

Report to:	Audit and Governance Committee	Date of Meeting:	17 March 2021
Subject:	Financial Management Code		
Report of:	Executive Director of Corporate Resources and Customer Services	Wards Affected:	(All Wards)
Cabinet Portfolio:	Regulatory, Compliance and Corporate Services		
Is this a Key Decision:	No	Included in Forward Plan:	No
Exempt / Confidential Report:	No		

Summary:

The Chartered Institute of Public Finance and Accountancy (CIPFA) have issued a Financial Management (FM) Code which aims to ensure a high standard of financial management in local authorities. This purpose of this report is to provide an assessment of the Council's current compliance with the code together with areas for improvement.

Recommendation(s):

It is recommended that the Committee:

- (1) Note the introduction of the CIPFA FM Code and the self-assessment of compliance with the Code which is detailed in the appendix to this report
- (2) Note the action plan including recommended actions which have been identified and will be carried out to further improve both compliance with the Code and financial management across the authority

Reasons for the Recommendation(s):

To demonstrate the extent to which the Council complies with the FM Code and areas for improvement. This will support good financial management, governance and risk management within the authority.

Alternative Options Considered and Rejected: (including any Risk Implications)

Compliance with the FM Code is not a statutory requirement and so the Council could choose not to adopt it. However, adopting good practice in relation to financial management is an effective tool for managing risk. CIPFA also state that its members must comply with it as one of their professional obligations.

What will it cost and how will it be financed?

(A) Revenue Costs

There are no direct revenue costs associated with this report.

(B) Capital Costs

There are no direct capital costs associated with this report.

Implications of the Proposals:

<p>Resource Implications (Financial, IT, Staffing and Assets): Any costs associated with the actions linked to areas for improvement will be either met from existing budgets or subject to separate approval as required.</p>
<p>Legal Implications: Section 151 of the Local Government Act 1972 states that “every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs”. CIPFA’s judgement is that compliance with the FM Code will assist local authorities to demonstrate that they are meeting these important legislative requirements.</p>
<p>Equality Implications: There are no equality implications.</p>

Contribution to the Council’s Core Purpose:

Effective management of the Council’s financial affairs supports each theme of the Council’s Core Purpose.

Protect the most vulnerable: See comment above
Facilitate confident and resilient communities: See comment above
Commission, broker and provide core services: See comment above
Place – leadership and influencer: See comment above
Drivers of change and reform: See comment above
Facilitate sustainable economic prosperity: See comment above
Greater income for social investment: See comment above
Cleaner Greener See comment above

What consultations have taken place on the proposals and when?

(A) Internal Consultations

The review of compliance with the Financial Management Code, and the identification of further improvements, has been led by the Finance Service in consultation with the Senior Leadership Team. The final document as included at the appendix to this report has also been the subject of review and initial approval by the Council's Monitoring Officer, prior to presentation to Members.

The Executive Director of Corporate Resources and Customer Services (FD6334/21.....) and Chief Legal and Democratic Officer (LD.4436/21....) have been consulted and any comments have been incorporated into the report.

(B) External Consultations

Members of the Finance Service have attended events delivered by CIPFA in relation to the Financial Management Code to obtain advice and guidance and to understand other local authority approaches to compliance.

Implementation Date for the Decision

Immediately following the Committee / Council meeting.

Contact Officer:	Andrew Bridson
Telephone Number:	0151 934 4096
Email Address:	andrew.bridson@sefton.gov.uk

Appendices:

The following appendices are attached to this report:

Appendix – Self Assessment and Action Plan

Background Papers:

“Robustness of the 2021/22 Budget Estimates and the Adequacy of Reserves – Local Government Act 2003 - Section 25” – as presented to Council on the 4th March 2021 (see paragraphs 2.41 to 2.43).

1. Introduction/Background

- 1.1 During the last three years and especially in the last 12 months, it has been widely publicised that a number of authorities have encountered real financial difficulties with some issuing Section 114 notices.
- 1.2 To support financial sustainability, CIPFA have produced a Financial Management (FM) Code to ensure that financial management is of the required standard across local authorities. For the first time the FM Code sets out the standards of financial management for local authorities. This Code was launched in November 2019 and at that stage authorities were advised that they should introduce this in 2020/21 prior to full implementation in 2021/22. This should also be considered by local authorities alongside the annually published CIPFA resilience index
- 1.3 The code is based on establishing Principles of Good Financial Management with these being translated into financial management standards. Each local authority has to then detail how it meets these standards through self-assessment and what improvements are required in order to ensure compliance.
- 1.4 In Q1 of 2021/22, a review the Council's self-assessment has been carried out together with the development of an action plan that is presented to Members of Audit and Governance committee for consideration and this will be presented to the external auditor in due course.
- 1.5 CIPFA advise, that for 2021/22, local authorities should show direction of travel in terms of compliance with the code and proportionality.

2. The CIPFA Statement of Principles of Good Financial Management

- 2.1 The FM Code applies a principle-based approach rather than prescribing the financial management processes that local authorities should adopt. They have been developed by CIPFA in consultation with senior practitioners from local authorities 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.
- 2.2 The principles include:
 - i. Organisational **leadership** – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.
 - ii. **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.
 - iii. 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.
 - iv. Adherence to professional **standards** is promoted by the leadership team and is evidenced.

- v. 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.
- vi. 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 CIPFA's view is that all financial management practices should comply with these principles.

3. **Self-Assessment and Action Plan**

3.1 As part of this budget setting process, the Council's finance service has completed a self-assessment of compliance with the Code that has included input from the Strategic Leadership Board to reflect that financial management and good practice needs to be embedded across the Council and at all levels of the organisation. This is attached at the appendix to this report.

3.2 It is clear from this assessment that there are many areas of good practice in financial management evident across the organisation.

3.3 The action plan sets out activities which will improve compliance with the code. These are not necessarily new, with many currently being progressed, but are brought together in one place to show what is being done to sustain and improve good financial management across the authority.

4. **Conclusion**

4.1 The CIPFA Financial Management Code is intended to be a live document to support continuous improvement of financial management. This will be reviewed and updated annually and progress on the activities included within the Action Plan will be presented to a future meeting of the Audit and Governance Committee.