



Chelmsford City Council Audit and Risk Committee

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Update on the CIPFA's Financial Management Code (FM Code)

Report by:

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Purpose

Update Members of the application of the CIPFA Financial Management (FM) Code and the Council's self-assessment.

Recommendations

1. Contents of this report be noted.
 2. Agree that actions identified should be undertaken.
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1. Introduction

1.1. The Chartered Institute of Public Finance and Accountancy (CIPFA) published The Financial Management Code (FM Code) in October 2019. The first full year of compliance was targeted by CIPFA as 2021/22. Due to the change of Section 151 officer and financial workloads in 2021/22, Members of the City Council received a formal report on the application of the FM code in September 2022.

1.2. This report provides an update on progress and changes since September 2022.

2. The FM code

2.1. The FM code:

- provides guidance for good and sustainable financial management in local authorities, giving assurance that authorities are managing resources effectively.
- requires authorities to demonstrate that the processes they have in place satisfy the principles of good financial management, which is an essential part of ensuring that public sector finances are sustainable.
- identifies risks to financial sustainability and introduces a framework of assurance. This framework is built on existing successful practices and sets explicit standards of financial management.

2.2. Complying with the standards set out in the FM Code is the collective responsibility of elected members, the chief finance officer and their professional colleagues in the leadership team. Complying with the FM Code will help strengthen the framework that surrounds financial decision making.

2.3. By following the essential aspects of the FM Code, local authorities are providing evidence to show they are meeting important legislative requirements.

2.4. Sets out the principles by which authorities should be guided in managing their finances and the specific standards that they should, as a minimum, seek to achieve.

2.5. The six underlying principles that inform the FM Code have been developed in consultation with senior practitioners from local authorities, local policing bodies and associated stakeholders. The principles have been designed to focus on robust financial management as a way of achieving both short-term financial resilience and long-term financial sustainability.

The principles are as follows:

- Organisational leadership – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.
- 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.
- Financial management is undertaken with transparency at its core using consistent, meaningful and understandable data, reported with appropriate frequency and 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 and include 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.

2.6. A financial management practice that conflicts with one or more of these principles will not be acceptable practice even if it is not ruled out explicitly by the FM Code itself.

2.7. The CIPFA Financial Management Code translates the principles of good financial management into a series of standards. These standards address the aspects of an authority's operations and activities that must function effectively if financial management is to be undertaken robustly and financial sustainability is to be achieved.

2.8. The areas covered by the standards are:

- the responsibilities of the chief financial officer and leadership team
- governance and financial management style
- long to medium-term financial management
- the annual budget
- stakeholder engagement and business plans
- monitoring financial performance
- external financial reporting

2.9. Appendix 1 updates the assessment of the Council's arrangements against each of the seven standards using the assessment criteria established by CIPFA in the FM code. Text in red in Appendix 1 are updates since last reported to committee.

3. Conclusion

3.1. The Council is materially compliant with the CIPFA FM code

3.2. As can be expected the good financial management of the authority is a process that is continuous.

List of appendices:

Appendix 1 – CIPFA FM code assessment

Background papers:

Nil

Corporate Implications

Legal/Constitutional:

None

Financial:

As detailed

Potential impact on climate change and the environment:

None

Contribution toward achieving a net zero carbon position by 2030:

None

Personnel:

None

Risk Management:

None

Equality and Diversity:

None

Health and Safety:

None

Digital:

None

Other:

None

Consultees:

Management Team

Relevant Policies and Strategies: None

Standard	Assessment against CIPFA criteria	Areas for Improvement/Clarifications
<p>The responsibilities of the chief finance officer and leadership team the concept of the 'leadership team' will include executive committees, elected mayors, portfolio holders with delegated powers and other key committees of the authority and senior officers.</p>		
<p>a) The leadership team is able to demonstrate that the services provided by the authority provide value for money <i>(In order to achieve compliance with the FM Code, consideration of value for money should be an integral feature to the decisions made by the leadership team, especially those relating to the allocation of resources or to the delivery of services.)</i></p>	<p>Audit opinion clear on VFM. Our Chelmsford, Our Plan – we have developed within the Council's ERP (financial system) processes to monitor actions and to maintain focus. This assists in achieving VFM by not diverting beyond objectives unless necessary. The monitoring will be reported to Overview and Scrutiny Committee. Large capital scheme proposals require a business case before proceeding; options, costs and benefits are established. Digital Investment is strategically managed by DPO team Management Team to ensure effective development of IT/digital programmes at Council. Procurement processes. The Council has in place and regularly reviews its procurement rules/procedures. Savings/efficiencies -We undertake an annual challenge to lower cost and not impact service levels as part of budget process. The delivery of the savings is monitored.</p>	<p>i)A review of financial rules has now taken place and been approved by Full Council. ii)The process of Post-Project Reviews for capital schemes to be included as part of review of Capital Bid Process. Summer 2023. Update: A new capital strategy and project framework is being developed for implementation in 2024. A key objective being greater alignment of budget setting and project final cost</p>
<p>b) The authority complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government (2016) The CIPFA Statement on the Role of the Chief Financial Officer in Local Government states that the Chief Financial Officer:</p> <ul style="list-style-type: none"> is a key member of the leadership team, helping it to develop and implement strategy and to 	<p>The Accountancy Services Manager (Chief Finance Officer / S151 Officer) is a fully qualified CIPFA member and reports to the Chief Executive. The S151 officer has advance access to the Management Team Agenda and can request attendance at the meetings, if items have material financial implications. The S151 officer is part of the decision-making process on changes to the budget during the year (as consultee on delegations or Cabinet reports).</p>	<p>Counter fraud work. A review of the authority's Fraud risk is being undertaken. The work has recently transferred to Internal Audit Service. Update; A new framework has been reported to Audit and Risk committee and actions to deliver</p>

<p>resource and deliver the authority’s strategic objectives sustainably and in the public interest</p> <ul style="list-style-type: none"> • 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 alignment with the authority’s financial strategy • must lead the promotion and delivery by the whole authority of good financial management so that public money is always safeguarded and used appropriately, economically, efficiently, and effectively • must lead and direct a finance function that is resourced to be fit for purpose • must be professionally qualified and suitably experienced 	<p>The S151 officer attends Audit and Risk Committee.</p>	<p>improvements are underway. The Audit Services Manager is leading on the process to embed the changes within the organisation.</p>
<p>Governance and financial management style</p>		
<p>The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control</p> <p>Key questions</p> <ul style="list-style-type: none"> - Does the leadership team espouse the Nolan principles? - Does the authority have in place a clear framework for governance and internal control? - Has the leadership put in place effective arrangements for assurance, internal audit, and internal accountability? - Does the leadership team espouse high standards of governance and internal control? - Does the leadership team nurture a culture of effective governance and robust internal control across the authority? 	<p>Nolan principles: the Council’s Annual Governance Statement identifies the codes of conduct that Council officers and members are expected to adhere. The codes align with Nolan principles.</p> <p>The Internal Audit Annual Report of the Chief Auditor, as required by the Accounts and Audit regulations and the Public Sector Internal Audit Standards, gives the Chief Auditor’s opinion on the overall adequacy and effectiveness of the organisation’s governance arrangements, risk management and internal control environment, drawing attention to any issues particularly relevant to the preparation of the Annual Governance Statement. It also sets out key themes arising from the work of the Audit Team during the financial year, and compares the audit work undertaken with that planned, summarising the performance of the Internal Audit function against its performance measures and targets.</p> <p>The annual report is made to the Council’s Audit and Risk Committee. The report for 2022/23 identified appropriate arrangements for control, risk, and governance at the Council.</p>	

	<p>Council officers have formed a Corporate Governance Group to support these actions and behaviours. The Governance group is made up of Service managers as key stakeholders from across the organisation.</p>	
<p>The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016) <i>This CIPFA/SOLACE framework recommends that the review of the effectiveness of the system of internal control that local authorities in England, Wales, Scotland, and Northern Ireland are required to undertake by their respective accounts and audit regulations should be reported in an annual governance statement.</i></p>	<p>The Local Code of Corporate Governance sets out the framework of policies, procedures, behaviours, and values by which Chelmsford City Council is governed. It describes how the organisation complies with each of the core principles to deliver the best outcomes for the local communities it represents, and to ensure effective governance across the organisation.</p> <p>The Annual Governance Statement explains how the Council has complied with the Code and also meets the requirements of Regulation 6 (Part 2) of the Accounts and Audit Regulations 2015. Once approved, the AGS will form part of the Statement of Accounts and will be signed by the Chief Executive and the Leader of the Council.</p> <p>In line with the CIPFA/SOLACE framework, the AGS is “an open and honest self-assessment” of the Council’s performance across all of its activities and:</p> <ul style="list-style-type: none"> • Describes the key elements of the Council's governance arrangements during 2022/23, covering all corporate systems and the range of activities for which the Council is responsible • Identifies the evidence available where improvements have been made and focusses on examples of good practice • Describes processes applied in reviewing their effectiveness • Lists actions proposed to provide more effective governance arrangements 	
<p>The financial management style of the authority supports financial sustainability</p> <p>CIPFA view this by: <i>accountability the finance team ensures that their authorities spend less and so achieve economy.</i></p>	<p>The Council has across services a strong financial culture.</p> <p>Budgets: Emphasise the need to have robust reserves. Don't rely on material levels of one-off income to fund ongoing services.</p>	<p>In year-reporting; greater service involvement being developed via a Financial Module of ERP.</p> <p>Update; This is an ongoing process with incremental</p>

<p>performance, the finance team works with the authority to spend well by maximising the output from goods or services and so achieves efficiency. Enabling transformation, the finance team supports the effective use of public money.</p>	<p>Include savings/efficiencies identified so the budget is set with a fully costed savings programme. Risk Management principal risks are identified/captured and managed (including financial aspects). Investment in ERP and improving data and financial management.</p>	<p>improvements as and when resources are available in accountancy. Improvements to date include automation of key processes for budget production and more comprehensive monitoring of car parking income and energy budgets.</p>
<p>Long to medium-term financial management CIPFA does not believe that the time horizon of local authority financial planning is determined by the time horizon of the financial support from central Government.</p>		
<p>The authority has carried out a credible and transparent financial resilience assessment.</p>	<p>A risk assessment is undertaken as part of the Medium-Term Financial Strategy and a strategic risk is recorded relating to delivery of the MTFS and financial sustainability. All risks have identified mitigations and are monitored regularly. The Council also holds a Risk Register of principal risks and to identify risks (including financial) in respect of major projects. MT Team identify major projects and strategic risks.</p>	
<p>The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.</p>	<p>5 Year strategy in MTFS Reserves forecasts. Capital & Investment strategies in place.</p>	<p>Financial long-term planning needs to increase its capture of information on the significant service investments that need to be made by the Council, i.e., corporate priority schemes where budgets have not yet been approved. Including addressing how these objectives can or will be financed in principle. Update: Ongoing process with changes to capital strategy (financial planning) in 2024 and continued risk management.</p>
<p>The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities.</p>	<p>The Council has all the strategies/policies in place as required and recommended by the Code. (Capital, Investment and Treasury strategies)</p>	
<p>The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.</p>	<p>The 5-year rolling Medium Term Financial Strategy is refreshed mid-year and reported to Council. A further review is undertaken</p>	

	<p>as part of the budget setting process. The MTFS is linked to Our Chelmsford, Our Plan, to ensure that key objectives and priorities are funded and resourced.</p> <p>An approved minimum General Fund/Contingency reserve is set to mitigate any in year financial risks</p>	
The annual budget		
<p>The authority complies with its statutory obligations in respect of the budget setting process.</p>	<p>The Council sets a balanced budget. The Councils has set a council tax increase within the council tax referendum limits and is aware of the rules regarding referendum. A properly recorded vote takes place at Council meetings.</p> <p>General fund contingency level remains around or above the level established by the S151 Officer. The Council is aware of the circumstances and the process for issuing a Section 114 notice, but S151 does not envisage this occur over the medium term.</p>	
<p>The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.</p>	<p>The S151 officer includes a statement within the annual budget report on the robustness of estimates and the appropriate level of reserves.</p>	
Stakeholder engagement and business plans		
<p>The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan, and annual budget.</p>	<p>Agendas and reports are shared in draft to opposition members in advance of publication dates, so comments can be made.</p> <p>Business Consultation meeting takes place annually.</p> <p>The MTFS is published in July and engagement on budget matters can therefore take place on social media in the period up to February Council meeting.</p> <p>Meetings where budget matters are discussed are all 'broadcast' on social media.</p> <p>Consultation on the next year's Budget now takes place in the Autumn and January.</p>	
<p>The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.</p>	<p>The development of capital schemes and major digital investment requires the production of business cases. These identify expected outcomes (financial and non-financial). The business case also considers other available options.</p>	<p>The review of the process of requests (bids) for capital funds and post project reviews was due to be completed summer 2022. This has been delayed due to staff sickness and a new plan is</p>

		<p>being developed around workloads.</p> <p>Update: A new capital strategy and project framework is being developed for implementation in 2024. An objective being greater alignment of budget setting and final cost of projects.</p>
Monitoring financial performance		
The leadership team acts using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.	<p>Reports 4 times a year, with actions to leadership team.</p> <p>MTFS/forecast updated twice a year</p> <p>Investment in new ERP (including Financial System)</p>	<p>Continue to work with service managers to improve effectiveness of budget reporting and management. Improve accuracy of in year budget forecasting.</p> <p>Update; this is an ongoing action.</p>
The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.	<p>Key areas of risk identified</p> <ul style="list-style-type: none"> • Property charging commercial rents and their valuations are considered at Treasury Management and Investment Subcommittee (TMISC) 3 times a year. • Investment/cashflow – are considered at the TMISC 3 times a year • Business rate retention income and as a consequence provisions/risks reported in revenue monitoring. • The Council currently has no external debt, but internalised borrowings are reported within the Capital strategy. • Bad debts and debtors; the level of arrears has never been sufficient concern to require separate reporting. 	
External financial reporting		
The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the Code of Practice on Local Authority Accounting in the United Kingdom.	<p>The Statement of Accounts are prepared in compliance with The Code. The Statement of Accounts for 2019/20 received an unqualified audit opinion.</p> <p>The Council accounts 2022/23 were published in draft format in-line with statutory requirements.</p>	<p>The lack of an external audit since 2020/21 is of significant concern. It is hoped that Government action will address and resolve this during 2024.</p>

<p>The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.</p>	<p>The Management Team, Cabinet Members and Audit & Risk Committee are provided with an outturn report detailing significant variations to budget. The report includes the request for carry forwards and identifies earmarked reserves.</p>	
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