

AUDIT COMMITTEE – 29 JULY 2022

CIPFA FINANCIAL MANAGEMENT CODE: ASSESSMENT OF COMPLIANCE (AGAINST THE CONSULTATION VERSION)

1. Recommendations

- 1.1 That the Audit Committee note the contents of this report and the actions as outlined in appendix 1.

2. Purpose of the report

- 2.1 This report gives the Audit Committee members an overview of the Council's compliance as against the CIPFA Financial Management Code (the consultation version).

3. Objectives

- 3.1 The CIPFA Financial Management Code (CIPFA FM Code) is designed to support good practice in financial management and to assist local authorities in demonstrating their financial sustainability. The CIPFA FM Code therefore sets the standards of financial management for local authorities. The Code is based on a series of principles supported by specific standards and statements of practice 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 foreseen demands on services; and
- financially manage unexpected shocks in their financial circumstances.

- 3.2 Each local authority must demonstrate that the requirements of the Code are being satisfied. Demonstrating this compliance with the CIPFA FM Code is a collective responsibility of elected members, the Chief Finance Officer and their professional colleagues in the leadership team.

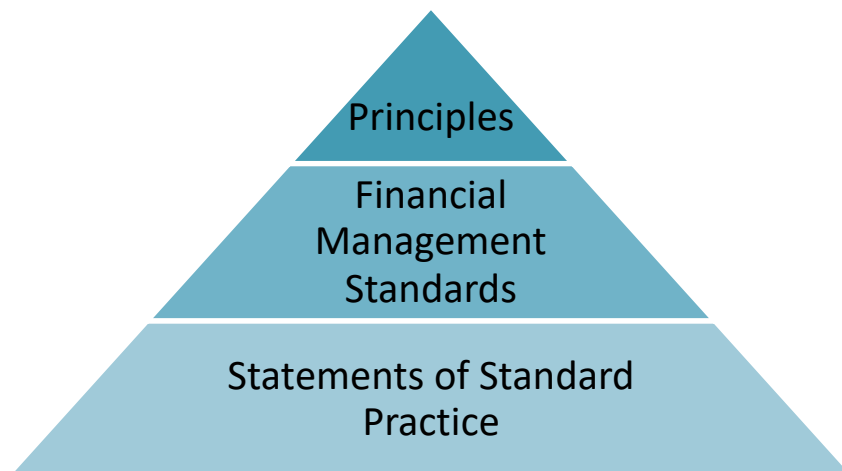
4. The CIPFA FM Code Principles Approach

- 4.1 The CIPFA FM Code applies a principle-based approach. It does not prescribe the financial management processes that local authorities should adopt. Instead, the Code requires that a local authority demonstrate that its processes satisfy the principles of good financial management for an authority of its size, responsibilities and circumstances. Good financial management is proportionate to the risks to the authority's financial sustainability posed by the twin pressures of scarce resources and the rising demands on services.

- 4.2 The principles have been designed to focus on an approach which 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 which 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 and includes political scrutiny and the results of both external audit, internal audit and inspection.
 - The long term **sustainability** of local services is at the heart of all financial management process and is evidenced by prudent use of public resources.

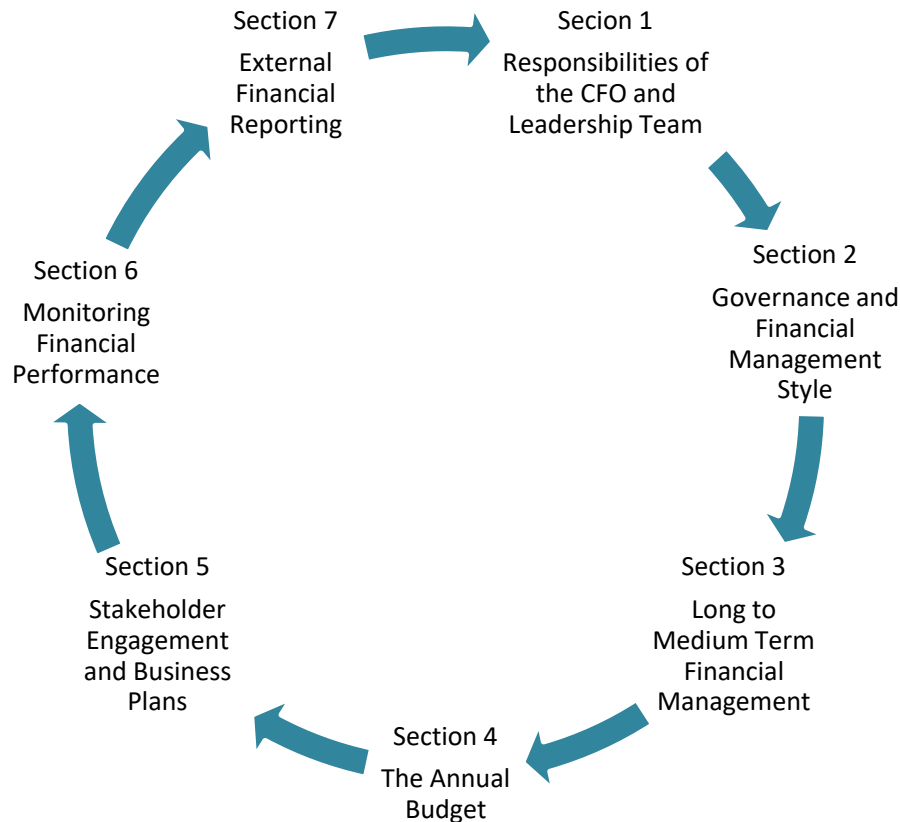
5. The Structure of the Code

- 5.1 To enable authorities to test their conformity with the CIPFA Principles of Good Financial Management, the CIPFA FM Code translates these principles into:
- Financial Management Standards; and
 - Statements of Standard Practice
- 5.2 All principles require to be applied and the statements of standard practice set the minimum requirement to demonstrate adherence to the Code.



6. Financial Management Standards and Statements of Standard Practice

- 6.1 CIPFA's expectation is that authorities' compliance will typically be demonstrated by documenting compliance with the Statements of Standard Practice which underpin each of the CIPFA Financial Management Standards.
- 6.2 The Authority's current assessed level of compliance is available as appendix 1, and is broken down into sections, as outlined in CIPFA's 'Virtuous Management Cycle':



[The Virtuous Financial Management Cycle [p11], The CIPFA Financial Management Code [Consultation Version]

7. Conclusion

- 7.1 The Chief Financial Officers assessment against the CIPFA FM code (consultation version) has identified some actions, that will be picked up during 2022/23, and will be reported back through EMT and the Audit Committee before the yearend.

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Ref.	Financial Management Standard / Statement of Standard Practice	Level of Compliance	Current Treatment	Further Action Required
	Section 1: The Responsibilities of the Chief Finance Officer and Leadership Team			
FM A	The leadership team demonstrates that the services provided by the authority provide value for money.	N/A	Compliance is demonstrated through the application of the Standards and Statements explored throughout this document	N/A
FM B	The authority complies with the CIPFA Statement on the Role of the Chief Financial Officer in Local Government			
B1	The Chief Finance Officer in a public service organisation is a key member of the leadership team, helping it to develop and implement strategy and to resource and deliver the organisation's strategic objectives sustainably and in the public interest	High	The CFO at NFDC is placed within the Executive Management Team and holds a key role in implementing and developing strategy	N/A
B2	The Chief Finance Officer must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the organisation's financial strategy	High	All material business decisions that require Senior Management, or political approval are considered through the Council's Executive Management Team	N/A
B3 Part 1	The Chief Finance Officer must lead the promotion and delivery by the whole organisation of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.	High	Good financial management and the safeguarding of public funds is promoted throughout the Authority. Budget monitoring and	

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			support is promoted by the Finance Manager and Service Accountancy Team. Service Managers and those charged with financial responsibility are suitably knowledgeable and supported.	
B3 Part 2	The Chief Finance Officer should regularly review the skillsets of elected members and all officers with budget/financial management responsibility and ensure appropriate support is provided.	Medium	Training is conducted for new elected members following the 4 yearly cycle, but there is currently no mandatory or regular financial training programme or enhanced training for Portfolio Holders.	CFO to work with Democratic Services on a mandatory financial training pack for all members following the May 2023 election, with enhanced financial training and support for Portfolio Holders.
B4	The Chief Finance Officer must lead and direct a finance function that is resourced to be fit for purpose The Chief Finance Officer should regularly review the skill sets of all finance staff with senior budget/financial management responsibility and ensure ongoing appropriate support is provided. The ratio of qualified staff as a proportion of total finance staff ensures that the finance function has the necessary financial competence.	High	Single Finance Lead within the Authority working closely and reporting directly to the CFO. The majority of the Finance team hold an Accounting qualification.	N/A
B5	The Chief Finance Officer must be professionally qualified and suitably experienced.	High	The CFO is a fellow of the Association of Chartered Certified	N/A

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	<p>The Chief Finance Officer must be able to demonstrate adherence to professional CPD requirements on an annual basis</p>		<p>Accountants, with over 15 years of Local Government Finance background. CPD requirements are complied with as part of their membership obligations.</p>	
B6	<p>The Chief Finance Officer should promote the highest standards of ethical behaviour in the conduct of financial management.</p> <p>Professionally qualified staff should demonstrate an ongoing commitment to the principles of objectivity, integrity professional behaviour, professional competence, due care and confidentiality.</p>	High	<p>Professionally qualified staff are required to adhere to the ethical standards of their professional bodies.</p>	
B7	<p>To enable financially informed decision making:</p> <p>The Chief Finance Officer should be able to provide the leadership team with sound advice on the key principles of local government finance; and</p> <p>The Chief Finance Officer should be able to demonstrate a sound system which ensures the authority has access to high standards of technical financial advice</p>	High	<p>The CFO, as Executive Head of Financial and Corporate Services is an integral part of the Executive Management Leadership Team and provides sound advise as part of this role. The authority also has access to specialist technical advice on matters such as Tax, Treasury Management, Pensions and Audit.</p>	

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B8	The chief finance officer should report explicitly on the affordability and risk associated with the capital strategy and where appropriate have access to specialised advice to enable them to reach their conclusions.	High	The affordability of the Capital Strategy is considered in the Medium Term Financial Plan.	
B9	The chief finance officer must establish the reporting and monitoring processes and integrate the treasury management indicators into the overall financial planning process.	High	The Council has well established financial reporting cycles. Treasury Indicators are reported through the Audit Committee, before full adoption at Council alongside the annual budget.	
B10	The Chief Finance Officer of Local Government Pension Scheme (LGPS) administering authorities satisfies the requirements of the CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills (2013 edition).	NA	The LPGS for NFDC is administered by Hampshire County Council.	
	Section 2: Governance and Financial Management Style			
C	The leadership team demonstrates in its actions and behaviours responsibility for governance and internal control.	High	Internal controls are tested annually as part of the work of Internal Audit, with the most recent audit providing substantial assurance (the highest rating).	
D	The authority applies the CIPFA/SOLACE Delivering Good Governance in Local Government: Framework (2016)			

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D1	The authority maintains an effective audit committee	High	The Authority has an Audit Committee that meets at least three times per year.	
D2	The audit committee receives and monitors the implementation of internal and external audit recommendations. When threats to the financial sustainability of the authority are identified by auditors the audit committee should ensure that the recommendations are communicated to the leadership team and that the committee are informed of the effectiveness of the leadership team's response.	High	An update on the progress as against outstanding management actions identified via the Internal Audit Plan is covered within the regular Internal Audit progress reporting.	
D3	The authority has a PSIAS conformant internal audit function	High	The internal audit function is provided by the Southern Internal Audit Partnership, hosted by Hampshire County Council, and is compliant with PSIAS.	
E	The Financial Management Style of the authority supports financial sustainability			
E1	The organisation has an effective framework of financial accountability that is clearly understood and applied throughout, from the political leaders, elected members to directors, finance officers and front-line service managers.	High	Financial Regulations (updated during 2022) and Instructions provide a clear and understandable framework for accountability.	

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E2	Finance teams and the organisation they support are actively committed to continuous improvement focused on efficient and effective delivery and organisational performance.	Medium	Senior Management are aware of the drive to continually improve and Finance team members and Business Improvement Officers assist in this process.	Improve overview and Integration of performance and financial information with a focus on monitoring and achieving continuous improvement.
E3	Enabling transformation: the finance team have input into strategic and operational plans taking into account proactive risk management, clear strategic directions and focus-based outcomes	Medium	Finance team members are engaged in strategic planning, but usually as a stage too late to help shape overarching transformation.	Ensure Finance are engaged in the new Capital and Change Board and in the emerging transformation framework.
E4	Managers understand they are responsible for delivering services cost effectively and are held accountable for doing so. Financial literacy is diffused throughout the organisation so that decision takers understand and manage the financial implications of their decisions.	High	Budgets and financial approval limits are clearly delegated to Budget Responsible Officers. Meetings are held regularly with senior budget managers to ensure implications of decisions are understood and that managers are responsible for those decisions.	
E5	The financial management of the authority has been critically evaluated	High	Internal Audit reviews core financial controls on an annual basis and has also undertaken an audit of financial planning and budget	

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			monitoring and forecasting, both of which received substantial assurance.	
	Section 3: Long to Medium Term Financial Management			
F	The authority has carried out a credible and transparent Financial Resilience Assessment.			
F1	Financial resilience is tested against best and worst case scenarios which cover a wide range of financial demographic and social challenges.	High	The Council's MTFP is planned on a prudent basis, to take account of volatility in services and income generation.	
F2	The authority uses independent objective quantitative measures to assess the risks to its financial sustainability.	High	Financial sustainability is a key facet to the MTFP, and a range of financial indicators are included within the supporting strategies.	
F3	Decision making by the authority demonstrates a sound understanding of the risks associated with its strategic business partners.	Medium	Key partners are evaluated before entry into formal arrangements.	Ongoing evaluation of standards and conduct with regards to financial administration and corporate governance should be reviewed throughout contract periods.
G	The authority has a Long-Term Financial Strategy for financial sustainability.	High	This is covered within the Council's Medium Term Financial Plan	

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H	The authority has a capital strategy aligned to its long-term financial strategy			
H1	The authority has an asset management plan that reviews the condition, sufficiency and suitability of assets in the light of business needs, and ambitions of the Medium - Long Term Financial Strategy The plan should evidence rigorous assessment of asset portfolio in relation to service delivery.	High	Condition Surveys were carried out in recent times to inform a medium-long term maintenance plan of the Council's core facilities. A separate Depot review also undertaken in recent times to help shape the requirement of the council over the medium-long term period.	
H2	The authority maintains processes to ensure that information about key assets and liabilities in its balance sheet is a sound and current platform for management action.	High	Data is held in the Council's asset register, and Housing system.	
I	The authority complies with the CIPFA Prudential Code	High	The Council complies to the CIPFA prudential code, and keeps abreast of changes as made from time-to-time	
J	The authority has a rolling multi-year Medium Term Financial Plan	High	This is covered within the Council's Medium Term Financial Plan	
K	The authority has sustainable service plans that are consistent with its long-term financial strategy and the medium-term financial plan.			

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K1	The Medium-Term Financial Plan should make reference to other organisational plans (e.g. workforce planning) and performance measures to demonstrate an alignment between service and financial planning.	High	The Council's Medium Term Financial Plan has regard to strategies and policies and seeks to align financial resources to the Corporate Plan.	
K2	The authority has benchmarked the performance of its services against appropriate comparators.	Medium	Ad-hoc benchmarking is carried out, but no formal process is in place.	Seek to establish a regularised benchmarking process, utilising data and statistics available from sources such as LGInform.
K3	To inform the Leadership Team's decisions the authority has a single document tracking progress in the delivery of planned savings over the period of the Medium-Term Financial Plan.	Medium	This is covered within the Council's Medium Term Financial Plan as opposed to being drawn up separately	A detailed savings tracker will be devised that covers the delivery of planned savings and new income generation.
K4	The authority publishes its plans for the use of reserves over the period of the Medium-Term Financial Plan. The level of reserves at 31st March in any one year should not fall below the level previously agreed. The authority should demonstrate adherence to the most recent guidance on reserves from CIPFA's Local Authority Accounting Panel.	High	This is covered within the suite of financial strategies, including Investment, Capital and Treasury Management, and is ultimately brought together in the Medium Term Financial Plan.	
	Section 4: The Annual Budget			
L	The authority complies with its statutory obligations in respect of the budget setting process	High	The Council has an established budget setting cycle, including an overall scrutiny role	

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			through the Corporate Affairs panel for General Fund, the Housing Panel for the HRA. Statutory obligations are fulfilled.	
M	The budget report includes an assessment of its consistency with the current medium term financial plan and long-term financial strategy.			
M1	The annual report proposing the budget includes an analysis of the success/failures in achieving the spending plans of the previous year and of departures from the planned use of reserves and balances.	High	The MTFP is continually updated and ultimately success or failure of previous initiatives feed into the budget setting for the year ahead.	
N	The budget report includes a statement by the Chief Finance Officer on the robustness of the estimates and a statement of the adequacy of the proposed financial reserves.	High	The budget setting report includes a section specifically covering this requirement.	
	Section 5: Stakeholder Engagement and Businesses Cases			
O	The authority has engaged with key stakeholders in developing its long-term financial strategy, medium term financial plan and annual budget.	Low	Internal stakeholder engagement is good, but more could be done with key external stakeholders.	A new approach to external consultation will be devised during 2022 for the 2023/24 budget cycle. Resident survey will get valuable insight in terms of areas of priority.
P	The authority uses a documented option appraisal methodology to demonstrate the VFM of its decisions			

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P1	Option appraisal complies with IFAC/PAIB Project and Investment Appraisal for Sustainable Value Creation: Principles in Project and Investment Appraisal (Annex C to CIPFA FM Code).	Medium	The Council's uses internally generated project evaluation tools to ensure decisions taken fit within the context of the New Forest.	Ensure process makes explicit reference to all appropriate principles.
P2	The accounting treatment of material decisions is considered and demonstrated as part of the formal option appraisal process.	High	The accounting treatment and impact is determined at the time of the decision.	
Q	The authority applies the principles contained in the CIPFA Service Reporting Code of Practice and utilises appropriate costing techniques in the development of business cases	High	Principles are applied and appropriate costing techniques utilised.	
	Section 6: Performance Monitoring			
R	The authority takes action using reports enabling it to identify and correct emerging risks to its budget strategy and financial sustainability.			
R1	Timely time financial and performance information is available to managers via the appropriate systems. The systems are engineered to provide relevant data at a sufficiently accurate level. The organisation ensures that information is appropriately tailored and streamlined to avoid the risk of 'data overload'.	Medium	Service Managers and Budget Responsible Officers are able to access financial information on demand.	A review of how financial data is presented will be undertaken to ensure managers are content with the style and content of information available to them.
R2	All Financial monitoring reports include: <ul style="list-style-type: none"> The name of the budget holder responsible for the information presented Accruals based financial information 	Medium	Financial monitoring reports do not include service performance information.	Consider whether performance information can and should be included within financial reporting.

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	<ul style="list-style-type: none"> • Include the approved budget against which monitoring is taking place. • A forecast for the remainder of the budget period, • Service performance information and is shown, for instance by reconciliations, to be consistent with the aggregate position for the authority. 		These are reported on separately to overview and scrutiny panels, at Portfolio Level	
R3	<p>Financial monitoring reports for high-risk budgets are:</p> <ul style="list-style-type: none"> • Scrutinised by the leadership team of the organisation on (as a minimum) monthly basis. <p>Financial monitoring reports for steady state/low risk budgets are:</p> <ul style="list-style-type: none"> • Received by budget holders on a monthly basis • Received (in aggregate) by the leadership team on a regular basis (in aggregate) by the leadership team. 	High	Service Managers review high-risk budget areas on a monthly basis.	
R4	The authority has arrangements which allow annual service budgets to be recalibrated in response to unforeseen developments.	High	In-year budget realignment is achieved through regular Financial Monitoring Reports.	
R5	At the financial monitoring period end the leadership team receives a set of financial statements with forecast outturn for the year ahead	High	Financial Monitoring Reports are reviewed by the Executive Management Team, ahead of publication to the Cabinet.	
R6	There are appropriate arrangements in place for reporting and managing the financial performance of each of the organisation's delivery partnerships and collaborative arrangements.	High	The Council's Contract Monitoring Officer regularly oversees the financial performance of the delivery partnerships	

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R7	There are appropriate arrangements in place for the project management and cost control of capital projects.	High	The newly established Capital and Change Board has a clear remit in terms of monitoring and reviewing spend and project delivery.	
S	The authority monitors the elements of its balance sheet which pose a significant risk to its financial stability			
S1	Unplanned and planned use of reserves are reported [quarterly] to the management team of the organisation and to Council.	Medium	Financial Monitoring and mid-year treasury management reporting cover this.	N/A
S2	Management accounts include either a full balance sheet or an appropriate level of balance sheet information to meet business needs and evidence of monitoring of material items	High	Management accounts are produced in order to be suitable for the audience.	
	Section 7: External Financial Reporting			
T	The Chief Finance Officer has personal responsibility for ensuring that the statutory accounts provided to the local authority comply with the Code of Practice on Local Authority Accounting in the United Kingdom.	High	The CFO understands this personal responsibility.	
U	The presentation of the final outturn figures and variations from budget allow the leadership team to make strategic financial decisions.	High	Information is presented in a clear management format.	