

Midlothian Integration Joint Board Audit and Risk Committee



2 December 2021 at 2pm

CIPFA – Financial Management Code, 2021/22.

Item number: 5.1

Executive summary

The IJB is governed by Local Authority regulations, CIPFA (the Chartered Institute of Public Finance and Accountancy) have provided a set of guidance to support the appropriate Financial Management (FM) processes in a local authority environment. This guidance has been widely adopted by both Councils in Scotland and by other IJBs. Although the IJB is not an operational and delivery unit as such, the broad principles (which are laid out below) are very useful and this committee is asked to consider -

Recommendations.

- *That the IJB adopts the principles of the CIPFA guidance in as much as is appropriate to the operations of the IJB*
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CIPFA – Financial Guidance 21/22

1 Purpose

- 1.1 The purpose of this report is to inform the IJB Audit and Risk Committee of the CIPFA FM guidance (21/22) and to ask the committee to recommend the adoption of the guidance, in so far as it applies to the operation of the IJB.

2 Recommendations

- 2.1 Members of the Audit and Risk Committee are therefore asked to:
- a) Recommend the adoption of the CIPFA guidance to the IJB in so far as it applies to the operations of the IJB

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.

3.2 Financial Management Code

The FM Code is based on a series of principles supported by specific standards which are considered necessary to provide the strong foundation to:

- financially manage the short, medium and long-term finances of a local authority
- manage financial resilience to meet unforeseen demands on services
- manage unexpected shocks in their financial circumstances.

Each local authority (in this case the IJB) must demonstrate that the requirements of the code are being satisfied. Demonstrating this compliance with the FM Code is a collective responsibility of IJB members, the Chief Finance Officer (CFO) and the Chief Officer. In doing this the statutory role of the Section 95 Officer will not just be recognised but also supported to achieve the combination of leadership roles essential for good financial management. However, to ensure that self-regulation is successful, compliance with the FM Code cannot rest with the CFO acting alone.

3.3 Principles

The FM Code applies a principle-based approach. It does not prescribe the financial management processes that local authorities should adopt. Instead, this code requires that a local authority demonstrates that its processes satisfy the principles of good financial management for an authority of its size, responsibilities and circumstances. Good financial management is proportionate to the risks to the authority's financial sustainability posed by the twin pressures of scarce resources and the rising demands on services. The FM Code identifies these risks to financial sustainability and introduces an overarching framework of assurance which builds on existing best practice but for the first time sets explicit standards of financial management.

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.

3.4 Financial Management Standards

The FM code is split into seven sections, and seventeen standards. Sections 1 and 2 address important contextual factors which need to be addressed if sound financial management is to be possible. The first deals with the responsibilities of the CFO and leadership team, the second with the authority's governance and financial management style.

The remaining sections 3 to 7 address the requirements of the financial management cycle, with section 3 stating the need for a long-term approach to the evaluation of financial sustainability. Section 4 looks at the authority's annual budget setting process, followed by stakeholder engagement and business cases (section 5) and performance monitoring arrangements (section 6), and the cycle is completed by section 7, which shows how high quality financial reporting supports

the financial management cycle by ensuring that it rests on sound financial information.

Section 1: The responsibilities of the Chief Finance Officer and Leadership Team

- Standard A: The leadership team is able to demonstrate that the services provided by the authority provide value for money
- Standard B: The authority complies with the CIPFA 'Statement on the Role of the Chief Officer in Local Government'

Section 2: Governance and financial management style

- Standard C: The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control
- Standard D: The authority applies the CIPFA/SOLACE 'Delivering Good Governance in Local Government: Framework (2016)'
- Standard E: The financial management style of the authority supports financial sustainability

Section 3: Long to medium-term financial management

- Standard F: The authority has carried out a credible and transparent financial resilience assessment
- Standard G: The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members
- Standard H: The authority complies with the CIPFA 'Prudential Code for Capital Finance in Local Authorities'
- Standard I: The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans

Section 4: The annual budget

- Standard J: The authority complies with its statutory obligations in respect of the budget setting process
- Standard 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

Section 5: Stakeholder engagement and business plans

- Standard L: The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget
- Standard M: The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions

Section 6: Monitoring financial performance

- Standard N: The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability
- Standard O: The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability

Section 7: External financial reporting

- Standard 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'
- Standard Q: The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions

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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