

**Name and date of meeting: Corporate Governance and Audit Committee  
5 July 2019**

**Title of report: CIPFA Financial Management Code (Consultation version)**

**Purpose of report**

To highlight the scope and principles underpinning CIPFA's Financial Management Code (CIPFA FM Code), Consultation version, which is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability.

<b>Key Decision - Is it likely to result in spending or saving £250k or more, or to have a significant effect on two or more electoral wards?</b>	<b>No</b>
<b>Key Decision - Is it in the <a href="#">Council's Forward Plan (key decisions and private reports?)</a></b>	<b>Key Decision: No</b> <b>Private Report/Private Appendix: N/A</b>
<b>The Decision - Is it eligible for call in by Scrutiny?</b>	<b>No</b>
<b>Date signed off by Strategic Director and name</b>  <b>Is it also signed off by Service Director</b>  <b>Is it also signed off by the Service Director Legal, Governance and Commissioning</b>	<b>N/A</b>  <b>Eamonn Croston – 18 June 2019</b>  <b>Julie Muscroft – 18 June 2019</b>
<b>Cabinet member <a href="#">portfolio</a></b>	<b>Corporate Graham Turner</b>

**Electoral wards affected: N/A**  
**Ward councillors consulted: N/A**  
**Public or Private: Public**

**GDPR:** This report contains no information that falls within the scope of General Data Protection Regulations.

## **1 Summary**

1.1 The CIPFA Financial Management Code (CIPFA FM Code), Consultation version, is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability in relation to :

- i) Financially manage the short, medium and long term finances of a local authority;

- ii) Manage financial resilience to meet unforeseen demands on services; and
  - iii) Financially manage unexpected shocks in their financial circumstances
- 1.2 The CIPFA Consultation ran for 6 weeks from mid-March to end April 2019, and subject to any final revisions, CIPFA's intention is to implement it from April 2020 onwards.
- 1.3 The Code is consistent with other successful CIPFA codes and statements in being based on principles rather than prescription.
- 1.4 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 associated borrowing. With this success came new financial freedoms to make local decisions on matters that had hitherto been subject to central government control. The Code should not be considered in isolation and accompanying tools, including the use of objective quantitative measures of financial resilience, should form part of the suite of evidence to demonstrate sound decision-making.
- 1.5 The Code has sought therefore to rely on the local exercise of professional judgement backed when appropriate by peer review.
- 1.6 The Code also has links to key accounting statutory requirements; the Treasury Management in Public Sector Code of Practice (CIPFA 2017) and the annual Code of Practice on Local Authority Accounting in the UK.
- 1.7 The Code is further supported by other statutory requirements; namely ;
- i) Section 151 of the Local Government Act 1972, which requires that ...every local authority in England and Wales make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs;
  - ii) S114 of the Local Government Finance Act 1988 which requires the CFO to report to all the authority's Councillors if there is likely to be unlawful expenditure or if expenditure in the year (including forecasted expenditure) is likely to exceed resources (including borrowings)
- 1.8 In addition to the requirements of primary legislation and associated CIPFA Codes, an authority's prudent and proper financial management is informed by a framework of professional codes of practice and guidance, including :
- CIPFA Statements of Professional Practice (SOPP) (including ethics)
  - CIPFA Statement of the Role of the Chief Financial Officer
  - CIPFA Statement on the Role of the Chief Financial Officer in Local Government
  - CIPFA Statement on the Role of the Chief Finance Officer of the Police and Crime Commissioner and the Chief Finance Officer of the Chief Constable

These statements are incorporated and, where necessary, elaborated in this CIPFA FM Code.

- 1.9 Each local authority must demonstrate that the requirements of the Code are being satisfied. Demonstrating this compliance with the Code is a collective responsibility of elected members, the Chief Finance Officer (CFO), and their professional colleagues in the leadership team.
- 1.10 Local Authorities will need to ensure that their governance and financial management style are fit in advance for this purpose. Additionally, they will have had to have initiated the longer term financial planning demanded by this Code.
- 1.11 The Code is intended to set the standards of financial management for local authorities with effect from 1<sup>st</sup> April 2020. Therefore, to enable the 2020/21 budget to have been prepared in compliance with the Code, significant elements of the Code will have to be adopted before April 2020.
- 1.12 This report provides an initial Corporate Governance & Committee overview of the key principles of the Code, which the Code translates into a number of Financial Management Standards and underpinning Statements of Standard Practice.
- 1.13 It is intended that officers will report back to this Committee in September with an initial self-assessment of the extent of our current compliance with the requirements of the FM Code, for further consideration by Committee members, and which will also subsequently form a core part of the Annual Governance Statement self-assessment process.

## **2 Information required to take a decision**

- 2.1 Appendix 1 attached summarizes the Finance Management code in terms of the overarching principles, and within each of these, the relevant financial management standards, and accompanying statements of standard practice for ease of reference.
- 2.2 It is intended that there will be an initial officer self-assessment as to the extent to which this Council complies with the principles of the Code, and the intention is to report back to Corporate Governance & Audit Committee for further consideration in September.
- 2.3 The Code makes extensive reference to the organisational 'leadership team'. For clarification, leadership team here refers to elected members, the Chief Finance Officer (CFO), and their professional colleagues in the leadership team. It is important therefore in gauging the views of the whole leadership team as part of this initial self-assessment.
- 2.4 The relevant CIPFA website which includes a separate link to download the full consultation document is linked below for reference :  
  
[Consultation on CIPFA Financial Management Code | CIPFA](#)
- 2.5 It is anticipated that the finalised CIPFA FM Code will not change materially from the Consultation version, and while the intention is for it to be implemented from

1 April 2020, it is expected that parts of the Code will be complied with prior to April 2020 as relate in particular to Medium Term Financial Planning.

### **3. Implications for the Council**

#### **3.1 Working with People**

N/A

#### **3.2 Working with Partners**

N/A

#### **3.3 Placed based working**

N/A

#### **3.4 Improving Outcomes for Children**

N/A

#### **3.5 Reducing demand of services**

N/A

#### **3.6 Other (e.g. Legal/Financial or Human Resources)**

3.6.1 This Code requires that a local authority demonstrate that its processes satisfy the principles of good financial management for an authority of its size, responsibilities and circumstances. Good financial management is proportionate to the risks to the authority's financial sustainability posed by the twin pressures of scarce resources and the rising demands on services.

3.6.2 The Code identifies these risks to financial sustainability and introduces an overarching framework of assurance which builds on existing best practice but which for the first time sets explicit standards of financial management.

3.6.3 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.

### **4 Consultees and their opinions**

N/A

### **5 Next steps**

To bring back an initial self-assessment of the extent of Council compliance with the Code, for further member consideration in September 2019.

### **6 Officer recommendations and reasons**

For Corporate Governance & Audit Committee to note the CIPFA Financial Management Code (Consultation version) and endorse the approach as set out in this report for self-assessment and integration into the Annual Governance Statement.

### **7 Cabinet Portfolio Holder recommendation**

The Cabinet Portfolio holder endorses the recommendations set out in this report.

**8 Contact officer**

James Anderson      Senior Finance Manager      01484 221000

**9 Background Papers and History of Decisions**

The CIPFA Financial Management Code (Consultation Version)

**10 Service Director responsible**

Eamonn Croston      01484 221000

PRINCIPLE	
<p><b>Organisational leadership</b> - demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture</p>	
FM Standard	Statement of standard practice
<p>The leadership team demonstrates that the services provided by the authority provide value for money</p>	<ul style="list-style-type: none"> <li>• The leadership team must recognise that responsibility for the financial management of the authority does not rest with the Chief Finance Officer (CFO) alone, but with the actions of the leadership team both collectively and individually as elected members and senior officers.</li> <li>• The CFO must ensure that they fulfil their personal legal and professional responsibilities in the public interest and in recognition of the other statutory service responsibilities of the authority.</li> </ul> <p>In the leadership team the Chief Finance Officer must provide timely, relevant and reliable financial advice, in accordance with the law and professional standards.</p>
<p>The Authority complies with the CIPFA statement on the role of the CFO in Local Government</p>	<ul style="list-style-type: none"> <li>• The CFO in a public service organisation is a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest</li> <li>• The CFO must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the organisation's financial strategy.</li> <li>• The CFO must lead the promotion &amp; delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively</li> <li>• The CFO should regularly review the skills set of elected members and all officers with budget/financial management responsibility and ensure appropriate support is provided</li> </ul>

- The CFO must lead and direct a finance function that is resourced to be fit for purpose
- The CFO should regularly review the skill sets of all finance staff with senior budget / financial management responsibility and ensure ongoing appropriate support is provided.
- The ratio of qualified staff as a proportion of total finance staff ensures that the finance function has the necessary financial competence.
- The CFO must be professionally qualified and suitably experienced.
- The CFO must be able to demonstrate adherence to professional CPD requirements on an annual basis.
- Professionally qualified staff should demonstrate an ongoing commitment to the principles of objectivity, integrity, professional behaviour, professional competence & due care, and confidentiality
- The CFO should promote the highest standards of ethical behaviour in the conduct of financial management
- To enable financially informed decision making, the CFO should be able to :
  - *provide the leadership team with sound advice on the key principles of local government finance*
  - *demonstrate a sound system which ensures the authority has access to high standards of technical financial advice*
- The CFO should report explicitly on the affordability & risk associated with the capital strategy and where appropriate have access to specialised advice to enable them to reach their conclusions
- The CFO must establish the reporting and monitoring processes, and integrate treasury management indicators into the overall financial planning process
- Organisations which are required to explain (rather than comply) should set out clearly how the

	<p>associated risks will be managed and demonstrate notification of the risks to the political leadership.</p>
<p>The leadership team demonstrates in its actions and behaviours, responsibility for governance and internal control</p>	<ul style="list-style-type: none"> <li>• The CIPFA/IFAC International Framework; Good Governance in the Public Sector establishes a benchmark for good governance in the sector, around financial accountability, press and parliamentary scrutiny, integrity and the absence of corruption.</li> <li>• The application of the above in the context of UK local government is reinforced by specific regulatory requirements and sector specific guidance; CIPFA/SOLACE Delivering <i>Good Governance in Local Government: Framework (2016 Edition)</i> supports local authorities in developing and maintaining their own codes of governance and discharge their accountability for the proper conduct of business</li> </ul>



**PRINCIPLE**

**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

FM Standard	Statement of standard practice
The authority applies the CIPFA/ SOLACE Delivering good governance in local government; framework 2016	<ul style="list-style-type: none"><li>• The CIPFA/SOLACE Framework recommends that the review of the effectiveness of the system of internal control that local authorities in England, Wales Scotland and Northern Ireland are required to undertake by their respective Accounts and Audit Regulations should be reported in an Annual Governance Statement (AGS).</li><li>• The authority maintains an effective audit committee</li><li>• The audit committee receives and monitors the implementation of internal and external audit recommendations. When threats to the financial sustainability of the authority are identified by auditors the audit committee should ensure that the recommendations are communicated to the leadership team and that the committee are informed of the effectiveness of the leadership team’s response.</li></ul>
The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability	<ul style="list-style-type: none"><li>• Timely financial and performance information is available to managers via the appropriate systems.</li><li>• Financial and performance management systems are engineered to provide relevant data at a sufficiently accurate level.</li><li>• When appropriate, budgets are profiled to support effective budgetary control through the financial year.</li><li>• The organisation ensures that information is appropriately tailored and streamlined to avoid the risk of ‘data overload’.</li><li>• All Financial monitoring reports include:<ul style="list-style-type: none"><li>- <i>The name of the budget holder responsible for the information presented</i></li></ul></li></ul>

	<ul style="list-style-type: none"> <li>- <i>Accruals based financial information</i></li> <li>- <i>Include the approved budget against which monitoring is taking place.</i></li> <li>- <i>A forecast for the remainder of the budget period,</i></li> <li>- <i>Service performance information and</i></li> <li>- <i>is shown, for instance by reconciliations, to be consistent with the aggregate position for the authority.</i></li> </ul> <ul style="list-style-type: none"> <li>• The authority has arrangements which allow annual service budgets to be re-calibrated in response to unforeseen developments</li> <li>• At the financial monitoring period end the leadership team receives a set of financial statements with forecast outturn for the year ahead</li> <li>• There are appropriate arrangements in place for reporting and managing the financial performance of each of the organisation's delivery partnerships and collaborative arrangements.</li> <li>• There are appropriate arrangements in place for the project management and cost control of capital projects.</li> </ul>
<p>The CFO has personal responsibility for ensuring that the statutory accounts provided to the local authority comply with the Code of Practice on Local Authority Accounting in the United Kingdom.</p>	<ul style="list-style-type: none"> <li>• Financial reporting must provide the accountability link between planned performance and spending and the outcomes – financial and more – that are achieved. The authority, its management and the Chief Finance Officer, must provide the user with the links between the consumption of resources and the value that has been created.</li> <li>• The council, its leadership and governance understand how effectively its resources have been utilised during the year including a process which explains how material variances from initial and revised budgets have arisen and been managed. The success of these arrangements will be demonstrated by the ability of the leadership team to make decisions from them.</li> </ul>

<p><b>PRINCIPLE</b>  <b>Financial management is undertaken with <span style="color: red;">transparency</span> at its core using consistent, meaningful and understandable data, reported frequently with evidence of periodic officer action and elected member decision making</b></p>	
<p><b>FM Standard</b></p>	<p><b>Statement of standard practice</b></p>
<p>The financial management style of the authority supports financial resilience</p>	<ul style="list-style-type: none"> <li>• The organisation has an effective framework of financial accountability that is clearly understood and applied throughout, from the political leaders, elected members to directors, finance officers and front line service managers.</li> <li>• Finance teams and the organisation they support are actively committed to continuous improvement focused on efficient and effective delivery and organisational performance.</li> <li>• Enabling transformation: the finance team have input into strategic and operational plans taking into account proactive risk management, clear strategic directions and focus-based outcomes</li> <li>• Managers understand they are responsible for delivering services cost effectively and are held accountable for doing so. Financial literacy is diffused throughout the organisation so that decision takers understand and manage the financial implications of their decisions.</li> <li>• The financial management of the authority has been critically evaluated.</li> </ul>
<p>The budget report includes an assessment of its consistency with the current MTFP and long term financial strategy</p>	<ul style="list-style-type: none"> <li>• The annual report proposing the budget includes an analysis of the success/failures in achieving the spending plans of the previous year and of departures from the planned use of reserves and balances</li> </ul>
<p>The budget reports include a statement by the CFO on the estimates and reserves</p>	<ul style="list-style-type: none"> <li>• The statement of reserves should list those earmarked reserves that are material for assessing the financial resilience of the authority. This statement should be a more detailed 'snap-shot' of the analysis used to inform the MTFP.</li> </ul>

	<ul style="list-style-type: none"><li>• A well-managed authority, with a prudent approach to budgeting should be able to operate with a level of general reserves appropriate for the risks (both internal and external) to which it is exposed. Compliance with the Code will give important reassurance that the authority's financial management is able to manage those risks. These should be maintained at a level appropriate for the profile of the organisation's cash flow and the prospect of having to meet unexpected events from within its own resources.</li></ul>
The authority has engaged with key stakeholders in developments its medium to long term service and financial plans	<ul style="list-style-type: none"><li>• The authority has engaged with key stakeholders in developing its long term financial strategy, medium term financial plan and annual budget</li></ul>

**PRINCIPLE**

Adherence to professional **Standards** is promoted by the leadership team and is evidenced.

<b>FM Standard</b>	<b>Statement of standard practice</b>
The authority complies with its statutory obligations in respect of the budget setting process	<ul style="list-style-type: none"><li>• The annual report setting out the proposed budget for the coming year is a key document for the authority, but it does not stand alone since its contents should flow consistently and clearly from the content of the long term financial strategy and medium term financial plan.</li><li>• It will also demonstrate compliance with CIPFA's Prudential Code (Financial Management Standard I)</li><li>• The best local budget plans are those owned and articulated by the whole leadership team and senior managers not simply the Chief Finance Officer</li></ul>
The authority uses a documented option appraisal methodology to demonstrate the VFM of its decisions	<ul style="list-style-type: none"><li>• Option appraisal complies with IFAC/PAIB Project and Investment Appraisal for Sustainable Value Creation: Principles in Project and Investment Appraisal</li><li>• The accounting treatment of material decisions is considered and demonstrated as part of the formal option appraisal process.</li></ul>
The Authority applies the principles contained in the CIPFA Service Reporting Code of Practice (SeRCOP) and utilises appropriate costing techniques in the development of business cases	<ul style="list-style-type: none"><li>• CIPFA's Service Reporting Code of Practice (SeRCOP) includes a formal definition of total cost which must be used, for instance, in statistical returns to central government or when the full cost of a service needs to be recovered.</li><li>• However, the SeRCOP stresses that total cost may not always be appropriate. Costing for decision-making purposes will often require the use of different techniques; it will also require that all relevant costs, and only relevant costs, are taken into account, whether they form part of total cost or not.</li><li>• Authorities will also need to decide whether the revenue cost of capital arising from, for example, interest charges element (to reflect the full cost of using non-current assets in the provision of a service)</li></ul>

	should be included in any costing for decision-making or charging purposes.
The authority complies with the CIPFA Prudential Code	<ul style="list-style-type: none"><li>• CIPFA is not envisaging that the development of significant new reporting is required to demonstrate compliance with the CIPFA FM Code. The CIPFA Prudential Code already requires authorities to demonstrate that the revenue consequences of proposed capital expenditure is affordable in both the short and long term.</li><li>• The FM Code adds to these minimum requirements the expectation that they will be applied on a longer term basis than has hitherto been the case.</li></ul>

<p><b>PRINCIPLE</b>  <b>Sources of assurance are recognised as an effective tool mainstreamed into financial management and includes political scrutiny and the results of both external audit, internal audit and inspection.</b></p>	
<p><b>FM Standard</b></p>	<p><b>Statement of standard practice</b></p>
<p>The leadership team monitors the elements of its balance sheet which pose a significant risk to its financial sustainability</p>	<ul style="list-style-type: none"> <li>• Unplanned and planned use of reserves are reported [quarterly] to the management team of the organisation and to Council.</li> <li>• Management accounts include an appropriate level of balance sheet information to meet business needs and evidence of monitoring of material items</li> </ul>

<p>The presentation of the financial outturn report and budget variations allow the leadership team to make strategic financial decisions</p>	<ul style="list-style-type: none"> <li>• The presentation of the annual accounts both closes the financial management cycle and initiates the start of the next financial cycle with the rolling forward and review of the medium term financial plan and in some circumstances a reappraisal of the credibility of the long term financial strategy and the financial resilience of the authority</li> </ul>
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**PRINCIPLE**  
**The long term sustainability of local services is at the heart of all financial management process and is evidenced by prudent use of public resources**

<b>FM Standard</b>	<b>Statement of standard practice</b>
<p>The authority has carried out a credible and transparent Financial Resilience assessment</p>	<ul style="list-style-type: none"> <li>• Financial resilience is tested against best and worst case scenarios which cover a wide range of financial demographic and social challenges.</li> <li>• The authority uses independent objective quantitative measures to assess the risks to its financial sustainability.</li> </ul>



	<ul style="list-style-type: none"> <li>• Decision making by the authority demonstrates a sound understanding of the risks associated with its strategic business partners</li> </ul> <p>Decision making by the authority demonstrates a sound understanding of the risks associated with its strategic business partners</p>
<p>The authority has a Long Term Financial Strategy for financial sustainability</p>	<ul style="list-style-type: none"> <li>• CIPFA isn't being prescriptive here about L/T, but it does promote ambition and stresses the need for a financial strategy that matches the need for a strategic approach to service planning.</li> <li>• Authorities with a high level of infrastructure investment &amp; associated external borrowing should adopt a correspondingly L/T approach</li> <li>• The L/T financial strategy will include proposals for which detailed implementation plans have yet to be developed e.g. ambitious transformation programmes. In such instances, it would be helpful to find means (such as benchmarking) to carry out due diligence of such top-down programmes.</li> </ul>
<p>The authority has a capital strategy aligned to its long term strategy</p>	<ul style="list-style-type: none"> <li>• The authority has an asset management plan that reviews the condition, sufficiency and suitability of assets in the light of business needs, and ambitions of the Medium - Long Term Financial Strategy</li> <li>• The plan should evidence rigorous assessment of asset portfolio in relation to service delivery.</li> <li>• The authority maintains processes to ensure that information about key assets and liabilities in its balance sheet is a sound and current platform for management action.</li> </ul>
<p>The authority has a rolling multi-year MTFP</p>	<ul style="list-style-type: none"> <li>• The MTFP should enable the leadership team to have confidence in the concrete delivery of its long term strategy for its financial sustainability.</li> <li>• Importantly, financial and operational plans must be demonstratively aligned to the strategy at all levels.</li> </ul>

	<p>Without clear service plans it is impossible to place the forecast within the context of currently agreed policies and their implications for future demand and resources.</p>
<p>The authority has sustainable service plans that are consistent with its financial strategy and plan</p>	<ul style="list-style-type: none"><li>• The Medium Term Financial Plan should make reference to other organisational plans (e.g. workforce planning) and performance measures to demonstrate an alignment between service and financial planning</li><li>• The authority has benchmarked the performance of its services against appropriate comparators.</li><li>• To inform the leadership team's decisions the authority has a single document tracking progress in the delivery of planned savings over the period of the Medium Term Financial Plan</li><li>• The authority publishes its plans for the use of reserves over the period of the Medium Term Financial Plan</li><li>• The level of reserves at 31st March in any one year should not fall below the level previously agreed.</li><li>• The authority should demonstrate adherence to the most recent guidance on reserves from CIPFA.</li></ul>