

The CIPFA Financial Management Code

CFO “Desk Top” Review 2020/21

The CIPFA Financial Management Code was released by CIPFA in October 2019.

Extracts from the consultation document have been replicated in this document

Objectives

The CIPFA Financial Management Code (CIPFA FM Code) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The CIPFA FM Code therefore for the first time sets the standards of financial management for local authorities.

The Code is based on a series of principles supported by specific standards and statements of practice 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 foreseen demands on services; and*
- financially manage unexpected shocks in their financial circumstances*

The Code is based on principles rather than prescription. Torbay Council must demonstrate that the requirements of the Code are being satisfied, **this is a collective responsibility of elected members, the Chief Finance Officer and the Senior Leadership Team.**

The FM Code should not be considered in isolation and accompanying tools, including the use of objective quantitative measures of financial resilience, should form part of the suite of evidence to demonstrate sound decision-making.

CIPFA’s judgement is that although the FM Code does not have legislative backing it applies to all local authorities.

The first full year of compliance will be 2021/22. This reflects the recognition that organisations will need time to work towards compliance.

The CIPFA Statement of Principles of Good Financial Management

The 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.

The underlying principles of the Code:-

- Organisational **leadership** - demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture
- Accountability** - based on medium term financial planning which drives the annual budget process supported by effective risk management, quality supporting data and whole life costs
- 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
- Adherence to professional **Standards** is promoted by the leadership team and is evidenced.
- Sources of **assurance** are recognised as an effective tool mainstreamed into financial management and includes political scrutiny and the results of both external audit, internal audit and inspection.
- The long term **sustainability** of local services is at the heart of all financial management process and is evidenced by prudent use of public resources.

CIPFA Financial Management Standards Summary

FM Standard Ref	CIPFA Financial Management Standards	Related Principal	Red 1-3	Amber 4-7	Green 8-10	Notes:
	Section 1 The Responsibilities of the Chief Finance Officer and Leadership Team					
A	<p>The leadership team demonstrates that the services provided by the authority provide value for money.</p> <p>Key questions</p> <p>Does the authority have a clear and consistent understanding of what value for money means to it and to its leadership team?</p> <p>Does the authority have suitable mechanisms in place to promote value for money at a corporate level and at the level of individual services?</p> <p>Is the authority able to demonstrate the action that it has taken to promote value for money and what it has achieved?</p>	Leadership		7		<p>Financial Implications in all Council reports.</p> <p>Consideration to be given to improve subsequent performance reporting from the implementation of the decisions.</p>
B	<p>The authority complies with the CIPFA Statement on the Role of the Chief Finance Officer in Local Government</p> <p>Key questions</p> <p>Is the authority's CFO a key member of the leadership team, involved in, and able to bring influence to bear on, all material business decisions?</p> <p>Does the CFO lead and champion the promotion and delivery of good financial management across the authority?</p>	Leadership			8	CFO part to leadership team and is a direct report to Chief Executive.

	<p>Is the CFO suitably qualified and experienced?</p> <p>Is the finance team suitably resourced and fit for purpose?</p>					
	Section 2 Governance and Financial Management Style					
C	<p>The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.</p> <p>Key questions</p> <p>Does the leadership team espouse the Nolan principles?</p> <p>Does the authority have in place a clear framework for governance and internal control?</p> <p>Has the leadership put in place effective arrangements for assurance, internal audit and internal accountability?</p> <p>Does the leadership team espouse high standards of governance and internal control?</p> <p>Does the leadership team nurture a culture of effective governance and robust internal control across the authority?</p>	Assurance			8	<p>Constitution including officer scheme of delegation, financial regulations, and contract regulations.</p> <p>Council has effective Audit Committee and Internal Audit functions.</p>
D	<p>The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016)</p> <p>Key questions</p> <p>Has the authority sought to apply the principles, behaviour and actions set out in the framework to its own governance arrangements?</p>	Accountability			8	<p>The Council has adopted the Code of Corporate Governance within its Constitution and prepares an annual governance statement to measure how the Council has complied with the Code. The Annual Governance Statement is</p>

	<p>Does the authority have in place a suitable local code of governance?</p> <p>Does the authority have a robust assurance process to support its AGS?</p>					<p>reviewed by the Council's Audit Committee.</p> <p>The Constitution provides the main driver and framework for the Council's governance arrangements.</p> <p>Senior Leadership (political and officer) maintain oversight and accountability for ensuring good governance through a number of mechanisms, including monthly cross party Council Leadership Group meetings with Group Leaders, Chief Executive and Monitoring Officer.</p> <p>Consideration to be given to setting a formal plan at the start of each year to demonstrate how compliance will be met linked to AGS at year end.</p>
E	<p>The Financial Management Style of the authority supports financial sustainability</p> <p>Key questions</p> <p>Does the authority have in place an effective framework of financial accountability?</p>	Sustainability			8	<p>Finance staff part of leadership meeting and key project boards.</p> <p>LGA Peer Review and CIPFA Financial Resilience review.</p>

	<p>Is the authority committed to continuous improvement in terms of the economy, efficiency, effectiveness and equity of its services?</p> <p>Does the authority's finance team have appropriate input into the development of strategic and operational plans?</p> <p>Do managers across the authority possess sufficient financial literacy to deliver services cost effectively and to be held accountable for doing so?</p> <p>Has the authority sought an external view on its financial style, for example through a process of peer review?</p> <p>Do individuals with governance and financial management responsibilities have suitable delegated powers and appropriate skills and training to fulfil these responsibilities?</p>				<p>Consideration of ongoing training around financial literacy of SLT and key staff.</p>
	<p>Section 3 Long to Medium Term Financial Management</p>				
<p>F</p>	<p>The authority has carried out a credible and transparent Financial Resilience Assessment</p> <p>Key questions</p> <p>Has the authority undertaken a financial resilience assessment?</p> <p>Has the assessment tested the resilience of the authority's financial plans to a broad range of alternative scenarios?</p> <p>Has the authority taken appropriate action to address any risks identified as part of the assessment?</p>	<p>Assurance</p>		<p>7</p>	<p>Council has a rolling three-year MTRP and reviews its reserves on an annual basis.</p> <p>Council is aware of its financial resilience risks, but these could be documented more in a formal review.</p>

<p>G</p>	<p>The authority has a Long-Term Financial Strategy for financial sustainability.</p> <p>Key questions</p> <p>Does the authority have a sufficiently robust understanding of the risks to its financial sustainability?</p> <p>Does the authority have a strategic plan and long-term financial strategy that adequately address these risks?</p> <p>Has the authority sought to understand the impact on its future financial sustainability of the strategic, operational and financial challenges that it might face (eg using a technique such as scenario planning)?</p> <p>Has the authority reported effectively to the leadership team and to members its prospects for long-term financial sustainability, the associated risks and the impact of these for short and medium-term decision making?</p>	<p>Sustainability</p>		<p>7</p>		<p>Council has a rolling three-year MTRP and rolling four-year capital plan. Future revisions of the plan need to include the planned net service reductions.</p> <p>The sensitivity of future risks could be documented more.</p>
<p>H</p>	<p>The authority complies with the CIPFA Prudential Code for Capital Finance in Local Authorities</p> <p>Key questions</p> <p>Has the authority prepared a suitable capital strategy?</p> <p>Has the authority set prudential indicators in line with the Prudential Code?</p> <p>Does the authority have in place suitable mechanisms for monitoring its performance against the prudential indicators that it has set?</p>	<p>Standards</p>		<p>9</p>		<p>Full compliance</p> <p>Consideration to be given to a wider SLT challenge on performance</p>

I	<p>The authority has a rolling multi-year Medium Term Financial Plan consistent with sustainable service plans</p> <p>Key questions</p> <p>Does the authority have in place an agreed medium-term financial plan?</p> <p>Is the medium-term financial plan consistent with and integrated into relevant service plans and its capital strategy?</p> <p>Has the medium-term financial plan been prepared on the basis of a robust assessment of relevant drivers of cost and demand?</p> <p>Has the medium-term financial plan been tested for resilience against realistic potential variations in key drivers of cost and demand?</p> <p>Does the authority have in place a suitable asset management plan that seeks to ensure that its property, plant and equipment including infrastructure assets contribute effectively to the delivery of services and to the achievement of the authority's strategic aims?</p>	Sustainability		5		<p>Council has a rolling three-year MTRP and rolling four-year capital plan. Business plans have been reintroduced which will need to integrate to/from the MTRP.</p> <p>Need to include future year reductions into plan.</p> <p>Asset Management Plan and its management to be reviewed to ensure it is compliant.</p>
Section 4 The Annual Budget						
J	<p>The authority complies with its statutory obligations in respect of the budget setting process.</p> <p>Key questions</p> <p>Is the authority aware of its statutory obligations in respect of the budget-setting process?</p>	Standards			10	Full compliance in relation to statutory requirements

	<p>Has the authority set a balanced budget for the current year?</p> <p>Is the authority aware of the circumstances under which it should issue a Section 114 notice and how it would go about doing so?</p>					
K	<p>The budget report includes a statement by the Chief Finance Officer on the robustness of the estimates and a statement of the adequacy of the proposed financial reserves.</p> <p>Key questions</p> <p>Does the authority’s most recent budget report include a statement by the CFO on the robustness of the estimates and a statement of the adequacy of the proposed financial reserves?</p> <p>Does this report accurately identify and consider the most significant estimates used to prepare the budget, the potential for these estimates being incorrect, and the impact should this be the case?</p> <p>Does the authority have sufficient reserves to ensure its financial sustainability for the foreseeable future?</p> <p>Does the report set out the current level of the authority’s reserves, whether these are sufficient to ensure the authority’s ongoing financial sustainability and the action that the authority is to take to address any shortfall</p>	Standards			8	Detailed review of reserves report presented.
	Section 5 Stakeholder Engagement and Business Plans					

<p>L</p>	<p>The authority has engaged with key stakeholders in developing its long-term financial strategy, medium term financial plan and annual budget.</p> <p>Key questions</p> <p>How has the authority sought to engage with key stakeholders in developing its long-term financial strategy, its medium-term financial plan and its annual budget?</p> <p>How effective has this engagement been?</p> <p>What action does the authority plan to take to improve its engagement with key stakeholders?</p>	<p>Transparency</p>		<p>6</p>	<p>Annual budget is subject extensive consultation and scrutiny. With some key services such as ASC and subsidiary companies there is ongoing longer-term planning.</p> <p>There is currently limited consultation on the longer-term financial strategy.</p>
<p>M</p>	<p>The authority uses a documented option appraisal methodology to demonstrate the VFM of its decisions</p> <p>Key questions</p> <p>Does the authority have a documented option appraisal methodology that is consistent with the guidance set out in IFAC/PAIB publication Project and Investment Appraisal for Sustainable Value Creation: Principles in Project and Investment Appraisal?</p> <p>Does the authority offer guidance to officers as to when an option appraisal should be undertaken?</p> <p>Does the authority’s approach to option appraisal include appropriate techniques for the qualitative and quantitative assessment of options?</p> <p>Does the authority’s approach to option appraisal include suitable mechanisms to address risk and uncertainty?</p>	<p>Transparency</p>		<p>6</p>	<p>All major decisions are supported by a business case and a financial appraisal.</p> <p>Consideration could be given to formalising a standard format to be used.</p>

	Does the authority report the results of option appraisals in a clear, robust and informative manner that gives clear recommendations and outlines the risk associated with any preferred option(s)?					
	Section 6 Monitoring Financial Performance					
N	<p>The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability</p> <p>Key questions</p> <p>Does the authority provide the leadership team with an appropriate suite of reports that allow it to identify and to correct emerging risks to its budget strategy and financial sustainability?</p> <p>Do the reports cover both forward and backward-looking information in respect of financial and operational performance?</p> <p>Are there mechanisms in place to report the performance of the authority’s significant delivery partnerships such a contract monitoring data?</p> <p>Are the reports provided to the leadership team in a timely manner and in a suitable format?</p> <p>Is the leadership team happy with the reports that it receives and with its ability to use these reports to take appropriate action?</p>	Assurance		7		<p>Monthly reporting to managers and SLT. Quarterly reporting to leadership team and all members.</p> <p>Consideration of need to improve reporting to leadership team of subsidiary company performance</p> <p>Need to improve and link operational performance to financial performance</p>
O	The leadership team monitors the elements of its balance sheet which pose a significant risk to its financial sustainability.	Leadership		7		Key parts of the balance sheet that impact on the council’s operations are reviewed regularly such as treasury management – such as

	<p>Key questions</p> <p>Has the authority identified the elements of its balance sheet that are most critical to its financial sustainability?</p> <p>Has the authority put in place suitable mechanisms to monitor the risk associated with these critical elements of its balance sheet?</p> <p>Is the authority taking action to mitigate any risks identified?</p> <p>Does the authority report unplanned use of its reserves to the leadership team in a timely manner?</p> <p>Is the monitoring of balance sheet risks integrated into the authority's management accounts reporting processes?</p>					<p>cashflow and CFR and non-treasury investments. Reserves are reviewed on an annual basis and link to budget and MTRP.</p> <p>Consideration to be given to a wider update on all aspects of balance sheet. Greater challenge of the highest and best use of the council non-current assets.</p>
	<p>Section 7 External Financial Reporting</p>					
<p>P</p>	<p>The Chief Finance Officer 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.</p> <p>Key questions</p> <p>Is the authority's CFO aware of their responsibilities in terms of the preparation of the annual financial statements?</p> <p>Are these responsibilities included in the CFO's role description, personal objectives and other relevant performance management mechanisms?</p>	<p>Accountability</p>			<p>9</p>	<p>Full compliance (to date)</p> <p>Consideration of including in objectives and performance management.</p>

	Have the authority's financial statements hitherto been prepared on time and in accordance with the requirements of the Code of Practice on Local Authority Accounting in the United Kingdom?					
Q	<p>The presentation of the final outturn figures and variations from budget allow the leadership team to make strategic financial decisions.</p> <p>Key questions</p> <p>Is the authority's leadership team provided with a suitable suite of reports on the authority's financial outturn and on significant variations from budget?</p> <p>Is the information in these reports presented effectively?</p> <p>Are these reports focused on information that is of interest and relevance to the leadership team?</p> <p>Does the leadership team feel that the reports support it in making strategic financial decisions?</p>	Accountability		7		<p>Outturn information is presented to leadership team and where appropriate future budgets are adjusted.</p> <p>Consideration to be given to a documented challenge of a service's outturn position both in relation to its net cost but also the outcomes achieved.</p>

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