

# AUDIT AND GOVERNANCE COMMITTEE

<b>DATE</b>	21st April 2022
<b>REPORT OF</b>	Sharon Wroot Executive Director - Environment, Economy and Resources
<b>SUBJECT STATUS</b>	CIPFA Financial Management Code of Practice Open

## CONTRIBUTION TO OUR AIMS

The Council has two clear strategic priorities – Stronger Economy and Stronger Communities. In order to achieve these priorities, the Council needs to have robust financial management arrangements which support long-term financial sustainability, good governance and the delivery of value for money.

## EXECUTIVE SUMMARY

The Chartered Institute of Public Finance & Accountancy ('CIPFA') Financial Management Code (the 'Code') sets out the standards of financial management for local government bodies. The attached self-assessment (Appendix 1) outlines how the Council meets the requirements of the Code.

## RECOMMENDATIONS

That the Audit and Governance Committee:

- 1) Note the requirement to adhere to the Code
- 2) Consider the findings within the updated self-assessment
- 3) Seeks assurances in relation to the Council's current practice.

## REASONS FOR DECISION

The report is important in informing the Audit and Governance Committee of the CIPFA Financial Management Code and the Council's current level of compliance against the expectations outlined within it.

### 1. BACKGROUND AND ISSUES

The Chartered Institute of Public Finance & Accountancy ('CIPFA') Financial Management Code (The 'Code') came into effect from 1<sup>st</sup> April 2021. The Code sets out the standards of financial management expected for local government bodies. The Code is designed to support good practice in financial management and to assist local authorities to demonstrate financial sustainability.

The Code was introduced last year in light of the exceptional financial pressures faced by local authorities in recent years and the challenges for some organisations to maintain services in the future. CIPFA's expectation is that the Code has the same standing as the Prudential Code for Capital Finance in Local Authorities.

The Code outlines CIPFA's understanding of how the Chief Financial Officer (CFO) should satisfy their statutory responsibility for good financial administration. However CIPFA also considers the application of the Code to be the collective responsibility of

the Council's leadership (elected members and senior officers).

An updated self-assessment of the Council's current performance against each of the Financial Management Standards has been undertaken and is reproduced in Appendix 1.

The self-assessment has concluded that:

- The Council has strong financial leadership and management which is underpinned by a clear financial strategy.
- There is good engagement through the financial planning process which is underpinned by an integrated budget and commissioning process.
- Through the Council's system of internal control, there is a clear accountability framework in place for budgetary control with regular and clear financial performance reporting.
- Challenge and review processes are embedded through the audit and governance committee, star chamber and internal business case processes.
- The Council has a clear and affordable capital investment strategy which is underpinned by robust business development framework.
- Financial challenges linked to increasing social care demand are acknowledged and the Council's ability to deal with these challenges will be informed by the outcome of the new Local Government funding model.
- Reserves will need to be reviewed regularly within the context of a fast moving and challenging economic environment.

The detailed findings of the initial self-assessment against the 17 Financial Management Standards are detailed in Appendix 1.

## **2. RISKS AND OPPORTUNITIES**

The Key risks and opportunities are detailed within Appendix 1.

## **3. OTHER OPTIONS CONSIDERED**

Councils are expected to demonstrate how they have complied with the Code.

## **4. REPUTATION AND COMMUNICATIONS CONSIDERATIONS**

The financial environment in which the Council is operating remains challenging and significant financial issues are communicated externally through a variety of media.

## **5. FINANCIAL CONSIDERATIONS**

As set out in the report.

## **6. CHILDREN AND YOUNG PEOPLE IMPLICATIONS**

Strong financial management arrangements are necessary to manage the Council's resources including those allocated towards Children and Young people.

## **7. CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS**

No direct implications although climate change and environmental considerations are considered as part of all financial and resourcing decisions.

## **8. FINANCIAL IMPLICATIONS**

As set out within the report

## **9. LEGAL IMPLICATIONS**

The Council is required by the Local Government Act 2003, and other statutory provisions, to have proper regard to accounting and other practices.

By meeting the requirements of the Financial Management Code, the Council can demonstrate that it has efficient arrangements in place for the proper administration of the Council's financial affairs.

## **10. HUMAN RESOURCES IMPLICATIONS**

No direct implications although human resource decisions are considered as part of all resource decisions.

## **11. WARD IMPLICATIONS**

All wards affected

## **12. BACKGROUND PAPERS**

Budget, Finance and Commissioning Plan 2022/23 – 2024/25

<https://democracy.nelincs.gov.uk/wp-content/uploads/2021/05/6.-Budget-and-Medium-Term-Financial-Plan-2022-%E2%80%93-2024.pdf>

## **13. CONTACT OFFICER(S)**

Guy Lonsdale, Head of Finance and Accountancy (Deputy S151 Officer)

**SHARON WROOT**  
**EXECUTIVE DIRECTOR – ENVIRONMENT, ECONOMY AND RESOURCES**

**APPENDIX 1 - CIPFA Financial Management Code of Practice (Self Assessment)**

<b>SECTION 1</b>			
<b>The responsibilities of the chief finance officer and leadership team</b>		<b>Expected</b>	<b>Assessment</b>
Standard A	The leadership team is able to demonstrate that the services provided by the authority provide value for money.	The delivery of value for money will ultimately be dependent on decisions made by elected members. It is for the leadership team to ensure that the authority's governance arrangements and style of financial management promote financial sustainability. The leadership team must recognise that while statutory responsibility for the financial management of the authority rests with the CFO, the CFO is reliant on the actions of the leadership team, both collectively and individually as elected members and senior officers. A situation in which the CFO is forced to act in isolation is characteristic of authorities in which financial management has failed and financial sustainability is threatened. Equally, the CFO must ensure that they fulfil their personal legal and professional responsibilities in the public interest and in recognition of the other statutory service responsibilities of the authority. In the leadership team the CFO must provide timely, relevant and reliable financial advice, in accordance with the law and professional standards.	Key Partnerships attend the leadership team promoting wider accountability.
			A Business Development Group comprised of managers from key disciplines and with appropriate skills review and consider all outline and full Business Cases for revenue, external funding and capital and assess against a set of key tests covering strategic fit, financial impact, and risks. Highlight reports received by Assistant Directors Group. A Major Projects Board oversees the progression of all large and complex programmes.
			Intellegence throughout budget planning including the production of service prospectus supports the challenge of VfM in advance of the productions of Commissioning briefs produced by directors. Star chamber process as part of budget setting process ensures the administration and leadership team work together closely to discuss and challenge budget decisions and the allocation of resources.
Standard B	The authority complies with the CIPFA <i>Statement on the Role of the Chief Financial Officer in Local Government</i>	The Chief Financial Officer in a public service organisation is a key member of the Leadership Team, helping it to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest. They must be able to bring influence to bear on all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the organisation's financial strategy; they must lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively. To deliver these responsibilities the Chief Financial Officer must lead and direct a finance function that is resourced to be fit for purpose; and must be professionally qualified and suitably experienced.	CFO is a key member of Leadership Team. Developing and Implementing Strategy, resource planning in support of delivering priority outcomes. Governance arrangement ensure all key decisions have a appropriate S151 sign off.
			Promoting and development of MTFP and the annual budget process through key updates on a regular basis to Leadership, Members and informal Scrutiny. Ensuring ownership, financial sustainability and collective responsibility for delivery. Evidenced through budget timetable, informal scrutiny attendance and commissioning briefs.

Accountability framework issued annually to agree and sign off budget allocations.

**SECTION 2**  
**Governance and financial management style Expected Assessment**

Standard C	The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.	The team must ensure that there are proper arrangements in place for governance and financial management, including a proper scheme of delegation that ensures that frontline responsibility for internal and financial control starts with those who have management roles. This delegation ensures that those responsible for the delivery of services are also explicitly held responsible for the financial management of the associated expenditure and income. Nonetheless, it is for the leadership team to demonstrate that the authority always meets exacting standards of probity, accountability and demonstrable efficiency in the use of public resources. All parts of the governance structure of an organisation play an important role, but the audit committee is a key component, providing independent assurance over governance, risk and internal control arrangements. It provides a focus on financial management, financial reporting, audit and assurance that supports the leadership team and those with governance responsibilities. Good governance is evidenced by actions and behaviours as well as formal documentation and processes. The tone and action at the top are critical in this respect, and rest with the leadership team – both senior officers and elected members, as well as the CFO. A successful leadership team has a culture of constructive challenge that excludes an optimism bias in favour of a realism bias and is built on a rigorous examination of goals, underlying assumptions and implementation plans.	<p>Financial management arrangements are revised periodically to ensure that they remain fit for purpose, and with finance teams reviewed to consider capacity, resourcing and training needs. The move towards more agile working has not adversely affected the council's internal control and financial management framework. A specific review of financial management within children's services has been undertaken in light of budget challenges in this area. This review identified a range of recommendations to improve governance.</p> <p>The Audit and Governance committee has an independent chair external to the Council. An appropriate Training and development programme is in place for Committee Members.</p> <p>There is a formal scheme of budget delegation. The financial procedure rules have undergone a recent review.</p> <p>There is guidance available to budget holders which includes a description of their responsibilities, an outline of the budget process, and a budget process timetable. Accountability letters issued annual and guidance available. Refreshed on CP screens. Training available and in place.</p> <p>Action plans are developed and monitored when a material variance arises or a deficit is forecast.</p> <p>There is a line of professional accountability between Service Delivery Managers, Business Partnering the chief finance officer, to ensure compliance with professional standards and objectivity of advice on financial matters.</p> <p>The council regularly tests its financial systems to ensure that processes are secure, key systems reviewed by internal audit. The Implementation of a new finance system from 2022 will ensure full review of all key financial internal control processes will be undertaken.</p> <p>The Council's targets for income collection and recovery of arrears stretch performance and their achievement is monitored with appropriate corrective action taken during the year to achieve the targets (via quarterly financial performance report). The impact of COVID and targeted Government support is monitored through performance reporting .</p> <p>Monitoring information is available that evaluates the effectiveness of recovery actions, associated costs, and the cost of not recovering debt promptly for material categories of income. Aged debt analysis considered as part of quarterly financial performance report.</p>
Standard D	The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016).	This CIPFA/SOLACE framework recommends that the review of the effectiveness of the system of internal control that local authorities in England, Wales, Scotland and Northern Ireland are required to undertake by their respective accounts and audit regulations should be reported in an annual governance statement	The Annual Governance Statement provides a commentary on the effectiveness of internal controls. Supported by the Head of Internal Audit Opinion.

Standard E	The financial management style of the authority supports financial sustainability	<p>Different styles of financial management are necessary. Financial sustainability will not be achieved by continuing with the behaviours of the past since these do not meet the demands of the present – or the future, which may be even more challenging. To remain financially sustainable authorities need to develop their financial management capabilities</p> <p>CIPFA believes that the strength of financial management within an organisation can be assessed by a hierarchy of three ‘financial management (FM) styles’:</p> <ul style="list-style-type: none"> <li>• delivering accountability</li> <li>• supporting performance</li> <li>• enabling transformation</li> </ul> <p>This hierarchy of financial management styles loosely maps onto the now deeply embedded recognition of the necessity for economy, efficiency and effectiveness to achieve value for money. In delivering accountability the finance team ensures that their authorities spend less and so achieve economy. In supporting performance, the finance team works with the authority to spend well by maximising the output from goods or services and so achieves efficiency. Finally, in enabling transformation the finance team supports the effective use of public money</p>	<p>A clear accountability framework for financial management exists.</p> <p>Budget holders are accountable for</p> <ul style="list-style-type: none"> <li>- Managing the performance of services and ensuring that mechanisms are in place to give assurance that the data used for reporting is robust</li> <li>- Ensuring that spend is targeted at the Council’s stated outcomes and to seek positive assurances that spend and income is compliant with financial regulations and services are operating at an agreed standard</li> <li>- Delivering agreed service outcomes within the Commissioning Plan, relevant service plan and other plans within the performance management framework;</li> <li>- Monitoring the budget (both capital and revenue allocations) and performance on a regular basis.</li> <li>- Managing resources in line with Council procedures and requirements, in particular the Council’s HR policies and project management guidance.</li> <li>- Complying with Contract Procedure Rules and Financial</li> <li>- Ensuring financial transactions are properly authorised and coded in accordance with Financial Regulations and Report any control breaches.</li> <li>- Delivering VFM through continuous improvement activity to capture and report on efficiency gains including improved outcomes.</li> <li>- Ensuring decisions are made in a timely way, based on robust financial and management information, are risk assessed and have resources allocated before commitments are made.</li> <li>- Identifying and reporting overspends and underspends and performance exceptions at the earliest date .</li> </ul> <p>Service prospectus are issued annual and support the proposals put forward as part the budget setting process.</p> <p>There is a business development framework which ensures investment is aligned to the priorities of the council</p>
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SECTION 3			
Long to medium term financial planning		Expected	Assessment
Standard F	The authority has carried out a credible and transparent financial resilience assessment.	Authorities must critically evaluate their financial resilience. It is possible that the existing strategy is financially sustainable, but this must still have been tested and demonstrated in a financial resilience assessment. In this financial resilience assessment the authority must test the sensitivity of its financial sustainability given alternative plausible scenarios for the key drivers of costs, service demands and resources. It will require an analysis of future demand for key services and consideration of alternative options for matching demand to resources. Testing will focus on the key longer-term revenues and expenses and the key risks to which the authority will be exposed	<p>The Council's Planning process is underpinned by informed risk assessments. Risk appetite is a key defined within the capital investment strategy</p> <p>Commissioning plans are reporting into Leadership Team and Star Chamber processes</p> <p>Significant overspends are assessed for service delivery impact and impact on MTFP.</p> <p>The budget reported to members includes a positive assurance statement from the chief finance officer about the adequacy of the proposed financial reserves, in accordance with the requirements of section 25 of the LG Act 2003.</p> <p>The council has policy on the level and nature of reserves and balances it needs that has been approved by members and reflected in the budget and medium-term financial plan</p> <p>Where structural overspends are identified appropriate improvement plans are put in place and considered as part of future planning rounds</p> <p>Financial Resilience Assessment are undertaken on key areas of funding, demand sensitive services and material income and expenditure areas as part of the budget planning process and periodically throughout the year. The finance and commissioning plan highlights the range of challenges the Council is facing at the present time. The continued and long term impacts of COVID-19, NHS reform, and demographic pressures on social care demand are the most significant of these challenges. As in 2021/22, the Council has received a one year financial settlement from central Government with longer term changes to the local government financial model being postponed for at least another year.</p>
Standard G	The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members	A local authority needs an over-arching strategic vision of how it intends to deliver outputs and achieve outcomes for which it is responsible. This should include a statement that sets out both the vision and the underlying strategy, together with the mix of interventions that the organisation will adopt in delivering services to achieve the intended outcomes. In many cases a basis for this will already exist in a corporate plan.	There is a well documented and communicated priority/outcome framework that sets the direction for the Council. Financial strategy picks up issues around financial resilience and the response the Council is taking. The commissioning plans contain challenging actions, they are risk assessed and will be subject to continuous monitoring by the Council's leadership throughout the year. Well established budget monitoring processes are in place which include arrangements for the identification of variances and implementation of remedial actions where necessary.
Standard H	The authority complies with the CIPFA <i>Prudential Code for Capital Finance in Local Authorities</i>	One of the requirements of the Prudential Code is a capital strategy. This capital strategy is a fundamental component of good financial management. It should set out how the organisation is currently managing its assets and more importantly its future plans linked to available resources. Balance sheet management in local authorities is about the better management of assets and liabilities to support service delivery and capital strategy	<p>The council keeps its treasury management strategy under review and monitors performance against it. The strategy reflects the requirements of the CIPFA Code of Practice for Treasury Management in the Public Services.</p> <p>The council undertakes cash-flow monitoring which is used to inform short and long-term investment and borrowing decisions.</p> <p>A Capital investment Strategy underpins an affordable capital programme designed to deliver the council's strategic priorities has been agreed and the current and future funding of this is built into revenue planning.</p>
Standard I	The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans	the MTFP should support financially sustainable decision making. Importantly, performance against the plan will enable recent success and/or failures in delivering financial objectives to be taken into account in the annual budget process. A symptom of financial stress is the emergence of unanticipated overspends in recent years from the MTFP. While the long-term strategy needs to be a stable point of reference, the MTFP needs to be rolled forward annually to ensure that it reflects the latest detailed information	<p>Financial strategy is linked to key strategic priorities. Increasingly, the Council is taking a more commercial approach and investments are anticipated to make a significant contribution to the Council's strategic objective of enabling the growth of a strong and sustainable local economy.</p> <p>The medium-term financial strategy models funding, income and expenditure and resource requirements over three years and is reviewed and updated throughout the year.</p> <p>The financing of expenditure is transparently explained in budget summaries and reports.</p> <p>Corporate priorities drive the MTFP and internal resource allocation, with changes in allocations determined in accordance with policies &amp; priorities and subject to scrutiny.</p> <p>The council's financial strategy is linked to other internal strategies/plans as appropriate, e.g. local plan, economic strategy, Town Centre Priorities and Capital investment strategy.</p> <p>A balanced revenue budget has been set, based on pay, inflation, and known service and capital investment plans.</p>
SECTION 4			

The Annual Budget		Expected	Assessment
Standard J	The authority complies with its statutory obligations in respect of the budget setting process	The annual budget report sets out the proposed budget for the year ahead and demonstrates compliance with the Prudential Code. Budget Plans are owned by the whole of the Leadership Team not just the CRO.	The budget process demonstrates compliance with the legislation for setting a budget, issuing a Section 25 notice and Council tax resolution. All Commissioning Briefs supporting the budget are completed and signed off by the relevant leadership team member.
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.	The budget report should include details of ear marked reserves.	Robustness of estimates and adequacy of reserves statements are compliant with legislation. Details of reserves held are included in the budget report.
<b>SECTION 5</b>			
Stakeholder Engagement		Expected	Assessment
Standard L	The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.	Stakeholder consultation helps to encourage community involvement not just in the design of services but in their ongoing delivery. This is especially the case when a local authority adopts an enabling approach to public service delivery which, along with the active involvement of the third sector, may facilitate future reductions in service costs.	The budget strategy and planning reports clearly outline the engagement framework for the budget. Engagement includes members, business, voluntary sector and community groups.
Standard M	The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions	Financial sustainability will be dependent upon difficult and often complex decisions being made. The authority's decisions must be informed by clear business cases based on the application of appropriation option appraisal techniques. It is the responsibility of the CFO to ensure that all material decisions are supported by an option appraisal which in its rigour and sophistication is appropriate for the decision being made. It is likely that the authority's documented option appraisal methodology will include a relatively simplistic approach for decisions of low value and/or low risk.	<p>A decision making framework exists for all business development proposals The Business Development Group consider all outline and full business cases for capital, revenue and external funding. Project evaluation is built around the Governments 5 case model contained within the Green book and is applied proportionally depend on size and risk.</p> <p>Complex and business critical decisions have appropriate due diligence undertaken. Large material investments such as SHiIP, Town Centres, Housing will have appropriate level of due diligence whether from internal experts or external experts where necessary. Business partnering team engaged in key business planning roles.</p>
<b>SECTION 6</b>			

Monitoring Financial Performance		Expected	Assessment
Standard N	The leadership team takes action using reports enabling it to identify and correct emerging risks to	Early information about emerging risks to its financial sustainability will allow it to make a carefully considered and therefore effective response. Significant unplanned overspends and/or carrying forward undelivered savings into the following year might be a sign that an authority is not translating its policy decisions into actions. It also creates the	Regular monitoring provides information on financial performance to leadership As part of the budget planning process the budget envelopes are flexed to reflect a range of pressures within services. This is to avoid inherent cost pressures being carried forward into future years.
Standard O	The leadership team monitors the elements of its balance sheet which pose a significant risk to its financial sustainability.	It is a requirement of this code that authorities should more closely monitor the material elements of their balance sheet that may give indications of a departure from financial plans. This is especially important for local authorities with significant commercial asset portfolios. Contingencies and commitments are monitored to identify any items where a balance sheet provision may have crystallised. Key drivers of provisions (eg asset decommissioning decisions, legal claims, reorganisation activities) should be monitored to identify whether an actual or constructive obligation has arisen. Finally, cash flow is managed through application of Treasury Management in the Public Services: Code of Practice and Cross- Sectoral Guidance Notes (CIPFA, 2017)	The leadership team receives regular financial updates. Quarterly financial reports include details of key balance sheet areas including borrowing, treasury management, reserves, provisions and capex.  In relation to reserves, the S151 Officer provides statement on adequacy of reserves as part of the finance and commissioning plan process. All leadership team members briefed. Regular updates to Assistant Director group.
<b>SECTION 7</b>			
External financial reporting		Expected	Assessment
Standard 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 Code of Practice on Local Authority Accounting in the United Kingdom.	The statutory and professional frameworks for the production and publication of the accounts underpin their importance and demonstrate how public money is used.	CIPFA templates for the production of accounts. An unqualified opinion in 2020/21
Standard Q	The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.	It is key to ensure that the authority and its leadership understand how effectively its resources have been utilised during the year, including a process which explains how material variances from initial and revised budgets to the outturn reported in the financial statements have arisen and been managed. The success of these arrangements will be demonstrated by the ability of the leadership team to make decisions from them. In some circumstances this will lead to a reappraisal of the achievability of the long-term financial strategy and the financial resilience of the authority	Outturn report is reported to Leadership and Cabinet. Financial monitoring reports fed into budget planning processes to identify key pressures and investment priorities. Increasingly performance information is being integrated into financial monitoring reports. Assistant directors play key role in mitigation and recovery action planning.