

DECISION-MAKER:	GOVERNANCE COMMITTEE		
SUBJECT:	CIPFA FINANCIAL MANAGEMENT CODE		
DATE OF DECISION:	14 FEBRUARY 2022		
REPORT OF:	EXECUTIVE DIRECTOR FOR FINANCE, COMMERCIALISATION & S151 OFFICER		
<u>CONTACT DETAILS</u>			
Executive Director	Title:	Executive Director for Finance, Commercialisation & S151 Officer	
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STATEMENT OF CONFIDENTIALITY	
Not Applicable	
BRIEF SUMMARY	
<p>The Chartered Institute of Public Finance & Accountancy (CIPFA) has introduced a new Financial Management Code (FM Code). This sets out for the first time, the standards of financial management for local authorities. The FM Code is designed to support good practice in financial management and to assist local authorities to demonstrate their financial sustainability.</p>	
<p>CIPFA considers application of the FM Code to be the collective responsibility of each authority's organisational leadership team. For the purposes of the code the 'Leadership Team' is defined as the collective group of elected councillors and senior officers. Therefore, it will include the full Council, the Governance Committee as well as senior management across the council. The first full year of compliance with the FM Code is the current year (2021/22).</p>	
<p>Officers have conducted a self-assessment of the council's performance against the code and identified actions to improve our performance against the standard</p>	
RECOMMENDATIONS:	
Governance Committee	
	(i) Notes the introduction of the new Code of Practice on Financial Management, and the responsibilities within it.
	(ii) Notes the principles included in the Code and the self assessment attached, including the action plan to ensure alignment to the Code. The Committee is invited to make comments as appropriate.
REASONS FOR REPORT RECOMMENDATIONS	
1.	To demonstrate the extent to which the Council complies with the FM Code and areas for improvement. This will support good financial management, business practice, governance and risk management within the authority.

2.	To ensure both councillors and management with budget responsibilities are aware of the Code and the expectations within it.
ALTERNATIVE OPTIONS CONSIDERED AND REJECTED	
3.	The FM Code is not a statutory requirement. The Council could therefore choose not to comply with it. However, adopting good practice in relation to financial management is an effective tool for the council's finances and also managing financial risk.
4.	CIPFA states that its members must comply with it as one of their professional obligations.
DETAIL (Including consultation carried out)	
5.	Local government finance in the UK is governed by legislation, regulation and professional standards. The general financial management of a local authority, however, has not, until now, been supported by a professional code. The FM Code has been introduced because of the exceptional financial pressures faced by local authorities in recent years which have revealed concerns about fundamental weaknesses in financial management and the ability of some organisations to maintain services in the future.
6.	Some notable cases have been reported in the press regarding councils in severe financial difficulty. These cases, such as Northamptonshire County Council and the London Borough of Croydon, have added to the need to ensure consistent standards apply, as well as more recently Nottingham City Council. In 2018, in response to financial difficulties, Government sent appointed commissioners into Northamptonshire CC taking over the council's functions associated with governance and scrutiny, appointment of statutory officers and strategic financial management.
7.	The underlying principles that inform the FM Code have been developed in consultation with senior practitioners across the sector and associated stakeholders. The principles have been designed to focus on an approach that will assist in determining whether, in applying standards of financial management, a local authority is financially sustainable.
8.	<p>The 6 Principles of Good Financial Management set out in the FM Code are:</p> <ul style="list-style-type: none"> • 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 that 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, including political scrutiny and the results of external audit, internal audit and inspection.

	<ul style="list-style-type: none"> • 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.
9.	CIPFA's intention is that the Financial Management Code (FM Code) will have the same standing as the Prudential Code for Capital Finance in Local Authorities (CIPFA, 2021), which promotes the financial sustainability of local authority capital expenditure and associated borrowing. So, although the FM Code does not have legislative backing, it applies to all local authorities.
10.	While the FM Code applies to all local authorities, it recognises that some have different structures and legislative frameworks. Where compliance with the Code is not possible, adherence to the six principles is still considered appropriate.
11.	CIPFA considers application of the FM Code to be the collective responsibility of each authority's organisational leadership team. For the purposes of the code the 'Leadership Team' is defined as the collective group of elected councillors and senior officers. Therefore, it will include the full Council and policy and governance committees as well as senior officers.
12.	As part of the budget setting process, the Council's finance service has completed a self-assessment of compliance with the Code that has included discussion at the paid 'Executive Management Board' ¹ (EMB). This is attached at the appendix to this report.
13.	It is clear from this assessment that there is good practice in financial management but also areas where improvement has been identified. The action plan sets out activities which will improve compliance with the Code.
14.	To help councillors ensure compliance with the FM Code, and promote their own responsibilities for adherence to the Code, it is suggested that: <ul style="list-style-type: none"> • Training be included to cover the FM Code • An annual update on a 'self-assessment' basis be included to councillors via the Annual Governance Statement.
RESOURCE IMPLICATIONS	
<u>Capital/Revenue</u>	
15.	None
<u>Property/Other</u>	
16.	None.
LEGAL IMPLICATIONS	
<u>Statutory power to undertake proposals in the report:</u>	
17.	The FM Code is not a statutory document.
18.	However, adherence to the Code should support good business practice and compliance with statutory duties the council has, including setting an annual balanced budget.
<u>Other Legal Implications:</u>	
19.	None.
RISK MANAGEMENT IMPLICATIONS	

¹ The board of paid senior management – Executive Directors and CEO

20.	Monitoring compliance with the Code and action plans to promote this should ensure improvement in management of financial risk and act as a safeguard for the authority.
POLICY FRAMEWORK IMPLICATIONS	
21.	Sound and effective management of the council's finances should both support the aims of the council's Corporate Plan and form a part of the decision making process.

KEY DECISION?	Yes/No
WARDS/COMMUNITIES AFFECTED:	None
<u>SUPPORTING DOCUMENTATION</u>	
Appendices	
1.	Self Assessment and Action Plan

Documents In Members' Rooms

1.	Copy of the Cipfa FM code
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Equality Impact Assessment

Do the implications/subject of the report require an Equality and Safety Impact Assessment (ESIA) to be carried out.	Yes/No
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Privacy Impact Assessment

Do the implications/subject of the report require a Privacy Impact Assessment (PIA) to be carried out.	Yes/No
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Other Background Documents

Other Background documents available for inspection at:

Title of Background Paper(s)	Relevant Paragraph of the Access to Information Procedure Rules / Schedule 12A allowing document to be Exempt/Confidential (if applicable)
1.	None