

## **Finance Sub-Committee**

**2nd November 2023**

### **CIPFA Financial Management Code (FM Code) Progress Update**

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**Report of: Alex Thompson, Director of Finance and Customer Services**

**Report Reference No: FSC/16/23-24**

**Ward(s) Affected: Not applicable**

#### **Purpose of Report**

- 1 This report provides an update on the Council's progress in implementing the Chartered Institute of Public Finance & Accountancy (CIPFA) Financial Management (FM) Code.

#### **Executive Summary**

- 2 This report provides an update on the FM Code, and explains what the Code is, and why Local Authorities must comply with the guidance provided by CIPFA.

#### **RECOMMENDATIONS**

The Finance Sub-Committee is recommended to:

1. consider the contents of the report and the requirement for a full self-assessment against the principles of the CIPFA FM Code;
2. note the plan to complete the current re-assessment by 31 March 2024 and that there will be annual updates thereafter;
3. note the existing initial officer self-assessment at Appendix 2; and

4. approve Appendix 3 – Interim review of Cheshire East Council's current level of compliance with the CIPFA Financial Management Code Framework – Principle 1 – Leadership.

## **Background**

- 3 The Chartered Institute of Public Finance & Accountancy (CIPFA) launched a Financial Management Code (FM Code) in 2019 with an original implementation date scheduled for 2021/22. However, in recognition of the pressures that have been placed on Local Authorities in dealing with the coronavirus pandemic, CIPFA 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 can be taken. 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 in respect of the organisation's compliance with the principles of the FM Code.
- 4 The FM Code sets out seventeen standards of financial management for local authorities – these are referred to in Appendix 1. The FM Code is designed to support good practice in financial management and to assist local authorities to demonstrate their financial sustainability.
- 5 Local government finance in the UK is governed by legislation, regulation, and professional standards. The general financial management of a local authority, however, has not until now been supported by a professional code. The Code was introduced in recognition of the exceptional financial circumstances faced by local authorities and due to fundamental weaknesses in financial management revealed in some organisations in recent years and concerns about the financial sustainability of some Councils.
- 6 CIPFA's intention is that the FM Code will have the same standing as the Prudential Code for Capital Finance in Local Authorities (CIPFA, 2017), which promotes the financial sustainability of local authority capital expenditure and associated borrowing.
- 7 The FM Code itself does not have legislative backing, however it applies to all local authorities but recognises that some have different structures and legislative frameworks. Where compliance with the Code is not possible, adherence to the principles is still considered appropriate.

## **Responsibility**

- 8 Application of the FM Code is a professional responsibility of all finance staff and establishes how the Chief Financial Officer (CFO) demonstrates that they are meeting their statutory responsibility for sound financial administration.
- 9 However, CIPFA considers application of the Code to be the collective responsibility of each authority's organisational leadership team, not just the responsibility of the CFO or the finance team. For the purposes of the Code the 'Leadership Team' is defined as the collective group of elected members and senior officers. Therefore, for CEC it includes committees of the authority as well as senior officers.

## **Compliance**

- 10 It is for the individual authority to determine whether it meets the standards and to make any changes that may be required to ensure compliance. Authorities should be able to provide evidence that they have reviewed their financial management arrangements against the standards and that they have taken such action as may be necessary to comply with them.
- 11 It is important to note, also, that the financial management standards are minimum standards. Some authorities may feel that their own financial management arrangements exceed the standards set out in the FM Code.

## **CIPFA Principles of Good Financial Management**

- 12 The FM Code applies a principle-based approach. It does not prescribe the financial management processes that local authorities should adopt. Instead, it requires that an authority demonstrates that its processes satisfy the principles of good financial management for an authority of its size, responsibilities, and circumstances and that they are proportionate to the risks to the authority's financial sustainability posed by the twin pressures of scarce resources and the rising demands on services.
- 13 The underlying principles that inform the FM Code have been developed in consultation with senior practitioners across the sector and associated stakeholders. 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.
- 14 The 6 Principles of Good Financial Management set out in the FM Code are:

- **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.

## **CIPFA Financial Management Standards**

- 15 The FM Code sets out the seventeen CIPFA Financial Management Standards with detailed explanatory notes – a summary table is provided in Appendix 1.

## **FM Code Self-Assessment**

- 16 Cheshire East Council undertook an initial officer high level review exercise of the Council's process, procedures and governance arrangements to understand the baseline compliance against the FM Code and Standards. This initial officer self-assessment is shown at Appendix 2.
- 17 This initial review indicates that the Council is generally complying with the overall principles of the CIPFA FM Code, with some improvements required within some specific areas.
- 18 This report recommends a further re-assessment exercise to bring the Council's current processes and practices and governance arrangements up to date. This assessment review will be led by the CFO in liaison with the Corporate Leadership Team and will be reported back to the Finance Sub Committee in early 2024.

- 19 The re-assessment exercise will develop Appendix 2 further to include a self-assessment RAG Rating for each standard and in addition provide a high-level action plan, to be adopted to identify and address how improvements to those standards that are not currently rated as green will be made.
- 20 Appendix 3 sets out the proposed RAG rating to be applied in the re-assessment exercise together with an updated status of the current level of compliance for Principle 1: Organisational Leadership. It is proposed to complete the remaining re-assessments against the other 5 FM Code Principle's before 31 March 2024.
- 21 This self-assessment exercise will need to continue to be carried out annually in future to demonstrate ongoing compliance with the FM Code.

## **Implications and Comments**

### *Monitoring Officer/Legal*

- 22 The FM Code itself does not currently have legislative backing, although CIPFA have set out their intention to pursue this. CIPFA's judgement is that compliance with the FM Code will assist local authorities to demonstrate that they are meeting existing important legislative requirements.
- 23 There are no legal implications arising directly from this report.

### *Section 151 Officer/Finance*

- 24 The delivery of strong financial management is fundamental to the delivery of the Council's strategic aims.
- 25 There are no direct financial implications arising from this report.

### *Policy*

- 26 There are no Policy implications.

### *Equality, Diversity and Inclusion*

- 27 There are no Equality, Diversity or Inclusion Implications.

### *Human Resources*

- 28 There are no Human Resources Implications.

### *Risk Management*

- 29 Failure to demonstrate compliance with the FM Code as described above could in future result in a qualification of the accounts which may lead to further audit costs in future as well as an adverse impact on the Councils reputation.

### *Rural Communities*

- 30 There are no Rural Communities implications.

### *Children and Young People including Cared for Children, care leavers and Children with special educational needs and disabilities (SEND)*

- 31 There are no Children and Young People including Cared for Children, care leavers and Children with special educational needs and disabilities (SEND) Implications.

### *Public Health*

- 32 There are no Public Health implications.

<b>Access to Information</b>	
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Appendices:	Appendix 1 – CIPFA Financial Management Code Standards  Appendix 2 – Initial Officer Self Assessment CIPFA FM Code compliance  Appendix 3 – Interim review CEC Compliance CIPFA Financial Management Code – Principle1 Organisational Leadership  Appendix 4 – Glossary

Background Papers:	<p>The Chartered Institute of Public Finance &amp; Accountancy (CIPFA) launched a Financial Management Code (FM Code) 2019.</p> <p>Draft Annual Governance Statement 2022/23</p>
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