

AUDIT COMMITTEE

The CIPFA Financial Management Code

20 July 2022

Report of Chief Finance Officer

PURPOSE OF REPORT

The Chartered Institute of Public Finance and Accountancy (CIPFA) have issued a Financial Management (FM) Code which aims to ensure a high standard of financial management in local authorities. This purpose of this report is to provide an assessment of the Council's current compliance with the code together with areas for improvement.

This report is public

RECOMMENDATIONS

The Committee is asked to

- To consider whether the assessment carried out at APPENDIX A of the Council's level of compliance compared to the Standards contained in CIPFA's Financial Management Code is consistent with its understanding, and whether there are any further comments it wishes to make

1.0 INTRODUCTION

1.1 In December 2019, CIPFA published its Financial Management code (FM Code) to provide guidance for good and sustainable financial management in local authorities. It has been produced to assist local authorities in demonstrating their financial sustainability through a set of standards of financial management.

1.2 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.

2.0 BACKGROUND

2.1 In response to recent concerns around financial resilience of Councils, CIPFA has introduced a new FM Code as part of a package of measures that it is putting in place. These measures have been 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 stakeholders confidence in the sector as a whole.

2.2 The FM Code is 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 out the standards of financial management for local authorities.

2.3 In February 2021 CIPFA provided clarification on compliance with the code to reflect COVID-19 pressures. This stated: Much of the Code requirements are based on statutory responsibilities, the timescales for which CIPFA is not able to influence. The Code does, however, allow for both flexibility and a proportionate approach:

“The manner in which compliance with the FM Code is demonstrated will be proportionate to the circumstances of each local authority.” and that:

“Financial management standards are to be guided by proportionality.”

2.4 CIPFA concluded that while the first full year of compliance is 2021/2022, it can do so 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*.

3.0 The CIPFA Statement of Principles of Good Financial Management

3.1 The FM Code applies a principle-based approach rather than prescribing the financial management processes that local authorities should adopt. They have been developed by CIPFA in consultation with senior practitioners from local authorities and associated stakeholders. 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.

3.2 The principles include:

- i. Organisational leadership – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.
- ii. 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.
- iii. 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.
- iv. Adherence to professional standards is promoted by the leadership team and is evidenced.
- v. 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.
- vi. 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.

3.3 In turn the 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
- External Financial Reporting

- 3.4 Each of these areas is supported by a set of guidance standards against which Councils should be assessed. CIPFA's expectation is that authorities will have to comply with all the financial management standards if they are to demonstrate compliance with the FM Code and to meet its statutory responsibility for sound financial administration and fiduciary duties to taxpayers, customers and lenders.
- 3.5 Although the FM Code does not have legislative backing, it applies to all local authorities, including police, fire, combined and other authorities. 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.
- 3.6 The Council's external auditors will 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 (AGS) should include the overall conclusion of the assessment of 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.
- 3.7 The results of this assessment is documented at Appendix A and identified a range of further actions required, the majority of which were already planned areas of work. These are summarised as follows:

Standard	Action Required	Responsible Officers	Timescale
Responsibilities of the Leadership Team and Chief Financial officer (CFO)	Increased use of benchmarking data and peer review for inclusion in business case and as part of Outcomes Based Resourcing (OBR) to focus on VfM aspects.	Executive Team	February 2023 - To be incorporated as part of 2023/24 budget process
	Recruitment to address the capacity issues within finance function	Chief Finance Officer	August 2022
Governance and Financial Management Style	Ensure that Internal Audit deliver sufficient audit work and coverage to support the annual HoIA Opinion and AGS	Head of Internal Audit Chief Finance Officer	July 2022
	Review of Financial procedure rules	Chief Finance Officer	March 2023
	Undertake a comprehensive review of the Local code of Corporate Governance	Chief Finance Officer/ Monitoring Officer	November 2022
Long to Medium Term Financial Management	Utilisation of OBR principles as it works to address the	Cabinet Executive Team	December 2022 – As part of the

	structural deficit as part of the 2023/24 budget process.		2023/24 budget process
	As part of the process to address the structural deficit service plans will need to be re-aligned to reflect to Council's ambitions and outcomes	Chief Finance Officer Cabinet Executive Team	December 2022 – As part of the 2023/24 budget process
Annual Budget	Seek an in-year reduction in the use of reserves to deliver a balanced budget for 2023/24 and beyond	Chief Finance Officer Executive Team Cabinet	December 2022 – As part of the 2023/24 budget process
Stakeholder Engagement and Business Plans	Review and consideration of the most effective methods of stakeholder engagement on financial matters.	Executive Team Cabinet	February 2023 – As part of the 2023/24 budget process
	Further work is required to fully embed project management and the accompanying disciplines throughout the Council and ensure that is consistently applied.	Executive Team and Programme Manager	December 2022 – As part of the 2023/24 budget process

3.8 As noted above these areas for improvement will be included in the Council's Annual Governance Statement and progress monitored through the Audit Committee. The AGS is presented to the Committee elsewhere on this agenda

4.0 Options and options analysis (including risk assessment)

4.1 As the assessment of performance against CIPFA's FM Code requirement is a regularity requirement and forms part of the Council's Annual Governance Statement no alternative options are identified.

5.0 Conclusion

5.1 The CIPFA FM Code is intended to be a live document to support continuous improvement of financial management. This will be reviewed and updated annually and progress on the activities included within the Action Plan will be presented to a future meeting of the Audit Committee

CONCLUSION OF IMPACT ASSESSMENT
(including Diversity, Human Rights, Community Safety, Sustainability and Rural Proofing)

The report has no direct impact on the above issues.

FINANCIAL IMPLICATIONS

None arising directly from this report.

OTHER RESOURCE IMPLICATIONS, SUCH AS HUMAN Resources, Information Service, Property, Open Spaces:

None arising directly from this report.

SECTION 151 OFFICER'S COMMENTS

Section 151 of the Local Government Act 1972 states that "every local authority shall 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".

CIPFA's judgement is that compliance with the FM Code will assist local authorities to demonstrate that they are meeting these important legislative requirements.

LEGAL IMPLICATIONS

CIPFA's intention is that the FM Code will have the same scope as the Prudential Code for Capital Finance in Local Authorities, so although the FM Code does not have legislative backing, it applies to all local authorities. In addition to its alignment with the Prudential Code the FM Code also has links to the Treasury Management in the Public Sector Code of Practice and Cross Sectoral Guidance Note and the annual Code of Practice on Local Authority Accounting in the United Kingdom. In this way the FM Code support authorities by re-iterating in one place the key elements of these statutory requirements.

MONITORING OFFICER'S COMMENTS

The Monitoring Officer has been consulted and their comments have been incorporated.

BACKGROUND PAPERS

N/A

Contact Officer: Paul Thompson
Telephone: 01524 582603
E-mail: pthompson@lancaster.gov.uk
Ref: