

TONBRIDGE & MALLING BOROUGH COUNCIL

AUDIT COMMITTEE

26 July 2021

Report of the Director of Finance and Transformation

Part 1- Public

Delegated

1 THE CIPFA FINANCIAL MANAGEMENT CODE

In October 2019 the Chartered Institute of Public Finance and Accountancy (CIPFA) published “The CIPFA Financial Management Code”. This report provides an overview of the Code and the outcome of a self-assessment to demonstrate compliance.

1.1 Introduction

1.1.1 In October 2019 the Chartered Institute of Public Finance and Accountancy (CIPFA) published a Financial Management Code (FM Code) to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability, and would for the first time set standards of financial management for local authorities in the UK.

1.1.2 Members were advised at the consultation stage that none of this should be of particular concern as we believe the Council’s financial management arrangements already comply with the CIPFA Financial Management Code principles of good financial management for an authority of its size, responsibilities and circumstances.

1.1.3 There were at that time however a few areas identified to follow up / for further consideration:

- refresher training for staff on Financial Procedure Rules and good budget management
- financial training for Members – training sessions on the council’s finances, risk management, treasury management and statement of accounts arranged following the 2019 Borough Election.
- more regular benchmarking
- the finalisation of the Asset Management Plan – an Asset Management Plan approved by the Finance, Innovation and Property Advisory Board, Cabinet and Council in January 2020.

1.1.4 The Code is to be applied from the year 2020/21 with a view to full compliance the following year.

1.2 The CIPFA Financial Management Code

1.2.1 The CIPFA FM Code is based on a series of principles supported by specific standards and statements of practice considered necessary to provide the strong foundation to:

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

1.2.2 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 and sought to rely on the local exercise of professional judgement backed by appropriate reporting. 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.

1.2.3 Demonstrating this compliance is the collective responsibility of elected members, the chief finance officer and their professional colleagues in the leadership team.

1.2.4 To enable authorities to test their conformity with the principles of good financial management the FM Code translates these principles into Financial Management Standards.

1.2.5 Members of this Committee may be familiar with the report presented to Cabinet on 6 July 2021 setting out the latest position in terms of the Medium Term Financial Strategy, and the Savings and Transformation Strategy. In that report, reference was made to this Code particularly with regard to taking a long-term view and in the delivery of any required savings. Members may find the following extract helpful:

*“While the statutory local authority budget setting process continues to be on an annual basis, **a longer-term perspective is essential** if local authorities are to demonstrate their financial sustainability. **Short-termism runs counter** to both sound financial management and sound governance”.*

1.3 Compliance

1.3.1 Compliance will typically, but not always, be demonstrated by documenting compliance by way of a self-assessment.

1.3.2 Attached at **[Annex 1]** is the outcome of such an assessment using a RAG rating for each of the seventeen Financial Management Standards where it can be seen a **green rating** has been assigned to all but two of the Standards.

1.3.3 The two Standards assigned an **amber rating** are stakeholder engagement and business cases.

1.3.4 It is not that we do not comply in all significant respects. However, when an organisation is prioritising its activities and seeking a balance between its service delivery aspirations and available resources (a position that TMBC will be in in the very near future as set out in the Cabinet report 6 July 2021) – stakeholder engagement will require particular attention. On business cases, the Management Team will need to give consideration to the adoption of an appropriate documented option appraisal methodology to demonstrate value for money.

1.4 Legal Implications

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

1.4.2 Since these are minimum standards, CIPFA’s judgement is that compliance with them is obligatory if a local authority is to meet its statutory responsibility for sound financial administration.

1.5 Financial and Value for Money Considerations

- 1.5.1 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.

1.6 Risk Assessment

- 1.6.1 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.

1.7 Equality Impact Assessment

- 1.7.1 The decisions recommended through this paper have a remote or low relevance to the substance of the Equality Act. There is no perceived impact on end users.

1.8 Policy Considerations

- 1.8.1 Good practice in financial management is relevant across all areas of the Council's business.

1.9 Recommendations

- 1.9.1 Members are asked to **NOTE** the outcome of the self-assessment to demonstrate compliance with the CIPFA Financial Management Code.

Background papers:

Nil

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