

North East Derbyshire District Council

Audit Committee

28 July 2021

CIPFA Financial Management Code

Report of the Head of Finance and Resources

Classification: This report is public

Report By: Jayne Dethick, Head of Finance and Resources

Contact Officer: as above

PURPOSE / SUMMARY

To inform the Committee of the requirements of the CIPFA Financial Management Code.

RECOMMENDATIONS

- 1 That the Audit and Corporate Governance Scrutiny Committee note the publication of the Financial Management Code.
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IMPLICATIONS

Finance and Risk: Yes No

Details:

On Behalf of the Section 151 Officer

Legal (including Data Protection): Yes No

Details:

On Behalf of the Solicitor to the Council

Staffing: Yes No

Details:

On behalf of the Head of Paid Service

DECISION INFORMATION

Decision Information	
<p>Is the decision a Key Decision? A Key Decision is an executive decision which has a significant impact on two or more District wards or which results in income or expenditure to the Council above the following thresholds:</p> <p>BDC: Revenue - £75,000 <input type="checkbox"/> Capital - £150,000 <input type="checkbox"/></p> <p>NEDDC: Revenue - £100,000 <input type="checkbox"/> Capital - £250,000 <input type="checkbox"/></p> <p><input checked="" type="checkbox"/> <i>Please indicate which threshold applies</i></p>	No
<p>Is the decision subject to Call-In? (Only Key Decisions are subject to Call-In)</p>	No
District Wards Significantly Affected	None
<p>Consultation: Leader / Deputy Leader <input type="checkbox"/> Cabinet / Executive <input type="checkbox"/> SAMT <input type="checkbox"/> Relevant Service Manager <input type="checkbox"/> Members <input type="checkbox"/> Public <input type="checkbox"/> Other <input type="checkbox"/></p>	<p>Click here to enter text.</p> <p>Details: Click here to enter text.</p>

Links to Council Ambition (BDC)/Council Plan (NED) priorities or Policy Framework including Climate Change, Equalities, and Economics and Health implications.

REPORT DETAILS

1 Background

- 1.1 Local government finance in the UK has long been governed by primary legislation, regulation and professional standards. The general financial management of a local authority, however, was not supported by a professional code.
- 1.2 In December 2019, CIPFA published its Financial Management (FM) Code to provide guidance on good and sustainable financial management in local authorities. It has been produced to assist local authorities in demonstrating their financial sustainability through a set of standards of financial management.
- 1.3 The standards have different practical applications according to the size and different circumstances of individual authorities and their use locally should reflect this. The principle of proportionality applies to the FM Code and reflects a non-prescriptive approach to how each standard is met.

2. Details of Proposal or Information

The Financial Management Code

- 2.1 Financial resilience has become a significant issue for local authorities over recent years. This has included leadership and governance issues, financial planning and control and lack of effective audit arrangements.
- 2.2 The Code is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. For the first time the Code sets out the standards of financial management for local authorities. The Code applies to all local authorities but recognises that they have different structures and legislative frameworks. The Code also recognises that where compliance is not possible then adherence to the principles is appropriate and acceptable.
- 2.3 The Code focuses on value for money, governance and financial management styles, financial resilience and financial sustainability. It identifies the risks to financial sustainability and introduces an overarching framework of assurance which builds on existing financial management good practice. The Code has been designed on a principles-based approach which 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:
- **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, driving the annual budget process, supported by effective risk management, quality supporting data and whole life costs.
 - **Transparency** - at the core of financial management, using consistent, meaningful and understandable data, reported frequently, with evidence of periodic officer action and elected member decision making.
 - **Professional Standards** - promoted by the leadership team, with adherence evidenced.
 - **Assurance** - recognised as an effective tool, mainstreamed into financial management, including political scrutiny and the results of external audit, internal audit and inspection.
 - **Sustainability** - at the heart of local services' financial management processes, evidenced by the prudent use of public resources.
- 2.4 The Code is structured around seven areas of focus:
- The Responsibilities of the Chief Finance Officer and Leadership team
 - Governance and Financial Management style

- Medium to Long-term Financial Management
- The Annual Budget
- Stakeholder Engagement and Business Cases
- Financial Performance Monitoring
- External Financial Reporting

Each of these areas is supported by a set of guidance standards against which Councils should be assessed. CIPFA's expectation is that authorities will have to comply with all the financial management standards if they are to demonstrate compliance with the Code and to meet its statutory responsibility for sound financial administration and fiduciary duties to taxpayers, customers and lenders.

- 2.5 The Council's external auditors will in future have regard to the Code and will be looking to ensure that the Council is meeting it. The Council's Annual Governance Statement should include the overall conclusion of the assessment of the organisation's compliance with the principles of the Code. Where there are outstanding matters or areas for improvement, these should be included in the action plan.
- 2.6 Demonstrating this compliance with the Code is a collective responsibility of the Elected Members, the Chief Finance Officer and the Senior Management Team. It is for all of the senior management team to work with elected members in ensuring compliance with the Code and so demonstrate the standard of financial management to be expected of a local authority. In doing this the statutory role of the Section 151 Officer will not only be recognised but also supported, to achieve the combination of leadership roles essential for good financial management.
- 2.7 As a first step towards ensuring compliance, the Council's Internal Audit Consortium carried out an audit in September 2020. The purpose was to ascertain the levels of compliance within the Council and identify any gaps to enable full implementation.
- 2.8 The audit concluded that the Council substantially complied with the Code requirements. A small number of recommendations were raised which are being implemented during 2021/22, detailed below:

	Recommendation	Priority	To be Implemented by
R1	The Council's Monitoring Officer must ensure the Council's Local Code of Corporate Governance is approved to ensure that this informs the Annual Governance Statement for 2020/21.	Low	Monitoring Officer
R2	The Head of Finance and Resources maintains an overview of current benchmarking arrangements and adopts a methodology that can demonstrate the Council's financial resilience has been assessed.	Low	Head of Finance and Resources
R3	Further review of risk management by audit, once working arrangements are back to normal following Covid-19 and the implementation of the Risk Management Group.	Medium	Internal Audit Consortium Manager

3 Reasons for Recommendation

- 3.1 Compliance with the FM Code will contribute to sound decision making. This will support the Medium Term Financial Strategy, enabling Members to monitor progress against the Council Plan in a timely manner to ensure resources are allocated in line with the strategic priorities of the Council.

4 Alternative Options and Reasons for Rejection

- 4.1 No alternative options are offered.

DOCUMENT INFORMATION

Appendix No	Title
Background Papers (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below.)	