

<b>Meeting Name:</b>	Audit, Governance and Standards Committee
<b>Date:</b>	3 June 2024
<b>Report title:</b>	Compliance with CIPFA Financial Management code
<b>Ward(s) or groups affected:</b>	All
<b>Classification:</b>	Open
<b>Reason for lateness (if applicable):</b>	

## **RECOMMENDATION**

1. That the Audit, Governance and Standards Committee note the report.

## **BACKGROUND INFORMATION**

2. CIPFA published the 'CIPFA Financial Management Code' ('FM Code') in autumn 2019. The purpose was to support and improve councils' financial resilience enabling them to better meet unforeseen demands on services and to manage unexpected shocks and provide a strong foundation to manage the short, medium and long term finances of the organisation.
3. The Financial Management (FM) code complies with other legislation and associated CIPFA codes and provides evidence of compliance with statutory and professional frameworks. It is based on 6 principles:
  - i) Leadership
  - ii) Accountability
  - iii) Transparency
  - iv) Standards
  - v) Assurance
  - vi) Sustainability

The six principles are translated into 17 Financial Management standards.

4. The FM Code came into effect from 1 April 2020 with authorities encouraged to work towards compliance in the financial year 2020-21; with full compliance by 2021-22. The council has reported yearly to this committee on the council's compliance with the Code.

## **KEY ISSUES FOR CONSIDERATION**

## CIPFA FINANCIAL MANAGEMENT CODE

5. The purpose of the FM code is to provide a strong foundation from which to manage financial resilience. This was particularly relevant for local authorities during the unexpected financial shock of the Covid-19 pandemic and currently, through the need to support the most vulnerable residents through the cost of living crisis.
6. In addition, the number of authorities facing acute financial difficulties (and consequent issuing of a 'Section 114' notice), has significantly increased in recent years. Although the circumstances that lead to these difficulties are unique to each authority, the background context has been the same - sharp cuts to funding during the austerity years, with demand for services rising substantially and more recently, high levels of inflation and interest rates.
7. To ensure financial resilience, CIPFA highlights the importance of a robust medium term financial plan supporting the authority's corporate strategy and priorities, strong governance, and effective monitoring and reporting, which are tested through compliance with the FM Code. Council assembly agreed a three year medium term financial strategy in February 2024 for 2024-25 to 2026-27. This strategy has focussed on identifying savings and potential budget pressures, over the three year period together with identifying council wide transformation programmes to reconfigure services to support the council's priorities.
8. The FM Code provides a standardised framework to assess financial all aspects of financial management and resilience. The council has reviewed compliance against the code for the 2023-24 financial year. Appendix A provides the details of compliance against each FM standard, by reviewing the required evidence and assessing how the council meets these standards.
9. The FM Code assessment highlights the risk to the housing revenue account (HRA) and its long term sustainability. The external auditor's annual audit report considered at the February 2024 audit, governance and standards committee, highlighted this same concern. The issue has been reported to cabinet and to council assembly in February 2024 and have highlighted the financial pressures facing the sustainability of the HRA, together with a set of approaches and phased actions to ensure its long term sustainability.
10. The section on medium to long term financial management includes a specific FM standard – '*The authority has carried out a credible and transparent financial resilience assessment.*' (Appendix A, Section F, p 14). The council has reviewed this, as required, through the 2023 CIPFA financial resilience index which uses data from the Department of Levelling Up, Housing and Communities (DLUHC) revenue and outturn data for 2022-23, together with the judgement on children's social care and the external auditor's value for money assessment.
11. The overall findings across all local authorities in 2023, showed a pattern of falling reserves and increases in social care expenditure. The index showed

Southwark Council to be at 'low risk' for the level of general fund reserves and ranked as low risk on the 'reserve sustainability' measure and rated good for children's social care. The areas ranked as high risk included the level of external debt. To maintain financial resilience with high levels of debt, CIPFA maintain that it is essential to have strong governance and good financial management.

### **Policy framework implications**

12. There are no policy implications in the proposals in this report.

### **Community, equalities (including socio-economic) and health impacts**

#### **Community impact statement**

13. This report is not considered to contain any proposals that would have a significant impact on any particular community or group

#### **Equalities (including socio-economic) impact statement**

14. There are no direct equalities implications in the proposals in this report.

#### **Health impact statement**

15. There are no direct health implications in the proposals in this report.

### **Climate change implications**

16. There are no direct climate change implications in the proposals in this report.

### **Resource implications**

17. There are no direct resource implications in this report Insert text

### **Consultation**

18. There was no consultation.

### **BACKGROUND DOCUMENTS**

<b>Background Papers</b>	<b>Held At</b>	<b>Contact</b>
PFS files	Finance, Second Floor, Tooley Street	Geraldine Chadwick

## APPENDICES

No.	Title
Appendix A	CIPFA Financial Management Code 2023-24

## AUDIT TRAIL

<b>Lead Officer</b>	Clive Palfreyman, Strategic Director of Finance		
<b>Report Author</b>	Geraldine Chadwick, senior finance manager.		
<b>Version</b>	Final		
<b>Dated</b>	23 May 2024		
<b>Key</b>	No		
<b>CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER</b>			
	<b>Officer Title</b>	<b>Comments Sought</b>	<b>Comments included</b>
	Assistant Chief Executive (Governance and Assurance)	N/A	N/A
	Strategic Director of Finance	N/A	N/A
	<b>Cabinet Member</b>	N/A	N/A
	<b>Date final report sent to Constitutional Team</b>	23 May 2024	