

TEWKESBURY BOROUGH COUNCIL

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| Report to: | Audit and Governance Committee |
| Date of Meeting: | 24 March 2022 |
| Subject: | CIPFA Financial Management Code |
| Report of: | Financial Services Manager |
| Corporate Lead: | Head of Finance and Asset Management |
| Lead Member: | Finance and Asset Management |
| Number of Appendices: | 1 |

Executive Summary:

The Chartered Institute of Public Finance and Accountancy (CIPFA) published the Financial Management Code (the Code) in October 2019. The Code is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. It sets out the standards of financial management for local authorities.

Recommendation:

- 1. To APPROVE the Assessment of Compliance with the Financial Management Code.**
- 2. To AGREE to receive an annual monitoring report of progress against the Code.**

Reasons for Recommendation:

The Code sets the standards of financial management for local authorities.

The Code is based on a series of principles supported by specific standards and statements of practice which are considered necessary to provide the strong foundation to:

- financially manage the short, medium and long-term finances of a local authority;
- manage financial resilience to meet foreseen demands on services; and
- financially manage unexpected shocks in their financial circumstances.

Each local authority **must** demonstrate that the requirements of the Code are being satisfied.

The first full year of compliance is 2021/22; however, due to unprecedented pressures on the Council's financial and corporate teams caused by the pandemic, it was not possible to conduct a full review until now.

Resource Implications:

This report relates to financial governance and should have no direct financial impact. Any development requirements will be identified, and appropriate training needs identified and provided.

Legal Implications:

Whilst compliance with the Code is not a statutory duty, failure to comply could be viewed as not meeting existing statutory duties.

Risk Management Implications:

The purpose of the Code is to help mitigate future financial risk and ensure that the Council remains a going concern.

Performance Management Follow-up:

The Council's external auditors will, from 2021/22, have regard to the Code and will be looking to ensure that the Council is meeting the requirements of the Code.

Environmental Implications:

None.

1.0 INTRODUCTION/BACKGROUND

- 1.1** The Chartered Institute of Public Finance and Accountancy (CIPFA) published the Financial Management Code (the Code) in October 2019. The Code is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. It sets out the standards of financial management for local authorities.
- 1.2** Each local authority must demonstrate that the requirements of the Code are being satisfied. Compliance with the Code is a collective responsibility of Members, the Chief Finance Officer (CFO) and their professional colleagues in the leadership team. It is for all the Corporate Management Team to work with Members in ensuring that the principles of the Code are being met and so demonstrate the standard of financial management to be expected of a local authority.
- 1.3** Originally, local authorities were required to apply the Code with effect from 1 April 2020. After further considerations of the ambition within this Code, and the wider resource challenges facing local authorities, particularly during the COVID-19 crisis, CIPFA concluded that by 31 March 2021, local authorities should be able to demonstrate that they are working towards full implementation of the Code and the first full year of compliance with the Code would therefore be 2021/22. However, due to unprecedented pressures on the Council's services caused by COVID-19, the decision has been taken to delay the full implementation of the Code until 2022/23.

2.0 CIPFA FINANCIAL MANAGEMENT CODE

- 2.1** The Code applies a principle-based approach. It does not prescribe the financial management processes that local authorities should adopt. Instead, it 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. Good financial management is proportionate to the risks to the authority's financial sustainability posed by the twin pressures of scarce resources and the rising demands on services.

2.2 The six principles of good financial management 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, driving the annual budget process, supported by effective risk management, quality supporting data and whole life costs.
- **Transparency** - At the core of financial management, using consistent, meaningful, and understandable data, reported frequently, with evidence of periodic officer action and elected member decision making.
- **Professional Standards** - Promoted by the leadership team, with adherence evidenced.
- **Assurance** - Recognised as an effective tool, mainstreamed into financial management, including political scrutiny and the results of both external audit, internal audit, and inspection.
- **Long-Term Sustainability** - At the heart of all local services' financial management processes, evidenced by the prudent use of public resources.

2.3 The Code focuses on value for money, governance and financial management styles, financial resilience, and financial sustainability. The Code identifies the risks to financial sustainability and introduces an overarching framework of assurance which builds on existing financial management good practice. The Code is structured around seven areas of focus:

- 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

2.4 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 Code and to meet its statutory responsibility for sound financial administration and fiduciary duties to taxpayers, customers, and lenders.

2.5 CIPFA's intention is that the Code will have the same scope as the Prudential Code for Capital Finance in Local Authorities, so although the Code does not have legislative backing, it applies to all local authorities. In addition to its alignment with the Prudential Code, the Code also has links to the Treasury Management in the Public Sector Code of Practice and Cross Sectoral Guidance Note and the annual Code of Practice on Local Authority Accounting in the United Kingdom. In this way the Code support authorities by re-iterating in one place the key elements of these statutory requirements.

2.6 The Council's external auditors will, from 2021/22, have regard to the Code and will be looking to ensure that the Council is meeting the requirements of the Code. If compliance with the Code is not demonstrated, the Council's financial sustainability could be brought into question which in turn could result in a negative impact on its reputation with stakeholders.

Assessment of compliance with the Code

2.7 As a first step towards ensuring that the Council meets the Code in 2022/23, the Chief Finance Officer has produced a draft Assessment of Compliance, as attached at Appendix A. The assessment includes a number of identified actions to be taken forward in 2022/23 which will assist the Council's compliance with the Code's requirements. This Assessment will be continually reviewed and refined with a formal assessment being presented to Members on an annual basis.

3.0 OTHER OPTIONS CONSIDERED

3.1 None

4.0 CONSULTATION

4.1 None

5.0 RELEVANT COUNCIL POLICIES/STRATEGIES

5.1 None

6.0 RELEVANT GOVERNMENT POLICIES

6.1 None

7.0 RESOURCE IMPLICATIONS (Human/Property)

7.1 Council staff will be made aware of the Code requirements. Any development and appropriate training needs will be identified and provided.

8.0 SUSTAINABILITY IMPLICATIONS (Social/Community Safety/Cultural/ Economic/ Environment)

8.1 The Code sets out the standards of financial management for local authorities by focusing on value for money, governance and financial management styles, financial resilience, and financial sustainability. Application of the Code will strengthen financial resilience and sustainability of the Council.

9.0 IMPACT UPON (Value For Money/Equalities/E-Government/Human Rights/Health And Safety)

9.1 See Paragraph 8.1

10.0 RELATED DECISIONS AND ANY OTHER RELEVANT FACTS

10.1 None

Background Papers: None

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Appendices: Appendix A – Assessment of Compliance with the Financial Management Code