

OPEN

Finance Sub-Committee

22 March 2024

CIPFA Financial Management Code (FM Code) Progress Update

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, explains what the Code is, and why local authorities must comply with the guidance provided by CIPFA.
- 3 As set out in the previous update report to the Finance Sub-Committee on 2 November 2023, this further report reflects the Council's latest progress in implementing the CIPFA FM Code. Further to the November report, the initial officer high level assessment has been updated and reflected in the revised self-assessment format, for consistency and ease of review going forward.
- 4 A summary of the Council's overall draft assessment for 2023/24 is presented below with further details in Appendix 2.
- 5 In considering the overall draft assessment and prior to the Committee being asked to approve the self-assessment it is proposed that the Committee undertake a series of informal workshops in May / June 2024. These informal workshops will take the Committee through the principles / standards across two sessions, allowing members to

consider in more detail the self-assessment and any necessary actions that may be needed to bring any standard higher up the RAG ratings.

RECOMMENDATIONS

The Finance Sub-Committee is recommended to:

1. Consider the contents of the report and the self-assessment against the principles of the CIPFA FM Code.
2. Note the current re-assessment position in Appendix 2 – Cheshire East Council's current level of compliance with the CIPFA Financial Management Code Framework.
3. Approve the proposal to hold two informal sessions in May / June for Finance Sub-Committee Members to review the draft self-assessment, and then to receive a report at the June 2024 meeting of the Finance Sub-Committee relating to approval of the self-assessment and action/improvement planning.

Background

- 6 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 2021/22, 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.
- 7 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.
- 8 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.

- 9 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.
- 10 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

- 11 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.
- 12 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

- 13 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.
- 14 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

- 15 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.
- 16 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.
- 17 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

- 18 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

- 19 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.
- 20 This initial review indicated that the Council is generally complying with the overall principles of the CIPFA FM Code, with some improvements required in specific areas.
- 21 The interim report in November 2023 recommended a further re-assessment exercise to bring the Council's current processes and practices and governance arrangements up to date for the 2023/24 year. 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 2024.
- 22 This latest re-assessment exercise further develops the initial officer high level assessment to include a self-assessment RAG Rating for each standard. In addition, it provides a high-level action plan, to identify and address how improvements to those standards, that are not currently rated as green, will be made.
- 23 The self-assessment exercise to benchmark Cheshire East Council's current processes and practice against the FM Standards has been undertaken using a RAG Rating approach as set out below (also set out in Appendix 2).

RAG Assessment	Description
5	Achieves Best Practice
4	Substantial Compliance / Minor Areas of improvement
3	Reasonable Compliance / Some Areas of improvement
2	Minimum Compliance / Significant Areas of improvement
1	Does not meet requirements of the code

- 24 The following table summarises the self-assessment RAG Rating for each standard. A more detailed analysis per standard is provided in Appendix 2.

Table 1: Financial Management Code Summary Self-Assessment

Standard Reference	Financial Management Standard	RAG Rating
Principle 1: Organisational Leadership – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture		
A	The leadership team can demonstrate that the services provided by the authority provide value for money.	3
B	The authority complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government.	4
O	The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.	2
Principle 2 : Accountability – financial management is based on medium-term financial planning which drives the annual budget process supported by effective risk management, quality supporting data and whole life costs		
D	The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016)	4
P	The chief finance officer has personal responsibility for ensuring that the statutory accounts provided to the local authority comply with the Code of Practice on Local Authority Accounting in the United Kingdom	4
Q	The presentation of the final outturn figures and variations from budget allow the leadership team to make strategic financial decisions.	4
Principle 3: Transparency – 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.		

Standard Reference	Financial Management Standard	RAG Rating
L	The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget	4
M	The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.	3
Principle 4: Standards – Adherence to professional standards is promoted by the leadership team and is evidenced.		
H	The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities	3
J	The authority complies with its statutory obligations in respect of the budget setting process	4
K	The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement of the adequacy of the proposed financial reserves	4
Principle 5: Assurance – 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.		
C	The leadership team demonstrates in its actions and behaviours, responsibility for governance and internal control.	4
F	The authority has carried out a credible and transparent financial resilience assessment	3
N	The leadership team take action using reports, enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.	3
Principle 6: Sustainability – 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.		

Standard Reference	Financial Management Standard	RAG Rating
E	The financial management style of the authority supports financial sustainability	3
G	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members	4
I	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members	3

25 This self-assessment exercise will need to continue to be carried out annually in future to demonstrate ongoing compliance with the FM Code. It is proposed that an interim update is provided to the Finance Sub-Committee each year.

26 Recognising that this self-assessment process is new to the Finance Sub-Committee Workplan, the proposed next step, prior to the Committee being asked to approve the 2023/24 self-assessment, is for the Committee to undertake a couple of informal workshops during May / June 2024. These informal workshops will take the Committee through the Principles / Standards at each session, allowing members to consider in more detail the self-assessment undertaken and consider the necessary actions that need to be addressed and built into a related action / improvement plan which will also form part of the Council's wider Transformation Plan. Such actions will be developed to address the improvements required to those standards that are not currently rated as 4- green.

Implications and Comments

Monitoring Officer/Legal

27 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.

28 There are no legal implications arising directly from this report.

Section 151 Officer/Finance

29 The delivery of strong financial management is fundamental to the delivery of the Council's strategic aims.

30 There are no direct financial implications arising from this report.

Policy

31 There are no Policy implications.

Equality, Diversity and Inclusion

32 There are no Equality, Diversity or Inclusion Implications.

Human Resources

33 There are no Human Resources Implications.

Risk Management

34 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

35 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)

36 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

37 There are no Public Health implications.

Access to Information	
Contact Officer:	Alex Thompson Director of Finance and Customer Services (Section 151 Officer) alex.thompson@cheshireeast.gov.uk 01270 685876

Appendices:	Appendix 1 – CIPFA Financial Management Code Standards Appendix 2 – CEC Draft Compliance CIPFA Financial Management Code 2023/24 Appendix 3 – Glossary
Background Papers:	The Chartered Institute of Public Finance & Accountancy (CIPFA) launched a Financial Management Code (FM Code) 2019. Annual Governance Statement 2022/23