

TRAFFORD COUNCIL

Report to: Accounts and Audit Committee
Date: 20 July 2022
Report for: Information
Report of: Director of Finance and Systems

Report Title

CIPFA Financial Management Code

Summary

The purpose of this report is to provide an update on the Council's assessment of its position in respect of the Financial Management Code issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The Code, which comprises a number of standards, clarifies how the Director of Finance and Systems should satisfy his statutory responsibility for good financial administration as required in section 151 of the Local Government Act 1972.

The report provides details of the standards which comprise the Code and an assessment regards conformance with these standards. The assessment will also be used to help inform the Council's 2021/22 Annual Governance Statement (AGS) which will be published alongside the Statement of Accounts.

Recommendation

The Accounts and Audit Committee is asked to note the report.

Contact person for access to background papers and further information:

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Background Papers:

None

Implications:

Relationship to Policy Framework / Corporate Priorities	Value for Money
Relationship to GM Policy or Strategy Framework	N/A
Financial	<p>The FM Code requires authorities to demonstrate that the processes they have in place satisfy the principles of good financial management. The FM code itself is not statutory but compliance with the code is obligatory as it brings together elements that are already part of existing statutory guidance:-</p> <ul style="list-style-type: none">- Role of the Chief Financial Officer in Local Government (S151 Officer)- Prudential Code for Capital Finance- Code of Practice on Local Authority Accounting in the United Kingdom.
Legal Implications	See Financial Implications
Equality/Diversity Implications	None arising out of this report
Sustainability Implications	None arising out of this report
Carbon Reduction	N/A
Staffing/E-Government/Asset Management Implications	N/A
Risk Management Implications	N/A
Health and Safety Implications	N/A

CIPFA Financial Management Code – Update for the Accounts and Audit Committee, July 2022

1. Introduction

The purpose of this report is to provide an update on the Council's assessment of its position in respect of the Financial Management Code issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). This includes an assessment of arrangements currently in place to support conformance with the Code and also areas for ongoing development.

2. Background

2.1 CIPFA published The Financial Management Code (FM Code) in October 2019 on behalf of the Ministry of Housing, Communities and Local Government (MHCLG) in the context of increasing concerns about the financial resilience and sustainability of local authorities. The FM code is not statutory but compliance with the code is obligatory.

2.2 The FM Code provides guidance for good and sustainable financial management in local authorities, giving assurance that authorities are managing resources effectively.

2.3 The FM Code requires authorities to demonstrate that the processes they have in place satisfy the principles of good financial management (See Appendix 1), which is an essential part of ensuring that public sector finances are sustainable. It brings together elements that are already part of existing statutory guidance:-

- Role of the Chief Financial Officer in Local Government (S151 Officer)
- Prudential Code for Capital Finance
- Code of Practice on Local Authority Accounting in the United Kingdom.

3. Financial Management Code - Standards

3.1 The FM Code, which includes 19 standards, clarifies how the Director of Finance and Systems (DOFS) should satisfy their statutory responsibility for good financial administration as required in section 151 of the Local Government Act 1972. Importantly it emphasises the collective financial responsibility of the leadership team, including the relevant elected members, of which the DOFS is one member.

3.2 The first full year of compliance with the FM Code is 2021/22. However, in recognition of the pressures that have been placed on local authorities in dealing with the COVID19 pandemic and impact on the medium-term financial position, CIPFA concluded that the first year of compliance can be within a more flexible framework where a proportionate approach is encouraged.

3.3 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.

4. Action Plan

- 4.1 Within the Code there are 7 sections and 19 standards which have been reviewed as part of the self-assessment. In the majority of cases these have been assessed as Green meaning that compliance can be evidenced. The full self-assessment is included in a separate table (See separate attachment, Appendix 2, accompanying this report). In a number of areas, Amber and Red ratings have been given and these are summarised below and proposed further actions have been identified. Work has already been progressed in these areas to improve on processes and to enhance compliance and have been included in the assessment for development in 2022/23. The assessment will also be used to help inform the Council's Annual Governance Statement (AGS) which will be published alongside the Statement of Accounts. The key areas requiring further action are set out in the table below.

Section and Standard	Further Action
Section 1 - The Responsibilities of the Chief Finance Officer and the Leadership Team	
The Chief Finance Officer must lead the promotion and delivery by the whole organisation of good financial management.	Undertake a review of the skillsets of officers and elected members and offer further training where required. A refresh of FM training for all budget holders. Also need to consider the merit of introducing accountability agreements for budget holders. Need to establish annual reviews of the Council's scheme of delegation and financial procedure rules.
The Chief Finance Officer must lead and direct a finance function that is resourced to be fit for purpose.	Continued focus on development of business partnering and commercial skills is required. Develop adequate arrangements for a knowledge sharing and shadowing of key staff to support succession planning.
The chief finance officer should report explicitly on the affordability and risk associated with the capital strategy.	Continued work to develop local indicators to support the Asset Investment Strategy and compliance with the Prudential Code. Need to develop the links between the capital programme and the Council's asset management planning.
Section 2 - Governance and Financial Management Style	
Alternative Delivery Vehicles - Has the authority appropriate arrangements in place for ensuring effective oversight of and accountability for any alternative delivery mechanisms or Local Authority companies in which it has engaged.	Whilst governance structures exist for all the entities regular performance reporting to the Council needs to be embedded to ensure regular updates on company performance are provided to the Investment Management Board, Executive and the Accounts and Audit Committee. This should include the monitoring of all loan covenants on company loans as well as senior debt lending as part of the Asset Investment Strategy. These reports should also be reviewed by an internal officer group. In addition periodic training should be provided to councillors where appropriate. Any key company risks should also be included on the Strategic Risk Register. The arrangements for Board Meetings need strengthening and formalising with more time to consider reports and brief Board Members. In respect of the PFI scheme arrangements need to be developed to

	provide effective challenge to the PFI contractor. Also the PFI ends in 2028 and early review of the contract needs to be understood in order to plan for the end of the scheme.
Finance teams and the organisation they support are actively committed to continuous improvement focused on efficient and effective delivery and organisational performance.	Integrate performance and financial information with a focus on monitoring and achieving continuous improvement.
Section 3 - Medium to Long Term Financial Management	
Decision making by the authority demonstrates a sound understanding of the risks associated with its strategic business partners.	Key partners should be reviewed to ensure they maintain the same high standards of conduct with regard to financial administration and corporate governance that apply throughout the authority and they contribute to the achievement of the authority's objectives.
The authority has an asset management plan that reviews the condition, sufficiency and suitability of assets in the light of business needs, and ambitions of the Medium - Long Term Financial Strategy. The plan should evidence rigorous assessment of asset portfolio in relation to service delivery.	Development of the Asset Management Plan and regular updates on the condition of assets to be provided to CLT. Include refresh of reinstatement valuations for insurance purposes as part of the rolling revaluation programme.
The authority maintains processes to ensure that information about key assets and liabilities in its balance sheet is a sound and current platform for management action.	The Capital Strategy needs to consider the longer-term asset management plan to ensure resources can be aligned to maintaining an effective asset base. Need to develop asset management planning and the ability to ensure the budget is informed by asset condition.
Section 5 - Stakeholder Engagement and Business Cases	
Does option appraisal comply with IFAC/PAIB Project and Investment Appraisal for Sustainable Value Creation: Principles in Project and Investment Appraisal (Annex C to CIPFA FM Code)	Need to develop a consistent options appraisal methodology to determine - this should comply with the CIPFA guide - Options Appraisal - A Practical Guide for Public Sector Organisations

Principles

The FM Code establishes an approach based on six principles of good financial management:-

- a) **Organisational Leadership** - demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.
- b) **Accountability** - based on medium term financial planning, driving the annual budget process, supported by effective risk management, quality supporting data and whole life costs.
- c) **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.
- d) **Professional Standards** - promoted by the leadership team, with adherence evidenced.
- e) **Assurance** - recognised as an effective tool, mainstreamed into financial management, including political scrutiny and the results of both external audit, internal audit and inspection.
- f) **Long-Term Sustainability** - at the heart of all local services' financial management processes, evidenced by the prudent use of public resources.

Standards

Explicit standards of financial management are also set out by the FM Code. These are the minimum standards which have to be complied with in order for the Council to demonstrate its compliance with the FM Code. The standards articulate the practical application of the principles of financial management based on the requirements of primary legislation, associated CIPFA codes and guidance on professional codes of practice and ethics. Whilst compliance with the standards is mandatory, the FM Code does not prescribe how they should be achieved. The standards are detailed in the diagram below under each of the key principles.

