

Divisions Affected - All

## **AUDIT & GOVERNANCE COMMITTEE**

**5 January 2022**

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

**Report by Director of Finance**

#### **RECOMMENDATION**

1. **The Audit & Governance Committee is RECOMMENDED to endorse the assessment of compliance against the Financial Management Code for 2021/22 (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 then Ministry of Housing, Communities and Local Government (MHCLG)<sup>1</sup> 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. In recognition of the pressures that have been placed on local authorities in dealing with the COVID-19 pandemic, CIPFA has concluded that while 2021/22 remains the first year of compliance this can be within a more flexible framework where a proportionate approach is encouraged.
5. This is the second annual report to those charged with governance on the Council's compliance with the FM Code and follows an initial assessment for 2020/21 that was considered by Audit & Governance Committee in January 2021.

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<sup>1</sup> MHCLG is referred to throughout this report as the name of ministry at the time

6. The report sets out the outcome of the compliance self-assessment undertaken for 2021/22 which has found that the Council is well placed to meet the requirements of the FM Code.

## Introduction

7. 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
8. 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.
9. 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.
10. 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.

11. 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
12. The 19 standards are set out in full in Annex 1.

### **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. [MHCLG 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 MHCLG was published in May 2021](#) but did not provide any further update on the status of the FM Code.

### **Compliance Assessment 2021/22**

15. The first full year of compliance with the FM Code is 2021/22. However, in recognition of the pressures that have been placed on local authorities in dealing with the COVID-19 pandemic and impact on the medium term financial position, CIPFA concluded that the first year of compliance can be within a more flexible framework where a proportionate approach is encouraged.
16. It is for the individual authority to determine whether it meets the standards 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.
17. 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.

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 remains well placed to evidence compliance with the FM Code from 1 April 2022.
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**

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 again 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.

### **Financial Implications**

23. 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, Director of Finance

### **Legal Implications**

24. 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:

Sukdave Ghuman, Head of Legal Services

## **Staff Implications**

25. 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**

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

## **Sustainability Implications**

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

### **LORNA BAXTER**

Director of Finance

Annex: Financial Management Code of Practice –  
Summary Compliance Assessment 2021/22

Background papers: Nil

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