

**FINANCE, AUDIT AND RISK COMMITTEE
20 JANUARY 2020**

***PART 1 – PUBLIC DOCUMENT**

TITLE OF REPORT: FINANCIAL MANAGEMENT CODE

REPORT OF THE SERVICE DIRECTOR - RESOURCES

EXECUTIVE MEMBER: FINANCE AND IT

CURRENT COUNCIL PRIORITY: RESPONSIVE AND EFFICIENT

NEW COUNCIL PRIORITY: ENABLE AN ENTERPRISING AND CO-OPERATIVE ECONOMY

1. EXECUTIVE SUMMARY

The Chartered Institute of Public Finance and Accountancy (CIPFA) have launched a Financial Management Code in response to the financial pressures that Authorities face. This report provides an assessment of how well the Council performs against the Code and actions that it plans to take.

2. RECOMMENDATIONS

2.1. That the Committee note and comment on this report.

3. REASONS FOR RECOMMENDATIONS

3.1. To demonstrate the extent to which the Council complies with the Code and areas where it plans to take further actions. This will support good governance and risk management.

4. ALTERNATIVE OPTIONS CONSIDERED

4.1. The Code does not have any statutory backing, so the Council could choose not to adopt it. However adopting good practice in relation to financial management is an effective tool for managing risk.

5. CONSULTATION WITH RELEVANT MEMBERS AND EXTERNAL ORGANISATIONS

- 5.1. Executive Members have been made aware of the contents of this Code and have been asked to comment on the assessment attached at Appendix A.

6. FORWARD PLAN

- 6.1 This report does not contain a recommendation on a key Executive decision and has therefore not been referred to in the Forward Plan.

7. BACKGROUND

- 7.1. The Chartered Institute of Public Finance and Accountancy (CIPFA) recognise the financial pressures that Authorities face and have developed this Code in response to that.

8. RELEVANT CONSIDERATIONS

- 8.1 CIPFA (Chartered Institute of Public Finance and Accountancy) have launched a Financial Management Code. The intention is that the Code helps to create a culture of strong financial management to help address the financial pressures that Councils are facing. The intention is that a self-regulation approach will prevent any other Local Authorities 'failing'. This will then avoid any need for any external control or reductions in current powers.
- 8.2 The Code does not currently have any specific statutory backing. However CIPFA reference that compliance with the code should be linked to s151 of the Local Government Act 1972 ("every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs"). They also place an obligation on their Members to adhere to the Code.
- 8.3 Whilst there is a role for the Chief Finance Officer (s151 Officer) to manage compliance, this is not something that should be done in isolation. Adherence to the Code is a joint responsibility of the Authority's Leadership Team- both Officers and Members.
- 8.4 The Code should be applied from 1 April 2020. As it relates to the financial management cycle this means that elements may not be fully implemented until 31 March 2021.

- 8.5 The Appendix sets out the 17 standards contained within the Code, an assessment of the current situation and actions required to comply with the Code. 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.
- 8.6 In early 2020, CIPFA will be publishing some guidance notes. These may help with a further analysis of compliance with the Code. Where relevant an update will be provided when these notes are published.
- 8.7 The full version of the Code is a paid-for publication. The Council has purchased the publication (as part of an annual subscription package) and can distribute it to Members but can not make it publicly available. As a result the Code has been e-mailed to Members of the Committee and referenced as a background paper, rather than being attached as an appendix.

9. LEGAL IMPLICATIONS

- 9.1. The terms of reference for Finance, Audit and Risk Committee include to Assist the Council and the Cabinet in the development of its Budget and Policy Framework process by in-depth analysis of policy issues pertaining to finance, audit and risk (Constitution 10.1.5 (d)).

10. FINANCIAL IMPLICATIONS

- 10.1 These are covered in section 8.

11. RISK IMPLICATIONS

- 11.1. The Council has a corporate risk relating to 'Managing the Council's Finances'. Having effective financial management processes is a key part of managing this risk.

12. EQUALITIES IMPLICATIONS

- 12.1. In line with the Public Sector Equality Duty, public bodies must, in the exercise of their functions, give due regard to the need to eliminate discrimination, harassment, victimisation, to advance equality of opportunity and foster good relations between those who share a protected characteristic and those who do not.
- 12.2. There are no equalities implications arising from this report.

13. SOCIAL VALUE IMPLICATIONS

- 13.1. The Social Value Act and "go local" requirements do not apply to this report.

14. HUMAN RESOURCE IMPLICATIONS

- 14.1. Whilst some of the actions included in Appendix A will create some more work, this is not considered to be significant.

15. APPENDICES

- 15.1. Appendix A- An assessment of the current situation and actions required to comply with the Code

16. CONTACT OFFICERS

- 16.1. Ian Couper, Service Director- Resources, ian.couper@north-herts.gov.uk, Ext: 4243

17. BACKGROUND PAPERS

- 17.1. CIPFA Financial Management Code (sent by e-mail to Members of the Committee)

Appendix A- An assessment of the current situation and actions required to comply with the Code

R ef.	Description	Pages of Code	Detail	CFO draft assessment and actions required
Responsibilities of the Chief Finance Officer and Leadership Team				
A	The leadership team is able to demonstrate that the services provided by the authority provide value for money	17/18	Legislative requirement for Authorities to deliver VFM. Delivery of VFM depends on decisions by Elected Members. Shared responsibility across the Leadership Team to communicate and understand the risks involved.	<p>External Audit provide a VFM assessment in which they have determined that “in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people”. However. External Audit had determined that Churchgate could be a significant risk, and so it was easier to make a positive assessment on the basis that nothing had happened in this regard. VFM becomes more of a concern when decisions are more risky and/or deviate away from areas that the Council understands well.</p> <p>All Committee reports include financial and risk implications sections. These sections should draw on the service detail within the main body of the report.</p> <p>Actions required: None specific, be aware of risks in new activities (Senior Managers and Executive Members).</p>
B	The authority complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government.	18/19	<p>In summary this Statement requires that the CFO:</p> <ol style="list-style-type: none"> 1. Is a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver the organisation’s strategic objectives sustainably and in the public interest. 2. Must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and 	<ol style="list-style-type: none"> 1. Yes, part of Leadership Team. 2. As above, and team contributes to financial implications of all Committee reports. 3. Feedback from Senior Managers is that messages in relation to good financial management are appropriately clear and targeted. 4. Consider that the Team is sufficiently resourced, including some scope to support a changing organisation.

			<p>longer term implications, opportunities and risks are fully considered, and alignment with the organisation's financial strategy.</p> <p>3. Must lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.</p> <p>4. Must lead and direct a finance function that is resourced to be fit for purpose.</p> <p>5. Must be professionally qualified and suitably experienced.</p>	<p>Actions required: None.</p>
Governance and Financial Management Style				
C	The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.	21	<p>A proper scheme of delegation that ensures that frontline responsibility for internal and financial control starts with those who have management roles.</p> <p>Clarity over the role of Head of Paid Service and Monitoring Officer.</p> <p>Audit Committee provides independent assurance over governance, risk and internal control arrangements, with a focus on financial management, financial reporting and audit and assurance.</p> <p>Leadership Team with a culture of constructive challenge based on realism.</p> <p>Goals, assumptions and implementations plans are rigorously examined.</p>	<p>The Financial Regulations creates the role of a Budget Holder. This is assigned at a level so that service delivery and budget can be aligned.</p> <p>The roles of the Head of Paid Service and Monitoring Officer are defined in the Council's constitution.</p> <p>The terms of reference for Finance, Audit and Risk (FAR) Committee as the Council's Audit Committee) cover the areas referenced. The Shared Internal Audit Service (SIAS) have provided assurance over the effectiveness of FAR, although the scope of that review will be changed in future years.</p> <p>Regular meetings of Senior Managers and Executive Members provides the forum for constructive challenge.</p> <p>Actions required: None.</p>

D	The authority applies the CIPFA/SOLA CE Delivering Good Governance in Local Government: Framework (2016)	22	This framework recommends that the review of the effectiveness of the system of internal control is reported in an annual governance statement	Annual Governance Statement completed each year in line with the framework. Actions required: None.
E	The financial management style of the authority supports financial sustainability	22/23	Strong financial management is assessed against a hierarchy of (1) delivering accountability, (2) supporting performance and (3) enabling transformation. Need to perform well at each level before moving to the next. This is broadly linked to economy, efficiency and effectiveness.	Achieving stage 1 of the hierarchy. Budget Holders take responsibility for spend against their budgets, especially with the move away from recharges. Many examples of linking performance and cost, but not in all areas. Examples of financial management supporting transformation, but probably need to work towards acting as an enabler. Actions required: Initially, look at ways to better integrate performance and cost information (Budget Holders supported by Finance/ Performance).
Long to medium-term financial management				
F	The authority has carried out a credible and transparent financial resilience assessment	25/26	Requirement to test sustainability against plausible scenarios of cost drivers, service demands, resources and key risks. Review of alternative options to match demand and resources. CIPFA will be providing Authorities with a Financial Resilience Index which may assist in this.	The Council has introduced a narrative in to the Medium Term Financial Strategy to cover risk areas in terms of funding, expenditure and income. This need to be developed for next years MTFs to incorporate more detail on forecast costs (where they can be estimated and are meaningful) and consider resilience options. The updated Resilience Index has been published by CIPFA in December. This has been incorporated in to the budget report for 2020/21 budget Actions required: Development of MTFs for 2021/6 to include scenario testing (Service Director- Resources). Consideration of resilience options (Senior Managers

				and Executive Members).
G	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.	26	Based on the above, have a long-term financial strategy that links to vision, strategy and outcomes. This should include a vision of what services will look like in the future to achieve financial sustainability. The length of the long-term is undefined and should be linked to the risks faced. Potentially should be 10 years+.	The current Council Plan contains a list of potential actions, but these need to be costed and prioritised. The priority areas can then be factored in to a long-term financial strategy. To consider the period of the long-term based on the financial impacts of plans put forward. Actions required: Translate the Council Plan in to a specific set of actions (Senior Managers and Executive Members), determine the costs of those (Service Directors/ Finance) and prioritise (Senior Managers and Executive Members).
H	The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities.	26/27	The Council has a long-term Capital Strategy that ensures that assets are managed and future plans are linked to capital resources available. Commercial investment activity should be considered over a suitable time horizon with risks fully considered. Ensure compliance with Prudential Code if borrowing.	Last year, the Council introduced a Capital Strategy (incorporated in to Investment Strategy). For the strategy commencing in 2020 there is a further focus on a 10 year time horizon for capital costs to maintain existing assets (these are already incorporated in to draft capital budgets). It also incorporates a forecast of expected capital receipts. The commercial property investment strategy has been developed by the Estates Team. That investment will need to primarily be funded from borrowing. To comply with the Prudential Code this will need to consider Security, Liquidity and Yield. Actions required: None
I	The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans	27	Translation of the long-term view in to a more detailed medium-term financial plan. The time frame of which should support financially sustainable decision making. Clear link to service plans.	Medium-term financial strategy already being produced with a 4/5 year time horizon. Expecting that the long-term plan will primarily be based on the medium-term, and the medium-term will be based on the one year budget, so that helps to ensure consistency across the plans. Service plans reflect the key changes that are also reflected in the budget plans. Actions required: None, covered elsewhere.
The Annual Budget				

J	The authority complies with its statutory obligations in respect of the budget setting process	29	These are generally covered by part 2 of Local Government Act 2003. This includes robustness of estimates and reserves (covered below) and the requirement for financial monitoring. It also includes section 114 of the Local Government Finance Act 1988, which requires the CFO to issue a report if the Council is about to incur unlawful expenditure. This would include setting an unbalance budget.	All estimates and reserves are reviewed by the s151 Officer. The commentary on this has been strengthened in the 2020/21 budget report.
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.	29/30	Reserves to be considered as part of the budget process and should be 'adequate' and 'necessary'. Should enable the Council to manage unexpected events from within its own resources. The budget report details earmarked reserves held, the purpose of each reserve and estimated opening and closing balances.	There is a commentary on the sufficiency of general fund and specific reserves. The purpose of each reserve is available in other documents, but previously has not had sufficient detail in the budget report. Also previously have not included a forecast. These have now been added in to the 2020/21 budget report.
Stakeholder Engagement and Business Plans				
L	The authority has engaged where appropriate with key stakeholders in developing its long-term	31	Enabling residents to understand that resources are limited and spending has to be prioritised. Leadership Team redirects resources to areas of higher priority. Understanding of statutory service delivery requirements. Use stakeholder consultation to set priorities. Helps to encourage community involvement,	There have been thoughts of carrying out a budget consultation process, but it has been considered that this is best carried out when there is some certainty over the quantum of funding. This then allows residents to consider priorities against a known limit. Depending on the timing of funding announcements in 2020/21, to hold during 2020/21 (although that will become impractical if there is no certainty until late Autumn/ Winter). The alternative

	financial strategy, medium-term financial plan and annual budget		which could help reduce costs.	would be a light-touch consultation in 2020/21, followed by a more detailed one in 2021/22. The Council undertakes the statutory consultation required with Business Ratepayers. Actions required: To undertake public budget consultation in 2020/21 and 2021/22 (as required) (Senior Managers and Executive Members).
M	The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.	31/32	Decisions are made from clear business cases that detail the up-front and ongoing costs and benefits. Where appropriate the time value of money should be considered. Alternative options should be considered. The complexity of the business case should be proportionate to the decision.	The Council has a project business case template that covers the key headings, but does not proscribe the level of detail required. The template can therefore be expanded to ensure the level of detail is proportionate to the decision being taken. In any case, in the majority of cases the financial analysis would be contained within an accompanying spreadsheet (or other modelling tool). Where applicable this would incorporate the time value of money. Finance would be involved in all significant decisions and therefore would ensure that this is considered. Actions required: None.
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	33	The Council should have timely information on its financial and operational performance. Performance indicators should be reviewed, alongside any overspends/ undelivered savings.	Budget and performance monitoring is carried out on a quarterly basis to align with the Committee cycle. Due to the timings of Committees there can be quite a lag between the end of the Quarter and the reporting. For financial information, forecasts are available on a more regular basis and would be highlighted earlier if significant variances arose. Services will compile performance information on a more regular basis and where relevant highlight the impacts of these. Financial (FAR) and performance (OSC) reports go to separate committees so are in separate reports. SMT see both reports, usually at the same meeting. Without a

				<p>fundamental change to the responsibilities to the terms of reference of Committees, the areas of improvement are relatively limited. However this probably reflects that currently most budgets are either (i) low risk or (ii) there is a very direct link between service performance and financial performance (e.g. number of car park ticket sales, planning applications).</p> <p>Actions required: A consideration as to whether there are any performance indicators that would provide an early warning of financial problems (Service Managers). Make greater use of performance information in explaining variances (Service Managers/ Finance).</p>
O	The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability	33	<p>Need to await the guidance notes as the Code itself is unclear on the requirements. There is reference to monitoring material elements of the balance sheet that might give indications of departures from financial plans. Specific reference is made to commercial asset portfolios, contingencies and provisions. Cash flow is managed in accordance with guidance.</p>	<p>Already got an increased focus on debt management. Income is not real until it is paid.</p> <p>To wait for the guidance notes for further clarity.</p> <p>Actions required: None at the moment.</p>
External Financial reporting				
P	The chief finance officer has personal and statutory responsibility for ensuring that the statement of accounts produced by	35	<p>The CFO has statutory responsibility for (1) producing the accounts and ensuring they are published on a timely basis (2) maintaining financial records (3) certification of the accounts and confirmation of a 'true and fair view'.</p>	<p>These are all complied with. Assurance is provided through External Audit and Internal Audit (SIAS).</p> <p>Actions required: None.</p>

	the local authority complies with the reporting requirements of the Code of Practice on Local Authority Accounting in the United Kingdom			
Q	The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions	36	The narrative report that accompanies the accounts provides a link to achievement of outcomes and performance. The Leadership Team understand variances from budget and how they have been managed. The future implications of variances should also be considered i.e. will it affect the financial strategy/ financial resilience.	The narrative report includes a commentary on projects and performance indicators. As described in (N) above there is not much direct linkage between these and financial performance. Budget monitoring reports describe any management actions that have happened, and where there are ongoing impacts these are made clear and incorporated in to the budget process for the next (and future) years. Actions required: None.