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| <b>REPORT TO:</b>              | <b>AUDIT SUB COMMITTEE</b>   | <b>AGENDA ITEM: 9</b>   |
| <b>DATE OF MEETING:</b>        | <b>25<sup>th</sup> MARCH 2020</b>  | <b>CATEGORY:</b>  |
|                                |  | <b>DELEGATED</b>  |
| <b>REPORT FROM:</b>            | <b>STRATEGIC DIRECTOR<br/>(CORPORATE RESOURCES)</b>  | <b>OPEN</b>   |
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| <b>SUBJECT:</b>                | <b>THE CIPFA FINANCIAL MANAGEMENT CODE</b>   |   |
| <b>WARD(S) AFFECTED:</b>       | <b>ALL</b>   | <b>TERMS OF REFERENCE: AS 04</b>  |

## **1.0 Recommendations**

- 1.1 That the Council's compliance with the Financial Management Code as detailed in the report is considered and noted.

## **2.0 Purpose of the Report**

- 2.1 To detail a new Financial Management Code that has been issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). This includes an assessment of the Council's position against the standards of good practice set out in the Code.

## **3.0 Executive Summary**

- 3.1 The CIPFA Financial Management Code (FM Code) is designed to support good practice in financial management. It has been produced to assist local authorities in demonstrating their financial sustainability through a set of standards of financial management.
- 3.2 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.
- 3.3 Of 17 individual standards, it is considered that the Council substantially complies with 16 with only one, regarding consultation with stakeholders on the Council's longer-term financial planning, not currently undertaken.

## 4.0 Detail

### Background

- 4.1 The FM Code has been produced in the light of continuing budget and financing pressures on local authorities, together with the financial sustainability of a minority of authorities being questioned.
- 4.2 The FM Code is based on a series of principles supported by specific standards which are considered necessary to provide a strong basis to:
- Manage the short, medium and long-term finances of a local authority.
  - Manage financial resilience to meet unforeseen demands on services.
  - Manage unexpected shocks in financial circumstances.
- 4.3 Each local authority must demonstrate that the requirements of the FM Code are being satisfied. The FM Code recognises that this must be undertaken on a proportionate basis relevant to each authority and their individual circumstances.

### Timescale for Implementation and Status of the FM Code

- 4.4 The FM code will apply from April 2021. This is designed to provide authorities enough time to ensure that they comply with all standards.
- 4.5 The FM Code itself has not got a statutory basis and it is for each authority to take a view on its suitability. However, the Local Government Act 1972 requires every local authority *“to make arrangements for the proper administration of their financial affairs.”*
- 4.6 In addition, CIPFA are the recognised *“regulators”* of local government finance and accountancy and it would be prudent to assume that compliance or otherwise with the FM Code will be tested at some point.
- 4.7 In particular, the remit of External Audit is currently being reviewed. There are proposals to extend its scope to focus to a greater extent in the future, on financial sustainability, the degree of which could have an impact on the Auditor’s opinion on an authority’s financial position.
- 4.8 In any case, the Council and in particular the Chief Finance Officer, have a professional responsibility to adhere to codes of practice and the FM Code is no different to that extent. At the very least, it is considered good practice that the Council adheres to the basic principles of the FM Code to ensure that it is able to demonstrate that it is well managed financially.

### South Derbyshire Compliance

- 4.9 Having said that, the requirements of the FM Code do not seem onerous for the Council. It is considered that its current financial planning framework, together with its overall governance arrangements and current financial position, lend themselves to most of the standards being met.

4.10 However, there is still scope to develop in certain areas as highlighted later in the report.

### **The Structure of the FM Code**

4.11 The FM Code has 17 individual standards (A to Q) which are grouped under:

- Financial leadership
- Governance and financial management style
- Longer term financial planning
- The Annual Budget
- Stakeholder engagement
- Monitoring financial performance
- External financial reporting

### **The Council's Compliance**

4.12 The Standards are detailed in a separate document attached to the Report and demonstrate the extent of compliance.

4.13 It is considered from the evidence that the principle of each Standard is embedded in the Council's financial planning system.

4.14 Some recent changes have been made to bring the Council's position into line with the Standards and these relate to the Annual Report of the Chief Finance Officer (*Standard K*) and demonstrating Value for Money (*Standard A*).

4.15 In addition, a further review associated with *Standard C*, overall Governance and Control, to determine compliance with the 15 "Nolan" principles, as recommended by the Government Committee on Standards in Public Life

4.16 It is considered that there is one Standard where the Council does not comply, i.e. Standard L – "*The Council has engaged where appropriate with key stakeholders in developing its long term financial strategy, MTFP and annual budget*".

4.17 Although statutory consultation is undertaken each year on the Council's budget proposals, this focuses more on the dissemination of information on the Council's financial position. Clearly, this is important but there is no proper engagement on developing proposals prior to the Council publishing its draft budget and MTFP.

4.18 Many authorities appear to undertake greater engagement. This is mainly undertaken where authorities provide options for Council Tax increases or budget reductions due to limited resources.

4.19 The Council should consider how appropriate this is given its own financial position.

## **5.0 Financial Implications**

- 5.1 None. Compliance with the FM Code is delivered within current resources.

## **6.0 Corporate Implications**

### **Employment Implications**

- 6.1 None

### **Legal Implications**

- 6.2 As highlighted in the Report.

### **Corporate Plan Implications**

- 6.3 None directly, although sound financial management and ensuring the Council's financial sustainability allow the Council's services and priorities to be delivered.

### **Risk Impact**

- 6.4 If compliance with the FM Code is not demonstrated, this could bring into question the Council's financial sustainability, resulting in a negative impact on its reputation with stakeholders.

## **7.0 Community Impact**

### **Consultation**

- 7.1 None required on the FM Code itself.

### **Equality and Diversity Impact**

- 7.2 None

### **Social Value Impact**

- 7.3 None

### **Environmental Sustainability**

- 7.4 None

## **8.0 Background Papers**

- 8.1 None