

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

Report to:	Audit Committee
Date:	24 July 2023
Subject:	Update on the CIPFA Financial Management Code and Financial Resilience

Summary:

The Audit Committee last received a report on the CIPFA Financial Management Code on 26 September 2022. That report set out an action plan and timescales for implementing the requirements of the CIPFA Financial Management Code.

This report provides an update on progress so far against the action plan, which is shown in Appendix A. One of the actions was to commission an external review of the Council's financial resilience. This action has been completed and the resulting report is included at Appendix B. The review encompassed the Council's compliance with the CIPFA Financial Management Code and was conducted by Grant Thornton. Representatives from Grant Thornton will present their findings at the Committee meeting.

Actions Required:

Members of the Audit Committee are asked to scrutinise and comment on progress reported against the CIPFA Financial Management Code Action Plan, which is attached to this report as Appendix A, and on the findings of the Grant Thornton independent review of Lincolnshire County Council's compliance with the CIPFA Financial Management Code, which is attached as Appendix B.

1. Background

- 1.1 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.
- 1.2 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.
- 1.3 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 to provide a comprehensive picture of financial management in local authorities.
- 1.4 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.
- 1.5 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 compliance requirement from 2021/22. Due to the Covid-19 pandemic CIPFA concluded that while the first full year of compliance with the FM Code should remain as 2021/2022, it can be 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.
- 1.6 The table (Action Plan) shown at Appendix A has evolved over time and now includes the following information:

- The first two columns show the CIPFA Financial Management Standard letter and description taken from the Code.
 - The third column shows the results of the self-assessment we carried out to evidence our current compliance with the FM Code and any actions required. In this iteration of the Action Plan, text has been added to this column in red font, to show the conclusions reached by Grant Thornton where they have determined an “amber” status or where they have identified an area for potential improvement.
 - The fourth column shows the target date and the role with the assigned responsibility of ensuring that the action is completed. Where original target dates have been exceeded, new target dates have now been added.
 - The final column provides an update on progress made so far against each action.
- 1.7 The Action Plan in Appendix A shows that most actions have been progressed to some extent, and two actions are now complete.
- 1.8 The independent review of the Council’s compliance with the CIPFA Financial Management Code was carried out by Grant Thornton between December 2022 and March 2023. Their conclusion was that “the Council is operating in line with the requirements across all the criteria in regard to the substance of the arrangements and also the spirit in which they are intended”. They did not find any significant issues that the Council was previously unaware of, and they report that this “reflects the strong grip on financial management that is reflected in our detailed findings”. Grant Thornton also noted that there is good practice in a number of areas, notably the interaction between finance business partners and services in financial planning and monitoring which they found to be “particularly strong”.
- 1.9 Some areas for potential further development were also highlighted (on page 5 of the report itself), and these have been added to the relevant area of the Action Plan at Appendix A in red font. Grant Thornton have concluded that four standards of the Financial Management Code are rated “amber” and the other thirteen standards are rated “green”. This is also reflected on the Action Plan at Appendix A.

2. Conclusion

- 2.1 This Committee is invited to scrutinise the updated action plan attached at Appendix A, and the Grant Thornton review of the Council’s compliance with the CIPFA Financial Management Code attached at Appendix B, and to provide any feedback on these documents.

3. Consultation

a) Risks and Impact Analysis

N/A

4. Appendices

These are listed below and attached at the back of the report	
Appendix A	CIPFA Financial Management Code Action Plan
Appendix B	Grant Thornton Report – Review of Lincolnshire County Council’s Compliance with the CIPFA Financial Management Code

5. Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Michelle Grady, who can be contacted on 01522 553235 or michelle.grady@lincolnshire.gov.uk.