

Agenda Item No.4(c)

DERBYSHIRE COUNTY COUNCIL

AUDIT COMMITTEE

8 December 2020

Report of the Director of Finance & ICT

CIPFA FINANCIAL MANAGEMENT CODE

1 Purpose of the Report

To provide Audit Committee with an overview of the Financial Management Code and details of progress towards complying with its standards.

2 Information and Analysis

Background

The Chartered Institute of Public Finance and Accountancy (CIPFA) published The Financial Management Code (FM Code) in October 2019. The FM Code provides guidance for good and sustainable financial management in local authorities, giving assurance that authorities are managing resources effectively.

The FM Code requires authorities to demonstrate that the processes they have in place satisfy the principles of good financial management, which is an essential part of ensuring that public sector finances are sustainable.

The FM Code identifies risks to financial sustainability and introduces a framework of assurance. This framework is built on existing successful practices and sets explicit standards of financial management.

Complying with the standards set out in the FM Code is the collective responsibility of elected members, the chief finance officer and their professional colleagues in the leadership team. Complying with the FM Code will help strengthen the framework that surrounds financial decision making.

The FM Code builds on elements of other CIPFA codes, such as The Prudential Code for Capital Finance, the Treasury Management in the Public Sector Code of Practice and the Code of Practice on Local Authority Accounting in the United Kingdom.

By following the essential aspects of the FM Code, local authorities are providing evidence to show they are meeting important legislative requirements.

The first full year of compliance will be 2021-22. This recognises that organisations will require time to reflect on the contents of the FM Code and allows them to use 2020-21 financial year to demonstrate how they are working towards compliance.

Financial Management Code

The FM Code establishes an approach based on six principles of good 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, driving the annual budget process, supported by effective risk management, quality supporting data and whole life costs.
3. **Transparency**
At the core of financial management, using consistent, meaningful and understandable data, reported frequently, with evidence of periodic officer action and elected member decision making.
4. **Professional Standards**
Promoted by the leadership team, with adherence evidenced.
5. **Assurance**
Recognised as an effective tool, mainstreamed into financial management, including political scrutiny and the results of both external audit, internal audit and inspection.
6. **Long-Term Sustainability**
At the heart of all local services' financial management processes, evidenced by the prudent use of public resources.

Explicit standards of financial management are also set out by the FM Code. These are the minimum standards which have to be complied with in order for the Council to demonstrate its compliance with the FM Code. The standards articulate the practical application of the principles of financial management based on the requirements of primary legislation, associated CIPFA codes and guidance on professional codes of practice and ethics. Whilst compliance with the standards is mandatory, the FM Code does not prescribe how they should be achieved. The standards are summarised in Appendix One.

Progress

Cabinet received a report on 23 April 2020, informing them of the contents of the FM Code. In this report it was noted that Audit Committee would receive reports on the Council's progress towards achieving the requirements of the FM Code by 1 April 2021. These reports were to include details of the Council's compliance with the FM Code's standards and proposals for additional practices, where appropriate.

To demonstrate conformity with the FM Code's standards, a document evidencing the applicable parts of the Council's Constitution, Financial Regulations, reports and policies is being compiled.

From work on this document to date it is evident that the Council already has a strong level of compliance with many aspects of the FM Code. Areas where it is particularly strong include:

- Risk arrangements.
- The Chief Financial Officer's role within the Council.
- Budget and treasury management and strategy.
- Budget setting.
- Delivery of the statutory accounts.
- Auditor Value for Money opinion.
- Capital strategy.
- Stakeholder engagement.
- Using reports to identify and correct emerging risks to the Council's financial sustainability.

The significant areas where further work is required to document how the Council is compliant with the FM Code relate to governance and financial management style; that:

- The Council applies the CIPFA/SOLACE Delivering Good Governance Framework in Local Government.
- The Council's leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.

Audit Services will be able to document compliance in these areas, based on the substantial work they have already performed on the Local Code of Corporate Governance.

Areas which have been identified as less strong, with a need for improvement and action include:

- Adequate staff resources and processes to project manage transformation programmes.

A planned centralised project management office will help shape and support the Council's transformation programme by contributing to its financial management.

- Planning and managing capital resources well.

The Council's Asset Management Plan sets out how it will ensure that Council assets are fit for purpose. The Council is reviewing its asset base in a joint arrangement with PSP, to ensure value for money.

Highways Infrastructure Asset Management Plans (HIAMS), which align with the Council's Local Transport Plan (LTP), are in place for each highways asset group, for example carriageways and footways, street lighting and structures etc. This asset management framework is based on the delivery of the Well Managed Highway Infrastructure Code of Practice. All the HIAMS incorporate appropriate levels of service and approach to whole life cost and lifecycle planning to provide the most appropriate value for money approach.

- Reviewing and re-engineering financial processes to ensure they are efficient, effective and delivery of agreed outcomes is optimised.

Whilst annual reviews of the Council's Financial Regulations go some way to addressing this issue, the ongoing Finance Review aims to examine this further. The Finance Review will be concluded in 2021-22.

- Sensitivity analysis in financial planning.
- Scenario planning in financial forecasts.

Historically, elements of sensitivity analysis have been undertaken utilising 'Monte Carlo' analysis, a risk management technique used for conducting a quantitative analysis of risks. However, sensitivity analysis has not been completed to understand whether the forecasts will remain viable under different sets of circumstances. The Council recognises the importance of good scenario planning, however, historically, there is little evidence of scenario planning in its medium-term financial forecasts. The Council is working with Grant Thornton in utilising the Financial Foresights Toolkit to aid scenario planning. Work commenced in August 2020.

- Adequate use and reporting of options appraisals.

The Council's Project Management Toolkit follows the principles of option appraisal. However, it is not widely utilised in the development of business cases, or in preparing Cabinet reports where there is material expenditure. The results of options appraisal techniques should be

reported in a clear, robust and informative manner, giving clear recommendations and outlining the risk associated with any preferred options. Again, the planned centralised project management office should help reinforce this.

A financial resilience assessment is also required. In producing the assessment, the sensitivity of financial sustainability to alternative plausible scenarios for the key drivers of costs, service demands and resources will be considered. This will require an analysis of future demand for key services and consideration of alternative options for matching demand to resources. It is anticipated that ongoing work with Grant Thornton, referred to above, will demonstrate this assessment. It is planned to complete this work in March 2021, following the setting of the budget for 2021-22 and ahead of closing the accounts for 2020-21. A short document will be produced, to support External Audit in arriving at their Value for Money (VfM) opinion.

An annual report detailing issues of compliance with the FM Code will be taken to Full Council alongside the Statement of Accounts in late Autumn each year, commencing in 2022, following the first full financial year of the FM Code's application. This Full Council meeting will also include a presentation by the external auditor on the accounts and their value for money opinion, or its replacement.

3 Considerations

In preparing this report the relevance of the following factors has been considered: financial, legal, prevention of crime and disorder, equality and diversity, human resources, environmental, health, property, transport and social value considerations.

4 Background Papers

Papers held electronically by Technical Section, Finance & ICT Division, Room 137.

5 Officer's Recommendation

That Audit Committee notes this overview of the FM Code and the progress made in identifying and recording the Council's current level of compliance and also notes details of the areas where compliance has been assessed as particularly strong, where further work is required to document compliance, or where it is acknowledged that compliance is weaker, with a need for improvement and action required.

PETER HANDFORD
Director of Finance & ICT

APPENDIX ONE

CIPFA Financial Management Standards

FM Standard Reference	Standard
	LEADERSHIP
A	The leadership team is able to demonstrate that the services provided by the authority provide value for money.
B	The authority complies with the CIPFA <i>Statement on the Role of the Chief Finance Officer in Local Government</i> .
O	The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.
	ACCOUNTABILITY
D	The authority applies the CIPFA/SOLACE <i>Delivering Good Governance in Local Government: Framework (2016)</i> .
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 <i>Code of Practice on Local Authority Accounting in the United Kingdom</i> .
Q	The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.
	TRANSPARENCY
L	The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.
M	The authority uses an appropriate documented options appraisal methodology to demonstrate the value for money of its decisions.
	STANDARDS
H	The authority complies with the CIPFA <i>Prudential Code for Capital Finance in Local Authorities</i> .
J	The authority complies with its statutory obligations in respect of the budget setting process.

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FM Standard Reference	Standard
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.
	ASSURANCE
C	The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.
F	The authority has carried out a credible and transparent financial resilience assessment.
H	The authority complies with the <i>CIPFA Prudential Code for Capital Finance in Local Authorities</i> .
	SUSTAINABILITY
E	The financial management style of the authority supports financial sustainability.
G	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.
I	The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.