

Hambleton District Council

Report To: Audit, Governance and Standards Committee

Date: 23 March 2021

From: Director of Finance and Commercial (s151 Officer)

Subject: **CIPFA Financial Management Code**

Portfolio Holder: Economic Development and Finance
Councillor P R Wilkinson

Wards Affected: All Wards

1.0 Purpose and Background

- 1.1 In recognition of the financial pressures that Councils are facing, the Chartered Institute of Public Finance and Accountancy (CIPFA) has developed the Financial Management Code.
- 1.2 The intention of the Financial Management Code is to provide guidance to Local Authorities to create a culture of strong, sustainable financial management giving assurance that authorities are managing resources effectively. A self-regulation approach will be taken which should prevent any need for external control or reductions in current powers.
- 1.3 A report was brought to Audit, Governance and Standards Committee on 20 October 2020 which described the Financial Management Code and the six principles which it is based on - Organisational Leadership, Accountability, Transparency, Professional Standards, Assurance and Long-Term Sustainability. The report also detailed that the Council need to be compliant by 2021/22.
- 1.4 In February 2021, CIPFA clarified the required compliance in relation to the Financial Management Code due to the pressure of the Covid-19 pandemic. The objective of the Financial Management (FM) Code was to enhance standards of financial management across the sector and this aim is still fully supported by the profession. CIPFA considers good financial management to be even more essential during the current challenge, but acknowledge the additional extraordinary burdens being faced by local authorities. Therefore, CIPFA has reflected on the extent to which it is appropriate to introduce the Financial Management Code at the current time.
- 1.5 CIPFA has concluded that whilst the first full year of compliance can remain as 2021/2022, it can do so within a more flexible framework where a proportionate approach is encouraged. Therefore, this Council adheres to some parts of the Financial Management Code as well as demonstrates a direction of travel where further work is required.

2.0 The Report

- 2.1 Complying with the standards set out in the Financial Management Code is the collective responsibility of elected members and Management Team.
- 2.2 Explicit standards of financial management are set out by the Financial Management Code. These are the minimum standards which have to be adhered to for the Council to demonstrate its compliance with the Financial Management Code. The standards articulate the practical application of the principles of financial management based on the requirements of primary legislation, associated CIPFA codes and guidance on professional codes of practice and ethics. Whilst compliance with the standards is mandatory, the Financial Management Code does not prescribe how they should be achieved.
- 2.3 There are 17 CIPFA Financial Management Standards which are set out in the Code under seven sections and labelled A to Q. To demonstrate conformity with the Financial Management Code's standards, the Council has reviewed its current processes, procedures and governance arrangements to understand where the Council is already compliant with the standards and where further work is required. Attached at Annex A is the Council's Financial Management Code Action Plan showing the Council's current position under the 17 Standards described above.
- 2.4 Audit, Governance and Standards Committee will be updated with regards to progress towards achieving the Financial Management Code in accordance with the Action Plan during 2021/22.

3.0 Link to Council Priorities

- 3.1 Compliance with the standards supports the Council's overall aims and priorities by promoting probity, integrity and honesty and by helping to support the Council to become a more effective organisation.

4.0 Risk Assessment

- 4.1 There are no risks associated with this report.

5.0 Financial Implications

- 5.1 There are no financial implications associated with this report.

6.0 Legal Implications

- 6.1 The Financial Management Code does not currently have any specific statutory backing. However, CIPFA reference that compliance with the Financial Management Code should be linked to the (s151) of the Local Government Act 1972. There is also an obligation upon members to adhere to the Financial Management Code.

7.0 Equalities and Diversity Issues

7.1 Equality and Diversity issues have been considered. There are no issues associated with this report.

8.0 Recommendation

8.1 That the Committee notes the content of this report.

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Background papers: None

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SECTION 1 – THE RESPONSIBILITY OF THE CFO AND LEADERSHIP TEAM

Code Standards / Statements of Standard Practice		Current assessed status	Reasons / Evidence base	Actions	Support Required
A	The leadership team demonstrates that the services provided by the authority provide value for money.	No concerns	VFM assessment undertaken by external auditors as part of their annual review.	Greater use of benchmarking to demonstrate VfM (via, for example, the use of the new CFO Insights product)	
B	The authority complies with the CIPFA Statement on the Role of the Chief Finance Officer (CFO) in Local Government	No concerns	The s151 (Director of Finance and Commercial) has reviewed their role as specified within the document and is satisfied that the requirements are met	Refresh knowledge of the document and ensure that requirements continue to be fulfilled	
B1	The CFO is a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver strategic objectives sustainably and in the public interest	No concerns	The s151 is an active member of the Council's Management Team and attends Cabinet and Council meetings in a formal capacity		
B2	The CFO must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer-term implications, opportunities and risks are fully considered, and aligned with the Financial Strategy.	No concerns	The s151 Officer is actively involved through the decision-making process. All reports require the approval of the s151, via their role on Management Team, and the s151 Officer ensures that financial risks and implications are considered for all reports		
B3	The CFO must lead the promotion and delivery of good financial management by the whole organisation so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.	No concerns currently, however work required	Financial training is offered to all new members and Cabinet Members are trained on the Financial Strategy on an annual basis. Refresher training on financial management at Service Manager level might be beneficial.	Carry out an audit of skillsets at both member and senior manager level and organise financial refresher training if appropriate	
B4	The CFO must lead and direct a finance function that is resourced to be fit for purpose and regularly review the skill sets of all finance staff with senior budget / financial management responsibility	No concerns	Addressed through the individual performance management process and compliance with Continuing Professional Development requirements. The Finance team are fully CCAB qualified accountants or AAT qualified.		
B5	The CFO must be professionally qualified and suitably experienced and be able to demonstrate adherence to CPD requirements on an annual basis	No concerns	Both the s151 (FCCA) and Deputy s151 (ACCA) (Corporate Finance Manager) have the required professional qualifications. Compliance with Continuing Professional Development requirements is addressed through the annual ACCA process.		

Code Standards / Statements of Standard Practice		Current assessed status	Reasons / Evidence base	Actions	Support Required
B6	The CFO should promote the highest standards of ethical behaviour in the conduct of financial management.	No concerns currently, however work required	<p>The financial procedure rules and internal controls ensure that ethical and other standards of behaviours are in place.</p> <p>The financial procedure rules have not been reviewed recently and may require updating</p>	Review financial procedure rules to ensure that they reflect current need and are still fit for purpose	
B7	The CFO should be able to provide the leadership team with sound advice on the key principles of local government finance and ensure that the authority has access to high standards of technical financial advice	No concerns	<p>All senior members of the finance team are long standing employees of the Council therefore have sound knowledge of local government finance.</p> <p>External technical advice is sought when deemed to be required</p>		
B8	The CFO should report explicitly on the affordability and risk associated with the capital strategy and where appropriate have access to specialist advice to enable them to reach their conclusions	No concerns	<p>The Council uses Link Asset Management for specialist treasury advice.</p> <p>The Council's capital strategy has been approved for the three years that the guidance has required and incorporates the affordability and associated risks.</p>		
B9	The CFO must establish the reporting and monitoring processes and integrate the treasury indicators into the overall financial planning process.	No concerns	Long standing reporting and monitoring processes are embedded within the Council.		

SECTION 2 – GOVERNANCE AND FINANCIAL MANAGEMENT STYLE

Code Standards / Statements of Standard Practice		Current assessed status	Reasons / Evidence base	Actions	Support Required
C	The leadership team demonstrates its actions and behaviours responsibility for governance and internal control	No concerns	The Council's governance arrangements include a framework of assurance, as detailed within the Annual Governance Statement. The Annual Governance Statement is reviewed on an annual basis and approved at Audit Governance and Standards Committee along with the Statement of Accounts and Value for Money audit opinion.	The Audit Results Report, Statement of Accounts opinion and Value for Money opinion are yet to be finalised for 2019/20 and will be presented at Committee in July 2021.	
D	The authority applies the CIPFA / SOLACE Delivering Good Governance in Local Government: Framework (2016)	No concerns	The Council has adopted these principles, as demonstrated within the Annual Governance Statement.		
D1	The authority maintains an effective audit committee	No concerns	Audit, Governance and Standards Committee is well established and reviews its effectiveness		
D2	The Audit, Governance and Standards Committee receives and monitors the implementation of internal and external audit recommendations. When threats to the financial sustainability of the authority are identified by auditors the audit committee should ensure that the recommendations are communicated to the leadership team and that the committee are informed of the effectiveness of the leadership team's response	No concerns	Audit Committee receives regular reports on internal and external audit recommendations. Risk management is reviewed on an annual basis and Scrutiny Committee scrutinises risk quarterly.		
E	The Financial Management Style of the authority supports financial sustainability	See below			

Code Standards / Statements of Standard Practice		Current assessed status	Reasons / Evidence base	Actions	Support Required
E1	The organisation has an effective framework of <u>financial accountability</u> that is clearly understood and applied throughout, from the political leaders, elected members to directors, finance officers and front-line service managers	No concern	<p>There is a clear framework for financial accountability across the Council. Service Mangers are responsible for their budgets liaise with the Finance Team on a monthly / quarterly basis. The implementation of the new finance system on 01/04/2020 has raised awareness to segregation of duties and control of budget authorisation.</p> <p>Budget Outlook is presented to Management Team monthly where the financial position can be scrutinised and challenged.</p> <p>Management Team have a culture of collective responsibility for financial matters and decision are made as group.</p> <p>s151 meets with the Deputy leader Portfolio Holder for Economic Development and Finance every 2 weeks and the Chief Executive and Deputy Chief Executive meet with the Leader and Deputy Leader weekly.</p>		
E2	Finance teams and the areas they <u>support</u> are actively committed to continuous improvement focused on efficient and effective delivery and organisational <u>performance</u> .	No concern	<p>A dedicated finance representative is attached to each service manager and the finance team are committed to continuous improvement, challenge, and advice.</p> <p>This performance will be even more important going forwards where there are increasing levels of budget pressures / priorities and issues around the delivery of savings.</p>		
E3	<u>Enabling transformation</u> ; the finance team have input into strategic and operational plans taking into account proactive risk management, clear strategic directions and focus-based outcomes	No concern	The Council is ambitious as the Council Plan portrays numerous far reaching key projects. Corporate Finance input into strategic project plans through the Financial Implications of Cabinet reports which are approved at Council.		
E4	The financial management of the authority has been critically evaluated	No concern	A three-day peer review took place in 2017 when the Local Government Association came on site with peers from other councils	To consider how a critical evaluation can be undertaken	

SECTION 3 – LONG TO MEDIUM TERM FINANCIAL MANAGEMENT

Code Standards / Statements of Standard Practice		Current assessed status	Reasons / Evidence base	Actions	Support Required
F	The authority has carried out a credible and transparent Financial Resilience Assessment	See below			
F1	Financial resilience is stress tested against best- and worst-case scenarios which cover a wide range of financial, demographic and social challenges	Work Required	The CIPFA Resilience Index will be reported to Audit, Governance and Standards Committee at the next available opportunity.	The CIPFA Resilience Index will be reported to Audit, Governance and Standards Committee at the next available opportunity.	Director of Finance and Commercial (S151 Officer) / Management Team
F2	The authority uses independent objective quantitative measures to assess the risks to its financial sustainability	No concerns	The Financial strategy 2021/22 to 2024/25 contains Financial Risk Analysis		
F3	Decision making by the authority demonstrates a sound understanding of its risks and the risks of its strategic business partners	No concerns	The Council Plan sets out the vision and shapes the Services provided which is supported by the Risk Register reported to Audit, Governance & Standards Committee annually and quarterly to Scrutiny Committee.	Ensure service risk registers identify the implications of potential failure and failure of significant partners.	
G	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.	No concerns	The Council has a 4 years Financial Strategy due to the impact of Covid-19 and with Local Government Reorganisation on the horizon. Prior to this a 10-year financial strategy has been in place and this is supported by the 10-year capital programme and the 4-year Council Plan. The Financial Strategy, Capital Programme and Council Plan are reported to Members annually.		
H	The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities	No concerns	The Council complies with this Code and reports to Cabinet and Council on an annual strategy and outturn basis as well as quarterly monitoring reports.		
H1	The authority has a capital strategy aligned to its long-term financial strategy	No concerns	The Capital Strategy is approved at Council every year for the last three years. This supports the 10-Year Capital Programme and the funding implications are included in the budget and Financial Strategy.		

Code Standards / Statements of Standard Practice		Current assessed status	Reasons / Evidence base	Actions	Support Required
H2	<p>The authority has an asset management plan that reviews the condition, sufficiency and sustainability of assets in the light of business needs which links to the Financial Strategy</p> <p>The plan should evidence rigorous assessment of the asset portfolio in relation to service delivery</p>	Work required	<p>The Council has an asset management plan that needs to be updated, where complete data to fulfil this requirement is currently not available.</p> <p>Improvements are being made through the Programme Management Board and Asset Management Working Group. The implementation of an asset management plan is an extensive piece of work.</p> <p>Once information is available this will inform an asset challenge process</p>	<p>Continue compiling the relevant data through the Project Management Board and Asset Management Working Group</p> <p>Once required data is available pull together a comprehensive asset management plan</p>	Management Team / Project Management Board
H3	The authority maintains processes to ensure that information about key assets and liabilities in its balance sheet is a sound and current platform for management action	No concerns	Key areas of the balance sheet are monitored on a regular basis		
I	The authority has a rolling multi-year Medium Term Financial Plan consistent with sustainable service plans	See below			
I1	The authority has a rolling multi-year Medium Term Financial Plan	No concerns	The council has a four-year rolling Financial Strategy 21/22 to 24/25 and for the last 10 years has had a 10-year long term strategy		
I2	The authority has sustainable service plans that are consistent with its Financial Strategy	No concerns	The Council has Service Plans, monitored on a quarterly basis to Scrutiny Committee. The Services Plans relate directly to the Council Plan which includes a section on financial sustainability.		
I3	The Medium-Term Financial Plan should refer to other organisational plans and service plans	No Concerns	The 4-year financial strategy links to the service plans through the budget and the reserves in the financial strategy align with some of the Council's organisational plans (e.g. Economic Development fund, Computer fund, Income Generating fund)		
I4	To inform the Leadership Teams decisions, the authority has a single document tracking progress in the delivery of planned savings over the period of the MTFP	Work required	New savings plan for 2022/23 to 24/25 to be developed and linked to service plans and the Financial Strategy	Savings Programme to be launched in July 2021	Director of Finance and Commercial (S151 Officer)

Code Standards / Statements of Standard Practice		Current assessed status	Reasons / Evidence base	Actions	Support Required
15	<p>The authority publishes its plans for the use of reserves over the period of the Medium-term Financial Plan.</p> <p>The level of reserves at 31st March in any one year should not fall below the level previously agreed.</p> <p>The authority should demonstrate adherence to the most recent guidance on reserves from CIPFA's Local Authority Accounting Panel</p>	No concerns	<p>Reserves are regularly monitored, as evidenced in the quarterly monitoring reports and the planned use of reserves is set out in the Financial Strategy.</p> <p>Reports would indicate where the criteria for minimum reserve balances have been breached.</p>		

SECTION 4 – THE ANNUAL BUDGET

Code Standards / Statements of Standard Practice		Current assessed status	Reasons / Evidence base	Actions	Support Required
J	The authority complies with its statutory obligations in respect of the budget setting process	No concerns	All statutory obligations are met		
J1	The budget report is consistent with the current Medium-Term Financial Plan	No concerns	The budget report states it is produced within the constraints of the Financial Strategy.		
J2	The annual report proposing the budget is reviewed by the leadership Team before being presented for approval and it also details the position on reserves	No concerns	Management Team approve the budget prior to it being presented to Cabinet and the outturn report and quarterly monitoring reports detailed the movements on reserves.		
K	The budget report includes a statement by the CFO on the robustness of the estimates and a statement of the adequacy of the proposed financial reserves	No concerns	A statement is produced annually and is presented as part of the Council Tax report.		

SECTION 5 – STAKEHOLDER ENGAGEMENT AND BUSINESS CASES

Code Standards / Statements of Standard Practice		Current assessed status	Reasons / Evidence base	Actions	Support Required
L	The authority has engaged with key stakeholders in developing its long-term financial strategy, MTFP and annual budget	No Concerns	The Council consults on its budget proposals annually through a questionnaire which is reported to Cabinet and Council in February. The s151 Officer liaises with business leads across the District and presents to them annually in line with the budget consultation process. For 2021/22 a questionnaire for business is being considered to further engage them in the process.		
M	The authority uses a documented option appraisal methodology to demonstrate VFM of its decisions	Work required	Options appraisals are undertaken on some projects across the council. Project Management Board meets monthly to hold project managers to account. This area could be improved with the development of a project management system including the use of option appraisals.	To review project documentation templates to ensure that a requirement for evidence of option appraisals is included where appropriate	Head of Commercial and Programme Management
M1	Option appraisal is compliant with the principles of "IFAC/PAIB and Investment Appraisal for Sustainable Value Creation: Principles in Project and Investment Appraisal"	Work required	As above. Where options appraisals have been undertaken, they have complied with the requirements. Post completion reviews are a particular weakness	As above Increase the use of post completion reviews to ensure value for money.	Director of Finance and Commercial (S151 Officer)
M2	The accounting treatment of material decisions is considered and demonstrated as part of the formal option appraisal process	No concerns	Financial advice is provided on the accounting treatment as part of any project. Project leads liaise with Finance team and Financial Implications are reported to Management Team in all reports and at Cabinet.		
M3	The authority applies the principles contained in the CIPFA Service Reporting Code of Practice and utilises appropriate costing techniques in the development of business cases	No concerns	The Council fully complies with SERCOP requirements.		

SECTION 6 – PERFORMANCE MONITORING

Code Standards / Statements of Standard Practice		Current assessed status	Reasons / Evidence base	Actions	Support Required
N	The leadership takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability	See below			
N1	Timely financial and performance information is available to services managers. The organisation ensures that information is appropriately tailored and streamlined to avoid the risk of 'data overload'	No concerns	Financial monitoring reports are discussed with budget holders on a regular basis and at least quarterly. This provides a summary of the service, and full details of each of the cost centres under their control. Performance information is provided separately through the quarterly performance monitoring.	Consider how to automate information and also align performance and financial information better.	
N2	All financial monitoring reports include:				
	<ul style="list-style-type: none"> The name of the budget holder responsible for the information presented 	No concerns	The budget information includes the Director and the Budget Manager responsible for the areas.		
	<ul style="list-style-type: none"> Commitment accounts 	No concerns	Commitments are shown where the data is available.		
	<ul style="list-style-type: none"> Include the approved budget against which monitoring is taking place 	No concerns	The monthly, year to date and full year budget is shown on the budget manager reports.		
	<ul style="list-style-type: none"> A forecast for the remainder of the budget period 	No concerns	These are processed following budget manager meetings and are shown on the next set of reports.		
N3	Financial monitoring reports for high risk budgets are scrutinised by members of Management Team on a regular basis.		Budget updates for key projects e.g. Crematorium, Treadmills, etc are reported to Board meetings on a regular basis. Budget Outlook is presented to Management Team monthly Financial monitoring is a standing item on the Cabinet forward plan on a quarterly basis and the Portfolio Holder is regularly updated by the s151		

Code Standards / Statements of Standard Practice		Current assessed status	Reasons / Evidence base	Actions	Support Required
N4	The authority has arrangements which allow annual service budgets to be recalibrated in response to unforeseen developments.	No concerns	Budget managers can liaise with Corporate Finance to put through forecast adjustments at any point during the year and can also submit on-going growth if the issue is likely to recur. The Council's budget allows flexibility but ensures that the budget is tightly controlled so as to not overspend.		
N5	At the financial monitoring Quarter end the leadership team receives the actual budget position with forecast outturn for the year ahead.	No concerns	Quarterly reports are reviewed by Management Team prior to going to Cabinet and Council.		
N6	There are appropriate arrangements in place for the project management and cost control of capital projects.	No concerns	Project Management Board receives monthly and quarterly reports on capital projects		
O	The authority monitors the elements of its balance sheet which pose a significant risk to its financial stability	See below			
O1	Unplanned and planned use of reserves are reported (quarterly) to the management team of the organisation and to Council.	No concerns	Financial monitoring on a quarterly basis is a standing item on the Cabinet forward plan – Revenue Monitoring and Reserves - and this report includes a section on reserves. Any reports that include the use of reserves or borrowing are detailed in the Financial Implication section of the Cabinet report		
O2	Cash flow is managed through application of Treasury Management in the Public Services: Code of Practice and Cross- Sectoral Guidance Notes (CIPFA, 2017).	No concerns	The Council receives annually the Treasury Management Strategy Statement prior to the beginning of the financial year and the cashflow is monitored quarterly through the Capital and Treasury Management report with the outturn being reported annually every year.		

SECTION 7 – EXTERNAL FINANCIAL REPORTING

Code Standards / Statements of Standard Practice		Current assessed status	Reasons / Evidence base	Actions	Support Required
P	The CFO 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	No concerns	The statutory financial statements are approved by the s151 officer prior to their publication		
Q	The presentation of the final outturn figures and variations from budget allow the leadership team to make strategic financial decisions	No concerns	Outturn report is produced for Management Team and shows all variations between budget and outturn		