

Report to	On
Governance Committee	Tuesday, 25 May 2021



Title	Report of
Review of Compliance with CIPFA Financial Management Code	Deputy Chief Executive

Is this report confidential?	No
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### Purpose of the Report

1. To present the review of the Council's compliance with CIPFA's Financial Management Code.

### Recommendations

2. That the Committee notes:
  - The publication of the Financial Management Code and the requirement for its application from 1 April 2020.
  - That 2020/21 was a shadow year during which all local authorities have been working towards full implementation for the first full year of compliance in 2021/22.
  - That an initial assessment has been carried out at APPENDIX A of the Council's assessed level of compliance compared to the Standards contained in the Financial Management Code.
  - The actions outlined in Appendix A.

### Reasons for recommendations

3. It is a requirement for the council to report on its assessment of compliance with the Financial Management Code

### Other options considered and rejected

4. None

### Corporate outcomes

5. The report relates to the following corporate priorities: *(tick all those applicable)*:

An exemplary council	<input checked="" type="checkbox"/>	Thriving communities	<input type="checkbox"/>
A fair local economy that works for everyone	<input type="checkbox"/>	Good homes, green spaces, healthy places	<input type="checkbox"/>

## **Background to the report**

6. Local government finance in the UK is governed by primary legislation, regulation and professional standards, as supported by statutory provision. The financial management of a local authority, has not however, until now, been supported by a professional code. The Financial Management Code (FM Code) has been introduced because the exceptional financial circumstances faced by local authorities have revealed concerns about fundamental weaknesses in financial management, particularly in relation to organisations that may be unable to maintain services in the future.
7. Whilst there is much good practice across the sector, the failures of a small number of authorities has threatened stakeholders' confidence in local government as a whole. The FM Code is therefore designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability; for the first time, the FM Code sets the standard of financial management for local authorities.
8. Although the FM Code does not have legislative backing, it applies to all local authorities, including police, fire, combined and other authorities.
9. CIPFA have considered the implementation of the FM Code and consider that 2020/21 should be a shadow year of operation for local authorities to demonstrate that they have been working towards full implementation of the Code; the first full year of compliance with the Code will therefore be 2021/22.

## **The Financial Management Code**

10. The purpose of the FM Code itself is to establish the principles in a format that matches the financial management cycle and supports governance in local authorities. A series of financial management standards set out the professional standards needed if a local authority is to meet the minimal standards of financial management acceptable to meet fiduciary duties to taxpayers, customers and lenders. Since these are minimum standards, CIPFA's judgement is that compliance with them is obligatory if a local authority is to meet its statutory responsibility for sound financial administration. Beyond that, CIPFA members must comply with it as one of their professional obligations.
11. While the statutory local authority budget setting process continues to be on an annual basis, a longer-term perspective is essential if local authorities are to demonstrate their financial sustainability. Short-termism runs counter to both sound financial management and sound governance.
12. Reflecting on the importance of longer-term financial planning, one of the objectives of the FM Code is to support organisations to demonstrate that they have the leadership, capacity and knowledge to be able to plan effectively. This must be balanced against retaining the integrity of the annual budget preparation process when the need to make difficult decisions may threaten its integrity.
13. Significantly, the FM Code builds on the success of the CIPFA Prudential Code, which requires local authorities to demonstrate the long-term financial sustainability of their capital expenditure and associated borrowing. With this success came new financial

freedoms to make local decisions on matters that had hitherto been subject to central government control.

14. The FM Code is consistent with other established CIPFA codes and statements in being based on principles rather than prescription. The FM Code incorporates existing requirements on local government so as to provide a comprehensive picture of financial management in the authority.
15. The application of the FM Code will therefore provide the strong foundation within local authorities to enable them to:
  - Financially manage their short-, medium- and long-term finances
  - Manage financial resilience to meet foreseen demands on services
  - Financially manage unexpected shocks in their financial circumstances.
16. The underlying principles that inform the FM Code have been developed in consultation with senior practitioners from local authorities and associated stakeholders. The principles have been designed to focus on an approach which will assist in determining whether, in applying standards of financial management, a local authority is financially sustainable.
  - **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, 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 frequently 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 includes 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.
17. Each local authority must demonstrate that the requirements of the FM Code are being satisfied. However, the FM Code is not expected to be considered in isolation, and accompanying tools will form part of the collective suite of evidence to demonstrate sound decision making and a holistic view is taken.
18. Demonstrating this compliance with the FM Code is a collective responsibility of Elected Members, the Chief Finance Officer (CFO) and their professional colleagues in the leadership team.
19. It is for all the Senior Management Team (SMT) 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 (S151) will be both recognised and supported in achieving the leadership roles essential for good financial management.

20. An assessment has been carried out at Appendix A of the Council's assessed level of compliance compared to the Standards contained in the FM Code.

### **Risk**

21. Appendix A to this report outlines the areas where improvements will be made to improve compliance with the Financial Management Code. One key area for improvement is updating the process by which the Council creates and approves business cases, especially for new capital projects.

### **Equality and diversity**

22. None

### **Air quality implications**

23. None

### **Comments of the Statutory Finance Officer**

24. Chief Financial Officer (Section 151 Officer) has the Statutory Responsibility (supported by the management team and elected members) for ensuring compliance with the FM Code. Actions and responsibilities are outlined in appendix A to this report.

### **Comments of the Monitoring Officer**

25. The assessment of the FM code and the actions identified are in keeping with the Council's commitment to implementing improved Governance across the organisation.

### **Appendices**

Appendix A – Assessment of Compliance with Financial Management Code

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