

Midlothian Integration Joint Board Audit and Risk Committee



3rd March 2022

CIPFA – Financial Management Code, 2021/22.

Item number: 5.5

Executive summary

At its last meeting the Committee agreed to adopt the new CIPFA Financial Management Code in as far as it pertained to the operations of the IJB and to consider how it might assure itself that the IJB then met those elements of the code. This paper looks at the themes in the guidance and considers how these can be delivered by the IJB or its partners. The IJB is, in essence, a strategic planning board and does not – for example, pay suppliers or staff. The operational delivery is in the hands of the IJB Partners – the IJB having no authority to deliver its functions except through Midlothian Council and NHS Lothian – and assurance of much of the CIPFA FM guidance will flow from the assurance systems of the partners. It should be noted that the adoption of this guidance is an element in the overall achievement of best value.

The Committee is asked to

- 1. Consider the analysis below as to which elements of the guidance relate to the IJB directly.*
- 2. Consider the assurance process that are required*
- 3. Put a proposal to the IJB laying out the committee's opinions and recommending the adoption of the code on the basis of its considerations.*

CIPFA – Financial Management Code, 21/22.

1 Purpose

- 1.1 The purpose of this report is to consider how the CIPFA FM guidance (21/22) pertains to the operations of the IJB and to consider how the IJB can assure itself that the guidance is being met. That having been done, and having agreed to adopt the guidance in principle, to recommend the adoption of the guidance in so far as it applies to the operation of the IJB, to the IJB. It should be noted that the adoption of this guidance is an element in the assurance processes of the IJB in its delivery of best value.

2 Recommendations

- 2.1 Members of the Audit and Risk Committee are therefore asked to:
- Consider the analysis below as to which elements of the guidance relate to the IJB directly.
 - Consider the assurance process that are required
 - Put a further paper to the IJB laying out the committee's opinions and recommending the adoption of the code on the basis of its considerations

3 Background and main report

3.1 Background

The Financial Management Code (FM Code) produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. For the first time the FM Code sets out the standards of financial management for local authorities. The IJB is governed by the Local Authority regulations

The FM Code applies a principles-based approach which is linked to other financial statutory and good practice guidance. It contains the CIPFA Statement of Principles of Good Financial Management – these are laid out below. These principles are the benchmarks against which all financial management should be judged.

A paper was presented to the previous meeting of the committee who approved that the code should be adopted in principle by the IJB but required that the IJB would need to understand which elements of the code would pertain to the IJB specifically and how the IJB could achieve assurance that these items were in line with the guidance.

The IJB is not an operational unit and does not directly manage health or social care services. It produces a Strategic Plan for the delivery of the health and social care functions delegated to it by its partners (Midlothian Council and NHS Lothian) and sends directions to the partners specifying how these functions should be delivered. The operational delivery of the functions remaining the responsibility of the partners who have detailed and thorough governance process in place to manage that delivery. Midlothian Council has adopted the CIPFA FM guidance and has undertaken a detailed assurance process whilst NHS Lothian (not covered by the Local Authority regulations) has its own detailed Financial Management processes.

3.2 Financial Management Code & Principle

A summary of the Code and the principles that underly it was laid out in the previous paper to the Committee. But the principles are reiterated below for the sake of convenience. They are :-

1. Organisational **leadership** – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.
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.
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. Adherence to professional **standards** is promoted by the leadership team and is evidenced.
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.
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.

3.3 Financial Management Standards.

The table in Appendix A takes the standards, examines them individually and considers how they apply to the IJB and the assurance that that IJB can have that the standard is being met. It can be seen that some standards do not apply to the IJB and, of the rest, the IJB is delivering against them. That said, this analysis highlights that the development of the multi-year, balanced, financial plan is critical.

3.4 Best Value

The IJB is required to deliver its delegated functions with regard to the principle of best value. The adoption of this guidance will an element of provide assurance as to the overall delivery of best value.

3.5 Implementation

Local authorities are required to apply the requirements of the FM Code with effect from 1 April 2020. This means that the 2020/21 budget process provides an opportunity for assessment of elements of the FM Code before April 2020 and to provide a platform for good financial management to be demonstrable throughout 2020/21. Consequently CIPFA considers that the implementation date of April 2020 should indicate the commencement of a shadow year and that by 31 March 2021, local authorities should be able to demonstrate that they are working towards full implementation of the code. The first full year of compliance with the FM Code will therefore be 2021/22.

4. Directions

4.1 There are no Directions implications arising from this report.

5. Equalities Implications

5.1 There are no direct equalities implications arising from this report.

6. Resource Implications

6.1 There are no further resource implications arising from this report

7. Risk

7.1 Financial challenges are already recognised on the IJB's risk register

8. Involving People

8.1 The IJB meets in public and the committees' papers and minutes are presented to the IJB

9. Background Papers

9.1 None

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DATE	February 2022

Appendix – Consideration of the CIPFA code in relation to the IJB

Section	Standard	IJB	Assurance
1: The 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	Yes, through the Strategic Plan and the Directions	IJB minutes, SPG minutes, Strategic Plan and Directions.
	B: The authority complies with the CIPFA 'Statement on the Role of the Chief Officer in Local Government'	Yes	Part of the Annual Audit process.
2: Governance and financial management style	C: The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control	The IJB is a board and not an operational unit. It doesn't have a management team as such. The IJB has its own governance but operational internal control matters are a subject for the partners.	
	D: The authority applies the CIPFA/SOLACE 'Delivering Good Governance in Local Government: Framework (2016)'	The IJB has its own governance processes. Where the framework pertains – these are part of the IJB's own regulations	

	E: The financial management style of the authority supports financial sustainability	Yes	Financial sustainability is addressed in the short term as part of the budget setting process. In the longer term the IJB is continuing to develop its multi-year balance financial plan to support the Strategic plan. The IJB also has published its financial strategy
3: Long to medium-term financial management	F: The authority has carried out a credible and transparent financial resilience assessment	Yes	Finance Reports to the IJB and IJB budget setting process
	G: The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members	Yes	Finance reports to the IJB and IJB budgets setting process
	H: The authority complies with the CIPFA 'Prudential Code for Capital Finance in Local Authorities'	Not applicable – the IJB has no capital resources.	
	I: The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans	Yes, the IJB is developing a financial plan to support the delivery of its Strategic Plan	

4: The annual budget	J: The authority complies with its statutory obligations in respect of the budget setting process	Yes, the IJB sets an indicative budget before the start of the financial year	IJB Budget setting paper to March Board
	K: The budget report includes a statement by the chief finance officer in the robustness of the estimates and a statement on the adequacy of the proposed financial reserves	Yes	IJB Budget setting paper to March Board
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	Yes, this is part of the consultation and development of the IJB's Strategic Plan	Strategic Plan consultations/ SPG minutes
	M: The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions	Yes.	SPG/ Strategic Plan
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	No. The operational delivery of the IJB's budget is a matter for its partners. The IJB receives updates on the financial position of its partners. That said, additional directions and	

		revisions to the Strategic Plan can be used if the financial issues are serious and threatening to the delivery of the Strategic Plan	
	O: The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability	In theory, however the IJB's balance sheet does not have any assets, loans or doubtful debtors that pose a risk to the IJB.	
7: External financial reporting	P: The chief finance 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 Practice on Local Authority Accounting in the United Kingdom'	Yes	Annual accounts and annual audit report.
	Q: The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions	Yes. Part of the annual budget setting process and the development of the financial plan. The Strategic Plan is the basis of future financial decisions.	IJB budget setting papers in March