

Divisions Affected - All

AUDIT & GOVERNANCE COMMITTEE

14 January 2026

Financial Management Code of Practice Compliance Assessment

Report by Executive Director of Resources and Section 151 Officer

RECOMMENDATION

1. **The Audit & Governance Committee is RECOMMENDED to**
 - Endorse the assessment of compliance against the Financial Management Code for 2025/26 (Annex 1)

Executive Summary

2. The Chartered Institute of Public Finance and Accountancy (CIPFA) launched the Financial Management Code of Practice (FM Code) in November 2019. The FM Code was developed on behalf of the Ministry of Housing, Communities and Local Government (MHCLG) in the context of increasing concerns about the financial resilience and sustainability of local authorities.
3. The FM Code clarifies how Chief Finance Officers should satisfy their statutory responsibility for good financial administration as required in section 151 of the Local Government Act 1972 and emphasises the collective financial responsibility of the whole leadership including the relevant elected members.
4. The Financial Management (FM) Code requires local authorities to demonstrate compliance on an annual basis, with assessments taking a retrospective view of the current financial year. This approach ensures that financial management practices are reviewed against actual performance rather than projections. The assessment aligns closely with the Annual Governance Statement (AGS), which is a statutory requirement under the Accounts and Audit Regulations. Together, these form the key elements of the authority's assurance framework, providing evidence that sound financial management and robust governance arrangements are in place to support transparency, accountability, and financial sustainability.

5. The report sets out the outcome of the compliance self-assessment undertaken for 2025/26 which has found that the Council is well placed to meet the requirements of the FM Code.

Introduction

6. The FM Code sets out the principles by which authorities should be guided in managing their finances and the specific standards that they should, as a minimum, seek to achieve. Compliance with the code is obligatory but is not currently referenced in legislation meaning that it is not statutory guidance. However, the FM Code draws heavily on existing statutory guidance:
 - Role of the Chief Financial Officer in Local Government
 - Prudential Code for Capital Finance
 - Code of Practice on Local Authority Accounting in the United Kingdom
7. The FM Code is designed to be flexible to the nature, needs and circumstances of individual authorities. It is up to each authority to determine the extent to which it complies with the Code and to identify what action it may wish to take to better meet the standards that the Code sets out.
8. It does not prescribe the financial management processes that local authorities should adopt. Instead, the code requires that a local authority demonstrates that its processes satisfy the principles of good financial management for an authority of its size, responsibilities and circumstances.
9. The FM Code has six key themes aimed at strengthening the financial resilience and sustainability of local authorities:
 - (i) Organisational **leadership** – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.
 - (ii) **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.
 - (iii) 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.
 - (iv) Adherence to professional **standards** is promoted by the leadership team and is evidenced.
 - (v) 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.
 - (vi) 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.

10. Performance against the six key themes is measured by 19 standards which are arranged over seven sections:
- (i) The responsibilities of the chief finance officer and leadership team
 - (ii) Governance and financial management style
 - (iii) Long to medium-term financial management
 - (iv) The annual budget
 - (v) Stakeholder engagement and business plans
 - (vi) Monitoring financial performance
 - (vii) External financial reporting
11. The 19 standards are set out in full in Annex 1.
12. At the Audit & Governance Committee meeting in November 2019 it was agreed that, as those charged with governance, the committee should receive an annual compliance report ahead of Cabinet's consideration of the Medium Term Financial Strategy for the following year.

Background to status of the FM Code

13. The [Redmond Review into Local authority financial reporting and external audit](#) which reported in September 2020 included a specific recommendation for MHCLG to review its current framework for seeking assurance that financial sustainability in each local authority in England is maintained. Although not prescribed in the formal recommendation, the review noted that MHCLG could give the FM Code statutory status and require local authorities to report on compliance with the Code in their Annual Governance Statement with auditors expected to report on material breaches.
14. The Department [published a formal response to the Redmond Review on 18 December](#) 2020 to coincide with the publication of the Provisional Local Government Settlement for 2021/22. In response to this specific recommendation, MHCLG committed to give it further consideration and to make a full response by spring 2021. [A further response from the Department was published in May 2021](#) but did not provide any further update on the status of the FM Code.

Compliance Assessment 2025/26

15. It is for the individual authority to determine whether it meets the standards of the FM Code and to make any changes that may be required to ensure compliance. Authorities should be able to provide evidence that they have reviewed their financial management arrangements against the standards and that they have taken such action as may be necessary to comply with them.

16. An assessment has been made of the Council's current compliance with the 19 Standards in the FM Code. The assessment has identified that the Council remains well placed to evidence compliance with the FM Code from 1 April 2026.
17. 17 standards have been assessed as green and 2 standards continue to be rated as amber, demonstrating that that sound financial management and robust governance arrangements are in place. Where relevant, proposed further actions that can be taken to enhance compliance have been included in the assessment. The Summary Assessment is included at Annex 1.
18. The principal areas of attention for development and improvement during 2026/27 will be the continued embedding of the Financial & Commercial Services Redesign following go – live in December 2025, and improvements to data structures and reporting that will be enabled by the new structure. These need to underpin the development of a more commercial approach as well as improvements to financial management competency and budget management across the council that will be driven by the agreement and implementation of the Financial Management Strategy across the council.
19. The Summary Assessment will also be published alongside the Chief Finance Officer's (Section 151 Officer's) statutory report on the budget (Section 25 Report) which is part of the suite of papers considered by Council in approving the budget in February 2026. This is supporting evidence of the consideration given by the Section 151 Officer to the financial management arrangements and control frameworks that are in place when commenting on the robustness of the proposed budget.

Financial Implications

20. There are no direct financial implications, but the assessment indicates that the Council is well placed to meet the requirements of the FM Code and thereby ensure value for money and financial sustainability and resilience.

Comments checked by:

Lorna Baxter, Executive Director of Resources and Section 151 Officer
Lorna.baxter@oxfordshire.gov.uk

Legal Implications

21. There are no direct legal implications arising from this report with the need to achieve compliance with the FM Code being integral in evidencing financial management standards.

Checked by:

Jay Akbar, Head of Legal and Governance Services
jay.ackbar@oxfordshire.gov.uk

Staff Implications

22. This report is concerned wholly with an assessment of financial management standards. There are no staffing implications arising directly from the report.

Equality & Inclusion Implications

23. There are no equality and inclusion implications arising directly from this report.

Sustainability Implications

24. There are no sustainability implications arising directly from this report.

LORNA BAXTER

Executive Director of Resources and Section 151 Officer

Annex: Financial Management Code of Practice –
Summary Compliance Assessment 2025/26

Background papers: Nil

Contact Officer: Kathy Wilcox, Head of Corporate Finance
Kathy.Wilcox@Oxfordshire.go.uk

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