

AUDIT AND ACCOUNTS COMMITTEE

28 JULY 2021

FINANCIAL MANAGEMENT CODE OF PRACTICE SELF-ASSESSMENT

1.0 Purpose of the Report

1.1 To inform SLT of CIPFA's Financial Management Code which is applicable from 2021/22.

2.0 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 of the exceptional financial pressures faced by local authorities in recent years which 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.

3.0 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.

4.0 **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.

5.0 **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.

6.0 **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. It must also assure itself that its processes 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.

7.0 **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 A**.

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.	AMBER
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.	GREEN
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

8.0 Actions

8.1 The following actions have been identified to enhance our compliance and will be carried out over the course of the next year;

- Embed fully the new performance management framework

- Complete actions identified within the VFM self-assessment
- Internal Audit progress reports to be tabled at SLT meetings from July 2021
- Review project management toolkit to ensure this includes a section on how to undertake an options appraisal
- Review of Financial Procedure Rules to allow for the transfer of budget by Directors, within their directorate area, up to a cumulative limit of £50,000 in conjunction with the wider review of Governance
- Development of Asset Management Strategy to supplement the Capital Strategy
- Develop a Workforce Planning Strategy which meets the needs of the organisation, supports the delivery of the Community Plan and which represents value for money.
- Further work needed to align budget monitoring reporting to service performance management reporting.

9.0 Financial Implications

9.1 There are no direct financial implications arising from this report.

10.0 RECOMMENDATION

That the Committee note the assurance that NSDC meet the standards of CIPFA's Financial Management Code as evidenced from the self-assessment and accept the actions required to be undertaken

Reason for Recommendation

To ensure compliance with CIPFA's Financial Management Code

Background Papers

For further information please contact Nick Wilson on extension 5317.

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