

# CIPFA Financial Management Code

<b>Report number:</b>	<b>PAS/WS/22/007</b>	
<b>Report to and date(s):</b>	<b>Performance and Audit Scrutiny Committee</b>	26 May 2022
<b>Cabinet member:</b>	<b>Councillor Sarah Broughton</b> Portfolio Holder Resources and Property Tel: 07929 305787 Email: <a href="mailto:sarah.broughton@westsuffolk.gov.uk">sarah.broughton@westsuffolk.gov.uk</a>	
<b>Lead officer:</b>	<b>Rachael Mann</b> Director Resources and Property Tel: 01638 719245 Email: <a href="mailto:rachael.mann@westsuffolk.gov.uk">rachael.mann@westsuffolk.gov.uk</a>	

**Decisions Plan:** This item is not included in the Decisions Plan.

**Wards impacted:** No direct impact on any wards

**Recommendation:** It is recommended that the Performance and Audit Scrutiny Committee note:

1. The contents of this report.
2. The key points of the CIPFA Financial Management Code (FM Code) as set out in paragraphs 2.3 to 2.11 of this report.
3. The initial self-assessment of compliance with the Code, the associated actions arising to ensure full compliance and next steps as detailed in Appendix A.

## **1. Context to this report**

- 1.1 In October 2019, CIPFA published the Financial Management Code (FM Code), which provides guidance for good and sustainable financial management in local authorities and will provide assurance that authorities are managing resources effectively.
- 1.2 The FM Code requires authorities to demonstrate that the processes they have in place satisfy the principles of good financial management. CIPFA's intention is that the FM Code will have the same scope as the *Prudential Code for Capital Finance in Local Authorities*, which promotes the financial sustainability of local authority capital expenditure and associated borrowing. Although the FM Code does not have legislative backing, it applies to all local authorities, including police, fire, combined and other authorities.
- 1.3 The tightening fiscal landscape has placed the finances of local authorities under intense pressure. While organisations have done much to transform services, shape delivery and streamline costs, for these approaches to be successful it is crucial to have good financial management embedded as part of the organisation, including the need for long-term financial sustainability. Good financial management is an essential element of good governance and longer-term service planning, which are critical in ensuring that local service provision is sustainable.

## **2. Proposals within this report**

- 2.1 The committee are requested to note the contents of the report.
- 2.2 Note the key points of the CIPFA Financial Management Code (FM Code) and the initial self-assessment of compliance with the Code, the associated actions arising to ensure full compliance, and the next steps.

### **The CIPFA Financial Management Code (FM Code)**

- 2.3 The FM Code applies a principle-based approach. It does not prescribe the financial management processes that local authorities should adopt. Instead, the code requires that a local authority demonstrates that its processes satisfy the principles of good financial management for an authority of its size, responsibilities and circumstances.
- 2.4 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.

## 2.5 **The six principles of good financial management are:**

1. **Organisational leadership** – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.
2. **Accountability** – financial management is based on medium-term financial planning, which drives the annual budget process supported by effective risk management, quality supporting data and whole life costs.
3. **Transparency** - financial management is undertaken with transparency at its core using consistent, meaningful and understandable data, reported with appropriate frequency, with evidence of periodic officer action and elected member decision making.
4. **Professional standards** - adherence to professional standards is promoted by the leadership team and is evidenced.
5. **Assurance** - sources of assurance are recognised as an effective tool mainstreamed into financial management and include political scrutiny and the results of external audit, internal audit and inspection.
6. **Long-term sustainability** - 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.

## 2.6 **In turn the FM Code is structured around seven areas of focus:**

1. The Responsibilities of the Chief Finance Officer and Leadership Team
2. Governance and Financial Management Style
3. Long to Medium-Term Financial Management
4. The Annual Budget
5. Stakeholder Engagement and Business Plans
6. Monitoring Financial Performance
7. External Financial Reporting

2.7 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.

2.8 The first full year of compliance with the FM Code was originally scheduled for 2021/2022. However, in recognition of the pressures that have been placed on local authorities in dealing with the coronavirus pandemic, CIPFA has concluded that while the first year of compliance can remain as 2021/2022, it can do so within a more flexible framework where a proportionate approach is encouraged. In practice this means that adherence to some parts of the Code will demonstrate a direction of travel.

- 2.9 The council’s Annual Governance Statement (AGS) should include annually 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 will be reflected in the AGS as necessary.
- 2.10 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 (such as the council’s Constitution and the Financial Procedure Rules) will form part of the collective suite of evidence to demonstrate sound decision making and a holistic view is taken across the organisation.
- 2.11 Demonstrating this compliance with the FM Code is a collective responsibility of elected members, the Chief Finance Officer (CFO) and their professional colleagues in the leadership team. It is for all the senior management team plus finance staff to work with elected members in ensuring compliance with the FM Code and to 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 quality financial management.
- 2.12 As a first step towards ensuring that the council meets the FM Code, the Chief Finance Officer has produced a draft Initial Self-Assessment against the FM Code, as attached at **Appendix A**. The Self-Assessment will be continually reviewed and refined on an ongoing basis, to ensure standards are maintained and any actions are implemented.
- 2.13 The Initial Self-Assessment has been undertaken using a RAG rating approach as set out below:

<b>RAG Rating</b>	<b>Progress Report</b>
HIGH	Full Compliance is being demonstrated
MEDIUM	Minor to moderate improvements are required to demonstrate full compliance
LOW	Moderate to significant improvements are required to demonstrate full compliance

- 2.14 This self-assessment has rated the majority of standards to be currently fully compliant. No areas have been rated as non-compliant. Key questions rated as amber primarily involve the following areas of financial management:
- The undertaking of an external view on its financial style, for example through a process of peer review

- The continued engagement with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.
- The impact of the fundamental review of business rates and fairer funding review to establish local government funding - on the Councils prospects for financial sustainability in the longer term

### **3. Alternative options that have been considered**

- 3.1 Compliance with the CIPFA Financial Management Code will contribute to sound decision making. This will support the Medium-Term Financial Strategy (MTFS), enabling Members to monitor progress against the Strategic Plan in a timely manner to ensure resources are allocated in line with the strategic priorities of the council.
- 3.2 Although compliance with the Code is not a legislative requirement, it is mandatory best practice, and consequently the option of not carrying out a self-assessment and ensuring compliance has not been considered.

### **4. Consultation and engagement undertaken**

- 4.1 This report has been developed in consultation with the councils' leadership team (which includes the S151 Officer), internal audit, finance team, policy team and portfolio holder for resources and property.

### **5. Risks associated with the proposals**

- 5.1 The CIPFA Financial Management Code does have implications for Members, in particular the Performance and Audit Scrutiny Committee, due to its responsibility corporately for governance related issues. It also has a specific role in considering the findings of the external auditor in relation to the expected inclusion in the Statement of Accounts; and then approving those audited accounts for publication each year.
- 5.2 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.

### **6. Implications arising from the proposals**

#### **6.1 Financial**

The Chief Financial Officer (section 151 officer) has the Statutory Responsibility for the financial administration of the council under the Local Government Act 1972. This includes appropriate measures in relation to

financial management. Therefore, 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.

## 6.2 **Legal Compliance**

It is CIPFA's intention that the Financial Management Code will have the same scope as the Prudential Code for Capital Finance in Local Authorities, which promotes the financial sustainability of local authority capital expenditure and associated borrowing and is deemed by the sector as best practice. Therefore, although it does not have legislative backing, compliance is considered to be mandatory for 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 CIPFA Codes support the Chief Finance Officer's statutory role.

## 6.3 There are no significant impacts to the following as a result of this report:

- Personal Data Processing
- Equalities
- Crime and Disorder
- Environment or Sustainability
- HR or Staffing
- Changes to existing policies
- External organisations (such as businesses, community groups)

## **7. Appendices referenced in this report**

- 7.1 Appendix A - West Suffolk Self-Assessment of compliance with the Code, the associated actions arising to ensure full compliance, and the next steps

## **8. Background documents associated with this report**

- 8.1 CIPFA Financial Management Code