

Bolsover District Council

Audit Committee

27 April 2021

New Financial Management Code

Report of the Head of Finance and Resources

Classification: This report is public

Report By: Theresa Fletcher, Head of Finance and Resources

Contact Officer: Theresa Fletcher – 01246 242458
theresa.fletcher@bolsover.gov.uk

PURPOSE / SUMMARY

To inform Members of the new CIPFA Financial Management Code which has been applicable in shadow form during 2020/21 with compliance expected from 2021/22.

RECOMMENDATIONS

- 1 That Members note the publication of the FM Code and 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.
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IMPLICATIONS

Finance and Risk: Yes No

Details:

On Behalf of the Section 151 Officer

Legal (including Data Protection): Yes No

Details:

On Behalf of the Solicitor to the Council

Staffing: Yes No

Details:

On behalf of the Head of Paid Service

DECISION INFORMATION

Decision Information	
<p>Is the decision a Key Decision? A Key Decision is an executive decision which has a significant impact on two or more District wards or which results in income or expenditure to the Council above the following thresholds:</p> <p>BDC: Revenue - £75,000 <input type="checkbox"/> Capital - £150,000 <input type="checkbox"/></p> <p>NEDDC: Revenue - £100,000 <input type="checkbox"/> Capital - £250,000 <input type="checkbox"/></p> <p><input checked="" type="checkbox"/> Please indicate which threshold applies</p>	No
<p>Is the decision subject to Call-In? (Only Key Decisions are subject to Call-In)</p>	No
<p>District Wards Significantly Affected</p>	None
<p>Consultation: Leader / Deputy Leader <input type="checkbox"/> Cabinet / Executive <input type="checkbox"/> SAMT <input type="checkbox"/> Relevant Service Manager <input type="checkbox"/> Members <input type="checkbox"/> Public <input type="checkbox"/> Other <input type="checkbox"/></p>	<p>Click here to enter text.</p> <p>Details: Click here to enter text.</p>

<p>Links to Council Ambition (BDC)/Council Plan (NED) priorities or Policy Framework including Climate Change, Equalities, and Economics and Health implications.</p>

REPORT DETAILS

1 Background (reasons for bringing the report)

- 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, Chartered Institute of Public Finance and Accountancy (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.
- 1.4 The Covid-19 pandemic has seen local authorities placed under extreme pressure to respond to the needs of their communities by providing services and support to an unprecedented extent. Understanding these pressures, the CIPFA Financial Management and Governance Panel has considered these changes against workload, reprioritisation and resource issues facing local authority staff. It concluded that while the first full year of compliance with the FM Code should remain as 2021/22, it could do so within a more flexible framework where a proportionate approach is encouraged.

2. Details of Proposal or Information

The Financial Management Code

- 2.1 In response to recent concerns (even before Covid-19) around financial resilience of Councils, CIPFA has introduced the new FM Code as part of a package of measures that it is putting in place. These measures have been driven by the exceptional financial circumstances faced by local authorities, having revealed concerns about fundamental weaknesses in financial management. In particular there have been a small number of high-profile failures across local government which threaten stakeholder's confidence in the sector as a whole.
- 2.2 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.
- 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 has been designed on a principles-based approach which will assist in determining whether, in applying standards of financial management, a local authority is financially sustainable. 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 external audit, internal audit and inspection.
- **Long-term Sustainability** - at the heart of local services' financial management processes, evidenced by the prudent use of public resources.

2.4 The Code is structured around seven areas of focus:

- The Responsibilities of the Chief Finance Officer and Leadership team
- Governance and Financial Management style
- Medium to Long-term Financial Management
- The Annual Budget
- Stakeholder Engagement and Business Cases
- Financial Performance Monitoring
- External Financial Reporting

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

2.5 Although the FM Code does not have legislative backing, it applies to all local authorities, including police, fire, combined and other authorities. Where compliance with the code is not possible, adherence to the principles is still considered appropriate.

2.6 The Council's external auditors will from 2021/22 have regard to the FM Code and will be looking to ensure that the Council is meeting it. Furthermore, CIPFA guidance issued in February 2021 stated that the Council's Annual Governance Statement for 2020/21, should include the overall conclusion of the assessment of the organisation's compliance with the principles of the FM Code. Where there are outstanding matters or areas for improvement, these should be included in the action plan.

2.7 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.

2.8 Demonstrating this compliance with the FM Code is a collective responsibility of Elected Members, the Chief Finance Officer (Head of Finance and

Resources) and the Corporate Leadership Team. 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 (Head of Finance and Resources) will not just be recognised but also supported, to achieve the combination of leadership roles essential for good financial management.

2.9 As a first step towards ensuring that the Council meets the FM Code in 2021/22, the Council's Internal Audit Consortium carried out an audit during September 2020. The purpose was to ascertain the levels of compliance within the Council and identify any gaps to enable full implementation.

2.10 The audit concluded that the Council complied with the majority of the FM Code requirements already. Three recommendations were raised which are being implemented during 2021/22.

	Recommendation	Priority	To be Implemented by
R1	The Council's Monitoring Officer must ensure the Council's Local Code of Corporate Governance is approved to ensure that this informs the Annual Governance Statement for 2020/21.	Low	Monitoring Officer
R2	The Head of Finance and Resources maintains an overview of current benchmarking arrangements and adopts a methodology that can demonstrate the Council's financial resilience has been assessed.	Low	Head of Finance and Resources
R3	Further review of risk management by audit, once working arrangements are back to normal following Covid-19 and the implementation of the Risk Management Group.	Medium	Internal Audit Consortium Manager

3 Reasons for Recommendation

3.1 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 Council Ambition in a timely manner to ensure resources are allocated in line with the strategic priorities of the Council.

4 Alternative Options and Reasons for Rejection

4.1 No alternative options are offered.

DOCUMENT INFORMATION

Appendix No	Title
Background Papers (These are unpublished works which have been relied on to a material extent when preparing the report. They must be listed in the section below. If the report is going to Cabinet (NEDDC) or Executive (BDC) you must provide copies of the background papers)	