

# AUDIT COMMITTEE

## The CIPFA Financial Management Code

26 July 2023

### Report of Chief Finance Officer

#### PURPOSE OF REPORT

The Chartered Institute of Public Finance and Accountancy (CIPFA) issued its Financial Management (FM) Code in 2019 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 note 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 The Chartered Institute of Public Finance & Accountancy (CIPFA) launched a Financial Management Code (FM Code) in 2019 with an implementation date of 1st April 2021. It sets out seventeen standards of financial management for local authorities.
- 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.
- 1.3 This report is a self-assessment and review of the Council's compliance with the standards as set out in the FM Code. It documents detail of what is expected within the standard. It also records evidence of areas of compliance, non-compliance and documents any further actions required to meet and/or improve current processes in place. This report is to be considered alongside the 2022/23 Annual Governance Statement (AGS)

## 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 first full year of compliance with the FM Code was 2021/22 and the Council is required to evidence its assessment of compliance with the code and identify any areas for further improvement annually. Appendix A sets out the review updated for the 2022/23 position and includes the activities undertaken in preparation for the 2023/24 budget.
- 2.3 CIPFA states that the manner in which compliance with the FM Code is demonstrated will be proportionate to the circumstances of each local authority. Importantly, however, contextualising the FM Code cannot be done according only to the size of the authority but also according to the complexity and risks in its financial arrangements and service delivery arrangements.

## 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.

#### 4.0 FINANCIAL MANAGEMENT CODE SELF- ASSESSMENT

- 4.1 A self-assessment exercise to benchmark the Council's current processes and practice against the FM Standards has been undertaken using a RAG Rating approach as set out below:

Assessment	Description
<b>GREEN</b>	Compliance is being demonstrated.
<b>AMBER</b>	Minor to Moderate improvements are required to demonstrate full compliance.
<b>RED</b>	Moderate to Significant improvements are required to demonstrate full compliance.

- 4.2 The following table summarises the self-assessment RAG Rating for each standard

Standard Reference	Financial Management Standard	Previous Rating (2021/22)	Current Rating (2022/23)	Reason for Change
<b>Section 1: The Responsibilities of the Chief Finance Officer and Leadership Team</b>				
<b>A</b>	The leadership team is able to demonstrate that the services provided by the authority provide value for money (VFM).	<b>AMBER</b>	<b>AMBER</b>	
<b>B</b>	The authority complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government	<b>AMBER</b>	<b>AMBER</b>	
<b>Section 2: Governance and Financial Management Style</b>				
<b>C</b>	The Leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.	<b>RED</b>	<b>AMBER</b>	The Council contracted with Mersey Internal Audit Agency (MIAA) in October 2021 and so have now been in operation for a full year.
<b>D</b>	The authority applies the CIPFA/SOLA CE Delivering Good Governance in Local Government: Framework (2016)	<b>RED</b>	<b>GREEN</b>	The Council contracted with Mersey Internal Audit Agency (MIAA) in October 2021 and so have now been in operation for a full year.
<b>E</b>	The financial management style of the authority supports financial sustainability	<b>GREEN</b>	<b>GREEN</b>	
<b>Section 3: Long to Medium-Term Financial Management</b>				
<b>F</b>	The authority has carried out a credible and transparent financial resilience assessment.	<b>AMBER</b>	<b>AMBER</b>	
<b>G</b>	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.	<b>AMBER</b>	<b>AMBER</b>	
<b>H</b>	The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities.	<b>GREEN</b>	<b>GREEN</b>	

I	The authority has a rolling, multi-year medium-term financial plan consistent with sustainable service plans.	AMBER	AMBER
<b>Section 4: The Annual Budget</b>			
J	The authority complies with its statutory obligations in respect of the budget setting process.	GREEN	GREEN
K	The budget report includes a statement by the Chief Finance Officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves.	AMBER	AMBER
<b>Section 5: Stakeholder Engagement and Business Plans</b>			
L	The authority has engaged, where appropriate, with key stakeholders in developing its long-term financial strategy, medium term financial plan and annual budget.	GREEN	GREEN
M	The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.	AMBER	AMBER
<b>Section 6: Monitoring Financial Performance</b>			
N	The Leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.	GREEN	GREEN
O	The Leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.	GREEN	GREEN
<b>Section 7: External Financial Reporting</b>			

<b>P</b>	The Chief Finance Officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the Code of Practice on Local Authority Accounting in the United Kingdom.	<b>GREEN</b>	<b>GREEN</b>	
<b>Q</b>	The presentation of the final outturn figures and variations from budget allows the Leadership team to make strategic financial decisions.	<b>GREEN</b>	<b>GREEN</b>	

Assessment	Description	Number of Financial Management Standards (2021/22)	Number of Financial Management Standards (2022/23)	Movement
<b>GREEN</b>	Compliance is being demonstrated.	7	8	+1
<b>AMBER</b>	Minor to Moderate improvements are required to demonstrate full compliance.	8	9	+1
<b>RED</b>	Moderate to Significant improvements are required to demonstrate full compliance.	2	0	-2
<b>Total</b>		<b>17</b>	<b>17</b>	<b>0</b>

- 3.7 The result 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 for standards rated Amber, or Red:

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.	Senior Leadership Team	February 2024 - To be incorporated as part of 2024/25 budget process
	Recruitment to address the capacity issues within finance function	Chief Finance Officer	September 2023
Governance and Financial Management Style	Re-establishment of Performance Management via the Council's "Annual Conversation"	Chief Officer (People and Policy) and Senior Leadership Team	March 2024
	Review of Financial procedure rules	Chief Finance Officer	November 2023
Long to Medium Term Financial Management	Further work will be required as part of the 2024/25 budget setting process to address the significant forecast deficits for 2024/25 and beyond and minimise the use of reserves.	Chief Finance Officer Executive Team and Cabinet	February 2024 – As part of the 2024/25 budget process

	Each lead portfolio member to be more involved in developing and setting the budget for their service areas.		
	Asset Management systems and plans containing condition surveys and information regarding the whole-life cost of assets need to be developed over the medium term and maintained. Current asset management plans will be reviewed as part of the new model.		
	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		
Stakeholder Engagement and Business Plans	Review and consideration of the most effective methods of stakeholder engagement on financial matters.	Senior Leadership Team Cabinet	February 2024 – As part of the 2024/25 budget process
	Further work is required to fully embed project management and the accompanying disciplines throughout the Council and ensure that is consistently applied.	Senior Leadership Team Programme Manager	February 2024 – As part of the 2024/25 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 **S151 OFFICER'S STATEMENT OF COMPLIANCE WITH THE FINANCIAL MANAGEMENT CODE 2022/23.**

4.1 Having considered the six principles of the Financial Management Code and the Financial Management Standards that underpin these principles the s151 Officer considers that although there are areas for improvement the Council complies with the Financial Management code with significant prospects for improvement.

#### 5.0 **OPTIONS AND OPTIONS ANALYSIS (INCLUDING RISK ASSESSMENT)**

5.1 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.

#### 6.0 **CONCLUSION**

6.1 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

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