

Harborough District Council

Report to the Audit & Standards Committee 28 June 2022



Report Number:	6
Title:	Code of Financial Management – Self-Assessment
Status:	Public
Key Decision:	No
Report Author:	Mr Clive Mason. Director; Finance, ICT and Assets
Portfolio Holder:	Cllr James Hallam
Appendices:	<ol style="list-style-type: none">1. FM Code-Principles and Standards.2. FM Code-Summarised Conclusions.3. Internal Audit Review of Self-Assessment

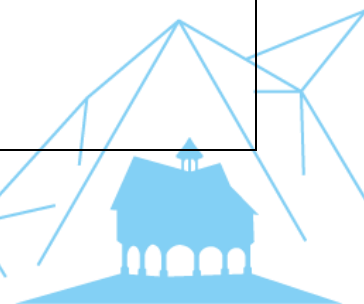
Executive Summary

The Chartered Institute of Public Finance and Accountancy issued the Code of Financial Management (FM Code) in 2019 and the Council is required to comply.

During 2020 it was established that the Council faced a significant budget challenge, in that it had an unsustainable medium-term financial position. In response to this challenge, the Council undertook a fundamental budget review based on the principles of Zero-Based Budgeting, called Budget Challenge 2025. When the programme concluded in the summer of 2021 it had generated annual savings of in excess of £3m which enabled the Council to approve a balanced budget for the 2022/23-2026/27 MTFS period and a consequential increase in reserves to £10.2m (an increase of 364% over the preceding financial year). This financial turnaround has directly:

- supported the accountability, assurance and sustainability principles of the FM Code,
- enhanced financial resilience, and put
- the Council back onto a more sustainable financial path.

The Council has now completed the FM Code self-assessment and it has been independently reviewed by Internal Audit. The conclusion is that the Council has a “Fair” rating (Amber); however there are a number of recommendations that the Council will need to address over the coming months to ensure full compliance with the requirements of the Code.



Recommendations
<p>The committee considers the Councils self-assessment of CIPFA’s Code of Financial Management (Appendix 2) and Internal Audit’s review of the self-assessment (Appendix 3) and comments as it considers necessary.</p>
Reasons for Recommendations
<p>Members of the Audit and Standards Committee are those “charged with governance” and therefore should endeavour to ensure that the highest standards of governance are adhered to. Considering the budgetary review process that the Council has followed over the past 24 months, it is opportune for the Committee to reflect on the conclusions of the FM Code.</p>

1. Purpose of Report

- 1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) issued the Code of Financial Management (FM Code) in October 2019. Its purpose is for local authorities individually to undertake a self-assessment of their financial management processes and practices against a set of core “principles” that are enshrined within the FM Code. This report illustrates the Councils self-assessment and what actions are considered necessary to make the Councils Financial Management as good as “practically” possible within a proportionate and affordable financial framework.

2. Background

The Standing of the Code of Financial Management

- 2.1 CIPFA intended that the code is to have the same scope (and importance) as the Prudential Code for Capital Finance in Local Authorities, which promotes the financial sustainability of local authority capital expenditure and associated borrowing. Although the FM Code does not have legislative backing it does apply to all local authorities. CIPFA considers the application of the FM Code to be a professional responsibility of all its members (and non-members who hold CFO positions within local government), regardless of their role in the financial management process; including clarifying how Chief Financial Officers should satisfy their statutory responsibility for good financial administration.
- 2.2 However, the FM Code also links to a number of other Codes or Practice; including the:
- Treasury Management in the Public Sector Code of Practice and Cross-Sectoral Guidance Note; which prescribes the Treasury Management Policy and Strategy that is approved by Council in February each year, and the
 - Code of Practice on Local Authority Accounting in the United Kingdom, which the Council has to comply with when it produces its Annual Financial Report.
- 2.3 CIPFA’s judgement is that compliance with the FM Code will assist local authorities to demonstrate that they are meeting these important legislative requirements. In addition,

the requirements of primary legislation and associated CIPFA Codes, and an authority's prudent and proper financial management is informed by a framework of professional codes of practice and guidance, including the CIPFA Statements:

- of Professional Practice (SOPP) (including ethics),
- of the Role of the Chief Financial Officer,
- on the Role of the Chief Financial Officer in Local Government,
- on the Role of the Chief Financial Officer of the Policy and Crime Commissioner and the Chief Finance Officer of the Chief Constable.

3. Detail

The Principles of the Code of Financial Management

3.1 The FM Code addresses 6 Principles, which includes:

- Leadership
- Accountability
- Transparency
- Standards
- Assurance
- Sustainability

and **Appendix 1** details the 17 associated Standards.

The Code of Financial Management, what the Council has done to date.

3.2 CIPFA intended that the FM Code self-assessment would be undertaken prior to the start of the 2020/21 financial year. Unfortunately this did not happen at that time because of resourcing issues relating to the Chief Financial Officer (CFO) position;

- the previous full-time post holder left the Council in 2019 which was prior to the issue of the FM Code, and
- between then and April 2020 there had been several interim CFO's.

3.3 A permanent CFO started with the Council in April 2020 and one of his first tasks was to develop a Medium-Term Financial Strategy (MTFS); the reason for this is because the Council had not approved an MTFS when the 2020/21 budget had been approved. However, during the development of the MTFS it clearly became apparent that the Council was facing a considerable financial challenge and all members were duly informed in the summer of 2020 that the Council was facing an annual budget gap of circa £4m (in excess of £16m over the following 4 years) – such a financial position would have exhausted the Council's revenue reserves within 3 years. Consequently, it would have been pointless undertaking the FM Code self-assessment at that time as it was clear that there were significant shortcomings in some aspects of the Council's approach to financial management (resilience/sustainability). Over the following months the Council:

- i. undertook a substantial review of all service expenditure; known as the Budget Challenge 2025 programme. By mid-2021, the Council had identified savings of in excess of £3m which were fully incorporated into the Councils budget for 2022/23. Once embedded into the Councils budget, the MTFs was forecasting a reserves position of £10.2m by 2026/27, an increase of 364% over the preceding MTFs.
- ii. approved a 3-year MTFs in February 2021 and a 4-year MTFs in February 2022.
- iii. put in place a new budget setting processes; including the approval of a Reserves Strategy and Budget Principles,
- iv. a review of Financial Regulations within the Constitution that streamlined a number of processes and codified some informal practices,
- v. updated its Budget Monitoring Report that now includes commentary on the medium-term impacts of the current years forecast financial outturn, and
- vi. approved a new Project Management Methodology.

3.4 The changes noted at 3.3 (i to vi) are themselves a significant improvement on what was in place prior to April 2020. It is fair to say that these changes:

- helped the Council to avoid a s.114 report,
- avoid any negative commentary from the external auditors in respect of financial governance, and
- from the internal auditor in respect of budgetary control.

The Code of Financial Management, the Self-Assessment

3.5 Considering the above, it was now opportune to undertake the FM Code Self-Assessment. Firstly, the Councils Internal Audit Service had a FM Code self-assessment proforma that it shared “for free” with the Council and which it has used to undertake the detailed self-assessment. Secondly, it was necessary to develop a framework by which the Council could then determine an overall score. The framework developed by the Director of Finance, ICT and Assets is based on a 9-box grid (Framework) that compares “Policies & Procedures” against “Governance”. A copy of the Framework, along with a Super-Summary and a Working Summary of the self-assessment is shown in **Appendix 2**.

3.6 In respect of the:

- i. Self-Assessed **Overall Score**, it is considered that the Council has an Amber rating; in that its compliance with the FM Code is:

“fair but some development and clarification is needed to ensure financial sustainability is achieved and good financial governance is embedded within the Council.”
- ii. **Recommendations** resulting from the self-assessment, it is considered that the Council should develop/undertake the following:
 - Develop a Value for Money Policy/Statement/Strategy.
 - Consider benchmarking either specific services or put in place a broader programme of benchmarking.
 - Develop a Partnership Governance Framework.

- Finance to undertake a customer survey.
- Assessment of balance sheet risk, to be included within the s.25 Robustness of Reserves Statement for 2023/24 Budget.
- Assessment of balance sheet risk to be included in the 2023/24 Quarterly Risk and Opportunity report.
- Miscellaneous Debt Performance to be included in the 2022/23 Quarterly monitoring from Quarter 2.
- Undertake a review of the Code of Corporate Governance, including documentation of the annual review process.
- Development of a Long-Term Financial Strategy (when the 2023/24 and MTFS is developed)
- Development of an Engagement Strategy.
- Review the Councils implementation of the Nolan Principles and develop an, awareness training package.
- Quicker and more graphical presentation of financial performance to Cabinet.
- CMT/SLT Monthly Financial Monitoring, based on risk from Quarter 2 2022/23.
- Development and inclusion of a formal Options Appraisal Methodology within the overall Project Management Methodology.
- Budget Management training for officers.
- LGA Peer Review (post 2023 elections); including within its remit an independent assessment of financial resilience.

3.7 An independent review of the Council's FM Code self-assessment has been undertaken by Internal Audit and they have determined that its score and recommendations are "fair", a copy of their report is at **Appendix 3**. Although this report is effectively a report to management (the Director; Finance, ICT and Assets), in the interests of transparency the report is shared with the members of the Audit & Standards Committee

4. Implications of Decisions

- 4.1. **Corporate Priorities**; The delivery of the Councils priorities will be supported with the improvement in the Councils financial management and governance framework.
- 4.2. **Financial**; there are no direct financial implications arising from this report. However, it should be noted that the financial position and governance of the Council has improved considerably since 2020/21; these are discussed at paragraphs 3.3 and 3.4.
- 4.3. **Legal**; there are no direct legal implications arising from this report.
- 4.4. **Policy**; there are no direct policy implications arising from this report.
- 4.5. **Environmental Implications including contributions to achieving a net zero carbon Council by 2030**; there are no direct environmental implications arising from this report.
- 4.6. **Risk Management**; the financial risk of the Council is actively managed via the annual s.25 Robustness of Reserves Statement, quarterly budget and performance monitoring and through the ongoing process of quarterly review of risk and opportunities. There is open scrutiny of these processes and practices which support the Councils wider risk management framework but also the narrower financial risk framework.

- 4.7. **Equalities Impact**; there are no direct equalities implications arising from the report.
- 4.8. **Data Protection**; there are no direct data protection implications arising from the report.
- 5. Summary of Consultation and Outcome**
 - 5.1 This review has been conducted in consultation with the Cabinet, Corporate and Senior Management Teams and Internal Audit. It is considered a good representation of the Councils current position in respect of governance, and the Council itself recognises that it has made good progress since 2020 and will continue to do so, so that it can deliver good quality services to its local community.
- 6. Alternative Options Considered**
 - 6.1 No alternative options considered as none are appropriate.
- 7. Background papers**
 - 7.1 Detailed FM Code self-assessment.