corporate Plan Actions / Measures needs to be in Service Plans 	<p>3 Amber</p>	<ul style="list-style-type: none"> • Publish Atamis dashboards (LH) – In progress • CLT Appointments • Strategic Risk Register reports to progress onto the Service Committees (Done for CPC). • Potential further/ongoing work re Decisions, Decisions, Decisions

	<p>reporting protocol, DMT clearance, legal/finance review, identification of mitigation of risks re report content.</p> <ul style="list-style-type: none"> ○ MTFS aligned to Committee Structure – annual report (FSC 08.03.23 and service committees) <p>- Group Governance arrangements.</p> <ul style="list-style-type: none"> ○ Cheshire East Residents First Ltd (CERF) and Cheshire East Council hold the controlling shares and provide oversight of the Council's subsidiary companies. ○ Finance Sub Committee / Shareholder Working Group have ToR (June 2023 FSC) <p>- Revised Constitution (Link)</p> <ul style="list-style-type: none"> ○ Aligns Medium Term Financial Strategy (MTFS) to Committees ○ Revised financial limits (Constitution) ○ Revised Finance Procedure Rules (FPRs) and Contract Procedure Rules (CPRs) 	<ul style="list-style-type: none"> ● Atamis launch (incl dashboards and procurement pipeline) – In progress 		
--	---	---	--	--

	<ul style="list-style-type: none"> ○ Definition of a Significant Decision (Completed 2022/23) ○ Governance Workstream established within Brighter Futures Commercial Board (BFCB) (completed, April 2022 agreed that BFCB had achieved its objectives) ○ Decisions, Decisions, Decisions – Wider Leadership Community (WLC) Training plus Directorate Led sessions. <ul style="list-style-type: none"> - Corporate Plan 2021 to 2025 (Link) <ul style="list-style-type: none"> ○ Aligns with MTFS proposals ○ Aligns to Service Plans ○ Performance Dashboard including Risk - Procurement System Implementation (Atamis) – Live Sept 2021 for ICT, Procurement, Childrens Services and Adults Health and Integration – ongoing through 2023 <ul style="list-style-type: none"> ○ Procurement Progress Report to FSC and A&G (Completed 2022/23) 			
--	---	--	--	--

	<ul style="list-style-type: none"> ○ Atamis Launch and Contract Manager training re Dashboards - Strategic Risk Register (Link) <ul style="list-style-type: none"> ○ Risks contained within Service Plans ○ Risks recorded in hierarchy aligned with Directorate to Team level plans ○ Risk Management Framework and Risk Management Strategy adopted ○ Risk Reporting to CLT (Completed 2022/23) ○ Council Strategic Risk Register Assurance Report – quarterly updates to Corporate Policy Committee (CPC July 2022) ○ Risk Management Report (A&G annually – 22/23 27.07.23) ○ Operational risk registers included in directorate and service business plans 			
Demonstrate value for money - examples <ul style="list-style-type: none"> • Scrutiny/Audit Arrangements • Benchmarking 	<ul style="list-style-type: none"> - Committee System introduces cross party decision making. - Committees receive quarterly performance scorecards, in year financial monitoring reports and 	<ul style="list-style-type: none"> • Historical Qualified Audit opinions (No Grant Thornton opinions outstanding) 	3 Amber	<ul style="list-style-type: none"> • Include external assessments as part of regular Performance Reporting (SB) -Ongoing

<ul style="list-style-type: none"> • Peer Review, Engagement with Service Users • Monitoring of Performance Data • Service Reviews • User Surveys • External Assessments, Equality Impact Assessments 	<p>MTFS budget planning/setting reports relevant to their area of remit.</p> <ul style="list-style-type: none"> - Single Scrutiny Committee sets own work programme - Regular Statutory Officer meetings with CEO - External Auditors (Mazars) <ul style="list-style-type: none"> ○ Appointed via PSAA procurement ○ Attend A&G Committee ○ Regular catch-ups with CFO ○ Regular, private, catch ups with Chair/Vice Chair of A&G Committee ○ Unqualified opinion (Link) ○ VFM review external audit assessment covering financial sustainability, governance, improving economy, efficiency and effectiveness - Peer Review completed (Link) - Consultation Hub (Link) - Performance Scorecards to Scrutiny - OFSTED / CQC assessment - Revised Equality Strategy (EIAs support HLBCs and other change activity) 	<ul style="list-style-type: none"> • Evidence of benchmarking for Committees • Corporate overview of external assessments 		
--	--	---	--	--

	<ul style="list-style-type: none"> - Benchmarking data in Performance Reporting. - External Audit (EA) – met all actions arising from Public Interest Report (AGS 22/23 – A&G 08.06.23 Satisfactory assurance opinion) - Draft Financial Statements 2022/23 published on time, commencement of 2022/23 Audit deferred to September 2023 due to national issues (A&G July2023). 			
Key Questions: <ul style="list-style-type: none"> • Does the authority have a clear and consistent understanding of what value for money means to it and to its leadership team? • Does the authority have suitable mechanisms in place to promote value for money at a corporate level and at the level of individual services? • Is the authority able to demonstrate the action that it has taken to promote value for money and what it has achieved? 				

Principle 1: Organisational Leadership – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture

Standard B (page 26): The authority complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government.

What we need to do	What we are doing (evidence of compliance)	Gap Analysis	RAG	Action Plan / RAG
<p>Compliance with FM Code requires each of the following to be reliably and consistently met:</p> <ul style="list-style-type: none"> • CFO is a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver the authority's strategic objectives sustainably and in the public interest. • The CFO must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer-term implications, opportunities and risks are fully considered and aligned with the authority's overall financial strategy. • The CFO must lead the promotion and delivery by the whole authority of good financial management so that public money is safeguarded at all times and used 	<ul style="list-style-type: none"> - The Director of Finance & Customer Services (DF&CS) is the Authority's CFO / s151 Officer and is a professionally qualified accountant with significant experience. - Senior Officer Structure & Statutory responsibilities reported on CEC website (June 2023) - The DF&CS is a member of CLT and leads on development of financial strategy - Pipeline of Strategic discussion to CLT via BMST - Report templates for decisions allow Financial Implications to be addressed and reports are submitted to CLT - Some ODRs are referred to CFO in advance to confirm financial implications are addressed - Improved clarity in FPRs over financial limits and decision making 	<ul style="list-style-type: none"> - Changes to personnel and approach for CLT are not leading to strategic discussion - Follow-up analysis of decisions not sufficient - Risk that not all ODRs reviewed by all necessary parties - Cascade consistent Budget Manager training of Unit4 and FP&A Forecasting tool across the Council 	<p>4 Green</p>	<ul style="list-style-type: none"> - Performance Framework includes progress reporting of past recommendations / decisions (SB) - WOC Outturn reporting via CFO before Boards (AT) – in progress

<p>appropriately, economically, efficiently, and effectively.</p> <ul style="list-style-type: none"> • The CFO must lead and direct a finance function that is resourced to be fit for purpose. • The CFO must be professionally qualified and suitably experienced. 	<ul style="list-style-type: none"> - The DF&CS ensures the financial statements are appropriately prepared and that they give a true and fair view. - The Finance Team suitably resourced and qualified - CFO for LEP / CEC Group - Regular meetings of Statutory Officers being the Chief Executive Officer (CEO), CFO and Monitoring Officer (MO) - DF&CS – supports and advises Council, Corporate Policy Committee (CPC, Finance Sub-Committee (FSC), Policy Briefing. Forums provide sufficient opportunities for the Leader of the Council, CEO / CLT to have oversight of financial matters and the DF&CS to be involved in developing and implementing strategy. - DF&CS networks externally and works with other Local Authority S151 Officers - Effective financial management is promoted throughout the whole Council through business partnering approach, regular financial reporting to CLT, FSC, CPC, Committees, Full Council. - Finance Managers / Business Partners attend EDMT / DMT, 			
--	---	--	--	--

	<p>Company SMT/Boards, Finance is represented on internal management teams and in wider Group</p> <ul style="list-style-type: none"> - The Finance function underwent a restructure in 2022/23 and aims to meet business needs via a permanent staffing structure. Some advisory services are commissioned (treasury management, pensions, valuations, Tax). Professional qualification development is in place and appropriate members of the team are either qualified or actively studying for a qualification – monitored by KPI (Service Plan). - Finance Training provided to Committees in November 2022 and in 2023 following Elections, to support new and existing members. - Member Training programme on the Committee system for existing and new members. - CERF WOC Draft Out-turn reports reported to FSC and A&GC (June 2023) - LEP Outturn reporting via CFO before LEP before LEP Finance & Reporting Committee. 			
--	--	--	--	--

	<ul style="list-style-type: none"> - Quarterly 121 meetings for Shared Services / LEP / WOC CEOs with CFO. - WOC Out-turn reporting via CFO before Boards. - Following the publication of the council's 2023/24 First Financial Review report, in which potential budget deficit of £12.8 million has been identified, a budget emergency response team has been set up, called 'CEBERT' (Cheshire East Budget Emergency Response Team). CEBERT brings together Corporate Leadership Team and a number of senior officers from the corporate services directorate to lead on coordinating our work across the organisation to address the financial challenge and rebalance the council's budget forecast. CEBERT meets on a weekly basis to provide strategic oversight for a range of activity and includes lead officers for each service committee to ensure that our response has appropriate political oversight and decision-making. 			
--	--	--	--	--

Key questions: <ul style="list-style-type: none"> • Is the authority's CFO a key member of the leadership team, involved in, and able to bring influence to bear on, all material business decisions? • Does the CFO lead and champion the promotion and delivery of good financial management across the authority? • Is the CFO suitably qualified and experienced? • Is the finance team suitably resourced and fit for purpose? 				
--	--	--	--	--

Principle 1: Organisational Leadership – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture

Standard O (page 97). The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.

What we need to do	What we are doing (evidence of compliance)	Gap Analysis	RAG	Action Plan
<ul style="list-style-type: none"> • The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability 	<ul style="list-style-type: none"> - Capital Schemes are monitored and reported on periodically in year. - Capital Funding is reviewed by project and at strategic level. - Report writing guidance has been developed to support 	<ul style="list-style-type: none"> • Balance sheet review is not part of the financial monitoring process • CIPFA Balance Sheet Management is not reported on 	2 Red	<ul style="list-style-type: none"> • Keep asking the so what questions, are all impacts of a decision understood financially, risk management and legal. (DB / AT) (Ongoing)

<ul style="list-style-type: none"> Engages with The CIPFA publication Balance Sheet Management in the Public Services: A Framework for Good Practice (2017). 	<p>improvement in articulating financial implications.</p>	<ul style="list-style-type: none"> Limited oversight of LEP / WOC / SS / Investment Strategy impacts on balance sheet Insufficient clarity on potential financial liability arising from risks recognised across registers being realised 		<ul style="list-style-type: none"> Review reporting approach to impact of LEP / SS / WOC decisions on overall balance sheet – how does our existing contract management approach achieve this, what needs to change? (AT) (Ongoing)
<p>To comply with the FM Code the authority might choose to:</p> <ul style="list-style-type: none"> determine which elements of its balance sheet pose a significant risk to its financial sustainability, through a comprehensive review of its assets and liabilities put in place mechanisms to monitor these elements of its balance sheet respond promptly and proactively to any issues that these mechanisms identify. 	<ul style="list-style-type: none"> Quarterly reporting includes reviews of debt and borrowing (Link examples) The deficit on the DSG has been identified as a key risk in the MTFS, monitoring reports to Committees Reserves Strategy is approved as part of the MTFS and compliance with the minimum level of reserves and the impact of in year financial performance on the reserves and balances is monitored as part of the in year performance report. Other potential key risk areas of the balance sheet – Pensions / Contingent Liabilities – captured as part of regular finance reporting. Asset Management Report – covering property acquisitions and disposals undertaken by the Council and pending 	<ul style="list-style-type: none"> Monitoring of entire balance sheet risk is not systematic Limited oversight of LEP / WOC balance sheets Capital receipts strategy needs development to align with MTFS 	2 Red	<ul style="list-style-type: none"> Enhance quarterly reporting to include balance sheet management. Specifically debt / borrowing / assets / pension fund valuation (as appropriate) (AT) (Ongoing) Annual review of LEP / WOC balance sheet to CFO via Finance Lead (AT). Report disposals and acquisitions to Finance Sub-Committee and reference links to MTFS (PS) (Done and Ongoing)

	<p>transactions (FSC 19.01.2023, next report scheduled FSC 17.01.2024)</p> <ul style="list-style-type: none"> - Sundry Debt briefing report, sundry debt levels across all Council services (FSC 08.03.2023) - Sundry debt monitoring included as part of the in year finance performance report. - In year monitoring report (First Financial Review 2023/24 – Annex 1 CPC 05.10.23) includes Appendix 7 FSC and Appendix 7a Update to the Treasury Management Strategy as relating Capital Strategy borrowing - Local Government Pension Scheme (LGPS) and Cheshire Pension Fund (CPF) Report (FSC Jun 2023) – Introduction paper on the LGPS, planning and reporting for pensions and keeping members informed including CPF Committee and reporting of minutes to CPC in future (due FSC 2.11.2023) 			
<p>Key questions:</p> <ul style="list-style-type: none"> • Has the authority identified the elements of its balance sheet that are most critical to its financial sustainability? 				

<ul style="list-style-type: none"> • Has the authority put in place suitable mechanisms to monitor the risk associated with these critical elements of its balance sheet? • Is the authority taking action to mitigate any risks identified? • Does the authority report unplanned use of its reserves to the leadership team in a timely manner? • Is the monitoring of balance sheet risks integrated into the authority's management accounts reporting processes? 				
---	--	--	--	--