

<b>CABINET</b>	<b>AGENDA ITEM No. 5</b>
<b>30 NOVEMBER 2020</b>	<b>PUBLIC REPORT</b>

Report of:	Acting Corporate Director of Resources	
Cabinet Member(s) responsible:	Councillor David Seaton, Cabinet Member for Finance	
Contact Officer(s):	Peter Carpenter, Acting Corporate Director of Resources Kirsty Nutton, Head of Corporate Finance	Tel. 452520 Tel. 384590

### CIPFA FINANCIAL MANAGEMENT CODE

RECOMMENDATIONS	
<b>FROM: Cabinet Member for Finance</b>	<b>Deadline date: N/A</b>
<p>It is recommended that Cabinet notes:</p> <ol style="list-style-type: none"> <li>1. The contents of the CIPFA Financial Management Code.</li> <li>2. The proposed approach to reviewing and reporting on the Councils compliance with the CIPFA Financial Management Code.</li> </ol>	

#### 1. ORIGIN OF REPORT

1.1 This report is submitted to Cabinet following discussion by the Corporate Management Team (CMT).

#### 2. PURPOSE AND REASON FOR REPORT

##### 2.1 Purpose

To inform Cabinet of the contents of the Financial Management Code, and the proposed approach to reviewing and reporting on the Council's compliance with the code.

2.2 This report is for Cabinet to consider under its Terms of Reference, 3.2.7, "To be responsible for the Council's overall budget and determine action required to ensure that the overall budget remains within the total cash limit."

#### 3. TIMESCALES

Is this a Major Policy Item/Statutory Plan?	<b>NO</b>	If yes, date for Cabinet meeting?	<b>N/A</b>
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#### 4. BACKGROUND

##### Overview

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 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. 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 FM Code will help strengthen the framework that surrounds financial decision making.

The following diagram highlights how good financial management is the fundamental starting block towards improving financial resilience, which in turn, then aids in achieving financial sustainability.



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.

Complying with the standards set out in the FM Code is the collective responsibility of elected members, the chief finance (section 151) officer and their professional colleagues in the leadership team. The first full year of compliance will be 2021/22. This recognises that organisations will require time to reflect on the contents of the FM Code and allows them to use the 2020/21 financial year to demonstrate how they are working towards compliance.

The FM Code has been influenced by the position local authorities are currently operating in, with rising demand for services, tightening fiscal landscape and decreasing financial resilience. The Council, as highlighted within the [Medium Term Financial Strategy](#), has continued to experience financial challenges as a result of the same factors influencing the development of the FM Code. This makes compliance with the FM Code ever more imperative for the Council in ensure there is a strong foundation in which to:

- Financially manage short, medium and long-term finances;
- Manage financial resilience to meet unforeseen demands on services;
- Manage unexpected shocks in financial circumstance (C-19 Pandemic being a more recent example).

### **Medium Term Financial Strategy**

The FM code which promotes sustainability as one of it's key objectives, is imperative when considering the Council's current financial position. As reported in the MTFS 2021/22-2023/24 Phase One, the Council has been operating within a challenging financial climate for some time following years of austerity measures, low funding and rising demand for Council services. Over the last two years, the Council has been working with the Local Government Association, its auditors, and external financial specialists to deliver a sustainable financial strategy.

The Council will be able to use the detailed standards in Appendix A to demonstrate current good practices in areas whereby it is already compliant and identify areas whereby compliance is weak. Action plans can then be devised to ensure the Council is fully compliant. The council has been actively seeking sustainability and resilience and the council's MTFS outlines the Council's position on this.

### **Value for Money (VFM)**

As part of the audit of the 2019/20 Statement of Accounts, the Council's auditors, Ernst and Young (EY) have completed an enhanced evaluation of the Councils VFM and Financial resilience. This approach has been adopted for similar reasons the FM Code was developed. In addition to this, it takes on board enhanced guidance from the

National Audit Office and was developed considering the C-19 pandemic and the EU exit, recognising the economic shock of these events would have a detrimental impact on Council finances.

The review has focussed on how the Council has put ‘proper arrangements’ in place to secure economy, efficiency and effective use of its resources. In the first phase EY have thoroughly reviewed the Councils Medium Term Financial Strategy, including the approach taken, assumptions included and assessing the risks mitigating actions identified. In the second phase they have focussed on the in-year financial performance, robustness and delivery of savings plans, and the governance processes that support these.

The Council’s VFM auditing requirements are intrinsically linked to that of the requirements outlined within the FM Code. The Council can utilise the FM Code to support future VFM assessments, demonstrating resources have been allocated effectively to provide services which reflect value for money. The Council needs to ensure there is a clear sense of the ‘value’ of what it is trying to achieve and ensure that resources are effectively used to ensure the delivery of the following ‘Es’:

Economy	Efficiency	Effectiveness	Equity
<ul style="list-style-type: none"> <li>• Spending less</li> <li>• Measure of resources</li> <li>• Lowest cost possible-subject to maintaining standards.</li> </ul>	<ul style="list-style-type: none"> <li>• Spending well</li> <li>• How well the authority transfers these inputs into outputs</li> </ul>	<ul style="list-style-type: none"> <li>• Spending wisely</li> <li>• Desired positive impact on peoples lives.</li> <li>• Generating the desired outcomes it wants to achieve.</li> </ul>	<ul style="list-style-type: none"> <li>• Spending Fairly</li> <li>• Accessible to all those who could benefit from them</li> <li>• Recognising the structural inequality inherent in society and taking proactive steps to address it</li> </ul>

## 5. FINANCIAL MANAGEMENT CODE

The FM Code establishes an approach based on six principles of good financial management:

1. Organisational Leadership demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.
2. Accountability based on medium term financial planning, driving the annual budget process, supported by effective risk management, quality supporting data and whole life costs.
3. Transparency at the core of financial management, using consistent, meaningful and understandable data, reported frequently, with evidence of periodic officer action and elected member decision making.
4. Professional Standards promoted by the leadership team, with adherence evidenced.
5. Assurance recognised as an effective tool, mainstreamed into financial management, including political scrutiny and the results of both external audit, internal audit and inspection.
6. Long-Term Sustainability at the heart of all local services’ financial management processes, evidenced by the prudent use of public resources.

Explicit standards of financial management are also set out by the FM Code. These are the minimum standards which must be adhered to for the Council to demonstrate its compliance with the FM Code. The standards articulate the practical application of the principles of financial management based on the requirements of primary legislation, associated CIPFA codes and guidance on professional codes of practice and ethics. Whilst compliance

with the standards is mandatory, the FM Code is principles based and does not prescribe how they should be achieved. There is flexibility within the approach that can be taken by Local Authorities in recognition that organisations are very different in terms of size, structure, legislative and governance structure. The FM Code guidance provides options on best practice approaches.

The key areas covered by the standards include:



- The responsibilities of the chief financial 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.

Further details on the standards are outlined in Appendix A.

## 6. CONSULTATION

Not Applicable

## 7. ANTICIPATED OUTCOMES OR IMPACT

The Council will review its current processes, procedures and governance arrangements, to understand where it is already compliant with the FM Code standards and to identify any areas where compliance can be enhanced.

In order to demonstrate conformity with the FM Code's standards, an assessment by the Corporate Finance Team will be carried out and a register established to monitor and report on the Council's compliance. This will compile evidence to demonstrate compliance and will include referencing the applicable parts of the Council's:

- Constitution, including the Financial Regulations and Budget Policy Framework;
- Governance structure;
- Financial documents;
- Financial reporting processes and practices;
- Performance reporting.

The register will outline against each of the standards what compliance looks like and how the Council currently performs (evidences) against this, including reference to the documents noted above. Following review where evidence is found to be weak or non-compliant the Council will develop actions which will cover the short, medium and long term, to take account of the differing timelines relevant to achieving these requirements. Each action will be allocated to a Responsible Officer (RO) and progress towards achieving these will be monitored by the Chief Finance Officer.

An initial detailed action plan will be included within the Medium-Term Financial Strategy 2021/22-2023/24

Phase Two document, which will be reported to Cabinet in February.

Following this initial report to Cabinet, the Audit Committee will then receive regular reports on progress towards achieving compliance with the FM Code, including recommendation for additional or enhanced practices where appropriate.

**8. REASON FOR THE RECOMMENDATION**

The CIPFA FM Code is a requirement for all local authorities and as such the Council must demonstrate full compliance in 2021/22.

**9. ALTERNATIVE OPTIONS CONSIDERED**

No alternative option has been considered

**10. IMPLICATIONS**

**10.1 Elected Members**

Members must have regard to the advice of the Chief Financial (Section 151) Officer

**10.3 Legal Implications**

Whilst compliance with the code is not a statutory duty in itself, failure to comply could be viewed as not meeting existing statutory duties.

**10.4 Human Resources**

Not Applicable

**10.5 Equality Impact Assessments**

Not Applicable

**10.6 Carbon Impact Assessments**

Not Applicable

**11. BACKGROUND DOCUMENTS**

[Medium Term Financial Strategy](#)

[Draft Ernest & Young Audit Result Report](#)

**12. APPENDICES**

Appendix A– Financial Management Code Standards

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