

The Chartered Institute of Public Finance and Accountancy (CIPFA) Financial Management Code - Assessment of Compliance

1. Background

- 1.1 The Financial Management (FM) Code was developed by CIPFA in 2019 due to the intense pressure placed on local authorities following the tightening fiscal landscape. It is recognised that organisations have done much to transform services, shape delivery and streamline costs and it is crucial organisations are underpinned with strong financial management. The FM Code is designed to support good practice in financial management and assist authorities in demonstrating financial sustainability.
- 1.2 There is a requirement for all local authorities to comply with the FM Code.

2. FM Code Principles and Standards

- 2.1 The FM Code is based on a series of principles. It does not prescribe the financial management process local authorities should adopt but it requires an authority to demonstrate that they satisfy the principles of good financial management relevant to its size, responsibilities, and circumstances.

- 2.2 The **principles** 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 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.

- 2.3 To enable the County Council to assess current practice against the principles which have been developed to match the financial management cycle and support governance, CIPFA has translated the principles into 7 **standards** which are:

1. The responsibilities of the Chief Finance Officer and the leadership team
2. Governance and financial management style
3. Long to medium-term financial management
4. The annual budget

5. Stakeholder engagement and business plans
6. Monitoring financial performance
7. External financial reporting

2.4 The Council undertook a self-assessment during 2022/23 which was reported to the Executive Leadership Team (ELT) in August 2022. This demonstrated that the Council complies with the FM Code, with areas where there is scope for improvement set out below.

3. Areas for improvement

3.1 During 2023/24, a further review will be undertaken by the new Chief Finance Officer (CFO) of the County Council's compliance against the Code, the evidence underpinning the compliance and a detailed action plan for improvement. This will be reported through the Annual Governance Statement each year to the Regulation, Audit & Accounts Committee (RAAC). Areas for improvement (with a progress update included in italics), as identified in August 2022, are set out below.

- Support arrangements are in place for the incoming CFO and carry out a review of qualified finance staff, progression and learning opportunities. **Update** – *The new CFO started in November 2022. During 2023/24 a new operating model will be considered for the finance department to support the implementation of the new finance system and new way of working. A business plan for the Finance and Support Services Directorate (which includes finance) is being developed for 2023/24 through a cross Directorate business planning working group. The business plan will be underpinned by strong resource and workforce planning. For the finance department, there will be a priority of developing a strong and resilient finance function to support the organisation and the delivery of the priorities in the Council Plan. The focus in 2023/24 will be on recruitment and retention - creating formal and informal development opportunities for existing staff and promoting West Sussex finance as an attractive place to start and pursue a career.*
- The Medium-Term Financial Strategy (MTFS) identifies a funding gap in future years. Savings plans should be developed for the whole period of the plan. **Update** – *A balanced budget for 2023/24 will be approved by County Council in February 2023. The current budget gap for the three years from 2024/25 is between £50m and £100m depending on the level of Council Tax increase each year. Work to address the longer-term financial challenge will commence before the end of 2022/23 with the expectation of publishing a MTFS in summer 2023 to set the foundations for achieving a balanced budget over the medium term. The MTFS will set out an approach which aligns the Council's limited resources with priorities in the Council Plan – based on a framework which continues to look for efficiencies but also a focus on the re-design of services which continue to deliver good outcomes but within a smaller financial envelope.*
- Requirements of the FM Code to be reflected in Treasury Management and Capital Strategy. **Update** – *Both strategies, along with the budget report, have been updated to reflect the FM Code, for approval at County Council in February 2023.*

- The MTFS and capital programme to reflect the long-term approach where service contracts are in place, to demonstrate the contracts can be funded over the whole period of the contract. The MTFS to cover a ten-year period and focus on future years savings plans including demand pressures. **Update** – *The MTFS that will be published in summer 2023 will focus on a five year period for the revenue budget and 10 to 15 years for the capital programme.*
- Conduct a financial resilience assessment to test financial sustainability in particular relating to the Dedicated Schools Grant (DSG) pressure, using key drivers, costs, and service demands. The financial strategy should include a visioning of the shape of services in the future to achieve financial sustainability. **Update** - *A review of the Council's financial stability and of reserves took place as part of the budget setting process towards the end of 2022. A further review is planned for early 2023/24 that will be included within the MTFS published in the summer and will set out the Council's Reserves Strategy and a five year forecast on all reserves. This review will also consider the Council's approach for dealing with long term significant risks, such as social care reforms, the DSG deficit after 2025 and any impact of changes to Government funding to manage any severe short-term reductions. Development of the MTFS in the summer will require a review of all underpinning assumptions and use of scenario planning to consider financial sustainability under a best and worst case scenario. It is likely significant budget reductions or new income opportunities will be required to achieve longer-term financial sustainability and these discussions will be targeted through the lens of the Council Plan to ensure limited resources are spent in line with the priorities of the residents of West Sussex. Lobbying will continue both individually and through the various networks across the sector to ensure Government funding recognises the challenges facing the sector.*
- Balance sheet management review to be undertaken to support better management of assets and liabilities to improve service delivery. **Update** - *This has been included within the Finance business plan and will be formally monitored and reported quarterly through 2023/24.*
- Strengthen the alignment of finance and operational service plans. **Update** – *During 2023/24, the Council will continue to strengthen its business planning process. The MTFS published in the summer will align at an organisational level, the Council's financial resources with the priorities in 'Our Council Plan' and will be used as a basis to align Directorate and departmental finance and operational plans. This will be driven forward through a new cross Council Business Planning Group which has been created and also through ELT and Directorate Management Teams.*