

Somerset West and Taunton Council

Audit and Governance Committee – 27 September 2021

Financial Management Code Compliance and Self-Assessment

This matter is the responsibility of the Executive Cllr Ross Henley, Corporate Resources Portfolio Holder

Report Author: Sian Hedger – Interim Strategic Finance Advisor

1 Executive Summary / Purpose of the Report

- 1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) introduced a Financial Management Code (FM Code) in 2019, which sets out a consolidated collection of the standards of financial management for local authorities, in response to financial pressures being faced across the sector and to promote best practice.
- 1.2 Full compliance with the FM Code is required from 1 April 2021.
- 1.3 The following report contains an assessment of the Council's compliance against the 17 Financial Management Standards within the FM Code.
- 1.4 Evidence to support compliance has been gathered during July and August 2021 and is shown in Appendix B.
- 1.5 Officers have provided evidence that supports that SWT is compliant with the FM Code and is shown as "Green" status for all 17 areas as shown for the year 2021/2022.
- 1.6 Improvements that are in progress or are being actioned have been highlighted for information and demonstrates continual improvement.

2 Recommendations

- 2.1 That Audit & Governance Committee note:
 - a) The requirement to implement the Financial Management Code from 1st April 2021.
 - b) The findings of the Financial Code Self-Assessment as compliant.
 - c) The findings and evidence provided in the assessment and future enhancements proposed.

3 Risk Assessment

- 3.1 There are inherent risks regarding non-compliance with the FM Code which include risks to financial sustainability, financial resilience, financial and service planning and delivery, as well as to the Council's reputation.

4 Background and Full details of the Report

- 4.1 The Chartered Institute of Public Finance & Accountancy (CIPFA) has introduced a new Financial Management Code (FM Code) a link to which is attached at Appendix A. This sets out for the first time, the standards of financial management for local authorities. Due to copyright rules the FM Code cannot be published, but a link to a copy that the Council has purchased can be viewed by SWTC Councillors within the Members Library in ModGov.
- 4.2 The FM Code is designed to support good practice in financial management and to assist local authorities to demonstrate their financial sustainability.
- 4.3 Local government finance in the UK is governed by a wide range of legislation, regulations, and professional standards. The general financial management of a local authority, however, has not until now been supported by a professional code. The FM Code has been introduced because the exceptional financial pressures faced by local authorities in recent years have revealed concerns about fundamental weaknesses in financial management and the ability of some organisations to maintain services in the future. Whilst there is much good practice across the sector, any failures threaten stakeholders' confidence in local government as a whole and more importantly, risk the services on which local people rely.
- 4.4 CIPFA's intention is that the FM Code will have the same standing as the Prudential Code for Capital Finance in Local Authorities (CIPFA, 2017), which promotes the financial sustainability of local authority capital expenditure and associated borrowing. So, although the FM Code does not have legislative backing, it applies to all local authorities.
- 4.5 While the FM Code applies to all local authorities, it recognises that some have different structures and legislative frameworks. Where compliance with the Code is not possible, adherence to the principles is still considered appropriate.
- 4.6 The FM Code applies a principle-based approach. It does not prescribe the financial management processes that local authorities should adopt. Instead, it requires that an authority demonstrates that its processes satisfy the principles of good financial management for an authority of its size, responsibilities and circumstances and that they are proportionate to the risks to the authority's financial sustainability posed by the twin pressures of scarce resources and the rising demands on services.
- 4.7 The underlying principles that inform the FM Code have been developed in consultation with senior practitioners across the sector and associated stakeholders. The principles 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
- 4.8 The 6 Principles of Good Financial Management set out in the FM Code are:
- 4.8.1 Organisational **leadership** demonstrating a clear strategic direction based on a vision in

which financial management is embedded into organisational culture.

- 4.8.2 **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.
- 4.8.3 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.
- 4.8.4 Adherence to professional **standards** is promoted by the leadership team and is evidenced.
- 4.8.5 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.
- 4.8.6 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.
- 4.9 Appendix B sets out the 17 standards contained within the Code in a tabular layout. The table sets out from left to right: the 17 standards categorised into areas, the theme, a summary of the standard, followed by current status with evidence to support compliance, with the last column highlighting the assessment of compliance as either Red, Amber or Green (RAG). The RAG status may contain suggestions for improvements that should be made in order to comply and be shown as “Green”. It may highlight improvements that are in progress or could be implemented to improve compliance with the Code.
- 4.10 Some councils purchased the self-assessment toolkit and attended charged-for workshops carried out by CIPFA, in 2020. The Interim Strategic Finance Advisor researched other local authorities’ reports and FM code assessments to identify the best approach to the task, evidence provided to support the standards, and layout of assessment findings. The resulting report and assessment layout assessment is thought to be the best presentation of data, and is shown in Appendix B.
- 4.11 Examples of assurance relevant to a local authority similar to SWTC were collated and discussed with the AD Finance and other Finance colleagues in the first instance to help support collation of evidence to support the Council’s compliance in each of the 17 areas. Further evidence and assurance have been provided through discussion with SMT, the CEO, Directors, Deputy Monitoring Officer, and others who were all extremely helpful in providing information, evidence, and assurance of evidence.
- 4.12 The assessment as Green for all areas is required from 1st April 2021, and evidence supports that SWTC is compliant, having put in place many improvements over the last year.
- 4.13 The Code is not intended to be proscriptive, so the manner in which compliance is

demonstrated will be proportionate to the circumstances of the Council.

4.14 The compliance status is shown as Green against all 17 standards.

5 Links to Corporate Strategy

5.1 The financial performance of the Council underpins the delivery of corporate priorities and therefore all Corporate Aims.

6 Finance / Resource Implications

6.1 The assessment was supported by the additional capacity afforded by an interim Strategic Finance Advisor whose costs have been agreed and budgeted for.

6.2 There are no additional resource requirements identified as required in this assessment.

7 Legal Implications

7.1 The FM Code itself does not currently have legislative backing, although CIPFA have set out their intention to pursue this. CIPFA's judgement is that compliance with the FM Code will assist local authorities to demonstrate that they are meeting existing important legislative requirements.

7.2 There are no legal implications arising directly from this report.

8 Consultation Implications

8.1 Consultation undertaken within SWTC leadership and management and finance officers including: SMT, Directors, CEO, S151 Officer, Deputy Monitoring Officer, other officers. No external consultation is required. The report is open, transparent and all can comment upon it should they wish.

Democratic Path:

- **Audit and Governance – Yes 27 September 2021**
- **Executive – No**
- **Full Council – No**

List of Appendices (background papers to the report)

Appendix A	Financial Management Code (SWTC Members-Only access)
Appendix B	Financial Management Code Assessment

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