

Open Report on behalf of Andrew Crookham, Executive Director - Resources

Report to:	Audit Committee
Date:	14 June 2021
Subject:	CIPFA Financial Management (FM) Code

Summary:

The Chartered Institute of Public Finance and Accountancy (CIPFA) has published its Financial Management (FM) Code to provide guidance for good practice in financial management and to assist local authorities in demonstrating their financial sustainability.

The first full year of compliance with the FM code is 2021/22, however, recognising the challenges currently being experienced due to the Covid-19 pandemic a proportionate approach is encouraged with adherence to some parts of the Code demonstrating a direction of travel.

An assessment has been undertaken against the FM Code standards and actions have been identified in line with the CIPFA requirements.

A new Code of Audit Practice came into force in April 2020 which included strengthening arrangements around Value for Money reporting by our External Auditors. An assessment has been undertaken for our Auditor's to support this work.

Recommendation(s):

That Audit Committee note the requirements set out in the CIPFA FM Code, and the assessment undertaken to evaluate the Council against the standards within the code.

The committee reviews the evidence identified against the standards within the code and considers the compliance against the code and any outstanding actions required to evidence full compliance.

That the Audit Committee note the change in VFM reporting requirements - reviewing the evidence identified against the questions raised by our External Auditors.

Background

The Chartered Institute of Public Finance and Accountancy (CIPFA) has introduced the Financial management (FM) Code, recognising that good financial management is an essential element of good governance and longer term service planning, factors which are critical in ensuring that local service provision is sustainable.

CIPFA also states the exceptional financial circumstances faced by local authorities have revealed concerns about fundamental weaknesses in financial management, particularly in relation to organisations that may be unable to maintain services in the future.

Local government finance in the UK has been governed by primary legislation, regulation and professional standards as supported by statutory provision. The general financial management of a local authority, however, was not supported by a professional code.

CIPFA have now introduced the FM Code which is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability.

The FM Code is based on a series of principles supported by specific standards which are considered necessary to provide the strong foundation to:

- financially manage the short, medium and long-term finances of a local authority;
- manage financial resilience to meet unforeseen demands on services; and
- manage unexpected shocks in their financial circumstances.

The FM Code is consistent with other established CIPFA codes and statements in being based on principles rather than prescription. This code incorporates their existing requirements on local government so as to provide a comprehensive picture of financial management in the authority.

The underlying principles that inform the FM Code have been developed in consultation with senior practitioners from local authorities 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. 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 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.

Each local authority must demonstrate that the requirements of the code are being satisfied. 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.

The FM Code was launched during 2019, with a shadow year expected during 2020/21, with a compliance requirement from 2021/22.

The COVID-19 crisis has seen local authorities placed under extreme pressure to respond to the needs of their communities by providing services and support to an unprecedented extent.

CIPFA considers good financial management to be even more essential during the current challenge, but acknowledges the additional extraordinary burdens being faced by Local Authorities. Reflecting on these pressures CIPFA has concluded that while the first full year of compliance with the FM Code can remain as 2021/2022, it can do so within a more flexible framework where a proportionate approach is encouraged. In practice this is likely to mean that adherence to some parts of the Code will demonstrate a direction of travel.

Appendix A sets out the assessment we have undertaken to evidence our current compliance with the FM Code and any actions required. The summary table below identifies where we have assessed further action can be implemented to support our evidence with the standard.

CIPFA Financial Management Code Standards

A	The leadership team is able to demonstrate that the services provided by LCC provide value for money.	No Action
B	LCC complies with the CIPFA <i>Statement on the Role of the Chief Finance Officer in Local Government</i> .	No action but improvement identified
C	The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.	No action but improvement identified
D	LCC applies the CIPFA/ SOLACE <i>Delivering Good Governance in Local Government: Framework</i> (2016).	No action but improvement identified

E	The financial management style of LCC supports financial sustainability	No action but improvement identified
F	LCC has carried out a credible and transparent financial resilience assessment.	No action but improvement identified
G	LCC understands its prospects for financial sustainability in the longer term and has reported this clearly to members.	Action required
H	LCC complies with the CIPFA <i>Prudential Code for Capital Finance in Local Authorities</i> .	No Action
I	LCC has a rolling multi-year medium-term financial plan consistent with sustainable service plans.	No action but improvement identified
J	LCC complies with its statutory obligations in respect of the budget setting process.	No Action
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.	No Action
L	LCC has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.	Action required
M	LCC uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.	Action required
N	The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.	No action but improvement identified
O	The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability	Action required
P	The Chief Finance Officer has personal and statutory responsibility for ensuring that the statement of accounts produced by LCC complies with the reporting requirements of the <i>Code of Practice on Local Authority Accounting in the United Kingdom</i>	No Action
Q	The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions	No Action

Key themes for improvements identified:-

- Longer term financial planning, with clear links to the corporate plan, service performance, asset management strategies and capital investment.
- Clear methodology for options appraisal, to support decision making with full consideration of value for money.
- More transparency of our financial resilience assessment, including management of risks, and key areas of risk in our balance sheet (e.g. debtors).

- Continued improvement in our reporting particularly of our MTFP assumptions and LCC Companies.
- Improved stakeholder engagement.
- Continued development of financial literacy in the organisation, and skills in the finance team, supporting an enabling financial management style.

Value for Money Arrangements

A new Code of Audit Practice came into force in April 2020 – with supporting guidance issued by the National Audit Office in October 2020. This aims to provide more meaningful and accessible annual reporting on the Council's Value for Money arrangements – giving sharper focus on reporting in key areas of financial sustainability, governance and improving economy, efficiency and effectiveness. The outcome of this work will be published as part of the External Auditor's Annual Report for 2020/21 reporting period.

We have completed a self-assessment for our Auditor's – Mazars to support this work – see Appendix B.

Conclusion

The CIPFA FM Code is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability.

Compliance with the code is required from 2021/22, but due to the pressures relating to the Covid-19 response CIPFA has encouraged a proportionate approach to be taken and recognises in practice this is likely to mean that adherence to some parts of the Code will demonstrate a direction of travel.

An assessment against the requirements of the FM Code has been undertaken, with evidence of compliance detailed in the report along with further actions required.

An assessment has been undertaken to help support the Auditor's work on our VFM arrangements – ensuring compliance with the new Code of Audit Practice which is required from 2020/21.

Consultation

a) Risks and Impact Analysis

N/A

Appendices

These are listed below and attached at the back of the report	
Appendix A	The Council's assessment against the FM Code standards
Appendix B	The Council's assessment against the VFM questions raised by our External Auditor's

Background Papers

The following background papers as defined in the Local Government Act 1972 were relied upon in the writing of this report.

Document title	Where the document can be viewed
The CIPFA Financial Management Code	https://www.cipfa.org/policy-and-guidance/publications/f/financial-management-code#:~:text=The%20Financial%20Management%20Code%20(FM,as%20part%20of%20a%20package
NAO guidance - work on value for money arrangements - new Code	Resources

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