

HIGH PEAK BOROUGH COUNCIL

Report to the Audit & Regulatory Committee

23rd June 2021

TITLE:	CIPFA Financial Management Code
EXECUTIVE COUNCILLOR	Cllr Alan Barrow – Executive Councillor for Corporate Services and Finance
CONTACT OFFICERS:	Keith Pointon – Interim Head of Finance
WARDS INVOLVED:	Non-Specific

1. Reason for the Report

- 1.1 The purpose of the report is to brief the Audit Committee in regard to the requirements of the Chartered Institute of Public Finance & Accountancy (CIPFA) Financial Management Code.

2. Recommendations

- 2.1 That Audit Committee note the contents of this report and recommendation for a full self-assessment against the principals of the CIPFA Financial Management code.

3. Executive Summary

- 3.1 Local government finance in the UK is governed by primary legislation, regulation and professional standards as supported by statutory provision. 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 (pre-Covid 19) in recognition of the exceptional financial circumstances faced by local authorities – which have been further tested as a result of the pandemic.
- 3.2 The FM Code requires authorities to demonstrate that the processes they have in place satisfy the principles of good financial management, which is an essential part of ensuring that public sector finances are sustainable. The FM Code identifies risks to financial sustainability and introduces a framework of assurance.
- 3.3 The first full year of compliance with the FM Code was originally scheduled for 2021/22. However, in recognition of the pressures that have been placed on Local Authorities in dealing with the coronavirus pandemic, CIPFA has concluded that while the first year of compliance can remain as 2021/2022, it can do so within a more flexible framework where a proportionate approach is encouraged.

- 3.4 In practice this means that adherence to some parts of the Code will demonstrate a direction of travel with reference made in the Annual Governance Statement for 2020/21 in respect of the organisation's compliance with the principles of the FM Code.
- 3.5 This report recommends that a full self-assessment of the Council's current processes, procedures and governance arrangements is undertaken to understand compliancy against the FM Code. This full assessment will be led by the Executive Director & CFO in liaison with Alliance Leadership Team. This will be reported back to Audit Committee during 2021/22.
- 3.6 At this point, an initial high-level review against the principles of the FM Code has been undertaken in **ANNEX A**.
- 3.7 This initial review indicates that the Council is generally complying with the overall principles of the CIPFA Financial Management code, with only moderate improvements likely to be required within some specific areas of focus.

4. How this Report Links to Corporate Priorities

- 4.1 The successful delivery of all corporate priorities is dependent upon the effective management of financial resources, which is the subject of this report.

5. Options and Analysis

- 5.1 There are no options to consider.

6. Implications

- 6.1 Community Safety - (Crime and Disorder Act 1998)
None.

- 6.2 Workforce
None

- 6.3 Equality and Diversity/Equality Impact Assessment
This report has been prepared in accordance with the Council's Equality and Diversity policies.

- 6.4 Financial Considerations
Compliance with the requirements of the Financial Management code will support the Council's financial sustainability.

- 6.5 Legal
None

- 6.6 Sustainability
None specifically- although the FM Code has been purchased electronically.
- 6.7 External Consultation
None at this stage – although the full assessment process may include liaison with External Audit.
- 6.8 Risk Assessment
Compliance with the Financial Management code mitigates against the risk of financial unsustainability.

CLAIRE HAZELDENE
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**Web Links and
Background Papers**

CIPFA Financial Management Code

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7. Introduction

- 7.1 The Financial Management Code (FM Code) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability.
- 7.2 Local government finance in the UK is governed by primary legislation, regulation and professional standards as supported by statutory provision. 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 (pre-Covid 19) in recognition of the exceptional financial circumstances faced by local authorities – which have been further tested as a result of the pandemic.
- 7.3 The FM Code requires authorities to demonstrate that the processes they have in place satisfy the principles of good financial management, which is an essential part of ensuring that public sector finances are sustainable. The FM Code identifies risks to financial sustainability and introduces a framework of assurance.
- 7.4 Although the FM Code does not have legislative backing, CIPFA's intention is that the Code will be widely recognised within the public sector as a tool to promote the financial sustainability.
- 7.5 Compliance with the Code aims to strengthen the framework that surrounds financial decision making and is the collective responsibility of elected members, the chief finance officer and their professional colleagues in the leadership team.
- 7.4 The first full year of compliance with the FM Code was originally scheduled for 2021/22. However, in recognition of the pressures that have been placed on Local Authorities in dealing with the coronavirus pandemic and impact on the medium term financial position, CIPFA has considered the Code requirements.
- 7.5 The objective of the Financial Management (FM) Code was to enhance standards of financial management across the sector and this aim is still fully supported by the profession. 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.
- 7.6 Therefore, CIPFA has reflected on the extent to which it is appropriate to introduce a new FM Code at the current time. CIPFA has concluded that while the first year of compliance can remain as 2021/2022, it can do so within a more flexible framework where a proportionate approach is encouraged. In practice this means that adherence to some parts of the Code will demonstrate a direction of travel.

7.7 CIPFA consider that the Annual Governance Statement for 2020/21 should include the overall conclusion of an assessment of the organisation's compliance with the principles of the FM Code. Where there are outstanding matters or areas for improvement, these should be included in the action plan.

8. Principals of Good Financial Management

8.1 The FM Code applies a principle-based approach. It does not prescribe the financial management processes that local authorities should adopt. Instead, the code requires that a local authority demonstrates that its processes satisfy the principles of good financial management for an authority of its size, responsibilities and circumstances.

8.2 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.

- 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.

8.3 Explicit standards of financial management are also set out by the FM Code. These are the minimum standards which have to be complied with in order for the Council to demonstrate its compliance with the FM Code.

8.4 The standards articulate the practical application of the principles of financial management based on the requirements of primary legislation, associated CIPFA codes and guidance on professional codes of practice and ethics..

8.5 It is proposed that a full review and self-assessment of the Council's current processes, procedures and governance arrangements is undertaken to understand where it is already compliant with the FM Code standards and to identify any areas of non-compliance or where compliance is weak.

8.6 An action plan will be developed and progress monitored towards full compliancy against the Code. This full assessment will be led by the Executive Director & CFO in liaison with Alliance Leadership Team. This will be reported back to Audit Committee during 2021/22.

8.7 An annual statement in respect of the Council's compliance against the FM Code will then be included within the annual Statement of Accounts commencing in 2022.

9. Initial Self-Assessment against Compliance with the FM Code

9.1 At this point, an initial high-level review of the standards has been undertaken in **ANNEX A**.

9.2 This indicates that the Council already has a strong level of compliance with many aspects of the FM Code. Areas where it is particularly strong include:

- Medium Term Financial Plan and Budget setting processes
- Treasury management
- Delivery of the statutory accounts
- External Auditor Value for Money opinion
- Risk management arrangements.
- Using reports to identify and correct emerging risks to the Council's financial sustainability

9.3 The areas where further work may be required to ensure the Council is fully compliant and applying good practice in line with the FM Code relate to:

- Financial Procedure Rules require reviewing and updating
- Financial resilience reporting to be enhanced utilising tools such as the CIPFA Financial Resilience index
- Review current consultation processes in respect of the budget setting process
- Enhance use of balance sheet review tools and cost drivers to input into longer-term financial stability and implications of specific projects

9.4 The initial review provides assurance that the Council is generally complying with the overall principles of the CIPFA Financial Management code, with only moderate improvements likely to be required within some specific areas of focus.

9.5 This initial high-level review will be referred to within the Annual Governance Statement. The full self-assessment will then identify clear actions for the Council to become fully compliant.

ANNEX A – Initial Self-Assessment on compliance against the FM Code

RAG Rating	Description
GREEN	Full compliance demonstrated
AMBER	Moderate improvements are required to demonstrate full compliance
RED	Significant improvements are required to demonstrate full compliance

CIPFA Financial Management Standards	Initial Review
<p>Responsibilities of the Chief Finance Officer and Leadership Team</p>	<p>The Council has received annual unqualified external audit opinions on Value For Money. The Medium Term Financial Plan (MTFP) delivers a robust financial plan through a rigorous budget setting process which has received a sound assurance from auditors.</p> <p>A series of Efficiency & Rationalisation programmes has required services to review processes and systems to ensure they are as efficient as possible to deliver savings and value for money for Customers. Performance is reported monthly to the Alliance Management Team and quarterly to Members. There is a robust corporate project management framework which contains key templates for financial implications, risk and stakeholder management. Financial updates are a regular item on both the Alliance Leadership Team and Alliance Management Team monthly meetings.</p>
<p>The authority complies with the CIPFA <i>Statement on the Role of the Chief Finance Officer in Local Government</i>.</p>	<p><i>The CIPFA Statement on the Role of the Chief Financial Officer in Local Government states that the Chief Financial Officer:</i></p> <ul style="list-style-type: none"> • <i>is a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver the authority's strategic objectives sustainably and in the public interest</i> • <i>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 authority's financial strategy</i> • <i>must lead the promotion and delivery by the whole authority of good financial management so that public money is always safeguarded and used appropriately, economically, efficiently and effectively</i> • <i>must lead and direct a finance function that is resourced to be fit for purpose</i> • <i>must be professionally qualified and suitably experienced</i> <p>The Chief Finance Officer / S151 Officer is a fully qualified CIPFA member and reports to the Chief Executive. The CFO/S151 officer is a member of the Alliance Leadership Team, which includes the Chief Executive and Executive Directors</p> <p>The post of S151 officer has direct access to Members and has active involvement in strategic decision-making. The CFO sits on the Transformation Board to oversee the financial implications of all major projects. All aspects of the finance function receive satisfactory or substantial internal assurance ratings.</p> <p>ACTION: review Finance structure in light of staff changes and ensure fit for purpose, building in succession planning opportunities.</p>

Governance & Financial Management Style	The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.	<p>The Internal Audit Annual Report of the Chief Auditor, as required by the Accounts and Audit regulations and the Public Sector Internal Audit Standards, gives the Chief Auditor's opinion on the overall adequacy and effectiveness of the organisation's governance arrangements, risk management and internal control environment, drawing attention to any issues particularly relevant to the preparation of the Annual Governance Statement. It also sets out key themes arising from the work of the Audit Team during the financial year, and compares the audit work undertaken with that planned, summarising the performance of the Internal Audit function against its performance measures and targets.</p> <p>The latest Annual Report presented in November 2020 concluded that 'Internal Audit can provide reasonable assurance that the Council's governance arrangements including risk management and systems of internal control were operating adequately and effectively.</p> <p>A Corporate Governance internal audit was completed in 2020 after significant changes to the Council's senior management team. A systems review of corporate governance procedures together with compliance testing was undertaken, to determine the adequacy of system controls – a satisfactory assurance opinion was awarded.</p>
	The authority applies the CIPFA/SOLACE <i>Delivering Good Governance in Local Government: Framework</i> (2016).	As part of the annual process of producing the Annual Governance Statement (AGS), officers review compliance with the Framework, together the role of Audit Committee; and compliance with regulations. The Internal Audit role and function is covered in the AGS. Significant issues are set out in the AGS and monitored.
	The financial management style of the authority supports financial sustainability	<p>The Council's Constitution details Committee functions, member and officer delegations. The Constitution also includes the Financial and Procurement Procedure Rules which set out responsibilities of Senior Officers, budget holders and employees.</p> <p>There is an effective performance management framework in place with quarterly finance and performance reporting to Committee. The Finance team provide a Finance Business Partnering Role in support of services providing financial oversight. The S151 Officer and Head of Finance sit on the Transformation Boards which oversees all major projects.</p> <p>ACTION: Financial Procedure Rules require review and updating</p>
Long to Medium Term Financial Management	The authority has carried out a credible and transparent financial resilience assessment.	<p>A full risk assessment is undertaken as part of the Medium Term Financial Plan and a strategic risk is recorded relating to delivery of the MTFP and financial sustainability. All risks have identified mitigations and are monitored regularly.</p> <p>The Council also holds a Project Risk Register to identify risks (including financial) in respect of major transformation projects.</p> <p>ACTION: Review financial resilience reporting and consider enhancing utilising tools such as the CIPFA Financial Resilience index</p>
	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.	The Council presents a 4 year rolling MTFP and 30 year Housing Revenue Account Business Plan. By Year 4 of the current MTFP the revenue position is forecast to be stable. However, this is subject to a number of assumptions which need to be reviewed and revised in future iterations of the plan. A fuller understanding of long term financial sustainability will only come when the current uncertainties and risks are reduced as part of the medium term financial planning process.

		<p>Financial implications in respect of transformation projects are determined on a longer term basis – for example the treasury revenue impact of capital investment decisions.</p> <p>ACTION: Incorporate and model longer term forecasts relating to cost drivers (such as age profile of community) and implications of the Asset Management Strategy (to be drafted during 2021/22) and Organisational Development Strategy (to be presented during 2021)</p>
	The authority complies with the CIPFA <i>Prudential Code for Capital Finance in Local Authorities</i> .	<p>The Council has all the strategies/policies in place as required and recommended by the Code. Regular reporting to members on capital expenditure takes place. An annual Capital Strategy and an annual Treasury Management Strategy is produced and approved by Full Council. Audit Committee receive regular reports in regard to treasury management.</p> <p>The Council works closely with its Treasury Management advisers.</p>
	The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.	<p>The 4 year rolling Medium Term Financial Plan is refreshed mid-year and reported to Committee. A full annual review is undertaken as part of the budget setting process.</p> <p>The MTFP is linked to the Council's Corporate Plan, to ensure that key objectives and priorities are funded and resourced. Service Plans are developed based on Corporate Plan priorities.</p> <p>The Budget provides for a an earmarked reserve to manage any in year variances against delivery of the Efficiency programme.</p> <p>An approved minimum General Fund Contingency reserve is set to mitigate any in year financial risks</p>
The Annual Budget	The authority complies with its statutory obligations in respect of the budget setting process.	<p>The Council sets a balanced budget. The Councils sets a council tax increase within the council tax referendum limits and a properly recorded vote takes place at Council meetings. The Council consults on its budget proposals via the website and promotes this within the monthly business newsletter.</p> <p>The Council has a balanced MTFP via utilisation of reserves, but general fund contingency levels remain above the level established by the S151 Officer.</p> <p>The Council is aware of the circumstances and the process in issuing a Section 114 notice, but does not envisage this to be an issue over the medium term.</p>
	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.	<p>The Medium Term Financial Plan contains and reports on the most significant estimates, and expected levels of reserves over the medium term.</p> <p>The CFO's overarching statement on the robustness of estimates and adequacy of reserves is highlighted to Full Council.</p> <p>A number of reserves are held to mitigate future financial risks i.e., Efficiency Reserve, Pension Reserve, COVID recovery.</p>
Stakeholder Engagement & Business Plans	The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.	<p>Officers engage with and work closely with Executive/Cabinet members on the long term financial plan and budget. Officers brief the Scrutiny Committee on plans and brief opposition parties on the budget proposals. Consultation takes place via the Council's website and Business newsletter. Liaison takes place with Alliance Leadership and Management Team and major contractors/suppliers.</p> <p>ACTION: Review current budget consultation processes with a view to improve and encourage engagement</p>

	The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.	The Council has developed a robust corporate project management methodology designed to ensure that projects achieve deliverables on time and within budget. The project management framework contains key templates for financial implications, risk and stakeholder management. All projects are monitored via the Transformation Board and assigned a Project Executive and Project Manager to oversee and be accountable for the project. Quarterly updates on key projects are presented to Committee.
Monitoring Financial Performance	The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.	Executive/Cabinet receive quarterly financial update reports which flag emerging variances. Variances are probed and concerns are followed up and tracked. Regular treasury management update reports are presented to Audit Committee. The MTFP is updated twice yearly to identify key emerging issues and review status of the Efficiency Programme. CFO provides a 'going concern' statement as part of the annual Statement of Accounts.
	The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.	Contingences and provisions are established for material areas of risk, for example Business Rate appeals / legal claims. Cash flow is managed through robust treasury management processes and scrutinised regularly by Audit Committee. The Council also includes consideration of balance sheet elements, such as reserves usage and Treasury Management, in its MTFP and quarterly monitoring process. ACTION: Consideration on enhanced use of balance sheet review analysis identifying implications over the medium term of specific large scale project decisions
External Financial Reporting	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.	The S151 officer assumes these responsibilities in accordance with the Constitution and the scheme of delegation. The Statements of Accounts process meets statutory deadlines. The CFO is fully aware of the requirements of the financial statements, which are fully compliant and have been unqualified for a number of years. The CFO completes a review of the annual draft accounts, which is presented to Audit Committee alongside the Statement of Accounts.
	The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.	The Management Team, Cabinet/Executive and Scrutiny Committee are provided with an outturn report detailing significant variations to budget. The reports includes the request for carry forwards and designation of earmarked reserves. The Management Team on the advice of the CFO consider the treatment of any surpluses before discussion with Members and formal approval. The Alliance Management Team specifically focus on the development of the MTFP providing a strategic overview to ensure deliverables of the Corporate Plan objectives are adequately resourced and are considered within the overall financial position.