

TRAFFORD COUNCIL

Report to: Accounts and Audit Committee
Date: 23 November 2023
Report for: Information
Report of: Director of Finance and Systems

Report Title

CIPFA Financial Management Code Update

Summary

The Financial Management Code issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) comprises a range of financial standards which need to be achieved to demonstrate sound management of the Council's financial affairs.

It is best practice for the Director of Finance and Systems to 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 report also provides an update on the action plan identified following the first review of the Code which was reported to this Committee in July 2022.

The assessment will also be used to help inform the Council's 2022/23 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

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 his 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 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.
- 4.2 These were first reviewed and reported to the Accounts and Audit Committee in July 2022 and this report provides an update on the action plan agreed last year and also an annual review of the full Code to determine the extent of continued compliance.
- 4.3 Last year a number of areas were identified where it was felt that further improvement could be made to achieve better compliance with the Code.

Review of Previous Action Plan:-

Action	Progress
<p>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.</p> <p>Need to establish annual reviews of the Council's scheme of delegation and financial procedure rules.</p>	<p>Ongoing:-</p> <p>All qualified accountancy level staff are required to comply with Cipfa's continuing professional development requirements. This is supplemented by bi-annual personal development reviews which identifies training and development opportunities to support individuals in their roles.</p> <p>FM budget holder training is currently in the process of being rolled out. This comprises mandatory training for all budget holders including bespoke training for budget holders responsible for managing demand led budgets (Childrens and Adults Services). Generic online training modules are in the process of being developed and includes Finance for Budget Holders and Year End Finance.</p> <p>Specific member training has been undertaken by the Director of Finance and Systems during 2022/23 and plans are being developed for a more comprehensive programme for 2023/24.</p> <p>A range of training currently available including induction for new members, budget monitoring, treasury management and statutory accounts will be supplemented with more specific updates to be made available to all members via face-to-face sessions and web-based resources.</p> <p>Specific training around the Prudential Code and Treasury Management has been provided to the Accounts and Audit Committee. This will be supplemented with further sessions to support understanding of the Council's overall budget position. All training is now on a dedicated intranet page and made available for all Members.</p>

	<p>The officer scheme of delegation is regularly updated both for the corporate finance area and also for service budget holders.</p> <p>Finance Procedure Rules are reviewed annually.</p>
<p>Continued focus on development of business partnering and commercial skills is required.</p> <p>Develop adequate arrangements for a knowledge sharing and shadowing of key staff to support succession planning</p>	<p>See Above.</p> <p>Succession planning continues to be a key risk and as such remains a high priority on the Service's annual plan with a focus on developing our future finance and senior managers.</p> <p>A recent mini restructure within Financial Management has enabled the creation of two new posts within existing resources (Senior Accountant and AAT Trainee) to aide succession planning</p>
<p>Continued work to develop local indicators to support the Asset Investment Strategy and compliance with the Prudential Code.</p> <p>Need to develop the links between the capital programme and the Council's asset management planning.</p>	<p>A range of local indicators have been developed to supplement the prudential indicators which are now included in the Council's budget setting reports and reported quarterly to the Executive as part of the budget monitoring procedures.</p> <p>The Council's Capital Strategy includes strong links to the Council's estates strategy which identifies the availability of surplus assets and potential capital receipts to support the financing of the capital programme.</p>
<p>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.</p> <p>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</p>	<p>Updates on the performance of the Council's joint venture companies is reported to the Executive on an annual basis. This supplements the bi-monthly monitoring of the Investment Strategy commitments and performance which is also reported to Executive, Accounts and Audit Committee and the Investment Management Board.</p> <p>Loan covenants are monitored, for example loan to value and cost and interest rate covenants but the reporting of this still needs to improve and made</p>

<p>internal officer group. In addition periodic training should be provided to councillors where appropriate.</p> <p>Any key company risks should also be included on the Strategic Risk Register.</p> <p>The arrangements for Board Meetings need strengthening and formalising with more time to consider reports and brief Board Members.</p> <p>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.</p>	<p>more transparent to the Investment Management Board.</p> <p>Specific risks are referenced on the Strategic Risk Register.</p> <p>Governance arrangements for the three JV companies with Bruntwood have been developed during the year and more formalised arrangement have been established.</p> <p>The Council is in regular dialogue with DLUHC and the Treasury now it is nearing the end of the PFI scheme. External consultants are being used to hold the private sector provider to account and also a detailed property condition review is being commissioned for Sale Waterside to ensure there is time to remedy any property issues before the asset is handed back to the Council at the end of the PFI period in 2028.</p>
<p>Integrate performance and financial information with a focus on monitoring and achieving continuous improvement.</p>	<p>Attempts have been made to integrate financial and performance reporting but more work still needs to be done in this area.</p>
<p>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.</p>	<p>The audit and assurance work programme includes coverage of the Council's joint venture companies.</p>
<p>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.</p>	<p>This area still needs further development.</p>
<p>The Capital Strategy needs to consider the longer-term asset</p>	<p>This work is being considered by the Capital Programme Board and the</p>

<p>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.</p>	<p>outcome will be a key priority of the Capital Strategy for 2024/27.</p>
<p>Need to develop a consistent options appraisal methodology - this should comply with the CIPFA guide - Options Appraisal - A Practical Guide for Public Sector Organisations</p>	<p>This area still needs further development.</p>

4.4 A full review of the Code has been undertaken in 2023/24. In the majority of areas a good level of compliance has been identified and these have been assessed as Green meaning that compliance can be evidenced. In a number of areas, Amber and Red ratings have been given and these are summarised below and proposed further actions have been identified to further develop these areas in 2023/24.

The full self-assessment is included in a separate table (See separate attachment, Appendix 2, accompanying this report).

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 should report explicitly on the affordability and risk associated with the capital strategy and where appropriate have access to specialised advice to enable them to reach their conclusions.	This is a clear risk, given the constraints and difficulty in generating capital receipts. Affordability review of the Cap Prog to be undertaken in the during 2023.
Section 2 - Governance and Financial Management Style	
Enabling transformation: the finance team have input into strategic and operational plans taking into account proactive risk management, clear strategic directions and focus-based outcomes.	There has been an increased focus on operational activity as a result of the protracted statutory audit process which restricts the finance team's ability to fully support a broadening Council agenda. The structure and capacity of the Financial Management Team has been reviewed in 2023/24 to create specific capacity to focus on statutory compliance and allow the service teams to maintain an effective business partnering role.
Section 3 - Medium to Long Term Financial Management	
The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to Members.	Whilst the LA understands its financial sustainability challenges more progress needs to be made towards identification of sustainable budget savings and transformation. Since March 2022 a Finance and Change Board have supported the identification and delivery of savings programmes that have helped achieve a balanced budget position for 2023/24 and positive progress is being made to identifying sustainable plans for 2024/25.

	<p>Future uncommitted new investment in key projects should be considered carefully given the Authority's financial position and the impact the high level of borrowing rates are having on the business cases of future proposals.</p>
<p>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.</p>	<p>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.</p>
<p>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.</p>	<p>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.</p> <p>This work is being considered by the Capital Programme Board and the outcome will be a key priority of the Capital Strategy for 2024/27.</p>
<p>Section 5 - Stakeholder Engagement and Business Cases</p>	
<p>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)</p>	<p>Need to develop a consistent options appraisal methodology - this should comply with the CIPFA guide - Options Appraisal - A Practical Guide for Public Sector Organisations</p>

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.

