

# Report of the Director of Finance & IT to the meeting of Governance and Audit Committee to be held on 23<sup>rd</sup> September 2021

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## **Subject:**

**The CIPFA Financial Management Code**

## **Summary statement:**

This report highlights the requirements of the Financial Management Code, how the Council currently meets those requirements and further improvements or actions which may be implemented.

## **EQUALITY & DIVERSITY:**

There are no direct implications for equality and diversity arising from this report. It concerns the compliance of the Council against the requirements of the Financial Management Code.

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Director of Finance & IT

**Portfolio:**  
**Corporate**

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**Overview & Scrutiny Area:**  
**Corporate**

## **1. SUMMARY**

CIPFA issued its Financial Management Code which aims to drive financial management improvements and consolidate good practice in local authorities in October 2019. The code will come fully into effect from 2021/22. Compliance with the Code will be the responsibility of not just the Director of Finance & IT but also the corporate leadership team and elected members (including Governance & Audit Committee).

The Code sets out a series of financial management standards identifying the professional standards needed, if a local authority is to meet the minimal standards of financial management acceptable to meet fiduciary duties to taxpayers, customers and lenders. 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. Beyond that, CIPFA members must comply with it as one of their professional obligations.

It should be noted that the Financial Management Code provides a framework for the coordination of the existing CIPFA guidelines which the Council already complies with. It is not envisaged that there will be significant change but some improvements will be made and assurances identified.

## **2. BACKGROUND**

CIPFA, the Chartered Institute of Public Finance and Accountancy, issued a consultation paper early in 2019 on a proposed new Financial Management Code, which aims to drive improvement in financial management for all local authorities in the United Kingdom.

The Code was published in October 2019 and provides guidance for good and sustainable financial management in local authorities and will provide assurance that authorities are managing resources effectively.

It requires authorities to demonstrate that the processes they have in place satisfy the principles of good financial management. The Code identifies risks to financial sustainability and introduces a framework of assurance. This framework is built on existing successful practices and sets explicit standards of financial management. Complying with the standards set out in the Code is the collective responsibility of elected members, the chief finance officer and their professional colleagues in the leadership team.

Complying with the Code will strengthen the framework that surrounds financial decision making.

The Code built on elements of other CIPFA codes during its development and its structure and applicability will be familiar to users of publications such as, The Prudential Code for Capital Finance, Treasury Management in the Public Sector Code of Practice and Code of Practice on Local Authority Accounting in the United Kingdom, the role of the Chief Financial Officer and the joint guidance with SOLACE on Delivering Good Governance in Local Government

The Code applies to all local authorities, including police, fire and other authorities. The code applies to the West Yorkshire Pension Fund.

By following the essential aspects of the Code, local authorities are providing evidence to show they are meeting important legislative requirements in their jurisdictions. The first full year of compliance will be 2021/22. This reflected the recognition that organisations will need time to reflect on the contents of the Code and can use 2020/21 to demonstrate how they are working towards compliance.

The Governance and Audit Committee and External Audit are key components of the Council's financial assurance protections. They have a key role in receiving reports and explanations which determine the Council's compliance with guidance and regulations.

### **Council Performance against the Code**

The appendix details a self-assessment against the Financial Management Standards within the Code and identifies areas which the Director of Finance & IT in conjunction with the Council leadership team will be examining to assess opportunities for further improvement.

The self-assessment provides strong assurance of compliance against the requirements of the Code.

In liaison with West Yorkshire colleagues we are planning to undertake a peer review of each other's codes, to provide additional validation.

The main areas where further consideration will be given to further enhance financial governance and performance against Financial Management Requirements are outlined in the self-assessment included at Appendix 1. No material gaps are identified; the proposals will enhance assurance as part of continuous improvement processes.

#### **4. FINANCIAL & RESOURCE APPRAISAL**

There are no direct financial implications arising from this report. Proposals will further enhance financial governance.

#### **5. RISK MANAGEMENT AND GOVERNANCE ISSUES**

There are no significant risks arising out of the implementation of the proposed recommendations. The proposals within the report will strengthen financial governance processes and consequently reduce risk.

#### **6. LEGAL APPRAISAL**

There are no specific legal issues arising from the report.

#### **7. OTHER IMPLICATIONS**

## **7.1 SUSTAINABILITY IMPLICATIONS**

Compliance with the CIPFA Financial Management Code assists the Council in defining outcomes in terms of sustainable economic, social, and environmental benefits. The Council can take a longer-term view with regard to decision making, taking account of risk and acting transparently where there are potential conflicts between the intended outcomes and short-term factors such as the political cycle or financial constraints.

## **7.2 GREENHOUSE GAS EMISSIONS IMPACTS**

There are no specific issues arising from the report.

## **7.3 COMMUNITY SAFETY IMPLICATIONS**

There are no specific issues arising from the report.

### **7.4.1 HUMAN RIGHTS ACT**

There are no specific issues arising from the report.

## **7.5 TRADE UNION**

There are no specific issues arising from the report.

## **7.6 WARD IMPLICATIONS**

There are no specific issues arising from the report.

## **7.7 IMPLICATIONS FOR CORPORATE PARENTING**

There are no specific issues arising from the report.

## **7.8 ISSUES ARISING FROM PRIVACY IMPACT ASSESSMENT**

There are no specific issues arising from the report.

## **9. OPTIONS**

The Code does not prescribe the financial management processes that local authorities should adopt but requires that it demonstrates that it satisfies the principles set out in the Code. The Council therefore has to satisfy the principles but there will be different options about how it achieves that. The self-assessment and proposed actions set out the recommended improvements to strengthen overall financial governance and performance against the Code.

## **10. RECOMMENDATIONS**

- To note the contents of the CIPFA Financial Management Code.
- To note the self-assessment against the Code requirements
- To agree the further improvements and actions which will be made in order to demonstrate that the Council continues to satisfy the requirements of the Code, and strengthens assurance even further.

## **11. APPENDICES**

Appendix 1: Self-Assessment against the CIPFA Financial Management Code

## **12. BACKGROUND DOCUMENTS**

CIPFA Financial Management Code

A list of Key Documents relevant to the Code and providing evidence of the Council compliance, and providing assurance for Governance & Audit Committee include:

1. Treasury Management Strategy 2020/21
2. Annual Treasury Management Report
3. Treasury Management Policy Statement, Minimum Revenue Provision Strategy and Annual Investment Strategy 2020/21
4. Treasury Management Mid Year Report
5. Medium Term Financial Strategy update, 2020/21 to 2022/23 8.8.2020
6. The Council's Revenue Estimates for 2021/22
7. The Council's Capital Investment Plan for 2021/22 to 2024/25
8. Allocation of the Schools' Budget 2021/22 Financial Year
9. 2021/22 Budget Proposals and Forecast Reserves – Section 151 Officer Assessment
10. Budget Update 2021/22
11. Medium Term Financial Strategy update, 2020/21 to 2022/23 8.8.2020
12. Statement of Accounts 2019/20
13. QTR 3 Finance Position Statement for 2020/21
14. Full-Year Performance Report 7<sup>th</sup> July 2020
15. Amendments to the Constitution – Contract Standing Orders and Financial Regulations
16. Annual Governance Statement 2019/20
17. Annual Governance Statement Review
18. AGS Overall Assurance Statement v2 19.4.18
19. CBMDC Audit Completion Report – External Audit
20. Internal Audit Plan
21. Internal Audit Annual Report 2019/20
22. Half Year Internal Audit Monitoring Report
23. Internal Audit Peer Review February 2018

## Appendix 1: Self-Assessment against the CIPFA Financial Management Code

Financial Management Standard	Examples of how we comply	Potential Areas for Improvement/ Action
<p>A. The leadership team is able to demonstrate that the services provided by the authority provide value for money.</p>	<ul style="list-style-type: none"> <li>• External Audit VFM Conclusion as part of their annual review</li> <li>• All reports have Financial Appraisal</li> <li>• Inspection results from external bodies, eg Ofsted, CQC</li> <li>• Self-Assurance Statement</li> <li>• Benchmarking exercises with comparator organisations</li> <li>• Compliance with Financial Regulations and Standing Orders for Contracts</li> <li>• Internal Audit and associated Audit Plan</li> </ul>	<ul style="list-style-type: none"> <li>• The Director of Finance &amp; IT in conjunction with Project Appraisal Group has implemented a project closure reporting process for major capital schemes and other major projects, this is in infancy and will be developed further.</li> <li>• Greater use of benchmarking to assess VFM will be considered.</li> </ul>
<p>B. The authority complies with the CIPFA <i>Statement on the Role of the Chief Finance Officer in Local Government</i>.</p>	<ul style="list-style-type: none"> <li>• The Director of Finance &amp; IT (CFO) has reviewed his role as specified by the CIPFA Statement and is satisfied that it meets its requirements.</li> <li>• It is noted the CFO sits on the Chief Execs Mgt Team</li> </ul>	<ul style="list-style-type: none"> <li>• No further action proposed at this stage</li> </ul>
<p>C. The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.</p>	<ul style="list-style-type: none"> <li>• Annual Governance Statement is completed with CMT engagement</li> <li>• Risk Register is produced and reported quarterly</li> <li>• Financial Regs and Contract Standing Orders are reviewed annually</li> <li>• Internal Audit Plan produced and reported to GAC</li> <li>• Governance &amp; Audit Ctee has clear role</li> <li>• Letter of Representation</li> <li>• AD Assurance Statement completed annually</li> </ul>	<ul style="list-style-type: none"> <li>• No further action proposed at this stage</li> </ul>

Financial Management Standard	Examples of how we comply	Potential Areas for Improvement/ Action
D. The authority applies the CIPFA/SOLACE <i>Delivering Good Governance in Local Government: Framework</i> (2016).	<ul style="list-style-type: none"> <li>• Council's Annual Governance Statement produced and kept under review</li> <li>• New Assurance Process implemented to support the Governance and Audit Committee</li> <li>• Compliance Review on Delivering Good Governance in Local Government.</li> </ul>	<ul style="list-style-type: none"> <li>• Review of effectiveness of the Governance &amp; Audit Committee against latest CIPFA guidance.</li> </ul>
E. The financial management style of the authority supports financial sustainability.	<ul style="list-style-type: none"> <li>• MTFS - Annually refreshed 4-year forward view of Council Finances, Key risks. MTFS updated to reflect budget changes as part of budget setting process</li> <li>• Qtrly Finance Position Statements (4 Qtrs &amp; Outturn) reported to the Executive - Reports focus on high risk material exceptions, mitigating actions. They also incorporate a Budget Savings &amp; Investments Tracker which reports on the progress of delivering savings/investments. Reports also incorporate relevant activity, performance and outcomes data. Reports also incorporate Capital financial data, Reserves statements, Collection Fund updates and Risk Register</li> </ul>	<ul style="list-style-type: none"> <li>• No further action proposed at this stage</li> </ul>
F. The authority has carried out a credible and transparent financial resilience assessment.	<ul style="list-style-type: none"> <li>• The CIPFA Financial Resilience has been revised in the past 2 years and reported to CMT (last report 3rd March 2021)</li> <li>• A comprehensive Section 151 Report on the robustness of the proposed budget, the adequacy of forecast levels of reserves and associated risks is included alongside the Revenue Budget and reported to Executive in February. This report incorporates a commentary on the CIPFA Financial Resilience data.</li> <li>• A s151 statement is included with opposition</li> </ul>	<ul style="list-style-type: none"> <li>• The Director of Finance &amp; IT will continue to monitor the financial resilience index and make recommendations to CMT (and Members as appropriate) where further action is required particularly in respect of the level of the Council's reserves.</li> </ul>

Financial Management Standard	Examples of how we comply	Potential Areas for Improvement/ Action
	party budget proposals	
G. The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.	<ul style="list-style-type: none"> <li>• MTFS reported to members annually with a 4 year forward view.</li> <li>• Capital Plan that is approved annually provides members with a 4 year forward view, and revenue implications of capital financing are reflected in MTFS.</li> <li>• Reserve levels reported to Members on a quarterly basis, and adequacy of reserves reported through S151 assessment</li> <li>• Budget Monitoring / Qtrly reporting – A balanced budget is set each year.</li> </ul>	<ul style="list-style-type: none"> <li>• Director of Finance &amp; IT will keep under review the timing of MTFS updates to Executive aligned to central government funding announcement.</li> </ul>
H. The authority complies with the CIPFA <i>Prudential Code for Capital Finance in Local Authorities</i>	<ul style="list-style-type: none"> <li>• Capital Strategy; Investment Strategy and Treasury Management Strategy are all agreed by the Executive, and are all compliant with the Code.</li> </ul> <p>Compliance is also subject to External Audit.</p>	<ul style="list-style-type: none"> <li>• No further action proposed at this stage</li> </ul>
I. The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.	<ul style="list-style-type: none"> <li>• MTFS produced</li> <li>• Service Plans all produced and aligned to Council Plan</li> <li>• Council Plan produced and kept under review</li> <li>• Performance reporting against Council Plan, including KPI reporting</li> </ul>	<ul style="list-style-type: none"> <li>• No further action proposed at this stage</li> </ul>
J. The authority complies with its statutory obligations in respect of the budget setting process.	<ul style="list-style-type: none"> <li>• The Budget process includes full consultation including EIA</li> <li>• Council Tax base report; Schools budget report; Revenue budget and Capital budget all reported through Executive</li> <li>• Budget proposals and Opposition party</li> </ul>	<ul style="list-style-type: none"> <li>• No further action proposed at this stage</li> </ul>



Financial Management Standard	Examples of how we comply	Potential Areas for Improvement/ Action
	<p>proposals and full s151 commentary reported through Full Council</p>	
<p>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.</p>	<ul style="list-style-type: none"> <li>• A comprehensive Section 151 Report on the robustness of the proposed budget, the adequacy of forecast levels of reserves and associated risks is included alongside the Revenue Budget and reported to Executive in February.</li> <li>• Quarterly budget monitoring reports are presented to Executive; these include a statement on reserves</li> </ul>	<ul style="list-style-type: none"> <li>• No further action is proposed at this stage</li> </ul>
<p>L. The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.</p>	<ul style="list-style-type: none"> <li>• The Council consults on core documents such as the Council Plan; Local Plan; Economic Strategy. These have an intrinsic link to the formation of budget decisions.</li> <li>• The Council consults with a wide range of stakeholders on its budget proposals and the MTFs is available publically.</li> <li>• The Schools Forum is consulted upon regarding the allocation of schools budgets.</li> <li>• The Health &amp; Wellbeing Board and Children's Safeguarding Board are consulted upon and decisions inform future budgetary considerations</li> </ul>	<ul style="list-style-type: none"> <li>• The Council will continue consulting with key stakeholders and will seek to bring consultation and engagement forward to inform budget planning.</li> <li>• Improved consultation on budget proposals is also being sought with key partner organisations such as the CCG.</li> </ul>
<p>M. The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.</p>	<ul style="list-style-type: none"> <li>• Project Appraisal Group assesses Capital projects via a structured scoring system prior to approval by the Executive via Qtrly Finance Reports.</li> <li>• Revenue budget decisions assessed by CMT, prior to recommendations to the Executive.</li> <li>• All reports include Finance sections.</li> </ul>	<ul style="list-style-type: none"> <li>• No further action is proposed at this stage</li> </ul>

Financial Management Standard	Examples of how we comply	Potential Areas for Improvement/ Action
	<ul style="list-style-type: none"> <li>• A Sustainable Growth Board has been introduced to enhance strategic decisions</li> <li>• A Revolving Seed Fund has been implemented to support Project Appraisals.</li> </ul>	
<p>N. The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.</p>	<ul style="list-style-type: none"> <li>• Qtrly Finance Reports</li> <li>• CMT Reports</li> <li>• Risk Reports</li> <li>• SMT,DMT,CMT, Exec reporting process (RAG ratings)</li> <li>• Power BI suite of reports, enable all Council budget holders/ service managers to access up to date financial information any time on a self-serve basis, underpinned by periodic meetings with Finance colleagues. The frequency of meetings determined based on risk and materiality.</li> </ul>	<ul style="list-style-type: none"> <li>• Further expansion of Power BI suite of reports/ further embedding of use to enhance decision making.</li> <li>• Further expansion of section in Qtly Finance Reports about other items not currently factored into forecasts (to enable discussion and potential mitigating activity)</li> </ul>
<p>O. The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability</p>	<ul style="list-style-type: none"> <li>• The intended use of reserves to support the budget is included within quarterly monitoring reports. The overall level of reserves and their planned use is reviewed each year as part of the outturn, MTFS and budget processes.</li> <li>• The Capital Strategy and Investment Strategy are reported annually; these reports include reporting upon Prudential Indicators</li> <li>• The Statement of Accounts is reported to the Governance &amp; Audit Committee</li> <li>• Quarterly Budget Monitoring reports are reported to CMT; Executive and Overview &amp; Scrutiny Committee.</li> <li>• Other aspects of the Balance Sheet are subject to review within the Finance team</li> </ul>	<ul style="list-style-type: none"> <li>• We will continually review the adequacy of information about planned and unplanned use of reserves in the monitoring reports.</li> <li>• We will also review whether other parts of the Balance Sheet should be reported more frequently rather than managed internally within finance – eg Debts and Liabilities, Provisions.</li> </ul>

Financial Management Standard	Examples of how we comply	Potential Areas for Improvement/ Action
<p>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 <i>Code of Practice on Local Authority Accounting in the United Kingdom</i>.</p>	<ul style="list-style-type: none"> <li>• The statutory financial statements are prepared by appropriately qualified and skilled accountancy staff within the overall governance and control process and are approved by the Director of Finance &amp; IT and the Council's external auditors prior to submission to Governance &amp; Audit Committee</li> <li>• Roles and responsibilities are assigned within the Finance Team and reviewed periodically</li> <li>• Training is provided against key roles and on specific tasks</li> <li>• The Finance Team are appropriately qualified and expected to personally comply with the CPD requirements of their professional body</li> </ul>	<ul style="list-style-type: none"> <li>• Recent turnover combined with the relatively small size of the finance team has highlighted a reliance upon the expertise upon key individuals. We will be reviewing our workforce development plan and resilience based on our dependence upon key individuals and ensuring effective procedural / guidance notes are in place for key tasks</li> </ul>
<p>Q. The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.</p>	<ul style="list-style-type: none"> <li>• Yes – outturn report</li> <li>• Qtrly reporting through to MTFS.</li> <li>• The outturn report, and other Qtrly reports to Executive highlight key variances/ exceptions with accompanying analysis of costs, activities, outputs etc and mitigating actions. – For example overspends in Children's Services and Waste Services with accompanying analysis provided the justification for required additional budget investment in the MTFS and subsequent 2021-22 budget.</li> </ul>	<p>No further action is proposed at this stage</p>