

Divisions Affected - All

## **AUDIT & GOVERNANCE COMMITTEE**

**12 January 2021**

### **Financial Management Code of Practice Compliance Assessment**

#### **Report by Director of Finance**

### **RECOMMENDATION**

1. **The Committee is RECOMMENDED to note the Summary Compliance Assessment for 2020/21 (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. Local authorities are expected to demonstrate that the requirements of the FM Code are being satisfied and full compliance is expected for 2021/22 (i.e from April 2021) with 2020/21 acting as a preparatory year.
5. This is the first annual report to those charged with governance on the Council's compliance with the FM Code.
6. The report sets out the latest expectations for compliance with the FM Code from CIPFA and the outcome of the initial compliance self-assessment undertaken for 2020/21 which has found that the Council is well placed to meet the requirements of the FM Code.

### **Introduction**

7. The FM Code is set by CIPFA on behalf of MHCLG. 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
8. 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.
9. 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
10. The 19 standards are set out in full in Annex 1.

## Status of the FM Code

11. The first full year of compliance with the FM Code is due for 2021/22. Local Authorities are awaiting guidance from CIPFA setting out the expectations for evidencing compliance with the code.
12. CIPFA has recognised that the coronavirus crisis has seen many local authorities and their finance teams placed under extreme pressure which is ongoing and may impact on the ability to fully implement the FM Code from 2021/22. CIPFA are considering whether 'working towards' full implementation from 2022/23 might be an appropriate response to resourcing issues. However, this needs to be balanced against the evident risks and financial challenges in the sector, which arguably make earlier implementation more important.
13. The ultimate decision rests with MHCLG and an announcement is expected from CIPFA early in the new year, following consultation with the Association of Local Authority Treasurers' Society (ALATS).
14. Linked to this, 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.
15. [MHCLG published a formal response to the Redmond Review on 18 December](#) to coincide with the publication of the Provisional Local Government Settlement. In response to this specific recommendation, MHCLG has committed to give it further consideration and to make a full response by spring 2021.
16. A further update on MHCLG's response to the Redmond review and the impact on the Council's annual accounts and external audit will be included in the first report on the Statement of Accounts for 2020/21 to the Audit & Governance Committee in March.

## **Current Compliance Assessment 2020/21**

17. In the absence of clear guidance from CIPFA and MHCLG about how Local Authorities should report on and evidence compliance with the FM Code, it was agreed at the Audit & Governance Committee meeting in November 2019 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.
18. 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 is well placed to evidence compliance with the FM Code from 1 April 2021.

19. All 19 Standards have been assessed as Green meaning that compliance can be evidenced. 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.
20. The Summary Assessment will also be published alongside the Chief Finance Officer's statutory report on the budget (Section 25 Report) as supporting evidence of the consideration given by the Director of Finance to the financial management arrangements and control frameworks that are in place when commenting on the robustness of the proposed budget.

## **Embedding the FM Code in 2021/22**

21. CIPFA has published guidance notes to support Local Authorities to interpret the requirements of the FM Code. The guidance notes contain 69 detailed questions across the 19 standards to support compliance.
22. Officers will use the detailed questions to help inform the preparation of the Professional Lead Statements which underpin the Annual Governance Statement (AGS). Where action can be taken to strengthen and enhance compliance with the FM Code these will be taken forward and reported through the AGS Action Plan.

**LORNA BAXTER**  
Director of Finance

Annex: Financial Management Code of Practice – Summary Compliance Assessment 2020/21

Background papers: Nil

Contact Officer: Hannah Doney, Head of Corporate Finance (Deputy Section 151 Officer),  
07584174654, [Hannah.doney@oxfordshire.gov.uk](mailto:Hannah.doney@oxfordshire.gov.uk)

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