

Financial Management Code

REPORT TO AUDIT AND STANDARDS COMMITTEE



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PORTFOLIO	Resources & Performance Management
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PURPOSE

1. To update the Audit and Standards Committee on requirement to implement the Financial Management Code (FM Code) for the 2021/22 financial year.
2. To inform Audit and Standards Committee of the Councils assessment of compliance with the FM Code as set out in Appendix 1.

RECOMMENDATION

3. Note the publication of the Financial Management Code and the requirement for it to be applied for the 2021/22 financial year.
4. Note the councils assessed level of compliance against the FM Code as contained in Appendix 1.

REASONS FOR RECOMMENDATION

5. The Financial Management Code provides guidance for good and sustainable financial management in local authorities and provides assurance that local authorities are managing resources effectively.
6. To ensure that the council complies with the requirements of the FM Code.
7. To identify actions to be taken where full compliance with the FM Code has not been achieved.

SUMMARY OF KEY POINTS

8. The Financial Management Code is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The FM Code sets the standards of financial management for local authorities.
9. The FM Code is supported by the statutory requirement for all local authorities to have sound financial management. Section 151 of the Local Government Act 1972 requires that every local authority in England and Wales should “*make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs.*” Compliance with the FM Code will assist local authorities to demonstrate that they are meeting these important legislative requirements.
10. CIPFA’s intention is that the Financial Management Code will have the same scope as the Prudential Code for Capital Finance in Local Authorities (CIPFA, 2017), which promotes the financial sustainability of local authority capital expenditure and associated borrowing.
11. In addition to its alignment with the Prudential Code for Capital Finance in Local Authorities (CIPFA, 2017), the FM Code also has links to the Treasury Management in the Public Sector Code of Practice and Cross Sectoral Guidance Note (CIPFA, 2017) and the annual Code of Practice on Local Authority Accounting in the United Kingdom. The FM Code pulls together the key elements of these statutory requirements.
12. The FM Code is based on a series of principles supported by specific standards which are considered necessary to provide the strong foundation to:
 - financially manage the short, medium and long-term finances of a local authority
 - manage financial resilience to meet unforeseen demands on services
 - manage unexpected shocks in their financial circumstances
13. The underlying principles that inform the FM Code have been designed to focus on an approach that will assist in determining whether, in applying standards of financial management, a local authority is financially sustainable.
 - Organisational leadership – demonstrating a clear strategic direction based on a vision in which financial management is embedded into organisational culture.
 - 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.
 - 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.
 - Adherence to professional standards is promoted by the leadership team and is evidenced.
 - 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.
 - 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

14. Local authorities must demonstrate that the requirements of the code are being satisfied. Our assessment against these requirements can be seen in Appendix 1. Compliance with the FM Code is the collective responsibility of elected members, the Chief Finance Officer and Management Team.

15. The first full year of compliance with the code is 2021/22.

16. Risks

Failure to comply with the Code may reflect negatively on the financial sustainability of the council which may impact on the council's reputation. To mitigate the risk the council employs suitably qualified and experienced staff who undertake regular Continuous Professional Development in line with the requirements of their qualification. In addition, the council's Section 151 Officers sits on the Management Team, who are consulted on all financial reports. The council's Internal Audit section carry out regular reviews of the system of internal control, and the council's external auditors ensure compliance with relevant regulations.

FINANCIAL IMPLICATIONS AND BUDGET PROVISION

17. None

POLICY IMPLICATIONS

18. None.

DETAILS OF CONSULTATION

19. None

BACKGROUND PAPERS

20. CIPFA Financial Management Code.

FURTHER INFORMATION	
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