

TYNE AND WEAR FIRE AND RESCUE AUTHORITY

Item No: 6

GOVERNANCE COMMITTEE MEETING: 27 MAY 2022

SUBJECT: THE CIPFA FINANCIAL MANAGEMENT CODE

REPORT OF THE FINANCE DIRECTOR

1. Purpose of the Report

- 1.1 To provide Governance Committee with information about the Chartered Institute of Public Finance and Accountancy (CIPFA) Financial Management Code (FM Code) and how the Authority complies with these standards.

2. Background Information

- 2.1 The CIPFA FM Code was designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability.
- 2.2 The FM Code was introduced because of the exceptional financial circumstances faced by local authorities which have revealed concerns about fundamental weaknesses in financial management, particularly in relation to organisations that may be unable to maintain services in the future within existing funding levels.
- 2.3 The FM Code sets, for the first time, the standards of financial management for local authorities. In recognising that one of the strengths of UK local government is its diversity, with authorities varying by size and type and organisational culture and having differing requirements in relation to reliance on local tax income or the scope to utilise additional grant or in generating trading income, the code is not prescriptive.
- 2.4 The FM Code is based on a series of principles by which authorities should be guided in managing their finances and is supported by specific standards which are considered necessary to provide a strong foundation 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 their financial circumstances.
- 2.5 The FM Code is designed to be flexible in respect of the nature, needs and circumstances of individual authorities. It is up to each authority therefore to determine the extent to which it complies with the FM Code and to identify

what action it may wish to take to better meet the standards that the FM Code provides.

- 2.6 Each local authority must demonstrate that the requirements of the code are being satisfied. Demonstrating this compliance with the FM Code is a collective responsibility of elected members, the chief finance officer (CFO) and their professional colleagues in the leadership team. It is for all of the senior management team to work with elected members in ensuring compliance with the FM Code and to demonstrate that the standard of financial management to be expected of a local authority is being delivered. In doing this the statutory role of the Section 151 (S151) officer will not just be recognised but also supported in order to achieve the combination of leadership roles essential for good financial management to be effective.
- 2.7 Whilst CIPFA has provided leadership, the development of the FM Code reflects a recognition that self-regulation by the local authority sector must be the preferred response to the financial management failures that have the potential to damage the reputation of the sector as a whole. The FM Code has sought therefore to rely on the local exercise of professional judgement backed by appropriate reporting within each authority.
- 2.8 The FM Code builds on established CIPFA Prudential and Treasury Management Codes which require local authorities to demonstrate the long-term financial sustainability of their capital expenditure, associated borrowing and investments.
- 2.9 The FM Code applies a principle-based approach. It does not prescribe the financial management processes that local authorities should adopt. Instead, the Code requires that a local authority demonstrates that its processes satisfy the principles of good financial management for an authority of its size, responsibilities and circumstances. The FM Code acknowledges that good financial management is proportionate to the risks to the Authority's financial sustainability posed by the twin pressures of scarce resources and the rising demands on services. The FM Code identifies these risks to financial sustainability and introduces an overarching framework of assurance which builds on existing best practice but for the first time sets explicit standards for financial management.

3. Requirements of the Financial Management Code

- 3.1 The underlying principles that inform the FM Code have been developed in consultation with senior practitioners from local authorities and associated stakeholders.
- 3.2 There are six key principles that have been designed to focus on an approach that will assist in determining whether, in applying standards of financial management, a local authority is financially sustainable. These principles are the benchmarks against which all financial management will be judged, and it is CIPFA's view that all financial management practices should comply with the key principles set out below:

- **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 that drives the annual budget process supported by effective risk management, quality supporting data and whole life costs.
- **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.
- **Adherence to professional standards** is promoted by the leadership team and is evidenced.
- **Sources of assurance** are recognised as an effective tool mainstreamed into financial management, including political scrutiny and the results of external audit, internal audit and inspection.
- **The long-term sustainability of local services is at the heart of all financial management processes** and is evidenced by prudent use of public resources.

- 3.3 To enable authorities to test their conformity with the CIPFA Statement of Principles of Good Financial Management, the FM Code translates these six key principles into seventeen Financial Management Standards. These Financial Management Standards have different practical applications according to the different circumstances of each authority and their use should therefore reflect this. The principle of proportionality is embedded within the FM Code and reflects a non-prescriptive approach.
- 3.4 The purpose of the FM Code itself is to establish the principles in a format that matches the financial management cycle and supports governance in local authorities. A series of Financial Management Standards set out the professional standards needed if a local authority is to meet the minimum standards of financial management acceptable to meet fiduciary duties to taxpayers, customers and lenders. Since these are minimum standards, it is CIPFA's judgement that compliance with them is obligatory if a local authority is to meet its statutory responsibility for sound financial administration. Beyond that, CIPFA members must comply with it as one of their professional obligations. It is implied therefore that the S151 officer as such will be key in demonstrating compliance to the FM Code on behalf of the Authority.
- 3.5 The FM Code thus identifies the following seventeen standards which must be adhered to as follows:
- The leadership team is able to demonstrate that the services provided by the authority provide value for money;

- The authority complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government (2016);
- The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control;
- The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016);
- The financial management style of the authority supports financial sustainability;
- The authority has carried out a credible and transparent financial resilience assessment;
- The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members;
- The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities;
- The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans;
- The authority complies with its statutory obligations in respect of the budget setting process;
- The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement of the adequacy of the proposed financial reserves;
- The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget;
- The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions;
- The leadership team takes action using reports, enabling it to identify and correct emerging risks to its budget strategy and financial sustainability;
- The leadership team monitors the elements of its balance sheet which pose a significant risk to its financial sustainability;
- The chief finance officer has personal responsibility for ensuring that the statutory accounts provided to the local authority comply with the Code of Practice on Local Authority Accounting in the United Kingdom;
- The presentation of the final outturn figures and variations from budget allow the leadership team to make strategic financial decisions.

4. Compliance with the Financial Management Code

- 4.1 It is a requirement of the FM Code that each local authority must demonstrate that the requirements of the code are being satisfied and whilst CIPFA has provided leadership, the development of the FM Code reflects a recognition that self-regulation must be the preferred response to financial management failures that have the potential to damage the reputation of the sector as a

whole. The FM Code has sought therefore to rely on the local exercise of professional judgement backed by appropriate reporting.

- 4.2 A detailed review has been undertaken and concluded that the Authority's arrangements comply with CIPFA's FM Code. The results of the detailed assessment are summarised in Appendix 1 for information.

5. Equality and Diversity Implications

- 5.1 There are no Equality and Diversity implications in respect of this report.

6. Financial Implications

- 6.1 Adherence to the FM Code does not in itself, have any financial implications.

7. Health and Safety Implications

- 7.1 There are no health and safety implications in respect of this report.

8. Recommendation

- 8.1 Members are requested to note the report and that the Authority fully complies with the requirements of the FM Code.

