

NORTH YORKSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

14 December 2020

THE CIPFA FINANCIAL MANAGEMENT CODE

Report of the Corporate Director – Strategic resources

1. Purpose of the Report

- 1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) have issued a Financial Management (FM) code which aims to ensure a high standard of financial management in local authorities. This report looks at how far the County Council already complies with these requirements and makes initial suggestions for areas of improvement.

2. Background

- 2.1 In light of concerns around the financial resilience and management of local authorities, in particular after the well-publicised issues at Northamptonshire County Council, CIPFA developed, and consulted on, a draft code for good practice in financial management. NYCC responded to this consultation strongly supporting the principle of a financial management code but in particular urging a pragmatic and not overly prescriptive approach.
- 2.2 The final CIPFA FM code was issued in October 2019 and local authorities are required to apply the code from 1st April 2020. However, CIPFA considers 2020-21 as a 'shadow' year and requires that by 31st March 2021 local authorities should be able to demonstrate they are working towards full implementation of the code. The first full year of compliance will therefore be 2021-22.
- 2.3 Finance in local government is governed by a complex mix of rules including primary legislation, regulation and professional standards. The general financial management of a local authority, however, has not historically been supported by a specific professional code. Therefore, the CIPFA FM code will, for the first time, set standards of financial management for local authorities in the UK.
- 2.4 The code is designed to support good practice in financial management and help local authorities demonstrate financial sustainability. It builds upon the underlying principles of leadership, accountability, transparency, professional standards, assurance and sustainability.

- 2.5 The FM code is also consistent with other CIPFA codes in that it is based on principles rather than narrow prescription. The code will not, therefore, detail specific financial management processes that each organisation must follow. Instead the local authority must demonstrate that the principles of the code, the Financial Management Standards, are being satisfied. Demonstrating this compliance with the code is the collective responsibility of elected members, S151 officers and their professional colleagues in the leadership team.
- 2.6 The code in itself, of course, does not eliminate financial pressure or risk but compliance with the code validates the organisation's ability to identify and manage risk and plan for long term financial sustainability.
- 2.7 A self-assessment of the County Council's ability to demonstrate that it meets the requirements of the FM code, and areas for further development, are detailed in the appendix to this report.

3. Conclusion

- 3.1 North Yorkshire County Council has a strong record of financial management and so, perhaps unsurprisingly, analysing the Council's structures, processes and procedures against the FM Code's Financial Management Standards shows a relatively high level of compliance with these principles. However, there are a number of areas where further actions can be taken to enhance compliance and these are detailed in the appendix along with an appropriate responsible officer.

4. Recommendations

- 4.1 That the Committee notes the introduction of the CIPFA FM Code and the self-assessment of compliance with the code detailed in the appendix to this report
- 4.2 That the identified officers address the actions as detailed in the appendix.
- 4.3 That a further report on progress is brought back to Audit Committee ahead of the deadline for full compliance.

Gary Fielding

Corporate Director - Strategic Resources

County Hall

14 December 2020

Report prepared by Nick Morgan

North Yorkshire County Council – assessment of compliance with the CIPFA Financial Management Code

SECTION 1 – The Responsibilities of the chief finance officer and leadership team

	FINANCIAL MANAGEMENT STANDARD	CURRENT POSITION	'RAG' RATING & AREAS FOR POTENTIAL IMPROVEMENT
A	The Leadership team is able to demonstrate that the services provided by the authority are value for money	<p>An annual report on VFM is taken to Audit Committee.</p> <p>NYCC reports on the performance against its key priority areas as well as financial performance on a quarterly basis to Executive Members. Prior to this the report is also discussed at management board with all the senior leaders within the Council.</p> <p>Regular meetings are also held between the S151 Officer and the Executive Member responsible for finance, assets and special projects, to discuss financial management including emerging pressures and how the Council is managing them, use of reserves as well as potential underspends and whether these can be used towards the council's savings programme.</p> <p>External judgements, in particular OFSTED's comprehensive 'outstanding' rating for children's services, are further evidence of effective service delivery within the available resources.</p> <p>Benchmarking against comparator organisations is undertaken and the recent licensing of the CFOInsights tool should allow more comprehensive analysis in this area.</p>	<p>Develop a more systematic approach to benchmarking against relevant comparators</p> <p><i>Responsible Officer – Head of Strategic Financial Planning (working with Head of Strategic Support)</i></p>
B	The authority complies with the CIPFA Statement on the Role of The Chief Finance Officer in Local Government	<p>The S151 officer is a key member of Management Board and is actively involved in helping to shape and deliver the County Council's strategy as well as ensuring there are sufficient resources to deliver the strategy.</p> <p>The S151 Officer is also chair of the Strategic Investment Board and a member of programme board and NYES board. Any significant investment decision is therefore subject to scrutiny by the S151 Officer and is challenged where the project is not aligned to the strategic vision of the council.</p> <p>As part of the annual Treasury Management Strategy report the Chief Finance Officer also provides the capital strategy for the County Council. The authority also has access to technical advice from LINK Asset Services.</p>	

		<p>The S151 Officer is CIPFA qualified and has 30 years of experience in local government finance as well as maintaining CPD compliance.</p> <p>Management team is supported by Lead Business Partners who are joint finance/service posts and sit on directorate management teams. They support and challenge as appropriate when directorates are considering matters that may have a financial bearing for the council. The Council also offers financial training to all budget managers to ensure people have the skills necessary to carry out their role effectively.</p> <p>CPD is actively monitored as of 2019 and a training matrix has been established for finance staff. Specific training needs are reviewed annually although staff are also encouraged to attend other technical training as required, for example if there are technical changes to accounting standards, changes to funding formula for local authorities etc. Therefore, the S151 Officer is supported by a highly skilled team and is able to offer advice and support when required.</p> <p>Almost 80% of the Finance team have accountancy qualifications (and maintain membership). This includes accounting technician qualification (AAT) and accountant level qualifications (such as CIPFA, CIMA etc.).</p>	
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SECTION 2 – Governance and Financial Management Style

C	<p>The Leadership team demonstrates in its actions and behaviours responsibility for governance and internal controls</p>	<p>The Council’s governance arrangements include a framework of assurance, of which the leadership team are part. Any significant issues with regards to governance and control across the authority are considered by the leadership team as a whole and the annual Governance Statement is reviewed and agreed by the Leadership team.</p> <p>A number of key controls ensure appropriate scrutiny and governance of key financial decision points. For example, Strategic Investment Board, Project Management Office, procurement gateways, finance procedure rules etc.</p>	<p>Ensure regular refresh of finance manual and finance procedure rules. <i>Responsible Officer – AD Strategic Resources.</i></p>
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		Internal Audit are a key part of the Council's assurance framework and meet routinely with the S151 Officer and chief officers to ensure that Audit resources are appropriately directed towards areas of greatest need (applying a risk based approach) and that audit actions are followed up.	
D	The authority applies the CIPFA/SOLACE <i>Delivering Good Governance in Local Government: Framework (2016)</i>	<p>The Council is committed to demonstrating good corporate governance. This is done through a system which directs and controls its functions and relates to the community it serves. To enable this there is a framework of policies, management systems, procedures and structures that together, determine and control the way in which the Council manages its business, determines its strategies and objectives, and sets about delivering its services to meet those objectives for the greater good of its community. This naturally extends to how the organisation accounts to, engages with and, where appropriate, leads its community.</p> <p>The Council's corporate governance Framework is based upon the CIPFA/SOLACE document entitled <i>Delivering Good Governance in Local Government: Framework 2016</i>.</p> <p>There is documentation that makes up the Council's Framework which includes the Council's Local Code and the Annual Governance Statement. The Local Code addresses the seven core Principles of corporate governance as set out in the CIPFA/SOLACE Framework and describes the systems and processes that support these in the Council. The Code also explains how the Council intends to monitor and review the corporate governance arrangements defined in this Code.</p> <p>The Annual Governance Statement is linked to the Local Code through the seven principles in the Code. The Statement explains how the Council has complied with its Local Code and also how it meets the requirements of Regulation 6(1)) of the <i>Accounts and Audit Regulations 2015</i> in relation to the publication of an Annual Governance Statement.</p> <p>The Local Code and Annual Governance Statement are reviewed and refreshed annually, and then further reviewed by the Audit Committee. The Audit Committee also receive an annual corporate governance progress</p>	

		<p>report which includes details of other notable governance work and a summary of improvements.</p> <p>In terms of roles and responsibilities the Council has in place a Corporate Governance Officer Group which includes the Monitoring Officer, Section 151 Officer and the Head of Internal Audit. This Group reviews the development and maintenance of the governance Framework and the environment of the Council on a regular and ongoing basis, in conjunction with Corporate Directors and senior officers.</p> <p>The role of the Audit Committee under their Terms of Reference includes assessing the effectiveness of the Council’s corporate governance arrangements, approving the Annual Governance Statement, and to liaise and work with the Standards Committee to promote good ethical standards within the Council.</p>	
<p>E</p>	<p>The financial management style of the authority supports financial sustainability</p>	<p>Financial sustainability underpins the Council corporate objectives with the Council’s ‘Beyond 2020’ programme (and prior to this the 2020 and BEST Programmes) being the key strategic focus for cross-cutting service transformation.</p> <p>In terms of financial accountability, NYCC expects all budget managers to actively monitor their budgets. All budget managers are also given direct access to financial information to enable them to do this including Oracle BI and PBCS for forecasting their outturn position. Budget managers are expected to understand and explain significant variances from the budget.</p> <p>Finance are working within a business partner model. Finance colleagues are supporting and challenging service areas to maximise performance and in turn ensure resources are used in the most effective way. Part of this is undertaken through our work supporting the transformation programme and reviewing processes and services to see if they can be delivered in a different way. Finance play a key role in risk management and ensuring, in particular, that the financial outcomes of savings programmes are delivered.</p>	<p>Continue to develop managers’ capabilities for financial management <i>Responsible Officer – Head of Finance (Business Partnering)</i></p>

		<p>NYCC has had a culture of effective budgetary control and the most recent LGA peer review commended the County Council's <i>'tremendous grip on its budget'</i>.</p> <p>The MTFS process also means that the Council is able to understand longer term risks and plan a response to those appropriately.</p>	
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SECTION 3 – Long to medium-term financial management

F	The authority has carried out a credible and transparent resilience assessment	<p>The County Council scores well on the CIPFA resilience index and this performance is reported as part of the MTFS/Budget process. A well-established MTFS process allows for early identification of issues including the long term sustainability of funding.</p> <p>The authority generally takes a prudent approach to long term financial management including making reasonable provision for risks (e.g. funding for Brexit risks and for failure to meet all savings targets).</p> <p>Project planning for savings programmes is well established (including the requirement for costed business cases etc.) with a strong track record of delivery.</p> <p>As part of the MTFS process we explore a range of scenarios but inevitably in a period of significant uncertainty there are areas for further development, including exploring a wider range of potential risks.</p>	<p>Review the approach to scenario modelling to ensure it covers an appropriate range of potential risks.</p> <p><i>Responsible Officer – Head of Strategic Financial Planning</i></p>
G	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members	<p>NYCC currently update the Medium Term Financial Strategy annually – currently up to 2023/24. This is generally based on current year + four. Given the anticipated Spending Review time horizon it is not regarded as sensible to project beyond 2023/24 at this stage.</p> <p>Reports to Executive and County Council are explicit about long term risks and sustainability. The authority retains appropriate reserve balances to manage risks over the medium term and there is a specific policy on reserve balances which is agreed with members on an annual basis.</p>	

		<p>NYCC also hold a capital plan which is current year + two with future plans captured within 'later years'. A further year is added to the capital plan during quarterly reporting at Q2.</p> <p>The vision of the Council is set out along with key priorities within the Council Plan.</p> <p>Individual projects are generally assessed over a three to five-year time horizon, although for large scale investment projects the timeframe is extended dependent on the nature of the project.</p> <p>Government funding is currently only for 1 year ahead and Fair Funding is still awaiting implementation so there is little forward visibility.</p>	
H	<p>The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities</p>	<p>North Yorkshire County Council complies with the CIPFA Prudential Code through the approval on an annual basis of:</p> <ul style="list-style-type: none"> • a set of Prudential Indicators; and • an Annual Treasury Management Strategy including an Annual Investment Strategy, an annual Minimum Revenue Provision (MRP) Policy Statement; and • a Capital Strategy including non-financial and treasury management investments; and • a Prudent, sustainable, affordable and value for money Capital Programme including capital expenditure and capital financing <p>Each is monitored on a regular basis both in-year (quarterly) and at the financial year end to ensure compliance. During the previous financial year and current year to date, the County Council has operated within the latest Capital and Treasury Prudential Indicators approved and in compliance with the County Council's Treasury Management Practices.</p> <p>The County Council determines its own programmes for investment that are central to the delivery of quality public services. In addition to the setting of Prudential Indicators, Annual Treasury Management Strategy, Capital Strategy and Capital Programme, in order to ensure compliance with the Prudential Code the County Council also adopts the following practices:</p>	

		<ul style="list-style-type: none"> • Treasury Management performance benchmarking; • Regular member and officer treasury management training to ensure the appropriate level of resources and skills, and the effective division of responsibilities within the treasury management function; • Internal audit of the Treasury Management function and liaison with external audit; • Appointment of external service providers. • The adoption of a Commercial Investment Board (members and officers) ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities • A proportional commercial investment framework so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk • A process of due diligence carried out on all treasury and non-financial investments and is in accordance with the risk appetite and legal powers of the authority • Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed 	
I	<p>The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans</p>	<p>The authority has a rolling multi-year Medium Term Financial Plan which is updated at least annually and reflects the latest position in terms of funding, cost pressures, investments and savings.</p>	

SECTION 4 – The annual budget

J	The authority complies with its statutory obligations in respect of the budget setting process	The Council sets a balanced budget and complies with the requirements in relation to the S151 Officer statement on the robustness of the budget and adequacy of reserves. A s25 opinion is offered as part of the annual budget.	
K	The budget report includes a statement by the chief finance officer on the robustness of the estimates and a statement on the adequacy of the proposed financial reserves	As above – s25 opinion. As well as complying with the formal requirement the S151 Officer is clear and open about longer term risks and reports these to members.	

SECTION 5 – Stakeholder engagement and business plans

L	The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget	Public consultations are held in respect of budget proposals. The MTFs, annual budget and Council Plan are all published on the Council website. The MTFs and budget is developed in consultation with Executive Members, wider Members, Leadership Team and Extended Leadership Team as well as key partners and stakeholder groups, for example a working group with adult social care provider representatives. Commissioner fora, meetings of Health & NYCC Finance Directors and the Health & Wellbeing Board provide opportunities to engage with senior health partners on issues of joint financial interest. Members Seminars are held on a regular basis so that all Members are given opportunities to understand and challenge the budget and assumptions.	Review approach to engaging key stakeholder organisations (within the constraints of the national funding position). <i>Responsible Officer: Corporate Director – Strategic Resources</i>
M	The authority uses an appropriate documented option appraisal methodology to demonstrate value for money of its decisions	The authority uses an outline business case template and a well tried and exhaustive process for management of projects and savings programmes. North Yorkshire has a very good record of delivering planned savings. Final decisions on significant projects are taken at a cross-service Strategic Investment Board chaired by the S151 officer.	

SECTION 6 – Monitoring Financial Performance

N	The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability	<p>Quarterly in-year financial and performance monitoring reports are taken to leadership team and chief officers are held accountable for financial performance. Collective approaches to dealing with wider organisational risks are also well developed.</p> <p>Focussed reviews are carried out on areas of significant overspend so that recovery plans can be formulated.</p> <p>Some areas of particular demand pressure (e.g. adult social care and SEND) are the subject of Chief Executive & s151 officer “deep dives” and are reviewed at least bi-monthly.</p>	
O	The leadership team monitors the elements of the balance sheet that pose a significant risk to its financial sustainability	<p>Use of reserves is explicitly reported in quarterly performance reports. Quarterly treasury reports update on investments and debt.</p> <p>Regular reviews of Reserves are undertaken mid-year in order to justify amounts and reasons for the Reserves. This is then incorporated into the longer term forecasting of reserve balances is included as part of the MTFS report.</p>	<p>Review reporting of balance sheet items to wider leadership team as part of Q reporting regime.</p> <p><i>Responsible Officer – Corporate Director – Strategic Resources</i></p>

SECTION 7 – External financial reporting

P	The chief financial officer has personal and statutory responsibility for ensuring that the statement of accounts produced by the local authority complies with the reporting requirements of the Code of	<p>The Statement of Accounts is prepared in accordance with <i>The Code of Practice on Local Authority Accounting in the United Kingdom 2018/19</i>. This is stated in the accounts that have been signed off by the Corporate Director – Strategic Resources ahead of submission to the Audit Committee.</p> <p>The County Council has consistently received an unqualified audit opinion from the external auditors.</p>	
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	<i>Practice on Local Authority Accounting in the United Kingdom</i>		
Q	The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions	The outturn report identifies key variances from budgets with appropriate explanations and recommends action where appropriate in line with the in-year quarterly monitoring process. Any key issues arising from the outturn figures are reflected in the budget and MTFS process.	