

**Agenda Item No:**

**Report to:           Audit Committee**

**Date of Meeting:   18 November 2021**

**Report Title:       CIPFA Financial Management Code**

**Report By:          Peter Grace**  
**Chief Finance Officer**

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### **Purpose of Report**

In October 2019 the Chartered Institute of Public Finance and Accountancy (CIPFA) published “The CIPFA Financial Management Code”. The purpose of the report is to provide Members with an overview of the Management Code, along with the initial self-assessment that has been undertaken by officers to identify compliance and areas for further consideration.

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### **Recommendation**

The Committee agree the outcome of the self-assessment to demonstrate compliance with the CIPFA Financial Management Code; The areas identified in the review where improvements can be made being considered by the Council’s Corporate Management Team.

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### **Reasons for Recommendations**

To comply with CIPFA guidance on the Financial Management Code and ensure Members are aware of the position of the Council with regard to it’s self-assessment and the future work that needs to be done to ensure higher scoring in future assessments.

## Background

1. In October 2019 the Chartered Institute of Public Finance and Accountancy (CIPFA) published a Financial Management Code (FM Code) to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability and would for the first time set standards of financial management for local authorities in the UK.
2. The FM Code has been introduced because the exceptional financial circumstances faced by local authorities have revealed concerns about fundamental weaknesses in financial management, particularly in relation to organisations that may be unable to maintain services in the future. 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. 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.
4. The FM Code requires authorities to demonstrate that the processes they have in place satisfy the principles of good financial management, which is an essential part of ensuring that public sector finances are sustainable.
5. The council has reviewed current working practises against the FM Code by way of a self-assessment, which has identified areas in which further action is required to ensure full compliance.
6. The Code is to be applied from the year 2020/21 with a view to full compliance the following year.

## The CIPFA Financial Management Code

7. The CIPFA FM Code is based on a series of principles supported by specific standards and statements of practice considered necessary to provide the strong foundation to:
  - financially manage the short, medium and long-term finances
  - manage financial resilience to meet unforeseen demands on services
  - financially manage unexpected shocks in their financial circumstances.
8. The FM Code is consistent with other established CIPFA codes and statements in being based on principles rather than prescription. This code incorporates their existing requirements on local government so as to provide a comprehensive picture of financial management in the authority.
9. Each local authority must demonstrate that the requirements of the code are being satisfied. The FM Code states that: "CIPFA considers application of the FM Code to be a collective responsibility of each authority's organisational leadership team". The leadership team is defined as elected Members, the Chief Finance Officer (CFO) and their professional colleagues in the leadership team.

10. 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.
11. The Code requires that a local authority demonstrate that its processes satisfy the principles of good financial management for an authority of its size, responsibilities and circumstances and sought to rely on the local exercise of professional judgement backed by appropriate reporting. The principles are designed to assist in determining whether, in applying standards of financial management a local authority is financially sustainable:
  - 1) Organisational leadership – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.
  - 2) 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.
  - 3) 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.
  - 4) Adherence to professional standards is promoted by the leadership team and is evidenced.
  - 5) Sources of assurance are recognised as an effective tool mainstreamed into financial management and includes political scrutiny and the results of both external audit, internal audit and inspection.
  - 6) The long term sustainability of local services is at the heart of all financial management process and is evidenced by prudent use of public resources.
12. Demonstrating this compliance is the collective responsibility of elected members, the chief finance officer and their professional colleagues in the leadership team.
13. To enable authorities to test their conformity with the principles of good financial management the FM Code translates these principles into Financial Management Standards. There are 17 separate standards (A to Q) as detailed in Appendix 1 along with our self-assessment of achievement.

## Compliance

14. Compliance will typically be demonstrated by documenting compliance by way of a self-assessment.
15. **Appendix 1** sets out an initial self-assessment against the financial management standards, undertaken by officers and details how compliant the council is against the requirements of this code. It also highlights any areas that need improvement to ensure full compliance.

16. In assessing compliance with the code the following criteria, set out in the table below has been applied using a RAG rating format:

RAG Rating	Number of Standards	Definition
RED	0	Significant improvements are required to comply with the code
AMDER	2	Moderate improvements are required to comply with the code
GREEN	15	Compliant / Minor improvements are required to comply with the code

17. It is pleasing to note that the initial self-assessment concludes that there are no significant improvements to be made. Out of the 17 standards the council is compliant with 15 and moderate improvements are required for the other two standards.

18. The two Standards assigned an amber rating are:

M - The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.

N - The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.

19. It is not that we do not comply in all significant respects. However, the Management Team will need to give consideration to the adoption of an appropriate documented option appraisal methodology to demonstrate value for money. Regarding emerging risks, the Management Team will need to consider establishing a regular review of emerging risks at risk meetings and documenting this appropriately.

20. It is clearly of utmost importance that an organisation can demonstrate and evidence good practice in financial management and as such welcome a Code against which practice can be judged.

## Legal Implications

21. Local government finance in the UK is governed by primary legislation, regulation and professional standards as supported by regulation.

22. 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.

## Timetable of Next Steps

1. Please include a list of key actions and the scheduled dates for these:

Action	Key milestone	Due date (provisional)	Responsible
Review compliance of Council to the FM Code for 2021/22	Close of 2021/22 accounts	November 2022	Chief Finance Officer

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### Wards Affected

None

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### Area(s) Affected

Good practice in financial management is relevant across all areas of the Council's business.

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### Implications

Relevant project tools Applied? Yes

Have you checked this report for plain English and readability? Yes. This has been done as far as possible considering the complex financial issues involved. Flesch-Kincaid grade level 15.1.

Climate change implications considered? N/A

Please identify if this report contains any implications for the following:

Equalities and Community Cohesiveness	No
Crime and Fear of Crime (Section 17)	No
Risk Management	Yes
Environmental Issues	No
Economic/Financial Implications	Yes
Human Rights Act	No
Organisational Consequences	Yes
Local People's Views	No
Anti-Poverty	No

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### Additional Information

Appendix 1: Self-Assessment of FM Code 2021/22

Appendix 2: CIPFA Financial Management Code

Appendix 3: The Seven Characteristics of Good Governance - Centre for Government and Security

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**Officer to Contact**

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