

The Financial Management Code – (Paul French – Corporate Head of Finance)

Synopsis of report:

To update Members of the new CIPFA Financial Management Code and present the initial assessment that has been carried out of the Council's current level of compliance compared to the Standards contained within the Financial Management Code and any associated actions arising from the exercise to strengthen the Council's position.

Recommendation(s):

The Committee notes the requirements of the Code and the Council's assessment against it.

1. Context of report

- 1.1 The Chartered Institute of Public Finance (CIPFA) Financial Management Code (“the FM Code”) was published in October 2019. It is intended to support good financial management and stability and applies to all local authorities, including police, fire and other bodies. It was produced to assist local authorities in demonstrating their financial sustainability through a set of standards of financial management.
- 1.2 CIPFA introduced the FM Code in response to concerns around financial resilience of councils (even before Covid). The introduction of the FM Code was driven by the exceptional financial circumstances faced by local authorities, having revealed concerns about fundamental weaknesses in financial management. In particular there have been a small number of high-profile failures across local government which threaten stakeholder's confidence in the sector as a whole.
- 1.3 The standards have different practical applications according to the size and different circumstances of individual authorities and their use locally should reflect this. The principle of proportionality applies to the FM Code and reflects a non-prescriptive approach to how each standard is met.
- 1.4 The initial report setting out the requirements of the FM Code was presented to the Corporate Management Committee on 15 October 2020 where it was reported that the first full year of compliance would be 2021/22 and Officers would work through the FM Code guidance and would report back to the Standards and Audit Committee on where the Council currently met the criteria and what officers were doing to ensure that any gaps in compliance were addressed.
- 1.5 Despite Covid, the first full year of compliance remains 2021/2022, however, CIPFA announced that implementation can be undertaken within a more flexible framework where a proportionate approach is encouraged. In practice this is likely to mean that adherence to some parts of the Code will demonstrate a direction of travel .

2. Report

The FM Code

- 2.1 The FM code requires the Council to demonstrate that the processes they have in place to satisfy the principles of good financial management, which is an essential part of ensuring that public sector finances are sustainable. It focuses on value for money, governance and financial management styles, financial resilience and financial sustainability. The Code identifies the risks to financial sustainability and introduces an overarching framework of assurance which builds on existing financial management good practice. The Code has been designed on a principles-based approach which will assist in determining whether, in applying standards of financial management, a local authority is financially sustainable.
- 2.2 The FM Code builds on elements of other CIPFA codes, such as The Prudential Code for Capital Finance, The Treasury Management in the Public Sector Code of Practice and The Code of Practice on Local Authority Accounting, which the Council already complies with. By following the essential aspects of the FM Code, it is expected that the Council can evidence how it's meeting important legislative requirements.
- 2.3 The FM Code sets out 6 principles and 17 standards for good financial management in local government. The principles have been designed to focus on an approach that will assist in determining whether, in applying standards of financial management, a local authority is financially sustainable. The 6 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 drive 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.
- 2.4 CIPFA's expectation is that authorities have to comply with all 17 of the financial management standards if they are to demonstrate compliance with the FM Code.

Compliance with the FM Code

- 2.5 Whilst compliance with the Code is not a statutory responsibility, CIPFA has made it clear that in its opinion these are minimum standards, and therefore compliance with them is obligatory if a local authority is to meet its statutory responsibility for sound financial administration. However, the Code recognises that some organisations have different structures and legislative frameworks. Where compliance with this code is not possible adherence to the principles is appropriate.
- 2.6 The Council's external auditors will, from 2021/22, have regard to the FM Code and will be looking to ensure that the Council is meeting the Code. Furthermore, CIPFA guidance issued in February 2021 stated that the Council's Annual Governance Statement should include the overall conclusion of the assessment of the organisation's compliance with the principles of the FM Code. Where there are

outstanding matters or areas for improvement, these should be included in the action plan.

- 2.7 CIPFA state that “Demonstrating this compliance is a collective responsibility of elected members, the chief finance officer (CFO) and their professional colleagues in the leadership team. It is for all the senior management team to work with elected members in ensuring compliance with the FM Code and so demonstrate the standard of financial management to be expected of a local authority. In doing this the statutory role of the section 151 officer will not just be recognised but also supported to achieve the combination of leadership roles essential for good financial management”.
- 2.8 The Corporate Leadership Team have carried out an assessment of the Council’s compliance with the FM Code in 2021/22, which can be seen at Appendix A. The assessment considers each standard of the FM Code and provides an assessment of the current position, potential improvements and a RAG rating.
- 2.9 As someone who has had no prior history with the Council and who has taken on the role most affected by the FM Code, the assessment was reviewed by the new Assistant Chief Executive shortly after she started in December 2021 to provide an independent view.
- 2.10 Overall the assessment shows that the Council is in a good position to ensure compliance with the FM Code in 2021/22. Of the 17 standards, all have been identified as being green under the RAG rating.
- 2.11 There are also areas of further improvement work identified for a number of the standards that have been identified as green. These actions will strengthen what is already a compliant approach taken by the Council. These have been separated into the following two areas:
 - **Areas for improvement** – Areas that can be looked at now
 - **Areas for enhancement** – Areas to develop over the medium term (where additional resources (staffing, system enhancement etc) would be required aspirations.

The assessment will be continually reviewed and refined to identify any areas where compliance can be enhanced

3. Resource implications (where applicable)

- 3.1 Compliance with the code will further enhance financial management arrangements within the authority

4. Legal implications

- 4.1 The FM Code requirement for sound financial management is supported by Section 151 of the Local Government Act 1972 which requires that every local authority in England and Wales should “... make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs”.
- 4.2 Whilst compliance with the code is not a statutory duty in itself, failure to comply could be viewed as not meeting existing statutory duties.

5. Corporate Business Plan / Business Centre Plans

- 5.1 Compliance with the FM Code will contribute to sound decision making. This will support the Medium Term Financial Strategy, enabling Members to monitor progress against the plan in a timely manner to ensure resources are allocated in line with priorities and ambitions of the Council
- 5.2 The Code focuses on the Council's ability to deliver value for its residents and as such will enable the Council to meet the following Corporate Values and Corporate Goals:
- Delivering excellent value for money
 - Transparent
 - Deliver cost effective services
 - Effectively manage our finances.
 - Have sound leadership and decision making processes

6. Risk management

- 6.1 Compliance with the code should enhance the management of financial risks over the longer term.
- 6.2 There are inherent risks regarding non-compliance with the FM Code which include risks to financial sustainability, financial resilience, financial and service planning and delivery as well as to the Council's reputation.

7. Conclusions

- 7.1 It is for the leadership team of each authority (members downwards) to ensure that an authority's governance arrangements and style of financial management promote financial sustainability. The FM Code is designed to identify the risks to financial sustainability and provide assurance of good governance and financial management.
- 7.2 The FM Code Summary Assessment demonstrates that the Council fully complies with the FM Code.

(To resolve)

Background papers

CIPFA Financial Management Code 2019

CIPFA Finance management Code Guidance 2020

Financial Management Code report to Corporate Management Committee 15/10/20