

TONBRIDGE & MALLING BOROUGH COUNCIL
FINANCE, INNOVATION and PROPERTY ADVISORY BOARD

17 July 2019

Report of the Director of Finance and Transformation

Part 1- Public

Matters for Information

1 THE CIPFA FINANCIAL MANAGEMENT CODE CONSULTATION

In March 2019 the Chartered Institute of Public Finance and Accountancy (CIPFA) published “The CIPFA Financial Management Code Consultation”. This report provides an overview of the consultation paper, together with our response.

1.1 Introduction

1.1.1 The CIPFA is proposing that a Financial Management Code (CIPFA FM Code) should be designed and developed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability.

1.1.2 The CIPFA FM Code would therefore for the first time set standards of financial management for local authorities in the UK. A summary of the key points is set out at section 1.2.

1.1.3 The draft FM Code is based on a series of principles supported by specific standards and statements of practice. They are considered necessary to provide the strong foundation within local authorities to enable them to:

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

1.1.4 The draft FM Code is consistent with other CIPFA codes and statements in that it is based on principles rather than prescription. Each local authority (and those bodies designated to apply the FM Code) must demonstrate that the requirements of the FM Code are being satisfied.

1.1.5 None of this should be of particular concern to us as we believe this is already embedded at Tonbridge and Malling. **The intention is for the Code to come into effect from April 2020.**

1.1.6 Demonstrating compliance with the CIPFA FM Code is the collective responsibility of elected members, myself as the s151 officer and Management Team as the Council's leadership team.

1.1.7 Whilst I believe we are already in a good place, a few things that we will need to address are as follows:

- refresher training for staff on Financial Rules and good budget management
- financial training for Members
- more regular benchmarking
- the finalisation of the Asset Management Plan.

1.1.8 The consultation paper can be found at the following link:

[file:///C:/Users/nalfs/Downloads/CIPFA_Financial_Management_Code_Draft_v10_Consultation_Version%20\(5\).pdf](file:///C:/Users/nalfs/Downloads/CIPFA_Financial_Management_Code_Draft_v10_Consultation_Version%20(5).pdf)

1.1.9 The deadline for responses was 30 April 2019 and a copy of the response can be found at **[Annex 1]**.

1.2 The CIPFA Financial Management Code Consultation – Summary

1.2.1 Local government finance in the UK is governed by primary legislation, regulation and professional standards as supported by regulation.

1.2.2 Section 151 of the Local Government Act 1972 requires that every local authority in England and Wales should ...“make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs.” Legislation also makes sound financial management ultimately the responsibility of the Chief Finance Officer. With these responsibilities come obligations, further reinforced by Section 114 of the Local Government Finance Act 1988 which requires the Chief Finance Officer to report to all elected members if there is or is likely to be unlawful expenditure or if expenditure in the year is likely to exceed resources. An authority's prudent and proper financial management is also informed by a framework of professional codes of practice and guidance.

1.2.3 The general financial management of a local authority, however, has not been supported by a professional code. CIPFA is now proposing that a Financial Management Code (FM Code) should be designed and developed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The FM Code would therefore for the first time set standards of financial management for local authorities in the UK.

- 1.2.4 The FM Code is based on a series of **principles supported by specific standards and statements of practice**. They are considered necessary to provide the strong foundation within local authorities to enable them to financially manage the short, medium and long-term finances; manage financial resilience to meet foreseen demands on services; and financially manage unexpected shocks in their financial circumstances.
- 1.2.5 The FM Code is consistent with other CIPFA codes and statements in that it is based on principles rather than prescription. Each local authority (and those bodies designated to apply the FM Code) must demonstrate that the requirements of the FM Code are being satisfied. Demonstrating this compliance is the collective responsibility of elected members, the chief finance officer and their professional colleagues in the leadership team.
- 1.2.6 The FM Code applies a principle based approach. The Code requires that a local authority demonstrate that its processes satisfy the **principles of good financial management for an authority of its size, responsibilities and circumstances**. The principles are designed to assist in determining whether, in applying standards of financial management a local authority is financially sustainable:
- 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 which 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 and includes political scrutiny and the results of both external audit, internal audit and inspection.
 - 6) 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.
- 1.2.7 To enable authorities to test their conformity with the principles of good financial management the FM Code translates these principles into **Financial Management Standards and supporting Statements of Standard Practice**. The Statements of Standard Practice set the **minimum requirements** to demonstrate adherence to the Code. The Financial Management Standards and supporting Statements of Standard Practice can be found at **[Annex 2]**.

1.2.8 Compliance will typically but not always be demonstrated by documenting compliance with the Statements of Standard Practice which underpin each of the Financial Management Standards. *Note – see this requiring a response to each of the Statements of Standard Practice by way of a self-assessment.*

1.3 Legal Implications

1.3.1 As set out in the consultation paper.

1.4 Financial and Value for Money Considerations

1.4.1 It is clearly of utmost importance that an organisation can demonstrate and evidence good practice in financial management and as such welcome a Code against which practice can be judged.

1.5 Risk Assessment

1.5.1 Clearly, the absence of good practice in financial management puts at risk the integrity of the Council's finances and at worse its financial sustainability.

Background papers:

Nil

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