

# Brighton & Hove City Council

## Audit & Standards Committee

## Agenda Item 11

**Subject:** Financial Management Code – Self-Assessment

**Date of meeting:** 27 June 2023

**Report of:** Chief Finance Officer

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**Ward(s) affected:** All

### 1 Purpose of the report and policy context

- 1.1 This report contains a self-assessment and review of the council's level of compliance with the standards set out in the Chartered Institute of Public Finance & Accountancy's (CIPFA's) Financial Management Code (FM Code). It documents the detail of what is expected within each standard and provides evidence of compliance, including references to associated documentation where appropriate.
- 1.2 The FM Code is a relatively new code developed by the accountancy body in response to both growing financial challenges across the local government sector and an increasing, but still rare, number of governance and/or financial failures across the sector involving Section 114 notices or government interventions.

### 2 Recommendations

- 2.1 That the Audit & Standards Committee note the authority's self-assessment against the Financial Management Code and the identified improvement actions set out in Appendix 2.

### 3 Context and Background Information

- 3.1 The Chartered Institute of Public Finance & Accountancy (CIPFA) is the professional accountancy body that determines codes of financial and accounting practice for local government and other public sector bodies in consultation with government. In response to growing financial challenges and the importance of maintaining financial sustainability and resilience, CIPFA have developed a new Financial Management Code (FM Code) to supplement other codes including the Local Authority Accounting Code, Prudential Code and Treasury Management Code.
- 3.2 The FM Code is therefore designed to support good practice in financial management and to assist local authorities in demonstrating and maintaining their financial sustainability. The 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 foundation to financially manage the short, medium and long-term finances of a local authority including consideration of the financial resilience necessary to manage unforeseen demands or financial shocks.

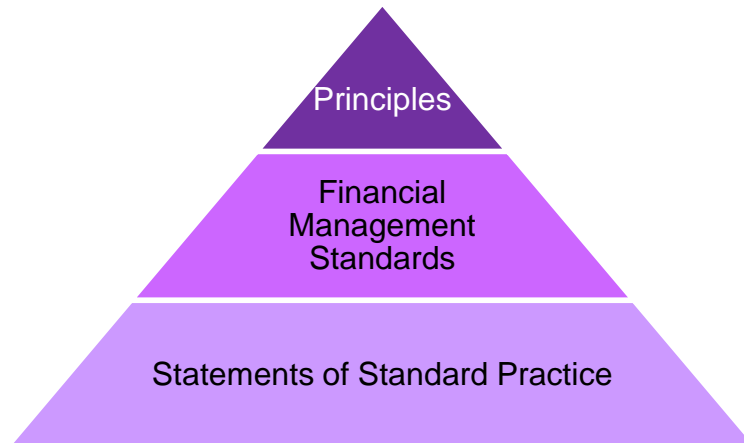
- 3.3 Although the FM Code does not have the status of statutory guidance, it has been developed as a means of enabling authorities to provide reassurance that they are maintaining the key standards of financial management which they are legally required to have in place. Each local authority must therefore demonstrate that the requirements of the Code are being satisfied. Demonstrating compliance with the FM Code is therefore a collective responsibility of elected members, the Chief Finance Officer and their professional colleagues in the officer leadership team.
- 3.4 The 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 locally developed 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.
- 3.5 If full compliance with the Code cannot be evidenced, this does not attract financial penalties or external intervention (e.g. from the government or External Auditor), however, it may still be of reputational importance. Therefore, where substantial compliance cannot currently be evidenced, there is a clear expectation that improvement actions should be identified to enable substantial compliance to be achieved within a reasonable time period, usually, within the current financial year.
- 3.6 CIPFA guidance issued in February 2021 stated that the Council's Annual Governance Statement (AGS) should include the overall conclusion of the assessment of compliance with the principles of the FM Code. Where there are outstanding matters, or areas for improvement, these should be included in the action plan. The 2022/23 Annual Governance Statement has already been completed but this requirement will be incorporated into future Annual Governance Statements.

## **4 THE STRUCTURE OF THE CODE**

- 4.1 To enable authorities to test their conformity with the CIPFA Principles of Good Financial Management, the FM Code translates these principles into Financial Management Standards and Statements of Standard Practice. Providing evidence of adherence to the Financial Management Standards will therefore evidence that the principles are being correctly applied.
- 4.2 The six core principles underpinning the Code are:
  1. Leadership
  2. Accountability
  3. Transparency
  4. Standards
  5. Assurance
  6. Sustainability

These are translated into 17 Financial Management Standards, denoted from A to Q, as shown in Appendix 1 which provides a high-level view of overall compliance. The basic structure of the FM Code is therefore as follows:

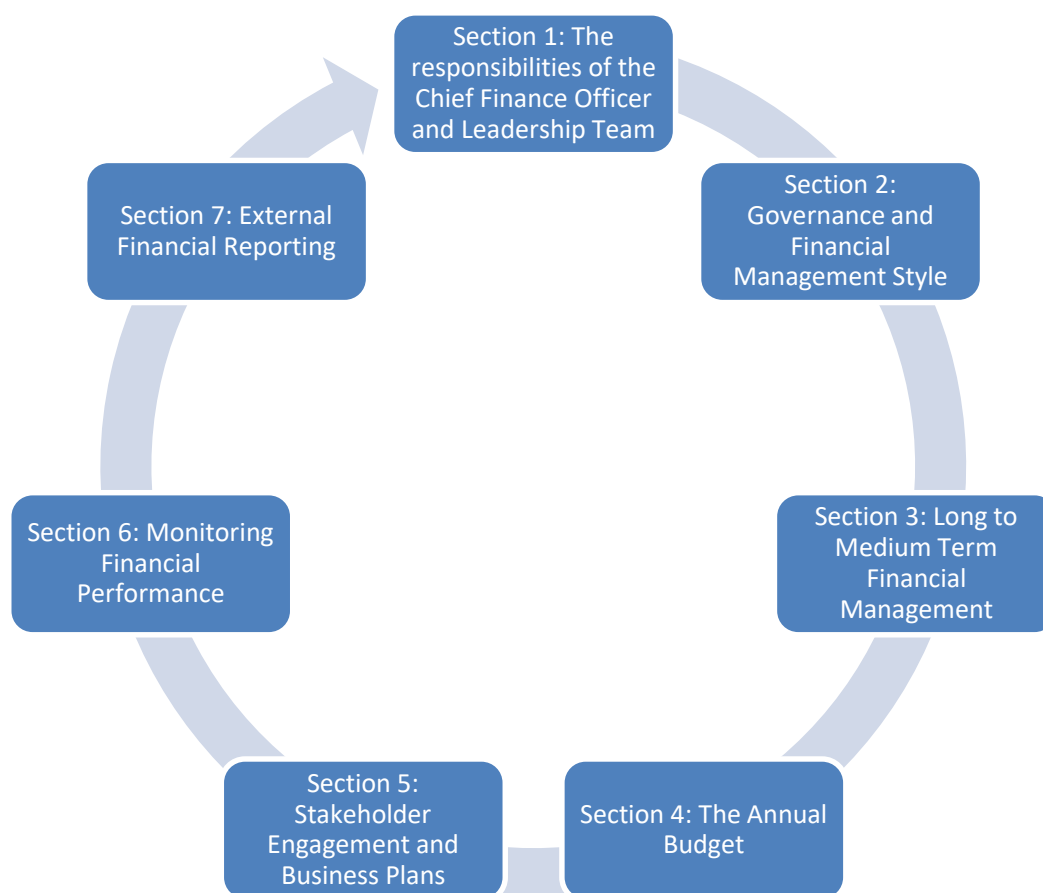
*[The Structure of the Code [p7], The CIPFA Financial Management Code [Consultation Version] © CIPFA]*



- 4.3 CIPFA expects that compliance with the Financial Management Standards will typically be achieved by assessing compliance with the Statements of Standard Practice that underpin each of the Financial Management Standards and developing improvement actions where compliance gaps are identified. This list of statements is divided into 7 sections, each of which

forms part of what is referred to in the Code as the 'Virtuous Management Cycle' as follows:

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



## 5 Self-Assessment of Compliance

- 5.1 Accordingly, each of the 17 Financial Management Standards have been assessed using a Red, Amber, Green rating system where Red indicates minimal or no compliance, Amber indicates partial compliance and Green indicates substantial or full compliance as follows:

Compliance Assessment	Description
Substantial	Substantial of full Compliance / Minor improvement recommendations only
Partial	Partial Compliance / Several areas for improvement
Minimal	No or Minimum Compliance / Significant or whole areas require improvement

- 5.2 The overview of the Authority's current level of assessed compliance at Appendix 1 shows that there are no Red (Minimal) compliance areas, 7 Amber (Partial) areas of compliance and 10 Green (Substantial) areas of compliance. Appendix 2 sets out the detailed evidence against each standard together with 'Identified Improvement Actions' to both achieve substantial compliance and further improve financial management.

5.3 Overall, the council's self-assessment therefore indicates a **reasonable-to-good** level of compliance with the underlying principles of the FM Code but even for areas where there is full or substantial compliance, the aim is to strive for continuous improvement and therefore some improvement actions may have been identified. However, there are some areas where compliance can be improved across the six principles, particularly in respect of the following:

- Most importantly, the financial management style of the council and how this can support financial sustainability.
- The development and alignment of the Medium-Term Financial Strategy with sustainable service and capital programme planning.
- Enhancing the approach to Value for Money and arrangements for optimising the use of resources.
- Improving Capital Programme planning, evaluation and monitoring.
- Improving options appraisal processes and their consistency and robustness.

Improvement actions covering these and other areas are set out in Appendix 2.

5.4 The Orbis Internal Audit service, provided in partnership with Surrey and East Sussex County Councils, has independently reviewed the self-assessment in an advisory capacity. Their review has given assurance to management that the evidence provided does support the assessment rating given for each standard and they have further suggested other improvement actions which have been incorporated into the self-assessment and improvement actions. Similarly, the self-assessment has also given consideration to recommendations made by the External Auditor in their 2021/22 Annual Report to the 24 January 2023 meeting of the Audit & Standards Committee. Responses to these recommendations have also been incorporated into the self-assessment.

## **6 Analysis and consideration of alternative options**

6.1 Compliance with the FM Code is a clear expectation of the public sector accountancy body, CIPFA, and represents evidenced good financial management practice. While the code is not statutory, significant non-compliance is likely to indicate that an authority has weak financial management and is unlikely to be able to evidence how it considers value for money in its decision-making. Poor compliance is also likely to have reputational implications and will almost certainly be of interest to an authority's External Auditor.

## **7 Community engagement and consultation**

7.1 The self-assessment has been shared with the Executive Leadership Team (ELT) for comment and review and with the Orbis Internal Audit service for review and advice.

## **8 Conclusion**

8.1 The FM Code self-assessment is intended to be a live document to support continuous improvement in financial management. The self-assessment will be reviewed and updated annually and progress on the activities included within the Action Plan will be presented to future meetings of the Audit &

Standards Committee either directly or as part of Annual Governance Statement reporting.

## **9 Financial implications**

- 9.1 Section 151 of the Local Government Act 1972 states that “every local authority shall make arrangements for the proper administration of their financial affairs and shall secure that one of their officers [the Chief Financial Officer] has responsibility for the administration of those affairs”. CIPFA’s judgement is that compliance with the FM Code will assist both Chief Financial Officers and local authorities to demonstrate that they are meeting these important legislative requirements.
- 9.2 The ‘Identified Improvement Actions’ set out in Appendix 2 are expected to be deliverable within existing resources across the Governance, People & Resources Directorate, particularly the Finance and Procurement functions, but if additional implementation resources are found to be required at a later date, these will first be considered by the Executive Director Governance, People & Resources within the context of the directorate’s overall budget and resourcing, and, if this has additional budgetary implications, will be brought forward for member consideration and approval as necessary.

Finance officer consulted: James Hengeveld      Date: 12/06/23

## **10 Legal implications**

- 10.1 It is understood that the FM Code builds on and links to other key CIPFA Codes of Practice that apply to local authorities (including those relating to capital finance, treasury management and accounting). The FM Code has been developed to assist local authorities in demonstrating that they have met these important financial management standards, as they are required to do by law. Although the FM Code itself does not have the status of statutory guidance, local authorities are expected to use it to provide reassurance regarding the council’s current arrangements in this area and to demonstrate compliance.
- 10.2 This Committee is the appropriate body to receive this report given its delegated powers in relation to financial governance and stewardship, risk management and audit.

Lawyer consulted: Victoria Simpson      Date consulted: 14.6.23

## **11 Equalities implications**

- 11.1 Effective financial management supports the authority in achieving its priorities and objectives which includes providing value for money services to residents and ensuring that services for vulnerable or disadvantaged groups are able to maximise the resources available to them to reduce inequality.

## **12 Sustainability implications**

- 12.1 Similarly, effective financial management ensures that financial decisions and governance take into account wider impacts including sustainability in both the short and medium term.

## **Appendices**

1. Self-Assessment: Overview of Compliance
2. Self-Assessment: Detailed evidence and identified improvement actions

