

DECISION ITEM

REPORT OF	MEETING	DATE	ITEM NO
CHIEF FINANCIAL OFFICER	AUDIT AND GOVERNANCE COMMITTEE	1 FEBRUARY 2024	7
REVIEW OF COMPLIANCE WITH CIPFA FINANCIAL MANAGEMENT CODE			

PUBLIC ITEM

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

RELEVANT LEAD MEMBER

This item is within the remit of Lead Member for Finance and Resources, Councillor Ellie Gaunt.

PURPOSE OF THE REPORT

The CIPFA Financial Management Code (the 'code') was first published in 2019 and took full effect from 1st April 2021, with local authorities required to carry out a self-assessment exercise to measure the level of compliance with the code for the 2021/22 financial year. A report was presented to the Audit and Standards meeting in February 2022 which set out a review of the Council's compliance with the code.

It is considered best practice that a review of the self-assessment is undertaken periodically to ensure continued compliance with the code.

This report provides an update on the Council's compliance with CIPFA's Financial Management Code.

RECOVERABILITY

This decision is recoverable under section 5 of part 3 of the constitution.

RECOMMENDATIONS

The committee is recommended to note:

1. That a review of the self-assessment exercise (designed to measure the level of compliance with the standards as set out in the CIPFA Financial Management Code) has been undertaken for the 2024/25 financial year; and
2. That the self-assessment and the actions to ensure continuing compliance with the code are set out in Appendix A to this report.

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, however, was not previously supported by a professional code. The CIPFA Financial Management Code (the 'code') was introduced in 2019 because the exceptional financial circumstances faced by local authorities 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 threatened stakeholders' confidence in local government as a whole. The code is therefore designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The code sets the standard of financial management for local authorities. Although the code does not have legislative backing, it applies to all local authorities, including police, fire, combined and other authorities.

The Financial Management Code

3. The purpose of the code 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 on an individual level.
4. 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.
5. In terms of longer-term financial planning, one of the objectives of the code is to support organisations to be able 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.
6. Significantly, the 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.
7. The code is consistent with other established CIPFA codes and statements in being based on principles rather than prescription. The code incorporates existing requirements on local government in order to provide a comprehensive picture of financial management in the authority.
8. The application of the 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.
9. The underlying principles that inform the 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 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 an 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.
- A review of the previous assessment of the Council's level of compliance with the standards contained within the code has been carried out, as shown at Appendix A.

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	√

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 Financial Management 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

SUMMARY OF PREVIOUS DECISIONS
A report was presented to the Audit and Standards meeting in February 2022 which set out an initial review of the Council's compliance with CIPFA's Financial Management Code.

LEAD AUTHOR	CONTACT DETAILS	DATE
Paul O'Donoghue Chief Financial Officer	01253 658566	January 2024

BACKGROUND PAPERS

Name of document	Date	Where available for inspection
N/A	N/A	N/A

Attached document

Appendix 1 – Assessment of the Level of Compliance with the CIPFA Financial Management Code