

SUBJECT: THE CIPFA FINANCIAL MANAGEMENT CODE

DIRECTORATE: CHIEF EXECUTIVE AND TOWN CLERK

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1. Purpose of Report

- 1.1 To report to the Audit Committee the Council's assessment for 2023/24 against the Standards contained within the CIPFA Financial Management Code and the associated actions arising to ensure compliance.

2. Background

- 2.1 Local government finance in the UK has been governed by primary legislation, regulation and professional standards as supported by regulation. The general financial management of a local authority, however, was not previously supported by a professional code.
- 2.2 This situation changed when, in December 2019, the Chartered Institute of Public Finance and Accountancy (CIPFA) published its Financial Management code (FM Code) to provide guidance for good and sustainable financial management in local authorities. The FM Code was introduced as part of a package of measures in response to concerns around the financial resilience of Councils. These measures were driven by the exceptional financial circumstances faced by local authorities (even prior to the impact of Covid19 and the current economic factors), having revealed concerns about fundamental weaknesses in financial management. In particular there had been, and continue to be, a small number of high-profile failures across local government which threaten stakeholders confidence in the sector as a whole.
- 2.3 The FM Code is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability through a set of standards of financial management.
- 2.4 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.
- 2.5 The code complies with other legislation and associated CIPFA codes and is evidence of compliance with statutory and professional frameworks. Demonstrating compliance with the CIPFA FM Code is a collective responsibility of the Elected Members, Corporate Leadership Team and the Chief Finance Officer.

3. The Financial Management Code

3.1 The Code focuses on value for money, governance and financial management styles, financial resilience and financial sustainability. The Code identifies the risks to financial sustainability and introduces an overarching framework of assurance which builds on existing financial management good practice. The Code has been designed on a principles-based approach which will assist in determining whether, in applying standards of financial management, a local authority is financially sustainable. The six principles of good financial management are:

- **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, driving the annual budget process, supported by effective risk management, quality supporting data and whole life costs.
- **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.
- **Professional Standards** Promoted by the leadership team, with adherence evidenced.
- **Assurance** Recognised as an effective tool, mainstreamed into financial management, including political scrutiny and the results of both external audit, internal audit and inspection.
- **Long-Term Sustainability** At the heart of all local services' financial management processes, evidenced by the prudent use of public resources.

3.2 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

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.

- 3.3 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.
- 3.4 The Council's external auditors, from 2021/22, have regard to the FM Code. Furthermore, CIPFA guidance issued in February 2021 stated that the Council's Annual Governance Statement should now include the overall conclusion of the assessment of the organisation's 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. The Council's Annual Governance Statement is prepared on this basis.
- 3.5 Each local authority must demonstrate that the requirements of the FM Code are being satisfied. However, the FM Code is not expected to be considered in isolation and accompanying tools will form part of the collective suite of evidence to demonstrate sound decision making and a holistic view is taken.
- 3.6 Demonstrating this compliance with the FM Code is a collective responsibility of Elected Members, the Chief Finance Officer and the Corporate Leadership Team. It is for all the senior management team to work with Elected Members in ensuring compliance with the FM Code and so demonstrate the standard of financial management to be expected of a local authority. In doing this the statutory role of the Section 151 Officer will not just be recognised but also supported to achieve the combination of leadership roles essential for good financial management.
- 3.7 2022/23 Assessment




A self-assessment against the standards set out in FM Code was prepared in March 2023. This assessment sets out what is expected within each standard and records evidence of areas of compliance and documents any further actions required to meet and/or improve current processes in place. An update against the actions identified in March 2023 is provided below:

Action Required	Timescale	Progress
To continue to support professional development	Ongoing	ONGOING – where required officers have achieved relevant CPD requirements of professional bodies.
To review Contract Procedure Rules	TBC – dependent on Procurement Bill/Act	IN PROGRESS – Procurement Act expected to go live in Oct 24.
To review the Terms of Reference of the Audit Committee	Jun-23	COMPLETE – Approved by Audit Committee Dec 23.


Assess HIA against CIPFA requirements	Sept-23	COMPLETE – Assessment undertaken Sept 23.
Complete bi-annual assessment of Internal Audit against PSIAS	Jul-23	COMPLETE – Reported to Audit Committee Dec 23.
Review Finance Business Partnering Action Plan	Mar-24	IN PROGRESS – progress slower than planned due to capacity with Financial Services Team.
Benchmark the Treasury Mgmt and Capital Strategies against best practice	Mar-24	COMPLETE – review undertaken Sept 23. Changes reflected in 24/25 Strategies.
Introduce quarterly reporting of treasury management activities	Jul-23	COMPLETE – quarterly monitoring introduced Jul 23.
Review engagement approach for budget/strategic plan consultation	Nov-23	ONGOING – Additional engagement undertaken in Jan/Feb 24, further developments to be considered.
Consider if other major balance sheet items can be made more visible in quarterly reporting.	Sept-24	COMPLETE – review undertaken by CFO Feb 24.

2023/24 Assessment

- 3.8 The 2022/23 assessment has now been updated for the actions completed and in progress as above, and in light of other developments during 2023/24. This has resulted in an updated self-assessment, as attached at Appendix A. The assessment includes a RAG rating against each of the standards against the following definitions:

Assessment	Description
	Substantial compliance
	Reasonable compliance/Some areas for improvement
	Minimum compliance/significant areas for improvement

In summary the 17 standards have been assessed as follows, with actions included as required:

Ref	Standard/Description	RAG	Action Required/By When
A	The leadership team is able to demonstrate that the services provided by the authority provide value for money.		To update VFM Statement and incorporate with new Productivity Plan requirements – Jul 24

B	The authority complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government.		To continue to support professional development – ongoing. To recruit to remaining Finance role to ensure fully resourced – Apr 24
C	The leadership Team demonstrates in its actions and behaviours responsibility for governance and internal control.		To revise Contract Procedure Rules – Dec 24
D	The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016).		None
E	The financial management style of the authority supports financial sustainability.		Review Finance Business Partnering Action Plan – Mar 25
F	The authority has carried out a credible and transparent financial resilience assessment.		Consider options for an independent financial resilience assessment – Dec 24
G	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.		None
H	The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities.		None
I	The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.		None
J	The authority complies with its statutory obligations in respect of the budget setting process.		None
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.		None
L	The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium term financial plan and annual budget.		Further development of engagement approach for budget/strategic plan consultation – Nov 24
M	The authority uses an appropriate documented option appraisal		None

	methodology to demonstrate the value for money of its decisions.		
N	The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial.		None
O	The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.		None
P	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.		None
Q	The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.		None

This demonstrates an overall substantial level of compliance (65%) with the underlying principles of the FM Code, this is as per the 2022/23 assessment although the individual standards assessments are different. There are areas for improvement in 6 (35%) of the standards, the actions for which are set out in the table above. It is not expected that there will be full compliance across all standards, continual improvement, the routine revision of policies and procedures and assessment against best practice is likely to result in there being actions to be implemented following each annual assessment. The Council can be assured that it has achieved this level of substantial and reasonable assurance and that there are no areas of minimum compliance and no significant areas for improvement.

- 3.9 As set out above these areas for improvement will be included in the Annual Governance Statement and progress monitored through the Audit Committee.

4. Strategic Priorities

- 4.1 Compliance with the FM Code will contribute to sound decision making. This will support the Medium Term Financial Strategy, enabling Members to monitor progress against Vision 2025 in a timely manner to ensure resources are allocated in line with the strategic priorities of the Council.

5. Organisational Impacts

- 5.1 Finance

The Chief Financial Officer (Section 151 Officer) has the Statutory Responsibility (supported by the Corporate Leadership Team and Elected Members) for ensuring compliance with the FM Code.

5.2 Legal Implications including Procurement Rules

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.

5.3 Equality, Diversity and Human Rights

The Public Sector Equality Duty means that the Council must consider all individuals when carrying out their day-to-day work, in shaping policy, delivering services and in relation to their own employees.

It requires that public bodies have due regard to the need to:

- Eliminate discrimination
- Advance equality of opportunity
- Foster good relations between different people when carrying out their activities

Due to the nature of the report, no specific Equality Impact Analysis is required.

6. Risk Implications

6.1 (i) Options Explored

There are no alternative options available.

6.2 (ii) Key risks associated with the preferred approach

If compliance with the CIPFA Financial Management Code is not demonstrated, the Council's financial sustainability could be brought into question which in turn could result in a negative impact on its reputation with stakeholders.

7. Recommendation

7.1 Audit Committee are asked to:

- a) Review the progress of the actions arising from the 2022/23 self-assessment
- b) Review and comment upon the 2023/24 self-assessment, as attached at Appendix A, and the resulting actions required,

Is this a key decision?

No

Do the exempt information categories apply?

No

Does Rule 15 of the Scrutiny Procedure Rules (call-in and urgency) apply?

No

How many appendices does the report contain?

One

List of Background Papers:

None

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