



AUDIT & GOVERNANCE COMMITTEE

Monday, 13 December 2021

Subject	CIPFA Financial Management Code
Report by	Councillor Maurice Cook, Cabinet Member with responsibility for Resources
Supporting Officer	Brian Mew Chief Finance Officer and Section 151 Officer Brian.mew@eastsuffolk.gov.uk 01394 444571

Is the report Open or Exempt?	OPEN
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Category of Exempt Information and reason why it is NOT in the public interest to disclose the exempt information.	Not applicable
Wards Affected:	None

Purpose and high-level overview

Purpose of Report:

The purpose of the report is to brief the Audit and Governance Committee on the Chartered Institute of Public Finance & Accountancy (CIPFA) Financial Management Code and to report on self-assessment against the requirements of the Code and progress to date.

Options:

Although compliance with the Code is not a legislative requirement, it is mandatory best practice, and consequently the option of not carrying out a self-assessment and ensuring compliance has not been considered.

Recommendation/s:

That

1. The CIPFA Financial Management Code attached as Appendix A be noted.
2. The Self-Assessment attached as Appendix B be noted.
3. An update on progress and compliance with the Code be considered by the Committee as part of its Work Programme in 2022/23.

Corporate Impact Assessment

Governance:

Implementation of, and continuous review of compliance with, the FM Code is an important element in the Council ensuring and demonstrating effective Corporate Governance.

ESC policies and strategies that directly apply to the proposal:

East Suffolk Strategic Plan

Medium Term Financial Strategy

General Fund Budget and Capital Programme

HRA Budget and HRA Capital Programme

Capital Strategy

Treasury Management Strategy

Financial Procedure Rules

Statement of Accounts

Annual Governance Statement

Environmental:

No impacts

Equalities and Diversity:

No impacts

Financial:

Although concerned with financial governance and management, there are no direct financial impacts arising from this report.

Human Resources:

No impacts

ICT:

No impacts

Legal:

No direct impacts as compliance with the Code is not a statutory duty in itself, but compliance is a feature of good governance and in some areas failure to comply could be indicative of a potential failure to meet existing statutory duties.

Risk:

The FM Code is an important element in mitigating future financial risk and ensuring the financial sustainability of the Council.

External Consultees:	None
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Strategic Plan Priorities

Select the priorities of the Strategic Plan which are supported by this proposal: (Select only one primary and as many secondary as appropriate)		Primary priority	Secondary priorities
T01	Growing our Economy		
P01	Build the right environment for East Suffolk	<input type="checkbox"/>	<input type="checkbox"/>
P02	Attract and stimulate inward investment	<input type="checkbox"/>	<input type="checkbox"/>
P03	Maximise and grow the unique selling points of East Suffolk	<input type="checkbox"/>	<input type="checkbox"/>
P04	Business partnerships	<input type="checkbox"/>	<input type="checkbox"/>
P05	Support and deliver infrastructure	<input type="checkbox"/>	<input type="checkbox"/>
T02	Enabling our Communities		
P06	Community Partnerships	<input type="checkbox"/>	<input type="checkbox"/>
P07	Taking positive action on what matters most	<input type="checkbox"/>	<input type="checkbox"/>
P08	Maximising health, well-being and safety in our District	<input type="checkbox"/>	<input type="checkbox"/>
P09	Community Pride	<input type="checkbox"/>	<input type="checkbox"/>
T03	Maintaining Financial Sustainability		
P10	Organisational design and streamlining services	<input type="checkbox"/>	<input checked="" type="checkbox"/>
P11	Making best use of and investing in our assets	<input type="checkbox"/>	<input checked="" type="checkbox"/>
P12	Being commercially astute	<input type="checkbox"/>	<input checked="" type="checkbox"/>
P13	Optimising our financial investments and grant opportunities	<input type="checkbox"/>	<input checked="" type="checkbox"/>

P14	Review service delivery with partners	<input type="checkbox"/>	<input type="checkbox"/>
T04	Delivering Digital Transformation		
P15	Digital by default	<input type="checkbox"/>	<input type="checkbox"/>
P16	Lean and efficient streamlined services	<input type="checkbox"/>	<input type="checkbox"/>
P17	Effective use of data	<input type="checkbox"/>	<input type="checkbox"/>
P18	Skills and training	<input type="checkbox"/>	<input type="checkbox"/>
P19	District-wide digital infrastructure	<input type="checkbox"/>	<input type="checkbox"/>
T05	Caring for our Environment		
P20	Lead by example	<input type="checkbox"/>	<input type="checkbox"/>
P21	Minimise waste, reuse materials, increase recycling	<input type="checkbox"/>	<input type="checkbox"/>
P22	Renewable energy	<input type="checkbox"/>	<input type="checkbox"/>
P23	Protection, education and influence	<input type="checkbox"/>	<input type="checkbox"/>
XXX	Governance		
XXX	How ESC governs itself as an authority	<input checked="" type="checkbox"/>	<input type="checkbox"/>
<p>How does this proposal support the priorities selected?</p> <p>The Financial Management Code is intended to support sustainable financial management in local authorities and will constitute an important element in delivering the East Suffolk Strategic Plan theme of Maintaining Financial Sustainability and demonstrating effective Corporate Governance.</p>			

Background and Justification for Recommendation

1 Background facts	
1.1	In October 2019, CIPFA published the Financial Management Code (FM Code), attached as Appendix A , which provides guidance for good and sustainable financial management in local authorities and will provide assurance that authorities are managing resources effectively.
1.2	The FM Code requires authorities to demonstrate that the processes they have in place satisfy the principles of good financial management. CIPFA's intention is that the FM Code will have the same scope as the <i>Prudential Code for Capital Finance in Local Authorities</i> , which promotes the financial sustainability of local authority capital expenditure and associated borrowing. Although the FM Code does not have legislative backing, it applies to all local authorities, including police, fire, combined and other authorities.
2 Current position	
2.1	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.
2.2	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.

	<ul style="list-style-type: none"> • 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.
2.3	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. 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.
2.4	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, 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.
2.5	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 an action plan.

3 How to address current situation

3.1	<p>Following on from the principles of the Code, it is then structured around 7 areas of focus:</p> <ul style="list-style-type: none"> • The Responsibilities of the Chief Finance Officer and Leadership Team • Governance and Financial Management Style • Long to Medium Term Financial Management • The Annual Budget • Stakeholder Engagement and Business Plans • Monitoring Financial Performance • External Financial Reporting
3.2	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 FM Code and to meet its statutory responsibility for sound financial administration and fiduciary duties to taxpayers, customers and lenders.

3.3	Using these standards, and key questions within the guidance, the Chief Finance Officer has carried out a self-assessment of current processes, procedures and governance arrangements. This is attached as Appendix B .								
3.4	Each Standard has been graded as follows: <table> <tr> <td><u>Grade</u></td><td><u>Level of Compliance</u></td></tr> <tr> <td>Green</td><td>Fully Compliant</td></tr> <tr> <td>Amber</td><td>Mostly / Partly Compliant</td></tr> <tr> <td>Red</td><td>Non-Compliant</td></tr> </table>	<u>Grade</u>	<u>Level of Compliance</u>	Green	Fully Compliant	Amber	Mostly / Partly Compliant	Red	Non-Compliant
<u>Grade</u>	<u>Level of Compliance</u>								
Green	Fully Compliant								
Amber	Mostly / Partly Compliant								
Red	Non-Compliant								
3.5	This self-assessment has rated the majority of standards to be currently fully compliant. No areas have been rated as non-compliant. Key questions rated as amber primarily involve the following areas of financial management: <ul style="list-style-type: none"> • Demonstration of value for money • Revision of Financial Procedure Rules and associated training • Development of a Long Term Financial Strategy and possible use of scenario planning • Development and embedding of options appraisal and business case methodology in projects. 								
3.6	Further actions have been identified in respect of all of these points in the self-assessment, the Annual Governance Statement for 2020/21 will include an assessment of the organisation's compliance with the principles of the FM Code. It is also recommended that update on progress and compliance with the Code be considered by the Committee as part of its Work Programme in 2022/23.								

4 Reason/s for recommendation

4.1	To enable the Audit and Governance Committee to consider the implications of the CIPFA Financial Management Code; to consider the self-assessment of the current position; and to recommend further review of progress during the next financial year.
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Appendices

Appendices:

Appendix A	CIPFA Financial Management Code
Appendix B	CIPFA Financial Management Code Self-Assessment

Background reference papers:

None.