Report of the Deputy Chief Executive

FINANCIAL MANAGEMENT CODE

1. Purpose of report

To inform Members of the implementation of the CIPFA Financial Management Code (the Code) as a framework to support good practice in local authorities by the setting out of standards of financial management.

2. Background

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 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.

Local authorities are required to apply the Code with effect from 1st April 2020 with the first full year of compliance being 2021/2022. This timescale has been questioned due to the extreme pressures placed upon local authorities by the Covid 19 crisis. However, the objective of the Code is to enhance standards of financial management across the public sector and it is considered that good financial management is even more essential during the current challenging times.

The requirement of full compliance by 2021/2022 has not changed but the Code does allow for both flexibility and a proportionate approach which should allow local authorities to adhere to some parts of the Code and commentary within the Annual Governance Statement may be used to demonstrate local decisions and provide additional guidance.

3. Summary

The code is designed to support good practice in financial management through a series or principles supported by specific standards which are considered necessary to provide the strong foundation 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

A more detailed analysis of the Code requirements is given in the appendix

Recommendation

The Committee is asked to NOTE the report on the Financial Management Code.

Background papers
Nil

APPENDIX

1. Introduction

The Code does not prescribe the financial management processes that local authorities should adopt but requires a local authority to demonstrate that its processes satisfy the principles of good financial management for an authority of its size, responsibilities and circumstances.

The underlying principles are:
- Organisational leadership
- Accountability
- Transparency
- Adherence to professional standards
- Assurance
- Sustainability

The principles are supported by financial management standards which are described below.

2. Financial Management Standards

Each of the underlying principles is supported by a set of financial management standards which a local authority should meet. The standards are to be guided by proportionality whereby it will be appropriate to apply different financial management approaches to high value/high risk items as distinct from low value/low risk items. A local authority should demonstrate a vigorous approach to the assessment and mitigation of risk so that financial management expertise is deployed effectively given the circumstances faced by the authority. Demonstrating compliance is the collective responsibility of elected members, the leadership team and the chief finance officer.

Leadership
- The leadership team is able to demonstrate that the services provided by the authority provide value for money.
- The authority complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government.
- The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability

Accountability
- The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016).
- 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 of Practice on Local Authority Accounting in the United Kingdom
- The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.

Transparency
- The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.

- The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.

Standards

- The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities.
- The authority complies with its statutory obligations in respect of the budget setting process.
- 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.

Assurance

- The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.
- The authority has carried out a credible and transparent financial resilience assessment.
- The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.

Sustainability

- The financial management style of the authority supports financial sustainability.
- The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.
- The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.

3. Compliance

The Code gives further guidance on how compliance with the standards may be achieved and demonstrated.

The responsibilities of the chief finance officer and leadership team:

- Responsibility for corporate financial sustainability rests with those responsible for making executive decisions with the support of their professional advisors. Elected members need to work effectively with officers and other stakeholders to make difficult decisions and to identify and deliver savings when required.
- The statutory of the role of the chief finance officer is a distinctive feature of local government in the UK. This role cannot be performed in isolation and requires the support of the other members of the leadership team. The leadership team must recognise that while statutory responsibility for the financial management of the authority rests with the CFO, the CFO is reliant on the actions of the leadership team, both collectively and individually as elected members and senior officers.

Governance and financial management style:

- Without good governance a local authority cannot make the changes necessary for it to remain financially sustainable. As such, financial sustainability must be underpinned by the robust stewardship and accountability to be expected of public bodies. Good governance gains the trust of taxpayers and other funders by giving them confidence that money is being properly spent. Good governance ensures better informed and longer-term decision making and therefore is essential for good financial management. Responsibility for good governance also rests with the leadership team. The team must ensure that there are proper arrangements in place for governance and financial management, including a proper scheme of delegation that ensures that frontline responsibility for internal and financial control starts with those who have management roles. Good governance is evidenced by actions and behaviours as well as formal documentation and processes.

- The financial management challenges faced by many local authorities are unprecedented in recent history and show no signs of easing. This is significant because it means that different styles of financial management are necessary. Financial sustainability will not be achieved by continuing with the behaviours of the past since these do not meet the demands of the present – or the future, which may be even more challenging. To remain financially sustainable authorities need to develop their financial management capabilities

Medium to long term financial management:

- While the statutory local authority budget setting process continues to be on an annual basis a longer-term perspective is essential if local authorities are to demonstrate their financial sustainability. Short-termism runs counter to both sound financial management and sound governance.
- If an authority has not tested and demonstrated its long-term financial resilience then its financial sustainability remains an open question. Authorities must critically evaluate their financial resilience. It is possible that the existing strategy is financially sustainable, but this must still have been tested and demonstrated in a financial resilience assessment.

Annual budget:

- One of the objectives of the Code is to end the practice by which the annual budget process has often become the focal point if not the limit of local authority financial planning. However, the annual budget preparation process needs to be protected at a time when the need to make difficult decisions may threaten its integrity.
- The annual report setting out the proposed budget for the coming year is a key document for the authority. The best budget plans are those owned and articulated by the whole leadership team and senior managers, not simply the chief finance officer.

Stakeholder engagement and business cases:

- Financial sustainability requires citizens to understand that resources are not limitless and that decisions have to be made about both the relative priority of different services and the balance between service provision and taxation levels. The leadership team collectively has an important role in reviewing priorities to enable resources to be redirected from areas of lesser priority; it is not possible to rely principally on pro rata cuts to generate the savings necessary for financial sustainability in an era of austerity.
- Stakeholder consultation can help to set priorities and reduce the possibility of legal or political challenge late in the change process. Stakeholder consultation helps to encourage community involvement not just in the design of services but in their ongoing delivery. This is especially the case when a local authority adopts an enabling approach to public service delivery which, along with the active involvement of the third sector, may facilitate future reductions in service costs.

- Financial sustainability will be dependent upon difficult and often complex decisions being made. The authority's decisions must be informed by clear business cases based on the application of appropriation option appraisal techniques.

Performance monitoring:

- To remain financially sustainable an authority must have timely information on its financial and operational performance so that policy objectives are delivered within budget. Early information about emerging risks to its financial sustainability will allow it to make a carefully considered and therefore effective response.

External financial reporting:

- Taxpayers and citizens have a legitimate stake in understanding how public money has been used in providing the functions and services of the authority. The audited statements of account, which present the authority's financial position and financial performance, play an integral part in demonstrating this to them. The statutory accounts provide a secure base for financial management. They support accountability and thus good financial management by allowing the users of the financial statements and other stakeholders to discover how much is spent in a year on services and whether this has increased or decreased from previous years; consider the indebtedness of an organisation and how that might impact on future taxpayers; recognise the value and therefore usefulness of the assets that the organisations hold; assess what the future commitments and liabilities are, for example, for pensions or leases, and again how these are likely to impact on future generations and taxpayers.