

Report to AUDIT COMMITTEE

Compliance with the CIPFA Financial Management Code

Portfolio Holder: Cllr Abdul Jabbar MBE, Deputy Leader and Cabinet Member for Finance and Low Carbon

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Reason for Decision

This report presents information which highlights the Council's compliance with the Financial Management Code issued by the Chartered Institute of Public Finance and Accountancy.

Executive Summary

In response to the financial challenges being faced by a number of Local Authorities, towards the end of 2019 the Chartered Institute of Public Finance and Accountancy (CIPFA) issued the CIPFA Financial Management Code (FM Code) which is designed to support good practice in financial management and to assist Councils in demonstrating financial sustainability. However, it was not until mid-2020 that the guidance notes to support this document were issued which provided a more comprehensive description of the requirements and how these could be demonstrated. Due to the timing of the issue of the documentation, the financial year 2020/21 was a shadow year to allow time for Authorities to demonstrate how they were working towards full implementation of the Code. The first full year of compliance with the FM Code is therefore 2021/22.

The FM Code applies a principles-based approach. It does not prescribe the financial management arrangements that Local Authorities should adopt. Instead, it requires that a Local Authority ensures, and is able to demonstrate, that it satisfies the principles of good financial management for an authority of its size, responsibilities and circumstances.

The Code has six underlying principles designed to focus on robust financial management as a way of achieving both short-term financial resilience and long-term financial sustainability.

Since the detailed guidance notes were issued, the Finance Team has reviewed the Code and the Council's compliance a number of times. As outlined in this report, this up-to-date detailed position statement (at Appendix 1) shows the Council is well placed with generally good Code compliance. The report sets out the requirements of the seven sections of the Code and its seventeen standards, highlights where there is compliance and where some revisions and/or changes to practice are required in order to address the Code in full. The FM Code is presented at Appendix 2.

From a financial management perspective, there are three key issues about which Members may wish to have regard:

- a) the External Audit opinion on the Statement of Accounts upon which the Audit Committee has been fully updated. This gives Members of the Committee assurance about the high standard of accounting practice.
- b) the issuing by the External Auditor on 17 December 2021 of the Auditors Annual Report on the financial year 2020/21 which included commentary on the audit of the financial statements as well an opinion on the Council's Value for Money (VFM) arrangements. With regard to the VFM opinion it advised that in relation to the criteria examined, that no risk of significant weaknesses in arrangements had been identified and that there were no actual weaknesses in arrangements identified.
- c) Where areas of development have been identified, work is in train to address the issues.

Recommendation

The Audit Committee is recommended to note the level of compliance with the CIPFA Financial Management Code and the issues that require further development.

The CIPFA Financial Management Code**1 Background**

- 1.1 In response to the financial challenges being faced by a number of Local Authorities, towards the end of 2019, the Chartered Institute of Public Finance and Accountancy (CIPFA) issued the CIPFA Financial Management Code (FM Code). This Code is designed to support good practice in financial management and to assist Councils in demonstrating financial sustainability. However, it was not until mid-2020 that the guidance notes to support this document were issued which provided a more comprehensive description of the requirements and how these could be demonstrated. Due to the timing of the issue of the documentation, the financial year 2020/21 was a shadow year to allow time for Authorities to demonstrate how they were working towards full implementation of the Code. The first full year of compliance with the FM Code is therefore 2021/22.
- 1.2 Since the detailed guidance notes were issued, the Finance Team has reviewed the Code and the Council's compliance a number of times. The Team has taken opportunities to promote improvements and developments to enhance compliance. Unfortunately, the COVID-19 pandemic has slowed the work as attention has had to be focused on the response to the national emergency, but nonetheless, as outlined in this report, this up-to-date position statement shows the Council is well placed with regard to Code compliance. Appendix 1 to the report sets out in detail the requirements of the Code, highlights where there is compliance and where some revisions and/or changes to practice are required in order to address the Code in full.

2 Current Position

- 2.1 The Financial Management Code (FM Code), as presented at Appendix 2, sets out the principles by which Authorities should be guided in managing their finances and the specific standards that they should, as a minimum, seek to achieve. It is designed to be flexible to the nature, needs and circumstances of individual Authorities. It enables each Authority to determine the extent to which it complies with the FM Code and to identify any action it may wish to take to better meet the standards set out in the Code. It is CIPFA's intention is that the FM Code has the same scope as the Prudential Code for Capital Finance in Local Authorities (CIPFA, 2021), which promotes the financial sustainability of Local Authority capital expenditure and associated borrowing. Therefore, whilst the FM Code does not have legislative backing, it applies to all organisations in the Local Government sector.
- 2.2 The FM Code applies a principles-based approach. It does not prescribe the financial management arrangements that Local Authorities should adopt. Instead, the FM Code requires that a Local Authority ensures, and is able to demonstrate, that it satisfies the principles of good financial management for an authority of its size, responsibilities and circumstances.
- 2.3 The FM Code has six underlying principles and these have been designed to focus on robust financial management as a way of achieving both short-term financial resilience and long-term financial sustainability. The principles are as follows:
- a) Organisational **leadership** – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.

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- b) **Accountability** – financial management is based on medium-term financial planning, which drives the annual budget process supported by effective risk management, quality supporting data and whole life costs.
 - c) Financial management is undertaken with **transparency** at its core using consistent, meaningful and understandable data, reported with appropriate frequency and with evidence of periodic officer action and elected member decision making.
 - d) Adherence to professional **standards** is promoted by the leadership team and is evidenced.
 - e) Sources of **assurance** are recognised as an effective tool mainstreamed into financial management and include political scrutiny and the results of external audit, internal audit and inspection.
 - f) 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.

2.4 In order to test conformity with the six principles, the FM Code translates these principles into financial management standards. These address the aspects of an Authority's operations and activities that must function effectively if financial management is to be undertaken robustly and financial sustainability is to be achieved. In total there are seventeen standards which are presented in the seven sections of the Code as follows:

- 1) The responsibilities of the Chief Financial Officer and leadership team;
- 2) Governance and financial management style;
- 3) Medium to long term financial management;
- 4) The annual budget;
- 5) Stakeholder engagement and business plans;
- 6) Monitoring financial performance;
- 7) External financial reporting.

2.5 Sections 1 and 2 address important contextual factors which need to be addressed in the first instance if sound financial management is to be possible. Sections 3 to 7 address the requirements of the financial management cycle starting with Section 3 which states the need for a long-term approach to the evaluation of financial sustainability and concluding with Section 7, which shows how high-quality financial reporting supports the financial management cycle by ensuring that it rests on sound financial information.

2.6 The Council should be able to provide evidence that financial management arrangements have been reviewed against the standards and that such action as may be necessary has been taken to comply with them. The CIPFA guidance notes aim to assist by exploring in more detail the themes addressed in the FM Code and by providing suggestions and ideas as to how it can be implemented in practice. These guidance notes have been used as a benchmark against which compliance has been demonstrated. Appendix 1 therefore sets out the seven sections and the seventeen standards within them (A to Q) together with a detailed commentary as to how the Council complies. The FM Code is presented at Appendix 2.

2.7 As can be seen, the detailed commentary of compliance shows the good practice in the Council. Some of the evidence provided appears in more than one area given the nature of the standards. A number of areas for improvement are also highlighted. The seven Sections and seventeen Standards are presented below together with a summary of key issues where some action is required.

1) Responsibilities of the Chief Finance Officer and the Leadership Team (Standards A to B)

STANDARD A - The Leadership Team demonstrates that the services provided by the Authority provide Value for Money

It is evident from Appendix 1 that there is general compliance with the Code. This is reinforced by the receipt by the Council on 17 December 2021 of the Auditors Annual Report on the financial year 2020/21 from the Council's External Auditors (Mazars LLP). This included commentary on the audit of the financial statements as well an opinion on the Council's VFM arrangements. In relation to each of the three areas examined for the VFM opinion, the comments were positive. The findings were that no risk of significant weaknesses in arrangements had been identified and that there were no actual weaknesses in arrangements identified.

However, highlighted as an area for improvement, and also highlighted in the Annual Governance Statement is contract management arrangements. The Director of Finance has been working with the Procurement Team colleagues to take forward some improvements across services. This work will continue over the remainder of 2021/22.

STANDARD B – The Authority complies with the CIPFA Statement on the Role of the Chief Finance Officer (CFO)

Until recently it has been a challenge to demonstrate full compliance with this standard specifically with regard to the management arrangements for the CFO (the Director of Finance in Oldham) which did not align with the requirements of the CIPFA Publication The Role of the CFO in Local Government. However, the Chief Executive has recently changed the line management arrangements of the CFO so that the post holder reports directly to the Chief Executive, is a member of the Management Board (the current officer Leadership Team) with a status at least equivalent to other members. The Authority is now compliant with this requirement.

2) Governance and Financial Management style (Standards C to E)

STANDARD C - The Leadership Team demonstrates in its actions and behaviours responsibility for governance and internal control

Compliance in this area is generally good. One issue that needs to be addressed is with regard the recruitment of independent members of the Audit Committee including an independent Chair of the Committee. Despite a number of recruitment campaigns, the Council has been unable to recruit suitable candidates. This has been discussed at the Audit Committee many times. It was agreed at the last meeting of the Committee to renew recruitment efforts in 2022.

STANDARD D - The Authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government Framework 2016

The information contained in Appendix 1 advises full compliance with this requirement. In this regard, the production of a suitable Annual Governance Statement (AGS) is a key piece of evidence that the Authority complies with the FM Code. As Members will be aware, the AGS of the Council is presented alongside the Statement of Accounts and provides details of how the Authority meets each element of the CIPFA/ SOLACE Framework. Updates on the AGS are provided to the Audit Committee on a quarterly basis.

STANDARD E - The Financial Management Style of the Authority supports Financial Sustainability

There is general compliance with this Standard but there are several areas for improvement that have been identified:

- There is a need for improvement in general financial skills across the organisation with the refreshing of financial skills training for non-finance officers at all levels of the Council. A programme of activity is planned before the end of 2021/22. Similarly, there is a need for additional training for Members which is also planned for early 2022.
- There is an opportunity to better align finance and performance reporting (this features in several of the Standards), and work is taking place to move this forward.
- Whilst some improvements have been made to payroll and pensions administration, there remain areas for development with programmes of action in place to address identified weaknesses. The Audit Committee has been advised of the challenges and the work is in train.
- The overall level of income collection requires improvement. A particular area of focus is Council Tax and Business Rates where a number of initiatives have been implemented to improve performance. The Finance Team has also initiated a programme of action to try to improve the collection of sundry debt and progress is being monitored.

3) Medium to long term financial management (Standards F to I)

STANDARD F – The Authority has carried out a Credible and Transparent Financial Resilience Assessment

There is general compliance with this Standard but there are several issues which require comment:

- The Council has not specifically undertaken a defined review of financial resilience but has relied on the expertise of the CFO to review, assess and report on key areas of financial resilience, through to the senior managers, Members, the Audit Committee and through budget and financial monitoring reports. However, an external review which looked at a number of issues including the Council's budget setting processes, has advised that the approach has been technically sound.
- A key requirement for the Council which has been highlighted by the CFO for several years is that the Council must reduce its reliance on the use of one-off resources for budget setting and reduce its cost base to match to the level of resources available. The transformation programme upon which the Council has embarked, must be accelerated and progress to support the budget process and deliver sustainable budget reductions. This is a key strand of the work programme in delivering savings for 2022/23 but more specifically the 2023/24 budget process.
- Another area requiring action is the continued overspending in the key services of Adults and Children's Social Care. These are services with high demand and COVID has impacted on these areas the most. Nonetheless work continues to address the underlying issues.
- Also linked to this standard is the further development of the use of performance management information. Whilst there is some good practice, there are opportunities to widen the scope of the existing work and to align this more fully with financial management information in order to support improve efficiency and drive change.

STANDARD G - The Authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members

The information contained in Appendix 1 advises of full compliance with this requirement.

STATEMENT H - The Authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities

The information contained in Appendix 1 advises of full compliance with this requirement

STATEMENT I - The authority has a rolling multi-year Medium Term Financial Plan consistent with sustainable service plans

There is general compliance with this Standard but there are several issues which require comment:

- The Council prepares a multi-year Medium Term Financial Strategy (MTFS), but there are opportunities to develop this further by improving techniques and developing sensitivity analysis. This remains an area for further review and consideration in relation to balancing the potential resource requirements against potential benefits of employing different techniques.
- The MTFS has had to be reset in recent years as some of the anticipated savings upon which financial projections were built have not come to fruition, thus rolling forward existing planning targets proved impractical. A corporate challenge which requires further action has been the delivery in full of identified and approved budget reductions.
- There is the opportunity to make better use of benchmarking against other similar Councils and this is a corporate initiative that is being addressed
- As previously highlighted, the Council has used reserves to underpin the budget over recent years and the Finance Team is constantly reviewing the availability of reserves to ensure financial resilience.

4) The Annual Budget (Standards J and K)

STANDARD J - The Authority complies with its statutory obligations in respect of the budget setting process

The information contained in Appendix 1 advises full compliance with this requirement

STANDARD K - 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 information contained in Appendix 1 advises full compliance with this requirement

5) Stakeholder engagement and business cases (Standards L and M)

STANDARD L - The Authority has engaged with key stakeholders in developing its long-term financial strategy, medium term financial plan and annual budget

There is general compliance although a potential future development is engagement that enables stakeholders to influence any priority setting and the balance between the Council's service delivery aspirations and the level of available resources. This will require further examination in the context of the Council's existing approach to priority-based budget setting.

STANDARD M - The Authority uses a documented option appraisal methodology to demonstrate the VFM of its decisions

Appendix 1 details the Council's processes for option appraisal which conforms to Code requirements. However, a refresh of documented option appraisal guidance is needed. This will be undertaken during the remainder of 2021/22.

6) Monitoring Financial Performance (Standard N and O)

STANDARD N - The Leadership Team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability

There is general compliance with this standard but again the issue of enhancing the linkage between performance data is highlighted as an area for corporate development to improve understanding, planning and efficiency.

STANDARD O - The Leadership Team monitors the elements of its balance sheet which pose a significant risk to its financial stability

Full compliance with this standard would require monthly financial monitoring information to be supplemented by either a full Balance Sheet or information on other key balance sheet elements (in addition to reserves which is already supplied). Balance Sheet detail has in the past been provided alongside financial monitoring reports. In practice this information was found to be of limited use to those outside the Finance Team. The Director of Finance considers that the reviews undertaken by the Finance Service will highlight any issues and risks and that such issues will be brought to the attention of senior managers and Members as appropriate.

The improved presentation of information on the level of debtors/creditors is being considered. The Finance Team has initiated a review of the level of sundry debt in order to focus on reducing such debt and the presentation and review of financial information on debtors is a key development for the coming months.

7) External Financial Reporting (Standards P and Q)

STANDARD P – 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 information contained in Appendix 1 advises of full compliance with this requirement.

STANDARD Q – The presentation of the final outturn figures and variations from budget allow the leadership team to make strategic financial decisions

The information contained in Appendix 1 advises of full compliance with this requirement.

2.8 In summary, as is evidenced by Appendix 1 and the above commentary, FM Code compliance is generally good and there are no areas of significant concern. All key elements have full compliance and there is some latitude as to the adoption of some of the requirements based on local experience and requirements.

2.9 From a financial management perspective, there are three key issues about which Members may wish to have regard:

- a) the External Audit opinion on the Statement of Accounts upon which the Audit Committee has been fully updated. This gives Members of the Committee assurance about the high standard of accounting practices
- b) the issuing by the External Auditor on 17 December 2021 of the Auditors Annual Report on the financial year 2020/21 which included commentary on the audit of the financial statements as well an opinion on the Council's Value for Money (VFM) arrangements. With regard to the VFM opinion, it advised that in relation to the criteria examined, that no risk of significant weaknesses in arrangements had been identified and that there were no actual weaknesses in arrangements identified.
- c) Where areas of development have been identified and accepted, work is in train to address the issues.

3 Options/Alternatives

3.1 **Option 1** - that the Audit Committee notes the level of compliance with the CIPFA Financial Management Code and the issues that require further improvement.

3.2 **Option 2** – the Audit Committee request further work to be done to highlight compliance with the CIPFA Financial Management Code.

4 Preferred Option

4.1 The preferred option is that the Audit Committee notes the level of compliance with the CIPFA Financial management Code and the issues that require further improvement.

5 Consultation

5.1 Consultation has taken place with officers of the Council to ensure that all the key issues are highlighted to Members of the Audit Committee.

6 **Financial Implications**

- 6.1 There are no specific financial implications associated with the report. However, compliance with the CIPFA Code is a benchmark of good practice so the information outlined in the report should give Members some confidence about the financial management practice in the organisation. There is work taking place to address areas for further development.

7 **Legal Services Comments**

- 7.1 None

8. **Co-operative Agenda**

- 8.1 Compliance with the CIPFA FM Code demonstrates the Council's commitment to Value for Money and hence aligns to the co-operative ethos of the Council.

9 **Human Resources Comments**

- 9.1 None

10 **Risk Assessments**

- 10.1 Compliance with the CIPFA FM Code minimises the risk to the Council of financial failure as has been experienced by some other Local Authorities. The continued application of good practice provides assurance to Members about the financial resilience and sustainability of the Council.

11 **IT Implications**

- 11.1 None

12 **Property Implications**

- 12.1 None.

13 **Procurement Implications**

- 13.1 None.

14 **Environmental and Health & Safety Implications**

- 14.1 None.

15 **Equality, community cohesion and crime implications**

- 15.1 None.

16 **Implications for Children and Young People**

- 16.1 None.

17 **Equality Impact Assessment Completed?**

- 17.1 N/A

18 **Key Decision**

18.1 No

19 **Key Decision Reference**

19.1 N/A

20 **Background Papers**

20.1 The following is a list of the background papers on which this report is based in accordance with the requirements of Section 100(1) of the Local Government Act 1972. It does not include documents, which would disclose exempt or confidential information as defined by that Act.

File Ref: Background papers are contained with Appendices 1 and 2
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21 **Appendices**

21.1 Appendix 1 – Financial Management Code – Evidence of Compliance
Appendix 2 – CIPFA Financial Management Code