

CIPFA FINANCIAL MANAGEMENT CODE

Strong financial management is an essential part of ensuring public sector finances are sustainable. The Financial Management Code (FM Code) 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 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. Complying with the standards set out in the FM Code is the collective responsibility of elected members, the Group Director Finance & Corporate Resources (CFO) and colleagues on the leadership team. Complying with the FM Code will help strengthen the framework that surrounds financial decision making.

The code applies to all local authorities and by following the essential aspects of the FM 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 reflects 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 underlying principles that inform the Code will assist in determining whether a local authority is financially sustainable. They are as follows:

- 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.

The FM Code is aligned with the *Prudential Code for Capital Finance in Local Authorities* and has links to the *Treasury Management in the Public Sector Code of Practice* and the annual *Code of Practice on Local Authority Accounting in the UK*. In this way, the FM Code reiterates the key elements of the statutory requirements of these other codes.

The FM Code sets out a number of financial management standards that it believes must be evidenced, and provides exemplification on each of the following:

The Responsibilities of the CFO and leadership team

- A. The leadership team is able to demonstrate that the services provided by the authority provide value for money.
- B. The authority complies with the CIPFA *Statement on the Role of the Chief Finance Officer in Local Government*.

Governance and financial management style

- C. The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.
- D. The authority applies the CIPFA/SOLACE *Delivering Good Governance in Local Government: Framework* (2016).
- E. The financial management style of the authority supports financial sustainability.

Medium to long term financial management

- F. The authority has carried out a credible and transparent financial resilience assessment.
- G. The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.
- H. The authority complies with the CIPFA *Prudential Code for Capital Finance in Local Authorities*.
- I. The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.

The annual budget

- J. The authority complies with its statutory obligations in respect of the budget setting process.
- 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.

Stakeholder engagement and business cases

- L. The authority has engaged where appropriate with key stakeholders in developing its long-term financial strategy, medium-term financial plan and annual budget.
- M. The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.

Performance monitoring

- N. The leadership team takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.
- O. The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.

External financial reporting

- 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 *Code of Practice on Local Authority Accounting in the United Kingdom*.
- Q. The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.

Whilst I believe that the underlying principles and standards set out above can be evidenced within Hackney, I intend to carry out a full compliance check against the more detailed guidance notes, when they are published in January 2020, that will accompany the FM Code. This may well lead to some changes in practice in order that

we ensure that the authority meets the standards set out above fully, thus evidencing strong and robust financial management.

Group Director, Finance & Corporate Services
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