

The CIPFA Financial Management Code

Cabinet Member for Finance, Procurement, Customer Services and Revenues
& Benefits



Date:	12 November 2020
Agenda Item:	5
Contact Officer:	Anthony Thomas
Tel Number:	01543 308012
Email:	Anthony.thomas@lichfielddc.gov.uk
Key Decision?	No
Local Ward Members	Full Council

**Audit and
Member
Standards
Committee**

1. Executive Summary

- 1.1 Local government finance in the UK has been governed by primary legislation, regulation and professional standards as supported by regulation. The general financial management of a local authority, however, was not supported by a professional code.
- 1.2 This situation changed when, in December 2019, CIPFA published its Financial Management code (FM Code) to provide guidance for good and sustainable financial management in local authorities. It has been produced to assist local authorities in demonstrating their financial sustainability through a set of standards of financial management.
- 1.3 The standards have different practical applications according to the size and different circumstances of individual authorities and their use locally should reflect this. The principle of proportionality applies to the FM Code and reflects a non-prescriptive approach to how each standard is met.

2. Recommendations

- 2.1 The Committee notes:
 - The publication of the FM Code and the requirement for it to be applied from 1 April 2020.
 - That the first year, 2020/21, is a shadow year where local authorities are able to demonstrate that they are working towards full implementation which, for the first full year of compliance, will be 2021/22.
 - That an initial assessment has been carried out at **APPENDIX A** of the Council's assessed level of compliance compared to the Standards contained in the FM Code.

3. Background

- 3.1. The driver for the FM Code was the exceptional financial circumstances faced by local authorities, having revealed concerns about fundamental weaknesses in financial management, particularly in relation to organisations that may be unable to maintain services in the future.
- 3.2. The FM Code acknowledges that there is much good practice across the sector, but the failures of a small number threatens stakeholders' confidence in local government as a whole. Most importantly, the financial failure of just one local authority is one too many because it brings with it a risk to the services on which local people rely.
- 3.3. The FM Code is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. For the first time the FM Code sets out the standards of financial management for local authorities.

- 3.4. Lichfield District Council responded to the consultation on the draft FM Code on 26 April 2019, and following the completion of the consultation exercise, the draft FM Code was updated and refined with the final version published in December 2019.
- 3.5. The purpose of the FM Code itself is to establish the principles in a format that matches the financial management cycle and supports governance in local authorities. A series of financial management standards set out the professional standards needed if a local authority is to meet the minimal standards of financial management acceptable to meet fiduciary duties to taxpayers, customers and lenders. Since these are minimum standards, CIPFA's judgement is that compliance with them is obligatory if a local authority is to meet its statutory responsibility for sound financial administration. Beyond that, CIPFA members must comply with it as one of their professional obligations.
- 3.6. 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.
- 3.7. Reflecting on the importance of longer term financial planning, one of the objectives of the FM Code is to support organisations to demonstrate that they have the leadership, capacity and knowledge to be able to plan effectively. This must be balanced against retaining the integrity of the annual budget preparation process when the need to make difficult decisions may threaten its integrity.
- 3.8. Significantly, the FM Code builds on the success of the CIPFA Prudential Code, which requires local authorities to demonstrate the long-term financial sustainability of their capital expenditure and associated borrowing. With this success came new financial freedoms to make local decisions on matters that had hitherto been subject to central government control.
- 3.9. The FM Code is consistent with other established CIPFA codes and statements in being based on principles rather than prescription. The FM Code incorporates existing requirements on local government so as to provide a comprehensive picture of financial management in the authority.
- 3.10. The application of the FM Code will therefore provide the strong foundation within local authorities to enable them to:
- Financially manage their short-, medium- and long-term finances
 - Manage financial resilience to meet foreseen demands on services
 - Financially manage unexpected shocks in their financial circumstances.
- 3.11. The underlying principles that inform the FM Code have been developed in consultation with senior practitioners from local authorities and associated stakeholders. The principles have been designed to focus on an approach which will assist in determining whether, in applying standards of financial management, a local authority is financially sustainable.
- **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, which 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 and includes 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.

3.12. Each local authority must demonstrate that the requirements of the FM Code are being satisfied. However, the FM Code is not expected to be considered in isolation, and accompanying tools will form part of the collective suite of evidence to demonstrate sound decision making and a holistic view is taken.

3.13. Demonstrating this compliance with the FM Code is a collective responsibility of elected members, the chief finance officer (CFO) and their professional colleagues in the leadership team.

3.14. It is for all the senior management team to work with elected members in ensuring compliance with the FM Code and so demonstrate the standard of financial management to be expected of a local authority. In doing this the statutory role of the section 151 officer will not just be recognised but also supported to achieve the combination of leadership roles essential for good financial management.

3.15. An updated assessment has been carried out at **APPENDIX A** of the Council's assessed level of compliance compared to the Standards contained in the FM Code.

Alternative Options	There are no alternative options.
Consultation	Leadership Team were consulted on the FM Code in April 2019 and January 2020.
Financial Implications	The Chief Financial Officer (Section 151 Officer) has the Statutory Responsibility (supported by the management team and elected members) for ensuring compliance with the FM Code.
Contribution to the Delivery of the Strategic Plan	Compliance with the FM Code will contribute to sound decision making. This will support the Medium Term Financial Strategy, enabling Members to monitor progress against the plan in a timely manner to ensure resources are allocated in line with priorities and ambitions of the Council.
Equality, Diversity and Human Rights Implications	There are no Equality, Diversity or Human Rights issues.
Crime & Safety Issues	There are no Crime and Community Safety Issues.
Environmental Impact	These areas are addressed as part of the specific areas of activity prior to being included in Lichfield District Council's Strategic Plan.
GDPR/Privacy Impact Assessment	There are no specific implications.

	Risk Description	How We Manage It	Severity of Risk (RYG)
A	<p>If compliance with the CIPFA Financial Management 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.</p>	<p>The Finance Team contains experienced qualified Accountants and Accounting Technicians who are required to undertake regular Continuing Professional Development in line with the requirements of their qualifications.</p> <p>The Council has a strong, effective Leadership Team supported by experienced officers.</p> <p>There is also the role played by both Internal and External Audit both of which offer challenge and ensure compliance with laws and regulations (the challenges presented by COVID-19 on capacity and priorities are also having to be considered).</p>	<p>Likelihood : Green Impact : Yellow Severity of Risk : Green</p>

Background documents

CIPFA Financial Management Code.

Relevant web links

Chief Finance officer Assessed Level of Compliance with the CIPFA FM Code at October 2020

Ref.	Description	Pages of the Code	Detail	CFO Assessment and Actions Required
Responsibilities of the Leadership Team and Chief Financial officer (CFO)				
A	The leadership team is able to demonstrate that the services provided by the authority provide value for money	17-18	Legislative requirement for Authorities to deliver VFM. Delivery of VFM depends on decisions by Elected Members. Shared responsibility across the Leadership Team to communicate and understand the risks involved.	<p>The Council is part of the LG Futures financial information service. This service includes annual benchmarking information on:</p> <ul style="list-style-type: none"> • Unit Costs. • Sales, Fees and Charges. • Council Tax and Business Rates. <p>These are all provided to Leadership Team to understand how the Council's indicators compare to nearest neighbours and all District Councils.</p> <p>External Auditor provides a specific Value for Money Assessment each financial year.</p> <p>Actions: None Identified</p>
B	The authority complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government	18-19	<p>In summary this Statement requires that the CFO:</p> <ul style="list-style-type: none"> • Is a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest. • Must be actively involved in, and able to bring influence to bear on, all material 	<p>The Head of Finance Procurement is the Council's Section 151 and Chief Financial Officer.</p> <ul style="list-style-type: none"> • The Head of Finance and Procurement is a key member of the Leadership Team and also part of meetings with the Chief Executive, Leader and Deputy Leader. • All Cabinet and Council Reports are discussed in advance and agreed at Leadership Team.

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			<p>business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the organisation’s financial strategy.</p> <ul style="list-style-type: none"> • Must lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively. • Must lead and direct a finance function that is resourced to be fit for purpose. • Must be professionally qualified and suitably experienced. 	<ul style="list-style-type: none"> • The Finance and Procurement Team consists of 7 officers in the Finance Team, 3 officers in the Internal Audit Team and 2 recently recruited officers in the Procurement Team. We also have a fully qualified shared Head of Internal Audit. • This Team includes 5 qualified accountants, 1 part qualified accountant, 1 qualified accounting technician, a qualified procurement officer and a part qualified procurement officer. All officers undertake continuing professional development. • The Council also subscribes to additional professional expertise and advice in relation to technical accounting, treasury management, financial management & planning and taxation. <p>Actions: To continue to support continuing professional development.</p>
Governance and Financial Management Style				
C	The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.	21	<p>A proper scheme of delegation that ensures that frontline responsibility for internal and financial control starts with those who have management roles.</p> <p>Clarity over the role of Head of Paid Service and Monitoring Officer. ^[11] Audit Committee provides independent assurance over governance, risk</p>	<p>The Financial Procedure Rules create the role of a Budget Holder. Job descriptions and job evaluation system recognise management of resources as a key responsibility. This is assigned at a level so that service delivery and budget can be aligned.</p> <p>The roles of the Head of Paid Service and</p>

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			<p>and internal control arrangements, with a focus on financial management, financial reporting and audit and assurance.</p> <p>Leadership Team with a culture of constructive challenge based on realism. Goals, assumptions and implementations plans are rigorously examined.</p>	<p>Monitoring Officer are defined in the Council's constitution.</p> <p>The terms of reference for Audit and Member Standards Committee as the Council's Audit Committee) cover the areas referenced.</p> <p>The Internal Audit Service has provided assurance over the effectiveness of Audit and Member Standards Committee and the system of Internal Control (issue of annual input on the adequacy of governance, risk management and internal control).</p> <p>Regular meetings between Leadership Team and Cabinet Members.</p> <p>Actions: None Identified.</p>
D	The authority applies the CIPFA/SOLA CE Delivering Good Governance in Local Government: Framework (2016)	22	This framework recommends that the review of the effectiveness of the system of internal control is reported in an annual governance statement	<p>The Council prepares and Annual Governance Statement and Local Code of Corporate Governance in line with the framework.</p> <p>The draft is provided to Audit and Member Standards Committee for review and approval in advance of its inclusion in the Statement of Accounts.</p> <p>Actions: None Identified</p>

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E	The financial management style of the authority supports financial sustainability	22-23	Strong financial management is assessed against a hierarchy of (1) delivering accountability, (2) supporting performance and (3) enabling transformation.	<p>Achieving stages 1 and 2 of the hierarchy. Budget Holders take responsibility for spend against their budgets.</p> <p>The enhanced service and financial planning process was intended to enable Cabinet and Leadership Team to have a wider understanding of the MTFS and take a more holistic view in relation to the revenue budget, capital programme, fees and charges, earmarked reserves and the link between assets ownership and financial planning.</p> <p>Actions: To review the lessons learned from the service and financial planning process.</p>
Long to Medium Term Financial Management				
F	The authority has carried out a credible and transparent financial resilience assessment	25-26	Requirement to test sustainability against plausible scenarios of cost drivers, service demands, resources and key risks. Review of alternative options to match demand and resources.	<p>The service and financial planning process provided information on cost and demand drivers to enable robust and informed financial planning in each service area.</p> <p>The six month Money Matters Report includes reserves comparisons to all District Councils.</p> <p>The MTFS includes three scenarios on funding and income – a central set of assumptions, more optimistic assumptions and more pessimistic assumptions.</p> <p>The updated Resilience Index was published by</p>

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				<p>CIPFA in December 2019. This has been incorporated into the budget report for 2020/21 budget and there were no areas of concern for this Council.</p> <p>Actions: None Identified.</p>
G	<p>The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.</p>	26	<p>Based on the above, have a long-term financial strategy that links to vision, strategy and outcomes. This should include a vision of what services will look like in the future to achieve financial sustainability. The length of the long-term is undefined and should be linked to the risks faced. Potentially should be 10 years+.</p>	<p>The Council produces a five year MTFs and a 25 year revenue model using standard assumptions on housing growth and related service pressures.</p> <p>Actions: To further develop the 25 year revenue model.</p>
H	<p>The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities.</p>	26-27	<p>The Council has a long-term Capital Strategy that ensures that assets are managed and future plans are linked to capital resources available.</p> <p>Commercial investment activity should be considered over a suitable time horizon with risks fully considered. Ensure compliance with Prudential Code if borrowing.</p>	<p>The Council prepares a Capital Strategy in compliance with the Prudential Code that includes information on Assets/vehicle Management Plans and Condition Surveys.</p> <p>A 25 year revenue model is prepared to identify the longer term implications of capital and commercial investment.</p> <p>Actions: To further develop the 25 year revenue model.</p>
I	<p>The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.</p>	27	<p>Translation of the long-term view in to a more detailed medium-term financial plan. The time frame of which should support financially sustainable decision making. Clear link to service plans.</p>	<p>The service and financial planning process has been enhanced to strengthen the analysis on the contribution services make to delivering outcomes in the Strategic Plan.</p>

Ref.	Description	Pages of the Code	Detail	CFO Assessment and Actions Required
				<p>The outcomes of this process inform the MTFS and financial planning process.</p> <p>Actions: To review the lessons learned from the service and financial planning process.</p>
Annual Budget				
J	The authority complies with its statutory obligations in respect of the budget setting process.	29	<p>These are generally covered by part 2 of Local Government Act 2003. This includes robustness of estimates and reserves (covered below) and the requirement for financial monitoring.</p> <p>It also includes section 114 of the Local Government Finance Act 1988, which requires the CFO to issue a report if the Council is about to incur unlawful expenditure. This would include setting an unbalance budget.</p>	<p>All estimates and reserves are reviewed by the Chief Finance Officer as part of the MTFS.</p> <p>The Council has an earmarked reserves policy that requires relevant earmarked reserves to be returned to General Reserves after 3 years if no credible business case for retention is made.</p> <p>Actions: None Identified.</p>
K	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.	29-30	Reserves to be considered as part of the budget process and should be 'adequate' and 'necessary'. Should enable the Council to manage unexpected events from within its own resources. The budget report details earmarked reserves held, the purpose of each reserve and estimated opening and closing balances.	<p>The MTFS includes a statement from the chief finance officer on the robustness of estimates and a statement on the adequacy of the proposed reserves.</p> <p>A risk assessed minimum level of reserves is included in the MTFS.</p> <p>The information from the CIPFA Resilience Index and was included in the MTFS and the six month Money Matters Report includes reserve comparisons to all District Councils.</p> <p>Actions: None Identified.</p>

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Stakeholder Engagement and Business Plans				
L	The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium term financial plan and annual budget.	31	<p>Enabling residents to understand that resources are limited and spending has to be 11 prioritised. Leadership Team redirects resources to areas of higher priority.</p> <p>Understanding of statutory service delivery requirements. Use stakeholder consultation to set priorities. Helps to encourage community involvement, which could help reduce costs.</p>	<p>The Council undertakes budget and Strategic Plan consultations that are used to develop the Strategic Plan and MTFS. The budget consultations are reported to Cabinet and Strategic (OS) Committee and part of the development of the MTFS.</p> <p>Actions: To further develop the approach to budget consultation in line with the new Engagement Strategy.</p>
M	The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.	31-32	Decisions are made from clear business cases that detail the up-front and ongoing costs and benefits. Where appropriate the time value of money should be considered. Alternative options should be considered. The complexity of the business case should be proportionate to the decision.	<p>The service and financial planning process includes a bidding process for revenue and capital investment need in line with cost and demand drivers. The capital and one off bid process assesses the bid against a set of key criteria.</p> <p>Where appropriate, option appraisal techniques are utilised.</p> <p>Actions: None Identified.</p>
Monitoring Financial Performance				
N	The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.	33	The Council should have timely information on its financial and operational performance. Performance indicators should be reviewed, alongside any overspends/ undelivered savings.	<p>The Money Matters Reports provide financial performance information based on Strategic Plan priorities at 3, 6, 8 and 12 month intervals.</p> <p>A target of being within £250,000 of the Approved Revenue Budget is in place and this is</p>

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				allocated to each service area based on total managed budget. Actions: To consider further integration of service and financial reporting.
O	The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.	33	There is reference to monitoring material elements of the balance sheet that might give indications of departures from financial plans. Specific reference is made to commercial asset portfolios, contingencies and provisions. Cash flow is managed in accordance with guidance.	As part of the MTFs, the Council produces five year Balance Sheet projections and these are monitored in the Treasury Management Reports to Audit and member Standards Committee. The key elements are monitored by Cabinet and Strategic (OS) Committee: <ul style="list-style-type: none"> • Council Tax and Business Rate Arrears. • Sundry Debt and Planning Obligation Arrears. • Investments and Borrowing. • Service and Commercial Investments. Actions: None Identified.
External Financial Reporting				
P	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	35	The CFO has statutory responsibility for (1) producing the accounts and ensuring they are published on a timely basis (2) maintaining financial records (3) certification of the accounts and confirmation of a ‘true and fair view’.	These are all complied with. Assurance is provided through External Audit and Internal Audit (SIAS). Actions: None Identified.

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	Accounting in the United Kingdom			
Q	The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions	25	The narrative report that accompanies the accounts provides a link to achievement of outcomes and performance. The Leadership Team understand variances from budget and how they have been managed. The future implications of variances should also be considered i.e. will it affect the financial strategy/ financial resilience.	<p>The information in the narrative report is provided in the same format as the Money Matters Reports and the Council Tax leaflet.</p> <p>A reconciliation to the Comprehensive Income and expenditure Statement is also provided to link the statutory accounts to the information provided to the Cabinet, Leadership Team and Strategic (OS) Committee.</p> <p>Actions: None Identified</p>