

DECISION ITEM

REPORT OF	MEETING	DATE	ITEM NO
CHIEF FINANCIAL OFFICER	AUDIT AND STANDARDS COMMITTEE	23 FEBRUARY 2022	4
REVIEW OF COMPLIANCE WITH CIPFA FINANCIAL MANAGEMENT CODE			

PUBLIC ITEM

This item is for consideration in the public part of the meeting.

SUMMARY

The report sets out a review of the Council's compliance with CIPFA's Financial Management Code.

RECOMMENDATION

The committee is recommended to note:

1. The publication of the CIPFA Financial Management Code and the requirement for its application from 1 April 2020.
2. 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.
3. That an 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.
4. That actions to ensure continuing compliance with the code are set out in Appendix A of the report.

SUMMARY OF PREVIOUS DECISIONS

There are no previous decisions in relation to CIPFA's Financial Management Code.

CORPORATE PRIORITIES

Economy – To create a vibrant and healthy economy	✓
Environment – To deliver services customers expect	✓
Efficiency – By spending money in the most efficient way	✓
Tourism – To create a great place to live and visit	✓

REPORT

1. The Local Government financial framework 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 CIPFA 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 some local authorities which may be unable to maintain services in the future.

2. 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. Although the FM Code does not have legislative backing, it applies to all local authorities, including police, fire, combined and other authorities.
3. CIPFA have considered the timing for implementation of the FM Code and recommend 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

4. 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.
5. 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.
6. 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.
7. 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 any associated borrowing. With this success came new financial freedoms to make local decisions on matters that had previously been subject to central government control.
8. 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.
9. 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, and
 - Financially manage unexpected shocks in their financial circumstances.
10. 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. The principles are as follows:
 - **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

- Each local authority must demonstrate that the requirements of the FM Code are being satisfied. However, the code is not expected to be considered in isolation, rather to complement and accompany existing tools and mechanisms to form part of the collective suite of evidence to demonstrate sound decision making and a holistic view to proper financial management.
- Demonstrating this compliance with the code is a collective responsibility of Elected Members, the Chief Financial Officer and their professional colleagues in the leadership team. It is CIPFA's intention that the leadership team will work with Elected Members in ensuring compliance with the code in order to demonstrate the standard of financial management to be expected of a local authority. In doing this, the view of CIPFA is that statutory role of the Section 151 Officer will be both recognised and supported in achieving the leadership roles essential for good financial management.
- 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.

IMPLICATIONS	
Finance	There are no financial implications arising directly from this report. The Chief Financial Officer (Section 151 Officer) has the Statutory Responsibility (supported by Management Team and elected members) for ensuring compliance with the FM Code. Actions and responsibilities are outlined in appendix A to this report.
Legal	No implications arising from this report
Community Safety	No implications arising from this report
Human Rights and Equalities	No implications arising from this report
Sustainability and Environmental Impact	No implications arising from this report
Health & Safety and Risk Management	No implications arising from this report

LEAD AUTHOR	CONTACT DETAILS	DATE
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BACKGROUND PAPERS		
Name of document	Date	Where available for inspection
N/A	N/A	N/A

Attached documents

Appendix 1 – Assessment of the Level of Compliance with the CIPFA FM Code