

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 jurisdiction.

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. Set out below is the authority's current high level assessment of how it believes it currently complies with

the requirements, pending the publication of further detailed guidance notes by CIPFA in April 2020. It should be noted that this is an initial assessment in the absence of the detailed guidance notes but demonstrates the Council's long standing and sustained commitment to sound and robust financial management.

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.

The leadership team have carried out numerous service reviews and service transformation exercises and introduced a large number of savings initiatives, and a key objective underlying each has been to improve value for money, efficiency and efficiency. On the basis of outcomes we have been successful at this and this is borne out by the annual external audit reports

B. The authority complies with the CIPFA *Statement on the Role of the Chief Finance Officer in Local Government*.

Yes. The Group Director of Finance and Corporate Resources is the Council's Section 151 and a member of the Hackney Management Team.

Governance and financial management style

C. The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.

This is delivered through a proper scheme of delegation that ensures that frontline responsibility for internal control starts with those who have management roles. We have a proper scheme of delegation that facilitates frontline responsibility for governance and internal control, and the leadership ensures that those who have management roles are as open as possible about all the decisions and actions that they take. Both the leadership and senior management are required to give reasons for their decisions and restrict information only when the wider public interest clearly demands. The leadership also supports and encourages the mission of internal audit which is embodied in mandatory and generic internal audit standards

D. The authority applies the CIPFA/SOLACE *Delivering Good Governance in Local Government: Framework (2016)*.

Yes. The authority has in place a local Code of Governance which sets out its commitment to good governance and is consistent with the principles of governance set out within this publication.

E. The financial management style of the authority supports financial sustainability.

The authority continues to ensure that forecasts and the Medium Term Financial Plan provides prudent provision for losses of income and growth to mitigate financial pressures on the budget. Alongside this, the level of and use of reserves is monitored, reported and considered regularly to ensure that budgets overall are sustainable.

Medium to long term financial management

F. The authority has carried out a credible and transparent financial resilience assessment.

In developing the budget the Group Director of Finance and Corporate Resources with his Finance Management Team has reviewed the outcomes from the Cipfa resilience indices. This has been shared with the Mayor, Cabinet Member of Finance and Chief Executive. Cipfa is at the time of writing still to issue the detailed guidance underpinning the code and over the course of the coming year we will refine approach with the aim of being 'best in class'.

G. The authority understands its prospects for financial sustainability in the longer term and has reported this clearly to members.

The Council publishes regularly its Medium Term Financial Plan and reports on the financial positions each month to Cabinet. In addition key financial and non financial risks are scrutinised at Audit Committee and Scrutiny Panel.

H. The authority complies with the CIPFA *Prudential Code for Capital Finance in Local Authorities*.

Yes, as reported in regular Treasury Management updates to the Audit Committee.

I. The authority has a rolling multi-year medium-term financial plan consistent with sustainable service plans.

The medium-term financial plan is updated regularly both through published reports and interim updates to HMT and Cabinet and there is a major annual review as part of the annual budget. There is also a monthly appraisal through the OFP. However, there is not currently a regular review of service plans across all services.

The annual budget

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

Yes

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.

Yes

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.

The Council has a strong track record in regard to engagement with stakeholders in all areas of its work and policy development. In the past year extensive engagement with key stakeholders in the Health and Social Care sector has taken place as we move forward with our approach to Integrated Commissioning.

M. The authority uses an appropriate documented option appraisal methodology to demonstrate the value for money of its decisions.

The Council has recently updated its Sustainable Procurement Strategy and has for many years had clear methodologies to option appraisals in

underpinning decision making. A good example is in relation to the Estate Regeneration Programme and Housing Supply Programme.

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.

Yes, regular updates to HMT and Cabinet regarding risks to budget and other potential issues are considered

O. The leadership team monitors the elements of its balance sheet that pose a significant risk to its financial sustainability.

The Finance and Corporate Resources Directorate has for many years had in place robust balance sheet monitoring, in particular relating to reconciliations, cash flow and debt management. This is reported to the Audit Committee at each meeting and through to Cabinet as part of the budget setting process. As more detailed guidance around this area emerges this will be reviewed and an assessment made of where additional work may be needed.

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*.

Yes

Q. The presentation of the final outturn figures and variations from budget allows the leadership team to make strategic financial decisions.

Regular reporting to the leadership team of forecast and outturn is via the monthly OFP report and via regular financial update reports..

Whilst the authority generally believes that it is able to demonstrate strong financial management practices, further analysis of the requirements of the Financial Management Code will be carried once the detailed guidance to accompany the main publication has been published, expected to be in April 2020. 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.