

Report To:	AUDIT COMMITTEE	Date:	26th JULY 2021
Heading:	FINANCIAL MANAGEMENT CODE		
Portfolio Holder:	CLLR DAVID MARTIN, PORTFOLIO HOLDER FOR FINANCE, REVENUES AND BENEFITS		
Ward/s:	N/A		
Key Decision:	NO		
Subject to Call-In:	NO		

Purpose of Report

To inform Audit Committee of the requirements of the CIPFA Financial Management Code (the FM Code) as a framework to support good practice in financial management and assist in demonstrating financial sustainability.

Recommendation

- For Audit Committee to note the contents of the report.

Reasons for Recommendation(s)

To raise the awareness of the FM Code and the collective responsibility of elected Members, the Corporate Leadership Team and Chief Finance Officer to demonstrate compliance with the FM code.

Alternative Options Considered

None – the report is raising awareness of the FM code, which is one of the actions required to comply with the code.

Detailed Information

- 1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) published The Financial Management Code (FM Code) in October 2019. The first full year of compliance is 2021/22.
- 1.2 The general financial management of a local authority has not until now been supported by a professional code. The Code has been introduced because 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.
- 1.3 The FM Code applies to all Local Authorities as does the Prudential Code, Accounting Code of Practice and the Role of Chief Finance Officer. The codes themselves do not have

legislative backing but support the requirement of Section 151 of 1972 Local Government Act that requires Local Authorities to make arrangements for the proper administration of their financial affairs.

1.4 The FM Code applies a principles-based approach and relates to other existing statutory and good practice guidance to provide a comprehensive picture of financial management of the Council. The FM Code identifies 6 Principles 'CIPFA Statement of Principles of Good Financial Management' these are:

- **Organisational leadership** - demonstrating a clear strategic direction based on a vision in which financial management is embedded into the organisation
- **Accountability** – based on medium term financial planning that drives the annual budget process supported by effective risk management, quality supportive data and whole life costs
- **Transparency** - Financial management is undertaken with transparency at its core using consistent meaningful and understandable data, reported frequently and evidence of periodic and elected Member decision making
- **Standards** - adherence to professional standards is promoted by the leadership team and is evidenced
- **Assurance** – Sources of assurance are recognised as an effective tool mainstreamed into financial management, including political scrutiny and results of external audit, internal audit and inspection
- **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

1.5 Specific standards are then identified to support each principle to provide a strong foundation to support good practice in financial management and to assist in demonstrating financial sustainability to:

- Financially manage the short, medium and long-term finances
- Manage financial resilience to meet unforeseen demands on services
- Manage unexpected shocks in financial circumstances

The standards under each of the principles are included at Appendix 1.

1.6 The FM code is not prescriptive, self-regulation is required to exercise professional judgement backed by appropriate reporting. The requirement is to demonstrate processes, satisfying the principles and financial management should be proportionate to the risks to the financial sustainability posed by scarce resources and demand for services. Demonstrating compliance is the collective responsibility of elected Members, the Corporate Leadership Team and Chief Finance Officer.

1.7 Local Authorities are required to implement the code by:

- Completing an assessment of elements of the code
- Reflecting on its position against the standards
- Taking necessary action to comply with standards if gaps are identified
- Raise awareness within the organisation

1.8 A self-assessment is to be completed of the Council's assessed level of compliance with the standards contained in the FM Code. This self-assessment will be reported to the next Audit Committee.

Implications

Corporate Plan:

Compliance with the FM Code will contribute to sound decision making, assessing financial resilience and demonstrate financial sustainability, all of which contribute to long term ability to deliver the Corporate Plan.

Legal:

Compliance with the FM Code supports the requirement of Section 151 of 1972 Local Government Act that requires Local Authorities to make arrangements for the proper administration of their financial affairs.

Finance:

The Chief Financial Officer (Section 151 Officer) has the Statutory Responsibility (supported by the management team and elected Members) for ensuring compliance with the FM Code.

Budget Area	Implication
General Fund – Revenue Budget	None.
General Fund – Capital Programme	None
Housing Revenue Account – Revenue Budget	None
Housing Revenue Account – Capital Programme	None

Risk:

Risk	Mitigation
If compliance with the CIPFA Financial Management Code is not demonstrated, the Council's financial management, financial resilience and sustainability could be challenged and have a negative impact.	To complete a self-assessment to demonstrate the Council's compliance with the standards contained in the FM Code. Actions will be identified to address any gaps. The initial self-assessment and progress on implementing any actions will be reported to the Audit Committee.

Human Resources:

None

Environmental/Sustainability

None

Equalities:

None

Background Papers

CIPFA Financial Management Code 2019.

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The CIPFA Financial Management Code Principles and Standards

