



**Governance & Audit
Committee**

Tuesday 13 April 2021

Subject: CIPFA FINANCIAL MANAGEMENT CODE

Report by:	Assistant Director of Finance, Business Support and Property Services (S151)
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Purpose / Summary:	To inform Members of the Financial Management Code (FM Code) which is applicable from 2021/22

RECOMMENDATION(S):

1. The Committee be assured that West Lindsey District Council meets the standards of the Financial Management Code as evidenced from the self-assessment and accept the actions required to be undertaken in 2021/22 which will enhance this compliance.

IMPLICATIONS

Legal:

The FM Code itself does not currently have legislative backing, although CIPFA have set out their intention to pursue this. CIPFA's judgement is that compliance with the FM Code will assist local authorities to demonstrate that they are meeting existing important legislative requirements.

Financial : FIN/8/22/TJB

There are no direct financial implications arising from this report.

Staffing : None from this report

Equality and Diversity including Human Rights :

No equalities impact implications have been identified as arising from this report.

Data Protection Implications : None from this report

Climate Related Risks and Opportunities:

No environmental implications have been identified as arising directly from this report.

Section 17 Crime and Disorder Considerations: None from this report

Health Implications: None from this report

Title and Location of any Background Papers used in the preparation of this report :

CIPFA FM CODE

CIPFA FM GUIDANCE NOTES located in the Finance Department

Risk Assessment :

There are inherent risks regarding non-compliance with the FM Code which include risks to financial sustainability, financial resilience, financial and service planning and delivery as well as to the Council's reputation.

Executive Summary

- 1.1 The Chartered Institute of Public Finance & Accountancy (CIPFA) has introduced a new code, The Financial Management Code 2019 (FM Code), which sets out for the first time, the standards of financial management for local authorities.
- 1.2. Adoption of the FM Code will commence from 1 April 2021, with 2020/21 effectively being a shadow year. As such the FM Code and has been incorporated as part of the governance framework within the Medium Term Financial Plan 2021/22 – 2025/26, as recommended by Corporate Policy and Resources Committee and approved by the full Council in March 2021.
- 1.3 This report provides assurance to the Governance and Audit Committee that the FM Standards are being met and this can be demonstrated through a self-assessment exercise.
- 1.4 An initial self-assessment of the Authority's current standing against each of the Financial Management Standards was carried out in March 2020 and has recently been reviewed by the Council's Section 151 Officer using a RAG Rating approach (please refer to section 7 within the main body of this report and Appendix 1 for full details). In summary, the findings of the current self-assessment against the 17 Financial Management Standards is as follows:

RAG Rating	Progress Report	Number of Financial Management Standards
GREEN	Compliance is being demonstrated	15
AMBER	Minor to Moderate improvements are required to demonstrate compliance	2
RED	Moderate to Significant improvements are required to demonstrate compliance	0
TOTAL		17

- 1.5 The results of the self-assessment indicate an overall rating of Green and reflects that compliance is being demonstrated.
- 1.6 CIPFA published an accompanying set of guidance notes to the FM Code in May 2020. These are intended to provide practical guidance to practitioners regarding the implementation of the Code. The guidance notes state that, it is for the individual authority to determine whether it meets the standards and to make any changes that may be required to ensure compliance. Authorities should be able to provide evidence that they have reviewed their financial management arrangements against the standards and that they have taken such action as may be necessary to comply with them. Therefore, regular

self-assessment exercises will be required in order to demonstrate compliance going forward and it is intended that this will be undertaken on an annual basis.

2. BACKGROUND

- 2.1. The Chartered Institute of Public Finance & Accountancy (CIPFA) has introduced a new Financial Management Code (FM Code). This sets out for the first time, the standards of financial management for local authorities.
- 2.2. The FM Code is designed to support good practice in financial management and to assist local authorities to demonstrate their financial sustainability
- 2.3. Local government finance in the UK is governed by legislation, regulation and professional standards. The general financial management of a local authority, however, has not until now been supported by a professional code. The FM Code has been introduced because the exceptional financial pressures faced by local authorities in recent years have revealed concerns about fundamental weaknesses in financial management and the ability of some organisations to maintain services in the future.

Whilst there is much good practice across the sector, any failures threaten stakeholders' confidence in local government as a whole and more importantly, risk to the services on which local people rely.

- 2.4. CIPFA's intention is that the Financial Management Code (FM Code) will have the same standing as the Prudential Code for Capital Finance in Local Authorities (CIPFA, 2017), which promotes the financial sustainability of local authority capital expenditure and associated borrowing. So, although the FM Code does not have legislative backing, it applies to all local authorities.
- 2.5. While the FM Code applies to all local authorities, it recognises that some have different structures and legislative frameworks. Where compliance with the Code is not possible, adherence to the principles is still considered appropriate.

3. RESPONSIBILITY

- 3.1. CIPFA considers the application of the FM Code to be a professional responsibility of all its members, regardless of their role in the financial management process. More specifically, the FM Code clarifies CIPFA's understanding of how the Chief Financial Officer (CFO) should satisfy their statutory responsibility for good financial administration. The primary purpose of the FM Code is to establish how the CFO – regardless of whether or not they are a CIPFA member, should demonstrate that they are meeting their statutory responsibility for sound financial administration.
- 3.2. CIPFA considers application of the FM Code to be the collective responsibility of each authority's organisational leadership team. For the purposes of the code the 'Leadership Team' is defined as the collective group of elected members and senior officers. Therefore, it will include the full Council and policy and governance committees as well as senior officers.

4. APPLICATION

- 4.1. CIPFA has recognised the ambition within the Code, as well as the timescale and wider resource challenges facing local authorities. As a result, CIPFA considers 2020/2021 to be the commencement of a shadow year, and that by 31 March 2021 local authorities should be able to demonstrate that they are working towards full implementation of the Code
- 4.2. The first full year of compliance with the FM Code will therefore be 2021/22.
- 4.3. The FM Code has been incorporated as part of the governance arrangements within the Medium Term Financial Plan, providing the framework designed to support good and sustainable financial management throughout the full financial planning cycle, budget planning, setting, monitoring and reporting and its statutory financial reporting.

5. COMPLIANCE

- 5.1. It is for each authority to determine whether it meets the standards and to make any changes that may be required to ensure compliance. Authorities should be able to provide evidence that they have reviewed their financial management arrangements against the standards and that they have taken such action as may be necessary to comply with them.
- 5.2. It is important to note, also, that the financial management standards are minimum standards.

6. CIPFA PRINCIPLES OF GOOD FINANCIAL MANAGEMENT

- 6.1. The FM Code applies a principle-based approach. It does not prescribe the financial management processes that local authorities should adopt. Instead, it requires that an authority demonstrates that its processes satisfy the principles of good financial management for an authority of its size, responsibilities and circumstances and that they are proportionate to the risks to the authority's financial sustainability posed by the twin pressures of scarce resources and the rising demands on services.
- 6.2. The underlying principles that inform the FM Code have been developed in consultation with senior practitioners across the sector 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.
- 6.3. The 6 Principles of Good Financial Management set out in the FM Code 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 that 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, including 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.

7. CIPFA FINANCIAL MANAGEMENT STANDARDS AND FM CODE SELF ASSESSMENT

- 7.1. The FM Code sets out the 17 CIPFA Financial Management Standards against which a self-assessment has been undertaken.
- 7.2 The self-assessment exercise reflects current processes and practices against the FM Standards using a RAG Rating approach.
- 7.3 The Standards and RAG Rating approach is summarised below with full details attached at Appendix 1.

RAG Rating	Progress Report
GREEN	Compliance is being demonstrated
AMBER	Minor to Moderate improvements are required to demonstrate full compliance
RED	Moderate to Significant improvements are required to demonstrate full compliance

Standard Reference	Financial Management Standard	RAG Rating
Section 1: The Responsibilities of the Chief Finance Officer and Leadership Team		
A	The leadership team is able to demonstrate that the services provided by the authority provide value for money.	GREEN
B	The authority complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government.	GREEN
Section 2: Governance and Financial Management Style		
C	The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.	GREEN

D	The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016).	GREEN
E	The financial management style of the authority supports financial sustainability.	GREEN
Section 3: Long to Medium-Term Financial Management		
F	The authority has carried out a credible and transparent financial resilience assessment.	GREEN
G	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.	GREEN
H	The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities.	GREEN
I	The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.	GREEN
Section 4: The Annual Budget		
J	The authority complies with its statutory obligations in respect of the budget setting process.	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.	GREEN

Section 5: Stakeholder Engagement and Business Plans		
L	The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.	AMBER
M	The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.	AMBER
Section 6: Monitoring Financial Performance		
N	The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.	GREEN
O	The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.	GREEN
Section 7: External Financial Reporting		
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.	GREEN
Q	The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.	GREEN

8. ACTIONS

The following actions have been identified to enhance our compliance and will be carried out during 2021/22;

- Value for Money Strategy and Handbook to be reviewed and redistributed
- A number of training courses under the banner of Value for Money to be delivered through the Corporate Training Programme
- Member workshop to be held to consider 2022/23 budget consultation focus and will incorporate improvements to its stakeholder engagement plan
- Review of options/project appraisal methodology and documentation to be appropriate in the context of the project.
- Review of reports and the introduction of analytics will be an enhancement to reports provided to Management. This will be achieved through the implementation of new technology.