

# **North Tyneside Council**

## **Report to Audit Committee**

### **Date: 26 July 2023**

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**Report from:**                      **Finance**

**Report Author:**                      **Jon Ritchie, Director of Resources**                      **Tel: 643 5701**

**Wards affected:**                      **All**

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#### **PART 1**

##### **1.1 Executive Summary:**

1.1.1 The purpose of this report is to provide the Audit Committee with an update in respect of the Authority's compliance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Financial Management (FM) Code. The report also identifies areas where compliance could be further enhanced.

##### **1.2 Recommendation(s):**

1.2.1 It is recommended that the:

- (a) Audit Committee note the work outlined in respect of work required to further enhance financial governance and sustainability in line with the CIPFA FM code, and
- (b) be advised that the recommended actions which have been identified will mitigate risks and strengthen the Authority's financial management and governance processes.

##### **1.3 Forward plan:**

1.3.1 This report is contained in the forward plan of the Audit Committee.

## **1.4 Council plan, policy framework:**

- 1.4.1 Improving our compliance with the CIPFA FM Code meets the Our North Tyneside Plan by enabling all aspects of the plan.

## **1.5 Information:**

- 1.5.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) published the Financial Management Code (FM Code) in October 2019. The FM Code provides guidance for good and sustainable financial management in local authorities, giving assurance that authorities are managing resources effectively. The FM Code 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.
- 1.5.2 The FM Code 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. 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 Senior Leadership Team. Complying with the FM Code will help and support the Authority to strengthen the framework that surrounds financial decision making.
- 1.5.3 The FM Code builds on elements of other CIPFA Codes of Practice, such as The Prudential Code for Capital Finance, Treasury Management in the Public Sector, and the Code of Practice on Local Authority Accounting in the United Kingdom. By following the essential aspects of the FM Code, local authorities are providing evidence to show they are meeting important legislative requirements.
- 1.5.4 The FM Code is a principles-based approach, rather than prescriptive setting out six principles:
- Leadership;
  - Accountability;
  - Transparency;
  - Standards;
  - Assurance; and

- Sustainability.

1.5.5 Each of these principles is supported by a set of guidance standards against which authorities should carry out a self-assessment. The FM Code is structured around 7 areas of focus:

- The Responsibilities of the Chief finance 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; and
- External Financial Reporting.

1.5.6 Each of these areas are supported by standards against which authorities should undertake their own self-assessment. Although the FM Code does not have legislative backing, it applies to all authorities, including police, fire, combined and other authorities.

## **1.6 Prior Year CIPFA FM Code Self-Assessments**

1.6.1 The Authority undertook an initial self-assessment in 2021 and a revised assessment has been undertaken in June 2023 against the FM Code standards, identifying compliance and highlighting those areas where actions were required to enhance compliance.

1.6.2 When assessing the measures identified in the FM code, the Authority considered the detailed requirements to meet these and provided an evidence basis for the evaluated risk rating score. In addition, the Authority identified any areas where there were further actions that could be taken to enhance compliance. These actions have been built into the Authority's service plans through 2021/22, 2022/23 and 2023/24.

1.6.3 The full details of the measures are included in Appendix A to this report the table below shows the summary of outcomes for last self-assessment undertaken in June 2023, they are as follows:

<b>CIPFA FM Code Sections</b>	<b>R</b>	<b>A</b>	<b>G</b>
Responsibilities of the CFO & Leadership Team		1	1
Governance & Financial Management Style			3
Long to Medium Term Financial Management			4
The Annual Budget			2
Stakeholder Engagement and Business Plans			2
Monitoring Financial Performance			2
External Financial Reporting			2

1.6.4 The self-assessment against 17 measures identified that there were:

- 16 low “green” risks
- 1 medium “amber” risk

The amber risk identified under the responsibilities of the CFO and Senior Leadership Team related to the insourcing of the Financial Service on 31 May 2023 from Equans to the Authority. Financial Leadership has 5 aspects which are considered as part of the self-assessment measure. Specifically, the amber risk is relating to point 4 and 5 of the criteria:

The CFO:

- Must lead and direct a finance function that is resourced to be fit for purpose; and
- Must be professionally qualified and suitably experienced.

1.6.5 In meeting the criteria for leading a finance function that is resourced to be fit for purpose, the 2023/24 Finance service plan includes ongoing service development measures to build skills, knowledge and ensure that the right proportion of the Service are professionally qualified. Whilst this will always be an ongoing requirement and will form part of future service plans there is an acknowledgement that once a plan is in place this measure will be achieved and would become a “green” low risk.

## **1.7 Enhanced CIPFA FM Code Self-Assessment**

1.7.1 In recent years an increasing number of authorities have had high-profile financial difficulties leading to those authorities having to issue S114

notices under the Local Government Finance Act 1988. The Committee will be aware of the well-publicised issues at authorities such as Thurrock and Croydon and the measures that have been imposed for those authorities and the reviews which have been undertaken and identified the necessity to improve financial governance and control. As would be expected the Authority have taken the opportunity to review the underlying issues that have been highlighted and have used this as a basis to include and enhanced assessment within North Tyneside to provide additional reassurance that the Authority has strong financial governance in place.

- 1.7.2 The financial risk outcomes for the Authority have changed over 2022/23 into 2023/24, with the Authority using its Strategic Reserve to balance the General Fund outturn for 2022/23. Financial resilience is a key measure for the Authority to ensure unforeseen circumstances can be managed effectively. The use of the Strategic Reserve in 2022/23 was necessary, however, the Authority's Medium-Term Financial Plan approved by Full Council on 16 February 2023 provided for the replenishment of the Strategic Reserve over the 4-year period to 2026/2027.
- 1.7.2 Using the published information from other authorities, the Authority has identified an increased set of actions to provide additional assurance. This approach expanded the FM Code measures from 17 to over 50, providing a more detailed view of the Authority's progress against the FM code. The full detail of these additional measures are included within Appendix B to this report.
- 1.7.3 The additional measures were then assessed against prior year risks and broken down into detailed actions that are required to provide further assurance. Some of these actions were already embedded into the finance process and governance and included within the Authority's service plans. The table below shows a summary of the risk assessment from the enhanced actions that have been included as part of the overall self-assessment.

#### 1.7.4 Table of Actions from Enhanced Review of CIPFA FM Code

<b>CIPFA FM Code Sections – Finance Priorities</b>	<b>1</b>	<b>2</b>	<b>3</b>
Responsibilities of the CFO & Leadership Team		2	3
Governance & Financial Management Style		4	
Long to Medium Term Financial Management		1	4
The Annual Budget			
Stakeholder Engagement and Business Plans			1
Monitoring Financial Performance	2	2	
External Financial Reporting			

1.7.5 The next steps were to reassess risks and progress the CIPFA FM Code, taking the enhanced measures and actions into account to give an updated view of progress against the FM code. Additional amber risks have been highlighted in two areas:

- Financial management will require robust monitoring with a refreshed focus on delivering a balanced budget in 2024/25.
- Medium term planning needs to focus on replenishing reduced reserves from 2024/25 and over the medium-term.

1.7.6 Revised table of outcomes following latest self-assessment

<b>CIPFA FM Code Sections – New Assessment</b>	<b>R</b>	<b>A</b>	<b>G</b>
Responsibilities of the CFO & Leadership Team		1	1
Governance & Financial Management Style		1	2
Long to Medium Term Financial Management		1	3
The Annual Budget			2
Stakeholder Engagement and Business Plans			2
Monitoring Financial Performance			2
External Financial Reporting			2

1.7.7 Whilst the risks have increased following the enhanced review of financial management in line with the FM code model, actions have been identified to both mitigate these risks and to strengthen the overall financial sustainability and governance of the Authority.

## **1.8 Decision options:**

- 1.8.1 The Audit Committee can agree to endorse the recommendations as set out in Section 1.2 of this report. Alternatively, the Audit Committee can decline to endorse the recommendations and request further details and amendment.

## **1.9 Reasons for recommended option:**

- 1.9.1 The Audit Committee is recommended to endorse the proposals set out in section 1.2 of this report as further embedding financial sustainability using the CIPFA FM code into the ongoing management of the Authority's finances and finance service.

## **1.10 Appendices:**

Appendix A: CIPFA FM Code Self-Assessment July 2023

Appendix B: Enhanced CIPFA FM Code Self-Assessment Measures 2023

## **1.11 Contact officers:**

Jon Ritchie, Director of Resources, Tel 643 5701

Claire Emmerson, Head of Finance (Deputy S151 Officer), Tel 643 8109

Noel Kay, Senior Finance Manager, Tel 643 5409

## **1.12 Background information:**

- 1.12.1 The following background papers and reports have been used in the compilation of this report and are available for inspection at the offices of the author:
- (a) CIPFA's Financial Management Code (FM Code) October 2019.

# **PART 2 – COMPLIANCE WITH PRINCIPLES OF DECISION MAKING**

## **2.1 Finance and other resources**

- 2.1.1 There are no direct financial implications as a result of the recommendations within this report. It does identify actions to strengthen the Authority's effective financial management.

## **2.2 Legal**

- 2.2.1 The CIPFA FM Code is not a legislative requirement, though it does build on elements of other codes of practice that collectively show authorities are providing evidence to show they are meeting important legislative requirements.

## **2.3 Consultation/community engagement**

- 2.3.1 The outcome of the latest self-assessment was reported to the Authority's Senior Leadership Team at its meeting on 5 July 2023 and actions identified are part of the finance service plans.

## **2.4 Human rights**

- 2.4.1 There are no Human Rights implications as a result of the recommendations in this report.

## **2.5 Equalities and diversity**

- 2.5.1 There are no Equalities and Diversity implications as a result of the recommendations in this report.

## **2.6 Risk management**

- 2.6.1 The self-assessment includes a risk-based score of the current financial management of the Authority against the measures identified in the CIPFA FM code.

## **2.7 Crime and disorder**

- 2.7.1 There are no crime and disorder implications as a result of the recommendations in this report.

## **2.8 Environment and sustainability**

- 2.8.1 There are no environment and sustainability implications as a result of the recommendations in this report.