

Financial Management Code Overview

Version 1

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Section 1 - Overview of The Financial Management Code

1. Introduction

- 1.1 The Chartered Institute of Public Finance and Accountancy (CIPFA) published The Financial Management Code (FM Code) in October 2019. CIPFA developed the code to assist and guide councils, recognising the financial pressures councils face. The FM Code provides guidance for good and sustainable financial management and also provides assurance that councils are managing resources effectively.
- 1.2 Although councils already have good governance and follow standards and guidance produced by CIPFA i.e. The Prudential Code, The Treasury management and Code of Practice on Local Authority Accounting, the FM code has been developed to continue good governance and longer-term service planning and build on these CIPFA codes. It ensures resilience and longer-term service planning for the benefit of the local communities in delivering the services.
- 1.3 The FM code sets out the standards of Financial Management for councils. The code sets out six principles and these are the benchmarks against which financial management should be judged and councils are encouraged to comply with these principles.
- 1.4 Full compliance with the code will commence from 1 April 2021.

2. Legal Framework

- 2.1 The FM Code itself does not currently have legislative backing, although CIPFA have set out their intention to pursue this. CIPFA's judgement is that compliance with the FM Code will assist councils to demonstrate that they are meeting existing important legislative requirements.
- 2.2 Although there is no legal requirement for the Council to comply with the code, compliance to the code will be a key requirement which will be assessed by the Councils external auditors as part of the Value for Money audit.

3. Responsibility

- 3.1 CIPFA considers the application of the FM Code to be a professional responsibility of all its members, regardless of their role in the financial management process. More specifically, the FM Code clarifies CIPFA's understanding of how the Chief Financial Officer (CFO) should satisfy their statutory responsibility for good financial administration. The primary purpose of the FM Code is to establish how the CFO, regardless of whether or not they

are a CIPFA member, should demonstrate that they are meeting their statutory responsibility for sound financial administration.

3.2 CIPFA considers application of the FM Code to be the collective responsibility of each councils organisational leadership team.

4. Financial Resilience

4.1 Financial resilience is the ability of a council to remain viable, stable and effective in the medium to long term even through pressures from growing demand, tightening funding and unpredictable financial environments.

4.2 However, in the current climate there are number of financial resilience concerns for a council which include:

- Covid - In the context of the current climate,
- Rising demand for services
- Government Funding uncertainties
- Delivery of a balanced budget

4.3 The FM code requires councils to demonstrate the current processes that are in place are effective and meet or comply with the principles of good financial management. This will also ensure that public finances are sustainable.

4.4 The FM code identifies risks to financial sustainability and through set standards introduces a framework of assurance. Complying with the standards is a collective responsibility of elected members, chief finance officer, leadership team.

5. Key Aims of the Financial Management Code

5.1 CIPFA describes below the key aims of the FM Code in their guidance



Source: CIPFA Financial Management Code Guidance

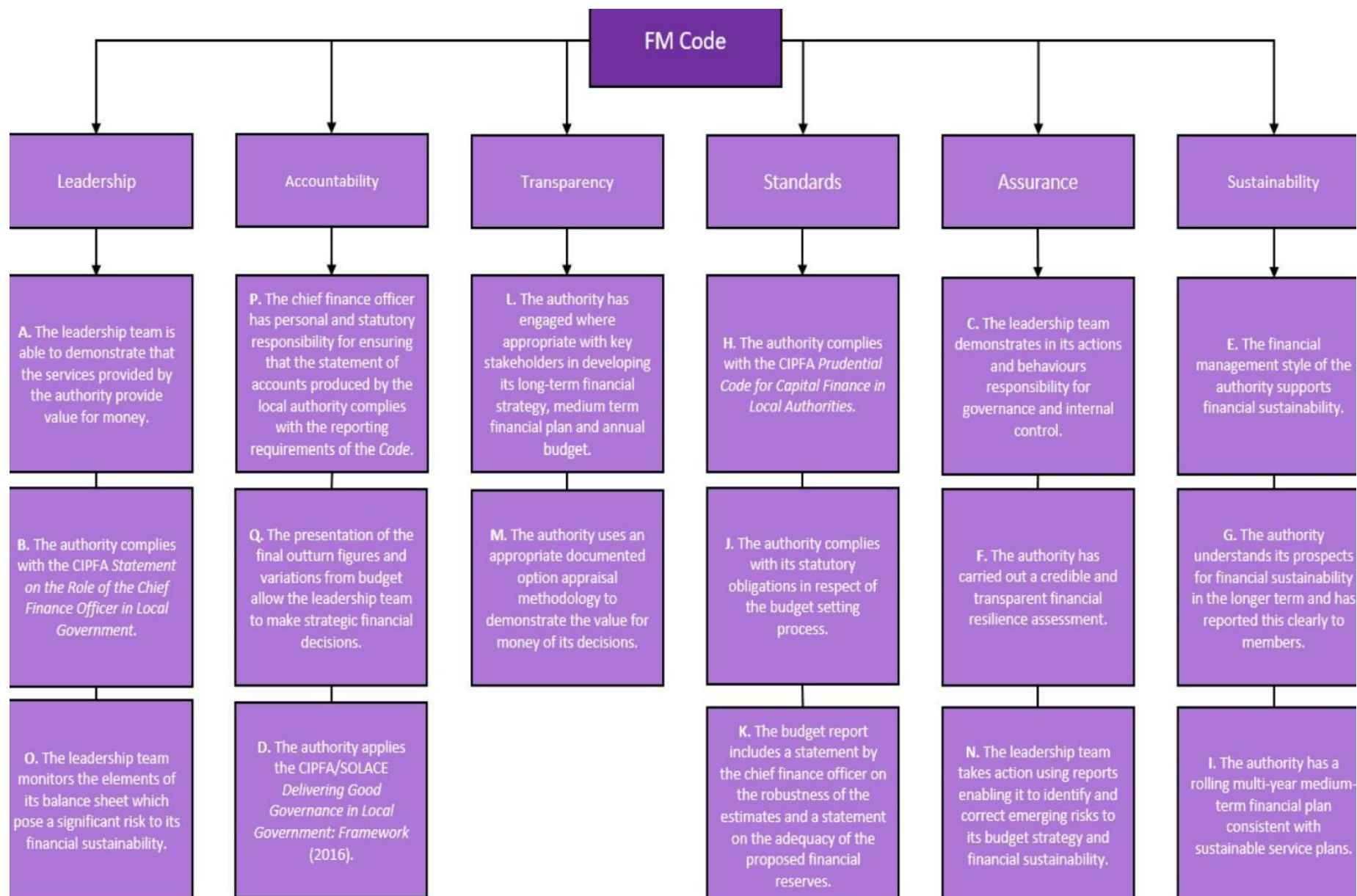
Section 2 – Financial Management Code Standards

6. Principles

- 6.1 The first full year of compliance will be 2021/22. Councils will need time to reflect on the standards and content within the FM Code and will allow them to use 2020/21 financial year to demonstrate how they are working towards the compliance.
- 6.2 The FM code outlines 6 main principles that have been designed to focus on an approach to assist determining whether in applying standards of financial management, a council is financially sustainable. The principles are:
1. Organisational Leadership
 2. Accountability
 3. Transparency
 4. Standards
 5. Assurance
 6. Sustainability
- 6.3 CIPFA produced the below table describing the key components for the standard.

7. Financial Management Code Standards

- 7.1 The FM 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.
- 7.2 There are currently 17 standards that the FM code which are set out in the diagram below.



Section 3 – Compliance

8. Compliance Overview

- 8.1 It is for individual councils to determine whether it meets the standards and to make any changes that may be required to ensure compliance. Council 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.
- 8.2 It is important to note, also, that the financial management standards are minimum standards. Some councils may feel, that their own financial management arrangements exceed the standards set out in the FM Code.

9. Council's Progress Towards Compliance

- 9.1 Currently the Council already conforms to majority of the standards and is planned to provide an update on progress and if applicable an improvement plan against the 17 standards to Audit Committee in March. The Council will continue to work towards a full implementation of the FM code in 2021/22 which will include putting in place any actions from its improvement plan.
- 9.2 A project plan will be developed and implemented by Finance to ensure all relevant departments understand the requirements for the new standard and appropriate processes are in place to deliver the minimum standard requirements.